

For publication

2020/21 Budget & Medium Term Financial Plan

Meeting:	Council
Date:	26 th February 2020
Cabinet portfolio:	Leader / Deputy Leader
Report by:	Acting Chief Finance Officer

For publication

1.0 Purpose of report

- 1.1 To consider the General Fund budget report and to make recommendations to the full Council on the budget allocations and council tax level for 2020/21.

2.0 Recommendations

2.1 That Council:

- 2.1.1 Approves the revised budget for 2019/20 (Section 5).
- 2.1.2 Approves the request for funding at paragraphs 5.3 to 5.6 from the Budget Risk Reserve.

- 2.1.3 Approves the overall revenue budget summary for 2020/21 (Section 7 and Appendix A).
- 2.1.4 Notes the Collection Fund and the Tax Base forecasts (Section 8).
- 2.1.5 Approves the use of the capital receipts flexibility to fund the revenue costs of the ICT programme which will lead to budget savings (Section 9).
- 2.1.6 Notes the budget forecasts for 2021/22 and the medium term and the action plan for addressing the projected deficits (Section 10).
- 2.1.7 Approves the estimates of reserves including maintaining the General Working Balance at £1.5m (Section 11 and Appendix D).
- 2.1.8 Notes the budget risks and sensitivity analysis (Appendix E).
- 2.1.9 Increases the Council's share of Council Tax by £5 for a Band 'D' property in 2020/21.
- 2.1.10 Approves the 2020/21 Council Tax Requirement and financing (Appendix F).
- 2.1.11 Notes the Acting Chief Finance Officer's assurances (Section 16).

3.0 **Background**

- 3.1 This report covers the General Fund revenue budget and is one part of a suite of budget reports which together make up the Medium Term Financial Plan. The other budget related reports include the Housing Revenue Account (HRA) Budget, HRA Rent

Setting, HRA Capital Programme, General Fund Capital Programme and Treasury Management reports.

- 3.2 The Council's Budget Strategy (**Appendix B**) is to set a sustainable and affordable budget over the medium term. This report looks ahead over the coming five financial years to determine the resources available, what are the spending pressures/priorities and how a balanced budget can be achieved.
- 3.3 The major funding sources for the General Fund are Government grant (RSG), business rates growth, fees & charges (car parking, leisure income etc.), rental income from the Council's extensive industrial & commercial property portfolio and the council tax. The Government is, therefore, able to regulate a large proportion of the resources available to the Council through the grants it provides and by placing restrictions on Council Tax increases.
- 3.4 The Local Government Finance Settlement on 6th February 2020 confirmed:
 - The RSG settlement funding will be £441k in 2020/21.
 - New Homes Bonus (NHB) funding allocations for 2020/21 will be granted for one year. In addition, the 0.4% base line means that NHB funding will only be available for net additional homes (new build properties and/or bringing back into use empty properties less demolitions) above the expected baseline number.
 - The Council Tax referendum principles for shire districts will allow an increase to Band D council tax of up to 2% or £5 whichever is greater.
- 3.5 The Council Tax must be set at the Council meeting on 26th February, and this report is due to be considered by Cabinet at its meeting on 25 February, 2020 in order to finalise its proposals for achieving a balanced budget.

4.0 Policy & Financial Planning Framework

- 4.1 A copy of the Council's Financial Strategy is attached at **Appendix C**. Its overall aim is to establish a framework for aligning the revenue and capital spending proposals with the Council's strategic priorities. This report covers the application of the strategy for the next five years. The Medium Term Financial Plan (MTFP) itself is supported by other financial strategies including the Capital Strategy, the Treasury Management Strategy and the Asset Management Plan.
- 4.2 The MTFP is just one of a number of plans and strategies that link into the overall Council Plan; others include the Workforce Plan, the HRA Business Plan, the Local Development Framework, etc. These are designed to help ensure that the Council provides efficient and effective services, delivers value for money and achieves continuous improvement.
- 4.3 The Council Plan should guide the Council's resource allocation and performance management arrangements. The Council Plan has been developed in tandem with the preparation of the MTFP.

5.0 Revised Budget 2019/20

- 5.1 The Council approved the original budget for 2019/20 on 27th February 2019. It was also agreed that the Council Tax be increased by £5 to £164.89 for a Band 'D' property. After allowing for planned savings a deficit of £202k was forecast.
- 5.2 Budget monitoring reports were presented to the Cabinet and full Council on a quarterly basis. The table below provides a summary of the net forecasts at each reporting stage:

Table - 2019/20 Surplus / (Deficit) Forecasts Through the Year

Date	Net surplus / (deficit) £000	Change on previous £000
Feb 19 – approved budget	(202)	-
Jul 19 – end of quarter 1	(203)	(1)
Oct 19 – end of quarter 2	52	255
Dec 19 – draft revised budget	75	23
Feb 20 – this final budget report	148	123

The revised portfolio budgets for 2019/20 were reported to the Cabinet on the 17th December 2019 as part of the first draft General Fund budget report.

Since then further work has been undertaken through budget challenge and budget monitoring to identify other possible variances for inclusion in this final budget report. The updated revised budget forecast for 2019/20 shows an estimated surplus of £148k. (**Appendix A**).

- 5.3 The budget challenge process identified areas of historical underspends where budgets were set to deal with worst case scenarios. These amounts have been removed from budgets but it is suggested that a contingency sum of £30,000 is earmarked from the Budget Risk Reserve for any subsequent unavoidable spend which would have been met from these areas.
- 5.4 A report on the Climate Change Action Plan will be considered by Council in February. The action plan identifies that up to £300,000 is required to deliver the plan over the life of the current Council Plan. There is a provision of £100,000 currently earmarked from the Budget Risk Reserve. A further contribution of up to £200,000 is requested from the Budget Risk Reserve to enable the action plan to be fully funded.
- 5.5 In September 2019, an amount of £50,000 was earmarked from the Budget Risk Reserve to fund a feasibility study into the

refurbishment of Stephenson Memorial Hall. Tenders for this work have identified that the original estimate was not sufficient and a further £10,000 is requested from the Budget Risk Reserve to fully fund this study.

- 5.6 The Council has an opportunity to be an active participant in the development and implementation of a model of Local Government collaboration for Derbyshire. This would require a contribution of £17,000 and it is suggested that this contribution be funded from the Budget Risk Reserve.
- 5.7 Strict budgetary control will continue to the end of the financial year with the final surplus transferred to the Budget Risk Reserve at the end of the year.

6.0 Business Rates

- 6.1 The estimate of business rates income for 2020/21 was approved by the Employment & General Committee on 27th January 2020. The estimated level of business rate income is £37.8m giving the Council's 40% share as £15.124m. This is then reduced by a tariff payment to central government giving a final budget figure of £4.753m for 2020/21.
- 6.2 Since 2013/14, local authorities have been able to retain a proportion of the growth in business rates over and above the baseline set in 2013/14. Central government is expected to reset the business rates baseline in 2021/22 which will mean that any growth gained since 2013/14 will be built into a new baseline, effectively wiping it out. This will have a negative impact on the level of business rates we can expect.
- 6.3 To help mitigate against these losses we have assumed no further growth in business rates income from 2021/22 and have transferred the business rates collection fund surplus of £440k in 2020/21 into the Business Rate Reserve to help meet

possible further loss of business rates income in future years.

7.0 2020/21 Net Expenditure Estimate

7.1 The Medium Term forecast approved a year ago, by Council on 27th February 2019, showed a deficit, before savings targets, of £803k in 2020/21.

7.2 The table below provides a summary of the budget forecasts which have been reported to the Cabinet during the current financial year 2019/20:

(Deficit) / Surplus Forecasts			
Stage	Cabinet	2019/20 £'000	2020/21 £'000
Start of the year	26 th Feb	(202)	(803)
Q1 Budget Monitoring	16 th Jul	(203)	(847)
Q2 Budget Monitoring	22 nd Oct	52	(141)
1 st draft budget report	17 th Dec	75	(242)
Latest Forecast	25 th Feb	148	16

7.3 The budget forecast for 2020/21 in **Appendix A** assumes a £5 Council Tax increase. The forecast shows a surplus of £16k but this assumes that ICT Digital Innovation savings of £17k will be achieved.

8.0 Council Tax & Collection Fund

8.1 Income raised locally through the council tax represents the major financing source for the General Fund revenue budget.

8.2 Collection Fund Balance – before calculating the council tax for the coming year the estimated balance on the current year's Council Tax elements of the Collection Fund must be established. The balance on the Collection Fund was reported to the Cabinet on 14th January 2020. There is an estimated surplus balance of £940,939 at the end of March 2020. The

surplus is shared amongst the major precepting authorities; the Borough's share is £94,470 (10.04%).

8.3 Tax Base - the Tax Base provides an estimate of how much each £1 of Council Tax would raise. The Tax Base is expressed as the equivalent number of Band 'D' dwellings in the borough. The Employment and General Committee approved the Tax Base on 27th January 2020 as:

Tax Base – Band 'D' Properties

Area	2019/20	2020/21	Increase / (Decrease)	
			No.	%
Brimington Parish	2,330.59	2,322.81	(7.78)	(0.3)
Staveley Town	4,136.40	4,215.27	78.87	1.9
Chesterfield Area	22,533.64	22,643.00	109.36	0.5
Total	29,000.63	29,181.08	180.45	0.6

8.4 Referendum Limit – the capping regime was replaced some years ago with a requirement to hold a referendum if the proposed council tax increase exceeds a limit set by the Secretary of State. The limit for 2020/21 has been set at 2% but with a concession for district councils which allows them to increase their council tax by a maximum of £5 or 2%. The £5 increase is equivalent to an increase of 3.03%.

8.5 Council Tax Increase – the budget has been prepared assuming a council tax increase of £5 for a Band 'D' property. For local tax payers the impact of a £5 per annum increase on the Band 'D' tax, compared to the current council tax, is 3.03% in percentage terms, but low in monetary terms, for a;

- **Band 'A'** property (more than half the properties in the Borough) equivalent to £3.33 per annum or 6.4 pence per week;
- **Band 'D'** equivalent to £5.00 per annum or 9.6 pence per week.

The Council's share of the overall tax bill is approximately 10% so the increase will only have a relatively small impact on the total shown on the bill.

9.0 Flexible Use of Capital Receipts Strategy

- 9.1 As part of the November 2015 Spending Review, the Government announced that it would introduce flexibility for local authorities to use capital receipts from the sale of non-housing assets to fund the revenue costs of service reform and transformation which are forecast to generate ongoing savings to an authority's net service expenditure. Guidance on the use of this flexibility was issued in March 2016 which applied to the financial years 2016/17 to 2018/19. In December 2017 the Government confirmed that this flexibility would be extended for a further three years to 31st March 2022.
- 9.2 Government has provided a definition of expenditure which qualifies to be funded from capital receipts. This is:
"Qualifying expenditure is expenditure on any project that is designed to generate ongoing revenue savings in the delivery of public services and/or transform service delivery to reduce costs and/or transform service delivery in a way that reduces costs or demand for services in future years for any of the public sector delivery partners. Within this definition, it is for individual local authorities to decide whether or not a project qualifies for the flexibility."
- 9.3 The Council intends to use the capital receipts flexibility to part fund the ICT Improvement Programme, which was approved by Council in April 2018. The original programme included capital expenditure that will now be delivered using cloud-based technology and as such has been reclassified as revenue expenditure. There has been no change to the overall cost of the project.

9.4 The estimated use of capital receipts and annual savings generated by this project are set out in the table below:

	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000	2023/24 £000
Estimated Expenditure	412	480	0	0	0
Estimated Savings	(227)	(232)	(592)	(825)	(1,023)

It is forecast that the ICT Improvement programme will achieve total net revenue savings of around £4.5m during the 8 years to 2026/27.

9.5 The Guidance requires that the impact on the Council's prudential indicators should be considered when preparing a Flexible Use of Capital Receipts Strategy. There will be no impact on the Council's prudential indicators as a result of the implementation of this strategy, as the expenditure to be funded from capital receipts had previously been included within the capital programme. Therefore there has been no change in the overall use of capital receipts.

10.0 Medium Term Forecast - 2021/22 through to 2024/25

10.1 It is good financial practice for authorities to consider their budgets over the medium term and not just for the year ahead. The forecasts are based on current levels of service provision with no allowance for future growth. They assume that the current business rate retention model continues. The government is consulting on changes to the current model.

10.2 The table below provides a summary of the deficits/savings targets over the medium term:

	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000	2024/25 £'000
Surplus / (Deficit) forecast after planned savings	16	(723)	(767)	(827)	(742)
ICT Digital Innovation Savings	(231)	(592)	(825)	(1,023)	(1,216)
ICT Digital Innovation Savings Achieved	214	218	220	228	234
Total Savings target	(1)	(1,097)	(1,372)	(1,622)	(1,724)
Change on previous year – deficit (increase)/ decrease		(1,096)	(275)	(250)	(102)

The scale of the future forecast deficits and the need for significant IT investment means that work must continue in 2020 to deliver on the planned efficiency and income proposals, and to identify new savings proposals in order to be able to produce balanced and sustainable budgets for future years.

10.3 An action plan has been developed identifying a programme of initiatives designed to eliminate the forecast deficits over the life of the Medium Term Financial Plan. These will be developed during 2020/21 in order that savings are realised for the start of 2021/22.

Action Plan	Budget 2021/22 £000	Budget 2022/23 £000	Budget 2023/24 £000	Budget 2024/25 £000
Shared Services (see para 10.4)	tbc	tbc	tbc	tbc
Voluntary Redundancies	100	200	300	400

VAT	0	100	103	106
Strategic Review of HRA/GF contribution	100	100	100	100
Asset Consolidation	44	89	90	90
Procurement	25	50	75	100
Commercial Activity	100	100	100	100
Capital Investment to Generate Income	0	149	207	207
£5 Council Tax Increase	48	49	50	51
Total Savings	417	837	1,025	1,154

10.4 A meeting of the Joint Cabinet & Employment & General Committee on 14th January agreed to the return of services from Arvato and Kier in October 2020. It is expected that significant savings will be achieved as a result of this and there is also a possibility of a new partnership arrangement for Chesterfield to continue to provide some services for Derbyshire Dales from October 2020. However, it is too early to be able to provide a definitive figure at this stage.

10.5 The level of savings anticipated from this plan is higher than the current level of deficits forecast. A number of budget risks have been identified that may create further pressure within the Medium Term Financial Plan which are not quantifiable at this stage. It is hoped that the additional savings achieved will help to mitigate these budget pressures.

10.6 The most significant budget risks include:

- 10 year property maintenance programme
- Non achievement of ICT savings
- Pay award above 2.5%
- Escalating energy prices and general cost inflation.
- Achieving income targets for rents, fees, charges and interest
- Borrowing to fund capital programme
- Funding climate change agenda
- Flood Resilience grant funding
- Fair Funding review

- Business Rates growth reset
- Business Rate appeals/valuation changes

10.7 Every effort will be made to avoid having to use reserves to support the budget as the reserves would be more effectively used on proposals that will produce ongoing revenue budget savings or income growth.

10.8 The budget estimates are based on the best available information but inevitably there is a degree of risk and uncertainty in some of the assumptions made. Details of the most significant risks and issues are provided in **Appendix E**.

11.0 Reserves & Balances

11.1 The Council maintains a General Working Balance plus a number of other earmarked reserves. A review of all the reserves and provisions has been undertaken as part of the budget process.

11.2 **General Working Balance** – the working balance provides a cushion for cash flow shortages and a contingency for unforeseen events. The minimum prudent level for the working balance is a matter of professional judgement based on past experience, the level of other earmarked reserves and an assessment of future risks. The working balance is being maintained at £1.5m to recognise the range of risks the Council is currently exposed to. An updated financial risks assessment is provided in **Appendix E**, which indicates that a balance of £1.5m should be adequate. A balance of £1.5m is equivalent to 14% of the Council's budget requirement.

11.3 **Earmarked reserves** are held to meet known or anticipated liabilities. Details of the earmarked reserves held by the Council, including their purpose and predicted movements over the next five years are included in **Appendix D**.

11.4 The level of reserves is considered to be adequate.

12.0 Consultation

12.1 The consultation meeting with the business ratepayers' representatives took place on 13th February 2020. Issues discussed included the changes to the business rates system and retail relief schemes, the Council's budget forecasts and the council tax increase options.

12.2 Consultation with Council Taxpayers took place at a Community Assembly meeting on 7th January 2020 which was attended by approximately 60 members of the public. The Council Plan and budget were discussed and council tax increase options.

13.0 Other Local Council Taxes

13.1 The special items to be added to the tax in **parished areas** are:

- **Staveley Town Council** - Band 'D' tax increased by 1.7% to £97.59 (£95.96 in 2019/20); &
- **Brimington Parish Council** – Band 'D' tax increased by 3.36% to £22.43 (£21.70 in 2019/20).

13.2 **Derbyshire County Council** has agreed on 5th February 2020 to increase its council tax by 2.00% to £1,349.34 (£1,322.88 in 2019/20).

13.3 **Derbyshire Police & Crime Commissioner** set the Constabulary's precept and council tax on 23rd January 2020- the Band D tax will be £226.60, an increase of £10 (4.62%) (£216.60 in 2019/20).

13.4 **The Derbyshire Fire** and Rescue Authority set its precept and council tax on 13th February 2020 – the Band D tax will be £77.73 an increase of 1.98% (£76.22 in 2019/20).

13.5 Details of the council taxes for each major preceptor and by each tax band are shown in **Appendix G**.

14.0 Calculation of Expenditure

14.1 The calculation of expenditure required under Section 32 of the Local Government Finance Act 1992 is shown at **Appendix F**.

15.0 Legal Implications

15.1 It is a statutory requirement under Section 33 of the Local Government Finance Act 1992, for the Council to produce a balanced budget. Before setting the level of the council tax the Council must have agreed a balanced budget, differentiated by services, which is sufficient to meet estimated revenue expenditure, levies, contingencies, any deficit estimate to be brought forward from previous years, and any amounts required to be transferred between funds. The council tax itself must be sufficient to cover the difference between the agreed budget less government grants credited to the income and expenditure account, and any other expenditure which must be met from the Collection Fund, less any surplus (or plus any deficit) brought forward from previous years.

16.0 Chief Financial Officer's Assurances

16.1 The Local Government Act 2003 (section 25) requires the Chief Financial Officer (CFO) to report on the robustness of estimates and the adequacy of financial reserves when the statutory calculations to determine the Council Tax are reported. The

CFO is the officer responsible for the administration of the Council's financial affairs for purposes of Section 151 of the Local Government Act 1972.

Robustness of estimates – subject to the risks highlighted elsewhere in this report, the Chief Finance Officer is satisfied that the estimates are based on the best available information and that procedures are in place to ensure the estimates are accurate and reliable. Budget responsibility is devolved to service managers who are best placed to complete the budget working papers. The central Accountancy Team co-ordinate the budget process and check through all budget working papers. The Council's procedures, allied to experienced staff and a robust approach to risk management should minimise the inherent risks and uncertainties in the forecasting process.

Budgets will continue to be monitored on a monthly basis throughout the year so that any required corrective action can be taken at the earliest opportunity and the medium term forecasts will be continually updated as part of that process.

- 16.2 **Level of reserves** - details of the Council's reserves are provided in Section 10 above and in **Appendix D**. The General Fund working balance is being maintained at £1.5m to recognise the financial risks the Council currently faces particularly in relation to Business Rates income. The updated Budget Risk and Sensitivity Analysis in **Appendix E** also supports the minimum working balance being maintained at this level.

The policy on the use of reserves will continue to be to use earmarked reserves for their intended purpose with surplus reserves being used for investment in the Council's priorities and/or for transformation schemes which are designed to produce on-going revenue budget savings

The reserves have declined from 2019/20 but are still considered adequate for 2020/21. The position in future years

will depend on the Council's success in delivering the required budget savings and surpluses.

The Council also maintains a number of earmarked reserves for financing capital expenditure and equalising expenditure between years. The balances in these other reserves are considered adequate for the medium term.

17.0 Alternative Recommendations

17.1 It is within the gift of the Council to propose alternative budget allocations and/or council tax level.

18.0 Recommendations

18.1 That Council:

18.1.1 Approves the revised budget for 2019/20 (Section 5).

18.1.2 Approves the request for funding at paragraphs 5.3 to 5.6 from the Budget Risk Reserve.

18.1.3 Approves the overall revenue budget summary for 2020/21 (Section 7 and Appendix A).

18.1.4 Notes the Collection Fund and the Tax Base forecasts (Section 8).

18.1.5 Approves the use of the capital receipts flexibility to fund the revenue costs of the ICT programme which will lead to budget savings (Section 9).

18.1.6 Notes the budget forecasts for 2020/21 and the medium term and the action plan for addressing the projected deficits (Section 10).

- 18.1.7 Approves the estimates of reserves including maintaining the General Working Balance at £1.5m (Section 11 and Appendix D).
- 18.1.8 Notes the budget risks and sensitivity analysis (Appendix E).
- 18.1.9 Increases the Council's share of Council Tax by £5 for a Band 'D' property in 2020/21.
- 18.1.10 Approves the 2020/21 Council Tax Requirement and financing (Appendix F).
- 18.1.11 Notes the Acting Chief Finance Officer's assurances (Section 16).

19.0 Reasons for Recommendations

- 19.1 In order to meet the statutory requirements relating to setting a budget and the council tax.

Decision information

Key decision number	927
Wards affected	All words
Links to Council Plan priorities	Underpins the whole council plan

Document information

Report author		Contact number/email
Helen Fox		Helen.fox@chesterfield.gov.uk
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 Budget Summary	
Appendix B	Budget Strategy	
Appendix C	Financial Strategy	
Appendix D	Reserves & Balances	
Appendix E	Budget Risks & Sensitivity Analysis	
Appendix F	Section 32 Statement	
Appendix G	Council Taxes	