

Report to: **Hub Committee**  
Date: **26<sup>th</sup> January 2016**  
Title: **Budget Proposals Report 2016/17**  
Portfolio Area: **Leader of the Council – Budget Proposals**  
Wards Affected: **All**  
Relevant Scrutiny Committee: **Internal**  
Urgent Decision: **N** Approval and clearance obtained: **Y**

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### **Recommendations:**

Members are requested to recommend to Council:

- (i) To increase Council Tax by 1.99% (which equates to a Band D council tax of £212.53 for 2016/17, an increase of £4.14 per year or 8 pence per week). This equates to a Council Tax requirement of £4,193,941 (as shown in Appendix B1))
- (ii) That the financial pressures in Appendix A of £836,000 are accepted
- (iii) That the proposed savings of £845,000 set out in Appendix A are adopted
- (iv) That the Collection Fund surplus of £280,000 be agreed
- (v) That £1,000,000 of New Homes Bonus funding is used to balance the 2016-17 Revenue Budget.
- (vi) That the Budget Surplus of £304,678 is ringfenced for future income generation opportunities and held in an Earmarked Reserve for that purpose, in accordance with Minute HC 29 (see 1.10)
- (vii) That the Total Net Expenditure of the Council for 2016/17 is £7,253,325 (Appendix B1 and B2)
- (viii) To approve the 2016/17 Capital Programme projects totalling £651,000 as per 8.1

- (ix) To finance the 2016/17 Capital Programme of £651,000 by using £412,000 of New Homes Bonus funding and £239,000 of Better Care Funding (as per 8.1).
- (x) That the Council transfers £24,136 of its allocation of New Homes Bonus for 2016/17 to an Earmarked Reserve called 'Community Investment Fund – Dartmoor National Park', to be applied for and drawn down by Dartmoor National Park as required. This amount is a one-off payment and the position will be considered annually by the Council as part of the budget process. The condition is that this is for use within the boundaries of the Borough Council only.
- (xi) That the Council Tax Support Grant of £77,509 be passed onto Town and Parish Councils for 2016/17. (This is a reduction of 11.2% from 2015/16) as per Appendix D.
- (xii) That the minimum level of the Unearmarked Revenue Reserves be maintained at £750,000 as per Section 9.
- (xiii) That the level of reserves as set out within this report and the assessment of their adequacy and the robustness of budget estimates be noted. This is a requirement of Part 2 of the Local Government Act 2003.

## **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 2020/21 which will help ensure resources are aligned to the outcomes in Our Plan. ***The changes to the Budget Report from the last Budget report to the Hub Committee on 1<sup>ST</sup> December 2015 are shown in detail in Section 5.14.***
- 1.2 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.
- 1.3 Local authorities have faced unprecedented reductions in Government funding since the Comprehensive Spending Review 2010. The Queen's Speech in May 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 Summer Budget on 8 July 2015 has confirmed this and has meant significant financial reductions over the next four years until the government achieves its aim of running a budget surplus by 2019/20.

- 1.4 By the end of 2015/16, the Council's grant funding (Revenue Support Grant) will have reduced by over 45% from 2013. 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.
- 1.5 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 has been 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 with an award of £266,000 of Government funding.
- 1.6 The following table illustrates the predicted budget (surplus)/gap from 2016/17 onwards for the Borough Council as shown in Appendix B1:

	2016/17 £	2017/18 £	2018/19 £	2019/20 £	2020/21 £
Annual budget (surplus)/gap	(304,678) Surplus (One-off)	712,148 gap	383,627 gap	32,108 gap	(15,780) surplus
<b>TOTAL BUDGET GAP OVER THE FIVE YEARS TO 2020/21</b>					<b>1,112,103</b>

Section 6.3 gives more details of the key assumptions regarding these figures. ***The budget surplus in 2016/17 of £304,678 is available for reinvestment (on a one-off basis rather than annually).***

- 1.7 If New Homes Bonus (NHB) were to be used as outlined in 7.8 of the report, this would mean that there would potentially ***be £309,159 of NHB which is uncommitted in 2016/2017*** (with an additional £63,303 being uncommitted from 2015/16). This assumes that £1 million of NHB will be used in 2016/17 to support the Revenue Base Budget. These amounts are in addition to the budget surplus identified of £304,678 in 2016/17.
- 1.8 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 which represent a cautious estimate in order to focus attention on the revised scale of the funding gap. The figures will be revised as we progress through the financial year.
- 1.9 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.

- 1.10 The Council's Medium Term Financial Strategy was considered by the Overview and Scrutiny Committee on 6<sup>th</sup> October 2015. Minute O&S(I) 26 from the meeting refers. On 27<sup>th</sup> October the Hub Committee Members agreed to accept the recommendations of the Overview and Scrutiny (Internal) Committee arising from their meeting on 6 October, 2015, and amended their resolution accordingly. Below is an extract of the minute from the meeting:-

**\*HC 29 MEDIUM TERM FINANCIAL STRATEGY (MTFS)**

Members agreed to accept the recommendations of the Overview and Scrutiny (Internal) Committee arising from their meeting on 6 October, 2015, and amended their resolution accordingly. It was then **RESOLVED** that the Hub Committee had considered the five year Medium Term Financial Strategy and provided an indication of the budget principles to be adopted, with particular reference to:

- a) the level of council tax increase being 1.99%;
- b) the use of New Homes Bonus to support the revenue budget;
- c) the amount of Council Tax Support Grant to be passed on to Parish and Town Councils be reduced by 11.2%;
- d) Other income generation and budget savings; and
- e) Maintaining the current Council policy on the minimum level of unearmarked reserves being £750,000; and
- f) The anticipated 2016/17 budget surplus being ringfenced for future income generation opportunities and held in an earmarked reserve for that purpose.

- 1.11 At a Joint meeting of the Overview and Scrutiny (Internal) and Overview and Scrutiny (External) Committees on 12 January 2016, the following was agreed:-

**Extract of Minute \*O&S 5:-**

To provide guidance to the Hub Committee, Members discussed the merits of whether or not the Council Tax level for 2016/17 should be increased by 1.99%. In light of the ongoing budget reductions from central government, a number of Members concluded that it was absolutely essential to build up our Council TaxBase and there was a further need to look at every possible revenue stream available to the Council. It was then **PROPOSED** and **SECONDED** and when put to the vote was unanimously declared **CARRIED** that:-

***'The Hub Committee be advised that the Overview and Scrutiny Committees recommend that the Council Tax level for 2016/17 be increased by 1.99%.'***

## 2 ASSUMPTIONS FOR FINANCIAL MODELLING PURPOSES

- 2.1 Levels of pay settlement are determined by national negotiation between the Local Government Employers and the Trade Unions. There has been a pay offer to the trade unions of a 2 year settlement, broadly 1% in April 16 and a further 1% in April 17. A budget provision of 1% for 2016/17 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.
- 2.2 The MTFS assumes inflation will run at 2% (Government target) over the five year period. The Retail Price Index (RPI) at November 2015 was 1.1% and Consumer Price Index (November 2015) was 0.1%. An annual cost pressure of £60,000 has been included. This is partly to allow for an expected increase in business rates from the revaluation due in 2017.
- 2.3 The predicted interest rate forecast from our treasury management advisors, Sector, is shown below. The Council's budgeted investment income in 2015/16 is £40,000. It is assumed that the interest rate return for our investments will average 0.75 % for 2016/17 rising to 1.5% by 2018/19 as shown below:-
- |         |   |       |
|---------|---|-------|
| 2016/17 | - | 0.75% |
| 2017/18 | - | 1.00% |
| 2018/19 | - | 1.50% |
- 2.4 Two scenarios have been modelled for council tax purposes. The financial modelling in Appendix B1 assumes a Band D council tax increase of 1.99% annually. This means an increase to £212.53 in 2016/17. The financial modelling in Appendix B2 assumes that council tax is frozen for 2016/17 onwards.
- 2.5 The reductions in Revenue Support Grant (RSG) are as follows (see 3.1 and 3.2):

	2016/17 £	2017/18 £	2018/19 £	2019/20 £	2020/21 £
<b>Revenue Support Grant (2015/16 RSG was £1.215m):</b>	0.623m	0.223m	Nil	Nil	Nil
<b>TOTAL REDUCTION OVER THE FIVE YEARS TO 2020/21</b>					<b>£1.215m</b>

### 3. GOVERNMENT FUNDING

3.1 The Local Government Finance Settlement was announced on 17 December and contained the announcements detailed below.

#### 3.2 Funding Reduction Analysis

SFA is the term for Settlement Funding Assessment and is basically a Council's Revenue Support Grant and Business Rates funding added together. The Finance Settlement announced the following 4 year figures for SFA:-

Financial Year	Settlement Funding Assessment (SFA)	Which is made up of:-	
		Revenue Support Grant	Business Rates Baseline Amount
2015-16 (Baseline)	£2.623m	£1.215m	£1.408m
2016-17	£2.13m	£0.62m	£1.51m
2017-18	£1.76m	£0.22m	£1.54m
2018-19	£1.58m	Nil	£1.58m
2019-20	£1.63m	Nil	£1.63m

So funding from Revenue Support Grant and Business Rates reduces by £0.99m over the 4 year period. Therefore Appendices B1 and B2 have been updated to reflect these figures. An allowance of an additional £30,000 for an anticipated business rates pooling gain has also been added into the modelling.

The Government have offered for Councils to sign up to a four year settlement offer. This would give the Borough Council certainty of its Revenue Support Grant amounts and Rural Services Delivery Grant amounts for the next four years. An efficiency plan would need to be submitted to the Government as part of this offer. More details will be released on this by the Government and the Borough Council would need to assess the benefits and dis-benefits of signing up to the four year offer.

#### 3.3 Rural Services Delivery Grant

The Council will receive rural funding through a separate Rural Services Delivery Grant. This is something that has been 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 will be:-

2016-17	£114,658
2017-18	£200,651
2018-19	£286,645
2019-20	£372,638
2020-21	£400,000 (assumed to be of a similar value to 19-20 for modelling purposes)

### 3.4 **Business Rates**

The income predictions for Business Rates have been significantly reduced from the December 2015 figures, to reflect the Finance Settlement figures. Whilst in 2015/16 a higher figure than the baseline business rates figure was used to set the budget, the current risk of business rates appeals and downward fluctuations in the rateable value base of the Council, means that it would not be prudent to include higher predictions of business rates income at this point in time. The modelling in December 2015 assumed Business Rates income for 16/17 of £1,591,000. This is now estimated to be £1,538,000 due to the above.

- 3.5 **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. However, Authorities can voluntarily form a 'pool'. Pooling mitigates each Authority's exposure to Business Rate income volatility as the risks are spread over a larger pool.

In 2014/15 the Council received £39,927 as a pooling gain. This was additional business rates income generated as a consequence of being part of the Devonwide Business Rates pool. 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's Business Rates Gross amount payable has increased from £9.8 million in 2011/12 to £10.6 million in 2015/16. Therefore over the last 4 years, the Borough Council's business rates base has grown on average by 2% per annum. Of the Business Rates collected of £10.6 million, the Council is predicted to retain in funding only £1.579 million of this in 2015/16. So the Borough Council retains approximately 15 pence in every £1 to run our services.

- 3.6 **Business Rates Revaluation** - There will be a Business Rates Revaluation which will go live on 1 April 2017.

- 3.7 **Council Tax Referendum Limit** – The Localism Act introduced the power for the Secretary of State to set principles each year under which council tax increases are determined to be excessive. The Government have confirmed that council tax increases of 2 per cent or over will be subject to a council tax referendum for 2016/17. Therefore the maximum council tax increase remains at 1.99% for 2016/17 for West Devon Borough Council, with no limit set for Town and Parish Councils.

### 3.8 Council Tax Freeze Grant

As expected, there has been no announcement on a Council Tax Freeze Grant scheme for the period 2016/17 and beyond. Therefore a freeze grant is not being offered for 2016/17 and beyond.

- 3.9 **Income from Council Tax** – The recommendation is for the Borough Council to increase council tax by 1.99% for 2016/17 to £212.53 for a Band D property for West Devon Borough Council. This amounts to a £4.14 increase on an average Band D property over a year, equivalent to 8p a week.

There was a unanimous vote from the Joint meeting of the Overview and Scrutiny (Internal) and Overview and Scrutiny (External) Committees on 12 January 2016, **Minute \*O&S 5** which was:-

***'The Hub Committee be advised that the Overview and Scrutiny Committees recommend that the Council Tax level for 2016/17 be increased by 1.99%.'***

*A 1% increase in Council Tax generates an extra £41,000 in extra council tax income per annum. The total income from Council Tax is projected to be £4.19 million in 2016/17 as per Appendix B1.*

- 3.10 **Council Tax** – The table below shows how an average Band D council bill is made up for West Devon Borough Council for the last two years:

<b>Precepting Authority</b>	<b>Band D Council Tax 2014/15</b>	<b>Band D Council Tax 2015/16</b>	<b>£ Increase</b>	<b>% Increase</b>
West Devon Borough Council	£204.50	£208.39	£3.89	1.9%
Devon County Council	£1,138.59	£1,161.27	£22.68	1.99%
Devon & Cornwall Police	£166.16	£169.47	£3.31	1.99%
Devon & Somerset Fire & Rescue	£76.89	£78.42	£1.53	1.99%
Average Parish /Town Council	£57.31	£60.77	£3.46	6.04%
<b>TOTAL</b>	<b>£1,643.45</b>	<b>£1,678.32</b>	<b>£34.87</b>	<b>2.12%</b>

West Devon Borough Council's share of the council tax bill in 2015/16 was **12%**, being £208.39 out of an average Band D council tax bill of £1,678.32.



3.11 **Collection Fund Surplus** – At the end of March 2015, the Council has a balance on its Collection Fund (council tax collection fund) of £1.74 million. This will be distributed in 2016/17, which means that the Borough Council's share of the distribution is £280,000 which is funding available towards the 2016/17 Budget.

3.12 **On 5 October 2015, the Chancellor unveiled 'devolution revolution'**. This set out major plans to devolve new powers from the Government to local areas to promote growth and prosperity. The main announcement was that by the end of Parliament, local government will be able to retain 100 per cent of local taxes – including all £26 billion of revenue from business rates by 2020 – to spend on local government services. The announcement also said that 'Local authorities will be able to cut business rates as much as they like'. This is significant new powers for local authorities. Devolution is a separate item on this Agenda.

#### **4 THE COUNCIL'S STRATEGIC PRIORITIES – OUR PLAN**

4.1 In February 2015, the Council published 'Our Plan'. This new strategic plan for West Devon set out the vision, long term priorities and planning policies for the area to 2031 as below:-

***West Devon - A Leading Rural Council  
Thriving Towns and Villages***

***Enhancing the quality of life for individuals and communities***

4.2 Through Our Plan we are striving to achieve communities that have access to housing, employment, services and facilities that meet their needs, communities that are resilient, safe and able to make choices about their future. Our communities are places where businesses can develop and grow.

4.3 How we will achieve Our Vision is defined in each policy area and through the actions set out in our Annual Delivery Plan. We will measure the progress we are making by how well we are meeting our objectives, actions and targets and the impact all this is having on the people and places of West Devon.

The Plan's Objectives are:-

Our Wellbeing  
Our Communities  
Our Homes  
Our Economy  
Our Infrastructure  
Our Environment  
Our Heritage  
Our Resources

The full document can be accessed on  
<http://www.westdevon.gov.uk/ourplan>

## 5 BUDGET PRESSURES FOR 2016/17 ONWARDS

- 5.1 Financial modelling has been undertaken for the next five years to predict the Council's financial situation for the short and medium term.
- 5.2 **Appendix A** to the Medium Term Financial Strategy sets out the Budget Pressures forecast for the next five years and the additional savings and income forecast. A description of the larger budget pressures are set out below.
- 5.3 **Waste services contract** - The budget pressure in the Medium Term Financial Strategy is the worst case scenario as there will be the opportunity to better the cost depending on the delivery vehicle chosen and the ability to charge for elements of service delivery in future if necessary.
- 5.4 The figure is based upon current market rates for recycling materials which are constantly changing. This amount will be tested during the waste review process and so is indicative at this stage, based on known operational costs of the service 'as is'.
- 5.5 If a Local Authority Controlled Company (LACC) model is chosen for the delivery of the waste collection and cleansing services then there is an opportunity to further expand related services which may be sold to generate additional income. E.g. trade waste and trade recycling services. A one-off cost pressure for £80,000 has also been built into the Financial Strategy for a specialist resource to assist with the waste and cleansing options review and delivery and a further temporary staffing resource. There is a separate item on this agenda on the LACC model.
- 5.6 **Our Plan** - A report on Our Plan was considered by the Hub Committee on 22th September 2015. Minute (HC 14) recommended that a provision for 2016/17 of £75,000 is made for Our Plan. This is a one-off cost for 2016/17 for the cost of the examination in public, preparation of documents and in house costs.
- 5.7 **National Insurance** - There will be increased National Insurance (NI) contributions for employers effective from 2016/17. The extra cost to West Devon is £60,000 annually.
- 5.8 The Summer Budget 2015 also announced plans for a National Living wage for the over 25s of £7.20 per hour from 2016/17 increasing to £9.00 per hour by 2020. The number of Council employees affected are within single figures and therefore a provision has been included within the overall pay award budget provision.

5.9 **Triennial Pension revaluation** - The Local Government Pension Scheme (LGPS) was last subject to its triennial review in 2014/15. The next valuation impact is in 2017/18 and it is likely to add an additional cost pressure.

5.10 **Homelessness funding** – The Finance Settlement has confirmed that homelessness funding under the Local Welfare Support Grant will cease in 2016-17 as anticipated. Therefore the cost pressure of £50,000 in 2016-17 is still required to enable the Council to continue with homelessness prevention activity.

5.11 **One off set up costs of the Local Authority Controlled Company** – A change to the figures shown in the December 2015 Budget Proposals report is that the one off set up costs of the Trading Company are now predicted to be in the region of £150,000 for each Council. Therefore the cost pressure has been increased in 2016-17 to reflect the £150,000. This would cover the following:

- Cost of the full business case and implementation plan
- Project management for implementation
- Legal advice
- Financial advice
- Setting up the contracts between the Councils and the company with all the associated schedules and specifications
- Novating (Transfer) of the contract and leases
- Setting up a new pension scheme and transfer/admitted body status for LGPS
- Setting up the payroll, accounts system, a separate bank account
- Transferring any systems
- Work associated with transfer of any assets
- Change management with staff
- Branding and marketing for the new company

There is a separate agenda item on the Hub Committee for 'Proposals relating to a Local Authority Controlled Company'.

5.12 **Tamar Estuaries Consultative Forum (TECF)** – West Devon Borough Council and South Hams District Council both currently contribute £3,635 to the Forum. It is proposed that both Councils increase this to £4,500 (an increase of £865 each – rounded to £1,000 for ease of modelling). TECF will bring support in producing Our Plan (see Section 4).

## SAVINGS AND INCOME GENERATION

- 5.13 **Transformation Programme 2018 (T18)** – In 2016/17 the Council will make savings of a further £725,000 as outlined in the original Business Case. This is on top of the savings of £962,000 per annum which were already built into the base budget for 2015/16. Section 1.5 gives more detail. There was a separate report on the December 2015 Hub Committee agenda for the T18 Budget Monitoring report. This showed that the predicted final spend (£2.766 million) is £64,000 less than the budget of £2.83 million.

## CHANGES SINCE THE DECEMBER 2015 BUDGET REPORT

- 5.14 The Budget Proposals Report was considered by the Hub Committee on 1<sup>st</sup> December 2015. This showed a budget surplus in 2016/17 of £570,377. The figure has now changed to £304,678. The changes are as below:-

<b><i>Budget Surplus reported in the Budget Report on 1<sup>st</sup> December 2015</i></b>	<b>£(570,377)</b>
<b><i>Increase in cost pressure for the one-off costs of the Local Authority Controlled Company</i></b>  (The cost pressure has been increased from £75,000 in the December 2015 Budget report to £150,000 in this Budget report – see 5.11)	£75,000
<b><i>Extra Council Tax income from a higher TaxBase</i></b> (TaxBase for 2016/17 is 19,733.41 Band D properties – the original modelling in December estimated a taxbase of 19,657 Band D properties – the extra 76.41 properties multiplied by a Band D council tax of £212.53 equates to extra council tax income of £16,239)	£(16,239)
<b><i>Reduction in Revenue Support Grant</i></b> (The modelling in December assumed RSG in 16/17 of £892,000 – This has been announced in the Finance Settlement to be £623,404)	£268,596
<b><i>Reduction in Business Rates income</i></b> (The modelling in December assumed Business Rates income for 16/17 of £1,591,000 – This is now estimated to be £1,538,000 – see note 3.4 and 3.5)	£53,000
Rural Services Delivery Grant funding (see note 3.3)	£(114,658)
<b><i>Budget Surplus reported in the Budget Report on 26<sup>th</sup> January 2016</i></b>	<b>£304,678</b>

## 6. OVERALL POSITION – BUDGET (SURPLUS)/GAP

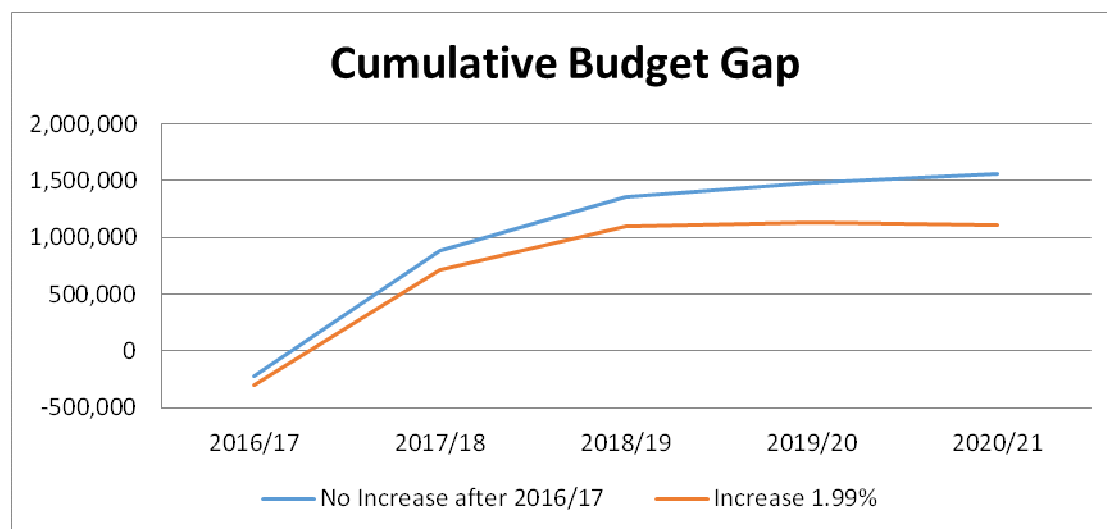
- 6.1 **Appendices B1 and B2** illustrate the overall financial forecast for the forthcoming five years. Although the Council's Net Budget is predicted to be in the region of £7.3 million in 2016/17, the Gross Expenditure of the Council is around £26 million.
- 6.2 A Summary forecast is shown below of 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 different situation if the Council Tax is increased by 1.99% (**shown in Appendix B1**) and if Council Tax is frozen (**shown in Appendix B2**). A 1% increase in Council Tax generates an extra £41,000 in extra income per annum.
- 6.3 The following table illustrates the predicted budget (surplus)/gap from 2016/17 onwards for the Borough Council as shown in Appendix B1:

	2016/17 £	2017/18 £	2018/19 £	2019/20 £	2020/21 £
Annual budget (surplus)/gap	(304,678) budget surplus (one off)	712,148 budget gap	383,627 budget gap	32,108 budget gap	(15,780) budget surplus
<b>TOTAL BUDGET GAP OVER THE FIVE YEARS TO 2020/21</b>					<b>£1,112,103</b>

These budget gaps are the position based on two key assumptions:

- That the contribution from New Homes Bonus is as set out in Appendix B1 for each financial year
  - That the budget surplus in 2016/17 is treated as a one-off surplus and is reinvested in one-off items.
- 6.4 The report sets out an anticipated budget surplus for 2016-2017 of **£304,678** if Council Tax is increased by 1.99% as per Appendix B1. The budget surplus decreases to **£222,982** as per Appendix B2, if Council Tax is frozen for 2016/17.
- 6.5 *The budget surplus in 2016/17 is mainly as a result of the full amount of savings from the Council's Transformation Programme being realised by 2016/17 (see 5.13).*
- 6.6 In 2017/18 the Council moves into the position of having a budget gap again (of £712,148). Section 6.3 sets out the future years' budget gaps.

6.7 The graph below compares the Cumulative Budget Gap of £1.563 million by 2020/21 if council tax is frozen from 2016/17 onwards (the higher line), to the Cumulative Budget Gap of £1.112 million by 2020/21 if council tax is increased by 1.99% each year (the lower line).



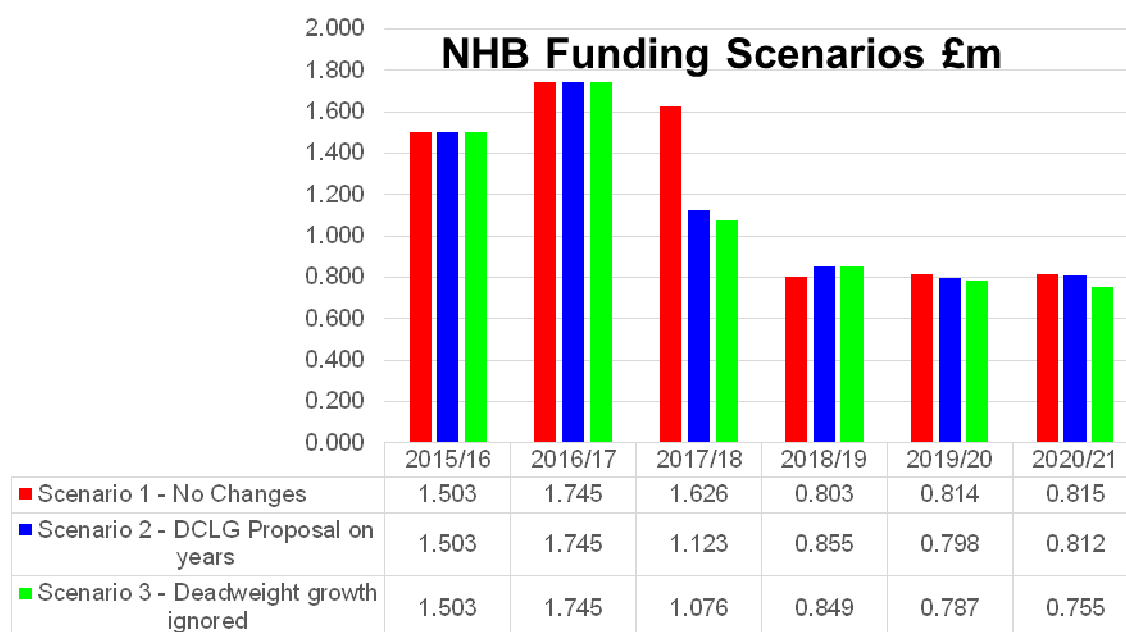
6.8 **Members' Budget Workshop** – On 20<sup>th</sup> October a Members' Budget Workshop was held. This was to give all Members the opportunity to influence and shape the budget setting process. The outcome of the meeting is attached at Appendix G.

6.9 Work is currently being undertaken within the Finance team to redesign the budgets for 2016-17 into the Council's new T18 structure of Strategy and Commissioning, Customer First, Commercial Services and Support Services. Appendix F shows an initial view of how this would look for 2016-17. However the Appendix does come with a caveat of the fact that this is currently work in progress and the Appendix is a draft version.

6.10 The finance team are also undertaking a project to harmonise all of the codes used on both Councils' finance systems so that the codes are the same and prefixed with either a 'W' for West Devon and a 'S' for South Hams. For example the code for car parking could be W100 in West Devon and S100 in South Hams. This will assist self serve for budget holders and also assist joint reporting across both Councils where this is appropriate.

## 7 NEW HOMES BONUS (NHB)

- 7.1 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.
- 7.2 A New Homes Bonus consultation document has been issued (responses due by 10 March 2016). The Council will send a robust response to the consultation document.
- 7.3 The NHB amount for 2016-17 has been confirmed at £1,745,295 (£4K less than original predictions). Modelling for future years based on the proposals shown in the consultation document could see the NHB allocations for future years look like the following amounts:-



- 7.4 So if there were to be no changes to the NHB scheme (Scenario 1), the Council would receive in the region of £1.626m in 2017/18. This reduces in future years due to the fact that the amount of the New Homes Bonus funding available nationally reduces to approximately 60% of the current funding totals, meaning there would be a 'scaling back' of payments meaning reduced payments.
- 7.5 However if the proposals to reduce the number of years from 6 years to 4 years (with 5 years for 2017/18) are introduced (Scenario 2), the Council would receive around £1.123m in 17/18.
- 7.6 Furthermore, if deadweight growth (0.25) is removed – this is an assumed baseline growth - (Scenario3), then the NHB payments would further reduce to £1.076m in 2017/18. Payments would reduce to £0.755m by the year 2020/21.

7.7 The Council needs to use approx. £412,000 annually of NHB to fund its Capital Programme (for Disabled Facilities Grants and Affordable Housing Schemes). Therefore the amounts remaining that could be used to fund the Council's Revenue Base Budget are:-

2017/18	£600,000
2018/19	£400,000
2019/20	£300,000
2020/21	£300,000

(A contribution of £1,000,000 has still been assumed for 2016-17).

These are the amounts of New Homes Bonus funding that have been modelled in Appendices B1 and B2.

7.8 Therefore in 2016-17, New Homes Bonus is as follows:-

	<b>2016-17 (£)</b>
Amount receivable	1,745,295
To fund the current Revenue Budget	(1,000,000)
To fund the Capital Programme	(412,000)
Dartmoor National Park allocation	(24,136)
<b><i>Balance remaining (not committed)</i></b>	<b><i>£309,159</i></b>

This means there is an uncommitted amount of £309,159 of New Homes Bonus funding in 2016-17.

7.9 **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. This amounts to £24,136 for 2016/17. The money is used to support a local community fund and, for example, joint work through the rural housing enabler. Members considered this as part of the Budget process and the following system is in place:-

- A one off payment is to be agreed on an annual basis based on actual completions.
- The allocation received by DNP are to be spent only within those parishes falling within the boundaries of the Borough Council.
- The agreed sum is transferred to an Earmarked Reserve called 'Community Investment Fund – Dartmoor National Park' and the DNP make an annual application to draw down funds as required in line with the process agreed for that fund.



## 8. CAPITAL PROGRAMME 2016/17 to 2020/21

8.1 The table below shows the proposed Capital Programme for 2016/17 and projected figures to 2020/21:

	2016/17	2017/18	2018/19	2019/20	2020/21
Tenants Incentive Scheme (TIS)	15,000	15,000	15,000	15,000	15,000
Village Halls and Community Projects	36,000	36,000	36,000	36,000	36,000
Affordable Housing (see Note 1)	200,000	200,000	200,000	200,000	200,000
Disabled Facilities Grants (see Note 2)	400,000	400,000	400,000	400,000	400,000
<b>TOTAL CAPITAL PROGRAMME</b>	<b>651,000</b>	<b>651,000</b>	<b>651,000</b>	<b>651,000</b>	<b>651,000</b>
<b>Suggested method of funding the Capital Programme:</b>					
Better Care funding towards Disabled Facilities Grants (see Note 2)	(239,000)	(239,000)	(239,000)	(239,000)	(239,000)
<b>Potential funding from New Homes Bonus (Required to fund the Capital Programme)</b>	<b>412,000</b>	<b>412,000</b>	<b>412,000</b>	<b>412,000</b>	<b>412,000</b>

**Note 1** - The current level of capital funding allocated to the delivery of affordable housing is an annual contribution of £200,000. There is already a budget of £550,000 approved in the Capital Programme for affordable housing. National policies and funding strategies designed to deliver affordable housing have significantly changed in recent years with much greater reliance on the provision of affordable housing without public subsidy, primarily through the planning process.

**Note 2** – From 2015/16, the funding for Disabled Facilities Grants will be from the Better Care Fund held by Devon County Council (DCC) and funding will be passported to District Councils. Allocations for 15/16 show an increase in contributions to £239,000 and this level has also been assumed for 2016/17 onwards. DCC have confirmed that this is a valid assumption for 16/17.

- 8.2 The current machinery used to process our recyclate is owned by the Council (purchased via grant funding) and is reaching the end of its' life. The future processing of recyclable materials will be considered through the forthcoming waste review and the option of capital purchase of new machinery vs. other suitable options will be explored.
- 8.3 The Capital Programme is set by the Council and may be funded by sale proceeds from the disposal of assets (capital receipts), external grants and contributions, directly from revenue or from borrowing.
- 8.4 As part of the Medium Term Financial Strategy (MTFS), 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.
- 8.5 **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. The Council is currently procuring a new leisure contract to commence in 2016/17 and is also considering its waste services provision which is a separate report on this agenda.

**9. EARMARKED AND UNEARMARKED RESERVES**

- 9.1 The Council's Net Budget will be £7.2 million in 2016/17. It is still recommended to retain the same policy of a maintaining a minimum level of Unearmarked Reserves of £750,000. The summary below shows the position at 31 March 2015:

<b>The Use of Unearmarked Revenue Reserves</b>	<b>2014/15 £'000</b>
Balance B/fwd 1.4.2015	1,023
Revenue Outturn Underspend predicted for 2015-16	70
Predicted Unearmarked revenue reserves at 31.3.2016	<b>1,093</b>
Predicted Earmarked revenue reserves at 31.3.2016 (see Appendix C)	<b>732</b>

The predicted level of unearmarked and earmarked revenue reserves as at 31 March 2016 total £1,825,000 as shown in Appendix C.

- 9.2 The Revenue Budget Monitoring report for 2015-16 was an item on the December 2015 Hub Committee agenda. *The report showed that the predicted underspend against the 2015/16 Budget set of £7.262 million is £70,000.*

- 9.3 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
  - Uncertainty over future New Homes Bonus allocations
- 9.4 The Unearmarked Reserves current balance of £1.023 million stands above the minimum balance of £0.75million and acts as a safeguard against unforeseen financial pressures.
- 9.5 **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). A schedule of predicted Earmarked Reserves for 15/16 is shown in Appendix C. Earmarked Reserves are predicted to be £732,000 at the end of March 2016.

## 10 OTHER BUDGET ISSUES

- 10.1 **Council Tax Reduction Scheme** – At the Hub Committee meeting on 27<sup>th</sup> October, it was resolved (HC29) that the amount of Council Tax Support Grant to be passed onto Parish and Town Councils be reduced by 11.2% for 2016-17 (from £87,285 to £77,509). This is an overall reduction of £9,776 and reflects the level of reduction which the Borough Council has received in its funding. Appendix D illustrates the effect for each Town and Parish Council.
- 10.2 **Devolution** - The government intends to support towns and counties to play their part in growing the economy, offering them the opportunity to agree devolution deals, and providing local people with the levers they need to boost growth. The government is working with towns and counties to make these deals happen. In 2015 all Devon and Somerset Councils signed a Statement of Intent to look at working up a Devolution offering to Government. There is a separate report on this agenda concerning this subject.

- 10.3 **Income generation opportunities and the Council's asset management strategy** - 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 any future funding gaps. Receipts from all asset disposals will be used to reinvest in the commercial property estate.
- 10.4 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.
- 10.5 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
- 10.6 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 increased fees and charges or providing customers with added value services.
- 10.7 **Sensitivity analysis and risk analysis** – The figures within the Medium Term Financial Strategy have been subject to a sensitivity analysis of the figures and a risk analysis. A copy is attached at **Appendix E**.

## **11 FEES AND CHARGES**

- 11.1 The Council has the power to levy fees and charges for various services and functions it undertakes. Some of these fees are set by statute while for others the Council can make "reasonable" charges for the services it provides. The undertaking of regular reviews of charges allows, where possible, for the Council to recover the cost of officers' time in providing the service.

## Car Parking Charges

11.2 As part of the December 2015 Budget report, it has been recommended to Council to freeze car parking charges in 2016-17.

## Environmental Health Charges

11.3 As part of the December 2015 Budget report, recommendations on Environmental Health fees and charges were made to Council.

## 12. 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 MTFS is evidence that the Council has considered and taken into account all relevant information and proper advice when determining its financial arrangements in accordance with statutory requirements, and in particular, that it will set a lawful budget.</p>
Financial	Y	<p>The financial implications are set out in Sections 1.6 to 1.7 of the Executive Summary.</p> <p>Appendix B1 shows that in 2016/17 the Budget Surplus is <b>£304,678</b>. <i>(The uncommitted New Homes Bonus for 2016-17 of £309,159 is in addition to this).</i></p>
Risk	Y	The financial risks are as set out in the report.
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 B1 – Modelling of council tax increasing by 1.99%

Appendix B2 – Modelling of council tax freezing

Appendix C – Reserves

Appendix D – Town and Parish Council Tax Support Grant allocation

Appendix E – Sensitivity analysis and risk analysis

Appendix F – Income and Expenditure for 2016-17

Appendix G – Members’ Budget Workshop

### **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>