

Report to: **Hub Committee**  
Date: **1 December 2015**  
Title: **Budget Proposals Report 2016/17**  
Portfolio Area: **Support Services – Cllr Cann OBE**  
Wards Affected: **All**  
Relevant Scrutiny Committee: **Internal**  
Urgent Decision: **N** Approval and clearance obtained: **Y**

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### **Recommendations:**

It is recommended that the Hub Committee:-

- 1) Notes the contents of the latest Budget Report for 2016-17
- 2) Instructs officers to develop a strategy to deliver the best use of the affordable housing capital budget of £550,000 and the uncommitted New Homes Bonus amounts of £63,000 (in year 15/16) and potentially £317,000 (in 16/17) as per 6.9 and 7.3
- 3) Supports the principle of an appropriately graded shared post being employed to focus on Economic Development, with the target of the post being self-financing within two years, as per 6.9.

### **Recommends to Council that**

- 4a) Car parking charges are frozen for 2016-17 as set out in Appendix F\*
- 4b) The fees for the Environmental Health Community of Practice are as per Appendix F
- 4c) Delegated authority is given to the Community of Practice Lead for Environmental Health in consultation with the Lead Member, to modify the charges of Food Export Certificates, once the outcome of the current review is known.

\*For clarification - There is a separate item on the Hub Committee agenda to implement long stay parking on the top two decks of Brook Street car park in Tavistock.

## 1. Executive summary

- 1.1 The Council's Medium Term Financial Strategy (MTFS) is based on a financial forecast over a rolling five year timeframe to 2020/21 which will help ensure resources are aligned to the outcomes in Our Plan. ***The changes to the Budget Report from the last Budget report to the Hub Committee on 27th October 2015 are shown in detail in Section 5.14 and 5.15.***
- 1.2 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.
- 1.3 Local authorities have faced unprecedented reductions in Government funding since the Comprehensive Spending Review 2010. The Queen's Speech in May stated that the government will "continue the work of bringing the public finances under control and reducing the deficit, so that Britain lives within its means". The Summer Budget on 8 July 2015 has confirmed this and is likely to mean significant financial reductions particularly over the next two to three years until the government achieves its aim of running a budget surplus by 2019/20.
- 1.4 By the end of 2015/16, the Council's grant funding (Revenue Support Grant) will have reduced by over 45% from 2013. The economic backdrop continues to be challenging, resulting in significant on-going reductions in Government funding, with the Council needing to focus on long term financial planning.
- 1.5 In response, in 2013 the Council alongside its shared services partner, South Hams District Council, approved an innovative Transformation Programme (T18). This is delivering a new operating model to ensure that both Councils can continue to deliver quality services for its customers and communities. An investment budget of £2.83 million has been approved, to deliver annual recurring revenue savings of £1.64 million. The payback period for the Programme is 2.75 years. The Transformation Programme has received the backing of Central Government with an award of £266,000 of Government funding.
- 1.6 The following table illustrates the predicted budget (surplus)/gap from 2016/17 onwards for the Borough Council as shown in Appendix B1:

	2016/17 £	2017/18 £	2018/19 £	2019/20 £	2020/21 £
Annual budget (surplus)/gap	(570,377) surplus	85,320 gap	313,203 gap	98,859 gap	346,353 gap
<b>TOTAL BUDGET GAP OVER THE FIVE YEARS TO 2020/21</b>					<b>£273,358</b>

Section 6.3 gives more details of the key assumptions regarding these figures. The budget surplus in 2016/17 of £570,377 is available for reinvestment (on a one-off basis rather than annually) in the Council's priorities, projects or as a contribution into Earmarked Reserves or the Council's Capital Programme.

- 1.7 If New Homes Bonus (NHB) were to be used as outlined in 7.3 of the report, this would mean that there would potentially be £317,087 of NHB which is uncommitted in 2016/2017 (with an additional £63,303 being uncommitted from 2015/16). This assumes that £1 million of NHB will be used annually to support the Revenue Base Budget.
- 1.8 It is not known how the forthcoming Spending Review 2015 (SR2015) will affect New Homes Bonus and whether there will be any policy changes affecting NHB. There is no doubt that an ending or phasing out of New Homes Bonus would have a very significant budgetary impact on Shire Districts (such as West Devon) in particular.
- 1.9 Whilst there remains a great deal of uncertainty about various elements of income and expenditure, the forecast has been based on a set of assumptions which represent a cautious estimate in order to focus attention on the revised scale of the funding gap. The figures will be revised as we progress through the financial year.
- 1.10 The Council's approach to financial planning over the medium term will include a focus on income generation and commercial opportunities. This will strengthen the position of the Borough Council by developing financial resilience through less exposure to reductions in Government funding.
- 1.11 The Council's Medium Term Financial Strategy was considered by the Overview and Scrutiny Committee on 6<sup>th</sup> October 2015. Minute O&S(I) 26 from the meeting refers.
- 1.12 On 27<sup>th</sup> October the Hub Committee Members agreed to accept the recommendations of the Overview and Scrutiny (Internal) Committee arising from their meeting on 6 October, 2015, and amended their resolution accordingly. Below is a copy of the minute from the meeting:-

**\*HC 29 MEDIUM TERM FINANCIAL STRATEGY (MTFS)**

The Leader presented a report that provided Members with the annual review of the Council's Medium Term Financial Strategy (MTFS). It was based on a financial forecast over a rolling five year timeframe to 2020/21, which would help to ensure resources were aligned to the outcomes in Our Plan.

## **\*HC 29 MEDIUM TERM FINANCIAL STRATEGY (MTFS) - continued**

The COP Lead Finance answered a number of questions relating to the detail within the report. Members discussed the increase in financial risk and the volatility that could arise from changes to business rates legislation.

Members also expressed the view that the capital budget for affordable Housing of £550,000 plus the uncommitted New Homes Bonus amounts of £63,000 (in year 15/16) and potentially £317,000 (in 16/17) should be put to use, by investing in the residential sector, for example. This would increase the capital value. The Group Manager – Business Development had been asked to present a report containing options for consideration early in the New Year. Finally, Members agreed to accept the recommendations of the Overview and Scrutiny (Internal) Committee arising from their meeting on 6 October, 2015, and amended their resolution accordingly.

It was then **RESOLVED** that the Hub Committee had considered the five year Medium Term Financial Strategy and provided an indication of the budget principles to be adopted, with particular reference to:

- a) the level of council tax increase being 1.99%;
- b) the use of New Homes Bonus to support the revenue budget;
- c) the amount of Council Tax Support Grant to be passed on to Parish and Town Councils be reduced by 11.2%;
- d) Other income generation and budget savings; and
- e) Maintaining the current Council policy on the minimum level of unearmarked reserves being £750,000; and
- f) The anticipated 2016/17 budget surplus (£571,177) being ringfenced for future income generation opportunities and held in an earmarked reserve for that purpose.

## **2 ASSUMPTIONS FOR FINANCIAL MODELLING PURPOSES**

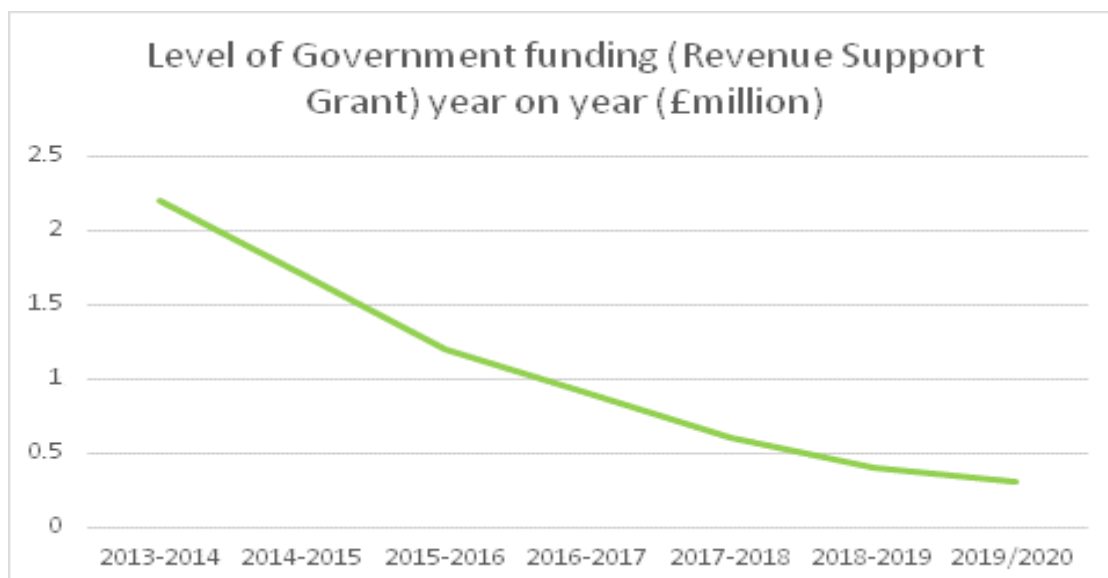
- 2.1 A two year employee pay settlement has been agreed which effectively equates to 1% in 2014/15 and a further 1.2% in 2015/16 for most employees. Future levels of pay settlement will be determined by national negotiation between the Local Government Employers and the Trade Unions. The Summer Budget 2015 did announce the context of a limiting of pay awards to 1% for the period 2016/17 to 2019/20. A budget provision of 1% for 2016/17 onwards has been modelled. The MTFS 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.

- 2.2 The MTF5 assumes inflation will run at 2% (Government target) over the five year period. The Retail Price Index (RPI) at September 2015 was 0.8% and Consumer Price Index was -0.1%. An annual cost pressure of £60,000 has been included. This is partly to allow for an expected increase in business rates from the revaluation due in 2017.
- 2.3 The predicted interest rate forecast from our treasury management advisors, Sector, is shown below. The Council's budgeted investment income in 2015/16 is £40,000. It is assumed that the interest rate return for our investments will average 0.75 % for 2016/17 rising to 1.5% by 2018/19 as shown below:-
- |         |   |       |
|---------|---|-------|
| 2016/17 | - | 0.75% |
| 2017/18 | - | 1.00% |
| 2018/19 | - | 1.50% |
- 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 1.99% annually. This means an increase to £212.53 in 2016/17. The financial modelling in Appendix B2 assumes that council tax is frozen for 2016/17 onwards and that a 1% freeze grant is built into the Settlement Funding Assessment (SFA) on an on-going basis. There is no confirmation whether this would be the case annually.
- 2.5 The assumed forecast reductions in Revenue Support Grant (RSG) are as follows (see 3.1 and 3.2):

	2016/17 £	2017/18 £	2018/19 £	2019/20 £	2020/21 £
<b>Revenue Support Grant (2015/16 RSG was £1.215m):</b>	0.892m	0.621m	0.371m	0.311m	Nil
% reduction	27%	30%	40%	16%	100%
<b>TOTAL REDUCTION OVER THE FIVE YEARS TO 2020/21</b>					<b>£1.215m</b>

### 3. GOVERNMENT FUNDING

- 3.1 The Government announced the figures for 2015-16. This was a one year settlement for 2015/16 only. No indicative funding levels have been published for 2016/17 onwards. The Revenue Support Grant was £1.215 million for 2015/2016. The next Spending Review is not due until 25 November 2015 and detailed local government information at authority level for 2016/17 is unlikely to be available until the Provisional Local Government Settlement is announced in December 2015. The graph below shows how Revenue Support Grant has fallen since 2013-14.



- 3.2 **Spending Review 2015 (SR2015)** - In July 2015, the Chancellor of the Exchequer published a policy paper, 'Spending Review 2015' – A country that lives within its means. It sets out the Government's approach to SR2015. The Chancellor of the Exchequer, George Osborne said:

*This Spending Review (2015) is the next step in our plan to eliminate the deficit, run a surplus and ensure Britain lives within its means. We'll invest in our priorities like the NHS and national security. Elsewhere in government, departments will have to find significant savings through efficiencies and by devolving power, so people have a greater say over the issues that affect them and their communities. We'll deliver more with less.*

The Spending Review will be set out on 25 November.

- 3.3 **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. However, Authorities can voluntarily form a 'pool'. Pooling mitigates each Authority's exposure to Business Rate income volatility as the risks are spread over a larger pool.

In 2014/15 the Council received £39,927 as a pooling gain. This was additional business rates income generated as a consequence of being part of the Devonwide Business Rates pool. In line with good financial management principles, a provision has been made in the Accounts for likely refunds of business rates as a result of appeals, against the rateable value of business properties. The appeals provision is based on the total value of outstanding appeals at the year end as advised by

the Valuation Office Agency and on advice from them about the likely success rate of appeals.

The Council's Business Rates Gross amount payable has increased from £9.8 million in 2011/12 to £10.6 million in 2015/16. Therefore over the last 4 years, the Borough Council's business rates base has grown on average by 2% per annum.

Of the Business Rates collected of £10.6 million, the Council is predicted to retain in funding only £1.579 million of this in 2015/16. So the Borough Council retains approximately 15 pence in every £1 to run our services. In 10.7 and 10.8 the Medium Term Financial Strategy refers to Devolution and part of any Devolution offering to Government could be around the share of Business Rates retained.

3.4 **Business Rates Revaluation** - There will be a Business Rates Revaluation which will go live on 1 April 2017.

3.5 **Income from Council Tax** – The Borough Council increased council tax by 1.9% for 2015/16 to £208.39 for a Band D property for West Devon. This amounted to a £3.89 increase on an average Band D property over a year equivalent to 7p a week. *A 1% increase in Council Tax generates an extra £40,000 in extra council tax income per annum.* The total income from Council Tax equates to £4.05 million in 2015/16 as per Appendix B1.

3.6 **Council Tax** – The table below shows how an average Band D council bill is made up for West Devon Borough Council for the last two years:

Precepting Authority	Band D Council Tax 2014/15	Band D Council Tax 2015/16	£ Increase	% Increase
West Devon Borough Council	£204.50	£208.39	£3.89	1.9%
Devon County Council	£1,138.59	£1,161.27	£22.68	1.99%
Devon & Cornwall Police	£166.16	£169.47	£3.31	1.99%
Devon & Somerset Fire & Rescue	£76.89	£78.42	£1.53	1.99%
Average Parish /Town Council	£57.31	£60.77	£3.46	6.04%
<b>TOTAL</b>	<b>£1,643.45</b>	<b>£1,678.32</b>	<b>£34.87</b>	<b>2.12%</b>

West Devon Borough Council's share of the council tax bill in 2015/16 was **12%**, being £208.39 out of an average Band D council tax bill of £1,678.32.

- 3.7 **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 to be excessive. The Government announced that council tax increases of 2 per cent or over will be subject to a council tax referendum for 2015/16. This did not apply to Towns or Parishes in 2015/16. As at November 2015, there is no formal indication of what a referendum limit might be for 2016/17.
- 3.8 **Council Tax Freeze Grant** - In 2015/16 a 1% Council Tax Freeze Grant offer for 2015/16 was made. The indicative Council Tax Freeze Grant for 2015/16 was £42,000. The Borough Council chose to increase council tax in 2015/16. Again no details are yet known about any council tax freeze grant offer for 2016/17.
- 3.9 **Collection Fund Surplus** – At the end of March 2015, the Council has a balance on its Collection Fund (council tax collection fund) of £1.74 million. This will be distributed in 2016/17, which means that the Borough Council's share of the distribution is £280,000 which is funding available towards the 2016/17 Budget.
- 3.10 **On 5 October 2015, the Chancellor unveiled 'devolution revolution'**. This set out major plans to devolve new powers from the Government to local areas to promote growth and prosperity. The main announcement was that by the end of Parliament, local government will be able to retain 100 per cent of local taxes – including all £26 billion of revenue from business rates by 2020 – to spend on local government services.
- 3.11 Announced alongside this was that the core grant from Government (Revenue Support Grant) will be phased out. This is in tandem with the assumptions made in the Medium Term Financial Strategy that the Revenue Support Grant will be reduced to zero by 2020 (see 2.5 and 3.1).
- 3.12 It was also announced that local government will take on new responsibilities. More detail on the new responsibilities will be announced in the Spending Review on 25 November. *A verbal update will be provided at the meeting.* The announcement also said that 'Local authorities will be able to cut business rates as much as they like'. This is significant new powers for local authorities.
- 3.13 Until more detail is released in the Spending Review on the items announced, it is not known what financial impact the announcement will have on the Borough Council for either 2016/17 or future years. It could take a year or so for the mechanics of how the full retention of business rates system would work to be known, and what that would mean financially for all tiers of local government.



## 4 THE COUNCIL'S STRATEGIC PRIORITIES – OUR PLAN

- 4.1 In February 2015, the Council published 'Our Plan'. This new strategic plan for West Devon set out the vision, long term priorities and planning policies for the area to 2031 as below:-

### ***West Devon - A Leading Rural Council Thriving Towns and Villages***

#### ***Enhancing the quality of life for individuals and communities***

- 4.2 Through Our Plan we are striving to achieve communities that have access to housing, employment, services and facilities that meet their needs, communities that are resilient, safe and able to make choices about their future. Our communities are places where businesses can develop and grow. We want to ensure Our Plan makes a positive contribution to the equality, fairness and spiritual wellbeing of our communities.
- 4.3 How we will achieve Our Vision is defined in each policy area and through the actions set out in our Annual Delivery Plan. We will measure the progress we are making by how well we are meeting our objectives, actions and targets and the impact all this is having on the people and places of West Devon.

The Plan's Objectives are:-

Our Wellbeing  
Our Communities  
Our Homes  
Our Economy  
Our Infrastructure  
Our Environment  
Our Heritage  
Our Resources

The full document can be accessed on  
<http://www.westdevon.gov.uk/ourplan>

## 5 BUDGET PRESSURES FOR 2016/17 ONWARDS

- 5.1 Financial modelling has been undertaken for the next five years to predict the Council's financial situation for the short and medium term.
- 5.2 **Appendix A** to the Medium Term Financial Strategy sets out the Budget Pressures forecast for the next five years and the additional savings and income forecast. A description of the larger budget pressures are set out below.

- 5.3 **Waste services contract** - There is a need to prepare for a potential uplift in the cost of the waste services contract based upon the indicated requirement for an additional waste round. This resource cost was absorbed by the contractor during the lifetime of the current contract due to the previously tendered rate.
- 5.4 The budget pressure in the Medium Term Financial Strategy (£300,000 for 2017/18 onwards) is the worst case scenario as there will be the opportunity to better the cost depending on the delivery vehicle chosen and the ability to charge for elements of service delivery in future if necessary. The figure is based upon current market rates for recycling materials which are constantly changing. This amount will be tested during the waste review process and so is indicative at this stage, based on known operational costs of the service 'as is'.
- 5.5 If a trading model is chosen for the delivery of the waste collection and cleansing services then there is an opportunity to further expand related services which may be sold to generate additional income. E.g. trade waste and trade recycling services. A one-off cost pressure for £80,000 has also been built into the Financial Strategy for a specialist resource to assist with the waste and cleansing options review and delivery and a further temporary staffing resource.
- 5.6 **Our Plan** - A report on Our Plan was considered by the Hub Committee on 22th September 2015. Minute (HC 14) recommended that a provision for 2016/17 of £75,000 is made for Our Plan. This is a one-off cost for 2016/17 for the cost of the examination in public, preparation of documents and in house costs.
- 5.7 **National Insurance** - There will be increased National Insurance (NI) contributions for employers effective from 2016/17. The extra cost to West Devon is £60,000 annually.
- 5.8 The Summer Budget 2015 also announced plans for a National Living wage for the over 25s of £7.20 per hour from 2016/17 increasing to £9.00 per hour by 2020. The number of Council employees affected are within single figures and therefore a provision has been included within the overall pay award budget provision.
- 5.9 **Triennial Pension revaluation** - The Local Government Pension Scheme (LGPS) was last subject to its triennial review in 2014/15. The next valuation impact is in 2017/18 and it is likely to add an additional cost pressure.
- 5.10 **Homelessness Grant** – The Council currently receives £50,000 per annum in a Homelessness grant. It is possible that this will cease in 2016/17 and therefore provision has been made within the budget for the Council to continue with homelessness prevention activity.

- 5.11 **Trading company** – The Council will need to engage specialist advice for legal and financial services in order to set up a trading company. Actuarial advice will also need to be taken from the Devon Pension Fund's actuaries. A cost pressure of £75,000 has been included within the modelling.
- 5.12 **Tamar Estuaries Consultative Forum (TECF)** – West Devon Borough Council and South Hams District Council both currently contribute £3,635 to the Forum. It is proposed that both Councils increase this to £4,500 (an increase of £865 each – rounded to £1,000 for ease of modelling). TECF will bring support in producing Our Plan (see Section 4).

### **SAVINGS AND INCOME GENERATION**

- 5.13 **Transformation Programme 2018 (T18)** – In 2016/17 the Council will make savings of a further £725,000 as outlined in the original Business Case. This is on top of the savings of £962,000 per annum which were already built into the base budget for 2015/16. Section 1.5 gives more detail. There is a separate report on this agenda for the T18 Budget Monitoring report. This shows that the predicted final spend (£2.766 million) is £64,000 less than the budget of £2.83 million.

### **CHANGES SINCE THE LAST BUDGET REPORT**

- 5.14 The Medium Term Financial Strategy was considered by the Hub Committee on 27<sup>th</sup> October 2015. This showed a budget surplus in 2016/17 of £571,177. The figure has now changed to £570,377. The changes are as below:-

<b><i>Budget Surplus reported in the Medium Term Financial Strategy on 27<sup>th</sup> October 2015</i></b>	<b><i>£(571,177)</i></b>
Additional saving identified on revenues and benefits recoveries (See A below)	£(30,000)
Additional saving on 'Other Staffing expenses' (See B below)	£(60,000)
Reduce the savings target on Kilworthy Park running costs (See C below)	£45,000
Reduce the recycling credits income target for 2016/17 by a further £45,800. (See D below)	£45,800
(This is increasing the reduction in the recycling credits income target from £44,200 in the Medium Term Financial Strategy to £90,000 in this budget report)	
<b><i>Revised Budget Surplus reported in the Budget Report on 1<sup>st</sup> December 2015</i></b>	<b><i>£(570,377)</i></b>

- 5.15 The items identified in the table above are a result of the Management Actions identified in the Revenue Budget Monitoring report for 2015/16. This is a separate report on this agenda.

Below is an explanation of each of these changes since the last budget report:-

- A. **Housing Benefit recovery of overpayments** – Additional income identified from the recovery of overpayments (budgeted expenditure for Housing Benefit in 2015/16 is £13 million). A saving of £30,000 annually has been identified for this.
- B. **Other Staffing Expenses** – There is a predicted underspend of £60,000 on staff related expenditure such as travel, subscriptions and other associated costs. This can be built into 2016/17 as a permanent recurring annual saving. Following the Council's Transformation Programme, the staffing workforce is 30% smaller with all staff roles changing to be flexible and responsible to the needs of the customer.
- C. **Kilworthy Park** – In the T18 Business Case, it was anticipated that there would be £65,000 of reduced running costs at Kilworthy Park due to agile working, smarter use of energy and utilities and the workforce occupying less space. These savings have not yet been realised to this extent, although work has been done on re-procuring some of the utilities costs. It is recommended that the savings target on reduced running costs of £65,000 is reduced by £45,000 to £20,000.
- D. **Recycling Credits** – Devon County Council has taken West Devon's leaf sweepings and garden waste into the County contract and has ceased paying recycling credits on this material. As has been previously reported, a phasing into the DCC contract was negotiated to minimise the budgetary impact. This has resulted in a loss of income gained from recycling credits from DCC, which is largely offset by West Devon no longer having to pay gate fees for composting the materials. The net loss for 2015-16 is around £50,000. In addition to this, Devon County Council no longer pay community groups for recycling credits for certain materials. This payment was administered by West Devon and then claimed back from the County. Any fall in income due to this is therefore offset by outgoing payments to community groups. Members will be aware that prices for recycling have dropped with the market changing significantly due to external factors. The overall drop in income predicted is £90,000 in total annually. A cost pressure of £44,200 was originally put into the Medium Term Financial Strategy for this and this now needs to be increased by £45,800 to £90,000.

## 6. OVERALL POSITION – BUDGET (SURPLUS)/GAP

6.1 **Appendices B1 and B2** illustrate the overall financial forecast for the forthcoming five years. Although the Council's Net Budget is predicted to be in the region of £7.3 million in 2016/17, the Gross Expenditure of the Council is around £26 million.

6.2 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 1.99% (**shown in Appendix B1**) and if Council Tax is frozen (**shown in Appendix B2**). A 1% increase in Council Tax generates an extra £40,000 in extra income per annum.

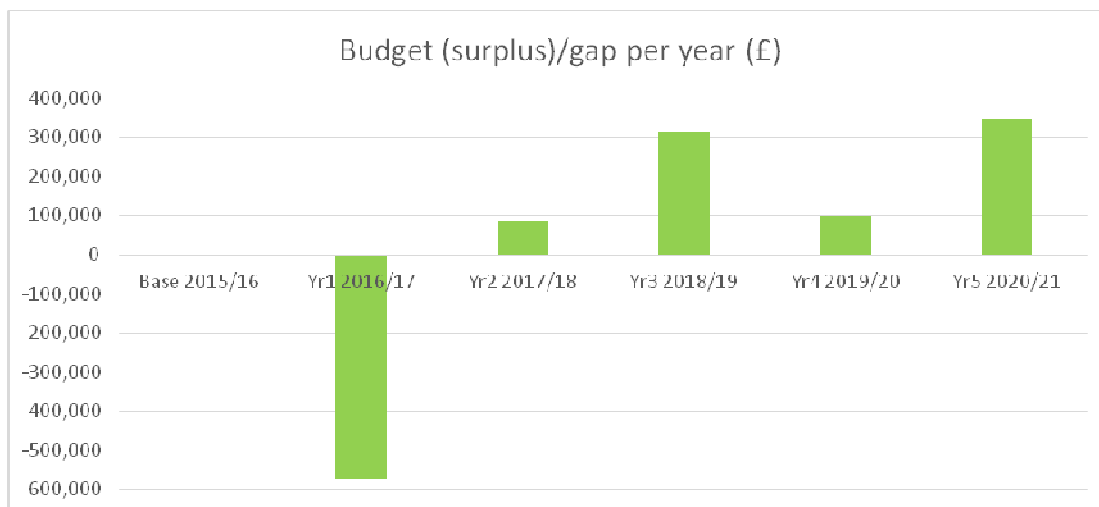
6.3 The following table illustrates the predicted budget (surplus)/gap from 2016/17 onwards for the Borough Council as shown in Appendix B1:

	2016/17	2017/18	2018/19	2019/20	2020/21
	£	£	£	£	£
Annual budget (surplus)/gap	(570,377) budget surplus	85,320 budget gap	313,203 budget gap	98,859 budget gap	346,353 budget gap
<b>TOTAL BUDGET GAP OVER THE FIVE YEARS TO 2020/21</b>					<b>£273,358</b>

These budget gaps are the position based on two key assumptions:

- That a contribution from New Homes Bonus of £1 million per annum will continue to fund the Revenue Base Budget
- That the budget surplus in 2016/17 is treated as a one-off surplus and is reinvested in one-off items. This could be a one-off investment into a priority area, investment in a specific project or a one-off contribution to Earmarked Reserves or the Capital Programme. (If the £570,377 budget surplus is reinvested in annual year on year priorities/commitments, then this would increase the budget gap in 2017/18 from £85,320 to £655,697.

6.4 This is shown in graphical format below:

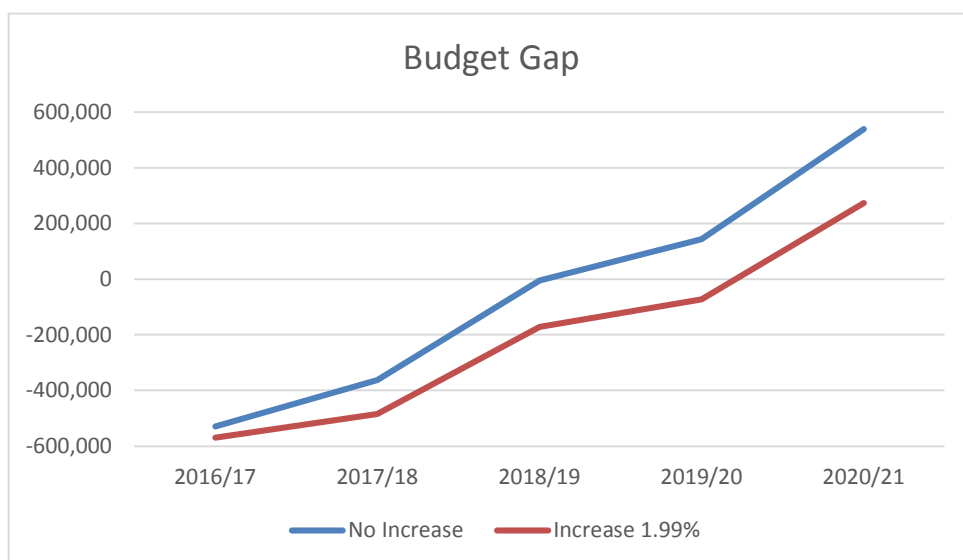


6.5 The report sets out an anticipated budget surplus for 2016-2017 of **£570,377** if Council Tax is increased by 1.99% as per Appendix B1. The budget surplus decreases to **£530,997** as per Appendix B2, if Council Tax is frozen for 2016/17.

6.6 *The budget surplus in 2016/17 is mainly as a result of the full amount of savings from the Council's Transformation Programme being realised by 2016/17 (see 5.13).*

6.7 In 2017/18 the Council moves into the position of having a budget gap again (of £85,320). Section 6.3 sets out the future years' budget gaps.

6.8 The graph below compares the Budget Gap if council tax is not increased (the higher line), to the Budget Gap if council tax is increased by 1.99% each year.



6.9 **Members' Budget Workshop** – On 20<sup>th</sup> October a Members' Budget Workshop was held. This was to give all Members the opportunity to influence and shape the budget setting process. The outcome of the meeting is attached at Appendix G. There are two recommendations in this report in relation to Appendix G and these are:-

- i) To instruct officers to develop a strategy for the best use of the affordable housing capital budget of £550,000 and the uncommitted New Homes Bonus amounts of £63,000 (in year 15/16) and potentially £317,000 (in 16/17) – as shown in Section 7.3. The affordable housing capital budget of £550,000 is an item within the report 'Capital Programme Monitoring report' on this agenda.
- ii) That Members support the principle of an appropriately graded shared post being employed to focus on Economic Development, with the target of the post being self-financing within two years. The approximate cost of this would be in the region of £16,000.

6.10 Work is currently being undertaken within the Finance team to redesign the budgets for 2016-17 into the Council's new T18 structure of Strategy and Commissioning, Customer First, Commercial Services and Support Services. Appendix B3 shows an initial view of how this would look for 2016-17. However the Appendix does come with a caveat of the fact that this is currently work in progress and the Appendix is a draft version. Further detailed work will be carried out on this before the January 2016 budget report. This is to ensure that the split of the budgets between the four areas are correct.

6.11 The finance team are also undertaking a project to harmonise all of the codes used on both Councils' finance systems so that the codes are the same and prefixed with either a 'W' for West Devon and a 'S' for South Hams. For example the code for car parking could be W100 in West Devon and S100 in South Hams. This will assist self serve for budget holders and also assist joint reporting across both Councils where this is appropriate.

## 7 NEW HOMES BONUS (NHB)

7.1 This grant was introduced in 2011/12 and provides incentives for local authorities and local communities to be supportive of housing growth. It is not ring fenced and can be spent on anything. New Homes Bonus is funded through a combination of central government funding (£250m per annum) and top-sliced Revenue Support Grant (the balance each year).

7.2 The table below shows an estimate of New Homes Bonus for the next five years.

	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
2011/12	323,920	323,920				
2012/13	568,622	568,622	568,622			
2013/14	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	248,975	248,975
2016/17*		251,680	251,680	251,680	251,680	251,680
2017/18*			251,680	251,680	251,680	251,680
2018/19*				251,680	251,680	251,680
2019/20*					251,680	251,680
2020/21*						251,680
New Homes Bonus returned (See Note 1)	4,913					
Forecast NHB	<b>1,502,682</b>	<b>1,749,449</b>	<b>1,677,209</b>	<b>1,360,267</b>	<b>1,478,692</b>	<b>1,507,375</b>

\*Predictions have been made based on an extra 200 properties per annum



Note 1 – New Homes Bonus (NHB) is top-sliced from Revenue Support Grant in advance. If the actual NHB allocations that Councils receive is less than the amount that has been top-sliced in advance, the Government return the unused element of the top-slice to Councils after the allocations to Councils have been made. The figures shown in this line is West Devon’s share of the returned NHB.

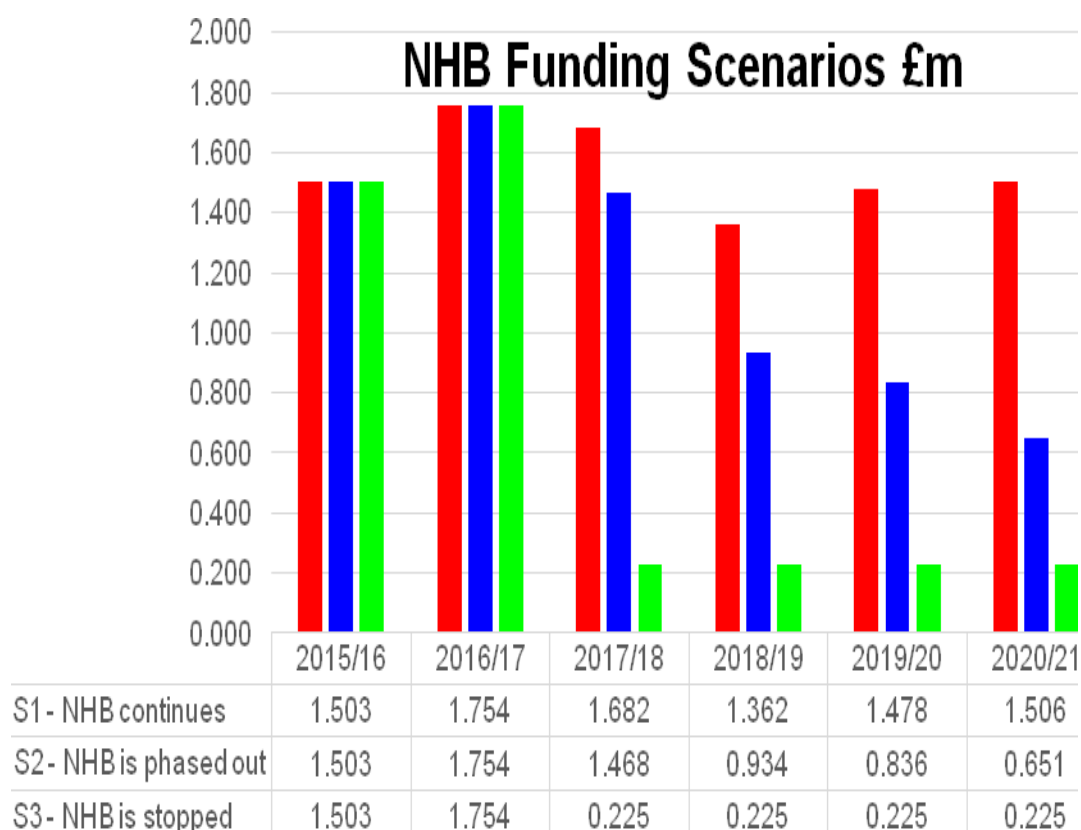
7.3 The table below shows the possible use of New Homes Bonus:

	<b>2015/16 £</b>	<b>2016/17 £</b>	<b>2017/18 £</b>	<b>2018/19 £</b>	<b>2019/20</b>	<b>2020/21</b>
Amount receivable	1,502,682	1,749,449	1,677,209	1,360,267	1,478,692	1,507,375
To fund the current Revenue Budget *	(1,224,769)	(1,000,000)	(1,000,000)	(1,000,000)	(1,000,000)	(1,000,000)
To fund the Capital Programme (as per 8.1)	(212,000)	(412,000)	(412,000)	(412,000)	(412,000)	(412,000)
Dartmoor National Park (7.8)	(2,610)	(20,362)	(28,146)	TBA	TBA	TBA
<b>Balance remaining (not committed)</b>	<b>63,303 remaining</b>	<b>317,087 remaining</b>	<b>237,063 remaining</b>	<b>(51,733) This is a shortfall</b>	<b>66,692 remaining</b>	<b>95,375 remaining</b>

7.4 If New Homes Bonus were to be used as outlined in 7.3 above, this would mean that there would potentially be £317,087 of NHB which is uncommitted in 2016/2017 (with an additional £63,303 being uncommitted from 2015/16).

7.5 It is not known how the Spending Review 2015 (SR2015) will affect New Homes Bonus and whether there will be any policy changes affecting NHB.

7.6 The modelling below shows what might happen if there is a policy change on New Homes Bonus in the future. There is no doubt that an ending of New Homes Bonus would have a very significant budgetary impact on Shire Districts (such as West Devon) in particular.



**Key**

**Red Line = S1 – NHB continues without any policy change**

**Blue Line = S2 – NHB is gradually phased out from 2016/17 (policy change)**

**Green Line = S3 – NHB is stopped from 2016/17 onwards (policy change)**

7.7 S1 shows the current level of NHB expected to be received with no policy changes and agrees to Section 7.2. Lines S2 and S3 show the decrease in New Homes Bonus levels if NHB is phased out or stopped. So by example in 2020/21, NHB is expected to be £1.5 million. This could reduce to £0.651 million if NHB is phased out or £0.225million if NHB is stopped. If scenario S2 happened, this would add £480,000 to the shortfall in 2018/19 –rising to an extra £760,000 by 2020/21.

7.8 **Dartmoor National Park (DNP)** – On an annual basis Dartmoor National Park request a share of the New Homes Bonus to reflect new homes delivered within the park. The money is used to support a local community fund and, for example, joint work through the rural housing enabler. Members considered this as part of the Budget process for 2015/16 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.

7.9 Over the last year projects totalling £18,361 have been awarded grant aid by the Dartmoor National Park's 'Dartmoor Communities Fund 2014/15'. These were for:-

- i) Drewsteignton - £4,152 to repair two grade 2 listed hall's external doors
- ii) Lydford - £5,200 to support a traditional playground for younger children and a Multi-Use Games Area for older children.
- iii) Postbridge - £6,500 to support a water supply for the hall and to expand the car park with improved entrance.
- iv) South Tawton - £400 – renovate the interpretation Board
- v) Throwleigh - £1,060 – alterations to the World War II American steel Quonset hut (used as a village hall)
- vi) Yelverton - £1,049 – extend existing play equipment to meet the growing demand for additional play equipment.

## 8. CAPITAL PROGRAMME 2016/17 to 2020/21

8.1 The table below shows the proposed Capital Programme for 2016/17 and projected figures to 2020/21:

	2016/17	2017/18	2018/19	2019/20	2020/21
Tenants Incentive Scheme (TIS)	15,000	15,000	15,000	15,000	15,000
Village Halls and Community Projects	36,000	36,000	36,000	36,000	36,000
Affordable Housing (see Note 1)	200,000	200,000	200,000	200,000	200,000
Disabled Facilities Grants (see Note 2)	400,000	400,000	400,000	400,000	400,000
<b>TOTAL CAPITAL PROGRAMME</b>	<b>651,000</b>	<b>651,000</b>	<b>651,000</b>	<b>651,000</b>	<b>651,000</b>
<b>Suggested method of funding the Capital Programme:</b>					
Better Care funding towards Disabled Facilities Grants (see Note 2)	(239,000)	(239,000)	(239,000)	(239,000)	(239,000)
<b>Potential funding from New Homes Bonus (Required to fund the Capital Programme)</b>	<b>412,000</b>	<b>412,000</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.

**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. This level has been assumed for 2016/17 onwards.

- 8.2 The current machinery used to process our recyclate is owned by the Council (purchased via grant funding) and is reaching the end of its' life. The future processing of recyclable materials will be considered through the forthcoming waste review and the option of capital purchase of new machinery vs. other suitable options will be explored and reported back to Members.
- 8.3 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.
- 8.4 As part of the Medium Term Financial Strategy (MTFS), it is necessary to review the level and phasing of schemes within the Capital Programme. It is important that the programme is matched with available resources and the impact on reserves and the revenue budget is fully assessed.
- 8.5 **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. The Council is currently procuring a new leisure contract to commence in 2016/17 and by April 2017 the Council's waste services will have been procured (see 5.3 to 5.5). Front line service delivery options requiring capital investment will therefore be explored using this model to provide the Council with the fullest range of future choice.

## 9. EARMARKED AND UNEARMARKED RESERVES

- 9.1 The Council's Net Budget will be £7.2 million in 2016/17. It is still recommended to retain the same policy of a maintaining a minimum level of Unearmarked Reserves of £750,000. The summary below shows the position at 31 March 2015:

<b>The Use of Unearmarked Revenue Reserves</b>	<b>2014/15 £'000</b>
Balance B/fwd 1.4.2015	1,023
Revenue Outturn Underspend predicted for 2015-16	70
Predicted Unearmarked revenue reserves at 31.3.2016	<b>1,093</b>
Predicted Earmarked revenue reserves at 31.3.2016 (see Appendix C)	<b>732</b>

The predicted level of unearmarked and earmarked revenue reserves as at 31 March 2016 total £1,825,000 as shown in Appendix C.

- 9.2 The Revenue Budget Monitoring report for 2015-16 is also an item on this Hub Committee agenda. *The report shows that the predicted underspend against the 2015/16 Budget set of £7.262 million is £70,000.*
- 9.3 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 £750,000 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
  - Uncertainty over future New Homes Bonus allocations
- 9.4 The Unearmarked Reserves current balance of £1.023 million stands above the minimum balance of £0.75million and acts as a safeguard against unforeseen financial pressures.
- 9.5 **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). A schedule of predicted Earmarked Reserves for 15/16 is shown in Appendix C. Earmarked Reserves are predicted to be £732,000 at the end of March 2016.

## 10 OTHER BUDGET ISSUES

- 10.1 **Council Tax Reduction Scheme** – Following Council Tax Benefit being abolished, Council in December 2013 approved the implementation of a cost neutral local Council Tax Reduction Scheme for 2014/15.
- 10.2 This scheme is a discount scheme rather than a state welfare benefit and means that working age claimants will pay a minimum of 20% towards their Council Tax bill. There will be an exception hardship fund to help those claimants experiencing severe financial difficulties.
- 10.3 These changes have the effect of reducing the council tax base not only for the Borough Council, but also for Town and Parish Councils, Devon County Council, The Police and Crime Commission and Devon and Somerset Fire Authority. Reductions in the Council Tax Base adversely affect a local authority's ability to raise income from Council Tax.

- 10.4 The Government is providing financial support for local authorities (Council Tax Support Grant) to assist them in dealing with the effects of the benefit changes on their Council Tax Base.
- 10.5 In the December 2013 Statement, the Minister reminded local authorities that within the funding for Council Tax Support Schemes there is an element to specifically reflect reductions in the parish tax base resulting from the introduction of Localised Support for Council Tax. He confirms that the funding is not separately identified because it is not ring-fenced. There is recognition that as caseloads change and schemes evolve, the amount that different parishes need will also change. There is also an expectation by the Government that billing authorities will continue to pass on support to town and parish councils to help mitigate any reduction in their tax base due to the local Council Tax support scheme.
- 10.6 It is therefore considered appropriate that the Council Tax Support Grant to Town and Parish Councils should reduce in line with the reduction that the Borough Council is experiencing with its Settlement Funding Assessment (SFA). The Council approved a grant distribution of £87,285 for 2015-16. It is estimated that the Council's SFA (Business Rates and Revenue Support Grant) will decrease by **11.2%** in 2016-17 (see Appendix B).
- 10.7 At the Hub Committee meeting on 27<sup>th</sup> October, it was resolved (HC29) that the amount of Council Tax Support Grant to be passed onto Parish and Town Councils be reduced by 11.2% for 2016-17 (from £87,285 to £77,509). This is an overall reduction of £9,776. Appendix D illustrates the effect for each Town and Parish Council.
- 10.8 **Devolution** - The government intends to support towns and counties to play their part in growing the economy, offering them the opportunity to agree devolution deals, and providing local people with the levers they need to boost growth. The government is working with towns and counties to make these deals happen.
- 10.9 All Devon and Somerset Councils have signed a Statement of Intent to look at working up a Devolution offering to Government. The Government, spearheaded by the Chancellor, has made clear its intention to make devolution 'deals' a major policy theme for the new Parliament.
- 10.10 **Income generation opportunities and the Council's asset management strategy** - Efficient and effective management of the Council's commercial property portfolio is inextricably linked to the Council's response to expected reduction in funding support and increasing the revenue from commercial property will help to bridge any future funding gaps. Receipts from all asset disposals will be used to reinvest in the commercial property estate.

10.11 The commercial property portfolio is run as a commercial enterprise so as to generate a revenue stream for the Council. It is the aim of the Council to continue to run the commercial estate and over time, to increase its size, by developing out sites in its ownership, as well as through the purchase of new land where required. The development programme will form part of the capital programme, which is predicated on robust and compelling business cases. Whenever financially viable, the Council will consider and deploy renewable energy / environmentally friendly solutions and technologies.

10.12 In summary, the Council's asset management strategy is to:

- Pro-active dispose of non-strategic land to reduce operational expenditure
- Use funds realised from asset disposals for future development
- Bring forward strategic sites for development or disposal as appropriate (investment will be required)
- Actively grow Commercial Asset Portfolio - Focus on Housing (Affordable, Rental, Market) & Employment Units

10.13 Other income generation initiatives will be pursued in tandem with extending the commercial property portfolio; linked to driving more value from Council assets and resources. This could be from increased fees and charges or providing customers with added value services.

10.14 **Sensitivity analysis and risk analysis** – The figures within the Medium Term Financial Strategy have been subject to a sensitivity analysis of the figures and a risk analysis. A copy is attached at **Appendix E**.

10.15 **Working in partnership** - Opportunities for working in collaboration and partnership and different ways of working will be identified and developed where this will support the delivery of the Council's outcomes and improve service efficiency and delivery. This will include development of trading opportunities and business models and exploiting external funding opportunities.

## **11 FEES AND CHARGES**

11.1 The Council has the power to levy fees and charges for various services and functions it undertakes. Some of these fees are set by statute while for others the Council can make "reasonable" charges for the services it provides. The undertaking of regular reviews of charges allows, where possible, for the Council to recover the cost of officers' time in providing the service.



## Car Parking Charges

11.2 Details are set out in Appendix F of the recommendation to freeze car parking charges in 2016-17. For clarification, there is a separate item on the Hub Committee agenda to implement long stay parking on the top two decks of Brook Street car park in Tavistock.

## Environmental Health Charges

11.3 There are a number of changes proposed to the Environmental Health fees and charges. Please refer to Appendix F for a detailed breakdown of the proposals. No changes are being made to the gambling, taxi and alcohol licensing fees.

11.4 The changes to Environmental Health fees are unlikely to be the source of a substantial increase in income and therefore no additional income has been built into the budget for 2016-17 for these charges as the amounts will be minimal. The Community of Practice Lead for Environmental Health is optimistic that in time, the efficiency savings from streamlining the processes across both Councils will reduce operating costs, which may allow us to pass the savings on to the businesses.

11.5 The service of Food Export Certificates is currently subject to scrutiny, and the amount of work processing and granting of food export certificates is currently under review. Given the timing of this review, it is requested that the Community of Practice Lead for Environmental Health is given delegated authority in consultation with the Portfolio holder, to modify this charge once the outcome of the scrutiny is known.

## 12. 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. 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 this MTFS 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 1.6 to 1.7 of the Executive Summary.
Risk	Y	The financial risks are as set out in the report.
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 B1 – Modelling of council tax increasing by 1.99%

Appendix B2 – Modelling of council tax freezing

Appendix B3 – Income and Expenditure for 2015-16

Appendix C – Reserves

Appendix D – Town and Parish Council Tax Support Grant allocation

Appendix E – Sensitivity analysis and risk analysis

Appendix F – Fees and Charges

Appendix G – Members’ Budget Workshop

### **Approval and clearance of report**

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