

For publication

General Fund Revenue Budget Summary

Meeting: Cabinet

Date: 17th December 2019

Cabinet portfolio: Deputy Leader

Report by: Acting Chief Finance Officer

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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 2020/21 and future years.

2.0 Recommendations

2.1 To note the updated budget projections for 2019/20 and future years (**Appendix A**).

2.2 That work continues to refine the draft estimates and to develop budget saving proposals.

2.3 That approval is given to the proposed use of the Markham Vale Enterprise Zone business rates rebate outlined in para 5.5 and 5.6.

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 financial year and the next 5 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 forecasts for each financial year. The budgets are a first draft as the Business Rates income assessment cannot be completed until January 2020.
- 3.3 The draft Local Government Finance Settlement will hopefully be published in December. It is expected to confirm that the regime for 2020/21 for district councils will be that a referendum will be required for increases of 2% or more. It may also provide a second option to increase the Council Tax by £5 per annum (equivalent to an increase of 3.03%).

4.0 **Budget Assumptions and Forecasts**

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

Budget Assumptions				
	2020/21	2021/22	2022/23	2023/24>
Pay inflation	2.5%	2.5%	2.5%	2.5%
Energy inflation	3.0%	3.5%	3.5%	3.5%
Business rates increase	1.7%	2.5%	2.5%	2.5%
Vacant posts allowance	£150k	£150k	£150k	£150k
Council tax increase	1.99%	1.99%	1.99%	1.99%
Fees & Charges Increase Av	+3%	+3%	+3%	+3%
Investment returns	0.74%	1.00%	1.00%	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 2020.

5.0 2019/20 Revised Budget

- 5.1 At the start of the year, the forecast deficit was £202k. During the year the budget position has been reported to Cabinet on a quarterly basis. At the end of Quarter 2 the forecast for 2019/20 was a surplus of £52k.
- 5.2 The latest revised budget for 2019/20 (**Appendix A**) shows a surplus of £75k.
- 5.3 The surplus has moved as follows during 2019/20:

	(£000's)
Original Budget 2019/20 Surplus / (Deficit)	(202)
Capitalised Salaries – Private Sector Housing	60
Car Parking Income	(102)
Derbyshire Building Control Partnership Ltd	44

Economic Development Joint Delivery Unit – EZ Funding	31
Insurance Fund Review	150
Investment Income	(60)
Open Markets Rents	(40)
Recycling Credits	(39)
Sports Facilities	(151)
Staffing Efficiencies / Turnover	110
Tapton House	(54)
Town Centre Rental Income	(148)
Town Hall Rental Income	13
Trading Accounts	465
Other	(2)
Revised Budget 2019/20 Surplus / (Deficit)	75

- 5.4 Members will be aware that the Council is expecting to receive in the order of £890k in 2019/20, associated with the retained business rates from Markham Vale Enterprise Zone. In October 2019 Cabinet approved the use of these monies to support the staffing of a Joint Growth Unit, in partnership with the County Council, and to support funding to procure technical specialists and pieces of consultancy work that it is not appropriate to progress with existing staff.
- 5.5 In 2019/20, the costs associated with the Joint Growth Unit are forecast to be in the region of £250k. To enable work to progress on key project delivery for work associated with the delivery of the HS2 Station Masterplan and the town centre projects, Members are asked to approve a commitment to fund up to £130k on retaining specialist consultants and contractors to progress site remediation, detailed design and to complete the visitor economy strategy.
- 5.6 This funding may not all be spent in 2019/20, but a commitment to this spend is required in order to progress procurement processes with certainty. It is proposed that the unspent balance of the £890k is held in reserve for use on

economic growth priorities, and funding will be brought into the general fund budgets as spend profiles are confirmed.

- 5.7 An analysis of historic underspends has been completed and budget challenge workshops have been arranged to review and consider possible further savings. Savings agreed will be reflected in the budget estimates reported to Cabinet and Council in February 2020.
- 5.8 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 2020.

6.0 Budget Forecast 2020/21

- 6.1 The forecast for 2020/21 in **Appendix A** shows a deficit of **£242k**. The budget assumes that the full amount of the estimated New Homes Bonus allocation (£117k) will be used to support the budget and that the Derbyshire Business Rates 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 2020.
- 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 assumed a pay award of 2.5% for 2020/21. We have also budgeted for ongoing staff vacancy savings and have introduced an allowance of £50k per annum to reflect savings generated from increased productivity as a result of recent changes made to the managing attendance policy.
- 6.4 An independent review of the adequacy of our insurance provisions is commissioned every three years. The results of the recent review show that the current provision is higher than necessary. We have therefore reduced annual contributions by

£150k to bring the provision in line with suggested levels by the date of the next review.

- 6.5 The £242k deficit position assumes savings from the ICT Digital Innovation initiative of £17k.
- 6.6 The Government Funding Settlement is not yet available but the expectation is that it will be similar to 2019/20. 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 Medium Term Forecasts

- 7.1 The draft estimates in **Appendix A** assume the current local government funding regime will remain unchanged. A new funding regime is expected to be introduced for 2021/22 but we do not know what impact it will have at this time. Retained business rate income is forecast to grow steadily in future years but the baseline may be reset as part of the changes introduced and we may not be able to benefit from this growth in future years. The assumption on council tax increases is for a 1.99% increase for 2020/21 and each year thereafter.
- 7.2 Business Rates Pooling - It has been assumed that the £300k Derbyshire Pooling gain will continue in all years.
- 7.3 The latest forecast deficits are £969k in 2021/22 falling to £876k by 2024/25. 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 received and as other variances are identified. Growth from business rate income will be reviewed in January 2020. 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 during 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.
- 7.6 An action plan to balance future year estimates will be reported to Cabinet and Council in February 2020.

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 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.
- 8.3 The table below shows a summary of the General Fund Reserves and Provisions. The summary of useable reserves in the table below excludes the General Working Balance of £1.5m.

Reserves & Provisions 2019/20	Opening Balance £000	Revised Forecast £000	Forecast 31/3/21 £000
Budget Risk Reserve	1,240	904	790
Service Improvement Reserve	315	299	300
Other Earmarked Reserves	8,135	6,940	6,117
Provisions	1,848	1,852	1,859
Total Reserves & Provisions	11,538	9,995	9,066

9.0 Conclusion & Next Steps

- 9.1 This report presents the first draft of the budget for 2020/21 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 material deficits in each financial year from 2021/22.
- 9.2 The Council is developing a 10 year asset management plan. Many assets will require investment and the capital and revenue 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 2020/21 at its meeting on 26th 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 Government's Fair Funding review and the consequent changes to Business Rates Funding from 2021/22 is still not clear. The impact of any changes could be significant for Chesterfield Borough Council's finances from 2021/22. We have not included any figures at this stage in budgets, though we continue to work 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 savings proposal 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 2020.

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 2019/20 and future years (**Appendix A**).

13.2 That work continues to refine the draft estimates and to develop budget saving proposals.

13.3 That approval is given to the proposed use of the Markham Vale Enterprise Zone business rates rebate outlined in para 5.5 and 5.6.

14.0 Reasons for Recommendations

14.1 To keep Members informed on the development of the budget proposals for 2020/21 and to provide an update on the medium term financial forecasts.

Decision information

Key decision number	904
Wards affected	All wards
Links to Council Plan priorities	To become financially self-sufficient

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.	
<i>This must be made available to the public for up to 4 years.</i>	
Appendices to the report	
Appendix A	General Fund Revenue Estimates Summary