

Public Document Pack



Please reply to: Darryl White
Service: Strategy & Commissioning
Direct Dial: (01803) 861247
E-mail address: Darryl.White@swdevon.gov.uk
Date:

Dear Councillor

SOUTH HAMS OVERVIEW AND SCRUTINY PANEL - THURSDAY, 12TH OCTOBER, 2017

I refer to the agenda for the above meeting and attach papers in connection with the following item(s).

Agenda No	Item
------------------	-------------

- | | |
|----|---|
| 9. | <u>Medium Term Financial Strategy for 2018/19 Onwards</u> (Pages 1 - 60) |
|----|---|

Yours sincerely

Darryl White
Senior Specialist – Democratic Services

Encs

This page is intentionally left blank

NOT FOR PUBLICATION

Appendix E to this report contains exempt information as defined in Paragraph 3 of Part 1 of Schedule 12A to the Local Government Act 1972

Report to: **Overview and Scrutiny Panel**

Date: **12th October 2017**

Title: **Medium Term Financial Position 2018/19 onwards**

Portfolio Area: **CLlr R Tucker - Annual Budget Setting Process**

Wards Affected: **All**

Relevant Scrutiny Committee: **Overview and Scrutiny Panel**

Urgent Decision: **N** Approval and clearance obtained: **Y**

Author: **Lisa Buckle** Role: **Strategic Finance Lead (S151 Officer)**

Contact: **Tel. 01803 861413**
Email: lisa.buckle@swdevon.gov.uk

Recommendations:

It is recommended that the Overview and Scrutiny Panel:-

- (i) Considers the contents of the Member survey on the Budget Options attached in Appendix E and makes recommendations for officers for further work in order to set the budget for 2018-19.

1. Executive summary

- 1.1 The Council's Medium Term Financial Position (MTFP) is based on a financial forecast over a rolling five year timeframe to 2022/23.
- 1.2 The Council, along with other local authorities, has faced unprecedented reductions in Government funding since the Comprehensive Spending Review 2010.
- 1.3 Between 2009/10 and 2019/20, the Council's Core Government funding has reduced by £4 million.

- 1.4 South Hams has continued to work in partnership with West Devon Borough Council which has allowed South Hams District Council to achieve annual savings of £3.9 million and more importantly protect all statutory front line services.
- 1.5 Between both Councils the annual shared services savings being achieved are over £6 million. However, the Councils continue to face considerable financial challenges as a result of uncertainty in the wider economy and constraints on public sector spending as outlined in the Comprehensive Spending Review.
- 1.6 South Hams District Council is currently forecasting a £0.8m budget gap by 2020/21, with West Devon forecasting a £1.1m budget gap for the same period.
- 1.7 Both Councils acknowledge that there is no single solution to addressing the reduction in funding while maintaining services across the two areas, and a number of initiatives are being considered in parallel.

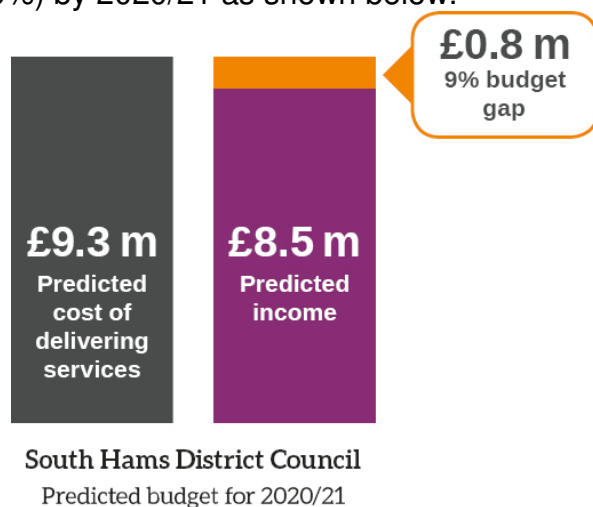
2. OVERALL POSITION – BUDGET GAP

- 2.1 Appendix B illustrates the overall financial forecast for the forthcoming five years. The Council’s Net Budget is £8.3 million in 2017/18. A Summary forecast is shown below of the potential budget situation if all of the budget pressures and the savings and income generation in Appendix A were approved. It also shows the situation if the Council Tax is increased by £5 (shown in Appendix B).
- 2.2 The following table illustrates the predicted budget gap from 2018/19 onwards for the Council as shown in Appendix B:

	2018/19	2019/20	2020/21	2021/22	2022/23
Cumulative budget gap	£584,647	£753,278	£816,627	£835,040	£898,953

This financial position (and Appendix A and Appendix B) is the same financial position that was set out in the report to the Executive on 20th July 2017 in the report entitled ‘Medium Term Financial Position 2018/19 to 2022/23’.

- 2.3 South Hams District Council is currently forecasting a £0.8m budget gap (9%) by 2020/21 as shown below.



- 2.4 The cost pressures, savings and additional income already identified for 2018/19 are shown in Appendix A. It is to be noted that this is the best estimate of the financial position at the current time and new items could arise and the report will be updated.
- 2.5 For example the current financial modelling budgets for an increase in the pay award of 1%. However if that figure were to increase, it would increase the cost pressures by £90,000 for each 1% above the 1% already budgeted for.

3 MEMBERS' BUDGET WORKSHOP

- 3.1 A Members' Budget Workshop was held on 28th September and the results of the Member survey are shown in Exempt Appendix E.
- 3.2 Members considered budget options that fell into the following categories such as:-
- i) further income generation
 - ii) external contracts
 - iii) Reductions in service levels
 - iv) financing options
- 3.3 ***One-off Use of Unearmarked Reserves in 2018-19***
If Reserves were to be used to partially balance the budget in 2018-19, this only moves the budget shortfall (budget gap) back one year in terms of timing to address it. Unearmarked Reserves currently stand at £1.8 million and the minimum level of Unearmarked Reserves to be held is recommended to be £1.5 million.

A list of Unearmarked Reserves and Earmarked Reserves are shown in Appendix D. In Appendix C, it sets out the annual revenue contributions to Earmarked Reserves.

4. BUDGET TIMETABLE

4.1 The Budget Timetable is shown in Appendix F.

5. IMPLICATIONS

Implications	Relevant to proposals Y/N	Details and proposed measures to address
Legal/Governance	Y	<p>The preparation of the Budget is evidence that the Council has considered and taken into account all relevant information and proper advice when determining its financial arrangements in accordance with statutory requirements, and in particular, that it will set a lawful budget.</p> <p>Since there is commercially sensitive information in Appendix E and discussions are at an early stage, there are grounds for the publication of this Appendix to be restricted, and considered in exempt session.</p> <p>The public interest has been assessed and it is considered that the public interest will be better served by not disclosing the information in the appendices.</p> <p>Accordingly this report contains exempt Information as defined in paragraph 3 of Schedule 12A to the Local Government Act 1972.</p>
Financial	Y	The financial implications are set out in Sections 3 and 4 of the report.
Risk	Y	Each of the budget options taken forward by Members will consider the risks of the option.
Comprehensive Impact Assessment Implications		
Equality and Diversity		None directly arising from this report.
Safeguarding		None directly arising from this report.
Community Safety, Crime and Disorder		None directly arising from this report.

Health, Safety and Wellbeing		None directly arising from this report.
Other implications		None directly arising from this report.

Supporting Information

Appendices:

Appendix A – Budget pressures and savings

Appendix B – Summary of Budget position

Appendix C – Contributions to Reserves

Appendix D – Reserves (Earmarked and Unearmarked)

Appendix E (Exempt) – Results of the Member survey

Appendix F – Budget Timetable

Approval and clearance of report

Process checklist	Completed
Portfolio Holder briefed	Yes
SLT Rep briefed	Yes
Relevant Exec Director sign off (draft)	Yes
Data protection issues considered	Yes
If exempt information, public (part 1) report also drafted. (Committee/Scrutiny)	N/A

This page is intentionally left blank

BUDGET PROPOSALS 2018/19 OCTOBER 2017
(This shows the changes to the existing Base Budget)

APPENDIX A

	BASE 2017/18	Yr1 2018/19	Yr2 2019/20	Yr3 2020/21	Yr4 2021/22	Yr 5 2022/23
	£	£	£	£	£	£
BUDGET PRESSURES						
Inflation and increases on goods and services	310,000	220,000	220,000	220,000	220,000	220,000
Torr Quarry Transfer Station	0	280,000				
Triennial Pension revaluation	125,000			75,000		
Reduction in planning fee income	125,000					
Salaries - provision for pay award at 1%	90,000	90,000	90,000	90,000	90,000	90,000
National Living Wage and National Insurance	75,000	50,000	50,000	25,000	25,000	25,000
Salaries for Environmental Services manual workers	75,000					
Reduction in recycling income	85,000					
Torr Quarry Transfer Station haulage costs	30,000					
Planning Community of Practice	50,000					
Sherford project team	45,000					
Reduction in Housing Benefit administration subsidy and Council Tax Support Admin Grant	40,000	20,000	20,000			
Reduce saving on waste round review	40,000					
Reduction in treasury management income	25,000	10,000	10,000			
Cost of lease renewal	20,000					
Staff resource - Finance Community of Practice	15,000					
Reduction in other income areas (S106 contribution income, Follaton room hire, pannier market income and Leisure third party income)	95,000					
Specialist resource - Waste and Cleansing options review and delivery reverse a one-off budget in 16/17	(30,000)					
TOTAL BUDGET PRESSURES	1,215,000	670,000	390,000	410,000	335,000	335,000
Changes to contributions to Earmarked Reserves						
Vehicle Fleet Replacement Reserve	146,000	(197,000)			(13,000)	66,000
Contribution to Land and Development Reserve	50,000					
Contribution to IT Development Reserve	50,000					
Contribution to Sustainable Waste Management Reserve	25,000					
Contribution to Planning Policy and Major Developments Reserve	25,000	25,000	25,000			
Reduce contribution from the Strategic Issues Reserve as the reserve is Nil		7,000				
Transformation Project (T18) - Approved at 11 December 2014 Council <i>Contribution to Strategic Change Reserve to meet pension strain costs</i>	66,000	(75,000)	(150,000)	(60,000)		
Total changes in contributions to Earmarked Reserves	362,000	(240,000)	(125,000)	(60,000)	(13,000)	66,000
SAVINGS AND INCOME GENERATION IDENTIFIED						
	BASE 2017/18	Yr1 2018/19	Yr2 2019/20	Yr3 2020/21	Yr4 2021/22	Yr 5 2022/23
	£	£	£	£	£	£
Income from fees and charges	TBA					
Savings from re-procurement of contracts	(695,000)	0	(73,000)	(146,000)	(31,000)	(60,000)
Planning fee income	0	(60,000)				
Income from commercial developments	0	(30,000)	(20,000)			
Budget scouring savings	(55,000)					
Increase in car parking charges (2%)	(37,800)					
Additional car parking income		(50,000)				
Reduced running costs at Follaton and additional rental income	(20,000)					
Income from business rated domestic properties for trade waste collection	(25,000)					
Trade Waste savings - higher income levels	(25,000)					
Review of car parking permits (Overview & Scrutiny Panel 24/11/16)	(10,000)					
Council Tax reduction scheme - 9.85% reduction in Town and Parish Grant	(10,000)	(9,000)	(8,000)			
TOTAL SAVINGS AND INCOME GENERATION	(877,800)	(149,000)	(101,000)	(146,000)	(31,000)	(60,000)

This page is intentionally left blank

Line No.	Appendix B - Council Tax is increased by £5 each year Modelling for the financial years 2018/19 onwards	BASE 2017/18 £	Yr1 2018/19 £	Yr 2 2019/20 £	Yr 3 2020/21 £	Yr4 2021/22 £	Yr 5 2022/23 £
1	Base budget brought forward	8,751,722	8,346,074	8,379,281	8,374,650	8,515,302	8,787,889
2	Budget pressures (as per Appendix A)	1,215,000	670,000	390,000	410,000	335,000	335,000
3	Savings already identified (as per Appendix A)	(877,800)	(149,000)	(101,000)	(146,000)	(31,000)	(60,000)
4	Changes in contributions to Earmarked Reserves (App A)	362,000	(240,000)	(125,000)	(60,000)	(13,000)	66,000
5	Reversal of one-off contribution made to the Budget Surplus Contingency Reserve in the 2016/17 Budget - This is reversed in 2017/18 as the contribution was only a one-off contribution and not an annual contribution.	(767,995)					
	Use of Reserves to close 2017/18 Budget gap						
6	Transfer from Budget Surplus Contingency Earmarked Reserve	(287,273)	287,273				
7	Transfer from New Homes Bonus Earmarked Reserve	(49,581)	49,581				
8	Projected Net Expenditure:	8,346,074	8,963,928	8,543,281	8,578,650	8,806,302	9,128,889
	Funded By:-						
9	Council Tax income - Modelling a £5 increase each year	5,809,541	6,068,628	6,332,215	6,600,302	6,872,889	7,149,976
10	Collection Fund Surplus	143,000	100,000	90,000	90,000	90,000	90,000
11	Revenue Support Grant	245,393	0	0	0	0	0
12	Localised Business Rates	1,764,799	1,858,767	1,524,984	1,525,000	1,525,000	1,525,000
13	Pooling Gain		100,000	100,000	100,000	100,000	100,000
14	Rural Services Delivery Grant	327,451	251,886	327,451	200,000	200,000	200,000
15	Transition Grant	55,890	0	0	0	0	0
16	Total Projected Funding Sources	8,346,074	8,379,281	8,374,650	8,515,302	8,787,889	9,064,976
	Budget Gap per year						
17	(Projected Expenditure line 8 - Projected Funding line 16)	0	584,647	168,631	63,348	18,413	63,913
	Actual Predicted Cumulative Budget Gap	0	584,647	753,278	816,627	835,040	898,953

Modelling Assumptions:	<i>An assumption of an additional 450 Band D equivalent properties per year has been included in the TaxBase and modelling above for 2018/19 onwards</i>					
Council Tax (Band D) (Modelling a £5 a year increase)	155.42	160.42	165.42	170.42	175.42	180.42
Council TaxBase	37,379.62	37,829.62	38,279.62	38,729.62	39,179.62	39,629.62

This page is intentionally left blank

ANALYSIS OF CONTRIBUTIONS TO/(FROM) EARMARKED RESERVES

Estimate 2017/18			Estimate 2018/19	
To £	(From) £		To £	(From) £
181,600		Capital Programme	181,600	
16,900		Community Parks & Open Spaces	16,900	
10,000		District Elections	10,000	
87,000		Ferry major repairs & renewals	87,000	
	(549,581)	New Homes Bonus (500,000 plus 49,581)		(500,000)
20,800		Pay & Display Equipment	20,800	
99,000		Pension Fund Strain Payments	99,000	
55,000		Repairs and maintenance	55,000	
285,000		Strategic Change Reserve	210,000	
	(7,000)	Strategic Issues	0	
687,000		Vehicles & Plant Renewals	490,000	
50,000		Land and Development Reserve	50,000	
50,000		IT Development Reserve	50,000	
25,000		Sustainable Waste Management	25,000	
25,000		Planning Policy and Major Developments	50,000	
2,000		Interest credited to reserves	2,000	
	(287,273)	Budget Surplus Contingency Reserve	0	
1,594,300	(843,854)	TOTALS	1,347,300	(500,000)
750,446		GRAND TOTAL	847,300	

This page is intentionally left blank

EARMARKED AND UNEARMARKED RESERVES

1.1 The Council's Net Budget is £8.3 million in 2017/18. It is still recommended to retain the same policy of maintaining a minimum level of Unearmarked Reserves of £1.5 million.

1.2 Our financial strategy recognises the need to maintain un-earmarked revenue reserves to provide stability for both medium and longer term planning and to provide a contingency against unforeseen events. In setting the minimum level at £1.5 million, the following have been taken into account:

- The size of the authority
- The volatility of some income and expenditure budgets due to a dependency on the weather, tourism and state of the economy
- The risks faced by the Council with regard to funding unforeseen events
- Uncertainty over future Government funding and Business Rates
- Uncertainty over future New Homes Bonus allocations

1.3 The Unearmarked Reserves (General Fund) balance of £1.8 million stands above the minimum balance of £1.5 million and acts as a safeguard against unforeseen financial pressures.

1.4 **Specific Earmarked Reserves** - The level and commitments for each reserve are kept under review each year to make sure the committed balance is adequate for its purpose (in accordance with LLAP Bulletin 99, a guide on 'Reserves' from the Chartered Institute of Public Finance).

1.5 A schedule of Earmarked Reserves for 16/17 is shown below. The Council has Earmarked Reserves of £13.1 million, including Salcombe Harbour Reserves of £371,000.

1.6 The tables below show the movements on the two Earmarked Reserves that were set up as part of the Budget approved for 2016/17.

2016/17	Balance at 31 March 2016 £000	Transfers Out £000	Transfers In £000	Balance at 31 March 2017 £000
EARMARKED RESERVES				
General Fund				
Affordable Housing	540	-	230	770
Community Parks & Open Spaces	98	(17)	16	97
Pension Fund Strain	-	(99)	99	-
Repairs and Maintenance	420	(72)	55	403
Members Sustainable Community	45	(4)	-	41
Marine Infrastructure Reserve	47	-	47	94
Land and Development	226	(76)	55	205
Ferry Repairs and Renewals	313	-	87	400
Economic Initiatives	98	(21)	-	77
Vehicles and Plant Renewals	318	(370)	541	489
Pay and Display Equipment	61	-	20	81
On-Street Parking	44	-	-	44

Print Equipment	8	(8)	-	-
ICT Development	195	(81)	8	122
Sustainable Waste Management	3	-	-	3
District Elections	48	-	10	58
Beach Safety	14	-	-	14
Planning Policy & Major Developments	331	(184)	-	147
Building Control	395	(31)	72	436
Section 106 Agreements (no conditions)	38	-	-	38
Revenue Grants	368	(130)	78	316
Capital Programme	1,089	(300)	327	1,116
New Homes Bonus	480	(2,086)	2,080	474
Renovation Grant Reserve	7	-	-	7
Business Rates Retention	9,916	(5,389)	-	4,527
T18 Investment Reserve	70	(70)	-	-
Homelessness Prevention Reserve	25	-	-	25
Strategic Change	-	(219)	219	-
16/17 Budget Surplus Contingency	-	(209)	768	559
Innovation Fund (Invest to Earn)	-	(498)	777	279
Community Housing Fund	-	-	1,881	1,881
Sub Total	15,197	(9,864)	7,370	12,703
Specific Reserves – Salcombe Harbour				
Pontoons	68	-	62	130
Harbour Renewals	58	(8)	35	85
General Reserve	140	(30)	46	156
Sub Total	266	(38)	143	371
TOTAL EARMARKED REVENUE RESERVES	15,463	(9,902)	7,513	13,074

16/17 Budget Surplus Contingency – This reserve was created as part of the 2016/17 Budget setting process. The balance of £559,000 has been fully committed to fund the 2017/18 budget gap, the LACC set up costs and transitional resources.

Innovation Fund (Invest to Earn) – This fund has a remaining balance of £279,000 which has been earmarked in 2017/18, mainly for Admiral Court, Dartmouth.

Community Housing Fund – This reserve was set up to hold the Community Housing Fund Grant. We are working on developing a community housing initiative, which is designed to help local residents to determine and deliver appropriate and affordable housing for their communities.

Business Rates Retention Scheme - The business rates reserve covers any possible funding issues from the new accounting arrangements and smoothes volatility of business rates income due to appeals.

New Homes Bonus – This reserve was established to show how New Homes Bonus funding has been used on an annual basis.

Strategic Change Reserve (T18) – This reserve was set up to finance one off investments under the Council’s Transformation Programme that are required for development or the release of ongoing efficiencies.

Affordable Housing – This reserve helps to support the funding of affordable housing.

Vehicles and Plant Renewals - This reserve is used to purchase vehicles and heavy plant to maintain a modern and efficient Council fleet, and to ensure Contract conditions are met.

Planning, Policy and Major Developments - This was set up to help smooth out annual expenditure on review and preparation of the local plan. It has developed to help deal with costs associated with the Sherford development, planning policies and planning related activities.

Capital Programme – This reserve helps to support the funding of the Capital Programme.

This page is intentionally left blank

Document is Restricted

This page is intentionally left blank

APPENDIX F

South Hams District Council - Budget Timetable for 2018/19 onwards

Date	Committee
28 th September 17	Members' Budget Workshop – To consider budget options
12 th October 17	Overview and Scrutiny Panel – To consider the results of the Members' Budget Workshop
19 th October 17	Executive – To consider budget options
9 th November 17	Overview and Scrutiny Panel – To consider Fees and Charges for 2018/19
7 th December 2017	Executive – Draft Budget Proposals for 2018/19
18 th January 2018	Joint Development Management Committee and Overview & Scrutiny Panel – To consider the Draft Budget Proposals for 2018/19
1st February 18	Executive – To recommend Final Budget Proposals to Council for 2018/19
22 nd February 18	Full Council – To approve Final Budget Proposals for 2018/19 and set the SHDC share of the Council Tax
23 rd February 18	Council Tax Resolution Panel – to agree the Council Tax Resolution for 2018/19 (This is SHDC share plus all other precepting authorities share).

This page is intentionally left blank