

Report to: **Executive**

Date: **15 September 2016**

Title: **Medium Term Financial Strategy for the five year period 2017/18 to 2021/22**

Portfolio Area: **Support Services – Cllr S Wright**

Wards Affected: **All**

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

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

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Recommendations: It is recommended that the Executive:

- i) Considers the five year Medium Term Financial Strategy and provides an indication of the budget principles to be adopted, with particular reference to;
 - the level of council tax increase,
 - the use of New Homes Bonus to support the revenue budget,
 - bringing forward income generation and budget savings and
 - maintaining the current Council policy on the minimum level of unearmarked reserves being £1.5 million (see Section 10).
- ii) Recommends to Council to accept the four year financial settlement being offered by the Government as set out in Section 2,
- iii) Recommends to Council that the approval of the Efficiency Statement (for the four year funding settlement) is delegated to the Head of Paid Service in consultation with the Leader, Executive Member for Support Services and the S151 Officer (Finance Community of Practice Lead).
- iv) Recommends to Council to commence consultation with Town and Parish Councils, on an annual grant reduction of 9.85% for the next three years in the Local Council Tax Support Grant, as shown in Appendix E.

1. Executive summary

- 1.1 This is the annual review of the Council's Medium Term Financial Strategy (MTFS). It is based on a financial forecast over a rolling five year timeframe to 2021/22 which will help ensure resources are aligned to the outcomes in Our Plan (see Section 5). 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 South Hams District Council's longer term viability.
- 1.2 The Council, along with other local authorities, has faced unprecedented reductions in Government funding since the Comprehensive Spending Review 2010. The Queen's Speech delivered on 27 May 2015 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 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. Looking ahead, given the deficit in public finances, there will undoubtedly be more difficult times ahead in terms of reducing Government grants, which could be as much as 30% to 40% over the next 4 to 5 years. This will result in continuing pressures to find further significant savings, efficiencies and additional income.
- 1.3 In response, in 2013 the Council alongside its shared services partner, West Devon Borough 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 £4.6 million was approved, to deliver annual recurring revenue savings of £3.3 million. The payback period for the Programme was 2.5 years (see 6.25). The Transformation Programme received the backing of Central Government with an award of £434,000 of Government funding.
- 1.4 The Council's Transformation Programme, coupled with savings from the re-procurement of contracts and other areas, has meant that in 2017/18 the Council has a projected Budget Surplus of just over £115,000. In 2018/19 there is a projected Budget Gap of £277,000 (this is after the budget surplus in 17/18 has been taken as an on-going saving in 2018/19). Over the five years, the cumulative projected budget gap is £284,000 as shown below.
- 1.5 South Hams and West Devon are working together to deliver common strategies and priorities and design new ways of working differently, although how these will apply to the different localities and communities may still vary. However, the Councils continue to face considerable financial challenges as a result of uncertainty in the wider economy and constraints on public sector spending as outlined in the Comprehensive Spending Review announcement.

1.6 At the same time though, there are also funding sources and opportunities that the Councils must fully exploit as part of the business model. In this context, and like many other Councils, South Hams and West Devon have to make a number of sometimes difficult and complex financial decisions. The Councils are confident that their budgets and the approaches being adopted represent a sound platform for the medium term.

1.7 The following table illustrates the predicted budget gap from 2017/18 onwards for the Council as shown in Appendix B:

	2017/18	2018/19	2019/20	2020/21	2021/22
	£	£	£	£	£
Annual budget gap	Nil	277,673	Nil	Nil	5,974
CUMULATIVE BUDGET GAP OVER THE FIVE YEARS TO 21/22					£283,647
In the years 2017/18, 2019/20 and 2020/21, a budget surplus arises and the modelling assumes that these surpluses are used for one-off investment and are taken as a saving in the next financial year.					

1.8 If New Homes Bonus (NHB) were to be used as outlined in Section 8.4 of the report, this would mean that there would potentially be £472,100 of NHB which is uncommitted in 2017/2018. This assumes that £0.5 million of NHB will be used annually to support the Revenue Base Budget. An allocation for Dartmoor National Park would need to be deducted from the £472,100.

1.9 The Budget for 2016/17 was approved by Council on 11th February 2016. This is the starting point for producing the refreshed MTFs and the detailed budget proposals for 2017/18. The 2016/17 Net Budget approved by South Hams District Council was £8.752 million.

1.10 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 (set out in Section 3) which represent a cautious estimate in order to focus attention on the revised funding gap. The figures will be continually updated as we progress through the financial year.

1.11 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 District Council by developing financial resilience through less exposure to reductions in Government funding.

- 1.12 The budget setting process is an iterative process that will constantly change over the next five years. As the Council becomes aware of new cost pressures or further reductions in funding over the next 5 years, this will increase the predicted budget gap. The converse is true for any savings or additional income which are identified over the next five years. Announcements during 2015 that local authorities will be able to retain 100% of business rates income from 2020 and that Revenue Support Grant will be phased out, mean that the Council will need to keep its financial strategy under constant review and adapt the Council's business model to continue to respond to the challenges.

BUDGET PRINCIPLES

- 1.13 The MTFs sets out the key Budget Principles for how the Council will be developing its approach to achieving financial sustainability. These are set out below:-

A clear financial strategy, including a revenue budget and capital investment strategy that supports the above and sets out how the Council aims to tackle the Budget gap over the next five years.

To continue working in partnership with West Devon Borough Council, to embed the new business model, to enable the Council to respond to changes in Government funding that will support the delivery of strategic priority outcomes and the medium term financial sustainability.

To adopt an investment strategy that maximises funding streams e.g. New Homes Bonus and Business Rates and that delivers additional income and savings in the future e.g. doing things on an 'Invest to Save' basis.

Achieving efficiencies and cost reductions, through collaborative working and getting the basics right.

A more commercial approach, which could include the establishment of a local authority controlled company, through which we can generate additional income with a 'Profit for Purpose' basis.

2 FOUR YEAR SETTLEMENT FUNDING OFFER

- 2.1 The Government has offered a four year settlement funding offer to Councils. The deadline for accepting the offer is Friday 14th October.
- 2.2 The offer requires Councils to produce an Efficiency Plan if they wish to accept a four-year settlement. It also states that Efficiency plans do not need to be a separate document and can be combined with Medium Term Financial Strategies. There has been no guidance from the Government on the content of the Efficiency Statement although the Local Government Association (LGA) has issued some top tips on what

an Efficiency Plan should contain. This is attached in Appendix H. This says that practitioners are expecting the Efficiency Plan to be a short 2 – 4 page narrative, with typical documents to support this narrative to include the latest budget, corporate plan, transformation plan, asset-management plan and baseline organisational structure.

- 2.3 The offer letter from the Department for Communities and Local Government (DCLG) confirms that the four year offer is entirely optional and states:-
'It is open to any Council to continue to work on a year-by-year basis, but I cannot guarantee future levels of funding to those who prefer not to have a four year settlement'.
- 2.4 If the Council accepted the four year offer, this would guarantee the levels of funding over the next four years (to 2019/20) for:-
- Revenue Support Grant (this reduces to Nil in 2018/19)
 - Transitional Grant
 - Rural Services Delivery Grant allocations
(These funding levels are shown in Appendix A)
- 2.5 For Business Rates, tariffs and top-ups in 2017-18, 2018-19 and 2019-20 will not be altered for reasons related to the relative needs of local authorities, and in the final year may be subject to the implementation of 100% business rates retention.
- 2.6 It is recommended by the S151 Officer that the Council accepts the four year funding offer from the Government, as this would guarantee the allocations that the Council will receive of Rural Services Delivery Grant over the four year period. The allocations are between £251,000 and £327,000 over Years 2 to 4 of the settlement.

3 ASSUMPTIONS FOR FINANCIAL MODELLING PURPOSES

- 3.1 A two year employee pay settlement has been agreed which equates to 1% in 2016/17 and 1% in 2017/18. Future levels of pay settlement will be determined by national negotiation between the Local Government Employers and the Trade Unions. A budget provision of 1% for 2017/18 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.
- 3.2 The MTFs assumes inflation will run at 2% (Government target) over the five year period. The Office for National Statistics (ONS) has said that the annual inflation rate as measured by the Consumer Prices Index (CPI) rose to 0.6% in July 16. Rising fuel prices, more expensive alcoholic drinks and hotel rooms helped to push the rate higher, the ONS said. The Retail Prices Index measure of inflation rose to 1.9% in July 2016.

3.3 The MTF5 has included a cost pressure of £310,000 for Inflation and increases on Goods and Services. The main items are:-

£80,000 – Staff salary increments

£60,000 – Business Rates increases (Revaluation 2017/18 onwards)

£40,000 – Apprenticeship Levy

£30,000 – Utilities inflation

£26,000 - Development Surveyor post – build into salary establishment
(O & S 17 March and Council 7th April – see 10.6 as year
1 costs were being funded from an Earmarked Reserve)

£20,000 – Fuel inflation

£10,000 – Insurance premiums

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

3.4 The predicted interest rate forecast from our treasury management advisors, Sector, is shown below. On 4th August, the Bank Base Rate was cut from 0.5% to 0.25%. The Council's budgeted investment income in 2016/17 is £148,000. It is assumed that the interest rate return for our investments will average 0.5 % for 2017/18 rising to 1.0% by 2021/22 as shown below:-

2017/18	-	0.5%
2018/19	-	0.5%
2019/20	-	0.5%
2020/21	-	0.75%
2021/22	-	1.0%

It is possible that there will be a further reduction in the Bank Base Rate to 0.1% by the end of 2016 and this is predicted to rise back to 0.5% by 2019. A cost pressure of £25,000 has been included within 2017/18. The Council is investigating alternative investment vehicles in order to be able to reduce this cost pressure.

3.5 An increase in council tax of £5 for the next five years has been modelled for council tax purposes. This would equate to a Band D council tax for South Hams of £155.42 in 2017/18 as shown in Appendix B.

3.6 It has been assumed that the number of properties within the District will increase by 400 per annum from 2017/18 to 2021/22 – this is an increase of just over 1% - the Council had £37,003.99 Band D equivalent properties in 2016/17. These additional properties have been used to calculate the amount of additional Council Tax and also the potential for New Homes Bonus. These figures will be updated when actual figures are known around November.

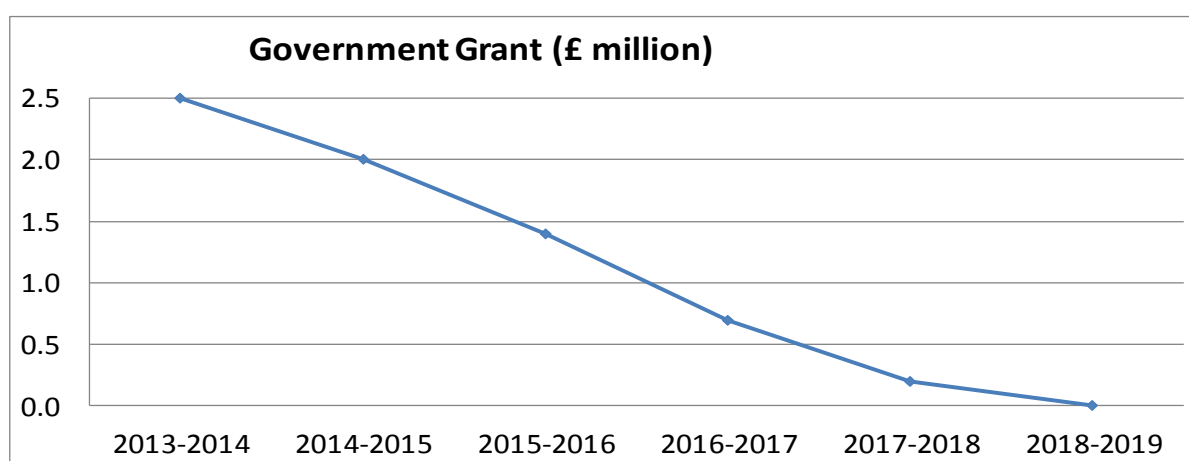
3.7 It is predicted that the houses at Sherford which are within the South Hams area will commence occupation in April 2019 and conservative estimates have been built into the MTF5.

4. GOVERNMENT FUNDING, BUSINESS RATES AND COUNCIL TAX

4.1 Revenue Support Grant (Government Grant funding)

By 2018/19 the Council will receive no Government funding (Revenue Support Grant) and the Council will need to be self-sufficient. The withdrawal of Government funding has happened two years earlier than expected.

4.2 Since 2013, the Council has seen a 40% reduction in Government funding. In 2013/14 the Council received £2.5 million in Revenue Support Grant and this will be reduced to zero by 2018-19 as shown.



4.3 The reductions in Revenue Support Grant (RSG), as shown in the four year funding settlement offer by the Government, are as follows:

	2016/17 £	2017/18 £	2018/19 £	2019/20 £	2020/21 £
Revenue Support Grant (RSG) (2015/16 RSG was £1.406m):	£749,451	£245,393	Nil	Nil	Nil

4.4 **Rural Services Delivery Grant** - The Council will receive rural funding through a separate Rural Services Delivery Grant. This is something that was lobbied for through our work with SPARSE to reflect the fact that it costs more to deliver services in rural communities. The Council's grant allocations (from the four year settlement offer) are shown in Appendix B and are:

2016-17	£405,536
2017-18	£327,451
2018-19	£251,886
2019-20	£327,451

- 4.5 There is no information available on whether the Rural Services Delivery Grant will continue from 2020/21 when 100% Business Rates Retention (BRR) is introduced. It is potentially one of the grants that could be rolled into the 100% BRR Scheme. The financing of Local Government may look very different and an assumption has been made in the MTFS that funding of £100,000 will be available in 2020/21 and 2021/22 in some form.
- 4.6 **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.
- 4.7 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 has withdrawn from the Devonwide Business Rates pool in 2015/2016, due to the risk of some significant business rates appeals.
- 4.8 In 2015/16 there has been a £26.7 million increase in the provision for appeals within the Collection Fund. This has resulted in a deficit in the Business Rates Collection Fund of £26 million. South Hams District Council's share of the deficit is 40% (£10.4 million).
- 4.9 The Council will need to pay additional sums into the Collection Fund in future years to bring the Fund back into balance. Monies have been set aside in the Business Rates Retention Earmarked Reserve (see Appendix G) to mitigate the impact of this in future years and to fund volatility in Business Rates income. The balance on this reserve is £9.9 million at 31 March 2016 which is mainly due to the Council accounting for a safety net payment of £9.9 million in 2015/16. Depending on when and at what value the appeals are settled, the Council will either receive future years' safety net payments or will be able to use resources from the £26.7 million.
- 4.10 The Council's Business Rates Gross amount payable has increased from £26.9 million in 2012/13 to £31.8 million in 2016/17. Therefore over the last 4 years, the District Council's business rates base has grown on average by 4.5% per annum. Of the Business Rates collected of £31.8 million, the Council is predicted to retain in funding only £1.765 million of this in 2016/17. So the District Council retains approximately 6 pence in every £1 to run our services.

- 4.11 The estimates of Business Rates income all assume that the Council will be in the safety net position for 2017/18 onwards, until the reset happens in 2020, due to the high level of business rates appeals. For example, in 2017-18, the business rates baseline funding level is £1.799 million. The safety net threshold is £1.664 million (this is 7.5% below the baseline). It is assumed in the MTFS that the Council will only receive funding of £1.664 million, due to the high level of appeals.

Self-sufficient local government: 100% Business Rates Retention

- 4.12 The Government is currently consulting on the implementation of 100% Business Rates Retention for local government. This will be implemented by the end of Parliament. The consultation paper asks questions about the principles underlying the system, with a detailed technical paper planned to be issued for consultation in Autumn 2016. The Council's response to the consultation document is also an item on the agenda for the September Executive meeting.
- 4.13 The consultation paper confirms that the move from 50% to 100% Business Rates Retention (BRR) will see new responsibilities given to local government, with certain central government grants being phased out (such as Revenue Support Grant). The Government has previously announced that the move to 100% BRR will be fiscally neutral.
- 4.14 **Business Rates Revaluation** - There will be a Business Rates Revaluation which will go live on 1 April 2017. A flyer from the Valuation Office was included with all business ratepayers bills in March 2016.
- 4.15 South Hams District Council's share of the council tax bill in 2016/17 was **9%**, being £150.42 out of an average Band D council tax bill of £1,660.73. The total income from council tax in 2016/17 is £5,566,140.

- 4.16 Income from **Council Tax** – The table below shows how an average Band D council bill is made up for South Hams for the last two years:

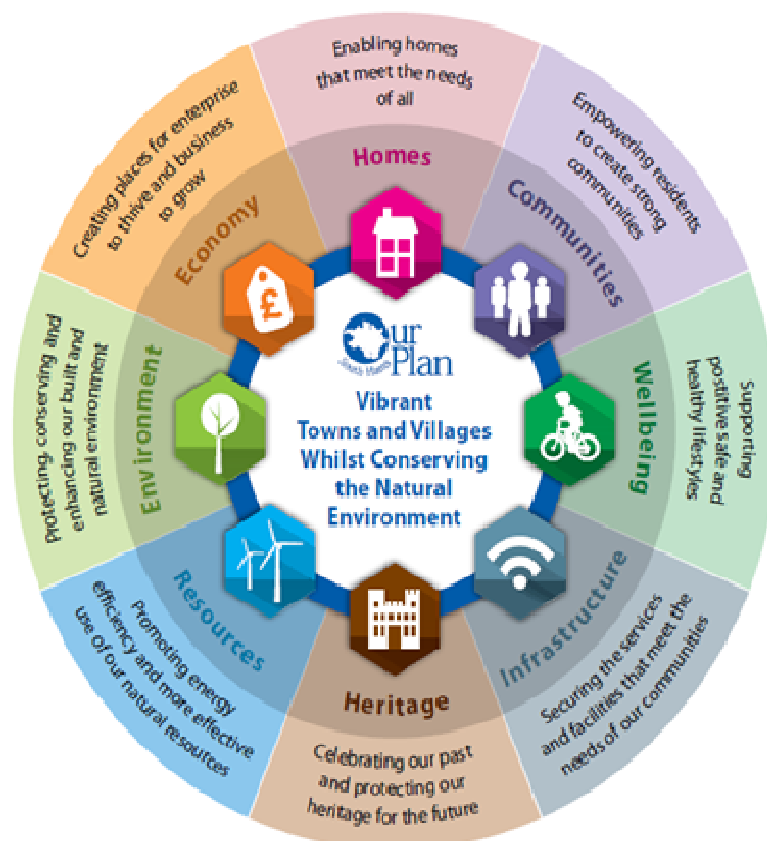
Precepting Authority	Band D 2015/16	Band D 2016/17	£ Increase	% Increase
South Hams District Council	£145.42	£150.42	£5.00	3.44%
Devon County Council Precept	£1,161.27	£1,184.39	£23.12	1.99%
Adult Social Care Precept *		£23.23	£23.23	2.00%
Devon & Cornwall Police & Crime Commissioner	£169.47	£172.84	£3.37	1.99%
Devon & Somerset Fire & Rescue	£78.42	£79.98	£1.56	1.99%
Average Parishes/Towns	£45.94	£49.87	£3.93	8.55%
TOTAL	£1,600.52	£1,660.73	£60.21	3.76%

£5 council tax referendum limit for District Councils for four years

- 4.17 The final Finance Settlement announced in February 2016 stated that the Council Tax referendum limit for all District Councils for the next four years (2016/17 to 2019/20) is the higher of 2% or more than £5. This means the Council would have the flexibility to increase its Band D council tax by £5 per year until 2019/20. (An increase of £5.01 triggers a council tax referendum).
- 4.18 District Councils lobbied for the ability to be able to increase council tax by up to £5. The Council made the point that given the dramatic cuts to funding in Revenue Support Grant and New Homes Bonus, Councils must be given the freedom to set the council tax locally based on local need and local understanding of the services and demands on those services. The Band D council tax level for 2016-17 was set by Council at £150.42.
- 4.19 **Collection Fund Surplus** – At the end of March 2016, the Council has a balance on its Collection Fund (council tax collection fund) of £2.120 million. A large part of this has been distributed in 16/17 but there is a predicted £1.18 million to distribute in 2017/18. This means that the District Council's share of this distribution is £140,000 which is funding available towards the 2017/18 Budget.

5 THE COUNCIL'S STRATEGIC PRIORITIES – OUR PLAN

- 5.1 The Council's 'Our Plan' describes the Council's vision and its aspirations for our communities. It does this by setting out what the Council wishes to deliver to our communities under eight themes. These themes are: Homes; Economy; Communities; Wellbeing; Infrastructure; Environment; Heritage; and Resources.
- 5.2 There is then a plethora of external policies and strategies which support the delivery of 'Our Plan' (e.g. Planning Policy Guidance, or Homelessness Strategy) helping the Council to deliver this vision. Underpinning these outward looking policies and strategies is a raft of internal policies and strategies to help us to deliver Our Plan (e.g. ICT policies, or agile working, or staff appraisals to help develop our workforce). The Council posts all of its strategies and policies, both internal and external, on its website.



- 5.3 The Council has a number of strategic documents and plans that guide its approach to achieving its vision and ensuring that it remains financially sustainable. The most impactful and important of these are: Our Plan; Joint Local Plan; Medium Term Financial Strategy (MTFS); and the Asset Management Plan.



6 BUDGET PRESSURES, SAVINGS AND INCOME GENERATION FOR 2017/18 ONWARDS

- 6.1 Financial modelling has been undertaken for the next five years to predict the Council's financial situation for the short and medium term.
- 6.2 **Appendix A** to the Medium Term Financial Strategy sets out the Budget Pressures forecast for the next five years and the additional savings and income forecast. **These figures in Appendix A show the changes to the existing base budget.** A description of the larger budget pressures are set out below.
- 6.3 **Inflation and increases on goods and services** – There is a cost pressure of £310,000 in the MTFS for Inflation and increases on goods and services, the detail of which is shown in 3.3.
- 6.4 **Triennial Pension revaluation** – The Council's Pension Fund is valued every three years. A revaluation was due for March 2016. Any new employer's pension contribution rates will apply from April 2017. No detailed information is yet available on the results of the Triennial revaluation, although it is expected that there will be an increase in the contributions due to the continued increase in life expectancy and the economic conditions. An estimate of £150,000 has been built into the

MTFS, with further stepped increases of £25,000 in 18/19 and £25,000 in 19/20. The Council currently pays just under £1.4 million a year in employer's pension contribution rates.

- 6.5 **Salaries** – A 1% provision for a pay award has been included for 2017/18 which totals £90,000. This is explained in section 3.1.
- 6.6 **National Living wage and National Insurance** – The Summer Budget 2015 announced plans for a National Living wage for the over 25s of £7.65 per hour in 2017 increasing to £9.00 per hour by 2020. There will also be a small increase in national insurance contributions. A cost pressure of £50,000 has been included for these elements.
- 6.7 **Sherford project team** – The external funding for the Sherford project team is projected to cease at the end of this year. Therefore the salary costs of the team will need to be funded by the Council after this point. It is envisaged that this cost can be met from extra planning fee income. A cost pressure of £45,000 has been included for 2017/18 and the income target from planning fees has also been increased by £45,000.
- 6.8 **Housing Benefit administration subsidy and Council Tax Support Admin Grant** - The Council currently receives grant income of £245,000 in Housing Benefit administration subsidy and £89,000 in Council Tax Support Admin Grant. It is anticipated that these grants could reduce by £40,000 a year in total (between both grants) for the next few years and a cost pressure has been included for these amounts.
- 6.9 **Treasury management income** – A reduction of £25,000 in 2017/18 is anticipated as detailed in Section 3.4. The Council is investigating alternative investment vehicles in order to be able to reduce this cost pressure.
- 6.10 **Deferment of the Waste Rounds review to consider a four day working week** – A budget of £85,000 was included within the 2016/17 budget for this. This is not needed in 2017/18 and therefore this budget can be taken out in 2017/18.
- 6.11 **Waste services** - A one-off cost pressure for £30,000 was included within the 2016/17 Budget for a specialist temporary staffing resource for the Waste and Cleansing options review and delivery. This resource is not needed in 2017/18 and therefore this budget can be taken out in 2017/18.

EARMARKED RESERVES

- 6.12 As part of the compilation of the MTFs, a review has been carried out of the Council's Earmarked Reserves to assess the adequacy of the level of Earmarked Reserves. A schedule of Earmarked Reserves is shown in Appendix G.
- 6.13 **Vehicle Fleet Replacement programme** - The Council operates a seven year depreciation policy for all its vehicles and plant. The last seven year rolling programme has come to an end and officers are seeking approval for the next rolling programme for vehicle replacement. This report will be a separate item at a future Executive meeting following consideration by the Waste and Recycling Task and Finish Group. The Base Budget for 2016/17 contains a contribution to the Vehicle Replacement Reserve of £541,000. This reserve funds the replacement of vehicles and plant. Based upon the 'worst case scenario', some preliminary modelling has suggested that the contribution to this reserve may need to increase by £146,000 in 2017/18 to meet the vehicle requirement. This could then be reduced by £43,000 for 2018/19 onwards. Therefore, from 2018/19 onwards the contribution to the reserve may be £644,000 annually. The MTFs reflects this modelling.
- 6.14 **Land and Development Reserve** - There is a housing policy coming forward that will give the Council the option of buying plots back, if after 12 months of advertising, the self builds haven't happened. This would help the Council meet its affordable housing targets. It would however need funding and an estimate is £50,000 a year is anticipated to be required. A cost pressure for this amount has been included within the MTFs.
- 6.15 **IT Development Reserve** – It is recommended that the Council makes an annual contribution of £25,000 per year into this reserve to fund IT expenditure. An ICT Strategy will be reported to the Executive in October 2016 outlining areas of future spend.
- 6.16 **Sustainable Waste Management Reserve** – It is recommended that the Council makes an annual contribution of £25,000 into this reserve, to fund the replacement of wheeled bins. This reserve has been fully utilised and there is only a balance of £3,000 remaining. Therefore the reserve needs replenishing.
- 6.17 **Planning Policy and Major Developments Reserve** – An annual contribution to the Planning Reserve is recommended, in order to be able to make a provision for the cost of the Council defending planning appeals. The Planning Reserve is projected to have a balance of £67,000 at 31 March 2017 and the level of this reserve is recommended to be increased.

- 6.18 **Contribution to the Strategic Change Reserve (T18)** – The Business Case for the Transformation Programme (T18) approved by Council on 11 December 2014, outlined in Appendix C of the report that the contribution to the Strategic Change Reserve would need to increase from £219,000 in 2016/17 to £285,000 in 2017/18. This is an increase of £66,000 which is shown as a cost pressure in Appendix A for 2017-18. This cost is to meet pension strain costs. The £285,000 then reduces over the Years 2 to 4 to Nil. The reductions are £75,000 in Year 2, £150,000 in Year 3 and then £60,000 in Year 4.

SAVINGS AND INCOME GENERATION

- 6.19 **Income from fees and charges** - On 24 November 16, a report will be presented to the Overview and Scrutiny Panel, to consider the fees and charges for 2017/18. Therefore no figure for savings/additional income has yet been shown in the MTFS and this is shown as 'To be agreed'.
- 6.20 **Re-procurement of contracts** – The MTFS shows the savings in Appendix A from the re-procurement of outsourced contracts.
- 6.21 **Income from Commercial Developments** – Estate management rental income will increase by £95,000 due to the commercial developments at Batson, Salcombe, Burke Road, Totnes and Admiral Court, Dartmouth.
- 6.22 **Follaton House** – Additional rental income and reduced running costs of £20,000 per annum for the next two years have been included within the MTFS. This is in addition to £23,000 in 16/17 and £50,000 in 15/16 that was included as additional rental income in the Budget.
- 6.23 **Income from business rates domestic properties for trade waste collection** – This followed the implementation of charging business rated domestic properties for trade waste services. As stated in the Executive Budget report on 4 February 2016, a conservative estimate of £50,000 income target for trade waste was put into the 2016/17 budget process as additional income, with an extra £25,000 in 2017/18.
- 6.24 **Transformation Programme 2018 (T18)** – In 2014/15 the Council achieved £290,000 of T18 salary savings. In 2015/16 the salary savings achieved were £1.2 million. By 2016/17, the T18 salary savings realised will total £2.6 million. The £2.6 million is an annual salary saving from 16/17 onwards. In addition there are predicted to be £305,000 annual savings from the Delivery Unit and £280,000 savings from Accommodation.

6.25 On 30th June 2016, Council approved additional fixed term (12 – 18 months) temporary transitional staffing resources, of which the South Hams District Council share of the cost is £545,972. The temporary additional cost of £545,972 will add approximately 8.5 weeks to the payback period of the T18 Programme (the payback period was 2 years and 6 months).

7. OVERALL POSITION – BUDGET (SURPLUS)/GAP

7.1 Appendix B illustrates the overall financial forecast for the forthcoming five years. Although the Council's Net Budget is £8.75 million in 2016/17, the Gross Expenditure of the Council is around £43 million as shown in Appendix C.

7.2 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 situation if the Council Tax is increased by £5 (shown in Appendix B).

7.3 The Council's Transformation Programme, coupled with savings from the re-procurement of contracts and other areas, has meant that in 2017/18 the Council has a projected Budget Surplus of just over £115,000. In 2018/19 there is a projected Budget Gap of £277,673 (this is after the budget surplus in 17/18 of £115,882 has been taken as an on-going saving in 2018/19). Over the five years, the cumulative projected budget gap is £283,647 as shown below.

7.4 The following table illustrates the predicted budget gap from 2017/18 onwards for the Council as shown in Appendix B:

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CUMULATIVE BUDGET GAP OVER THE FIVE YEARS TO 21/22					£283,647
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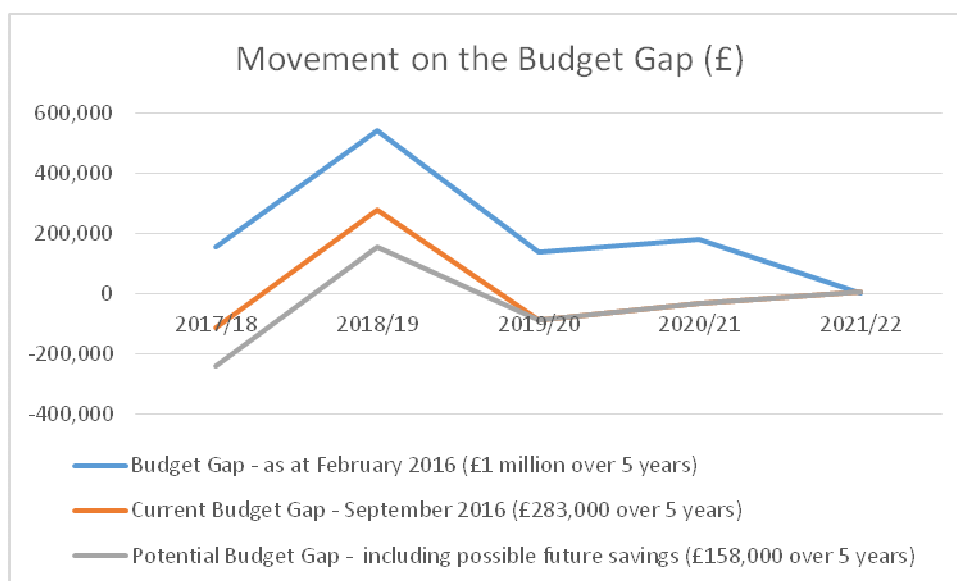
7.5 **Identification of further savings and income generation** – There are several areas where further work is being carried out by officers to identify further savings and income generation and to robustly challenge existing funding levels within the base budget:

- Fees and charges (see 6.19) – To be reported to the Overview and Scrutiny Panel on 24th November.

- Budget scouring – All of the existing base budgets will be challenged by the Senior Leadership Team in an exercise with the Extended Leadership Team (ELT), in order to identify further savings. The outcome of this process will be reported to the Overview and Scrutiny Panel meeting on 24th November also.
- Review of partnership funding levels - Significant partners will be invited to submit a business plan to the Overview & Scrutiny Panel setting out what they would spend the funding on, how it will benefit our residents, links to the Council's Strategic Priorities, what value for money it will provide and what success measures they would use, so that the Overview and Scrutiny Panel can make recommendations to Executive/Council on the funding arrangements.

7.6 There are areas which are shown as possible future savings (shown in grey on Appendix A) which are being progressed by the Business Development Group Manager and which were the subject of a report to the Overview and Scrutiny Committee on 17th March 2016. These total £125,000 as shown on Appendix A.

7.7 The graph below demonstrates how the Budget Gap has moved from the position in February 2016 where it totalled £1 million over the 5 years. The position shown in this MTFS is that the current Budget Gap is now £283,000 over the next 5 years, due to the level of savings being realised. If the areas currently being progressed by the Business Development Group Manager (in 7.6) are confirmed, this would further reduce the Budget Gap to £158,000 over the next 5 years.



8 NEW HOMES BONUS (NHB)

8.1 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.

8.2 Members have approved the following use of the New Homes Bonus to date:

Year	2013/14 £	2014/15 £	2015/16 £	2016/17 £
NHB Grant received	1,026,018	1,365,325	1,693,533	2,079,908
Housing Capital Projects	460,000	460,000	464,000	464,000
Community Reinvestment Projects	153,900	153,900	153,900	153,900
To fund the Revenue Base Budget	100,000	564,043	959,126	500,000
To fund the one-off set up costs of the Local Authority Controlled Company (LACC)				150,000
Community Grants (CAB Outreach worker)	10,000	10,000	10,000	10,000
Dartmoor National Park		17,277	5,779	24,606
Transferred to the Capital Programme Reserve	302,118	160,105	100,728	
Transferred into an Innovation Fund (Invest to Earn) Earmarked Reserve (see 10.6)				777,402
TOTAL	1,026,018	1,365,325	1,693,533	2,079,908

8.3 New Homes Bonus allocations for future years are estimates and cannot be taken with any certainty as the whole NHB system is subject to change following a Government consultation exercise in March 2016.

8.4 The table below shows estimated amounts of NHB receivable in future years:-

	2017-18 (£)	2018-19 (£)	2019-20 (£)	2020-21 (£)	2021-22 (£)
Potential NHB amount	1,600,000	1,250,000	1,150,000	1,100,000	1,100,000
Potential uses of the NHB:-					
Housing Capital Projects	464,000	464,000	464,000	464,000	464,000
Community Reinvestment Projects	153,900	153,900	153,900	153,900	153,900
To fund the Revenue Base Budget	500,000	500,000	500,000	450,000	450,000
Community Grants (CAB Outreach worker)	10,000	10,000	10,000	10,000	10,000
Dartmoor National Park allocation	TBA	TBA	TBA	TBA	TBA
Funding remaining	472,100	122,100	22,100	22,100	22,100

8.5 The figures above in 8.4 are based on the NHB consultation proposals to reduce the number of years from 6 years to 4 years (with 5 years funding for 2017/18 as a transitional year).

8.6 The modelling in 8.4 assumes a contribution from NHB of £500,000 per annum towards the revenue base budget, with this decreasing to £450,000 from 2020/21 onwards.

8.7 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 consider this on an annual basis as part of the Budget process.

8.8 One consideration for Members would be whether to allocate the funding remaining of £472K to the Innovation Fund (Invest to Earn) Earmarked Reserve (see 10.6).

9. CAPITAL PROGRAMME 2017/18 to 2019/20

- 9.1 The Capital Programme for 2016/17 was approved by Council in February 2016. The Capital Programme report contained preliminary estimates for the Capital Programme for 2017/18 and 2018/19 which totalled £1,616,000 and £1,430,000 respectively. These capital bids are being reviewed for 17/18 and 18/19 and a Capital Programme budget proposals report for the three years 2017/18 to 2019/20 will be presented to the Executive in December 2016.
- 9.2 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.
- 9.3 As part of the budget proposals, 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. This will form part of the December report.
- 9.4 **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.
- 9.5 In July 2016 (Minute 33/16), the Council agreed to undertake prudential borrowing of £6.337 million for the new leisure contract, with a further £1.5 million of prudential borrowing for a loan facility being subject to a business case.

10. EARMARKED AND UNEARMARKED RESERVES

- 10.1 The Council's Net Budget is £8.75 million in 2016/17. It is still recommended to retain the same policy of maintaining a minimum level of Unearmarked Reserves of £1.5 million. The summary below shows the position at 31 March 2016:

The Use of Unearmarked Revenue Reserves	2014/15 £'000
Balance B/fwd 1.4.2015	1,741
Revenue Outturn Underspend for 2015-16	69
Unearmarked revenue reserves at 31.3.2016	1,810
Earmarked revenue reserves at 31.3.2016 (see Appendix G)	15,197

The Unearmarked General Fund Revenue Reserve balance at 31st March 2016 was £1,810,000 and the Earmarked Reserves balance was £15,197,000. This gave total Revenue Reserves of £17,007,000.

The predicted earmarked and unearmarked reserves for 2016/17 are shown below:-

	£'000
Unearmarked Reserves balance as at 31 st March 2016	1,810
Earmarked Reserves	15,197
Predicted movement in Earmarked Reserves (Appendix G)	82
Total Predicted Reserves as at 31st March 2017	17,089
(Unearmarked Reserves of £1,810,000 and Earmarked Reserves of £15,279,000 as shown in Appendix C)	

- 10.2 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 £1.5 million 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
- 10.3 The Unearmarked Reserves (General Fund) balance of £1.8 million stands above the minimum balance of £1.5 million and acts as a safeguard against unforeseen financial pressures.
- 10.4 **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). Sections 6.12 to 6.18 of the report set out where the adequacy of the level of Reserves has been assessed and where recommendations have been made to increase the annual contribution to Earmarked Reserves.
- 10.5 A schedule of predicted Earmarked Reserves for 16/17 is shown in Appendix G. Earmarked Reserves are predicted to be £15,279,000 at the end of March 2017.

- 10.6 The tables below show the movements on the two Earmarked Reserves that were set up as part of the Budget approved for 2016/17.

2016/17 Budget Surplus Contingency Earmarked Reserve (£)	
Opening Balance – This is the Budget Surplus from 2016/17 which was put into an Earmarked Reserve.	767,995
Less known Commitments against this Reserve:	
Council 30 June 2016 – To fund the T18 Transitional Resources	(278,972)
Council 28 July 2016 – To fund the LACC set up costs	(126,750)
Balance left uncommitted	362,273

Innovation Fund (Invest to Earn) Earmarked Reserve (£)	
Opening Balance - Council on 11 Feb 2016 agreed to transfer the unallocated New Homes Bonus of £777,402 into an Innovation Fund (see 8.2)	777,402
Less known Commitments against this Reserve:	
Purchase of Ropewalk (including stamp duty) to aid Kingsbridge K2 development (Council 7 th April 2016)	(472,500)
Admiral Court, Dartmouth, Phase 4 (Executive 16 June 16)	(250,000)
Year 1 funding of Development Surveyor (Overview and Scrutiny Panel 7 th April 2016)	(26,400)
Balance left uncommitted	28,502

- 10.7 **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 F.

11 OTHER BUDGET ITEMS

- 11.1 **Members' Budget Workshop** – On 30th September 2015 a Members' Budget Workshop was held. This was to give all Members the opportunity to influence and shape the budget setting process.
- 11.2 At this workshop, there was early support for increasing council tax by the maximum allowable percentage. At this event it was recognised that this measure would increase the base budget for ensuing years and protect the delivery of services and the Council's financial resilience. (At the time the workshop was held in September 2015, the maximum council tax increase allowable was 1.99%). The Final Finance Settlement announced in February 2016 increased the maximum council tax increase allowable to £5.
- 11.3 A Members' Budget Workshop will be held this year on Wednesday 21st September in order to carry out a full review of the MTFs and to look at the eight themes within Our Plan.
- 11.4 **Council Tax Reduction Scheme** – Following Council Tax Benefit being abolished, Council annually approves a local Council Tax Reduction Scheme which was introduced in 2013. This scheme is a discount scheme rather than a state welfare benefit and means that working age claimants will pay at least 20% of their Council Tax. The scheme for 2017/18 was considered by the Executive on 16 June 2016 (Minute E. 7/16) and the consultation ended on 4th September. There is a vulnerability/hardship fund to help those claimants experiencing financial difficulties.
- 11.5 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 (following Council Tax Benefit being abolished from 1 April 2014). The Minister confirmed 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.
- 11.6 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 District Council is experiencing with its Settlement Funding Assessment (SFA). The Council approved a grant distribution of £101,658 for 2016-17. It is estimated that the Council's funding (Revenue Support Grant, Business Rates, Rural Services Delivery Grant and Transition Grant) will decrease by 29.6% in the next three years of the funding settlement (see Appendix B). The average of this is 9.85% each year over the next three years.

- 11.7 Many Towns and Parishes would like more certainty of their grant allocations for planning purposes and therefore it is proposed to consult with Towns and Parishes on a three year funding reduction of 9.85% each year for the next three financial years (2017/18 to 2019/20). This is an overall reduction of £10,014 for 2017-18. Appendix E illustrates the effect for each Town and Parish. This would mean the grant distribution of £101,658 for 2016-17 would reduce to £74,473 by 2019-20.

Devolution

- 11.8 The Council plays an active part in the Heart of the South West LEP's devolution project. In September 2015 the Heart of the South West (HotSW) submitted its devolution Statement of Intent to Government. The partners are 17 local authorities, two National Parks, the Local Enterprise Partnership and the three Clinical Commissioning Groups.
- 11.9 In July 2016 (Minute 34/16) Council agreed to sign up to the principle of creating a Combined Authority for the Heart of the South West, as set out in the Prospectus for Productivity, as the basis for negotiation with Government towards a Devolution Deal for the area. It was noted that giving endorsement did not commit the Council to entering into a Devolution Deal or becoming a member of the Heart of the South West Combined Authority. This would be subject to future debate and agreement by the Council and subject to negotiations with Government.

Local Authority Controlled Company (LACC)

- 11.10 On 28 July 2016 (Minute 32/16), Council considered a report on the findings of a business case that had been prepared by PriceWaterhouseCoopers (PWC) at the request of Members, on the merits of establishing a Local Authority Controlled Company (LACC). The company would be wholly owned by South Hams and West Devon Councils, to deliver the full range of District Council services. In doing so, it is anticipated that this would create an opportunity to sell these services to other organisations to generate income.
- 11.11 It was agreed that the Council proceed with the work which enables a more considered decision to be made with regard to the implementation of a LACC, subject to there being a satisfactory outcome to the outstanding pension, tax and governance questions. It was also agreed that a Joint Steering Group (JSG) with West Devon be established to deal with matters concerning the implementation of the LACC.

UK vote to leave the European Union

11.12 The full implications of the decision on 23 June 2016 by the UK to negotiate an exit from the European Union (EU) will become apparent over time. There may be changes in Government policy and any significant changes in the economy may have an impact on local government financing. The MTF5 contains the latest high level forecasts in the public domain for budgeting purposes (those announced in the Local Government Finance Settlement in February 2016) and the Council will continue to monitor any impact on public sector funding and the Council's treasury management activity closely.

Income generation opportunities and the Council's asset management strategy

11.13 In this financial climate, income generation becomes a key priority area. 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 future funding gaps.

11.14 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.

11.15 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

11.16 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 providing customers with added value services.

12 Timetable for the Budget Setting Process

12.1 Appendix D sets out the timetable for the Budget Setting Process.

13 Looking Forward to the Future

13.1 Overall, the Council's finances remain strong. In order to maintain this position, the Council operates continuous monitoring of both income and expenditure. This ensures that services are delivered within approved budgets and that all three elements of value for money (economy, efficiency and effectiveness) are achieved for our residents.

14. IMPLICATIONS

Implications	Relevant to proposals Y/N	Details and proposed measures to address
Legal/Governance	Y	<p>The Executive 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 1.7 to 1.8 of the Executive Summary.
Risk	Y	The financial risks are as set out in the report and in Appendix F.
Comprehensive Impact Assessment Implications		
Equality and Diversity		None directly arising from this report.
Safeguarding		None directly arising from this report.
Community Safety, Crime and Disorder		None directly arising from this report.

Health, Safety and Wellbeing		None directly arising from this report.
Other implications		None directly arising from this report.

Supporting Information

Appendices:

Appendix A – Budget pressures and savings

Appendix B – Modelling of council tax increasing by £5

Appendix C – Summary of Budget by Service Area

Appendix D – Budget Timetable for 2017/18 onwards

Appendix E – Council Tax Support Grant for Towns and Parishes – Indicative figures 2017/18 to 2019/20

Appendix F – Sensitivity analysis and risk analysis

Appendix G – Schedule of Reserves

Appendix H – LGA Top Tips on Efficiency Plans

Approval and clearance of report

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