

WEST DEVON BOROUGH COUNCIL

NAME OF COMMITTEE	Resources
DATE	3 February 2015
REPORT TITLE	Revenue and Capital Budget Proposals for 2015/16 to 2018/19
Report of	Finance Community of Practice Lead
WARDS AFFECTED	All

Summary of report: To update Members on the revenue budget position 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 B1)

2015/16	£ 552,710
2016/17	£ (1,134,408)
2017/18	£ 336,505
2018/19	£ 252,289

This gives a cumulative 4 year budget gap of £7,096.

RECOMMENDATIONS:

Members are requested to recommend to Council:

- (i) That in order to set a balanced budget for 2015-16:

EITHER*

- an increase in Council Tax of 1.9% is agreed (which equates to a Band D council tax of £208.39 for 2015/16, an increase of £3.89 per year or 7 pence per week). This option equates to a Council Tax requirement of £4,054,644 (as shown in Appendix B1)

OR

- A Nil increase in Council Tax is agreed (the Band D Council Tax for West Devon Borough Council will remain at £204.50 for 2015/16) and the Council will accept the one-off Council Tax Freeze Grant being offered by the Government of £42,237. This option equates to a Council Tax requirement of £3,978,957 (as shown in Appendix B2)

- (ii) That the financial pressures in Appendix A of £469,400 are accepted
- (iii) That the proposed savings of £148,700 set out in Appendix A are adopted
- (iv) The Collection Fund surplus of £60,589 be agreed
- (v) That an additional £552,710 (if council tax is increased by 1.9% as per Appendix B1) or £586,160 (if council tax is frozen as per Appendix B2) of New Homes Bonus Grant is used to balance the 2015-16 Budget. (This is in addition to the £657,059 of New Homes Bonus already built into the budget assumptions to be used for 2015-16).
- (vi) The Total Net Expenditure of the Council for 2015/16 is £8,119,325 (Appendix B1 and B2)
- (vi) To approve the 2015/16 Capital Programme projects totalling £451,000 as per 8.1
- (vii) To finance the 2015/16 Capital Programme of £451,000 by using £212,000 of New Homes Bonus funding and £239,000 of Government grant (as per 8.1).
- (viii) That the Council transfers £2,610 of its allocation of New Homes Bonus for 2015/16 to an Earmarked Reserve called 'Community Investment Fund – Dartmoor National Park', to be applied for and drawn down by Dartmoor National Park as required. This amount is a one-off payment and the position will be considered annually by the Council as part of the budget process. The condition is that this is for use within the boundaries of the Borough Council only.
- (ix) That the Council Tax Support Grant of £87,285 be passed onto Town and Parish Councils. (This is a reduction of 15% from 2014/15) as per Appendix E.
- (x) That the minimum level of the Unearmarked Revenue Reserves be maintained to at least £750,000 as per Section 7.
- (xi) That the level of reserves as set out within this report and the assessment of their adequacy and the robustness of budget estimates be noted. This is a requirement of Part 2 of the Local Government Act 2003

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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 **£552,710** 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 Since that meeting, a number of events and announcements have taken place which impact upon the financial position of the authority and the budget gap going forward. These are summarised below:

- The Chancellor's Autumn Statement of 3 December 2014 and the Local Government Finance Settlement announced on 18 December 2014.
- The receipt of monitoring information from the "Localisation of Business Rates" initiative introduced by the Government on 1 April 2013. Members will be aware that the yield from business rates now forms an integral part of the new Government Grant system.
- Council approval of the revised business case for the Transformation Programme on 9th December 2014 (T18) – (Minute CM 62)

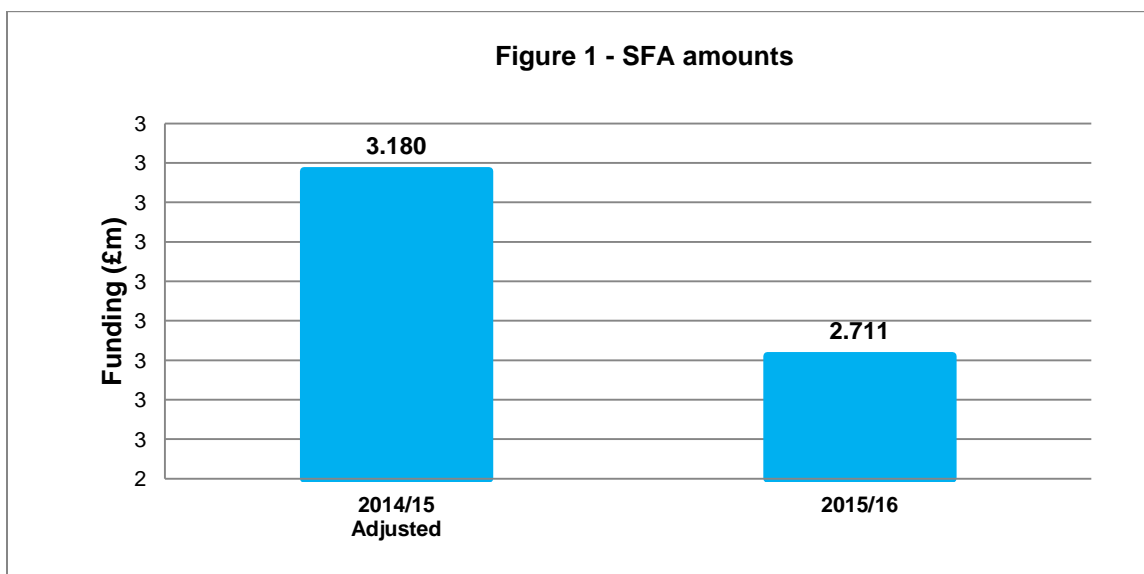
1.3 Accordingly, the assumptions for financial modelling purposes have been reviewed and the budget gap revised. For 2015/16 the gap is £552,710 (Appendix B1).

2 ASSUMPTIONS FOR FINANCIAL MODELLING PURPOSE

- 2.1 A two year pay award, covering the financial years 2014/15 and 2015/16 has recently been agreed. The main part of what is a complex settlement comes into effect on 1 January 2015. The initial indications are that it will add around 2.2% to our pay bill.
- 2.2 Inflation will run at 2% over the period.
- 2.3 The interest return for our investments will average 0.6 % for 2015/16 rising to 2.25% in 2018/19.
- 2.4 Two scenarios have been modelled for council tax purposes. The financial modelling in Appendix B1 assumes a Band D council tax increase of 1.9% to £208.39 (the current Band D council tax for 2014/15 is £204.50). The financial modelling in Appendix B2 assumes that council tax is frozen for 2015/16.

3. GOVERNMENT FUNDING

- 3.1 Our Settlement Funding Assessment in 2014/15 was £3.18 million and this has been reduced to £2.71 million which is a reduction of £470,000 (14.7%). This was in line with what we expected. This is a one year settlement for 2015/16 only and the figures announced are provisional. A Council's SFA is equal to the Revenue Support Grant plus the Council's baseline funding level for Business Rates.



- 3.2 West Devon had a reduction in funding of 14.7%. The average for Shire District Councils was 15.3%. The cut announced in this settlement brings the total reduction in core government funding to Councils since 2010 to 40 per cent. Over this period councils will have made £20 billion worth of savings.

- 3.3 The Council provided evidence to a study, commissioned by the Government, into the cost of providing services in rural areas. Our work on this has paid dividends as the Government has increased to £15.5m (previously £11.5m).

Business Rates

- 3.4 We budget for our share of the Business Rates separately using statistical data. The Council will receive a separate grant to compensate for the measures announced in the 2014 Autumn Statement, namely:

- The RPI increase on business rates will be reduced to 2% for 2015/16 (multiplier will therefore be 49.3 pence, with the small business multiplier being 48.0 pence).
- A £1,000 discount for all retail, pubs, cafes (excluding banks and betting offices) with rateable values below £50,000 will be increased to £1,500 for 2015/16.

- 3.5 Alongside the finance settlement, we have received notification that a new Business Rates Pool will be established for 2015/16 of all Devon Authorities, excluding South Hams.

Council Tax Referendum Limit

- 3.6 The Government has announced that council tax increases of 2 per cent or over will be subject to a council tax referendum. The Government is consulting on whether similar council tax referendum principles should apply to the highest spending parishes and towns.

Council Tax Freeze Grant

- 3.7 The 1% Council Tax Freeze Grant offer for 2015/16 was re-affirmed. The indicative Council Tax Freeze Grant for 2015/16 is £42,237. 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.

New Homes Bonus

- 3.8 We have received notification that our NHB allocation will be £1.5 million for 2015/16, which is over £40,000 more than the estimate of £1.46 million shown in the Budget report presented to the Resources Committee on 2 December 2014. New Homes Bonus is discussed in detail in Section 6.

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 2nd December 2014. Since that report, there have been several 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 decreased the income predicted from business rates for 2015/16 by £17,000. By contrast, the Finance Settlement confirmed that the Council will receive an extra £42,600 in Revenue Support Grant than was estimated.
- 4.3 The Taxbase calculation for 2015/16 has been confirmed at 19,457 Band D Equivalent properties. The Taxbase calculates how many Band D equivalent properties council tax can be charged to.
- 4.4 **Recycling of garden and leaf collections** - Officers have negotiated with Devon County colleagues on the risk highlighted in our risk register around the withdrawal from the payment of recycling credits in respect of above materials. The cost pressure has been reduced to £27,200 in 2015/16 and £44,200 in 2016/17.
- 4.5 **New Glass Recycling Banks** – A one off cost pressure of £8,000 has been added to purchase three new glass recycling banks.
- 4.6 **Housing Benefit Administration subsidy grant** – We have received notification that our Housing Benefit Administration subsidy will reduce from £280,000 in 2014/15 to £246,000 in 2015/16 – a reduction of £34,000.
- 4.7 **Elections** – An estimate of £50,000 has been provided for in the modelling for the cost of Elections in 2015/16. This is a one-off cost and has been built into the modelling as a one off cost pressure in view of the complexity of the elections in May 2015, involving Parliamentary, Borough, and town/parish polls, in tandem with implementing changes to ward boundaries arising from the Boundary Committee's decisions. The Council's funding will be supported by a grant from government for the national elections but the final sum has not yet been confirmed.
- 4.8 **New Governance Arrangements** – A cost pressure of up to £28,000 has been built into the financial modelling to reflect the need for an extensive review to be carried out into the Scheme of Members Allowances. This review will be undertaken by a newly appointed Independent Remuneration Panel and in light of the decision of Council on 9 December to revise the Council's governance arrangements (Minute CM 65 refers). This amount has been built in as a precautionary estimate, since a revised Scheme may well include provision for additional roles to be able to claim a Special Responsibility Allowance (e.g. those lead Members on the new Hub Committee).
- 4.9 At the Resources Committee meeting of 2nd December 2014, it was **RESOLVED** to request that a report be presented to the Overview and Scrutiny Committee setting out details of the TAP Fund process and how it was monitored. A report will be taken to the March 2015 meeting. Payments are made retrospectively on completion of a claim form with details of how funds have been spent and the production of evidence of spend. Details of grants allocated are published on the

website. Interim or upfront payments are only made in exceptional circumstances and on production of evidence requiring payment.

- 4.10 Council approved the revised business case for the Transformation Programme on 9th December 2014 (T18) – (Minute CM 62). The revised business case has increased the savings available in 2016/17 by just under £400,000.

5. OVERALL POSITION – BUDGET GAP

- 5.1 Appendices B1 and B2 illustrate the overall financial forecast for the forthcoming four years. Although the Council’s Net Budget is in the region of £8.1 million, the Gross Expenditure of the Council is around £26 million.

- 5.2 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 different situation if the Council Tax is increased by 1.9% (shown in Appendix B1) and if the Council Tax Freeze Grant is taken and Council Tax is frozen (shown in Appendix B2). A 1% increase in Council Tax generates an extra £39,800 in extra income per annum.

- 5.3 The report sets out an anticipated budget gap for 2015-2016 of **£552,710** if Council Tax is increased by 1.9% as per Appendix B1. The budget gap increases to **£586,160** as per Appendix B2, if the Council Tax freeze grant is taken instead and Council Tax is frozen for 2015/16.

<i>Budget Gap if Council Tax is increased by 1.9% for 15/16</i>	Amount (£)
Net Base Budget for 2015/2016	8,119,325
Total projected income	(7,566,615)
CURRENT BUDGET GAP (Appendix B1)	552,710

<i>Budget Gap if Council Tax is frozen for 15/16</i>	Amount (£)
Net Base Budget for 2015/16	8,119,325
Total projected income	(7,533,165)
CURRENT BUDGET GAP (Appendix B2)	586,160

- 5.4 The savings from T18 in 2015/16 are not available to put towards the budget gap in 2015/16, as the savings are needed to pay for the investment costs in 2015/16.

5.5 The table of New Homes Bonus in 6.2 shows that there is currently £626,100 of New Homes Bonus funding available to fund the Budget Gap for 2015/16. This is the amount after a share of NHB is agreed for the Dartmoor National Park.

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 has met on a number of occasions to look at ways of generating additional income. A report was presented to Council on 7th October 2014 regarding the creation of a local authority trading company, which provides more detail (Minute CM 47).

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			248,975	248,975	248,975	248,975
2016/17 – estimated 200 properties				251,680	251,680	251,680
2017/18 – estimated 200 properties					251,680	251,680
2018/19 – estimated 200 properties						251,680
New Homes Bonus returned	12,203					
Forecast NHB	1,038,000	1,248,794	1,497,769	1,749,449	1,677,209	1,360,267

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	1,497,769	1,749,449	1,677,209	1,360,267
Less: T18 allocation (Council 4 th 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)
Dartmoor National Park contribution – See Note below	(12,912)	(5,776)	(2,610)	(20,362)	(28,146)	(111,227)
Balance remaining (not committed)	72,012 Plus 27,292 from 2012/13	30,959	626,100	660,028	580,004	179,981

***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.

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 31st March 2014 was £953,000 and the Earmarked Reserves balance was £1,827,000. This gave total Revenue Reserves of £2,780,000. The predicted earmarked and unearmarked reserves for 2014/15 is shown below:-

7.2

	£'000
General Reserves balance as at 31 st March 2014	953
Earmarked Reserves	1,827
Predicted movement in Earmarked Reserves (Appendix C)	(1,329)
Total Predicted Reserves as at 31st March 2015	1,451
(Unearmarked Reserves of £953,000 and Earmarked Reserves of £498,000 as shown in Appendix C)	

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 is shown in Appendix C. Earmarked Reserves are predicted to be £498,000 at the end of March 2015.

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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:

	2015/2016	2016/17	2017/18	2018/19
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
TOTAL CAPITAL PROGRAMME	451,000	651,000	651,000	651,000
Suggested method of funding the Capital Programme:				
Government Grant funding towards Disabled Facilities Grants (see Note 2)	(239,000)	(239,000)	(239,000)	(239,000)
Potential funding from New Homes Bonus (Required to fund the Capital Programme)	212,000	412,000	412,000	412,000

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 Informal Council meeting in 2014, a briefing note on the Better Care Fund was 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

Corporate priorities engaged:	A balanced budget underpins the Council's capacity to deliver its corporate priorities.
Statutory powers:	Local Government Act 1972, Section 151
Considerations of equality and human rights:	A 360 degree assessment of the equality implications has been carried out and is available on request.
Biodiversity considerations:	None directly related to this report.
Sustainability considerations:	None directly related to this report.
Crime and disorder implications:	None directly related to this report.
Background papers:	Council February 2014 – Medium Term Financial Strategy 2014/15 to 2017/18 Resources Committee 2 nd December 2014 – Revenue and Capital Budget Proposals for 2015/16 to 2018/19
Appendices attached:	Appendix A – Modelling of the Financial Strategy Appendix B1 – Budget Pressures and Savings (increase council tax by 1.9%) Appendix B2 – Budget Pressures and Savings (freeze council tax) Appendix C – Schedule of Reserves Appendix D – Revenue Budget Analysis Appendix E - Council Tax Support Grant to Town and Parish Councils for 2015/16.

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>Executive Director</p> <p>Executive Director</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