

## WEST DEVON BOROUGH COUNCIL

<b>NAME OF COMMITTEE</b>	<b>Resources</b>
<b>DATE</b>	<b>2<sup>nd</sup> December 2014</b>
<b>REPORT TITLE</b>	<b>Revenue and Capital Budget Proposals for 2015/16 to 2018/19</b>
<b>Report of</b>	<b>Finance Community of Practice Lead</b>
<b>WARDS AFFECTED</b>	<b>All</b>

**Summary of report:** To provide a forecast of the budget situation for the year 2015/16 and a forecast for the four years to 2018/2019. The forecast is intended to provide a framework within which decisions can be made regarding the future service provision and council tax levels whilst building an approach that guarantees West Devon Borough Council's longer term viability.

**FINANCIAL IMPLICATIONS:**

The estimated budget gaps are as follows: (As per Appendix B)

2015/16	£ 639,650
2016/17	£ (667,900)
2017/18	£ 400,099
2018/19	£ 202,099

This gives a cumulative 4 year budget gap of £573,948.

**RECOMMENDATIONS:**

To note the contents of the report.

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**1. BACKGROUND**

- 1.1 The purpose of this report is to offer a way forward to address the 2015/16 budget gap of **£639,650** and to build an approach that guarantees West Devon Borough Council's longer term viability.
- 1.2 On 7 October 2014 the Resources Committee considered a report on the Medium Term Financial Strategy. Minute RC12 from the meeting is below:-

It was then **RESOLVED** that Council be **RECOMMENDED** to consider the following 'minded to' views in order to guide the 2015/16 budget process:

(i) The level of council tax increase should not be above 1.9%;  
The use of New Homes Bonus to support the revenue budget be agreed (final amount to be agreed as part of the budget process);

The amount of Council Tax Support Grant to be passed on to Parish and Town Councils should be reduced by the same amount that the Borough Council's Government Grant is reduced by;

and other budget savings and income generation to be looked for and considered;

(ii) The Council's policy should remain as recommending a minimum level of unearmarked revenue reserves of £750,000.

1.3 The Senior Management Team (SMT) have been focusing on implementing the Transformation Programme (T18) to generate significant savings for the Council.

## **2. ASSUMPTIONS FOR FINANCIAL MODELLING PURPOSE**

2.1 There is predicted to be a 15% reduction in government funding from 2014/15 to 2015/16.

2.2 Salaries increase by around 1% on an annual basis (Appendix A).

2.3 Inflation will run at 2% over the period. The interest return for our investments will be 1% for 2015/16 rising to 2.75% in 2018/19. Below are the percentages advised by Sector (the Council's treasury management advisors) that Authorities should use in their financial planning for investment income assumptions:-

2015/16 – 1%  
2016/17 – 1.6%  
2017/18 – 2.25%  
2018/19 – 2.75

2.4 No assumptions have been built into the financial modelling for council tax increases for 2015/16 onwards. The financial modelling in Appendix B assumes a Band D council tax of £204.50 (the current Band D council tax for 2014/15).

## **3. TRANSFORMATION PROGRAMME 2018 (T18)**

3.1 In response to the unprecedented scale of financial challenges that this Council faces, Members have approved (Council Minute CM49, 4<sup>th</sup> November 2013) an innovative Transformation Programme (T18) which requires an investment budget of £1.9 million, to deliver annual recurring revenue savings of £1.3 million.

3.2 This builds on the success of our shared services partnership with South Hams District Council and will see both Councils pioneering a new operating model for local government. The shared services programme with South Hams has

generated shared services savings of £7.7million across both Councils since 2007 (with the West Devon share being £3.6 million).

- 3.3 The T18 Programme is viewed as the primary driver to achieve the savings required over the next few years. The programme is currently being designed to deliver a long term organisational vision which we anticipate will remove the need to deal with the budget gap through an annual service and financial planning process.
- 3.4 Our Councils' Expression of Interest for Transformation Funding was successful and the Councils submitted a full bid by 1<sup>st</sup> October. The funding bid is for £700,000 (between SHDC and WDBC) Government funding to help our transformation programme which will deliver our new operating model. We are hoping to hear the outcome of the Bid for funding by early December.
- 3.5 The Senior Management Team are currently re-profiling both expenditure and savings as the decision to create an earlier Phase (Phase 1a for Support Services) was taken after the initial Business Plan was agreed. The financial benefit of Phase 1a has been over half a million pounds in savings (shared between the two Councils).
- 3.6 An updated Business Plan for T18 and a monitoring report on expenditure and savings will be presented to the Council meeting on 9<sup>th</sup> December.

#### **4. CHANGES FROM THE LAST BUDGET REPORT**

- 4.1 The Financial Strategy for 2015/16 to 2018/19 was presented to the Resources Committee on 7 October. Since that report, there have been two changes affecting the Budget gap for 2015/16 as detailed below.
- 4.2 Detailed modelling has been undertaken on the Council's income from Business Rates under the new Localised scheme. Latest predictions have increased the income predicted from business rates for 2015/16 by £38,000.
- 4.3 **Recycling of garden and leaf collections**  
The risk highlighted in our risk register around the withdrawal from the payment of recycling credits in respect of above materials should be viewed as a significant risk. There is a potential cost pressure of up to £80,000 to the council should all payments for this recycling stream be withdrawn. This cost pressure has been added into Appendix A. This issue is to be addressed by the County Council as part of their 'tough choices' budget agenda.

As the waste disposal authority the County Council may direct us to specific waste outlets and also take decisions around recycling credit payments in relation to certain recycle types. Officers are currently in negotiation with the County Council to agree the best practical way forward.

## 5. OPTIONS TO MEET THE BUDGET GAP FOR 2015/16

- 5.1 The budget gap based on the assumptions above, is predicted to be **£639,650** for 2015/16, Appendix A provides the details.
- 5.2 The budget gap of £639,650 is the position without taking into account any T18 savings in 2015/16 as these savings are primarily needed to pay for the investment costs in 2015/16.
- 5.3 **Council Tax Referendum limit** - The Localism Act introduced the power for the Secretary of State to set principles each year under which council tax increases are determined as excessive. The Minister announced that the council tax referendum threshold for 2014/15 remained unchanged from 2013/14 at 2% and did not apply to Towns and Parishes. No notification has been received on the limit for 2015/16.
- 5.4 **Income from Council Tax** - Council agreed to raise council tax by 1.9% from 1 April 2014 to £204.50 for a Band D property for West Devon Borough Council. This amounted to a £3.81 increase on an average Band D property over a year equivalent to 7p a week. A 1% increase in Council Tax generates an extra £39,000 in extra income per annum.
- 5.5 **Council Tax Freeze Grant** - On 15 January 2014 the Government issued the guidance for the Council Tax Freeze Grant Scheme for 2014-15. It is assumed that many of these key aspects which applied in 2014-15 will also apply in 2015-16. Namely that:-
- (i) It was voluntary and that any authority which freezes or reduces their basic amount of council tax will be eligible to receive the grant (equivalent to a 1% of the basic amount of council tax – this estimated to be £43,281 for West Devon).
  - (ii) Ministers have agreed that the funding for the 2015-16 freeze grant **should** be built into the spending review baseline. This gives as much certainty as possible at this stage that the extra funding for freezing council tax will remain available.
- 5.6 **Income Generation** – Over the past few months the Council has explored ways to generate new income for the Council. The Income Generation Working Group have met on a number of occasions to look at ways of generating additional income. A report was presented to Council on 7<sup>th</sup> October 2014 regarding the creation of a local authority trading company, which provides more detail.
- 5.7 In summary, the options open to Members to close the predicted **£639,650** Budget Gap in 2015/16 are:-
- i) To use New Homes Bonus in 2015/16 to close the budget gap, with a view to reversing the amount of New Homes Bonus that is used to support the Revenue Budget in 2016/17 when the savings from T18 materialise in full. There is an uncommitted New Homes Bonus balance of £581,652 in 2015/16 as per 6.2

- ii) Appendix E sets out some options for future additional savings totalling £31,025 which Members may wish to pursue.
- iii) Members of the Senior Management Team will continue to identify options for savings and income generation over the coming months.
- iv) Members have given an early “minded to” view that:-

The level of council tax increase should not be above 1.9%;

The amount of Council Tax Support Grant to be passed on to Parish and Town Councils should be reduced by the same amount that the Borough Council’s Government Grant is reduced by;

Note – If Members were minded to increase council tax by 1.9%, this would generate approximately £74,700. A Council Tax Freeze Grant of £43,281 has already been modelled for 15/16 therefore this option would reduce the £639,650 budget gap by £31,419.

## 6. NEW HOMES BONUS (NHB)

- 6.1 The table below shows an estimate of New Homes Bonus for the next five years. The Chancellor has confirmed in December that no top-slice will now apply from 2015/16 onwards, following responses to the Government consultation.

	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
2011/12	323,920	323,920	323,920	323,920		
2012/13	568,622	568,622	568,622	568,622	568,622	
2013/14	133,255	133,255	133,255	133,255	133,255	133,255
2014/15		222,997	222,997	222,997	222,997	222,997
2015/16 – estimated 184 properties			210,631	210,631	210,631	210,631
2016/17 – estimated 329 properties				376,617	376,617	376,617
2017/18 – estimated 374 properties					428,130	428,130
2018/19 – estimated 200 properties						230,000
New Homes Bonus returned	12,203					
<b>Forecast NHB</b>	<b>1,038,000</b>	<b>1,248,794</b>	<b>1,459,425</b>	<b>1,836,042</b>	<b>1,940,252</b>	<b>1,601,630</b>

## 6.2 NEW HOME BONUS (NHB) – PROPOSED USE OF NHB

The table below shows the proposed use of New Homes Bonus:

	2013/2014	2014/2015	2015/16	2016/17	2017/18	2018/19
Amount receivable	1,038,000	1,248,794	1,459,425	1,836,042	1,940,252	1,601,630
Less: T18 allocation (Council 4 <sup>th</sup> Nov)	(600,000)					
To fund current Revenue Budget *	(353,076)	(657,059)	(657,059)	(657,059)	(657,059)	(657,059)
To fund the Capital Programme (as per 8.1)		(555,000)	(212,000)	(412,000)	(412,000)	(412,000)
<b>Dartmoor National Park contribution (Council Feb 14 – See Note below)</b>	(18,688)	(20,362)	(8,714)	(26,981)	(111,227)	(92,870)
<b>Balance remaining (not committed)</b>	<b>66,236 Plus 27,292 from 2012/13</b>	<b>16,373</b>	<b>581,652</b>	<b>740,002</b>	<b>759,966</b>	<b>439,701</b>

**\*Currently assumes use of NHB to support the revenue budget at the 14/15 level**

Note - **Dartmoor National Park (DNP)** – DNP have requested a share of the New Homes Bonus to reflect new homes delivered within the park. DNP would like NHB money to be used to support a local community fund and, for example, joint work through the rural housing enabler. The New Homes Bonus legislation says that Councils are expected to negotiate with National Park Authorities to recognise their role as the sole local planning authority for their area in granting planning permissions and that the Councils should reach an agreement and split the funding from NHB at a locally determined rate.

Members considered this as part of the Budget process for 2014/15 and the following system is in place:-

- A one off payment is to be agreed on an annual basis based on actual completions.
- The allocation received by DNP are to be spent only within those parishes falling within the boundaries of the Borough Council.
- The agreed sum is transferred to an Earmarked Reserve called ‘Community Investment Fund – Dartmoor National Park’ and the DNP make an annual

application to draw down funds as required in line with the process agreed for that fund.

On this basis the share of NHB that could be due for DNP based on completed properties (estimated for future years) is summarised below:

	<b>Payable for 12/13 and 13/14</b>	<b>Forecast for 14/15</b>	<b>Forecast for 15/16</b>	<b>Forecast for 16/17</b>	<b>Forecast for 17/18</b>	<b>Forecast for 18/19</b>
<b>Share of award</b>	18,688	20,362	8,714	26,981	111,227	92,870

## 7. EARMARKED AND UNEARMARKED RESERVES

7.1 The Council's policy is to retain Unearmarked Revenue Reserves of £750,000.

The Unearmarked General Fund Revenue Reserve balance at 31<sup>st</sup> March 2014 was £953,000 and the Earmarked Reserves balance was £1,790,000. This gave total Revenue Reserves of £2,743,000. The predicted earmarked and unearmarked reserves for 2014/15 is shown below:-.

7.2

	<b>£'000</b>
General Reserves balance as at 31 <sup>st</sup> March 2014	953
Earmarked Reserves	1,790
Predicted movement in Earmarked Reserves (Appendix C)	(1,190)
<b>Total Predicted Reserves as at 31<sup>st</sup> March 2015</b> (Unearmarked Reserves of £953,000 and Earmarked Reserves of £600,000 as shown in Appendix C)	<b>1,553</b>

7.3 **Specific Earmarked Reserves** - The level and commitments for each reserve are kept under review each year to make sure the uncommitted balance is adequate for its purpose. The Earmarked Reserves were reviewed as part of the year end close down and £13,000 was transferred in the general reserve of the Council. A schedule of predicted Earmarked Reserves for 14/15 are shown in Appendix C. Earmarked Reserves are predicted to be £600,000 at the end of March 2015).

## 8. CAPITAL PROGRAMME 2015/16 to 2018/19

8.1 The table below shows the proposed Capital Programme for 2015/16 and projected figures to 2018/19:

	<b>2015/2016</b>	<b>2016/17</b>	<b>2017/18</b>	<b>2018/19</b>
Tenants Incentive Scheme (TIS)	15,000	15,000	15,000	15,000
Village Halls and Community Projects	36,000	36,000	36,000	36,000
Affordable Housing (see Note 1)	-	200,000	200,000	200,000
Disabled Facilities Grants (see Note 2)	400,000	400,000	400,000	400,000
<b>TOTAL CAPITAL PROGRAMME</b>	<b>451,000</b>	<b>651,000</b>	<b>651,000</b>	<b>651,000</b>
<b>Suggested method of funding the Capital Programme:</b>				
Government Grant funding towards Disabled Facilities Grants (see Note 2)	<i>(239,000)</i>	<i>(239,000)</i>	<i>(239,000)</i>	<i>(239,000)</i>
<b>Potential funding from New Homes Bonus (Required to fund the Capital Programme)</b>	<b>212,000</b>	<b>412,000</b>	<b>412,000</b>	<b>412,000</b>

**Note 1** - The current level of capital funding allocated to the delivery of affordable housing is an annual contribution of £200,000. There is already a budget of £550,000 approved in the Capital Programme for affordable housing. National policies and funding strategies designed to deliver affordable housing have significantly changed in recent years with much greater reliance on the provision of affordable housing without public subsidy, primarily through the planning process. In the circumstances it is proposed not to allocate additional capital funding to this budget in the next financial year 2015/16.

**Note 2** – From 2015/16, the funding for Disabled Facilities Grants will be from the Better Care Fund held by Devon County Council and funding will be passported to District Councils. Provisional allocations for 15/16 show an increase in contributions to £239,000. Following the recent Informal Council meeting, a briefing note on the Better Care Fund has been circulated to all Members.

8.2 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.

## **9. LEGAL IMPLICATIONS**

9.1 In accordance with the Council's Delegation Scheme, the Resources Committee is responsible for recommending to Council the budgetary framework. The Council is required to adopt the revenue budget.

## **10. RISK MANAGEMENT**

10.1 The Risk Management implications are shown at the end of this report in the Strategic Risks Template.



## 11. OTHER CONSIDERATIONS

<b>Corporate priorities engaged:</b>	A balanced budget underpins the Council's capacity to deliver its corporate priorities.
<b>Statutory powers:</b>	Local Government Act 1972, Section 151
<b>Considerations of equality and human rights:</b>	A 360 degree assessment of the equality implications has been carried out and is available on request.
<b>Biodiversity considerations:</b>	None directly related to this report.
<b>Sustainability considerations:</b>	None directly related to this report.
<b>Crime and disorder implications:</b>	None directly related to this report.
<b>Background papers:</b>	Council February 2014 – Medium Term Financial Strategy 2014/15 to 2017/18
<b>Appendices attached:</b>	Appendix A – Modelling of the Financial Strategy Appendix B – Budget Pressures and Savings Appendix C – Schedule of Reserves Appendix D – Council Tax Support Grant to Town and Parish Councils for 2015/16. Appendix E – Potential future additional savings

## STRATEGIC RISKS TEMPLATE

No	Risk Title	Risk/Opportunity Description	Inherent risk status				Mitigating & Management actions	Ownership
			Impact of negative outcome	Chance of negative outcome	Risk score and direction of travel			
1	Robustness of medium term financial strategy and service blue-prints	<p>Not achieving financial savings as anticipated</p> <p>External change to the national economic environment which may impact on our funding expectations.</p> <p>Implications of changes to the funding of local government through locally collected business rates and revenue support grant.</p> <p>Effect of the localisation of council tax.</p> <p>Achieving anticipated income targets in the current financial climate.</p>	5+	3	15	↔	<p>Corporate engagement in the development of the medium term financial strategy.</p> <p>Service commitment to business planning processes.</p> <p>Robust horizon scanning to monitor changes in Government policy.</p> <p>The Council will carry out regular monitoring during the financial year to ascertain the effect of the new scheme on the Council's finances. (see Risk No. 2 below)</p> <p>Monitoring of corporate income streams and revenue budgets.</p>	<p>S151 Officer</p> <p>Corporate Director (TW)</p> <p>Corporate Director (AR)</p> <p>S151 Officer</p>
2	Income from Business Rates	<p>The figures for income from Business Rates are best estimates at this date (the NNDR1 return forecasts Business Rates for the forthcoming year). Predictions could vary by £50,000.</p>	5	3	15	↔	<p>The position will be monitored by the S151 Officer.</p> <p>The quarterly Revenue Budget Monitoring reports will monitor Business Rates income against projections.</p> <p>Any variances will be highlighted to Members at an early stage.</p>	S151 Officer

No	Risk Title	Risk/Opportunity Description	Inherent risk status				Mitigating & Management actions	Ownership
			Impact of negative outcome	Chance of negative outcome	Risk score and direction of travel			
		The figures are subject to volatility both from business rating appeals and the economic climate.					The Council is part of a Devonwide Pooling arrangement for business rates.	
3	Setting a lawful budget	Failure of the Council to set a lawful budget	5	1	5	↔	The Budget is compiled in accordance with best practice guidelines issued by CIPFA and the Government. The final budget report includes an assessment from the Section 151 Officer on the adequacy of the Council's reserves and the robustness of the estimates made. The budget process is laid down in the Council's Constitution. Resources Committee and Council meetings are timetabled to meet the Statutory deadlines for setting the Council Tax.	S151 Officer
4	Corporate Priorities	Failure to target budgets to service priorities	5	3	15	↔	Service priorities will be reviewed. Budget reductions include a section on their impact on council priorities and a risk assessment. Adequate levels of appropriately trained staff. Thorough planning and monthly monitoring of performance to management, quarterly to the Resources Committee.	S151 Officer