

For publication

General Fund Revenue Budget Summary (DL050)

Meeting:	Cabinet
Date:	15 th December 2020
Cabinet portfolio:	Deputy Leader
Directorate:	Finance

1.0 Purpose of report

1.1 To provide Cabinet with an update on the development of the General Fund Revenue Budget for 2021/22 and future years.

2.0 Recommendations

2.1 To note the updated budget projections for 2020/21 and future years (**Appendix A**) recognising the difficulty of producing accurate estimates in the current climate and the continued risks associated with these budget estimates.

2.2 That work continues to refine the draft estimates for 2020/21 and future years and to develop budget saving proposals to address the forecast deficits from 2021/22.

2.3 That the changes to budget assumptions outlined in paragraph 7.3 are approved.

3.0 Reasons for recommendations

3.1 To keep Members informed about the council's current financial standing, the budget estimates for 2021/22 and the latest medium term financial forecasts.

4.0 Background

- 4.1 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.
- 4.2 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 2021.
- 4.3 The draft Local Government Finance Settlement will hopefully be published in the second half of December. It is expected to confirm that the regime for 2021/22 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 2.9%).

5.0 Budget Assumptions and Forecasts

- 5.1 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 is not possible to provide accurate forecasts for these pending:
- a) Confirmation of the Provisional Local Government Finance Settlement;
 - b) Completion of the NNDR1 in January; and
 - c) Further clarity on 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 Cabinet at the earliest opportunity so that any corrective action can be considered before the final budget report is submitted to Council in February 2021.

6.0 2020/21 Revised Budget

- 6.1 At the start of the year, the forecast surplus was £16k. During the year the budget position has been reported to Cabinet on a quarterly basis. At the end of Quarter 2 the forecast for 2020/21 was a deficit of £192k.

- 6.2 As reported in the Month 2 and Quarter 2 budget monitoring reports, the impact of the coronavirus pandemic and the council's response to it continues to have a significant adverse effect on the council's financial position this year.
- 6.3 The latest revised budget for 2020/21 (**Appendix A**) shows a deficit of £165k.
- 6.4 The analysis of movements during the year are included in the table below.

	(£000's)	(£000's)
Original Budget 2020/21 Surplus / (Deficit)		16
<u>Covid19 Cost Pressures: -</u>		
Sports Centres	(2,340)	
Car Parking	(1,425)	
Venues	(513)	
Town Centre	(444)	
OSD Surplus	(331)	
Covid19 Expenditure - Homelessness & PPE	(241)	
Industrial/Commercial Rents	(216)	
Catering	(134)	
Commercial Waste	(124)	
Investment Income	(98)	
Spirepride Surplus	(90)	
Bad Debts Provision	(75)	
Golf Course	(67)	
Business Rates Pooling	(50)	
Legal & Land Charges Income	(42)	(6,190)
<u>Covid19 Related Grants: -</u>		
MHCLG Covid19 Sales Fees & Charges Compensation	2,105	
MHCLG Covid19 Grant	1,889	
CJRS (Furlough Grant)	475	
Cultural Recovery Grants (Venues & Museum)	414	
New Burdens Grant – Business Rates & Discretionary Grants	170	5,053
<u>Agreed Savings: -</u>		
Contribution to Business Rates Reserve	440	
Gas & Electricity	140	

Other Income	107	
Expenditure Savings – Budget Challenge	92	
Domestic Waste Contract	65	
Bank Charges	52	
Contribution to Vehicle & Plant Reserve	50	
Crematorium Surplus	47	993
Cost Pressures: -		
Pay Award (2.75% not 2.5%)		(31)
Other Movements		(6)
Revised Budget 2020/21 Surplus / (Deficit)		(165)

6.5 A 'check and challenge' process involving Service Directors, budget holders and the accountancy team is underway, designed to identify any areas of non-essential spend. Savings agreed will be reflected in the budget estimates reported to Cabinet and Council in February 2021. It is hoped that these activities will bring the General Fund Revenue Account for 2020/21 back into balance.

6.6 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 Council in February 2021.

7.0 Budget Forecast 2021/22

7.1 The forecast for 2021/22 in **Appendix A** shows a deficit of **£40k**. The Business Rates income forecast will require revision before the final budget is brought to Council in February 2021.

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

7.3 The budget assumptions agreed at Cabinet in November included provision for pay awards of 2.5% across all years. As a result of recent announcements relating to a public sector pay freeze, these assumptions have been revised downwards and the budget has been prepared assuming a 1% pay award for 2021/22 and 2% for all future years.

7.4 A savings action plan was approved by Council in February 2020 designed to eliminate the forecast deficits over the life of the medium term financial plan. This action plan has been updated and is included in Appendix B. The savings identified have been built into this financial forecast.

- 7.5 The £40k deficit position therefore includes assumed savings from the ICT Digital Innovation initiative of £374k and from the savings action plan of £498k.
- 7.6 The Provisional Local Government Finance Settlement is not available at the time of writing, but the expectation is that it will be similar to 2020/21. 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.
- 7.7 One impact of the Covid19 pandemic is that collection rates for council tax and business rate income are lower than in previous years. Due to the accounting arrangements for these sources of income, the consequences of any reduction in collection rates in the current financial year are not felt until the following financial year. The current forecasts in the table above do not include any provision for this.
- 7.8 The Government has indicated that any deficits on the collection fund that are Covid19 related, can be spread over 3 financial years rather than the normal one-year period. There has also been an announcement that local authorities will receive compensation of 75% of any irrecoverable losses of income from council tax and business rates in 2020/21. Details of how this scheme will work and what the impact of this will be on our financial position are impossible to quantify at this stage. An analysis of the impact of this on future years' budgets will be included in the final budget reports to Cabinet and Council in February 2021.

8.0 Medium Term Forecasts

- 8.1 The draft estimates in **Appendix A** assume the current local government funding regime will remain unchanged. A new local authority funding regime is expected to be introduced for 2022/23 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 assuming that the negative effects of Covid19 on the economy can be reversed, but the baseline may be reset as part of any 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 2021/22 and each year thereafter.
- 8.2 The medium term forecast assumes that levels of expenditure and income will return to normal from 2021/22 and that if this is not the case, the government will continue to provide financial support to local

authorities to allow them to continue to provide the full range of services. The government have recently announced that further financial support will be available in 2021/22 and that the income compensation scheme will be available to local authorities for the first quarter of 2021/22. It may be necessary to include a risk provision for non-achievement of income targets in the final budget figures to Cabinet and Council in February 2021. Based on the current budget estimates for sales, fees and charges in 2021/22 we have calculated that this risk provision could be potentially £365k.

- 8.3 Business Rates Pooling - It has been assumed that the £300k Derbyshire Pooling gain will continue in all years.
- 8.4 The latest forecast deficits are £40k in 2021/22 rising to £183k by 2025/26. These estimates assume that all ICT Digital Innovation and action plan savings are delivered in full and on time and that no risk provision is necessary for Covid19 related financial pressures. ICT Digital Innovation savings have previously been reported and approved by members and details of the savings action plan is included at Appendix B.
- 8.5 Our future forecasts are also dependant on our core trading income streams holding up (car parks, leisure, business rents, venues etc.). These income lines are sensitive to changes in the market.
- 8.6 Deficits of up to £265k still remain and further work is required to balance future year estimates.

9.0 Reserves

- 9.1 The **General Working Balance** was £1.5m at the start of this financial year. The on-going financial risks associated with the impact of Covid19 on the council's financial position, the business rates retention scheme and other funding sources would suggest that it would be imprudent to consider reducing this amount.
- 9.2 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.
- 9.3 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 2020/21	Opening Balance £000	Revised Forecast £000	Forecast 31/3/22 £000
Budget Risk Reserve	1,345	1,088	935
Service Improvement Reserve	300	300	300
Other Earmarked Reserves	7,693	6,093	5,780
Provisions	2,302	2,395	2,592
Total Reserves & Provisions	11,640	9,876	9,607

10.0 Conclusion & Next Steps

10.1 This report presents the first draft of the budget for 2021/22 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.

10.2 The full Council will approve the final budget and the Council Tax for 2021/22 at its meeting on 24th February 2021. 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.

10.3 Further revenue pressures are expected as a result of the pandemic, undermining the council's ability to deliver a balanced medium-term financial plan in 2021/22. The current forecast position is dependent on all ICT Digital Innovation and action plan savings being delivered in full and on time and that no risk provision is necessary for Covid19 related financial pressures. Given the uncertainty around the future impact of Covid19 on our ability to deliver these outcomes, this may not be possible and deficits will increase as a result.

10.4 The outcome of the Government's review of local authority funding and the consequent changes to Business Rates funding from 2022/23 remains unclear. The impact of any changes could be significant for our finances. We have not included any figures in our budgets at this stage though we continue to work with advisors to understand the possible changes.

11.0 Alternative options

11.1 There are no alternative options to consider.

12.0 Implications for consideration – Council Plan

12.1 The first value for money milestone in the Council Plan is to deliver the councils medium term financial plan and actions for 2020/21. This report updates progress against that milestone.

13.0 Implications for consideration – Financial and value for money

13.1 Financial and value for money implications are detailed in sections 4 to 10.

14.0 Implications for consideration – Legal

14.1 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.

15.0 Implications for consideration – Human resources

15.1 There are no human resource implications to consider in this report.

16.0 Implications for consideration – Risk management

16.1 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:

- The impact of Covid19 on the council's financial position and the wider economy
- Business Rate pooling opportunities and threats.
- Business Rate appeals, valuation changes, etc.
- ICT savings not being delivered.
- Delivering the required budget savings on time and to the value required
- Funding of asset management property repairs review
- Achieving income targets for rents, fees, charges and interest.
- Changes to local government funding

16.2 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 2021.

17.0 Implications for consideration – community wellbeing

17.1 There are no community wellbeing implications to consider in this report.

18.0 Implications for consideration – Economy and skills

18.1 There are no economy and skills implications to consider in this report.

19.0 Implications for consideration – Climate Change

19.1 Individual climate change impact assessments are not required for the budget process. These are included as part of the decision-making processes for specific spending options.

20.0 Implications for consideration – Equality and diversity

20.1 Individual equality and diversity impact assessments are not required for the budget process. These are included as part of the decision-making processes for specific spending options.

Decision information

Key decision number	984
Wards affected	All wards

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
Appendix B	Savings Action Plan