

NOT FOR PUBLICATION

Appendix G to this report is considered exempt under paragraph 3 of schedule 12A of the Local Government Act 1972 in that it concerns the financial or business affairs of the Council.

Report to: **Hub Committee**

Date: **11 September 2018**

Title: **Medium Term Financial Strategy 2019/20 to 2023/24**

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**

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**Recommendations:**

**It is recommended that the Hub Committee:**

- (i) Notes the forecast budget gap for 2019/20 of £0.45 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) RECOMMENDS to Council to approve Recommendations 1 to 10 as set out within the body of this report.**

## 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 2023/24. The Council, along with other local authorities, has faced unprecedented reductions in Government funding since the Comprehensive Spending Review 2010.
- 1.2 Between 2009/10 and 2019/20, the Council's Core Government funding has reduced by £3 million.
- 1.3 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.
- 1.4 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.
- 1.5 West Devon Borough Council is currently forecasting a **£0.45m budget gap in 2019/20**. This is lower than the £0.7m budget gap for 2019/20 predicted in July 2018, due to the Government announcing in a technical consultation that its preference is to eliminate negative Revenue Support Grant (RSG) for 2019/20. The MTFS (September 18) assumes that negative RSG will be reduced to zero in 2019/20 - which improves the Council's budget position by £0.3m for 2019/20. It is assumed that negative RSG remains in some form (e.g. as part of the business rates baseline reset) from 2020/21 onwards.
- 1.6 There is a further budget gap of £0.56 million in 2020/21. Therefore over the next two years the Council needs to close a budget gap of £1 million (£0.45m in 19/20 and a further £0.56m by 20/21).
- 1.7 It is important to note that this Medium Term Financial Strategy sets out the budget strategy for the Council for the next five years, with annual reviews and updates when items are further known or are announced by the Government (e.g. the Provisional Finance Settlement will be announced by the Government in December 2018).
- 1.8 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.
- 1.9 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.
- 2.2 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 equates to £0.37m in 2019/20.
- 2.3 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. Between 2009/10 and 2019/20 the Council's Core Government funding will have reduced by £3 million annually.

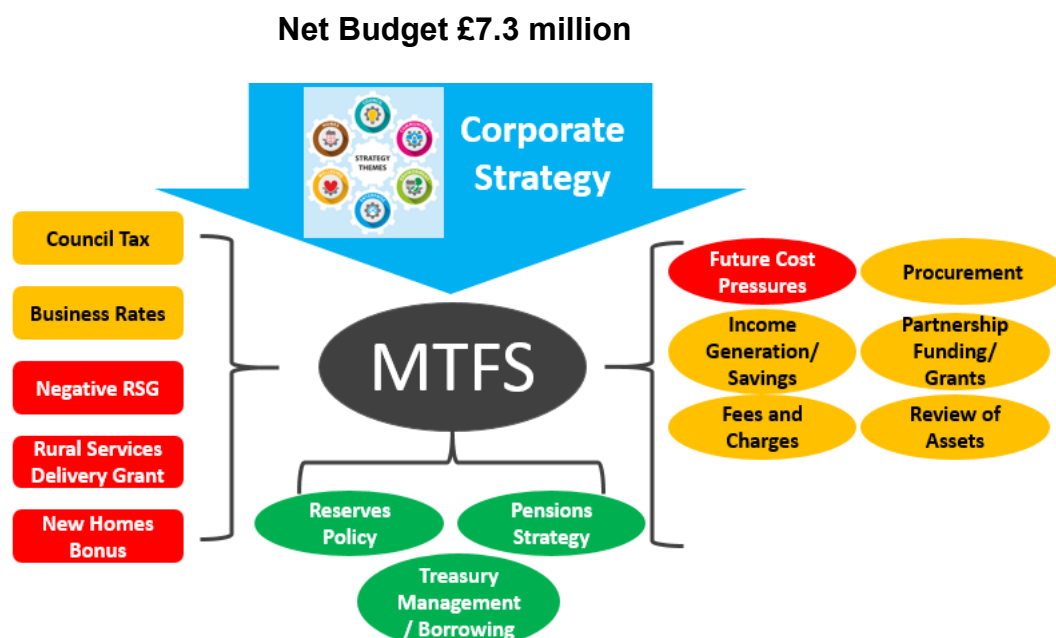
## **3 ASSUMPTIONS FOR FINANCIAL MODELLING PURPOSES**

- 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 Strategy 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 2.5% in July 2018.
- 3.3 The predicted interest rate forecast from our treasury management advisors, Link Services, is that interest rates will remain at 0.75% up to September 2019. By December 2020 the bank base rate is predicted to increase to 1.5%.
- 3.4 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 Appendix B.
- 3.5 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.

#### 4. THE COMPONENTS MAKING UP A MEDIUM TERM FINANCIAL STRATEGY (MTFS)

- 4.1 The Diagram below sets out all of the component parts which constitute the make-up of a Medium Term Financial Strategy. Appendix C goes through each of these components in detail and makes recommendations where appropriate. The recommendations are summarised below.

Items in Green denote those elements where the Council has a large degree of control over the setting of policies and strategies. Items in Amber denote those components of the MTFS where the Council has a degree of control. Red items signal components where the Council has hardly any control over funding allocations which are decided by the Government and future cost pressures which can largely be outside of the Council's control or influence.



##### **Council Tax**

- 4.2 Recommendation 1: To set the strategic intention to raise council tax by the maximum allowed in any given year, without triggering a council tax referendum, to enable continued delivery of services. The actual council tax for any given year will be decided by Council in the preceding February.

##### **Business Rates**

- 4.3 The income from Business Rates which West Devon Borough Council retained in 2017-18 was the funding baseline of £1,538,973 plus the pooling gain of £82,000.

### **Business Rates Pilot for 2019-20**

- 4.4 Modelling which has been carried out on the application for 19/20 Pilot status shows that West Devon could gain approximately £250,000 of the £10 million projected 19/20 Devon Pilot gain. This is approximately half of the 18/19 predicted WDBC gain of £460,000. This additional funding of £250,000 would be a one-off amount for 2019/20 only.
- 4.5 Recommendation 2: To submit an application for Pilot status for 2019/20 and to agree a 40% District/34% Devon County Council/1% Fire split for the 75% scheme, with the agreement to remain part of the Devon Business Rates Pool for 2019/20 if the Pilot bid is not successful.

Recommendation 3: To actively lobby Central Government and Devon MPs to support a 2019/20 Devon Pilot bid

Recommendation 4: To actively lobby and engage with the Government, Devon MPs and other sector bodies such as the District Councils Network and the Rural Services Network, for a realistic business rates baseline to be set for the Council for 2020 onwards.

### **Negative Revenue Support Grant**

- 4.6 The negative RSG currently included within the Council's funding allocation for 2019/20 amounts to £293,377. If the Government eliminates this, as an outcome of the consultation process, the Council's budget position is bettered by £300K for 2019/20 – this betterment is already included within the modelling in Appendix B. The Council is hopeful the Government will reverse it, as this is the Government's preferred option in the consultation.

The Medium Term Financial Strategy assumes that negative RSG will be reduced to zero in 2019/20 and this reduced funding pressure has been built into the latest modelling set out in this report. If the position changes, the MTFS will be updated to reflect this. It is assumed that negative RSG remains in some form (e.g. as part of the business rates baseline reset) from 2020/21 onwards.

Recommendation 5: That WDBC responds to the technical consultation in support of the Government eliminating Negative Revenue Support Grant and continues to lobby for Rural Services Delivery Grant allocations which adequately reflect the cost of rural service provision.

## **New Homes Bonus**

- 4.7 The Government released a consultation in July which stated their intention to increase the 0.4% baseline. They have also stated that 2019-20 represents the final year of NHB funding and from 2020 onwards they will explore how to incentivise housing growth most effectively and will consult on this issue.

Recommendation 6: To use £375,000 of New Homes Bonus funding for 2019-20 to fund the revenue base budget and then reduce to £100,000 by 2020-21 and £50,000 by 2021-22 for modelling purposes.

## **Reserves Policy**

- 4.8 Current Levels of Reserves: £1.2 million Unearmarked Reserves and Earmarked Reserves of £4 million. The Council's Net Budget is £7.3 million for 2018/19. Therefore Unearmarked Reserves equate to 16% of the Council's Net Budget.

Recommendation 7: That the annual level of contribution to Earmarked Reserves (£50,000) and the adequacy of the existing level of Unearmarked Reserves (£1.2 million) and Earmarked Reserves (£4 million) is delegated to the Cross Party Member Working Group (Financial Stability Review Group - FSRG) to review and make recommendations by the end of October. This will assess the adequacy of Reserves levels in light of future plans and pressures.

## **Pensions Strategy**

- 4.9 Recommendation 8 - That the Council takes specialist pension advice on the options for the Council's Pension position, with the aim of reducing the current contributions, increasing affordability, whilst best managing the pension deficit. It is also recommended that the Council has early dialogue with DCC and the actuaries with regards to the Council having an input into the actuarial assumptions used for the 2019 Actuarial Valuation. Options will be taken back to the Council's Audit Committee on 22<sup>nd</sup> January to consider.

## **Treasury Management and Borrowing Strategy**

- 4.10 The Council has taken external treasury management advice on the Council's overall borrowing levels and debt levels and this advice is attached in Exempt Appendix G. Their recommendation is that the Council limits its overall borrowing envelope for its whole operations and services to £50 million. This advice is based on a range of benchmarking of indices that they have undertaken. Borrowing needs to be proportionate and affordable and with always having regard to the risks involved in the repayment of the debt.

Recommendation 9 – That the Council sets an Upper Limit on External Borrowing (for all Council services) as part of the Medium Term Financial Strategy of £50 million as per Exempt Appendix G. Sensitivity analysis is shown in Appendix F.

### **Future Cost Pressures**

- 4.11 Recommendation 10: To continue with the Local Government terms and conditions of employment Green Book for at least 2019/20. To review all options for reducing staff costs by varying terms from the Green Book from 2020/21, with an initial report back by the end of 2018/2019.

### **Income Generation/Savings and Fees and Charges**

- 4.12 The Council's Extended Leadership Team will present further budget options to Members for income generation/savings/reduced expenditure, as part of the Budget Setting Workshop being planned for Monday 8<sup>th</sup> October.

### **Procurement**

- 4.13 The Council is currently procuring its waste collection, recycling and cleansing services through a competitive dialogue process. The latest report was to Council on 24<sup>th</sup> July. Council Minute CM25 refers. The procurement process will now continue to the 'Final Solutions' stage, with a further final report being brought to the Council meeting of 4<sup>th</sup> December 2018. Any financial implications of this are not included in the Modelling in Appendices A and B.

### **Partnership Funding/Grants**

- 4.14 Following reports to both the Overview and Scrutiny Committee (26<sup>th</sup> June) and the Hub Committee, it has been approved by Council (Minute CM24 – Council 24<sup>th</sup> July 2018) to reduce funding to Partnerships by £14,000 for 2019/20.

### **Review of Assets**

- 4.15 The Council's Asset Base is £22.3 million at 31 March 2018. The Council will continually review and challenge its asset base in order to deliver the optimum value for money from the Council's Assets.

## 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                      | £470,000   | £415,000   | £260,000   | £260,000   | £335,000 |
| Contributions to Earmarked Reserves | £50,000    | £50,000    | £50,000    | £50,000    | £50,000  |
| Savings and additional income       | £(231,500) | £(249,000) | £(198,000) | £(390,000) | Nil      |

## 6. OVERALL POSITION – BUDGET GAP

- 6.1 Appendix 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 Appendix B).
- 6.2 The following table illustrates the predicted budget gap from 2019/20 onwards for the Council as shown in Appendix B:

| Cumulative Budget Gap                                     | 2019/20<br>£ | 2020/21<br>£ | 2021/22<br>£ | 2022/23<br>£ | 2023/24<br>£ | Total Aggregated Budget Gap<br>£ |
|---|--------------|--------------|--------------|--------------|--------------|----------------------------------|
| Modelling Appendix B (assumes –ve RSG is Zero in 2019/20) | 453,332      | 1,012,847    | 999,816      | 638,144      | 724,313      | 3,828,452                        |

- 6.3 In the Modelling in Appendix B, the total budget gap is £453,332 in 2019/20 and this is predicted to rise to £1,012,847 in 2020/21 (the £1,012,847 assumes the budget gap in 19/20 of £453,332 has not been closed). The aggregated Budget Gap is £3.8 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   |
|--|--|---|
| <b>Public Conveniences</b><br>A budget saving of £50,000 in 2019/20 has been included within the total budget savings modelled.  | £50,000                                    | Report to the Hub Committee in October 2018                 |
| <b>Pensions Strategy</b><br>It is recommended for the Council to obtain specialist pensions advice on its Pensions position. Options to be reported to the January Audit Committee.  | To be quantified (could be up to £100,000) | Report to the Audit Committee 22 <sup>nd</sup> January 2018 |
| <b>Waste Procurement</b><br>The Council is currently in a waste procurement process through competitive dialogue. The procurement process will now continue to the 'Final Solutions' stage, with a further final report being brought to the Council meeting of 4 <sup>th</sup> December 2018. Any financial implications of this are not included in the Modelling in Appendix B. | To be quantified                           | Council meeting 4 <sup>th</sup> December 2018               |
| <b>Council Tax Reduction Scheme</b><br>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.   | £59,000 for 2020/21 onwards                | Hub Committee November 2018.                                |
| <b>Asset Review</b><br>On 5 <sup>th</sup> 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.  | To be quantified                           | Within three months   |

| Option   | Possible Budget Impact  | Timescale  |
|--|---|--|
| <p><b>Savings identified by the Extended Leadership Team (ELT)</b></p> <p>The ELT held a Budget session on 15<sup>th</sup> August and have identified options to present to Members at the Members' Budget Workshop being arranged for 8<sup>th</sup> October</p>  | To be quantified  | Members' Budget Workshop being arranged for 8 <sup>th</sup> October  |
| <p><b>Funding Options</b></p>  |   |  |
| <p><b>Negative Revenue Support Grant (RSG)</b></p> <p>The Council is hopeful the Government will reverse negative RSG in 19-20, as this is the Government's preferred option in the consultation. The Medium Term Financial Strategy assumes that negative RSG will be reduced to zero in 19-20.</p>   | The Medium Term Financial Strategy assumes that negative RSG will be reduced to zero in 19-20 | Anticipated to be known by December 2018 when the Draft Local Government Finance Settlement is published.                    |
| <p><b>Business Rates Pilot status for 2019/20</b></p> <p>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 £250,000.</p>   | £250,000 in 2019/20 (one-off funding)   | December 2018 when the Draft Local Government Finance Settlement is published.   |
| <p><b>New Homes Bonus allocations for 2019/20</b></p> <p>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.</p> | 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. |

| Option  | Possible Budget Impact | Timescale                                   |
|---|------------------------|---|
| <b>Contributions to Earmarked Reserves</b><br>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 |
| <b>Use of Reserves as a temporary measure</b><br>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 £439,000 uncommitted in the Invest to Earn Earmarked Reserve and £234,000 uncommitted in the Budget Surplus Contingency 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. A proposed Capital Programme for 2019/20 onwards is set out in Appendix C.

8.2 **Commercial Property Acquisition Strategy** – The Council has agreed a commercial property acquisition strategy of up to £37.45 million. To date, three investment properties have been purchased with a value of just over £20 million in aggregate. Purchases made within the strategy will be capital expenditure and will be in addition to the projects outlined in Appendix E.

8.3 **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.

8.4 A Recommendation has been made as part of this report on the overall Borrowing Limit for the MTFS.

9. **Sensitivity analysis and risk analysis** – The Council carries out sensitivity analysis and risk analysis of its Budget Proposals and this is shown in Appendix F.

## **10 NEXT STEPS**

10.1 This MTFS 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 in 4.1 and Appendix C. This report is asking Members to set the strategic intention for each of these components of the MTFS.

10.2 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 and Recommendation 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> <p>Appendix G to this report is considered exempt under paragraph 3 of schedule 12A of the Local Government Act 1972 in that it concerns the financial or business affairs of the Council. The public interest has been assessed and it is considered that, the public interest is better served by non-disclosure to the press and public.</p> |
| Financial                                    | Y                         | The financial implications are set out in Section 6 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 of the MTFS Position;

Appendix C – Components of a MTFS;

Appendix D – Schedule of Reserves (Unearmarked and Earmarked);

Appendix E – Capital Programme for 2019-20 onwards;

Appendix F – Sensitivity Analysis; and

EXEMPT Appendix G – Borrowing Advice from Treasury Management Advisers.