

Chichester District Council

THE CABINET

5 February 2019

Budget Spending Plans 2019-2020

1. Contacts

Report Authors

Helen Belenger – Divisional Manager Financial Services
Telephone: 01243 521045 E-mail: hbelenger@chichester.gov.uk

David Cooper - Group Accountant
Telephone: 01243 534733 E-mail: dcooper@chichester.gov.uk

Cabinet Member

Peter Wilding - Cabinet Member for Corporate Services
Telephone: 01428 707324 E-mail: pwilding@chichester.gov.uk

2. Executive Summary

Full Council approved the Five-Year Financial Strategy in January 2019, including the key financial principles, which set out guidelines for making financial decisions over the next few years; aiding the management of the Council's finances in anticipation of the major changes in future Government funding from 2020-21, and the expectation of diminishing resources.

In preparation for 2019-2020 annual budget, and adhering to good financial management practices, any major variations identified in the current year which are also expected to have an ongoing impact have been reflected in the draft budget, so as to reduce this risk to the Council's financial resilience, as a result of the uncertainty in the economy, including the potential impact of Brexit affecting the major discretionary income streams of the Council. The draft budget proposed takes account of any service delivery changes required, service cost pressures, and funding pressures on the community that are in line with the Council's key priorities.

2019-2020 is the last year of the government's four-year multi-year offer, the provisional settlement for the core funding elements was largely unchanged.

The government has announced that as a low taxing authority, Chichester District Council can raise its council tax by £5 or 3% whichever is the greater; £5 equates to 3.2% and would generate an additional £266,700 per year. Any proposal to increase council tax by more than £5 would require a referendum.

The Council will set the budget and council tax in March 2019. This report concentrates on the budget spending plans which are a robust financial estimate of the resources required to deliver council services and the Provisional Local Government Finance Settlement.

3. Recommendations

3.1 That the Cabinet recommends to the Council:

- (a) That a net budget requirement of £13,829,600 for 2019-20 be approved.**
- (b) That Council tax be increased by £5 from £155.81 to £160.81 for a band D equivalent in 2019-20.**
- (c) That the Investment Opportunities Reserve be increased by £532,500.**
- (d) That, should the final settlement differ from the provisional settlement, any increase or decrease be dealt with by adjusting the transfer to the Investment Opportunities Reserve above.**
- (e) The capital programme, including the asset renewal programme (appendix 1c and 1d to the agenda report) be approved.**

3.2 That the Cabinet further notes:

- (a) The current resources position set out in appendix 2 to the agenda report.**
- (b) The budget variances included in the Draft Budget Spending Plan as set out in appendix 1b to the agenda report including the growth items.**

4. Background

- 4.1 This report sets out the proposed annual budget for revenue spending for the forthcoming financial year 2019-2020 and the rolling 5 year capital and the asset replacement programmes. The detailed revenue budget builds upon the work undertaken for the Financial Strategy, which was considered by the Cabinet at its December 2018 meeting and the Council in January 2019.
- 4.2 The provisional financial settlement was finally received on 13 December 2018 for 2019-2020 and offered few surprises as it was broadly in line with the forecast expected in the financial strategy, except that, the Rural Services Delivery Grant was increased from the forecast of £152,000 to the same level received in 2018-19 of £189,000. The biggest news was that the West Sussex Pool bid to participate in a 75% localisation Business Rates Pilot for 2019-2020 was accepted. Due to this the Rural Services Delivery Grant is now included in the Baseline Funding Level (BFL) for Business Rates.
- 4.3 As was universally expected the government decided to remove the potential reduction of government funding within the Business Rates Retention Scheme, referred to as negative RSG for 2019-20, by way of directly eliminating the need for this by foregone business rate receipts. As this situation was expected, the forecast negative RSG of £620,000 had already been removed from Chichester District Council's (CDC) five-year Financial Strategy model reported to the Cabinet in December 2018 and the Council in January 2019.

- 4.4 The New Homes Bonus scheme (NHB) announced as part of the provisional financial settlement was unchanged for 2019-2020; although the Financial Strategy assumed that the national baseline would be increased from 0.4% to 0.6%, as this was not the case, the settlement allocation of £2.178m was higher than the forecast of £1.968m shown in the 5 year financial model. In line with the Council's financial principles, this source of funding is not used to balance the revenue budget.
- 4.5 The draft budget process is an all-inclusive process with the Divisional Managers and service budget managers working with the accountancy team, under the leadership of the Strategic Leadership Team (SLT). The result is a robust process ensuring financial resources match service delivery priorities.

5. Outcomes to be Achieved

- 5.1 The draft spending plans have been formulated in accordance with the financial principles of the Financial Strategy as adopted by Council; which results in a robust financial estimate of the resources needed to deliver council services in 2019-2020.
- 5.2 To seek the Cabinet's approval on the draft spending plans, and to make appropriate recommendations to the Council to determine the council tax at its meeting on 5 March 2019.
- 5.3 To set a balanced budget, which is a statutory requirement, and to maintain adequate reserves to be able to address any budgetary fluctuations in the short term.

6. Proposal

Council Spending – Budget for 2019-2020

- 6.1 The purpose of this report is to consider the draft budget spending plans ahead of the Council meeting in March, when the council tax and budget will be set for the forthcoming financial year. The plans, if adopted, will set the spending parameters for services and officers for 2019-2020.
- 6.2 CDC has a statutory duty to prepare a balanced annual revenue budget, and it is also good financial management to do so within the context of its medium term financial strategy. The key variables in achieving a balanced financial position for 2019-2020 are the levels of income from fees and charges, budget pressures in some service delivery areas, income from business rates and the use of council reserves.
- 6.3 The revenue estimates for 2019-2020 are shown in the summarised Comprehensive Income and Expenditure Statement (CIES) in appendix 1a. This summary provides for the net cost of each Cabinet portfolio and also for the main services within each portfolio area.
- 6.4 The draft spending plans are based on opting for a council tax increase of £5 per Band D property; this will generate an additional £266,700 per year for CDC. This will assist CDC to meet its long term objective of protecting public services to its community. The council tax referendum principles for shire district councils was again set as the higher of either 3% or £5 (which equates to an increase of 3.2%).

- 6.5 CDC's estimated budget requirement for 2019-20, as shown in appendix 1a, is £13.830m (£11.652m excluding NHB). This represents a spending increase of 6.2% (or an 8.8% increase when excluding NHB) over the base budget for 2018-2019.
- 6.6 The draft budget requirement is calculated after deducting income arising from fees and charges, the remaining balance has to be financed from council tax, Retained Business Rates and other government grants. Currently CDC receives around £16.6m of income each year from fees and charges for services eg car parking, trade and green waste, estates rents, planning and building control fees.
- 6.7 The draft budget requirement includes a number of service cost pressures and service delivery changes identified during this budget cycle, the details of which are set out in appendix 1b along with growth items amounting to £152,000.
- 6.8 The draft budget shows a contribution to the investment opportunity reserve of £532,500 for 2019-2020, however as the government's multi funding offer ends after 2019-2020, any future projections to this reserve in the five-year Financial Strategy model are expected to fall and will need to take account of further detailed information received regarding the outcomes of the fair funding review, localisation of business rates from 2020-2021, and the Comprehensive Spending Review in 2019.
- 6.9 Also if there is any change in the final settlement for 2019-2020, it is recommended that this should be dealt with by adjusting the amount transferred to the Investment Opportunities Reserve.
- 6.10 The Financial Strategy seeks to avoid the use of reserves to support the budget on a recurring basis. The 2019-2020 budget has been balanced without the need to use reserves, however if the deficit reduction plan or new income streams are not delivered as expected in the Financial Strategy, or further action taken to address any funding gap, then in the medium term CDC will struggle to balance its budget without the use of reserves.
- 6.11 SLT and budget managers are required to adhere to robust proactive financial management principles to protect CDC's financial position, including monitoring both in year budgets and considering the medium term financial strategy which is reviewed on a regular basis. This ensures that CDC is able to be proactive rather than reactive to securing the financial stability over the medium term.

Capital Programme and Asset Renewal Programme (ARP)

- 6.12 The current Capital Programme is set out in appendix 1c. This is based on schemes previously approved by the Cabinet or the Council.
- 6.13 Appendix 1d sets out the projects within the five-year Asset Renewal Programme. These are funded via contributions from CDC's revenue budget into a reserve set up for this purpose. This ensures CDC is able to fund its replacement assets on a recurring basis. The annual contribution to this fund now stands at £1.359m following a detailed review of the services' asset requirements as part of the budget process. All schemes CDC's Council's Constitution and in accordance with the project management process ie those over £50,000 will be subject to a Project Initiation Document (PID).

- 6.14 The anticipated spend on infrastructure projects is based on the latest approved Infrastructure Business Plan (IBP), which are contained within appendix 1c. These projects will be subject to approval in accordance with the Community Infrastructure Levy (CIL) governance arrangements as agreed by the Corporate Governance and Audit Committee, and the adherence to CDC's Constitution.
- 6.15 Linked to the spending plans of the CDC are the Capital Strategy and the Treasury Management and Investment Strategies, which are also on the agenda for this meeting for the Cabinet to consider, whilst also taking into account the spending plans contained in this report.

Reserves

- 6.16 The current Resources Statement is detailed in appendix 2; this indicates that the Capital Programme and Asset Renewal Programme remain fully funded from CDC's own resources. This can be read in conjunction with appendix 3 which sets out the different reserves held by CDC as at 31 March 2018, their purpose and the authorisation required to fund expenditure against those reserves.
- 6.17 When the 2018-2019 budget was considered the minimum level of reserves was increased from £5m to £6.3m to take account of the future uncertainty in government funding and the volatility in the economy impacting council income from fees and charges. The recommendation is for it to remain at that level for the coming financial year as recommended to the Council in January 2019 by the Corporate Governance and Audit Committee and the Cabinet.

7. Alternatives Considered

- 7.1 The Council is legally obliged to set a balanced budget, hence no alternative to the requirement has been considered. However, the level of council tax is a local determination, taking into account the government's criteria and expectation of tax increases before triggering a local referendum. The criteria announced as part of the provisional financial settlement in December 2018, was that council tax can be increased by the higher of 3% or £5; therefore members could forgo some of the movement to the investment opportunity reserve by reducing the level of increase currently incorporated in the budget proposed for 2019-2020. However, no increase or a lower increase will reduce the council tax base for future years and so potentially has a long term impact on CDC's tax base and financial stability.
- 7.2 In setting the budget for 2018-2019 the Council agreed to make provision of £565,000 for the accounting adjustment required under the International Financial Reporting Standard (IFRS) 9, as the government has agreed a statutory override for the next five years. It is intended to set aside this sum in an earmarked reserve, and at each year end assess if the reserve can be reduced as the fair value gap closes so that at the end of the five year period an appropriate level reserve exists to cover the investment fair value difference, if any.

8. Resource and Legal Implications

- 8.1 The primary objective of this report is to determine the budget spending plans for 2019-2020 against a background of ever-tightening financial constraints on public

services. The estimates represent robust financial projections for the provision of council services, and adhere to the statutory obligation to set a balanced budget.

- 8.2 Section 25 of the Local Government Act 2003 requires the Section 151 Officer ie the Director of Corporate Services to report to members on the robustness of the estimates and the adequacy of reserves when considering the budget and council tax. This is so that members have authoritative advice available to them when making decisions on a budget that sets out estimates of what they plan to spend on each of the services. It is the view of the Director of Corporate Services that the processes followed are sound and well established, the resultant estimates are robust, and reserves are at an adequate level. Regular monitoring reports are brought to members covering revenue budgets, the capital programme and asset replacement programme, and updates to the Financial Strategy and plan include analysis of the resources and the affordability of the capital programme. The Director of Corporate Services having considered the risks associated with CDC's capital investment plans is of the view that they are affordable, having taken into account the measures that CDC has in place for mitigating against those risks; these measures include ensuring the adequacy of reserves to be held, regular monitoring of expenditure against the capital programme, and the expected resources available to fund those capital investment plans as detailed in the Capital Strategy.
- 8.3 The Director of Corporate Services is satisfied that the estimates used for Business Rates (the NNDR 1) are robust and prudent. This annual return is required by the end of January and therefore will have been submitted to government before the date of the Cabinet meeting. The impact of CDC being part of the 75% Business Rates pilot will also need to be considered when submitting this return. As in previous years this return is required by the Ministry of Housing, Communities and Local Government (MHCLG) to be authorised by CDC's Section 151 Officer ie the Director of Corporate Services.

9. Consultation

- 9.1 As with last year's budget, the revenue budget spending plans were considered by a task and finish group set up jointly by the Overview and Scrutiny, and Corporate Governance and Audit Committees. This enabled earlier involvement with the variance reports in December. The debate was very useful in terms of testing the changes in the budget from the 2018-2019 base to the draft budget for 2019-2020. The outcome of their review was reported to the committees' January cycle meetings.
- 9.2 The Draft Budget Spending Plan has been made available via CDC's website at [Annual budget: Chichester District Council](#) to encourage feedback on the budget and the balance of spending against taxation. This gives the opportunity for any interested party to state their opinion on priorities and resource allocation. Any comments received will be made available to members either at the Cabinet or the Council before the council tax and budget are set.

10. Community Impact and Corporate Risks

- 10.1 Where services have been changed or reduced through CDC's deficit reduction programme, those services will have assessed the community impact, and that will have been reported separately as part of the Cabinet's decision at that time. This report represents the culmination of those previous decisions.

- 10.2 The growth items included in the proposed budget takes account of increased service delivery demands, service delivery changes and other budget pressures which are linked to CDC's key priorities.
- 10.3 The resources statement currently indicates a surplus of resource after taking into account all commitments. However, this statement includes a number of capital receipts that are not yet secured. In considering the risks associated with the proposed spending plans, the potential liquidity risk (cash flow) is considered within the Treasury Management and Investment Strategies included elsewhere on this meeting's agenda.
- 10.4 As set out in the report to the Cabinet in December 2018 when it considered the Financial Strategy and the five-year Financial Model, the coming financial year has a great deal of uncertainty which is likely to have an impact on the council's financial stability in the medium term, and when setting this budget those risks will need to be monitored closely as further detailed information is obtained, giving greater clarity to aid its financial planning.
- 10.5 The uncertainty in the coming year relates to future government funding, due to the Fair Funding Review, the localisation of business rates from 2020-2021 and the Comprehensive Spending Review 2019, as well as the potential impact of Brexit on the economy. CDC's own reliance on income generating services may also be adversely affected by the current economic uncertainty as a result of Brexit and the impact on the community that uses council's discretionary services. This has been considered in the draft budget as £300,000 income has been removed from car parking income target for 2019-2020 and £140,000 for planning fee income forecasts to mitigate against the perceived economic risk in the coming financial year.

11. Other Implications

	Yes	No
Crime and Disorder		✓
Climate Change and Biodiversity		✓
Human Rights and Equality Impact		✓
Safeguarding and Early Help		✓
General Data Protection Regulations (GDPR)		✓
Health and Wellbeing		✓

12. Appendices

12.1 Appendix 1 - Draft Budget Spending Plan 2019-20 (Incorporating appendices 1a to 1d)

- Appendix 1a Draft Summarised Income and Expenditure Account.
- Appendix 1b Analysis of major budget variations
- Appendix 1c Capital and Projects Programme 2019-20 to 2023-24
- Appendix 1d Asset Replacement Forecast 2019-20 to 2023-24

12.2 Appendix 2 - Capital Programme Resource Statement

12.3 Appendix 3 – Reserves Statement

12.4 Appendix 4 – Capital Prudential Indicators and MRP Policy

13. Background Papers

13.1 None