

Report to: **Hub Committee**

Date: **17th July 2018**

Title: **Medium Term Financial Position 2019/20 onwards**

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

Wards Affected: **All**

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

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

Author: **Lisa Buckle** Role: **Group Manager for Strategic Finance (S151 Officer)**

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

Recommendations:

It is RECOMMENDED that the Hub Committee:

- (i) Notes the forecast budget gap for 2019/20 of £0.7 million and the position for future years;**
- (ii) Notes the current options identified and timescales for closing the budget gap in 2019/20 and future years, to achieve long term financial sustainability; and**
- (iii) Agrees maintaining the current Council policy on the minimum level of unearmarked reserves being £750,000 (see Section 9.2).**

1. Executive summary

- 1.1 The Council's Medium Term Financial Position (MTFP) is based on a financial forecast over a rolling five year timeframe to 2023/24.
- 1.2 The Council, along with other local authorities, has faced unprecedented reductions in Government funding since the Comprehensive Spending Review 2010.
- 1.3 Between 2009/10 and 2019/20, the Council's Core Government funding has reduced by £3 million.
- 1.4 West Devon has continued to work in partnership with South Hams District Council which has allowed West Devon Borough Council to achieve annual savings of £2.2 million and more importantly protect all statutory front line services.
- 1.5 Between both Councils the annual shared services savings being achieved are over £6 million. However, the Councils continue to face considerable financial challenges as a result of uncertainty in the wider economy and constraints on public sector spending.
- 1.6 West Devon Borough Council is currently forecasting a **£0.7m budget gap in 2019/20**. It is important to note that this is a snapshot (a position statement) in July 18 and future Member decisions on the budget strategy will inform future figures within the Medium Term Financial Strategy (MTFS), which will be presented to Members at the Hub Committee meeting on 11th September 2018.
- 1.7 This is the starting point for developing a meaningful five year strategy that sets out the strategic intention for all of the different strands of funding available to the Council. The Council will then be able to rely on this to inform future decisions.
- 1.8 A Cross Party Member Working Group (Financial Stability Review Group) was set up in November 2017 with defined Terms of Reference to look at the Medium Term Financial Strategy and to further look at options for securing financial stability for the longer term. The Group regularly reports to the Hub Committee.

2 THE FOUR YEAR SETTLEMENT FUNDING OFFER

- 2.1 During 2016/17 the Government offered Local Authorities the opportunity to apply for a four year agreed funding settlement, subject to the production of an efficiency plan. The Council applied and was accepted for the four year agreement. From 2018/19 onwards, the Council has received no Government funding (Revenue Support Grant, RSG) and the Council will need to be self-sufficient. Although the four year settlement offered no Revenue Support Grant, it did guarantee the Council its allocations of Rural Services Delivery Grant over the four year period, which equated to £0.37m in 2019/20.

- 2.2 District Councils such as West Devon have also suffered a large reduction in their New Homes Bonus funding (£0.5 million in 17/18) due to the number of years payments being reduced from six years to five years in 17/18 and four years from 18/19 onwards. The funding being released is to contribute towards adult social care costs, a function carried out by Unitary and County Councils.
- 2.3 Between 2009/10 and 2019/20 the Council's Core Government funding will have reduced by £3 million annually.

3 ASSUMPTIONS FOR FINANCIAL MODELLING PURPOSES

- 3.1 The National Employers made a final pay offer covering 1 April 2018 to 31 March 2020. The majority of employees (those on salaries starting at £19,430 p.a.) have received an uplift of 2% on 1/4/18 and a further 2% on 1/4/19, with those on lower salaries receiving higher increases. The cost of this was £85,000 in 2018/19 and a further £95,000 in 2019/20. This has been reflected in Appendix A. The Medium Term Financial Position is not an expression of Council Policy on pay awards, but a means of ensuring an appropriate provision is made as part of the overall financial planning of the Council.
- 3.2 This report assumes inflation will run at 2% over the five year period. The Consumer Prices Index (CPI) was 2.4% in April 2018.
- 3.3 The Medium Term Financial Position has included a cost pressure of £70,000 for Inflation and increases on Goods and Services. The main items are:-
£20,000 – Business Rates increases
£2,500 – Apprenticeship Levy
£7,500 – Utilities inflation
An amount of £40,000 is to fund a 2.5% uplift on other expenditure budgets.
- 3.4 The predicted interest rate forecast from our treasury management advisors, Link Services, is that interest rates will remain at 0.5% up to November 2018 and then in November 2018 the base rate is predicted to rise to 0.75%. By December 2020 the bank base rate is predicted to increase to 1.5%.
- 3.5 An increase in council tax of 2.99% for the next five years has been modelled for council tax purposes. This would equate to a Band D council tax for West Devon of £231.63 in 2019/20 as shown in Appendices B and C.
- 3.6 It has been assumed that the number of properties within the Borough will increase by 160 per annum from 2019/20 onwards – this is an increase of approx. 0.8% - the Council had 20,117.85 Band D equivalent properties in 2018/19. These additional properties have been used to calculate the amount of additional Council Tax and also the potential for New Homes Bonus.

4. BUSINESS RATES AND COUNCIL TAX

- 4.1 **Retained Business Rates** - The Government introduced the Business Rates Retention system from April 2013. There is a risk of volatility in the system because Councils are exposed to any loss of income if businesses go into decline.

- 4.2 Of the Business Rates collected of £11 million, the Council currently retains approximately 14p in every £1 to run our services.

Self-sufficient local government: Business Rates Retention of growth above the business rates baseline

- 4.3 The Secretary of State has announced in December 2017 that local business rates growth retention would move from 50% to 75% in 2020/21.

4.4 Business Rates Pilot status for 2018-19

Devon was successful in achieving Business Rates Pilot status for 2018/19 and the pilot began on 1st April 2018. Financial modelling shows that the Devon business rates pool could benefit by somewhere in the region of between £10m to £16.9m by becoming a pilot in 2018/19. The modelling shows that West Devon could benefit by approximately £460,000. This is one-off additional revenue money for the year of the pilot only (2018-19). The bid set out how pilot status for Devon would meet the principles of assisting financial sustainability for the District Councils, higher levels of investment in economic regeneration in Devon and support for Upper Tier Councils with the growing financial cost pressures of areas such as adult social care and children's services. There will be a further opportunity for Councils to bid to be a pilot in 2019/20 and further details of this will be issued by the Government. The Council is awaiting details of the bidding process for Year 2 Pilot status.

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

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

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

Negative Revenue Support Grant (negative RSG)

- 4.6 In the Local Government Finance Settlement, the Government has said that a consultation will take place in 2018 regarding the current £153million in negative RSG that remains in the 2019/20 funding allocations, with the outcome feeding into the 2019/20 local government finance settlement. The negative RSG currently included within the Council's funding allocation for 2019/20 amounts to £293,377. If the Government were to reduce this by half say, as an outcome of the consultation process, the Council's budget position would be bettered by £150K for 2019/20 and £200K for 2020/21 onwards.
- 4.7 Rural Services Delivery Grant – In the final Finance Settlement, the 2018/19 funding has been increased from £65 million to £81 million. This has meant extra RSDG funding of £91,726 for 2018/19 as the Council's allocation has increased to £464,365. The £464,365 has been built into the Council's business rates baseline due to the Council's Pilot status. The amount of RSDG for 2019/20 is anticipated to be £372,638 as per Appendices B and C.

Council Tax

- 4.8 West Devon Borough Council's share of the council tax bill in 2018/19 was **12%**, being £224.91 out of an average Band D council tax bill of £1,896. The total income from council tax in 2019/20 is predicted to be £4.7 million. A 1% increase in council tax generates an extra £47,000 for West Devon.

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

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

For West Devon Borough Council:-

- i) A £5 increase (2.22%) - This would mean a Band D council tax for West Devon would increase from £224.91 to £229.91 in 2019/20 - a council tax increase of 2.22%. This generates extra council tax income of £101,000.
 - ii) Alternatively a 2.99% increase would mean that the Band D would increase from £224.91 to £231.63 – an increase of £6.72. This generates extra council tax income of £136,000.
- 4.10 The Government has not yet announced what the council tax referendum criteria will be for 2019/20.

5 BUDGET PRESSURES, SAVINGS AND INCOME GENERATION

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 Position sets out the Budget Pressures forecast for the next five years and the additional savings and income forecast. ***These figures in Appendix A show the changes to the existing base budget.***

(As set out in Appendix A)	2019/20	2020/21	2021/22	2022/23	2023/24
Cost Pressures	£420,000	£465,000	£260,000	£260,000	£335,000
Contributions to Earmarked Reserves	£50,000	£50,000	£50,000	£50,000	£50,000
Savings and additional income identified	£(226,280)	£(249,000)	£(198,000)	£(390,000)	Nil

5.3 A description of the larger cost pressures is set out below.

5.4 **Salaries** – A 2% provision for a pay award has been included for 2019/20. This is explained in section 3.1.

5.5 **ICT Support contracts** – An extra £95,000 has been included as a cost pressure in 2019/20, to align the budget to actual expenditure. The ICT budget was set assuming that the Civica solutions introduced by the T18 Transformation Programme would perform as required. In practice, additional solutions were procured in order to maintain services where using the Civica solution was not practical. Purchase of the following systems, which were previously unbudgeted for, was required:-

Northgate Land charges

Clear Core (enables single customer record)

IEG4 Revenues and Benefits to facilitate “My Account” for customers

Northgate Gazeteer – address database

IEG4 software – Automatic processing of changes of circumstances for revenues

The IEG4 software budget is funded by an increase in the housing benefit overpayment recoveries which have been built into the base budget as an income stream.

SAVINGS AND INCOME GENERATION

- 5.6 **Commercial Property Acquisition Strategy** – A further income projection of £100,000 from investments in commercial property has been built into the 2019/20 Base Budget. The Council has agreed a commercial property acquisition strategy of up to £37.45 million. To date, two investment properties have been purchased with a value of just over £16 million in aggregate.
- 5.7 **Partnership funding** – On 26th June, the Overview and Scrutiny Committee considered a report on Partnerships from the Task and Finish Group and recommended that the Partnership funding allocation for 2019/20 is reduced from £95,275 to £81,496, a reduction of £13,779. Partners will be able to join the lottery facilitated by the Council in order to raise funds.

6. OVERALL POSITION – BUDGET GAP

- 6.1 Appendices B and C (Modelling Scenarios A and B) illustrates the overall financial forecast for the forthcoming five years. The Council's Net Budget is £7.3 million in 2018/19. A Summary forecast is shown below of the potential budget situation if all of the budget pressures and the savings and income generation in Appendix A were approved. It also shows the situation if the Council Tax is increased by 2.99% (shown in Appendices B and C).
- 6.2 In Modelling Scenario A, there is no change to the current level of negative Revenue Support Grant and it is assumed the Council is not successful in achieving business rates pilot status in 2019/20.
- 6.3 In Modelling Scenario B, it is assumed that negative RSG is reduced by 50% and that the Council is successful in achieving business rates pilot status in 2019/20 also.
- 6.4 The following table illustrates the predicted budget gap from 2019/20 onwards for the Council as shown in Appendices B and C:

Cumulative Budget Gap	2019/20 £	2020/21 £	2021/22 £	2022/23 £	2023/24 £	Total Aggregated Budget Gap £
Modelling A (no reduction in –ve RSG and no Pilot)	705,929	918,067	905,036	543,364	629,533	3,701,929
Modelling B (-ve RSG is reduced by 50% and the Council is a Pilot in 19/20)	325,929	768,067	705,036	343,364	429,533	2,571,929

- 6.5 In Modelling Scenario A, the total budget gap is £705,929 in 2019/20 and this is predicted to rise to £918,067 in 2020/21. The aggregated Budget Gap is £3.7 million.
- 6.6 In Modelling Scenario B, the total budget gap is £325,929 in 2019/20 and this is predicted to rise to £768,067 in 2020/21. The aggregated Budget Gap is much reduced at £2.57 million.

7 FINANCIAL SUSTAINABILITY AND TIMESCALES

- 7.1 The Council is progressing various options for closing the budget gap in 2019/20 and future years, to achieve long term financial sustainability. The table below sets out a timescale for those options and the various strands that the Council is exploring.

Option	Possible Budget Impact	Timescale
Public Conveniences A budget saving of £50,000 in 2019/20 has been included within the total budget savings modelled. The Committee will consider the direction of travel for this discretionary service at their July meeting.	£50,000	Report to the Hub Committee on 17 th July 2018
Pensions Strategy The Council is obtaining specialist pensions advice on its Pensions position and progress on this will be reported to the October Audit Committee.	To be quantified	Report to the Audit Committee 9 th October 2018
Kilworthy Park The Hub Committee considered a report on 13 th March on Kilworthy Park (Council on 27/3/18). A saving of £50,000 for 2020/21 has been built into the modelling figures.	£50,000 for 2020/21 onwards	An update will be given at the Hub Committee in September 18.
Waste Procurement The Council is currently in a waste procurement process through competitive dialogue. The Council will consider a report in July 18 on the Detailed Bid stage of the competitive dialogue process. This is not included in Modelling Scenario A and B and a verbal update will be given at the Hub Committee meeting.	To be quantified	Council meeting 24 th July 2018

Option	Possible Budget Impact	Timescale
<p>Council Tax Reduction Scheme The grant to Town and Parish Councils has been reduced by 8.6% over the four year period of the finance settlement. Members have an option over whether to withdraw funding in 2020/21.</p>	<p>£59,000 for 2020/21 onwards</p>	<p>Hub Committee September 2018.</p>
<p>Asset Review On 5th June 2018, the Hub Committee considered a report on Council Owned Asset Investment and Development opportunities. The Council will prepare detailed business cases on the opportunities in the report and report back to Members.</p>	<p>To be quantified</p>	<p>Within three months</p>
<p>Funding Options</p>		
<p>Negative Revenue Support Grant The Government will publish a consultation on this although no timescale is yet known. If the outcome were to be that negative RSG is reduced by say 50%, the impact of this would be £150K in 19/20 and £200K in 20/21 onwards.</p> <p>The Government is seeking a fair and affordable solution to this issue however, as things stand, West Devon will pay the Government negative Revenue Support Grant from 2019/20, clawed back through the business rates system.</p>	<p>£150,000 in 2019/20 and £200,000 in 2020/21 onwards</p>	<p>Anticipated to be known by December 2018 when the Draft Local Government Finance Settlement is published.</p>
<p>Business Rates Pilot status for 2019/20 If the Devon Business Rates Pilot were to be successful for 2019/20, this could give further one-off extra business rates income in 19/20. Based on a 75% growth retention scheme, this could yield up to £230,000.</p>	<p>£230,000 in 2019/20</p>	<p>December 2018 when the Draft Local Government Finance Settlement is published.</p>

Option	Possible Budget Impact	Timescale
New Homes Bonus allocations for 2019/20 The NHB allocation for 2019/20 is anticipated to be around £434,000, of which £375,000 is currently projected to be used to fund the Revenue Base Budget. The Council could chose to use a higher amount to fund the Revenue Base Budget but this would leave little funding available for the Capital Programme.	Potentially up to £59,000	NHB allocations will be announced around December 2018. Decisions around its use will be made as part of the Budget Process.
Contributions to Earmarked Reserves The Council could decide not to contribute £25K per annum into an Earmarked Reserve for IT Development and an Earmarked Reserve for Planning (e.g. to fund any appeal costs).	Up to £50K	To be decided as part of the Budget Process
Use of Reserves as a temporary measure The Council will have £316,484 in a Future Financial Stability Earmarked Reserve (this was from the 18/19 projected pilot gain) and there is £438,000 uncommitted in the Invest to Earn Earmarked Reserve. The Council could temporarily utilise Reserves to balance an element of the 2019/20 budget, whilst longer term solutions are being implemented. This would be a very short term solution though.	To be assessed	To be decided as part of the Budget Process

- 7.2 The diagram below shows the Government timetable of key dates. The key dates will be in May 2019 when more details will be known about the Funding Reform and Spending Review 2019. In November 2019, the baseline funding for business rates and the impact of transitional arrangements will be known.



8 CAPITAL PROGRAMME AND PRUDENTIAL BORROWING

- 8.1 The Capital Programme is set by the Council and may be funded by sale proceeds from the disposal of assets (capital receipts), external grants and contributions, directly from revenue or from borrowing.
- 8.2 A proposed Capital Programme for 2019/20 onwards is set out in Appendix C.
- 8.3 **Commercial Property Acquisition Strategy** – The Council has agreed a commercial property acquisition strategy of up to £37.45 million. To date, two investment properties have been purchased with a value of just over £16 million in aggregate. Purchases made within the strategy will be capital expenditure and will be in addition to the projects outlined in Appendix C.
- 8.4 **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.
- 8.5 The Council's published Treasury Management Strategy details its borrowing limits and specifies approved institutes for investment, (with maximum limits), based on credit ratings and other pertinent factors. It also publishes Prudential Indicators which set investment and borrowing performance indicators to ensure that the Council stays within these guidelines. The Council maintains regular engagement with our Treasury Management advisors, Link Services, and constantly seeks their advice on our strategic direction and key operational decisions.

- 8.6 Borrowing Limits – The Treasury Management Strategy shows the approved level of Operational Borrowing Limits:
2019/20 onwards – Operational Boundary of £47.5 million
This reflects the level of the Council's Commercial Property Acquisition Strategy of up to £37.45 million.

- 8.7 Recommendations will be made in the September Medium Term Financial Strategy on the Borrowing Limits for 2019/20 onwards and the Council's Minimum Revenue Provision Policy Statement.

9. EARMARKED AND UNEARMARKED RESERVES

- 9.1 A schedule of Earmarked and Unearmarked Reserves is shown in Appendix D. The Council currently has £1.197 million in Unearmarked Reserves and £4.0 million in Earmarked Reserves.

- 9.2 There is a 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. The minimum level is recommended to be £750,000 as set out in Appendix D.

- 9.3 The Council will have £316,484 in a Future Financial Stability Earmarked Reserve (this was from the 18/19 projected pilot gain) and there is £438,000 uncommitted in the Invest to Earn Earmarked Reserve. The Council could temporarily utilise Reserves to balance an element of the 2019/20 budget, whilst longer term solutions are being implemented. This would be a very short term solution though.

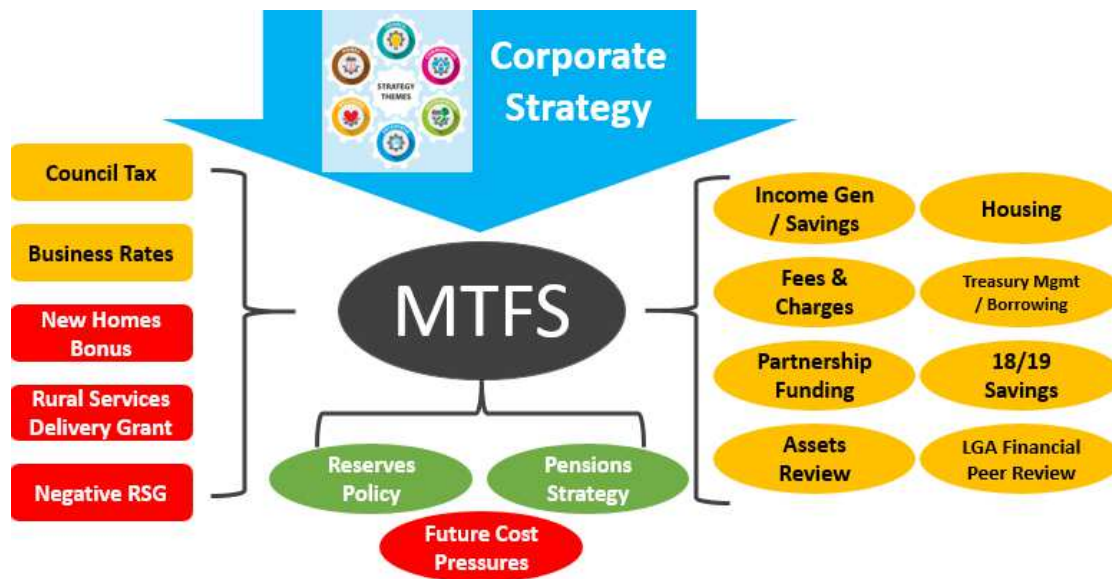
- 9.4 **Sensitivity analysis and risk analysis** – The Council carries out sensitivity analysis and risk analysis of its Budget Proposals.

10 NEXT STEPS

- 10.1 This report is a snapshot (a position statement) in July 18 and future Member decisions on the budget strategy will inform future figures within the Medium Term Financial Strategy (MTFS), which will be presented to Members at the Hub Committee meeting on 11th September 2018. The Council held an all Member Workshop on the Medium Term Financial Strategy where strategic principles for each element were discussed.

- 10.2 This is the starting point for developing a meaningful five year strategy that sets out the strategic intention for all of the different strands of funding available to the Council. The Council will then be able to rely on this to inform future decisions. The different elements that make up a Medium Term Financial Strategy are shown in the diagram below. In September 2018, Members will be asked to set the strategic intention for each of these components of the MTFS.

10.3 Make up of the MTFS (Net Budget £7.3m)



10.4 Officers will continue to work with the Cross Party Member Working Group (Financial Stability Review Group) and the results of this will be incorporated into future Budget reports. Section 7 sets out the potential timescales against the areas identified.

11. IMPLICATIONS

Implications	Relevant to proposals Y/N	Details and proposed measures to address
Legal/Governance	Y	<p>The Hub Committee is responsible for recommending to Council the budgetary framework. It is the role of the Overview and Scrutiny Committee to scrutinise the Budget proposals being proposed by the Council. In accordance with the Financial Procedure Rules, Council must decide the general level of Reserves and the use of Earmarked Reserves.</p> <p>The preparation of the Budget report is evidence that the Council has considered and taken into account all relevant information and proper advice when determining its financial arrangements in accordance with statutory requirements, and in particular, that it will set a lawful budget.</p>

Financial	Y	The financial implications are set out in Section 7 of the report.
Risk	Y	Each of the budget options taken forward by Members will consider the risks of the option.
Comprehensive Impact Assessment Implications		
Equality and Diversity		Equality Impact Assessments are completed for the budget proposals.
Safeguarding		None directly arising from this report.
Community Safety, Crime and Disorder		None directly arising from this report.
Health, Safety and Wellbeing		None directly arising from this report.
Other implications		None directly arising from this report.

Supporting Information

Appendices:

Appendix A – Budget pressures and savings

Appendix B – Modelling Scenario A

Appendix C – Modelling Scenario B

Appendix D - Schedule of Reserves (Unearmarked and Earmarked)

Appendix E – New Homes Bonus and Capital Programme

Appendix F – Review of 2018/19 Budget Savings and Income Generation