

**For publication**

**General Fund Revenue Budget Summary**

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Meeting:	Cabinet
Date:	18 <sup>th</sup> December 2018
Cabinet portfolio:	Deputy Leader
Report by:	Director of Finance & Resources

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**For publication**

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**1.0 Purpose of report**

1.1 To provide Cabinet with an update on the development of the General Fund Revenue Budget for 2019/20 and future years.

**2.0 Recommendations**

2.1 To note the updated budget projections for 2018/19 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 This report brings together the portfolio totals and 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 Business Rates income assessment cannot be completed until January 2019.
- 3.3 The Chancellor's **Autumn Statement** on 29<sup>th</sup> October made very few changes that would impact on lower tier authorities. No further cuts to Local Government funding for 2019/20 were announced and no changes to the 4 year RSG settlement figures advised last year are expected.
- 3.4 The draft Local Government Finance Settlement will be published in December. It is expected that the regime for 2018/19 will be continued, which for district councils means a referendum will be required for increases of 3% or more. Chesterfield Council has the option to increase the Council Tax by £5 per annum (equivalent to an increase of 3.13%) or 3%.

#### **4.0 Budget Assumptions and Forecasts**

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

<b>Budget Assumptions</b>				
	<b>2019/20</b>	<b>2020/21</b>	<b>2021/22</b>	<b>2022/23&gt;</b>
Pay inflation	NJC pay award	2.5%	2.5%	2.5%
Energy inflation	2.3%	3.5%	3.5%	3.5%
Business rates increase	2.4%	2.5%	2.5%	2.5%
Vacant posts allowance	£150k	£150k	£150k	£150k
Council tax increase	£5	1.99%	1.99%	1.99%
Fees & Charges Increase Av	+3%	+3%	+3%	+3%
Investment returns	0.93%	1.00%	1.25%	1.25%

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 Finance Settlement not being announced and completion of the NNDR1 in January; and
- b) The ongoing uncertainties caused by outstanding Business Rates appeals.

**The forecasts at this stage, therefore, come with a 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 2019.

## **5.0 2018/19 Revised Budget**

5.1 At the start of the year, the forecast surplus was £56k. During the year the budget position has been reported to Cabinet on a quarterly basis. At the end of Quarter 2 the forecast for 2018/19 was a deficit of £130k.

5.2 The latest revised budget for 2018/19 (**Appendix A**) shows a breakeven position.

5.3 The deficit has reduced as follows:

	(£000's)
<b>Quarter 2 Forecast Deficit</b>	<b>(130)</b>
Investment Interest	65
Sporting Exemption (VAT)	57
Gas and Electricity	43
Housing Benefits	97
Refuse Collection Contract	40
Overtime	39
Market Rents	(34)
Rephasing of Contribution from Digital Innovation Reserve into future years	(166)
Holiday Pay	(10)
Other Movements	(1)
<b>Revised Budget</b>	<b>0</b>

5.4 In the remaining few months of the financial year we will continue to monitor budgets and report any changes so that they can be included in the final budget report which will go to the Council in February 2019.

## 6.0 Budget Forecast 2019/20

6.1 The forecast for 2019/20 in **Appendix A** shows a deficit of **£280k**. The budget assumes that the full amount of the estimated New Homes Bonus allocation (£307k) will be used to support the budget and that the Derbyshire Pooling gain remains at the £300k level. The Business Rates income forecast will require revision before the final budget is brought to Council in February 2019.

6.2 The Living Wage Foundation proposals to increase the living wage are included on an ongoing basis in the budget.

6.3 We have budgeted pay inflation at the agreed NJC pay award level in 2019/20. We have also budgeted for ongoing staff vacancy savings.

- 6.4 The £280k deficit position assumes savings from the ICT Digital Innovation initiative of £250k. **If the scheme slips or savings are not achieved this will have an adverse impact on the deficit for the year.**
- 6.5 The Government RSG Funding Settlement has not yet been confirmed but the expectation is that it will not change significantly from figures announced last year. The Business Rates Pooling Gain figure (£300k) 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.

## **7.0 Medium Term Forecasts**

- 7.1 The draft estimates in **Appendix A** include the four year funding settlement figures. Retained business rate income is forecast to grow steadily in future years. The assumption on council tax increases is for a £5 per annum increase (an increase of 3.1%) for 2019/20 and to rise by 1.99% per annum each year thereafter.
- 7.2 Business Rates Pooling - It has been assumed that the £300k Derbyshire Pooling gain will continue in all years. The outcome of the Derbyshire wide application to be a pilot authority for 100% business rates retention in 2019/20 is not yet known and has not been included in the budget figures.
- 7.3 The latest forecast deficits are £894k in 2020/21 increasing to £1,328k by 2023/24. This is before the impact of any recurring savings proposals which are yet to be agreed but under development.
- 7.4 The forecasts will be updated when the settlement figures are finalised and as other variances are identified. Growth from business rate income will be reviewed in January 2019. The

scale of the forecast deficits is such that further significant savings will have to be found in future years. We will begin to formulate outline plans over the coming months to enable savings to be delivered in 2020/21.

- 7.5 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 £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.

- 8.2 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.

## **9.0 Conclusion & Next Steps**

- 9.1 This report presents the first draft of the budget for 2019/20 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 increasing deficits in each financial year from 2019/20.
- 9.2 The Council is developing a 10 year asset management plan. Many assets will require investment and these costs will need adding to future borrowing and the deficit positions.

- 9.3 The full Council will approve the final budget and the Council Tax for 2019/20 at its meeting on 27<sup>th</sup> 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 Councils final budget.
- 9.4 The outcome of the Governments Fair Funding and changes to Business Rate Funding from 2020/21 is still not fully clear. The impact on any changes could be significant for Chesterfield Councils finances from 2020/21. We have not included any figures at this stage in budgets, though we are working with advisors to understand the possible changes.

## **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.
  - New Homes Bonus allocations.
  - ICT savings not being delivered.
  - Fair Funding.
  - Wage and staffing cost pressures.
  - Escalating energy prices and general cost inflation.
  - 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 outcome of Brexit and the impact on the Chesterfield economy.
- The introduction of Universal Credit – full implementation. There are unknowns in terms of the extent, timing and funding of these changes.

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 2019.

## **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 2018/19 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 2019/20 and to provide an update on the medium term financial forecasts.

### **Decision information**

<b>Key decision number</b>	<b>854</b>
<b>Wards affected</b>	<b>All</b>
<b>Links to Council Plan priorities</b>	To become financially self-sufficient by 2020

### **Document information**

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<b>Background documents</b>	
These are unpublished works which have been relied on to a material extent when the report was prepared.	
<i>This must be made available to the public for up to 4 years.</i>	
<b>Appendices to the report</b>	
Appendix A	General Fund Revenue Estimates Summary