

Report to: **Hub Committee**

Date: **18th July 2017**

Title: **Medium Term Financial Position 2018/19 to 2022/23**

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**

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Recommendations:

It is recommended that the Hub Committee:-

- (i) Notes the forecast budget gap by 2020/21 of £1.1 million
- (ii) Agrees the financial strategy of the Joint Steering Group (JSG) set out in 1.7 to 1.13
- (iii) Agrees the budget principles set out in 1.14
- (iv) Agrees maintaining the current Council policy on the minimum level of unearmarked reserves being £750,000 (see Section 9).
- (v) Considers the five year Medium Term Financial Position (MTFP) and provides principles to be adopted on certain elements with the MTFP such as:
 - the level of council tax increase for 2018-19,
 - the use of New Homes Bonus to support the revenue budget for 2018-19 onwards.

1. Executive summary

- 1.1 The Council's Medium Term Financial Position (MTFP) is based on a financial forecast over a rolling five year timeframe to 2022/23 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. The Council's Strategic Plan (Our Plan) will be reviewed in 2017/18.
- 1.2 The Council, along with other local authorities, has faced unprecedented reductions in Government funding since the Comprehensive Spending Review 2010. As shown in 2.3 and 2.4, between 2009/10 and 2019/20, the Council's Core Government funding has reduced by £3 million.
- 1.3 West Devon has continued to work in partnership with South Hams District Council which has allowed West Devon Borough Council to achieve annual savings of £2.2 million and more importantly protect all statutory front line services. Between both Councils the annual shared services savings being achieved are over £6 million. However, the Councils continue to face considerable financial challenges as a result of uncertainty in the wider economy and constraints on public sector spending as outlined in the Comprehensive Spending Review.
- 1.4 West Devon Borough Council is currently forecasting a £1.1m budget gap by 2020/21, with South Hams forecasting a £0.8m budget gap for the same period.
- 1.5 Both Councils acknowledge that there is no single solution to addressing the reduction in funding while maintaining services across the two areas, and a number of initiatives are being considered in parallel. To put this into context, West Devon has a net revenue budget of £7.4m in 2017/18 and South Hams has a net revenue budget of £8.3m for the same period.
- 1.6 During 2015/16 the Council reviewed its priorities and Members agreed that their top priority was to achieve financial sustainability. Members also stated that they did not want to see a reduction in the level and quality of the statutory services delivered to their communities.

Financial Strategy of the Joint Steering Group (JSG)

- 1.7 The Joint Steering Group (JSG) was tasked by West Devon Borough Council and South Hams District Council to consider options to achieve financial sustainability and address the forecast budget deficit for both Councils.

- 1.8 The strategy being advocated by the Joint Steering Group is to implement a number of different schemes, not only to meet the immediate funding gap but to ensure financial sustainability for the medium to long term. Each scheme will vary in risk profile, achievability and the impact on our finances. By implementing a number of solutions rather than over-reliance on one option, the Councils will spread the risk and maximise the benefits.
- 1.9 One of those options is the formation of a single Council, and the intention of the Proposal is to respond to severe financial public sector constraints, maximise efficiencies and simplify the way that the Councils work, whilst protecting and investing in the services that the Councils provide. There is a separate report on the Hub Committee agenda regarding the Single Council proposal.
- 1.10 Other measures that the Councils are currently considering are outsourcing some of their front-line services such as waste and recycling services and also considering a programme of buying and renting out commercial properties. The Hub Committee on 20th June has recommended to Council in July a first tranche of £26.75 million.
- 1.11 The two schemes most likely to achieve financial sustainability are the commercial acquisition strategy and the single Council proposal - neither of which will meet the immediate budget deficit for 2018/19 therefore the Council will also need to consider some other short term solutions through the budget setting process this year.
- 1.12 The strategy to consider these three distinct but inter-related work streams will help the Councils to generate revenue streams and reduce inefficiencies, thereby contributing to the long term financial sustainability of each Council and enabling them to continue to deliver, and where possible improve, statutory frontline services rather than looking to reduce services in order to deal with budgetary cuts.
- 1.13 As the Council works through these ideas, reports will be presented to both Councils who will ultimately make the decision on the future of both Councils and how services will be funded into the future.

BUDGET PRINCIPLES

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

Adopt the financial strategy of the Joint Steering Group (JSG) set out in 1.7 to 1.13. By implementing a number of solutions rather than over-reliance on one option, the Council will spread the risk and maximise the benefits. One of the options is the formation of a single Council. Other options that the Councils are currently considering are outsourcing some their front-line services such as waste and recycling services and also considering a programme of buying and renting out commercial properties.

To protect statutory frontline services in the options progressed by the Council.

To continue working in partnership with South Hams District Council, to protect the shared services efficiency savings (in excess of £6 million per annum across both Councils) and to maximise each organisation's efficiency to address future financial challenges. There is an interdependency between the two Councils due to the extent that services have been shared in the past.

To use New Homes Bonus to temporarily fund the Revenue Base budget, whilst other options are progressed on an Invest to Save basis to generate new revenue streams.

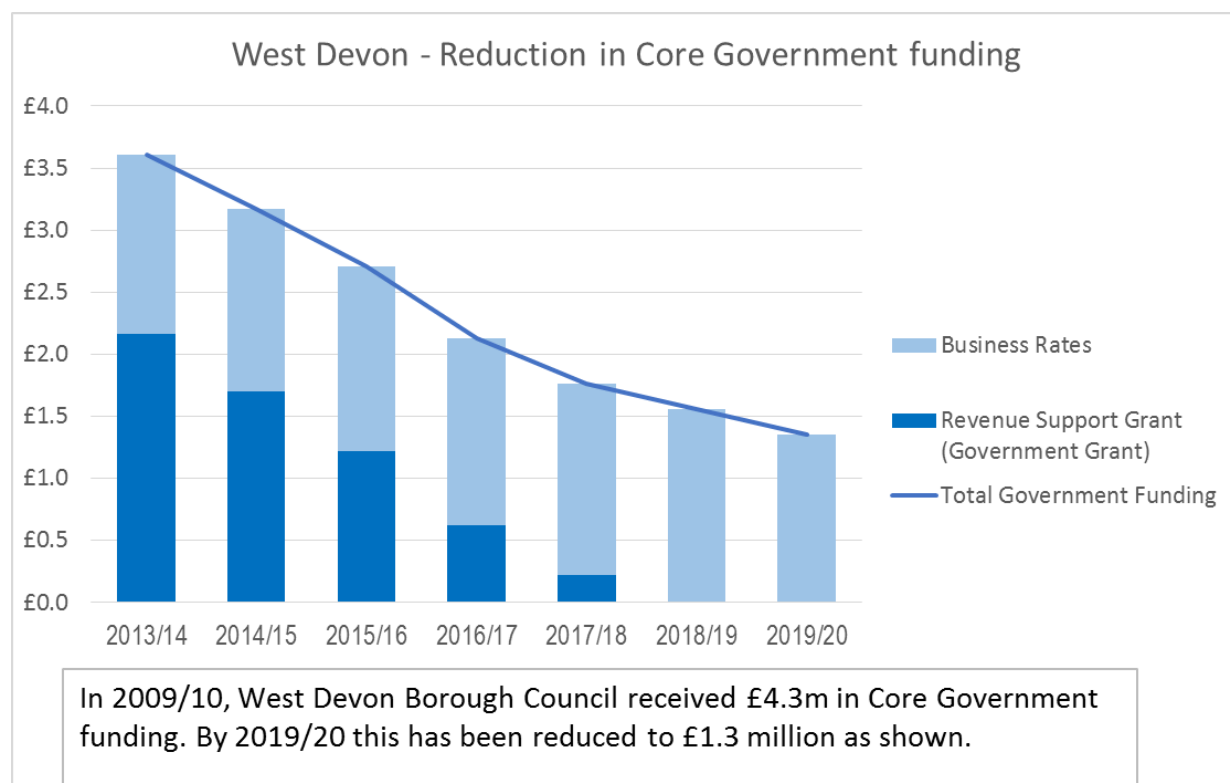
To maximise income generation and funding through New Homes Bonus and Business rates growth

PURPOSE OF A MEDIUM TERM FINANCIAL POSITION (MTFP)

- 1.15 Financial planning sits at the heart of good public financial management. Alongside budget preparation, performance management and stakeholder reporting, the ability to look strategically beyond the current budget period is a crucial process to support the Council's resilience and long-term financial sustainability.
- 1.16 Developing the Medium Term Financial Position brings together all known factors affecting the Council's financial position and its financial sustainability into one place. This provides a clear view of the options to address gaps in long-term financing.
- 1.17 At the September 2017 Hub Committee meeting, the Council will set its Medium Term Financial Strategy.

2 THE FOUR YEAR SETTLEMENT FUNDING OFFER

- 2.1 During 2016/17 the Government offered Local Authorities the opportunity to apply for a four year agreed funding settlement, subject to the production of an efficiency plan. The Council applied and was accepted for the four year agreement.
- 2.2 By 2018/19 the Council receives 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. The Council's Settlement Funding Assessment (Government Grant and funding from Business Rates) is reducing by a further 37% between now and 2019/20. This compares to a 18.7% cut for Metropolitan Districts and 32.4% for Shire Districts. Counties vary between 30% to 31%.
- 2.3 District Councils such as West Devon have also suffered a large reduction in their New Homes Bonus funding (£0.5 million in 17/18) due to the number of years payments being reduced from six years to five years in 17/18 and four years from 18/19 onwards. The funding being released is to contribute towards adult social care costs, a function carried out by Unitary and County Councils.



- 2.4 It can be seen from the graph above that between 2009/10 and 2019/20 the Council's Core Government funding will have reduced by £3 million.

2.5 The options that the Council is exploring to secure financial stability are further explained in Section 7.

2.6 It is hugely concerning that the Queen's Speech did not reintroduce the Local Government Finance Bill, which provided the legislative framework for the introduction of 100% Business Rates Retention. With no Revenue Support Grant in 2018/19, the loss of the 100% business rates is a further threat to being able to pay for valuable services. West Devon Borough Council is on the baseline for Business Rates (i.e. it has marginal business rates growth) and the Council is part of the Devon Business Rates pool, from which it has received a pooling gain annually.

3 ASSUMPTIONS FOR FINANCIAL MODELLING PURPOSES

3.1 The Trade Union pay claim for 2018/19 is for one year (2018/19) and is for a 5% increase on all pay scales. A budget provision of 1% for 2018/19 (£40,000) onwards has been modelled. The Medium Term Financial Position 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 report assumes inflation will run at 2% over the five year period. The Consumer Prices Index (CPI) rose to 2.9% in May 17.

3.3 The Medium Term Financial Position 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

£2,500 – Apprenticeship Levy

£7,500 – Utilities inflation

£10,000 – Insurance premiums

An amount of just over £30,000 is to fund a 2% uplift on other expenditure budgets.

3.4 The predicted interest rate forecast from our treasury management advisors, Capita, is that they will remain at 0.25% until Autumn 2019, when they will rise to 0.5%. Officers will make recommendations in September on the strategy for internal borrowing and external borrowing for the waste vehicles and the leisure investment.

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 £223.39 in 2018/19 as shown in Appendix B and equates to a council tax increase of 2.29%.

- 3.6 It has been assumed that the number of properties within the Borough will increase by 225 per annum from 2018/19 to 2022/23 – this is an increase of approx. 1.1% - the Council had 19,948.77 Band D equivalent properties in 2017/18. These additional properties have been used to calculate the amount of additional Council Tax and also the potential for New Homes Bonus.

4. BUSINESS RATES AND COUNCIL TAX

- 4.1 **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. The Council is part of the Devonwide Business Rates Pool.
- 4.2 Of the Business Rates collected of £11 million, the Council is predicted to retain in funding only £1.588 million of this in 2018/19. So the Borough Council retains approximately 14p in every £1 to run our services.

Self-sufficient local government: 100% Business Rates Retention

- 4.3 The move from 50% to 100% Business Rates Retention (BRR) will see new responsibilities given to local government, with certain central government grants already being phased out for many Councils such as West Devon (such as Revenue Support Grant). The Government has previously announced that the move to 100% BRR will be fiscally neutral. As the Local Government Finance Bill was omitted from the Queen's Speech, the timing for the introduction of 100% BRR is now unclear.

Council Tax

- 4.4 West Devon Borough Council's share of the council tax bill in 2017/18 was **12%**, being £218.39 out of an average Band D council tax bill of £1,809. The total income from council tax in 2018/19 is predicted to be £4.507 million. A 1% increase in council tax generates an extra £44,000 for West Devon. An average council tax bill for 2017/18 is shown below.

Precepting Authority	Band D 2016/17	Band D 2017/18	£ Increase	% Increase	Date Approved
West Devon Borough Council	£213.39	£218.39	£5.00	2.34%	7 Feb 2017
Devon County Council Precept	£1,184.39	£1,208.46	£24.07	1.99%	16 Feb 2017
Adult Social Care Precept *	£23.23	£59.46	£36.23	3.00%*	
Devon & Cornwall Police & Crime Commissioner	£172.84	£176.28	£3.44	1.99%	3 Feb 2017
Devon & Somerset Fire & Rescue	£79.98	£81.57	£1.59	1.99%	17 Feb 2017
Average Parishes/Towns	£62.30	£64.45	£2.15	3.45%	
TOTAL	£1,736.13	£1,808.61	£72.48	4.17%	

£5 council tax referendum limit for District Councils

- 4.5 The Finance Settlement confirmed that the Council Tax referendum limit for all District Councils for 2017/18 was the higher of 2% or more than £5. This meant that the Borough Council had the flexibility to increase its Band D council tax by £5 for 2017/18. It has been assumed in this report that the same principles will apply for 2018/19. (An increase of £5.01 triggers a council tax referendum).
- 4.6 At the Members' Budget Workshop held on 3rd October 2016, 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. **Members' views are sought on setting a Principle around the council tax increase for 2018/19.** A Member Budget workshop will be held in September 2017.

5 THE COUNCIL'S STRATEGIC PRIORITIES – OUR PLAN

- 5.1 The Council's 'Our Plan' describes the Council's vision and its aspirations for our communities. It does this by setting out what the Council wishes to deliver to our communities under eight themes. These themes are: Homes; Economy; Communities; Wellbeing; Infrastructure; Environment; Heritage; and Resources.
- 5.2 'Our Plan' is due to be reviewed during the 2017/18 financial year.

6 BUDGET PRESSURES, SAVINGS AND INCOME GENERATION

- 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 Position sets out the Budget Pressures forecast for the next five years and the additional savings and income forecast. **These figures in Appendix A show the changes to the existing base budget.** A description of the larger budget pressures are set out below.
- 6.3 **Salaries** – A 1% provision for a pay award has been included for 2018/19 which totals £40,000. This is explained in section 3.1. Any increase over 1% will add an extra cost pressure of £40,000. Also an amount of £40,000 has been included for salary increments.
- 6.4 An extra cost pressure of £30,000 has been added for 2018/19 for ICT support contracts, to align the budget to actual expenditure.

SAVINGS AND INCOME GENERATION

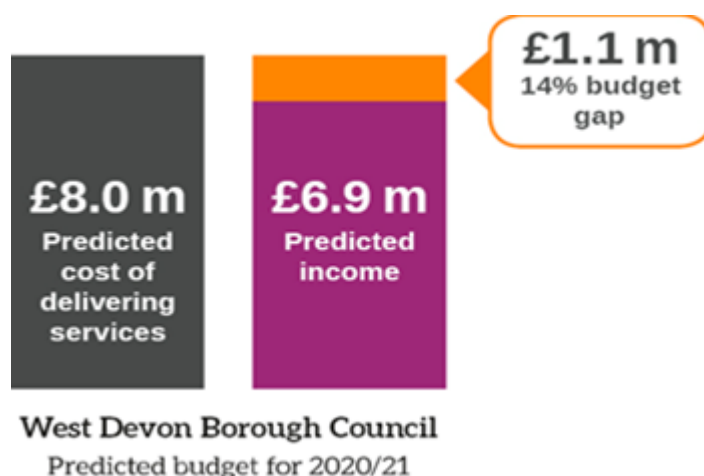
- 6.5 An income budget for Housing Benefit recoveries of overpayments of £80,000 has been built into the 2018/19 forecasts as a recurring income target.
- 6.6 Similarly, the planning fee income target has been increased by £60,000 in 18/19, to reflect actual income being achieved in 16/17.
- 6.7 The Car parking income target has also been increased by £40,000 in 18/19, to reflect actual income being achieved in 16/17.
- 6.8 **Re-procurement of contracts** – The Medium Term Financial position shows the savings in Appendix A from the re-procurement of outsourced contracts.

7. OVERALL POSITION – BUDGET GAP

- 7.1 Appendix B illustrates the overall financial forecast for the forthcoming five years. The Council's Net Budget is £7.4 million in 2017/18.
- 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 following table illustrates the predicted budget gap from 2018/19 onwards for the Council as shown in Appendix B:

	2018/19 £	2019/20 £	2020/21 £	2021/22 £	2022/23 £
Cumulative budget gap	701,360	1,009,001	1,093,743	1,166,987	1,007,980
CUMULATIVE BUDGET GAP OVER THE FIVE YEARS TO 22/23					£1,007,980

7.4 West Devon Borough Council is currently forecasting a £1.1m budget gap (14%) by 2020/21 as shown in Section 1.4.



OPTIONS TO MEET THE BUDGET GAP

7.5 The section below shows options to meet the budget gap:

	2018/19	2019/20	2020/21	2021/22	2022/23
Budget Gap	£701,000	£1,009,000	£1,094,000	£1,167,000	£1,008,000
Options to meet the Budget Gap					
(i) Commercial Property acquisition Strategy – see 7.6 (1 st tranche of £25 million shown only)	£(190,000) to £(455,000)	£(190,000) to £(455,000)	£(190,000) to £(455,000)	£(190,000) to £(455,000)	£(190,000) to £(455,000)
ii) Single Council proposal (assume 40% share of Single Council savings/additional income for illustration purposes only 7.7)	N/A (first year is 19/20)	£(282,400) – (This is 40% of £706,000)	£(814,000)	£(1,174,000)	£(1,056,000)
iii) Waste options (Savings to be confirmed – 7.8)	tbc	tbc	tbc	tbc	tbc
iv) Use more New Homes Bonus to fund the Budget Gap (7.10)	£(150,000)	£(150,000)	£(150,000)	£(150,000)	£(150,000)
Budget Gap remaining (if options approved)	£361,000 Budget Gap	£386,600 Budget Gap	£(60,000) surplus funding	£(347,000) surplus funding	£(388,000) surplus funding

7.6 **Commercial Property Acquisition Strategy** – a £25 million portfolio is predicted to achieve additional surplus property income of between £190,000 and £455,000. However the portfolio will take time to build up to the full £25 million. The Hub Committee on 20th June has recommended to Council in July a first tranche of £26.75 million.

7.7 **Single Council option** – This is a separate item on the Hub Committee agenda for consideration. The following table summarises the costs and savings as a result of implementing a single Council across West Devon and South Hams. A 40% share of the net income has been used for illustration purposes only.

Financial Summary	2017/2018	2018/2019	2019/2020	2020/2021	2021/2022	2022/2023	2023/2024
Planning and Implementation Costs (one-off)	30,500	85,500	154,000	20,000	20,000	15,000	0
Annual Efficiency Savings	0	0	-60,000	-455,000	-455,000	-455,000	-540,000
Increased Income from Council Tax equalisation (Option 5 shown for illustration purposes only)			-800,000	-1,600,000	-2,500,000	-2,200,000	-1,900,000
Net cost/(income)	30,500	85,500	-706,000	-2,035,000	-2,935,000	-2,640,000	-2,440,000

7.8 **Out-sourcing / Wholly owned company.** In February/ March 2017 the Councils decided not to set up a Local Authority Controlled Company for all services. However this is still an option for some services, as is continued or further outsourcing of some services where there is a clearly defined market or efficiency opportunity. This is in respect of waste and cleansing services, grounds and building maintenance services. Staff are currently undertaking market testing to advise on which options will offer the best value to the Councils. This is therefore the subject of another report on the Hub Committee agenda.

7.9 **Other options for savings/additional income**

The Senior Leadership Team, in conjunction with the Extended Leadership Team will put forward service reduction/additional income options for early discussion with Members. These will be part of a report to Members in September.

Short Term funding options for 2018-19 that could allow time to develop longer term funding solutions :-

7.10 **New Homes Bonus funding**

There is a further option to use an extra £150,000 more NHB in 2018/19 and future years to fund the Revenue Base Budget. Appendix C sets out the New Homes Bonus funding in more detail and proposals for the Capital Programme. The expected levels of NHB received will be in the region of £0.7 million (in 18/19). The Medium Term Financial Position currently assumes using £0.5 million for the Revenue Budget

in 2018/19. However if more NHB is used in 18/19 Budget onwards, this would mean not putting any money into the affordable housing capital projects (so not putting £100,000 into affordable housing for capital contributions each year).

7.11 **One-off Use of Reserves in 2018-19**

If Reserves were to be used to partially balance the budget in 2018-19, below are the 2 main Earmarked Reserves which have an uncommitted balance remaining on them (see Appendix D). This would mean the Council would retain Unearmarked Reserves of £1 million. Using one-off Reserves to balance the budget only moves the budget shortfall (budget gap) back one year in terms of timing to address it.

The 2016/17 Budget Surplus Contingency Earmarked Reserve has £221,000 remaining uncommitted balance (see Appendix D).

Innovation Fund (Invest to Earn) Innovation Fund has a remaining uncommitted balance of £906,000. Of this, £500,000 has been deposited with CCLA in their Local Authority Property Fund. This is a long term investment and on average is expected to generate yields of c.5%. It is anticipated that the remainder of this fund will be used to acquire and develop land within West Devon to support local housing need.

7.12 **Business Rates Pilot 18/19?**

The Local Government Finance Bill was not included within the Queen's Speech and therefore the timing of any Business rates pilots for 2018/19 is very much unknown.

CAPITAL PROGRAMME AND PRUDENTIAL BORROWING

- 8.1 The Capital Programme is set by the Council and may be funded by sale proceeds from the disposal of assets (capital receipts), external grants and contributions, directly from revenue or from borrowing.
- 8.2 A proposed Capital Programme for 2018/19 onwards is set out in Appendix C onwards.
- 8.3 **Prudential Borrowing** - The Council will consider the use of prudential borrowing to support capital investment to deliver services and will ensure that the full costs of borrowing are taken into account when investment decisions are made.
- 8.4 In July 2016 (Minute CM28), the Council agreed to undertake prudential borrowing of £1.5 million for the new leisure contract. Also at Council on 26 July 2016 (Minute CM27), Council agreed to undertake borrowing for the waste fleet.

9. EARMARKED AND UNEARMARKED RESERVES

- 9.1 A schedule of Earmarked and Unearmarked Reserves is shown in Appendix D.
- 9.2 It is recommended to maintain the current Council policy on the minimum level of unearmarked reserves being £750,000.
- 9.3 **Sensitivity analysis and risk analysis** – The figures within the Budget Proposals have been subject to a sensitivity analysis of the figures and a risk analysis. A copy is attached at Appendix E.

10 OTHER BUDGET ITEMS

- 10.1 **Members' Budget Workshop** – A Members' Budget Workshop will be arranged in September 2017, to give all Members the opportunity to influence and shape the budget setting process. At last years 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.

Devolution

- 10.2 The Council plays an active part in the Heart of the South West LEP's devolution project.

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.
- 11.2 **Car Parking Charges** – The Car Parking Strategy Group will undertake a review of car parking charges in 2018-19.

12 Timetable for the Budget Setting Process

- 12.1 Appendix F sets out the timetable for the Budget Setting Process.

13 Looking Forward to the Future

13.1 Overall, the Council's finances remain strong, but there are challenges ahead. 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>
Financial	Y	The financial implications are set out in Section 7.5
Risk	Y	The financial risks are as set out in Appendix E of the Budget Proposals 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 B – Modelling of council tax increasing by £5

Appendix C – New Homes Bonus funding and Capital Programme

Appendix D – Schedule of Reserves

Appendix E – Sensitivity Analysis

Approval and clearance of report

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