

**NOT FOR PUBLICATION**

This report contains exempt information as defined in Paragraph 3 of Part 1 of Schedule 12A to the Local Government Act 1972 (applies to Appendix F)

Report to: **Hub Committee**

Date: **19 December 2016**

Title: **Revenue and Capital Budget Proposals Report 2017-18**

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

Wards Affected: **All**

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

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

Author: **Lisa Buckle** Role: **Finance Community of Practice Lead**

Contact: **Tel. 01803 861413**  
**Email: [lisa.buckle@swdevon.gov.uk](mailto:lisa.buckle@swdevon.gov.uk)**

---

**Recommendations:**

It is recommended that the Hub Committee:

- i) Notes the contents of the latest Budget Report for 2017-18

**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 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 West Devon Borough 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, South Hams District Council, approved an innovative Transformation Programme (T18). This is delivering a new operating model to ensure that both Councils can continue to deliver quality services for its customers and communities. An investment budget of £2.83 million was approved, to deliver annual recurring revenue savings of £1.64 million. The payback period for the Programme is 2.75 years. The Transformation Programme has received the backing of Central Government and the Council was awarded £266,000 of Government funding towards the upfront investment costs.
- 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 Gap of £236,017. In 2018/19 there is a projected Budget Gap of £662,781. There are Budget Surpluses in years 2019/20 and 2020/21 and the modelling assumes that these surpluses are used for one-off investment in the years 19/20 and 20/21 and are taken as a saving in the next financial year. Over the five years, the cumulative projected budget gap is £708,890 as shown below.
- 1.5 West Devon and South Hams 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, West Devon and South Hams 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/(surplus)	236,017	662,781	Nil	Nil	(189,908)
<b>CUMULATIVE BUDGET GAP OVER THE FIVE YEARS TO 21/22</b>					<b>£708,890</b>
In the years 2019/20 and 2020/21, a budget surplus arises and the modelling assumes that these surpluses are used for one-off investment in the years 19/20 and 20/21 and are taken as a saving in the next financial year.					

- 1.8 *The September Medium Term Financial Strategy set out a £492,000 Budget Gap over the next 5 years to 2021/22. The Budget Gap is now higher by approximately £0.2 million and this report updates the position and shows that the Council is facing a £709,000 Budget Gap over the next 5 years and there is a budget gap of £236,000 still to close for 2017/18. The main reason for the increase of £0.2 million is due to a cost pressure of £125,000 for a reduction in planning income (see 6.4) and changes in other cost pressures.*
- 1.9 If New Homes Bonus (NHB) were to be used as outlined in Section 8.3 of the report, this would mean that there is currently a shortfall in 2017-18 of £68,000, plus the amount of NHB paid to Dartmoor National Park. This assumes that £0.7 million of NHB will be used in this year to support the Revenue Base Budget.
- 1.10 The Budget for 2016/17 was approved by Council on 16th 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 West Devon Borough Council was £7.25 million.
- 1.11 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.
- 1.12 The Council's approach to financial planning over the medium term will include a focus on income generation and commercial opportunities. This will strengthen the position of the Borough Council by developing financial resilience through less exposure to reductions in Government funding.
- 1.13 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**

- 1.14 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 South Hams District 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 offered to all Councils to apply for a four year settlement funding offer by 14<sup>th</sup> October.

- 2.2 On 16 November, the Council received written confirmation from the Government that West Devon is now formally on the multi-year settlement list, following the Council's application for this. This means that the Council now has certainty over the levels of funding for Revenue Support Grant, Transitional Grant and Rural Services Delivery Grant that it will receive for the next three years.

- 2.3 These are:-

Revenue Support Grant - £223,284 for 17/18 and then Nil thereafter.

Transitional Grant - £30,689 for 17/18 only

Rural Services Delivery Grant - £372,638 for 17/18, £286,645 for 18/19 and £372,638 for 19/20

Business Rates are outside of the four year funding offer.

- 2.4 The Government has said that barring exceptional circumstances and subject to the normal statutory consultation process for the local government finance settlement, the Government expects these to be the amounts presented to Parliament each year.
- 2.5 97% of Councils applied which the Government said showed the understandable need for the sector to secure greater certainty at a time of significant reform.

### **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 (£40,000) 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% 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 1% in September 16. The Retail Prices Index measure of inflation rose to 2% in September 2016.

3.3 The MTFS has included a cost pressure of £70,000 for Inflation and increases on Goods and Services. The main items are:-

- £20,000 – Business Rates increases (Revaluation 2017/18 onwards)
  - £1,500 – Apprenticeship Levy
  - £7,500 – Utilities inflation
  - £17,600 - Development Surveyor post – build into salary establishment (Minute HC 69– see 10.6 as year 1 costs were being funded from an Earmarked Reserve)
  - £8,400 – Insurance premiums
- An amount of just over £15,000 is to fund a 2% uplift on other expenditure budgets.

3.4 The predicted interest rate forecast from our treasury management advisors, Sector, is shown below. On 4<sup>th</sup> August, the Bank Base Rate was cut from 0.5% to 0.25%. The Council's budgeted investment income in 2016/17 is £45,321. 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%

The latest predictions for Bank Rate is that they will remain at 0.25% until Summer 2019 when it is predicted they may rise to 0.5%. The Council is investigating alternative investment vehicles which were discussed at the Financial Principles Member Workshop on 5<sup>th</sup> December.

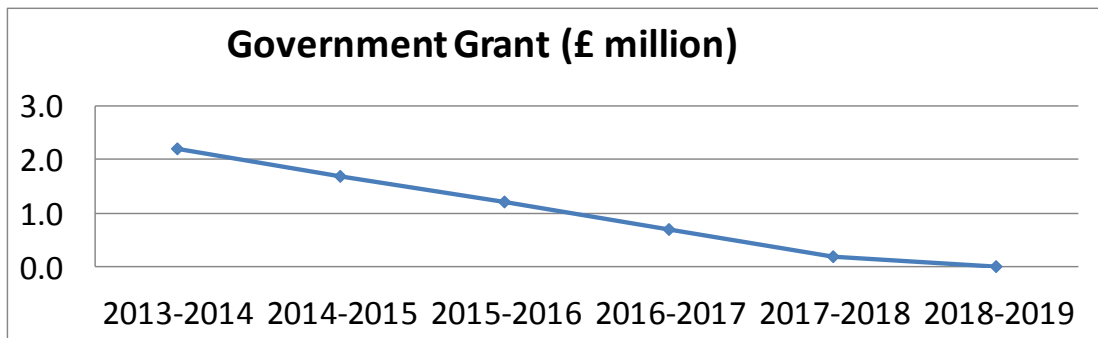
- 3.5 An increase in council tax of £5 for the next five years has been modelled for council tax purposes. This would equate to a Band D council tax for West Devon of £218.39 in 2017/18 as shown in Appendix B.
- 3.6 It has been assumed that the number of properties within the Borough will increase by 300 per annum from 2017/18 to 2021/22 – this is an increase of approx. 1.5% - the Council had £19,733.41 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 mid December.

**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 45% reduction in Government funding. In 2013/14 the Council received £2.2 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 £
<b>Revenue Support Grant (RSG)</b> (2015/16 RSG was £1.215 m):	£623,404	£223,284	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 | £461,498 |
| 2017-18 | £372,638 |
| 2018-19 | £286,645 |
| 2019-20 | £372,638 |
- 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 £250,000 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 is part of the Devonwide Business Rates and in 2015/16 made a pooling gain of £38,094.
- 4.8 In 2015/16 there has been a £1.185 million increase in the provision for appeals within the Council's Collection Fund. This has resulted in a deficit in the Business Rates Collection Fund of £1.5 million. West Devon Borough Council's share of the deficit is 40% (£607,000).
- 4.9 The Council will need to pay additional sums into the Collection Fund in future years to bring the Collection Fund back into balance. Monies have been set aside in the Business Rates Retention Earmarked Reserve to mitigate the impact of this in future years and to fund the volatility in Business Rates income. The balance on this reserve is £844,000 at 31 March 2016 (as per Appendix D).
- 4.10 The Council was in the safety net position for 2015-16 for Business Rates (income was more than 7.5% below the business rates baseline due to the size of the appeals provision) and therefore for future years, business rates income has been budgeted for at the Business Rates baseline.

4.11 The Council's Business Rates Gross amount payable has increased from £9.8 million in 2011/12 to £11.1 million in 2016/17 – an increase of over 2% per annum. Of the Business Rates collected of £11.1 million, the Council is predicted to retain in funding only £1.508 million of this in 2016/17. So the Borough Council retains approximately 13.5p in every £1 to run our services.

### Self-sufficient local government: 100% Business Rates Retention

4.12 The Council's response to the consultation document was an item on the agenda for the September Hub Committee meeting. The consultation paper confirmed 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.

4.13 **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. A summary of the revaluation changes are shown below.

Devon Authorities	Change in RV £	Change in RV %	Change in Gross rates £	Change in Gross rates %
<b>District</b>				
East Devon	3,672,626	4.12%	199,698	0.46%
Exeter	1,806,153	0.97%	(2,323,577)	-2.58%
Mid Devon	1,229,526	3.01%	(121,278)	-0.61%
North Devon	946,411	1.11%	(1,012,643)	-2.45%
South Hams	2,657,072	3.16%	(187,428)	-0.46%
Teignbridge	1,659,923	2.01%	(631,902)	-1.58%
Torridge	3,438,326	10.28%	1,037,053	6.41%
West Devon	2,343,538	8.09%	601,704	4.29%
Districts total	17,753,575	2.81%	(2,438,373)	-0.80%
<b>Unitary</b>				
Plymouth	1,083,143	0.47%	(3,386,667)	-3.06%
Torbay	(5,795,624)	-5.90%	(4,375,751)	-9.21%
Unitary total	(4,712,481)	-1.44%	(7,762,418)	-4.90%
<b>Overall Devon total</b>	<b>13,041,094</b>	<b>1.36%</b>	<b>(10,200,791)</b>	<b>-2.20%</b>

Gross rates (RV x rating multiplier) - before any transitional, SBRR, mandatory & discretionary relief

4.14 Although for all Districts in Devon there has been an increase in rateable value, the Government proposes to reduce the national small rate multiplier by 1.7p from 48.4p to 46.7p and the standard multiplier is also estimated to fall by 1.7p to 48.0p so that total business rate receipts in England remain constant in real terms.



- 4.15 Under the Government's proposals, West Devon would see an increase in the tariff paid over to the Government. However the Government has acknowledged that this methodology does not take into account the impact of reliefs and has indicated that it will keep the decision under review.

#### COUNCIL TAX

- 4.16 West Devon Borough Council's share of the council tax bill in 2016/17 was **12%**, being £213.39 out of an average Band D council tax bill of £1,736.13. The total income from council tax in 2016/17 is £4,210,912. The table below shows how an average Band D council bill is made up for West Devon for the last two years:

<b>Precepting Authority</b>	<b>Band D 2015/16</b>	<b>Band D 2016/17</b>	<b>£ Increase</b>	<b>% Increase</b>
West Devon Borough Council	£208.39	£213.39	£5.00	2.40%
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	£60.77	£62.30	£1.53	2.52%
<b>TOTAL</b>	<b>£1,678.32</b>	<b>£1,736.13</b>	<b>£57.81</b>	<b>3.44%</b>

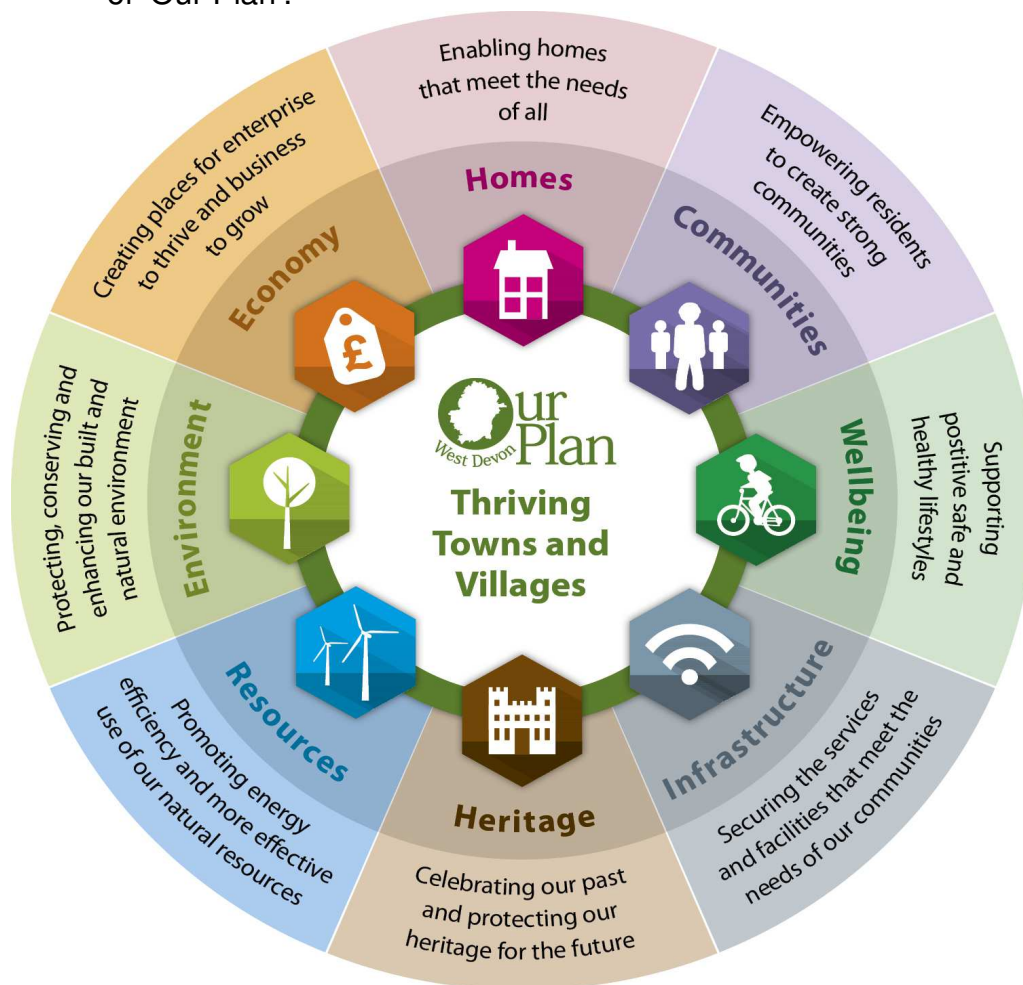
#### **£5 council tax referendum limit for District Councils for four years**

- 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 Borough 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 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 £213.39.

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 £2.26 million. A large part of this has been distributed in 16/17 but there is a predicted £1.1 million to distribute in 2017/18. This means that the Borough Council’s share of this distribution is £178,000 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. There is then a plethora of external policies and strategies which support the delivery of ‘Our Plan’.



5.2 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 on waste collection, recycling and cleansing

A budget pressure of £400,000 has been built into the MTFs as an estimate.

- 6.4 **Planning fee income** – In the Budget Monitoring report to the Hub Committee on 1 November 2016, it was highlighted that there is predicted to be a shortfall in income from planning applications of £60,000. Following the budget scouring process where all budgets have been scrutinised and also from having three months more of data, it is now anticipated that planning income will be under budget by £125,000. This position is expected to continue in 2017/18 and therefore a cost pressure of £125,000 has been added to the budget report. In 16/17 the budgeted income is £383,000 and it is anticipated actual income will be in the region of £260,000. At the end of November 2016 (end of Month 8) the amount of planning fee income was £170,000.

There is nothing concrete yet in legislation to allow Councils to charge a cost recovery basis for Planning applications. The Council's understanding is that secondary legislation will be required for this to happen. At this stage, it is felt prudent to reduce the planning income budget for next year.

- 6.5 **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. Some preliminary figures have been made available to the Council and the cost pressure has been increased by £5,000 to £80,000 in 2017/18 as a result.
- 6.6 **Inflation and increases on goods and services** – There is a cost pressure of £70,000 in the MTFs for Inflation and increases on goods and services, the detail of which is shown in 3.3.
- 6.7 **Salaries** – A 1% provision for a pay award has been included for 2017/18 which totals £40,000. This is explained in section 3.1. Also an amount of £40,000 has been included for salary increments.
- 6.8 **Housing Benefit administration subsidy and Council Tax Support Admin Grant** - The Council currently receives grant income of £160,000 in Housing Benefit administration subsidy and £59,000 in Council Tax Support Admin Grant. It is anticipated that these grants could reduce by £30,000 next year (between both grants) and a cost pressure has been included for these amounts.
- 6.9 **National Living wage and National Insurance** – The Government has committed to following the recommendations of the independent Low Pay Commission to increase the National Living Wage (NLW) by 4.2% from £7.20 to £7.50 from 2017. The Government's target is for the NLW to reach 60% of median earnings by 2020 subject to sustained economic growth. There will also be a small increase in national insurance contributions. A cost pressure of £20,000 has been included for these elements.

- 6.10 **Recycling credits income** – As highlighted in the Budget Monitoring report (Hub Committee 1 November 2016), it is anticipated there will be a £40,000 cost pressure.

Devon County Council has taken West Devon's leaf sweepings and garden waste into the County contract and has ceased paying recycling credits on this material. As has been previously reported, a phasing into the DCC contract was negotiated to minimise the budgetary impact. This has resulted in a loss of income gained from recycling credits from DCC, which is largely offset by West Devon no longer having to pay gate fees for composting the materials. Members will be aware that prices for recycling have dropped with the market changing significantly due to external factors. The income target in 2016/17 was reduced to £330,000, but the current monitoring position is showing that the budget needs to be further reduced by £40,000.

- 6.11 **Finance Community of Practice** – A cost pressure of £15,000 has been included for the cost of an extra 0.6FTE post within the Finance COP team (above the blueprinted establishment for finance). This is to reflect the fact that the blueprinted resources for the team were on the assumption that self-serve for budget holders was fully embedded and that budget managers would manage their budgets with minimal input or assistance from the finance team. Due to changing the coding structure for both Councils, the system support required on Civica Financials, the complexity of shared services accounting and the self-serve training still required on the finance system, it is recommended that the establishment reflects the current position and a £15,000 cost pressure is recognised.
- 6.12 The summary of the Recommendations from the Economy Working Group are shown in Appendix A. These were approved by Council on 6 December 2016.

### **EARMARKED RESERVES**

- 6.13 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 D.
- 6.14 **Creating an ICT Earmarked Reserve** - Following a review of all Earmarked Reserves, it is recommended to amalgamate a few older small reserves that haven't been used and re-allocate these to create an ICT Earmarked Reserve. These are the Young Persons Prevention Officer (£10K set up in 13/14), Inspire Anex 11 (£7K set up in 13/14) and Local Authority Business Growth Incentive LABGI funding (£25K set up in 12/13) – total of £42,000. This will be a recommendation of the January 2017 Hub Committee budget report.

- 6.15 **ICT 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 Hub Committee
- 6.16 **Planning 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.
- 6.17 **Contribution to the Strategic Change Reserve (T18)** – The contributions to the T18 Strategic Change Earmarked Reserve were set out in the Business Case in the Council report of 9<sup>th</sup> December 2014. These contributions are to meet redundancy and pension strain costs and other non-recurring costs. These one-off investment costs are funded by the savings.

#### **SAVINGS AND INCOME GENERATION**

- 6.18 **Re-procurement of contracts** – The MTFS shows the savings in Appendix A from the re-procurement of outsourced contracts.
- 6.19 **Income from fees and charges** - A report will be presented to the Overview and Scrutiny Panel on 17 January, to consider the fees and charges for 2017/18. Therefore no figure for savings/additional income has yet been shown in the Budget report and this is shown as 'To be agreed'.
- 6.20 **Budget Scouring savings** - All of the existing base budgets have been scrutinised and challenged by the Leadership Team and Finance Business Partners, in order to identify further savings. The following savings of £75,000 have been identified to date:-
- i) A £45,000 reduction in the annual contribution of £103,000 to the repairs and maintenance earmarked reserve for car parking (The car parking maintenance earmarked reserve currently has a balance of £408,000 in the reserve)
  - ii) A £25,000 saving on the purchase of equipment in the planning service and a £5,000 saving on staff travel
- 6.21 **Business Rates pooling gain** – A pooling gain of £30,000 has been estimated within the savings.
- 6.22 **Kilworthy Park** – Additional rental income of an extra £5,000 per annum has been built into the MTFS.
- 6.23 **Transformation Programme 2018 (T18) savings** – As shown in Appendix A, as approved in the 9<sup>th</sup> December 2014 Council report, in 2016/17 recurring annual staff savings of £700,000 (30% of current staffing levels) and £25,000 other staff saving costs (ancillary costs) were built in. Note the £725,000 savings in 2016/17 are in addition to £962,000 of savings already built into the 2015/16 Base Budget, with total savings being £1.6 million.

## 7. OVERALL POSITION – BUDGET GAP

- 7.1 Appendix B illustrates the overall financial forecast for the forthcoming five years. Although the Council's Net Budget is £7.25 million in 2016/17, the Gross Expenditure of the Council is around £26 million.
- 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 Gap of £236,017. In 2018/19 there is a projected Budget Gap of £662,781. There are Budget Surpluses in years 2019/20 and 2020/21 and the modelling assumes that these surpluses are used for one-off investment in the years 19/20 and 20/21 and are taken as a saving in the next financial year. Over the five years, the cumulative projected budget gap is £708,890 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:

	<b>2017/18</b>	<b>2018/19</b>	<b>2019/20</b>	<b>2020/21</b>	<b>2021/22</b>
	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
Budget gap/(surplus)	236,017	662,781	Nil	Nil	(189,908)
<b>CUMULATIVE BUDGET GAP OVER THE FIVE YEARS TO 21/22</b>					<b>£708,890</b>
In the years 2019/20 and 2020/21, a budget surplus arises and the modelling assumes that these surpluses are used for one-off investment in the years 19/20 and 20/21 and are taken as a saving in the next financial year.					

- 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 – This will be considered as part of the annual budget setting process by the Overview and Scrutiny Committee on 17 January 2017.
  - A Financials Principles Workshop was held with Members on 5 December to focus on an approach and strategy for Income Generation

- 7.6 There are areas which are shown as possible future savings (shown in grey on Appendix A) which are being progressed by the Senior Leadership Team. These were the subject of a report to the Hub Committee in March 2016 (Income Generation report) and Special Council on 26 July 2016 (Local Authority Controlled Company – LACC Business Case). These total £337,000.
- 7.7 The Finance Settlement will be announced before Christmas and this should state the level of New Homes Bonus funding for the Council for 2017/18. The Council can then take a view on the proposed distribution of the New Homes Bonus funding (see Section 8). Depending on the amount received, the Council may want to review the amount of NHB that it uses to fund the Revenue Base Budget. This report models the Council using £0.7 million to fund the Revenue Base Budget.
- 7.8 The Overview and Scrutiny Committee have reviewed partnership funding levels and it was resolved (O & S (E)18) that the funding levels remain the same for the Citizens Advice and Community Voluntary Service for 2017/18.

## 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 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.
- 8.3 The table below shows estimated amounts of NHB receivable in future years:-

	2017-18 (£)	2018-19 (£)	2019-20 (£)	2020-21 (£)	2021-22 (£)
Predicted NHB amount	1,100,000	900,000	800,000	800,000	800,000
Potential uses of the NHB:-					
Capital Projects (9.1)	468,000	299,000	299,000	299,000	299,000
To fund the Revenue Base Budget	700,000	500,000	400,000	400,000	400,000
Dartmoor National Park allocation	TBA	TBA	TBA	TBA	TBA
<b>Funding remaining unallocated</b>	<b>(68,000) funding shortfall</b>	<b>101,000</b>	<b>101,000</b>	<b>101,000</b>	<b>101,000</b>



- 8.4 The figures above in 8.3 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).
- 8.5 The modelling in 8.3 assumes a contribution from NHB of £700,000 to fund the Revenue base budget in 2017/18 (In 2016/17 this was £1million). There is a funding shortfall in 17/18 and the Council is currently awaiting an announcement from the Government on the amount of NHB it will receive for 2017/18.
- 8.6 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.

## 9. CAPITAL PROGRAMME 2017/18 to 2021/22

- 9.1 The table below shows the capital budget proposals for the Capital Programme for 2017/18 to 2021/22.

	<b>2017/18</b>	<b>2018/19</b>	<b>2019/20</b>	<b>2020/21</b>	<b>2021/22</b>
Tenants Incentive Scheme (TIS) -Note 1	15,000	15,000	15,000	15,000	15,000
Village Halls and Community Projects Note 2	-	36,000	36,000	36,000	36,000
Affordable Housing (see Note 3)	350,000	200,000	200,000	200,000	200,000
Disabled Facilities Grants (see Note 4)	450,000	450,000	450,000	450,000	450,000
Waste (Note 5)	55,000	-	-	-	-
<b>TOTAL CAPITAL PROGRAMME</b>	<b>870,000</b>	<b>701,000</b>	<b>701,000</b>	<b>701,000</b>	<b>701,000</b>
<b>Suggested method of funding the Capital Programme:</b>					
Better Care funding towards DFGs (see Note 4)	(402,000)	(402,000)	(402,000)	(402,000)	(402,000)
<b>New Homes Bonus (Required to fund the Capital Programme)</b>	<b>468,000</b>	<b>299,000</b>	<b>299,000</b>	<b>299,000</b>	<b>299,000</b>

## **Note 1 – Tenants Incentive Scheme (TIS)**

A bid is made to the Capital Programme for an allocation of £15,000 for TIS for 2017/18.

The Tenants Incentive Scheme (TIS) was first brought into use in 2004. This enabled the Council to look at the best ways that the Council could use its current stock. There were a lot of residents who were considered to be under occupying their homes as children had moved out and there were increasing pressures on the housing options service. Many of these residents would not have downsized if an incentive was not offered, as this helped them to cover the costs of moving and in some cases helped to carpet and furnish their new homes.

In recent years due to the caps on LHA, this has helped a considerable number of people move to a smaller home, that is more suited to their financial means and has assisted with clearing the arrears that have accrued due to the 'spare bedroom tax'.

The cost savings that need to be considered when this money is paid does not just affect the Council but also the court system in terms of evictions, social services, Housing Associations and of course the issues around the health services as people may be less worried as preventative measures have decreased the anxiety caused by being in debt or worrying about how they will cover their household costs.

Below are some facts about TIS and how this has helped residents in our community:

- Since 2004, 65 people have moved using the scheme. This means that 65 people have been permanently rehoused from the West Devon housing register.
- The average sum of money paid is £1,500 per household. This is primarily paid to those freeing up family sized accommodation in the two bedroom properties.
- The cost of accommodating a family in Bed and Breakfast per night is £60. Legally families can only stay in bed and breakfast for 6 weeks but this alone totals £2,520 for that stay.
- Alternatives to bed and breakfast are expensive self contained units which normally cost about £450 per week. If this is required this could cost an additional £2,700 for a 6 weeks stay.
- There has been very little affordable housing in the South of the Borough since 2010 and therefore WDBC has had to make sure that our stock is being occupied by those in the most need.

- The TIS scheme has helped to keep families local in order to provide or receive support and children in the schools that they are used to. It has also helped residents in terms of not being stuck in a benefit trap as family sized accommodation has become available to help them continue to work or to avoid going into expensive private accommodation.

## **Note 2 – Village Halls and Community Projects**

The Capital Budget Monitoring report to the Hub Committee on 1 November 2016 highlighted that this scheme currently has a budget allocation of £106,000 in 2016/17 which is anticipated to be underspent (by at least £36,000). Due to the level of predicted underspend, no budget allocation has been requested for 2017/18 and the underspend from 2016/17 will be rolled forward to meet costs in 2017/18.

## **Note 3 – Affordable Housing**

The current level of capital funding allocated to the delivery of affordable housing is an annual contribution of £200,000. It is now proposed that this budget be increased by £150,000 to £350,000 to support housing need in the Borough.

Due to the reduction in available grant for affordable housing, there is currently no funding for assisting with the provision of rented properties. The schemes detailed below at South Tawton, Brentor and Horrbridge may need an element of 'top up' money. It is possible that Section 106 monies could finance this 'top up' however there is a need to safeguard these schemes if there is insufficient s.106 money available. Section 106 funds to date total £193,000, this is not ring fenced to a particular location but can be used throughout the whole of West Devon. Further off-site contributions are under discussion.

Financial viability information has been received for South Tawton and the Horrbridge scheme is in the process of being prepared. It is unclear at this time whether additional funds will be required for Brentor, therefore this is a worst case scenario.

### Scheme Details:

South Tawton – 6 units - viability report provided.

Horrbridge – 10 units - awaiting viability

Brentor – 8 – 10 units - awaiting viability

A bid for £350,000 to the Capital Programme for 2017/18 has been made.

These schemes will not provide the Council with a long term income stream, but they will provide some financial gain as well as being of social benefit to the community.

Advantages in both financial and social benefit per unit are shown below:

- New Homes Bonus
  - Council Tax (ongoing – costs depend on property size)
  - Reduction in numbers on the housing register
  - Meets WDBC's statutory need – although these schemes are within the Dartmoor National Park planning area, WDBC is the housing authority for the Borough and the statutory duty to meet housing need falls upon this Council
- 
- Reduction in the use of temporary accommodation, this can cost between £130 - £450 per week (location and time of year). This could increase if duties are extended to non-priority applicants - proposed bill due for its second reading.
  - Social benefits can have huge impact on the reduction of support services that need to be provided. This can also extend to school transport, disruption to children if forced to change schools when housing is not available and the reduction on health services.

**Note 4 - Private Sector Renewals, primarily Disabled Facilities**

**Grants** – This budget is used to fund Private Sector Renewals, primarily Disabled Facilities Grants (DFG's). DFG's are mandatory, means tested and enable people to live independently within their own home. Adaptations range from simple stair lifts and Level Access Showers through to full extensions. The budget of £450,000 will be made up of the expected £402,000 from the Better Care Fund and a contribution from the Council of £48,000. The demand for DFG's is not under our control and cannot be predicted at this stage.

**Note 5 – Waste** - A capital bid for £55,000 for Waste is set out in Exempt Appendix F.

- 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. For example the Waste capital bid has a revenue implication.
- 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 CM28), the Council agreed to undertake prudential borrowing of £1.5 million for the new leisure contract.

9.6 Also at Council on 26 July 2016 (Minute CM27), Council agreed that subject to the approval of the recommendation set out in 11.11 of the report, that the Council enters into an external Waste Management arrangement; this arrangement will be subject to full affordability assessment, risk analysis and in compliance with Public Contract Regulations 2015, for a 2 year period with a view to waste services transferring to the LACC at the end of the 2 year period; and that the Council proceeds to acquire the fleet required to satisfy the West Devon Waste specification as set out in Appendix D of the presented agenda report. If purchased, as opposed to leased, the cost of the fleet is to be financed through borrowing.

## 10. EARMARKED AND UNEARMARKED RESERVES

10.1 The Council's Net Budget is £7.25 million in 2016/17. It is still recommended to retain the same policy of maintaining a minimum level of Unearmarked Reserves of £750,000. The summary below shows the position at 31 March 2016:

<b>The Use of Unearmarked Revenue Reserves</b>	
	<b>£'000</b>
Balance B/fwd 1.4.2015	1,023
Revenue Outturn Underspend for 2015-16	32
Unearmarked revenue reserves at 31.3.2016	<b>1,055</b>
Earmarked revenue reserves at 31.3.2016 (see Appendix D)	<b>2,395</b>

The Unearmarked General Fund Revenue Reserve balance at 31<sup>st</sup> March 2016 was £1,055,000 and the Earmarked Reserves balance was £2,395,000. This gave total Revenue Reserves of £3,450,000.

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

	<b>£'000</b>
Unearmarked Reserves balance as at 31 <sup>st</sup> March 2016	1,055
Earmarked Reserves	2,395
Predicted movement in Earmarked Reserves (Appendix D)	925
<b>Total Predicted Reserves as at 31<sup>st</sup> March 2017</b> (Unearmarked Reserves of £1,030,000 and Earmarked Reserves of £3,345,000 as shown in Appendix D)	<b>4,375</b>

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 £750,000, the following have been taken into account:

- The size of the authority
- The volatility of some income and expenditure budgets due to a dependency on the weather, tourism and state of the economy
- The risks faced by the Council with regard to funding unforeseen events
- Uncertainty over future Government funding and Business Rates
- Uncertainty over future New Homes Bonus allocations

10.3 The Unearmarked Reserves (General Fund) balance of £1.055 million stands above the minimum balance of £750,000 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 6.13 to 6.17 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 D. Earmarked Reserves are predicted to be £3,345,000 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.

<b>2016/17 Budget Surplus Contingency Earmarked Reserve (£)</b>	
Opening Balance – This is the Budget Surplus from 2016/17 which was put into an Earmarked Reserve.	669,292
<b>Less known Commitments against this reserve:</b>	
Council 26 July 2016 – To fund the LACC set up costs	(127,500)
<b>Balance left uncommitted</b>	<b>541,792</b>
Recommendation: To set aside £50,000 from this reserve for the Joint Local Plan (this will be a recommendation of the January Budget report)	(50,000)
Balance remaining (if £50K is approved)	491,792

<b>Innovation Fund (Invest to Earn) Earmarked Reserve (£)</b>	
Opening Balance - (Minute HC69) Unallocated New Homes Bonus funding from 16/17 and reallocated Capital Budget for Affordable Housing – both amounts were transferred into an ‘Invest to Earn’ reserve to fund income generating activities.	922,462
<b>Less known Commitments against this reserve:</b>	
Year 1 funding of Development Surveyor (Minute HC69)	(17,600)
<b>Balance left uncommitted</b>	<b>904,862</b>

It is recommended to set aside £50,000 from the 2016/17 Budget Surplus Contingency Earmarked Reserve for the Joint Local Plan. This is to cover numerous elements including a contribution to a programme manager role, the examination and legal representation. These costs would be shared with Plymouth City Council and South Hams District Council. This will be a recommendation of the January 2017 Hub Committee budget report.

- 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 was attached at Appendix F of the Medium Term Financial Strategy.

## **11 OTHER BUDGET ITEMS**

- 11.1 **Members’ Budget Workshop** – On 3<sup>rd</sup> October 2016 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 of £5. 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.
- 11.3 **Council Tax Reduction Scheme** – The Council approved a grant distribution of £77,509 for 2016-17 for the Town and Parish element of the grant. It is estimated that the Council’s funding (Revenue Support Grant, Business Rates, Rural Services Delivery Grant and Transition Grant) will decrease by 23.5% in the next three years of the funding settlement (see Appendix B). The average of this is 8.6% each year over the next three years.
- 11.4 Towns and Parishes would like more certainty of their grant allocations for planning purposes and have been informed by the Council of a three year funding reduction of 8.6% each year for the next three financial years (2017/18 to 2019/20). This is an overall reduction of £6,600 for 2017-18.

## **Devolution**

- 11.5 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.
- 11.6 In July 2016 (Minute CM 29) 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)**

- 11.7 On 26 July 2016 (Minute CM27), 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 West Devon and South Hams 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.
- 11.8 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 and the production of a fully tested Business Plan. It was also agreed that a Joint Steering Group (JSG) with South Hams be established to deal with matters concerning the implementation of the LACC.

## **UK vote to leave the European Union**

- 11.9 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 Budget report 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**

- 11.10 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.
- 11.11 The commercial property portfolio is run as a commercial enterprise so as to generate a revenue stream for the Council. It is the aim of the Council to continue to run the commercial estate and over time, to increase its size, by developing out sites in its ownership, as well as through the purchase of new land where required. The development programme will form part of the capital programme, which is predicated on robust and compelling business cases. Whenever financially viable, the Council will consider and deploy renewable energy / environmentally friendly solutions and technologies.
- 11.12 In summary, the Council's asset management strategy is to:
- Pro-active dispose of non-strategic land to reduce operational expenditure
  - Use funds realised from asset disposals for future development
  - Bring forward strategic sites for development or disposal as appropriate (investment will be required)
  - Actively grow Commercial Asset Portfolio - Focus on Housing (Affordable, Rental, Market) & Employment Units
- 11.13 Other income generation initiatives will be pursued in tandem with extending the commercial property portfolio; linked to driving more value from Council assets and resources. This could be from providing customers with added value services.

## **12 Timetable for the Budget Setting Process**

- 12.1 Appendix C 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 Hub Committee is responsible for recommending to Council the budgetary framework. In accordance with the Financial Procedure Rules, Council must decide the general level of Reserves and the use of Earmarked Reserves.</p> <p>The preparation of 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>Since there is commercially sensitive information in Appendix F, regarding the budgets for individual projects, there are grounds for the publication of this appendix to be restricted, and considered in exempt session. The public interest has been assessed and it is considered that the public interest will be better served by not disclosing the information in the appendix. Accordingly this report contains exempt Information as defined in paragraph 3 of Schedule 12A to the Local Government Act 1972.</p>
Financial	Y	The financial implications are set out in Sections 1.7 to 1.9 of the Executive Summary.
Risk	Y	The financial risks are as set out in Appendix F of the Medium Term Financial Strategy (September 2016)
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 – Budget Timetable for 2017/18 onwards

Appendix D – Schedule of Reserves

Appendix E – Feedback from the Members' Budget Workshop

Appendix F (EXEMPT) – Capital Bid

Background Information

Hub Committee – 20 September 2016 – Medium Term Financial Strategy for the five year period 2017/18 to 2021/22

Hub Committee – 1 November 2016 – Revenue Budget Monitoring report for Quarter 2 of 2016/17

Hub Committee – 1 November 2016 – Capital Budget Monitoring report for Quarter 2 of 2016/17

Approval and clearance of report

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