

Report to: **Hub Committee**

Date: **8th December 2020**

Title: **Draft Revenue Budget Proposals for 2021-22**

Portfolio Area: **Cllr N Jory – Budget Setting Process**

Wards Affected: **All**

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

Date next steps can be taken:

Hub Committee 2nd February 2021

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Recommendations:

It is recommended that the Hub Committee:

- i) Notes the forecast budget gap for 2021/22 of £0.104 million (1.4% of the predicted Net Budget of £7.3million) and the position for future years.
- ii) Notes the current options identified and timescales for closing the budget gap in 2021/22 and future years, to achieve long term financial sustainability.

It is recommended to Council:

- iii) That West Devon Borough Council continues to be part of the Devon Business Rates Pool for 2021/22, subject to there being no announcements within the Finance Settlement (expected to be announced in the week commencing 14th December), which in the opinion of the S151 Officer (in consultation with the Leader of the Council and the Portfolio Holder for Finance), would change this recommendation.

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 2025/26. The Council, along with other local authorities, has faced unprecedented reductions in Government funding. Between 2009/10 and 20/21, the Council's Core Government funding has reduced by £3 million. The Council now receives **no main Government Grant (Revenue Support Grant)** – this has been reduced to zero. Core Government funding has been reduced by £3million per year since 2009/2010.
- 1.2 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. 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.
- 1.3 The Medium Term Financial Strategy (MTFS) was approved by Members on 20 October 2020 and it set out the budget strategy for the Council for the next five years, with regular reviews (at least annually) and updates when items are further known or are announced by the Government.
- 1.4 The MTFS 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.
- 1.5 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.
- 1.6 Covid 19 has caused financial strain for all Councils up and down the country where Councils find themselves being caught in a 'perfect storm'. Councils have to manage both the increased costs of coping with Covid19 and supporting vulnerable people in the community and the loss of key income streams such as car parking income and council tax income.
- 1.7 The factors affecting the Council's finances are issues affecting the whole Local Government sector. The Council is well-placed to meet the financial challenges arising from Covid19, due to its prudent financial management over previous years.

1.8 Due to the rapidly changing financial position, the Council is undertaking frequent revenue budget monitoring reports. The latest revenue budget monitoring report for Month 7 (end of October) predicts an underspend (surplus) of £90,000 for 2020/21. This takes into account the Amended Budget for 2020/21 which was set by Council on 22 September 2020.

1.9 The key assumptions within the Medium Term Financial Strategy are as below. Each of these is described in more detail in Section 4.

- A one year 'rollover settlement' (with no negative Revenue Support Grant in 2021/22) continues to be the most likely scenario
- The business rates baseline reset will be deferred until 2022/23
- The Settlement Funding Assessment (SFA) will increase in line with inflation – this is essentially the business rates baseline and is the amount of money the Council retains from its share of the business rates income.
- There will be a phasing in of negative Revenue Support Grant (RSG) as part of the business rates baseline reset with a transition period over three years, to avoid Local Authorities losing/gaining too much in one go
- It is assumed Council Tax limits for District Councils will remain at the higher of £5 or 1.99% for 2021/22 onwards – the Spending Review referred to a council tax referendum limit of 2%, which we interpret as a simplified description (The Finance Settlement expected to be announced in the week commencing 14th December should confirm the limit for District Councils)
- The Spending Review confirmed that there will be one more year of the New Homes Bonus payments as part of a one year 'rollover settlement'. We anticipate that bonuses will still be payable for growth in 2020-21 (Year 11), although that has not been officially confirmed as yet
- A modest business rates pooling gain of £40,000 has been modelled for 2021/22 with no further gains for 2022/23 onwards. Business rates income is assumed to be down by 3%.
- No council tax collection fund surplus has been assumed for any years going forward (normally the Council receive a surplus share of around £67,000 per annum) and it has been assumed that the council tax collection rate will reduce by 1%. The Collection Fund deficit for 2020-21 – which would ordinarily be recouped in 2021-22 – will instead be recovered in equal instalments over three years, in line with new Government regulations. The deficit is expected to be around £26,000 per annum.
- Rural Services Delivery Grant has been assumed to continue at the same level with a slight inflationary increase across the 5 years – In 2021-22, the national total of £81 million has been frozen

- No permanent reductions to the Council's income streams (such as car parking income, planning income etc. as a result of the Covid pandemic) have been built into the Base Budget for 2021/22. This will be regularly monitored over the next few months. The Government has confirmed that its income compensation scheme for sales, fees and charges for Councils will continue to apply in 2021/22, but only for the first quarter of the year. This is less than the full-year extension lobbied for through the South West Councils response to the Comprehensive Spending Review, and leaves the Council reliant on a rapid return to normal economic conditions by the Summer.
- The last pay award offer for 2020-21 was 2.75%. A 2% pay increase has been modelled from 2021/22 onwards (2% equates to £90,000). The Government has imposed a pay freeze on much of the public sector, subject to increases in the National Living Wage and a minimum increase of £250 in full-time equivalent wages of less than £24,000. Although setting pay levels in Local Government falls outside Central Government control, this freeze will have informed the setting of funding for Local Government and is likely to be a significant factor in determining the outcome.

1.10 The following table illustrates the predicted budget gap from 2021/22 onwards for the Council **as shown in Appendix B:**

Budget Gaps	2021/22 £	2022/23 £	2023/24 £	2024/25 £	2025/26 £	Total Aggregated Budget Gap £
'New' Budget Gap each year	103,713	116,291	436,729	176,530	197,450	1,030,714
Cumulative Budget Gap (assumes annual new budget gaps have not been addressed)	103,713	220,005	656,734	833,264	1,030,714	2,844,430

1.11 ***The forecast budget gap for 2021/22 is £103,713. This is 1.4% of the predicted Net Budget for 2021/22 of £7.3million.*** A cumulative budget gap of £220,005 is predicted for 2022/23 (this assumes that the budget gap for 2021/22 of £103,713 has not been closed). This increases to £1million by 2025/26. The aggregated Cumulative Budget Gap by 2025/26 is £2.8million, if no action has been taken in each individual year to close the budget gap annually.

- 1.12 The Government's Spending Review announcement contained no real surprises for local government, and largely confirmed the assumptions previously made within the Medium Term Financial Strategy in October.
- 1.13 The scale of the reduction in economic output this year and the consequent increase in Government borrowing were slightly higher than forecasts made by independent observers such as the IFS (Institute for Fiscal Studies).
- 1.14 The Medium Term Financial Strategy on 20th October 2020 set out a predicted budget gap of £175,775 for 2021/22. Since that report, two further areas for savings and extra income have been identified from the revenue budget monitoring report for Month 7 (2021/22). (This is also an item on the Hub Committee agenda for 8th December for consideration).
- 1.15 The two areas are:
- Pensions Employer Contributions – secondary rate – There is an £80,000 saving on the cash amount paid to Devon County Council for pensions employer contributions. This is an annual saving until April 2023.
 - The Garden Waste income budget of £205,000 is expected to be exceeded by £40,000 in 2020/21.
- 1.16 In addition, new Regulations for the spreading of the Collection Fund deficit (for Business Rates and Council Tax income) have been announced and the collection fund deficit for 2021/22 has been estimated at £26,000. This is an additional cost in 2021/22 to fund. The TaxBase for 2021/22 has also been estimated at 20,200 Band D Equivalent Properties, following some further analysis on estimates of housing growth and the impact of the Council Tax Support scheme.
- 1.17 These areas together mean that the forecast budget gap for 2021/22 has decreased from £175,775 in the Medium Term Financial Strategy (October 2020) to £103,713 in these Draft Revenue Budget Proposals (December 2020) for 2021/22.
- 1.18 It is recommended that West Devon Borough Council continues to be part of the Devon Business Rates Pool for 2021/22, subject to there being no announcements within the Finance Settlement (expected to be announced in the week commencing 14th December), which in the opinion of the S151 Officer (in consultation with the Leader of the Council and the Portfolio Holder for Finance), would change this recommendation.

2 COMPREHENSIVE SPENDING REVIEW 2020

- 2.1 The Autumn Budget was cancelled on 23 September 2020 because there is too much uncertainty about the UK's economic outlook. Instead a one-year Spending Review was announced on 25 November 2020. This revealed that the economy is likely to contract by 11.3% this year – the largest single-year decline in more than three centuries.
- 2.2 The Government is expected to borrow £394 billion this year – seven times the amount anticipated in March. The spending plans announced have to be viewed in that context, and represent a holding position pending a more fundamental reappraisal of the country's ongoing economic capacity.

What are the implications for local government?

- 2.3 For 2021-22 there will be a **one year “rollover” settlement**, similar to that in 2020-21. A one year settlement has the advantage that it is simple, and there is no significant redistribution of funds. All local authorities will face increased financial pressure through a combination of increased demand for personal & protective services and reduced income from both taxes and demand-led income streams. Capacity to absorb these pressures will vary – which in turn will lead to calls for redistribution of the total sum available. However, it seems unlikely that significant changes will, or indeed, could be introduced before 2022-23.
- 2.4 Support for the impact of Covid-19 has largely been kept separate from the core funding for local authorities. In particular, the Government has stated that compensation will be provided for 75% of council tax or business rates income deemed to be irrecoverable. Further information is awaited on what criteria will be applied before tax is deemed to be irrecoverable, but this does at least provide some mitigation for losses that would otherwise feed into Collection Fund adjustments in 2022/23.
- 2.5 The compensation scheme for income lost from sales, fees and charges will continue for the first three months of 2021/22.
- 2.6 A further £1.55 billion in new funding for local government's COVID expenditure pressures was announced in the Spending Review. It is unknown whether this will be allocated using the COVID Relative Needs Formula (RNF) that was launched alongside Tranche 4 of the COVID Grant. It is also unknown whether the allocations will be published in the Provisional Local Government Finance Settlement (expected in the week commencing 14th December), or later next year.
- 2.7 There will be separate grant funding to help tackle homelessness amounting to £254 million – considerably more than the £103 million previously announced. Details of allocations and criteria are not yet available. The LGA has requested greater flexibility in the use of these funds than has previously been allowed.
- 2.8 Finally, there is a new, albeit small, £16 million grant programme to help local authorities improve their cyber security.

2.9 Many of the Spending Review announcements related to capital investment, which will extend beyond 2021-22. Of particular interest are the following proposals (details of which will follow at a later date):

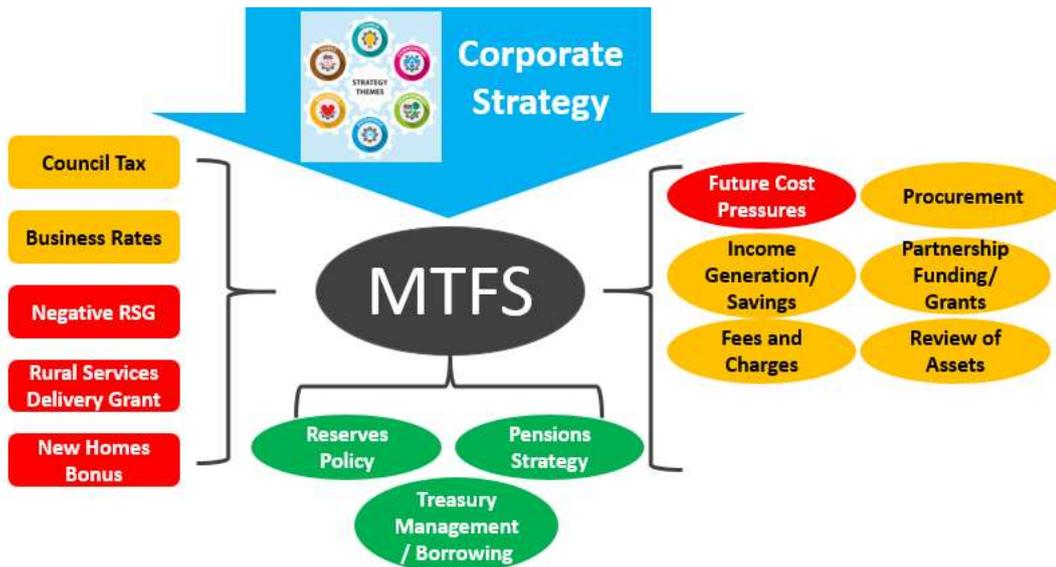
- a) a new Levelling Up Fund, allowing bids of up to £20 million to be made against a total allocation of £4 billion. Bids are to be evaluated jointly by the Treasury, MHCLG and Department for Transport. The inclusion of the latter department in evaluation suggests the likely focus of the overall fund. Bids must have real impact within the current Parliamentary term - which suggests a very short bidding and evaluation timescale if projects have to be complete and operational in less than four years' time - and must have local support, including that of the local MPs.
- b) £2 billion each for the Affordable Housing Programme and the National Home Building Fund in 2021-22. Over the next five years the funding for these two programmes is expected to come to nearly £20 billion in aggregate.
- c) £0.9 billion for flood and coastal defence projects. This is roughly double the previous provision, and is expected to continue at this level for at least a further four years.
- d) £220 million as a transitional arrangement pending introduction of a new UK Shared Prosperity Fund. This new Fund is intended to take the place of EU regeneration funds, although the 2021/22 funding appears to be for preparatory work, rather than fully-fledged schemes.

3 THE COMPONENTS MAKING UP A MEDIUM TERM FINANCIAL STRATEGY (MTFS)

3.1 The Diagram below sets out all of the component parts which constitute the make-up of a Medium Term Financial Strategy. 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.

2020/21 Net Amended Budget £7.7 million



3.2 The key assumptions within the MTFS are as below. Each of these is described in more detail in Section 4.

- A one year 'rollover settlement' (with no negative Revenue Support Grant in 2021/22)
- The business rates baseline reset will be deferred until 2022/23
- The Settlement Funding Assessment (SFA) will increase in line with inflation – this is essentially the business rates baseline and is the amount of money the Council retains from its share of the business rates income. September CPI was 0.5%.
- There will be a phasing in of negative Revenue Support Grant (RSG) as part of the business rates baseline reset with a transition period over three years, to avoid Local Authorities losing/gaining too much in one go
- Council Tax limits for District Councils will remain at the higher of £5 or 1.99% for 2021/22 onwards: although the Spending Review documents refer to 2%, we are interpreting this as a simplified description of the arrangements that applied in 20-21 and which we expect to see repeated – i.e. that Districts can increase their share by the higher of 1.99% or £5. In terms of the overall council tax bill, the County Council are able to increase their proportion of the council tax bill by up to 4.99%, to include a 3% precept for adult social care. This could lead to further requests for relief through Council Tax Support. Police and Crime Commissioners will be able to increase their share of the council tax bill by £15. No announcement has yet been made by the Government as to whether any council tax referendum principles will apply to Town and Parish Councils in 2021/22. Details of the council tax principles for 2021/22 are expected to be announced with the Draft Local Government Finance Settlement in the week commencing 14th December.

- There will be one more year of the New Homes Bonus payments (as part of a one year 'rollover settlement'). We are waiting for full details of this scheme, but we expect existing legacy payments will be honoured – albeit with no new legacy payment in respect of year 10 of the scheme. The NHB payments envisaged will be used to finance the revenue base budget.
- A modest business rates pooling gain of £40,000 has been modelled for 2021/22 with no further gains for 2022/23 onwards. Business rates income is assumed to be down by 3%.
- Normally the Council receive a surplus share of around £67,000 per annum. The Collection Fund will be in deficit this year, which will be spread equally across the three years 21-22, 22-23 and 23-24 (£26,000 for each of the three years), in line with new Government regulations introduced earlier this year. We are currently assuming that there will be no Collection Fund surplus in future years, and that the council tax collection rate will reduce by 1%.
- Rural Services Delivery Grant has been assumed to continue at the same level with a slight inflationary increase across the 5 years – In 21-22 the national total has been frozen at £81 million.
- The last pay award offer for 2020-21 was 2.75%. A 2% pay increase has been modelled from 2021/22 onwards (2% equates to £90,000). Although setting pay levels in Local Government falls outside Central Government control, this freeze will have informed the setting of funding for Local Government and is likely to be a significant factor in determining the outcome.
- No permanent reductions to the Council's income streams (such as car parking income, planning income etc. as a result of the Covid pandemic) have been built into the Base Budget for 2021/22. This will be regularly monitored over the next few months. The Government's income compensation scheme for sales, fees and charges for Councils has only been extended for the first three months of 2021/22. The Month 7 Revenue Budget Monitoring report for 2020/21 (also on this Hub Committee agenda) makes a recommendation to transfer £220,000 into a Covid Earmarked Reserve, to protect against future COVID losses in 2021/22.

OVERALL POSITION – BUDGET GAP

- 3.3 Financial modelling has been undertaken for the next five years to predict the Council's financial situation for the short and medium term.
- 3.4 **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. **Appendix B** illustrates the overall financial forecast for the forthcoming five years. The Council's Net Budget is £7.7 million in 2020/21.

3.5 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 per annum (shown in Appendix B).

3.6 The following table illustrates the predicted budget gap from 2021/22 onwards for the Council **as shown in Appendix B:**

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3.7 ***The forecast budget gap for 2021/22 is £103,713. This is 1.4% of the predicted Net Budget for 2021/22 of £7.3million.*** A cumulative budget gap of £220,005 is predicted for 2022/23 (this assumes that the budget gap for 2021/22 of £103,713 has not been closed). This increases to £1million by 2025/26. The aggregated Cumulative Budget Gap by 2025/26 is £2.8million, if no action has been taken in each individual year to close the budget gap annually.

3.8 The Government's Spending Review announcement on 25th November 2020 contained no real surprises for local government, and largely confirmed the assumptions previously made within the Medium Term Financial Strategy (MTFS) in October.

3.9 The Medium Term Financial Strategy on 20th October 2020 set out a predicted budget gap of £175,775 for 2021/22. Since that report, two further areas for savings and extra income have been identified from the revenue budget monitoring report for Month 7 (2021/22). (This is also an item on the Hub Committee agenda for 8th December for consideration).

3.10 The two areas are:

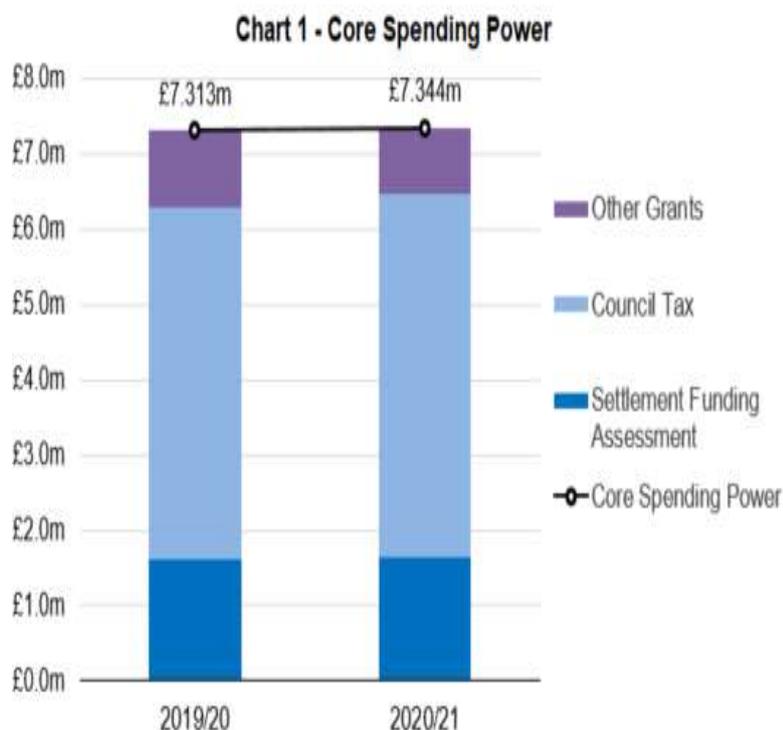
- Pensions Employer Contributions – secondary rate – There is an £80,000 saving on the cash amount paid to Devon County Council for pensions employer contributions. This is an annual saving until April 2023.
- The Garden Waste income budget of £205,000 is expected to be exceeded by £40,000 in 2020/21.

- 3.11 In addition, new Regulations for the spreading of the Collection Fund deficit (for Business Rates and Council Tax income) have been announced and the collection fund deficit for 2021/22 has been estimated at £26,000. This is an additional cost in 2021/22 to fund. The TaxBase for 2021/22 has also been estimated at 20,200 Band D Equivalent Properties, following some further analysis on estimates of housing growth and the impact of the Council Tax Support scheme.
- 3.12 These areas together mean that the forecast budget gap for 2021/22 has decreased from £175,775 in the Medium Term Financial Strategy (October 2020) to £103,713 in these Draft Revenue Budget Proposals (December 2020) for 2021/22.

4 ASSUMPTIONS FOR FINANCIAL MODELLING PURPOSES

- 4.1 In the Medium Term Financial Strategy (MTFS), it has been assumed that the Settlement Funding Assessment (SFA) will increase in line with inflation.
- 4.2 The SFA is essentially the business rates baseline and is the amount of money the Council retains from its share of the business rates income. The breakdown of the increase in SFA for 2020/21 is shown below. The Council now receives no main Government grant (Revenue Support Grant).
- 4.3 The 'Core Spending Power' is a headline figure used by MHCLG to represent the key revenue resources available to local authorities, including an estimate of actual and potential council tax, as below. In the Spending Review (SR) 2020, the Chancellor announced that Core Spending Power (a measure of a Council's resources) is forecast to rise by 4.5% nationally in cash terms next year (mainly due to anticipated council tax increases nationally).

'Core Spending Power' is a headline figure used by MHCLG to represent the key revenue resources available to local authorities, including an estimate of actual and potential council tax.



Core Spending Power (£m)

	2019/20	2020/21	Change
Core Spending Power	7.313	7.344	0.42%
<i>Which consists of:</i>			
Settlement Funding Assessment (Business Rates Baseline)	1.622	1.648	1.63%
Assumed Council Tax	4.674	4.818	3.1%
New Homes Bonus	0.501	0.348	(30.5)%
Rural Services Delivery Grant	0.464	0.464	Nil
Other grants	0.052	0.066	26.9%

Business Rates and Negative Revenue Support Grant (RSG)

- 4.4 The Business Rates Reset will be delayed to 2022/23. A reset based on the current taxbase would have been badly distorted by the current economic crisis, and very unlikely to reflect the potential business rates that authorities can collect in future years.

- 4.5 A one year 'rollover settlement' (with no negative Revenue Support Grant in 2021/22) continues to be the most likely scenario. This means the Council wouldn't have to forego some of its business rates income (£293,000) by paying some of it back to Government in the form of 'negative government grant' in 2021/22. Negative RSG is effectively the Council's further predicted funding cuts.
- 4.6 It is anticipated there will be a phasing in of negative RSG as part of the business rates baseline reset in 2022/23, with a transition period over three years, to avoid Local Authorities losing/gaining too much in one go. Some of the negative RSG is expected to be offset by growth being dispersed across as Local Authorities.
- 4.7 Estimates have been made of the business rates baseline funding levels for 2021/22 onwards and the relative deductions for negative RSG. For example in 2019/20, the £1.648m is the amount the Council retains from its business rates income collected of £10.6 million (the Council keeps about 16p in every £1 collected of business rates to fund its services). The Council responded to the Government consultation on the Call for Evidence on Business Rates Reform. A joint response was also sent by the Devon Business Rates Pooling partners. A final report setting out the full conclusions of the Government review will be published in Spring 2021.

	Business Rates Income projected in the MTFS (£m)					
	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26
Business Rates Income	1.648	1.780	1.736	1.747	1.783	1.813
Less: Negative RSG change to baseline need	0	0	(0.136)	(0.182)	(0.227)	(0.293)
TOTAL	1.648	1.748	1.600	1.565	1.556	1.520

Business Rates reliefs

- 4.8 Aside from the retail relief, the other variance expected in business rates income in 2020/21 will be due to the businesses failing and subsequent reliefs. This is forecast at a -3% reduction in 2020/21, with a further 3% reduction in 2021/22. It is too early to tell the implications for the economy of COVID, other than the more general expectations of negative growth. See 4.20 on the Collection Fund.

- 4.9 The net collectable debt for Business Rates is £4.86 million for 2020/21. Prior to the pandemic, this was predicted to be £10.6million and the additional NNDR reliefs for the total value of the expanded retail discount and nursery discount for 2020/21 total £6.087million. Therefore over £6million worth of the Council's normal business rates bills issued of £10million are entitled to 100% business rates relief and have no business rates to pay in 2020/21 due to the coronavirus expanded retail discount and nursery discount. This amount is being reimbursed to the Council by the Government through a Section 31 Grant.
- 4.10 The Council and SWCouncils are lobbying the Government for these business rates reliefs to continue into 2021/22. The Spending Review referred to a freeze in the business rates multiplier next year, as the multiplier was going to increase by 0.5% but will now be frozen. Many businesses are asking whether the business rates reliefs in 2020-21 will be extended into next year to support retail, hospitality and leisure businesses. The Government will make a decision on this in the New Year to respond to the 'evolving challenges presented by COVID-19'. If the Retail Discount is discontinued, then this will place more pressure on business rates income for Councils in 2021-22.
- 4.11 By October 2020, the Council has collected 60.59% of the net collectable debt. This is 6.16% lower than October 2019 – a cash reduction of £324,000. A reduction of 3% is assumed in the overall year – the impact of the national lockdown in November may have had an impact on payment profiles. The 2019/20 collection rate for West Devon for business rates was 97.62%. The national average was 98%.

Devon Business Rates Pool

- 4.12 It is recommended that West Devon Borough Council continues to be part of the Devon Business Rates Pool for 2021/22, subject to there being no announcements within the Finance Settlement (expected to be announced in the week commencing 14th December), which in the opinion of the S151 Officer (in consultation with the Leader of the Council and the Portfolio Holder for Finance), would change this recommendation. Modelling has been carried out with the other Devon Authorities and Local Government Futures to inform this recommendation. A modest business rates pooling gain of £40,000 has been modelled for 2021/22 with no further gains for 2022/23 onwards.

Council Tax

- 4.13 The Council Tax Referendum limits for District Councils for 2020/21 was the higher of 1.99% or £5, for 2020/21. Although the Spending Review refers to a 2% limit for 21-22, we have interpreted this as being a simplified description of the limits that applied this year. Confirmation is not expected until the Local Government Finance Settlement but it is expected that the £5 limit for Districts will still apply for 2021/22. 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

West Devon of £241.63 in 2021/22 as shown in Appendix B (an increase of £5 for the year (10 pence per week) which equates to a 2.11% increase. The council tax for 2021/22, the WDBC share, will be set at the Council meeting on 16th February 2021. (A 1% increase in council tax generates £48,000 of extra council tax income).

- 4.14 The table below shows how an average Band D council bill is made up for West Devon Borough for 2020/21 as compared to the previous year. Of an average Band D Council Tax within the Borough of £2,066.87, an amount of £236.63 is the element of a council tax bill set by West Devon Borough Council. Therefore 11pence of every £1 paid (11%) in council tax is received by West Devon Borough Council to pay for our services. The rest of the council tax bill is set by Devon County Council, the Fire, the Police and Town and Parish Councils to fund the services they provide.

Precepting Authority	Band D 2019/20	Band D 2020/21	£ Increase	% Increase
West Devon Borough Council	£231.63	£236.63	£5.00	2.16%
Devon County Council Precept	£1,286.19	£1,313.73	£27.54	3.99%
Adult Social Care Precept	£98.10	£125.73	£27.63	
Devon & Cornwall Police & Crime Commissioner	£212.28	£221.64	£9.36	4.41%
Devon & Somerset Fire & Rescue	£86.52	£88.24	£1.72	1.99%
Average Parishes/Towns	£72.02	£80.90	£8.88	12.33%
TOTAL	£1,986.74	£2,066.87	£80.13	4.03%

- 4.15 A 1% reduction in council tax collection rates has been assumed for 2021/22 onwards. This may need to be revisited in future budget reports depending on the payment profiles being experienced in latter months of the year. As at the end of October 2020, 64.30% of the council tax has been collected. This is a decrease of 1.36% against the 2019/20 collection rates at the end of October. The 1.36% drop equates to £587,000 (WDBC share £64,570). See 4.20 on the Collection Fund.

- 4.16 The Borough Council is responsible for collecting all the Council Tax debt of £43m in 2020/21 as we are the Billing Authority. After keeping 11% of the council tax collected to run our services, the rest is paid over to Devon County Council, the Police, the Fire and Town and Parish Councils. The collection rate for Council Tax for West Devon was 97.71% for 2019-20. This was 0.91% higher than the national average of 96.8%.
- 4.17 More work has been completed on the Council TaxBase calculations for 2021/22 onwards, following the Council TaxBase estimate form (CTB1) submission. The effect of an increase in working age claimants for Council Tax Support for 2021/22 onwards has been modelled. The TaxBase for 2021/22 has been estimated at 20,200 Band D Equivalent Properties, following some further analysis on estimates of housing growth and the impact of the Council Tax Support scheme. The Council has written to Town and Parish Councils to advise that it would be prudent to budget for a 2% reduction in the TaxBase for 2021/22, to take into account the effect of a reduction in the council tax collection rate and also the impact of the Council Tax Support Scheme.
- 4.18 It has been assumed that the number of properties within the Borough will increase by 20 per annum from 2021/22 onwards. A low figure has been assumed to partly offset the impact of Council Tax Support on the Taxbase.
- 4.19 In 2020/21 the Government set no council tax referendum principles for Town and Parish Councils. It has not yet been announced by the Government whether any referendum principles will apply to Town and Parish Councils in 2021/22 onwards. This is expected to be announced in the Finance Settlement.

The Collection Fund - Council Tax and Business Rates Income

- 4.20 The Collection Fund holds all payments in and out relating to Council Tax and Business Rates. As such any losses incurred will be suffered by the Collection Fund in the year and then distributed to the Council and Precepting Authorities in future years. A large part of the reductions in income will affect the Council's financial position in 2021/22 onwards, although it does affect the cashflow position of the Council in 2020/21. In view of the exceptional conditions experienced in 2020/21, the Government has introduced Regulations requiring that the Collection Fund deficit this year be divided equally across 2021/22, 2022/23 and 2023/24. This is a one-off change to established practice.
- 4.21 Council Tax and Business Rates form a large share of the funding for the Council's budget and therefore these income streams are funding the essential services being delivered.

4.22 In the Spending Review 2020, the Government announced a Tax Income Guarantee Scheme for 2020-21. This new reimbursement scheme, worth £762m for 2020-21 local tax losses, will be launched to compensate councils for 75% of irrecoverable losses of council tax and business rates revenues in 2020-21 that would otherwise need to be funded through local authority budgets in 2021-22 and later years. This will be paid through an unringfenced grant. Further details of this scheme and how irrecoverable losses will be calculated are awaited.

Rural Services Delivery Grant

4.23 Rural Services Delivery Grant has been modelled to continue for 2021/22 onwards at previous levels (£81m nationally – WDBC share of £464,365) and the methodology for distribution to remain unchanged from 2020/21. The Council will continue to lobby on the basis that the £81m should be increased in future years to reflect the additional cost of delivering services in rural areas.

New Homes Bonus (NHB)

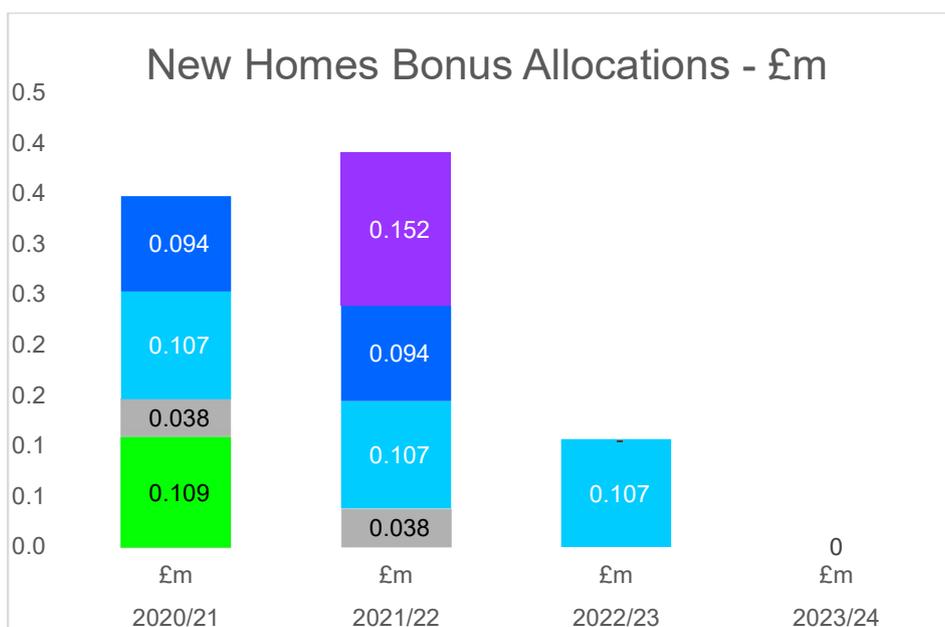
4.24 In theory, the New Homes Bonus (NHB) scheme is being phased-out , although consultation on any replacement has been deferred for a further year. The Spending Review has merely confirmed that for 2021/22 the scheme will continue to operate, albeit with no further legacy payments.

4.25 On 25 September, the Ministry for Housing, Communities & Local Government wrote to local authority Chief Finance Officers to request Council Tax Base data. The request included the data that would be required to support calculations, which “may be needed in calculating the bonus”, though no firm commitment as to the form this may take was given. The Council’s New Homes Bonus allocation for 2020/21 was £347,543 as shown below.

New Homes Bonus	2020/21	2021/22	2022/23	2023/24
	£m	£m	£m	£m
2017/18 allocation	0.109			
2018/19 allocation	0.038	0.038		
2019/20 allocation	0.107	0.107	0.107	
2020/21 allocation	0.094	0.094		
2021/22 forecast allocation		0.152		
2022/23 forecast allocation			-	
Equals NHB Funding	0.348	0.391	0.107	-

This is a possible scenario - details to be confirmed in the Finance Settlement

No future years' allocations assumed



- 4.26 If the legacy payments for NHB from previous years are honoured by the Government, this would equate to £145,000 in 2021/22 and £107,000 in 2022/23 (although reform will be implemented in 2022/23). In light of the recent Government letter accompanying the CTB1 return issued on 25th September, it is reasonable to assume that a further allocation for 2021/22 will also be made.
- 4.27 The modelling in the MTFS therefore assumes NHB funding of £195,000 in 2021/22 will be available to fund the revenue base budget (being the legacy payments plus an additional allocation of £50,000 for 2021/22). The 2021/22 allocation (Year 11) could be higher than £50,000 and could be as much as £152,000 (shown in purple), which would result in 2021/22 allocation of NHB of £391,000 as shown. It is expected actual allocations will be announced with the provisional finance settlement in the week commencing 14th December. The Government will consult on reforms to the New Homes Bonus scheme shortly, with a view to implementing reform in 2022-23.

Other assumptions within the Medium Term Financial Strategy (MTFS)

- 4.28 The last pay award offer for 2020-21 was 2.75%. A 2% pay increase has been modelled from 2021/22 onwards (2% equates to £90,000). 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.
- 4.29 This report assumes inflation will run at 1% over the five year period. The Consumer Prices Index (CPI) was 1.0% in July 2020. RPI was 1.6%. CPI in September – the reference point for business rate increases and many welfare benefits – was 0.5%.

- 4.30 The predicted interest rate forecast from our treasury management advisors, Link Services, is that interest rates will remain at 0.75% up to March 2021. By March 2022 the bank base rate is predicted to increase to 1.25%.

SAVINGS

- 4.31 On 22 September 2020 Council considered a report on strategic leisure options. It was agreed to continue with the Fusion contract as being the most appropriate means of supporting health and wellbeing objectives within the Borough. The savings from the re-profiled management fees from the leisure contract have been built within the Medium Term Financial Strategy. Management fees are repayable from 2021/22.
- 4.32 On 15th September 2020 the Hub Committee considered a report on three weekly trials. The annual savings expected from a three weekly scheme across the whole Borough is estimated at between £100,000 to £150,000 a year. These savings are modelled in the Medium Term Financial Strategy and are dependent on the outcome report and the Council decision.
- 4.33 Minute HC19 states that the Committee approve the continuation of the trial of three weekly refuse collections to around 1,000 households in the Borough until March 2021 to allow a full year of data to be analysed. An outcome report in March 2021 will include an officer appraisal over whether or not the Committee should recommend to Council that a three weekly refuse collection should be implemented for all households in the Borough with a potential start date of Autumn 2021. The Hub Committee noted the success of the enhanced recycling service.
- 4.34 Since the Medium Term Financial Strategy report in October, two further areas for savings and extra income have been identified from the revenue budget monitoring report for Month 7 (2021/22). (This is also an item on the Hub Committee agenda for 8th December for consideration).
- 4.35 The two areas are:
- Pensions Employer Contributions – secondary rate – There is an £80,000 saving on the cash amount paid to Devon County Council for pensions employer contributions. This is an annual saving until April 2023.
 - The Garden Waste income budget of £205,000 is expected to be exceeded by £40,000 in 2020/21.
- These have been built into Appendix A (savings and additional income) in this report.

5 PARTNERSHIP FUNDING AND GRANTS

5.1 The Hub Committee considered a report on Partnership funding on 5th November 2019. Minute HC50 on Partnership Funding resolved the following:-

It was then **RESOLVED** that:

1. The feedback given by each partner had been considered and evaluated based on local need, alignment to the Council's Corporate Strategy and statutory duty;

2. The following partners be awarded funding as follows for the next three years (2020/21 to 2022/23):-

Citizens Advice Torridge, North, Mid and West Devon - £32,900

West Devon Community and Voluntary Services (CVS) - £5,100

Junior Life Skills - £2,510

Okehampton Community Recreation Association (OCRA) - £1,333

Okehampton & District Community Transport Group - £6,533

Tavistock Ring & Ride - £6,533, provided a service still continues

Young Devon - £2,500

Heart of the South West Local Enterprise Partnership (LEP) - £5,000

Tamar Estuaries Consultative Forum - £4,624 + 2.75%

Tamar Valley Area of Outstanding Natural Beauty - £8,835

Cornwall & West Devon Mining Landscape World Heritage Site

Partnership Board (WHS) - £4,000; and

3. No alternative or additional commissioning opportunities be made available at this stage.

5.2 Two Members have requested that additional funds be made available to the Community Safety Partnership and included as an extra cost pressure from 2021/22 onwards. This has not yet been factored into the Budget report. This item was discussed at a meeting of the Financial Stability Review Group (FSRG) on 16 November 2020 and it was agreed to request that the Partnership set out a business case to demonstrate the need for extra funding (e.g. for youth outreach).

6 Treasury Management and Borrowing Strategy

6.1 The Council has taken external treasury management advice on the Council's overall borrowing levels and debt levels. The Council set an Upper Limit on External Borrowing (for all Council services) as part of the Medium Term Financial Strategy of £50 million in 2019. It is recommended to Council in December that this limit is retained as the Council's circumstances and financial indicators have not changed since this work was carried out.

6.2 In March, the Government launched a consultation on reforms to the Public Works Loan Board intended to prevent the trend, in a minority of local authorities, of taking on debt to buy assets primarily for income.

- 6.3 In the Spending Review 2020, the Government has announced the outcome of the consultation and has lowered the interest rate of Public Works Loan Board lending by 1%. This brings Public Works Loan Board interest rates back to the levels they were at before October 2019. Local Authorities will be asked to submit a high-level description of their capital spending and financing plans for the following three years, including their expected use of the PWLB.

7 FEES AND CHARGES

- 7.1 Fees and Charges will be considered as part of the Budget Proposals report for 2021/22 to the Hub Committee on 2nd February 2021.
- 7.2 No permanent reductions to the Council's income streams (such as car parking income, planning income etc. as a result of the Covid pandemic) have been built into the Base Budget for 2021/22. This will be regularly monitored over the next few months. The Government's income compensation scheme for sales, fees and charges for Councils will only run for the first three months of 2021/22, so any losses from July onwards will have to be addressed by the Council's own finances.

8 FINANCIAL SUSTAINABILITY AND TIMESCALES

- 8.1 The Council will assess various options for closing the budget gap for 2021/22 onwards, 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
<p>Extended Leadership Team (ELT) Budget options</p> <p>The Extended Leadership (ELT) will continually look to identify budget options for Members to consider for income generation/savings/reduced expenditure for 2021/22 onwards, taking into consideration the Council's corporate strategy and the latest budget monitoring position.</p>	To be quantified	As per the Budget Timetable outlined in 11.3
<p>Asset Review</p> <p>Members and Officers are assessing options for the Council's Asset review.</p>	To be quantified	On-going

Option	Possible Budget Impact	Timescale
<p>Revenue Budget Monitoring report Each Revenue Budget Monitoring report to the Hub Committee will identify possible areas of future savings and additional income</p>	To be quantified	Options to be assessed as per the Budget Timetable outlines in 11.3
<p>Redevelopment of homeless provision A separate report on the potential redevelopment of homeless provision was on the Hub Committee agenda for 20th October.</p>	The capital project would provide a net income stream. This has not been reflected within the MTFS forecasts within this report.	Report was considered by the Hub Committee on 20 th October.
Funding Options		
<p>New Homes Bonus allocations for 2021/22 onwards The Council is awaiting details of the precise scheme that will apply in 2021/22. See 4.24 to 4.27 of the report.</p>	To be assessed. It is not known what NHB allocations (or a similar scheme) will be in future years when the NHB scheme is replaced.	Awaiting further announcements from the Government

Option	Possible Budget Impact	Timescale
<p data-bbox="360 309 877 376">Use of Earmarked Reserves as a temporary measure</p> <p data-bbox="360 416 877 600">The Council could temporarily utilise an element of Earmarked Reserves to balance an element of the 2021/22 budget, whilst longer term solutions are being implemented.</p> <p data-bbox="360 640 877 707">This would be a very short term solution though.</p>	To be assessed	To be decided as part of the Budget Process

- 8.2 Through the Financial Stability Review Group, further measures will continue to be considered to balance future years' budget positions.
- 8.3 Financial Stability is one of the themes within the Recovery and Renewal Plan. The action plan, setting out the areas being progressed and the timescales within which this will take place, was set out in Appendix 1 of the Recovery Plan. Following consideration of the Renewal and Recovery Plan in the Summer, the Action Plan for the Financial Stability Theme was updated and agreed by the Financial Stability Review Group (FSRG) on 18 August 2020.
- 8.4 The Revenue Budget Monitoring report (Month 7) for 2020-21 is projecting an underspend of £90,000, which is 1.2% of the overall budget set for 2020/21 of £7.7 million.

9 CAPITAL PROGRAMME AND PRUDENTIAL BORROWING

- 9.1 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. The Capital Budget Proposals for 2021/22 will be presented to the Hub Committee in February 2021.
- 9.2 **Investment Property Strategy** – The Council has agreed an Investment Property strategy. To date, four investment properties have been purchased with a value of £21.3 million in aggregate.
- 9.3 Purchases made within the strategy are capital expenditure. An income projection of £300,000 from the net ancillary income from investments in Investment property has been included within the Medium Term Financial Strategy.
- 9.4 The Council's Asset Base is £44 million at 31 March 2020. The Council will continually review and challenge its asset base in order to deliver the optimum value for money from the Council's Assets.

10 Earmarked and Unearmarked Reserves Policy

- 10.1 Earmarked Reserves at 31.3.2021 are predicted to be £4.612 million as set out in Appendix C.
- 10.2 Unearmarked Reserves are £1.086 million at 31.3.2020. The Council's Net Budget is £7.7 million for 2020/21. Therefore Unearmarked Reserves equate to 14% of the Council's Net Budget.
- 10.3 No contributions to Earmarked Reserves for the Planning Reserve (£25,000) or the Elections Reserve (£20,000) have been modelled for 2021/22. These contributions have been modelled to re-start in 2022/23.
- 10.4 Legislation does not prescribe how much the minimum level of reserves should be. The Section 151 officer is tasked with recommending the minimum level of reserves required as part of the budget setting process having regard to elements of risk in the Council's finances. Section 25 of the Local Government Act 2003 requires the S151 officer to report on the adequacy of the Council's financial resources on an annual basis. This is routinely done in February each year when the Budget is set.
- 10.5 In February 2020, Members set a minimum balance for Unearmarked Reserves of £900,000, based on a risk assessment.

11 NEXT STEPS AND PROPOSED WAY FORWARD

- 11.1 The 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.
- 11.2 Officers will continue to work with the Financial Stability Review Group and the results of this will be incorporated into future Budget reports. Section 8 sets out the potential timescales against the areas identified.
- 11.3 The table below shows the budget timetable for the budget meetings for the 2021/22 Budget.

8th December 2020	Hub Committee – To consider draft proposals for the Revenue Budget for 2021/22 (this report)
19 th January 2021	Overview and Scrutiny Committee – To consider draft proposals for the Revenue Budget and Capital Programme for 2021/22
2 February 2021	Hub Committee – To recommend Final Budget Proposals to Council for 2021/22

11th February 2021 (9am)	Date which Council Procedure Rule 16 applies
16th February 2021	Full Council – To approve Final Budget Proposals for 2021/22 and set the WDBC share of the Council Tax
23rd February 2021	Council Tax Resolution Panel – to agree the Council Tax Resolution for 2021/22 (This is WDBC share plus all other precepting authorities share).

Note 1- Council Procedure Rule 16 states that ‘Where a member intends to move a motion or amendment in relation to the Budget, the text of that motion or amendment must be put in writing and submitted to the Head of Paid Service by 9am on the third working day before the meeting, in order that officers may have sufficient time to consider and advise the Council of the financial implications of any such motion or amendment’. As per the timetable above, this would need to be submitted by 9am on Thursday 11th February 2021.

12. Implications

Implications	Relevant to proposals Y/N	Details and proposed measures to address
Legal/Governance		<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 on an annual basis. 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>

Implications	Relevant to proposals Y/N	Details and proposed measures to address
Financial implications to include reference to value for money		<p><i>The forecast budget gap for 2021/22 is £103,713. This is 1.4% of the predicted Net Budget for 2021/22 of £7.3million.</i> A cumulative budget gap of £220,005 is predicted for 2022/23 (this assumes that the budget gap for 2021/22 of £103,713 has not been closed). This increases to £1million by 2025/26. The aggregated Cumulative Budget Gap by 2025/26 is £2.8million, if no action has been taken in each individual year to close the budget gap annually.</p> <p>It is recommended to Council that West Devon Borough Council continues to be part of the Devon Business Rates Pool for 2021/22, subject to there being no announcements within the Finance Settlement (expected to be announced in the week commencing 14th December), which in the opinion of the S151 Officer (in consultation with the Leader of the Council and the Portfolio Holder for Finance), would change this recommendation.</p> <p>The recommendations adopted and the annual budget setting process will ensure the Council has arrangements in place to secure economy, efficiency and effectiveness in its use of resources. The Council's auditors, Grant Thornton, provided an unqualified value for money opinion for the Borough Council for 2019-20, which was reported to the Council's Audit Committee on 13 October 2020.</p>
Risk		Each of the budget options taken forward by Members will consider the risks of the option.
Supporting Corporate Strategy		The Budget report supports all six of the Corporate Themes of Council, Homes, Enterprise, Communities, Environment and Wellbeing.
Climate Change - Carbon / Biodiversity Impact		A Climate Change Action Plan was presented to Council in December 2019. Following this report, a strategy will be implemented as to how the Council could finance the items within the Action Plan, whether that is from external grant sources or some funding from the Council's own resources.

Implications	Relevant to proposals Y/N	Details and proposed measures to address
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 Budget Position
- Appendix C - Schedule of Earmarked Reserves

Background Papers:

- Hub Committee 8th December 2020 – Revenue Budget Monitoring report (Month 7)
- Council 22nd September 2020 – Amended Budget Proposals 2020-21
- Hub Committee 20th October 2020 – Medium-Term Financial Strategy

Approval and clearance of report

Process checklist	Completed
Portfolio Holder briefed/sign off	Yes
SLT Rep briefed/sign off	Yes
Relevant Heads of Practice sign off (draft)	Yes
Data protection issues considered	Yes
Accessibility checked	Yes