

For publication

General Fund Revenue Budget Summary (J170R)

Meeting:	Cabinet
Date:	13 th December 2016
Cabinet portfolio:	Deputy Leader & Cabinet Member for Planning
Report by:	Director of Finance & Resources

1.0 Purpose of report

- 1.1 To provide Cabinet with an update on the development of the General Fund Revenue Budget for 2017/18 and future years.

2.0 Recommendations

- 2.1 To note the updated budget projections for 2016/17 and future years (**Appendix A**).
- 2.2 That work continues to refine the draft estimates and to develop budget saving proposals.

3.0 Background

- 3.1 The Council's Budget Strategy is to set a sustainable and affordable budget over the medium term. The budget forecasts included in this report cover the current and five future financial years.
- 3.2 The portfolio budget reports are included elsewhere on the agenda. This report brings them together with the non-portfolio items to produce an overall summary (**Appendix A**) which shows the latest surplus/deficit forecast for each financial year. The

budgets are a first draft as the Local Government Provisional Finance Settlement has not yet been announced and the Business Rates tax base cannot be completed until January 2017.

- 3.3 The Chancellor's **Autumn Statement** on 23rd November made very few changes that would impact on lower tier authorities with spending plans almost entirely unchanged. No further cuts to Local Government funding for 2017/18 were announced. This will hopefully ensure that there are no changes to the 4 year RSG settlement figures provided this year. The movement to 100% Business Rates retention is still a significant historical announcement we need to understand and plan for.
- 3.4 There was no mention made about the referendum limit for council tax increases in 2017/18. It seems likely that the regime for 2016/17 will be continued, which for district councils means a referendum will be required for increases of 2% or more. Chesterfield Council has the option to increase the Council Tax by £5 per annum (equivalent to an increase of 3.34%) or 2%.
- 3.5 There could still, however, be funding risks as part of the Provisional Grant Settlement e.g. changes to the New Homes Bonus scheme reducing the funding from 6 to 4 years, set out in the recent consultation.

4.0 Budget Assumptions and Forecasts

- 4.1 The following assumptions have been made in preparing the draft budgets:

Budget Assumptions				
	2017/18	2018/19	19/20	20/21>
Pay inflation	1%	2%	2%	2%
Energy inflation	2%	3%	3%	3%
Business rates increase	2.0%	3.0%	3.0%	3.0%
Vacant posts allowance	£240k	£240k	£240k	£240k
Council tax increase	£5	£5	£5	1.99%
Fees & Charges Increase Av	+3%	+3%	+3%	+3%
Investment returns	0.62%	0.55%	0.88%	0.88%

4.2 The updated Medium Term Budget Forecast is shown in **Appendix A**. It must be pointed out that many of the figures in the Financing section (the second page of the appendix) are provisional estimates. Unfortunately, some of these figures (e.g. Retained Business Rates Growth and Pooling) are **significant sums which could be subject to wide variations**. At this stage it has not been possible to provide accurate forecasts for these due to:

- a) The Provisional Grant Settlement not being announced and completion of the NNDR1 in January;
- b) The need to assess the impact of the Business Rates changes arising from the 2017 Business Rates Revaluation;
- c) The ongoing uncertainties caused by outstanding Business Rates appeals which in some cases they can be back dated for many years, up to 2010; and
- d) Any changes to New Homes Bonus funding from 6years to 4 years (set out in recent consultation).

The forecasts at this stage, therefore, come with a very significant health warning. The forecasts will be updated over the next few weeks as further information becomes available and any significant changes reported to the Cabinet at the earliest opportunity so that any corrective action can be considered before the final budget report is submitted to the full Council in February 2017.

5.0 2016/17 Revised Budget

5.1 At the start of the year, there was a budget savings target of £1,029k which if achieved would have left a deficit of £236k which was to be met either from reserves or further savings. During the year, savings of £796k have been achieved. Savings achieved are incorporated into the future year's portfolio budget positions. Although this is below the target, increased income particularly from industrial and commercial rents and leisure activities has helped to mitigate this issue. At the end of Quarter 2 the deficit forecast stood at £326k.

- 5.2 The latest revised budget for 2016/17 (**Appendix A**) shows a projected deficit of £186k. The detailed Portfolio budget figures are included elsewhere on this agenda. Further work is underway to identify and realise budget savings.
- 5.3 The use of reserves has increased significantly in 2016/17 to finance the upfront costs associated with the agile working required to enable the Town Hall restack scheme to begin and to meet the costs of voluntary redundancy required to provide more efficient service delivery models which will provide savings in future years. We need to replenish reserves as well as balance the General Fund to enable future investment.
- 5.4 The “financing section” of the budget, showing income from Council Tax and Government grants, generally remains fixed at the original budget estimates. There are, however, elements of the retained business rates income which are subject to in-year changes, namely the Business Rates Pooling gain and the Levy payable to the Government. Business rate income is predicted to be higher than originally anticipated in 2016/17 although an allowance has been made to mitigate the impact of any late surge in back-dated business rate appeals arising from the 2017 business rate revaluation exercise. One issue in particular, purpose-built doctors surgeries, had a significant impact on the amount of money that has had to be set-aside as a provision for refunds in 2015/16 and this had an impact on the amount of income available for distribution via the Derbyshire pooling arrangement in that year. At this stage it has been assumed that the Council’s pooling gain will reduce to £250k to reflect the amount received in 2015/16 from the pool (from £412k per the original budget) but this revised estimate is subject to confirmation once all authorities have completed their business rates forecasts which they must do by the end of January 2017.
- 5.5 In the remaining few months of the financial year every effort will be made to eliminate the £186k revised forecast deficit. Also, in order to avoid any ‘surprises’ at the end of the year, budget holders will undergo some further financial scrutiny in January 2017 around income projections and spend. We will continually monitor their budgets and report any changes so that they can be included in the final budget report which will go to the Council in February 2017.

6.0 Budget Forecast 2017/18

- 6.1 The forecast for 2017/18 in **Appendix A** shows a deficit of **£62k** but this is before savings targets outside Stop and Reduce are included. The budget assumes that the full amount of the estimated New Homes Bonus allocation (£907k) will be used to support the budget and that the Derbyshire Pooling gain remains at the £250k level. The Business Rates income forecast will require revision before the final budget is brought to Council in February 2017.
- 6.2 An allowance of £140k has been added to meet the possible increase in pension costs arising from the 2017 revaluation of the pension fund. The actuaries are expected to provide an update in January 2017. If this allowance is not required our budget position would benefit.
- 6.3 The Crematorium surplus is normally budgeted at £110,000 per annum. At a future JCC Committee we are looking at proposals to reduce reserves so CBC can use them and distribute more profits, hence we are forecasting a greater income as a 55% shareholder. No decisions have yet been made.
- 6.4 The Living Wage Foundation proposals to increase the living wage are included on an ongoing basis in the budget.
- 6.5 Further budget saving proposals are still being developed and we have included some 'Stop and Cease' proposals (bowling greens, public conveniences, community rooms and card payment fees) that would need to be delivered. Further significant discretionary spend budget reductions are required. They will have to be subjected to a rigorous risk assessment before they are included in the final budget report.
- 6.6 The Spirepride business model predicts savings of £374k from the two restructuring activities of 'Environmental Services' (redundancies) and future income generation.
- 6.7 We have budgeted pay inflation of 1% in 2017/18. We have also budget for ongoing staff vacancy savings.

- 6.8 The Government RSG Funding Settlement has not yet been confirmed but the expectation is that it will not change significantly from that announced in the Provisional Settlement. The Business Rates Pooling Gain figure (£250k) is also provisional at this stage and could be subject to considerable variance depending on the final business rate income forecasts for each of the Derbyshire districts.
- 6.9 Once again, the challenges for 2017/18 will be:
- (a) Setting a balanced budget; and
 - (b) Delivering the savings proposals in time and at the required level.

7 Medium Term Forecasts

- 7.1 The draft estimates in **Appendix A** include the four year funding settlement figures published earlier this year. Retained business rate income is forecast to grow steadily in future years and remain around £1.5m above the target in all years. The assumption on council tax increases in future years is for £5 per annum (an increase of 3.3%) until 2019/20 and to rise by 1.99% per annum each year thereafter.
- 7.2 Business Rates Pooling - From 2018/19 it has been assumed that the £250k Derbyshire Pooling gain will cease. The future of business rate pooling remains uncertain and there may be opportunities of a new revenue stream from another pooling arrangement, this time a 'virtual pool' within the Sheffield City Region (SCR) which is designed to retain the Government's share of business rates growth (which is quite distinct from the Levy saving in the Derbyshire pool). It would not however be prudent to budget for any income from either source at this stage.
- 7.3 New Homes Bonus – beyond 2016/17 it is difficult to know how the grant will be affected by the changes that are likely to be proposed in the 2016/17 finance settlement. No further details have been published on how these changes would look. For now the medium term forecast assumes that the grant will remain in its current form of 6 years.

- 7.4 The latest forecast deficits are £15k in 2018/19 increasing to £919k by 2021/22, this is after allowing for the estimated savings from the current GPGS programme, proposed stop and reduce but before the recurring impact of any other savings proposals which are yet to be agreed.
- 7.5 The forecasts will be updated when the settlement figures are finalised and as other variances are identified. The scale of the forecast deficits is such that further significant savings will have to be found in future years. We need to formulate plans over the coming months to enable savings to be delivered in 2017/18.
- 7.6 Our future forecasts are also dependant on our core trading income streams holding up (car parks, leisure, business rents, winding wheel etc.). These income lines are sensitive to changes in the market.

8.0 Reserves

- 8.1 The **General Working Balance** was reduced from £1.75m to £1.5m at the start of this financial year. The on-going financial risks associated with the business rates retention scheme and other funding sources would suggest that it would be imprudent to consider reducing the level any further until a more stable financial footing is established. In addition to the General Working Balance the Council maintains a number of other reserves. Many of the reserves are earmarked and committed for specific purposes, such as property repairs and vehicle & plant replacements.
- 8.2 Over recent years the Council has operated three major reserves where it has wider discretion on how they are used – the Budget Risk Reserve, the Invest to Save Reserve and the Service Improvement Reserve. The Invest to Save Reserve is virtually fully committed with total uncommitted balances of £882k across the three. The Budget Risk Reserve is used to fund the redundancy costs resulting from restructures/service delivery changes and has a current uncommitted balance of £475k. Reserves have been 'heavily' called upon this year and we need to replenish reserves for future investment initiatives.

- 8.3 Given the budget deficit forecast for 2017/18 and the lead-in time inherent in many savings initiatives, the Council needs to press ahead with budget savings.
- 8.4 The opportunities and implications of using reserves to support the budget will be explored further and proposals included in the final budget report in February.

9.0 Conclusion & Next Steps

- 9.1 This report presents the first draft of the budget for 2017/18 but there are some elements of the budget that are still to be confirmed and other budget variances could be identified during the coming weeks. The latest forecast shows deficits in each financial year which are increasing as reductions in government funding continue.
- 9.2 The full Council will approve the final budget and the Council Tax for 2017/18 at its meeting on 23rd February. The Cabinet will have to agree its final budget proposals ahead of the Council meeting. In the meantime, the budget forecasts will continue to be updated as the Provisional Local Government Finance Settlement proposals and other budget savings/variances are confirmed. The Budget Workshop sessions for Cabinet Members and the Corporate Management Team will continue to meet in the run-up to setting the budget in order to consider the updated forecasts and agree further savings proposals for inclusion in the final budget.

10.0 Risk Management

- 10.1 There are a number of significant risks inherent in any budget forecasting exercise and the risks increase as the period covered increases. The most significant budget risks at the moment include:
- Business rate pooling opportunities and threats.
 - Business Rate appeals, valuation changes, etc. - particularly the full revaluation due in 2017.

- New Homes Bonus allocations – the implications of the possible changes to the scheme, particularly the reduction in the period of entitlement from 6 to 4 years.
- Achieving income targets for rents, fees, charges and interest.
- Delivering the required budget savings on time and to the value required. It is important that a rigorous risk assessment is undertaken for each saving proposals before they are included in the final budget report.
- The introduction of Universal Credit – the full implementation at a future date. There are unknowns in terms of the extent, timing and funding of these changes.
- Retender of the Waste Collection contract in 2018, a provisional sum has been built into the forecasts.

These and other financial risks will be evaluated more fully in the Budget Risk & Sensitivity Analysis, which will be included in the final budget report in February 2017.

11.0 Legal and data protection implications

- 11.1 It would be unlawful for the Council to set a deficit budget. Section 33 of the Local Government Finance Act 1992 requires the Council to set a balanced budget.

12.0 Equalities Impact Assessment (EIA)

- 12.1 The budget process and forecasts produced do not require an EIA but any decisions to vary budgets and service provision later in the process might well require EIA's specific to those options.

13.0 Recommendations

- 13.1 To note the updated budget projections for 2016/17 and future years (**Appendix A**).
- 13.2 That work continues to refine the draft estimates and to develop budget saving proposals.

14.0 Reasons for Recommendations

- 14.1 To keep Members informed on the development of the budget proposals for 2017/18 and to provide an update on the medium term financial forecasts.

Decision information

Key decision number	686
Wards affected	All
Links to Council Plan priorities	To provide value for money services

Document information

Report author	Contact number/email
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Background documents These are unpublished works which have been relied on to a material extent when the report was prepared.	
None	
Appendices to the report	
Appendix A	General Fund Revenue Estimates Summary