

Report to: **Overview and Scrutiny Committee**

Date: **16 January 2018**

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

Portfolio Area: **Cllr P R Sanders - Annual Budget Setting Process**

Wards Affected: **All**

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

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

RECOMMENDATION:

The views of the Overview and Scrutiny Committee are sought on the content of the Revenue and Capital Budget Proposals report for 2018-19.

Views are sought in particular on:-

- (i) The increase in Council Tax for 2018-19 as per 5.9.**
- (ii) The financial pressures shown in Appendix A of £674,500.**
- (iii) The contributions to Earmarked Reserves of £60,000 and transferring the 2018-19 budget surplus of £229,428 into Reserves to assist with future financial sustainability (as detailed in 1.9).**
- (iv) The proposed savings of £748,600 as shown in Appendix A.**

- (v) That £600,000 of New Homes Bonus funding is used to fund the 2018-19 Revenue Budget as shown in Appendix A.**
- (vi) The reduction in Partnership funding levels as set out in Appendix F.**
- (vii) The 2018/19 Capital Programme projects as per Appendix C.**
- (viii) The financing of the Capital Programme as per Appendix C.**

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 £3 million.
- 1.4 West Devon has continued to work in partnership with South Hams District Council which has allowed West Devon Borough Council to achieve annual savings of £2.2 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 West Devon Borough Council is currently forecasting a **£931,676** budget gap by 2020/21. This is approximately £150,000 higher than the position predicted at the end of November 17, due to less New Homes Bonus being received and therefore there is less NHB in future years to assist with funding the revenue base budget. If the Government were to remove the negative Revenue Support Grant within the Council's 2019-20 funding allocation, then this would better the Council's budget position by £300,000 for 2019/20 and future years (and reduce the budget gap by this amount). Negative Revenue Support Grant is explained in sections 5.5 and 5.6 and the Government has acknowledged the funding difficulties that this is causing Councils and a consultation will take place in the Spring on it.

- 1.7 On 28 November 2017, the Hub Committee considered the latest Revenue and Capital Proposals for 2018/19. Since that meeting date, the Government has announced the draft Local Government Finance Settlement. This report to the Overview and Scrutiny Committee has been updated to show the changes which have come out of the draft finance settlement being announced and other changes to the budget which have been identified. Appendix G sets out a detailed breakdown of the changes which have been made to the Budget Proposals for 2018-19, since the last budget report to the Hub Committee on 28 November.
- 1.8 The main change is that Devon has been successful in achieving business rates Pilot status for 2018-19 and this is predicted to generate extra business rates funding of £460,000 for 2018-19 (one year only).
- 1.9 This extra business rates funding has resulted in the 2018-19 Budget now showing a £229,428 one-off budget surplus. Members' views are sought on putting this additional funding into an Earmarked Reserve to assist with future financial sustainability and to assist in meeting the budget gap in 2019-20, if required (albeit this is only a short term solution).
- 1.10 On 31st October 2017, the Borough Council made a decision to not submit a Proposal to the Secretary of State for a Single Combined Council with South Hams District Council.
- 1.11 A Cross Party Member Working Group (Financial Stability Review Group) was set up in November with defined Terms of Reference to look at the Medium Term Financial Strategy for 2018-19 onwards and to further look at options for securing financial stability for the longer term. This Member Working Group will report back to Members early in 2018.
- 1.12 The Partnership Task and Finish Group has reviewed the level of partnership funding going forward and has made recommendations as set out in Appendix F.

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 £7.4 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 2.99% (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:

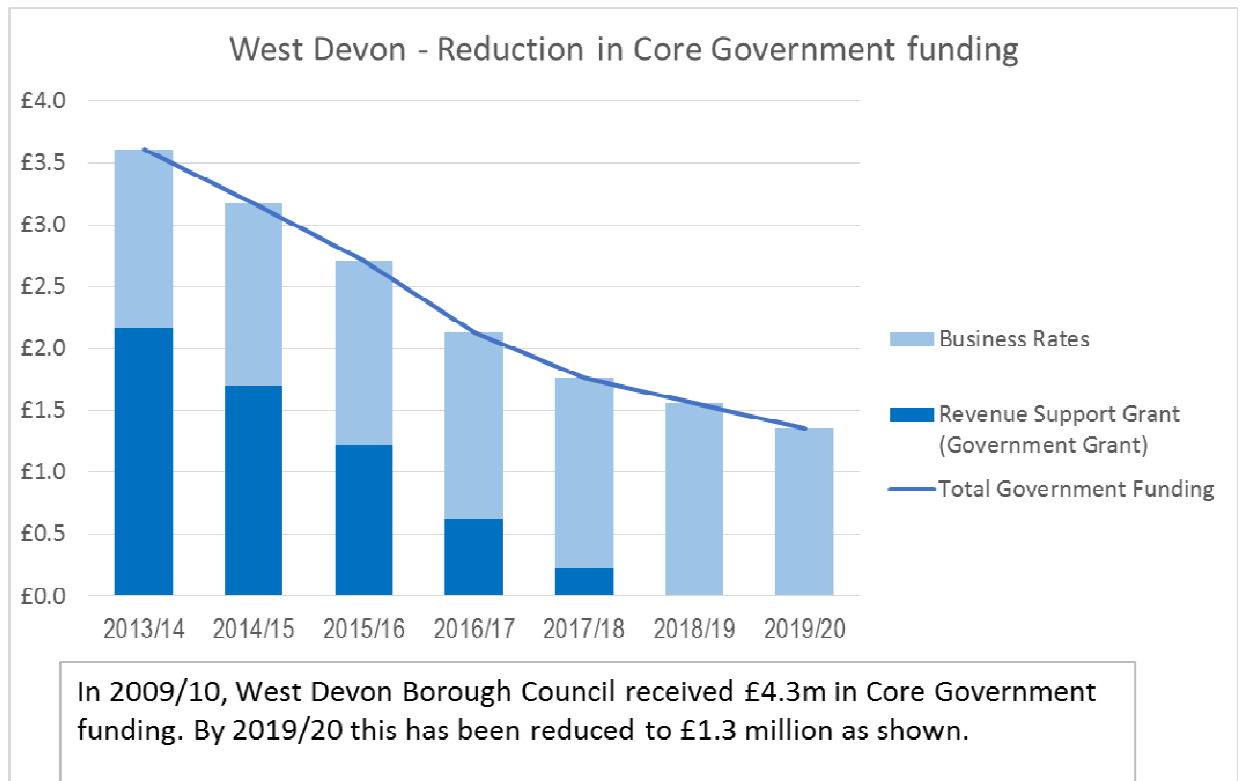
	2018/19 £	2019/20 £	2020/21 £	2021/22 £	2022/23 £
Cumulative budget gap	£Nil (assumes budget surplus of £229K is put into reserves)	£735,538	£931,676	£986,645	£754,973

Note: If these budget gaps are not closed annually, the aggregated budget gap would equate to over £3.4 million by 2022/23, as shown in Appendix A.

- 2.3 This shows that by 2020/21 the Council has a £931,676 budget gap (with over £735K to find for 2019/20).
- 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.

3 THE FOUR YEAR SETTLEMENT FUNDING OFFER

- 3.1 During 2016/17 the Government offered Local Authorities the opportunity to apply for a four year agreed funding settlement, subject to the production of an efficiency plan. The Council applied and was accepted for the four year agreement.
- 3.2 By 2018/19 the Council receives no Government funding (Revenue Support Grant) and the Council will need to be self-sufficient. The withdrawal of Government funding has happened two years earlier than expected. The Council's Settlement Funding Assessment (Government Grant and funding from Business Rates) is reducing by a further 37% between now and 2019/20.
This compares to a 18.7% cut for Metropolitan Districts and 32.4% for Shire Districts. Counties vary between 30% to 31%.
- 3.3 District Councils such as West Devon have also suffered a large reduction in their New Homes Bonus funding (£0.5 million in 17/18) due to the number of year's payments being reduced from six years to five years in 17/18 and four years from 18/19 onwards. The funding being released is to contribute towards adult social care costs, a function carried out by Unitary and County Councils.



- 3.4 It can be seen from the graph above that between 2009/10 and 2019/20 the Council's Core Government funding will have reduced by £3 million.

4 ASSUMPTIONS FOR FINANCIAL MODELLING PURPOSES

- 4.1 The National Employers have made a final pay offer covering 1 April 2018 to 31 March 2020. The majority of employees (those on salaries starting at £19,430 p.a.) would receive an uplift of 2% on 1/4/18 and a further 2% on 1/4/19, with those on lower salaries receiving higher increases. The cost of this would be £85,000 in 2018/19 and a further £95,000 in 2019/20. This has been reflected in Appendix A. The Medium Term Financial Position is not an expression of Council Policy on pay awards, but a means of ensuring an appropriate provision is made as part of the overall financial planning of the Council.
- 4.2 The report assumes inflation will run at 2% over the five year period. The Consumer Prices Index (CPI) was 3.0% in October 17.
- 4.3 The Medium Term Financial Position has included a cost pressure of £70,000 for Inflation and increases on Goods and Services. The main items are:-

£20,000 – Business Rates increases

£2,500 – Apprenticeship Levy

£7,500 – Utilities inflation

An amount of just over £40,000 is to fund a 2% uplift on other expenditure budgets.

- 4.4 The predicted interest rate forecast from our treasury management advisors, Capita, is that interest rates will remain at 0.5% up to September 2018 and then in December 2018 the base rate is predicted to rise to 0.75%. By December 2019 the bank base rate is predicted to increase to 1%. Extra treasury management income of £20,000 per annum has been built into the financial modelling for this.
- 4.5 An increase in council tax of 2.99% for the next five years has been modelled for council tax purposes. This would equate to a Band D council tax for West Devon of £224.91 in 2018/19 as shown in Appendix B and equates to a council tax increase of 2.99%.
- 4.6 It has been assumed that the number of properties within the Borough will increase by 160 per annum from 2018/19 to 2022/23 – this is an increase of approx. 0.8% - the Council had 19,948.77 Band D equivalent properties in 2017/18. These additional properties have been used to calculate the amount of additional Council Tax and also the potential for New Homes Bonus.

5. BUSINESS RATES AND COUNCIL TAX

- 5.1 **Retained Business Rates** - The Government introduced the Business Rates Retention system from April 2013. There is a risk of volatility in the system because Councils are exposed to any loss of income if businesses go into decline. The Council is part of the Devonwide Business Rates Pool.
- 5.2 Of the Business Rates collected of £11 million, the Council currently retains approximately 14p in every £1 to run our services.

Self-sufficient local government: Business Rates Retention

- 5.3 The Secretary of State has announced in December 2017 that local business rates retention would move from 50% to 75% in 2020/21.
- 5.4 **Business Rates Pilot status for 2018-19**
Devon was successful in achieving Business Rates Pilot status for 2018-19 and the pilot will begin on 1st April 2018. Financial modelling shows that the Devon business rates pool could benefit by somewhere in the region of between £10m to £16.9m by becoming a pilot in 2018/19. The modelling shows that West Devon could benefit by approximately £460,000. This is one-off additional revenue money for the year of the pilot only (2018-19). The bid set out how pilot status for Devon would meet the principles of assisting financial sustainability for the District Councils, higher levels of investment in economic regeneration in Devon and support for Upper Tier Councils with the growing financial cost pressures of areas such as adult social care and children's services.

There will be a further opportunity for Councils to bid to be a pilot in 2019-20 and further details of this will be issued by the Government.

Tariff/Top Up Adjustment in 2019/20 (negative Revenue Support Grant)

- 5.5 The Tariff/Top Up Adjustment is an amount in 2019/20 which increases an authority's tariff. It is applied where cuts to a Council's Settlement Funding Assessment (SFA) cannot be achieved through further cuts to the Revenue Support Grant (RSG), as the RSG is already zero.

In effect the Tariff/Top Up Adjustment is negative Revenue Support Grant. Settlement Funding Assessment is the income received by local authorities in the form of (i) Revenue Support Grant from Central Government and (ii) a share of business rates retained locally.

Draft Local Government Finance Settlement for 2018-19

- 5.6 In the draft Local Government Finance Settlement, the Government has said that a consultation will take place in Spring 2018 regarding the current £153million in negative RSG that remains in the 2019/20 funding allocations, with the outcome feeding into the 2019/20 local government finance settlement. The negative RSG currently included within the Council's funding allocation for 2019/20 amounts to £293,377. If the Government were to remove this following the consultation process, the Council's budget position would be bettered by £300K for 2019/20 and future years.

- 5.7 Rural Services Delivery Grant – the 2018/19 funding has been increased from £50 million to £65 million. This has meant extra RSDG funding of £85,993 for 2018/19 as the Council's allocation has increased from £286,645 to £372,638. The £372,638 has been built into the Council's business rates baseline due to the Council's Pilot status.

Council Tax

- 5.8 West Devon Borough Council's share of the council tax bill in 2017/18 was **12%**, being £218.39 out of an average Band D council tax bill of £1,809. The total income from council tax in 2018/19 is predicted to be £4.525 million. A 1% increase in council tax generates an extra £44,000 for West Devon.

Increases of less than 3% council tax referendum limit for District Councils

- 5.9 The draft Finance Settlement has stated that for District Councils, increases of less than 3% or up to and including £5 (whichever is higher), can be made without triggering a council tax referendum. This is for 2018/19 and 2019/20 (this is to reflect the level of inflation).

For West Devon Borough Council:-

- i) A £5 increase (2.29%) - This would mean a Band D council tax for West Devon would increase from £218.39 to £223.39 in 2018/19 - a council tax increase of 2.29%. This generates extra council tax income of £100,590.
- ii) Alternatively a 2.99% increase would mean that the Band D would increase from £218.39 to £224.91 – an increase of £6.52. This generates extra council tax income of £131,160.

A council tax increase of 2.99% per annum has been modelled in Appendix A for illustration purposes.

5.10 At the Members' Budget Workshop held on 10th October 2017, there was early support for increasing council tax by the maximum allowable. At this event it was recognised that this measure would increase the base budget for ensuing years and protect the delivery of services and the Council's financial resilience. In the Members' Budget survey, 94% of the Members who responded stated that they would support increasing council tax by the maximum currently allowable for 2018-19. (Note, the council tax referendum principles have now been published by the Government for 2018-19, with the current limit being increased to 2.99% or £5 (whichever is higher) for District Councils).

5.11 In the draft Local Government Finance Settlement, the Government has also announced that it will defer the setting of referendum principles for town and parish councils for three years. However, this is conditional upon the sector taking all available steps to mitigate the need for council tax increases.

THE COUNCIL'S STRATEGIC PRIORITIES – OUR PLAN

5.12 The Council's 'Our Plan' describes the Council's vision and its aspirations for our communities. It does this by setting out what the Council wishes to deliver to our communities under eight themes. These themes are: Homes; Economy; Communities; Wellbeing; Infrastructure; Environment; Heritage; and Resources. 'Our Plan' is due to be reviewed during the 2017/18 financial year.

6 BUDGET PRESSURES, SAVINGS AND INCOME GENERATION

6.1 Financial modelling has been undertaken for the next five years to predict the Council's financial situation for the short and medium term.

- 6.2 **Appendix A** to the Medium Term Financial Position sets out the Budget Pressures forecast for the next five years and the additional savings and income forecast. ***These figures in Appendix A show the changes to the existing base budget.*** A description of the larger budget pressures are set out below.
- 6.3 **Salaries** – A 2% provision for a pay award has been included for 2018/19 and 2019/20. This is explained in section 4.1.
- 6.4 **Trees Maintenance** – The Borough Council is legally obliged to have a proactive management system in place to monitor trees and ensure that any required work is undertaken to ensure that trees remain as safe as possible. The Council has a backlog of inspections and a budget of £40,000 is required to address this, but this could be reduced to £20,000 per year from 2020 onwards.
- 6.5 **ICT support contracts** - An extra cost pressure of £65,000 has been added for 2018/19 for ICT support contracts, to align the budget to actual expenditure. The additional cost of ICT contracts such as IEG4 (the robots) are offset by additional recovery of housing benefit overpayments of £85,000.
- 6.6 The following cost pressures have been identified since the 28th November Budget Proposals to the Hub Committee and have been included within this report:-
- £20,000 provision for salary costs for a steady state review of roles and grades
 - £15,000 provision for IT to replace ageing network switches
 - £15,000 cost pressure for a lease renewal within the waste service

SAVINGS AND INCOME GENERATION

- 6.7 **Commercial Property Acquisition Strategy** – An income target of £100,000 from investments in commercial property has been built into the 18/19 Base Budget. This income target will be revised as and when commercial property opportunities are realised. Note this income target has been lowered from the original target of £200,000 which was contained within the 28th November draft budget proposals. This is due to the recent experiences of the Council in bidding for commercial properties and recent Government consultations on the subject.
- 6.8 **Re-procurement of contracts (leisure)** – The Medium Term Financial position shows the savings in Appendix A from the re-procurement of outsourced contracts e.g the leisure contract.

- 6.9 **Car Parking** - An income target of £180,000 for car parking income from a review of charges has been built into the 2018/19 Budget. The Car Parking Strategy Group will undertake a review of car parking charges for 2018/19.
- 6.10 The Car parking income target has also been increased by £40,000 in 18/19, to reflect actual income being achieved in 16/17.
- 6.11 **Review of Accommodation/Office requirements** – Officers are working with the local Members at what an alternative service provision may look like if the Okehampton office was closed as part of the budget proposals for 2018/19. A verbal update will be presented at the Overview & Scrutiny meeting on the 16th January. The current budget proposals envisage that this would become effective from 1st October 2018, saving £40,000.
- 6.12 **Housing Benefit recoveries of overpayments** - A sum of £85,000 has been built into the 2018/19 forecasts as a recurring income for Housing Benefit recoveries of overpayments.
- 6.13 **Cessation of accepting cash and cheques** – The proposal is to remove the facility for accepting cash and cheques at Council premises, excluding Car Parks. The Council would procure a new card acquiring contract. Customers (as now) will be able to pay by cash or cheques via Paypoint or at Post Office. A flyer regarding the services offered by the Post Office can be included with the council tax bills for 2018/19. The current budget proposals envisage that this would become effective from 1st October 2018, saving £17,500.
- 6.14 **Reduction in Partnership funding levels** – Appendix F sets out the Partnership Task & Finish Group's recommendations regarding future funding levels. The level of funding reduction would equate to £28,000 for 2018/19.
- 6.15 **Budget Monitoring position** - The six monthly revenue Budget Monitoring position showed a predicted underspend against budget of £25,000 for 2017-18. Where there are variances identified against budget, the budget for 2018/19 has been adjusted where necessary. For example, extra treasury management income of £20,000 has been built into 2018/19 and Trade waste income of £15,000 has also been built into next year.
- 6.16 **Direct Lets Scheme** – If Members are supportive of the scheme, this is predicted to produce savings of £10,000 in 2018/19, increasing to £22,000 by 2019/20.
- 6.17 **Results of the Members' Budget Survey** – Other budget items which were supported by Members in the Members Budget Survey were as follows:-

(These have been included as Savings/Additional Income in 2018/19 in the modelling in Appendix A)

- i) Reduction in the size of the Hub Committee from 9 Members to 6 Members, effective from the May 2018 Annual Council (£11,500)
- ii) Paperless Committee agendas (£3,500) – To be effective from January/February 2018. A paper copy will be produced for the Chairman and Vice-Chairman of the Committee.
- iii) Charging for duty planning service (£6,500) – The proposal is to increase the appointment time from 15 mins to 30 mins and charge £30 per appointment
- iv) Charging for more formalised food advice (£5,000) – More formalised advice is a service that could sit outside the current regulatory role (where informal advice is sometimes given) and generate income. This maybe especially attractive to new businesses and those with more complex systems and products (manufacturers for example).

6.18 The following savings have been identified since the 28th November Budget Proposals to the Hub Committee and have been included within this report:-

- £35,000 saving on the re-procurement of the Insurance contract
- £8,000 saving on external audit fees for 2018-19 onwards

7 CAPITAL PROGRAMME AND PRUDENTIAL BORROWING

- 7.1 The Capital Programme is set by the Council and may be funded by sale proceeds from the disposal of assets (capital receipts), external grants and contributions, directly from revenue or from borrowing.
- 7.2 A proposed Capital Programme for 2018/19 onwards is set out in Appendix C.
- 7.3 **Prudential Borrowing** - The Council will consider the use of prudential borrowing to support capital investment to deliver services and will ensure that the full costs of borrowing are taken into account when investment decisions are made.
- 7.4 In July 2016 (Minute CM28), the Council agreed to undertake prudential borrowing of £1.5 million for the new leisure contract. Also at Council on 26 July 2016 (Minute CM27), Council agreed to undertake borrowing for the waste fleet.

- 7.5 Officers will make recommendations in February 18 on the strategy for internal borrowing and external borrowing for the waste vehicles and the leisure investment.

8. EARMARKED AND UNEARMARKED RESERVES

- 8.1 A schedule of Earmarked and Unearmarked Reserves is shown in Appendix D. The Council currently has £1.1 million in Unearmarked Reserves and £3.7 million in Earmarked Reserves.

9 MEMBERS' BUDGET WORKSHOP

- 9.1 A Members' Budget Workshop was held on 10th October. Members considered budget options that fell into the following categories such as:-

- i) further income generation;
- ii) external contracts;
- iii) Reductions in service levels; and
- iv) financing options.

- 9.2 A Cross Party Member Working Group (Financial Stability Review Group) was set up in November with defined Terms of Reference to look at the Medium Term Financial Strategy for 2018-19 onwards and to further look at options for securing financial stability for the longer term. This Member Working Group will report back to Members early in 2018.

10 NEXT STEPS

- 10.1 Appendix A shows there is a budget surplus for 2018/19 of £229,428. Members' views are sought on putting this additional funding into an Earmarked Reserve to assist with future financial sustainability and to assist in meeting the budget gap in 2019-20, if required (albeit this is only a short term solution).

- 10.2 Officers will continue to work with the Cross Party Member Working Group and the results of this will be incorporated into future Budget reports.

- 10.3 The Government sets planning application fees and the long awaited 20% increase in fees comes into force on 17 January 2018. Although this will significantly increase income from planning applications, it is important to recognise that this increase is ring-fenced for the planning service and is in addition to the existing budget for the planning service. The extra 20% in planning fee income and the extra 20% expenditure has not yet been factored into the 2018-19 Budget figures. This will be shown in the next Budget report to the Hub Committee on 6th February 2018 (it is a net Nil impact on the Budget position).

- 10.4 The Budget Timetable is shown in Appendix E.

11. IMPLICATIONS

Implications	Relevant to proposals Y/N	Details and proposed measures to address
Legal/Governance	Y	<p>The Hub Committee is responsible for recommending to Council the budgetary framework. It is the role of the Overview and Scrutiny Committee to scrutinise the Budget proposals being proposed by the Council. In accordance with the Financial Procedure Rules, Council must decide the general level of Reserves and the use of Earmarked Reserves.</p> <p>The preparation of the Budget report 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>
Financial	Y	The financial implications are set out in Sections 2 and 3 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 the Budget position

Appendix C – New Homes Bonus and Capital Programme

Appendix D - Schedule of Reserves (Unearmarked and Earmarked)

Appendix E – Budget Timetable

Appendix F – Partnership Funding

Appendix G – Summary of budget changes from the 28th November Budget report