

Report to: **Executive**
Date: **4 February 2016**
Title: **Revenue Budget Proposals Report 2016-17**
Portfolio Area: **Cllr R Tucker**
Wards Affected: **All**
Relevant Scrutiny Committee: **Overview and Scrutiny Panel**

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

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RECOMMENDATIONS:

That the Executive resolves to RECOMMEND to Council:

1. To increase Council Tax by 1.99% (which equates to a Band D council tax of £148.31 for 2016/17, an increase of £2.89 per year or 6 pence per week). This equates to a Council Tax requirement of £5,488,062 (as shown in Appendix B1))
2. the financial pressures in Appendix B1 of £ 1,690,000 be agreed
3. the £10,000 discretionary budget bid for the Citizens Advice Bureau be agreed;
4. the schedule of savings identified in Appendix B1 totalling £1,252,000 be agreed;
5. the Collection Fund Surplus of £210,000 as shown in Appendix B1 be agreed ;
6. the level of contributions to reserves to be included within the Authority's budget, as set out in Appendix C2 be agreed (this includes using £500,000 of New Homes Bonus funding to fund the 2016-17 Revenue Budget);

7. To transfer the budget surplus in 2016/17 of £297,240 into a Contingency Earmarked Reserve (see 1.6 and 1.7)
8. the allocation of Council Tax Support Grant for Town and Parish Councils be set at £101,658 in 2016/17, a reduction of 9.9 % (Appendix E)
9. that the Council should set its total net expenditure for 2016/17 as shown in Appendix B1 at £8,312,767. This is subject to final confirmation of Government funding which will be notified in February 2016. If the Government changes the funding, delegated authority is given to the S151 Officer in liaison with the Leader of the Council to identify an appropriate solution.
10. to allocate £153,900 of New Homes Bonus funding for 2016/17 to the Community Reinvestment Projects budget for 2016/17. Any under spend from the 2015/16 Community Reinvestment Projects budget of £153,900 is to be transferred into the Capital Programme Reserve.
11. the Council transfers £24,606 of its allocation of the New Homes Bonus for 2016/17 to the Dartmoor National Park Sustainable Community Fund. The funds are awarded as a one off payment to Dartmoor National Park, to award projects on an application basis administered by Dartmoor National Park. The following conditions will apply:
 - A. decisions must be taken in consultation with the South Hams District Council local Ward Member(s);
 - B. funding can only be used for capital spending on projects in those parts of Dartmoor National Park which fall within the South Hams District Council Boundaries and enable the Dartmoor National Park to carry out its social economic responsibilities; and
 - C. Dartmoor National Park reports on the progress in the application of, and use of the funds to the Overview and Scrutiny Panel, in time for budget decisions to be made
12. £464,000 of New Homes Bonus funding from the 2016/17 allocation is used to fund housing capital projects (Disabled Facilities Grants and Affordable Housing). (*The Capital Programme is a separate report on this Executive agenda and the funding is set out in section 4 of that report*).
13. To transfer £150,000 of New Homes Bonus funding for 2016-17 into an Earmarked Reserve for the one-off costs of the Local Authority Controlled Company (LACC – see Section 5.9 of the report)

14. To transfer the unallocated New Homes Bonus of £777,402 into an Innovation Fund (Invest to Earn) Earmarked Reserve (as per 7.10 and 7.11).
15. The minimum level of the Unearmarked Revenue Reserves is maintained at £1,500,000 as per Section 9.
16. the level of reserves as set out within this report and the assessment of their adequacy and the robustness of budget estimates are noted. This is a requirement of Part 2 of the Local Government Act 2003.

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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 Executive on 10 December 2015 are shown in detail in Section 5.15.**
- 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 South Hams District 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 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 Summer Budget on 8 July 2015 has confirmed this and is likely to mean significant financial reductions particularly over the next two to three 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 40% 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, West Devon Borough 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 £4.6 million has been approved, to deliver annual recurring revenue savings of £3.3 million. The payback period for the Programme is 2.5 years. The Transformation Programme has received the backing of Central Government with an award of £434,000 of Government funding.
- 1.6 The following table illustrates the predicted budget (surplus)/gap from 2016/17 onwards for the Council as shown in Appendix B1:

	2016/17 £	2017/18 £	2018/19 £	2019/20 £	2020/21 £
Annual budget (surplus)/gap	(297,240) surplus	549,576 gap	411,043 gap	211,823 gap	253,689 gap
TOTAL BUDGET GAP OVER THE FIVE YEARS TO 2020/21					£1,426,131

Section 6.4 gives more details of the key assumptions regarding these figures. **The budget surplus in 2016/17 of £297,240 is available for reinvestment (on a one-off basis rather than annually).** See 1.7 below for the Overview and Scrutiny Panel's recommendation that the 2016/17 Budget Surplus is transferred into a Contingency Earmarked Reserve.

- 1.7 The Council's Revenue Budget Proposals were considered by the Overview and Scrutiny Panel on 14 January 2016. At this meeting, it was Proposed and Seconded and when put to the vote was declared Carried that:-

The Overview and Scrutiny Panel recommend to the Executive that the Council Tax level for 2016/17 be increased by 1.99%.

The Overview and Scrutiny Panel also :-

- Endorsed the themes arising from the Medium Term Financial Strategy
- Recommended that the 2016/17 Budget Surplus was transferred into a Contingency Earmarked Reserve

- 1.8 If New Homes Bonus (NHB) were to be used as outlined in 7.10 of the report, this would mean that there would potentially be £777,402 of NHB which is uncommitted in 2016/2017. This assumes that £0.5 million of NHB will be used in 2016/17 to support the Revenue Base Budget. It is recommended to transfer the unallocated New Homes Bonus of £777,402 into an Innovation Fund (Invest to Earn) Earmarked Reserve (as per 7.10 and 7.11). This amount is in addition to the budget surplus identified of £297,240 in 2016/17.
- 1.9 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.
- 1.10 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 District Council by developing financial resilience through less exposure to reductions in Government funding.

2 ASSUMPTIONS FOR FINANCIAL MODELLING PURPOSES

- 2.1 Levels of pay settlement will be 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%. A cost pressure of £395,000 has been included for 2016/17. This is partly to allow a provision 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 £123,000. 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 An increase in council tax of 1.99% for the next five years has been modelled for council tax purposes. This means an increase to £148.31 in 2016/17 as shown in Appendix B1. Appendix B2 shows how this figure differs, if council tax is increased for 2016/17 but then frozen for subsequent years.
- 2.5 The assumed forecast 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 £
Revenue Support Grant (2015/16 RSG was £1.406m):	£0.749m	£0.245m	Nil	Nil	Nil
TOTAL REDUCTION OVER THE FIVE YEARS TO 2020/21					£1.406m

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)	3,137,000	1,406,240	1,730,760
2016-17	2,514,451	749,451	1,765,000
2017-18	2,045,393	245,393	1,800,000
2018-19	1,853,000	Nil	1,853,000
2019-20	1,912,000	Nil	1,912,000

So funding from Revenue Support Grant and Business Rates reduces by £1,225,000 over the 4 year period. Therefore Appendices B1 and B2 have been updated to reflect these figures.

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	£100,754
2017-18	£176,320
2018-19	£251,886
2019-20	£327,451
2020-21	£350,000 (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 2016/17 of £1,995,000. This is now estimated to be £1,764,500 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 £99,428 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 has withdrawn from the Devonwide Business Rates pool in 2015/2016, due to the risk of some significant business rates appeals.

The Council's Business Rates Gross amount payable has increased from £26.9 million in 2012/13 to £31.2 million in 2015/16. Therefore over the last 3 years, the District Council's business rates base has grown on average by 5% per annum.

Of the Business Rates collected of £31.2 million, the Council is predicted to retain in funding only £1.95 million of this in 2015/16. So the District Council retains approximately just under 6.5 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 South Hams District 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 District Council to increase council tax by 1.99% for 2016/17 to £148.31 for a Band D property for South Hams District Council. This amounts to a £2.89 increase on an average Band D property over a year, equivalent to 6 pence per week.

The Council's Revenue Budget Proposals were considered by the Overview and Scrutiny Panel on 14 January 2016. At this meeting, it was Proposed and Seconded and when put to the vote was declared Carried that:-

The Overview and Scrutiny Panel recommend to the Executive that the Council Tax level for 2016/17 be increased by 1.99%.

A 1% increase in Council Tax generates an extra £53,000 in extra council tax income per annum. The total income from Council Tax is projected to be £5.488 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 South Hams District Council for the last two years:

Precepting Authority	Band D 2014/15	Band D 2015/16	£ Increase	% Increase
South Hams District Council	£145.42	£145.42	£0	0%
Devon County Council	£1,138.59	£1,161.27	£22.68	1.99%
Devon & Cornwall Police & Crime Commissioner	£166.16	£169.47	£3.31	1.99%
Devon & Somerset Fire & Rescue	£76.89	£78.42	£1.53	1.99%
Average Parishes/Towns	£44.03	£45.94	£1.91	4.34%
TOTAL	£1,571.09	£1,600.52	£29.43	1.87%

South Hams District Council's share of the council tax bill in 2015/16 was **9%**, being £145.42 out of an average Band D council tax bill of £1,600.52. ***If the Council were to increase council tax by 1.99% in 2016/17, this would equate to a Band D council tax of £148.31 - an increase of £2.89 per year.***

- 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 £2.062 million. This will be distributed in 2016/17, which means that the District Council's share of the distribution is £210,000 which is funding available towards the 2016/17 Budget.

4 THE COUNCIL'S STRATEGIC PRIORITIES – OUR PLAN

- 4.1 The strategic plan for South Hams, 'Our Plan' sets out the vision, long term priorities and planning policies for the District as below:-

***South Hams - Vibrant Towns and Villages
Enhancing the quality of life for individuals and communities
whilst conserving the natural environment***

4.2 Our Plan is an overarching strategic plan for the whole District. It covers a wide range of topics, from issues such as community wellbeing, energy needs and landscape protection through to employment growth, housing and infrastructure.

4.3 The themes are set out below.



4.4 The themes formed the basis of ongoing consultation throughout the summer of 2014, which included public events in all South Hams market towns and some local centres.

4.5 The actions in the Delivery Plan are grouped under the following headings:

- Homes
- Jobs
- Natural Environment
- Excellent Customer Services

The full document can be accessed on <http://www.southhams.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** - A one-off cost pressure for £30,000 has been built into the Financial Strategy for a specialist temporary staffing resource.
- 5.4 **Trade Waste** – Increase in disposal costs and tipping charges. There have also been legislative changes adversely affecting the services.
- 5.5 **National Insurance** - There will be increased National Insurance (NI) contributions for employers effective from 2016/17. The extra cost to South Hams is £155,000 annually.
- 5.6 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 cost of introduction has been assessed as £25,000.
- 5.7 **Dartmouth Lower Ferry** – Members will recall that the Ferry was out of action until 20th May 2013 for essential slipway maintenance (Minute E.15/12 refers). The indications are that not all the business lost during this period has returned and a shortfall in income of £100,000 is forecast.

In 2014/15 the actual income achieved was £813,000 against an income budget of £907,000. The income target for 2016/17 has been reduced by £100,000 to reflect the actual position.

- 5.8 **Homelessness Grant** – 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 £80,000 in 2016-17 is still required to enable the Council to continue with homelessness prevention activity.

- 5.9 **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 Local Authority Controlled Company are now predicted to be in the region of £150,000 for each Council.

Therefore the initial costs have 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 Executive for 'Proposals relating to a Local Authority Controlled Company'.

Due to the one-off nature of the initial set up costs, it is recommended that these initial costs are financed from the New Homes Bonus amount in 2016-17. Therefore these costs have no longer been shown in the Budget report as a cost pressure in 2016-17 and are instead shown as a one off amount being allocated of New Homes Bonus funding. This is shown in Section 7.10.

5.10 Waste Rounds review – deferment to consider a four day working week

The waste task and finish group met on 10th January and considered the further exploration of the possibility of a 4 day working week for the collection of waste and recycling. This was suggested at the December meeting of the group. This would consider the shortening of the working week to a Tuesday to Friday collection pattern.

There would need to be detailed work done in considering this regime as it would require round modelling on a 4 day zone basis and union consultation for the workforce. The concept of a 4 day work pattern for refuse and recycling is supported.

There are a number of other benefits which would be realised in terms of a 4 day week:

- reduced number of calls/emails to the contact centre
- reduced number of customer complaints against service
- minimal service disruption during holiday periods
- reduced overtime costs to service
- Savings from advertising/calendars for bank holiday periods

It would provide a better service for customers as there would be minimal disruption from bank holidays during the year and would offer efficiencies around current fleet use and current vehicle servicing costs. It is likely to provide a betterment of the budgeted £175,000 round review savings and in cab efficiency savings, however for this to be known the 4 day modelling needs to be carried out.

If this work area is to be progressed it will delay the round review currently planned for late spring/early summer based on a 5 day week collection pattern. This is due to the fact that it would be impractical, costly and extremely disruptive to make two changes to customers' collections in quick succession. An estimated cost of delay would be £85,000 (which may be bettered) and this has been shown as a cost pressure in Appendix A. This is a new cost pressure which has recently arisen and this was not reflected in the December 2015 Budget Proposals report.

It would however be practical to implement the remaining waste review work in Spring, specifically:-

- the change for the current weekly collection households to the alternate weekly collection pattern. This has already been agreed by Members and will need to be implemented prior to the 4 day week round patterns being agreed, and
- the introduction of the in cab technology to the fleet

These savings would therefore be realised as budgeted. It is understood that it is not ideal to delay round changes however the reputational benefits which could be realised are felt to be worth the further deferral.

5.11 Cessation of crab export licensing fee income

The export of live crabs to China requires an export certificate issued by the Council. A fee is charged for this certificate. Due to reasons beyond the control of the Council, this trade has now ceased. A cost pressure of £30,000 has been added for this. The Council is hopeful that this trade will resume but are unable to predict when this may happen.

5.12 **Discretionary Budget Bid - Citizens Advice Bureau (Outreach Project)**

In 2015/16 Members approved a "non-recurring" bid for £10,000 for additional funding for the CAB Outreach Project which provides a weekly advice service in Dartmouth, Ivybridge and Kingsbridge. Much of the advice covers housing, benefits and debt Issues and is managed in liaison with the Council's Community Team. Members are requested to consider if they wish to renew this arrangement for 2016/17. The modelling in the budget report is currently based on a continuation of this bid for 2016/17.

SAVINGS AND INCOME GENERATION

- 5.13 **Transformation Programme 2018 (T18)** – In 2016/17 the Council will make savings of a further £1.142 million as outlined in the original Business Case. This is on top of savings of £1.95 million of savings already built into the 2015/16 Base Budget as shown in Appendix A.

There was a separate report on the Executive agenda on 10 December 2015 regarding the budget monitoring position of the transformation programme. This showed that the predicted final spend (£4.584 million) is £30,000 less than the budget of £4.614 million.

- 5.14 **Trade Waste Service savings – Business rated domestic properties** - The Council is currently writing to business rated domestic properties to advise of the implementation of charging for trade waste services. Customers will be sent a letter advising of this. The change of service could apply to approximately 2000 properties, 650 of which are already paying for a trade waste service from South Hams. Of the remainder (1,350 properties) our market share (based on our current market share) is likely to be between 30% – 45% and will deliver between £60,000 to £100,000 additional income for the trade waste service in 2016/17. As the take up levels are unknown, a conservative estimate of £50,000 income target for trade waste has been put into the 2016/17 budget process as additional income, with an extra £25,000 in 2017/18.

CHANGES SINCE THE LAST BUDGET REPORT

- 5.15 The Draft Revenue Budget Proposals report for 2016/17 was considered by the Executive on 10 December 2015. This showed a budget surplus of £753,232 for 2016/17. The figure has now changed to £297,240. The changes are as below:-

Budget Surplus reported in the Executive Budget Report on 10th December 2015	£(753,232)
Extra Council Tax income from a higher TaxBase (TaxBase for 2016/17 is 37,003.99 Band D properties – the original modelling in December estimated a taxbase of 36,806.88 Band D properties – the extra 197.11 properties multiplied by a Band D council tax of £148.31 equates to extra council tax income of £29,000.)	£(29,092)
Reduction in Revenue Support Grant (RSG) (The modelling in December assumed RSG in 2016/17 of £1,032,000 and rolled in council tax freeze grant (for freezing in 15/16) of £57,789 – RSG has been announced in the Finance Settlement to be £749,451)	£340,338
Reduction in Business Rates income (The modelling in December assumed Business Rates income for 2016/17 of £1,995,000 – This is now estimated to be £1,764,500 – see note 3.4)	£230,500
Rural Services Delivery Grant – this is additional funding to that assumed in December 2015	£(100,754)
Remove the £75,000 one-off cost for the set up of the Local Authority Controlled Company as a cost pressure – instead fund this from the New Homes Bonus funding for 2016/17 (see 5.9)	£(75,000)
Add a cost pressure for the waste rounds review (deferment to consider a four day working week – see 5.10)	£85,000
Add a cost pressure for cessation of crab export licensing fee income (see 5.11)	£30,000
Reduction in the treasury management investment income savings (This was anticipated to produce £50,000 of savings in December 2015 – however in the light of current interest rate, this saving has been revised downwards to £25,000).	£25,000
Additional saving from Income from business rated domestic properties for trade waste collection – This was not included in the December 2015 Budget report but has been included within the January 2016 Budget report.	£(50,000)
Budget Surplus reported in this Executive Budget Report on 4th February 2016	£(297,240)

- 5.16 ***It can be seen from the table above that the main reason that the Budget Surplus has decreased by £456,000 (from the December 2015 position) is predominantly due to receiving less Revenue Support Grant and predicting less in Business Rates income.***

6. OVERALL POSITION – BUDGET (SURPLUS)/GAP

- 6.1 ***Appendix B1*** illustrates the overall financial forecast for the forthcoming five years. Although the Council's Net Budget is predicted to be in the region of £8.3 million in 2016/17, the Gross Expenditure of the Council is over £40 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 situation if the Council Tax is increased by 1.99% each year (***shown in Appendix B1***), against the situation if council tax is increased by 1.99% in 2016/17 and then frozen thereafter (***shown in Appendix B2***). A 1% increase in Council Tax generates an extra £53,000 in extra income per annum.
- 6.3 The following table illustrates the predicted budget (surplus)/gap from 2016/17 onwards for the District Council as shown in Appendix B1:

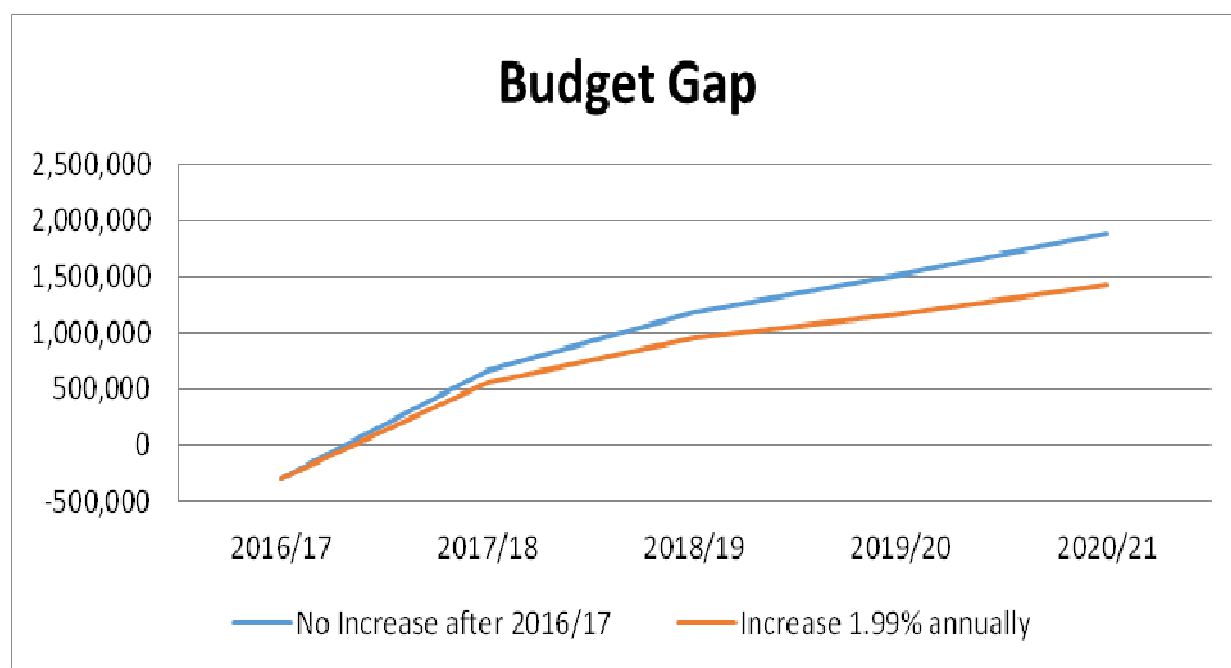
	2016/17	2017/18	2018/19	2019/20	2020/21
	£	£	£	£	£
Annual budget (surplus)/gap	(297,240) surplus (one-off)	549,576 gap	411,043 gap	211,823 gap	253,689 gap
TOTAL BUDGET GAP OVER THE FIVE YEARS TO 2020/21					£1,426,131

- 6.4 These budget gaps are the position based on two key assumptions:
- That a contribution from New Homes Bonus of £500,000 per annum will continue to fund the Revenue Base Budget for years 2016/17 to 2019/20 – with the amount being reduced to £450,000 in 2020/21
 - That the budget surplus in 2016/17 is treated as a one-off surplus and is reinvested in one-off items.
- 6.5 The report sets out an anticipated budget surplus for 2016-2017 of **£297,240** if Council Tax is increased by 1.99% annually as per Appendix B1. 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. In 2017/18 the Council moves into the position of having a budget gap again (of £549,576). Section 6.3 sets out the future years' budget gaps.

6.6 The graph below compares the Budget Gap if council tax is increased by 1.99% for 2016-17 only and is then frozen for future years (the higher line in blue) as per Appendix B2, to the Budget Gap if council tax is increased by 1.99% annually (the lower line in red) as per Appendix B1.

Cummulative Budget (Surplus)/Gap – as per Appendices B1 and B2

	2016/17	2017/18	2018/19	2019/20	2020/21
No Increase after 2016/17	-297,240	659,918	1,185,931	1,517,042	1,895,169
Increase 1.99% annually	-297,240	549,576	960,619	1,172,442	1,426,131



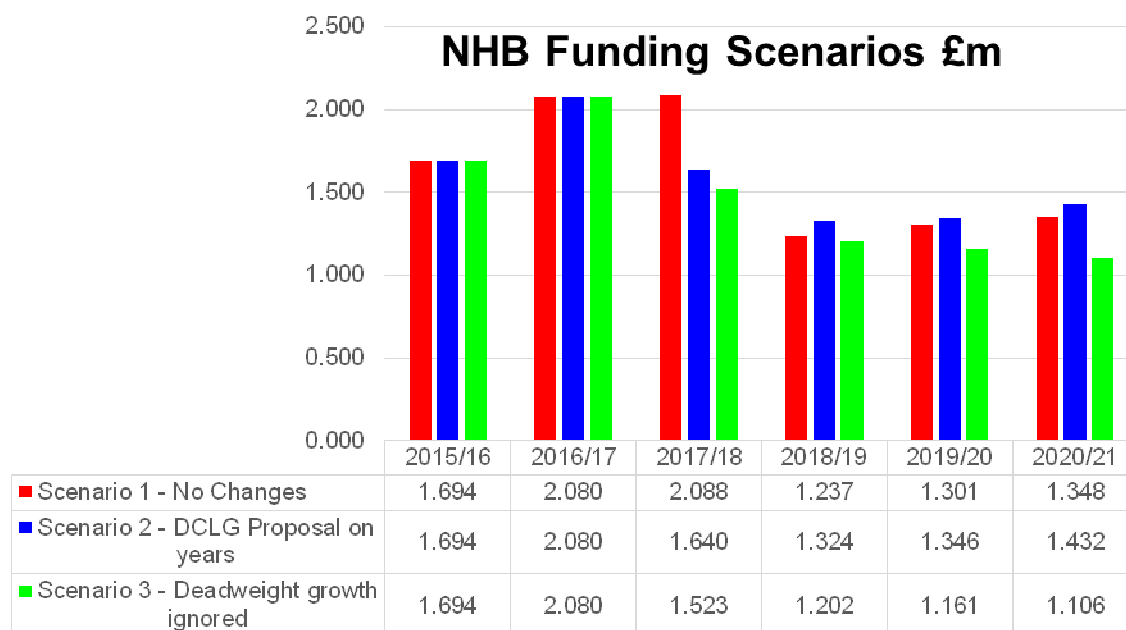
6.7 **Members' Budget Workshop** – A Members' Budget Workshop was held to give all Members the opportunity to influence and shape the budget setting process. The outcome of the meeting is attached at Appendix D.

- 6.8 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 B3 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.
- 6.9 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 'S' for South Hams or a 'W' for West Devon. For example the code for car parking could be S100 in South Hams and W100 in West Devon. 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. New Homes Bonus is funded through a combination of central government funding (£250m per annum) and top-sliced Revenue Support Grant (the balance each year).
- 7.2 On 29 November 2012, the Community Life & Housing Scrutiny Panel considered a report on the New Homes Bonus Strategy. It was resolved (CLH. 27/12) that the New Homes Bonus funding was used to support the following categories:
- To finance housing capital projects
 - Community re-investment projects
 - Funding for the revenue base budget
 - Community grants and projects
 - To provide funding for the overall Capital Programme
 - To make a provision for a share of the New Homes Bonus for the Dartmoor National Park when appropriate

- 7.3 A New Homes Bonus consultation document has been issued (responses due by early March 2016). The Council will send a robust response to the consultation document.
- 7.4 The NHB amount for 2016-17 has been confirmed at £2,079,908 (£134,000 more 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:-



- 7.5 So if there were to be no changes to the NHB scheme (Scenario 1), the Council would receive in the region of £2.088m in 2017/18. The NHB scheme allocations decrease by approximately 60% in future years due to the overall size of funding available for NHB decreasing by this amount. Therefore even if there were no changes to the scheme, there would be a scaling back of the payments made, so as to fit within the overall NHB budget totals – which are much less in 18/19 and onwards.
- 7.6 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 £1.64m in 17/18.
- 7.7 Furthermore, if deadweight growth (0.25) is also removed – (deadweight growth is an assumed baseline growth) - (Scenario3), then the NHB payments would further reduce to £1.523m in 2017/18. Payments would reduce to £1.106m by the year 2020/21.
- 7.8 The Council needs to use approx. £464,000 annually of NHB to fund its Capital Programme (for Disabled Facilities Grants and Affordable Housing Schemes) and a further £153,900 for the Community Re-Investment Scheme.

7.9 Therefore the amounts remaining that could be used to fund the Council's Base Budget are:-

2017/18	£900,000
2018/19	£500,000
2019/20	£500,000
2020/21	£450,000

The modelling in Appendix B1 and B2 still assumes a contribution from NHB of £500,000 per annum towards the revenue base budget, with this decreasing to £450,000 in 2020/21.

7.10 A contribution of £500,000 has still been assumed for 2016-17. Therefore in 2016-17, the proposed use of New Homes Bonus is as follows:-

	2016-17 (£)
Amount receivable (confirmed)	2,079,908
<i>Possible uses of NHB:</i>	
To fund the current Revenue Budget	(500,000)
To fund the Capital Programme	(464,000)
To fund the one-off set up costs of the Local Authority Controlled Company (LACC)	(150,000)
Community Re-Investment Scheme	(153,900)
CAB Outreach Worker	(10,000)
Dartmoor National Park allocation	(24,606)
Balance remaining unallocated (currently not committed)	777,402

7.11 ***It is recommended to transfer the unallocated New Homes Bonus of £777,402 into an Innovation Fund (Invest to Earn) Earmarked Reserve as outlined below.***

The concept of an Innovation Fund was an outcome from the Members' Budget Workshop day (see Appendix D). Officers are considering income generation options and are recommending that any surplus from New Homes Bonus (or part thereof) is placed into a reserve from where "invest to earn" proposals could source seed funds. An example of exploratory work is the idea of direct housing delivery – in line with Our Plan.

South Hams District Council could consider acquiring existing property or building its own property on land assets already held by the district, in line with the adopted Asset Management Strategy. This work may lead to a recommendation to generate income from a combination of market or affordable housing rental, housing development profit or acquiring property to satisfy temporary accommodation requirements which would otherwise be costly to the District. A report is being prepared for the Executive for discussion later this Spring.

7.12 Members have approved the following use of the New Homes Bonus to date:

Year	2011/12 £	2012/13 £	2013/14 £	2014/15 £	2015/16 £
Grant received	297,567	826,317	1,026,018	1,365,325	1,693,533
This is how the New Homes Bonus has been used:					
Housing Capital Projects		300,000	460,000	460,000	464,000
Community Reinvestment Projects			153,900	153,900	153,900
To fund the Revenue Base Budget	100,000	100,000	100,000	564,043	959,126
Community Grants (CAB Outreach worker)			10,000	10,000	10,000
Funding for the overall capital programme	197,567	419,567			
Dartmoor National Park		6,750		17,277	5,779
Transferred to the Capital Programme Reserve			302,118	160,105	100,728
TOTAL	297,567	826,317	1,026,018	1,365,325	1,693,533

7.13 **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. The outcomes are reported annually to the Overview and Scrutiny Panel. The amount being requested for 2016-17 is £24,606 and is for properties built in Hayford Hall, Buckfastleigh West, Holne and Thynacombe in South Brent.

8. CAPITAL PROGRAMME 2016/17

8.1 There is a separate report on this Executive agenda which contains the Capital Programme proposals for 2016/17. The proposals total £1,765,000.

- 8.2 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.
- 8.3 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.
- 8.4 **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. The Council is currently procuring a new leisure contract to commence in 2016/17. Service delivery options requiring capital investment will therefore be explored using this model to provide the Council with the fullest range of future choice.

9. EARMARKED AND UNEARMARKED RESERVES

- 9.1 The Council's Net Budget is £8.8 million in 2015/16. It is still recommended to retain the same policy of a maintaining a minimum level of Unearmarked Reserves of £1.5 million. The summary below shows the projected position at 31 March 2016:

The Use of Unearmarked Revenue Reserves	2015/16 £'000
Balance B/fwd 1.4.2015	1,741
Revenue Outturn Overspend for 2015-16 – (as per the Revenue Budget Monitoring report to Executive on 10 December 2015)	(70)
Unearmarked revenue reserves at 31.3.2016	1,671
Earmarked revenue reserves at 31.3.2016 (see Appendix C1)	3,615

- 9.2 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 £1.5 million 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

- 9.3 The Unearmarked Reserves (General Fund) balance of £1.7 million stands above the minimum balance of £1.5 million and acts as a safeguard against unforeseen financial pressures.
- 9.4 **Specific Earmarked Reserves** - The level and commitments for each reserve are reviewed 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 C1. Earmarked Reserves are predicted to be £3,615,000 at the end of March 2016.

10 OTHER BUDGET ITEMS

- 10.1 **Council Tax Reduction Scheme** – A letter has been sent to all Town and Parish Councils advising of a 9.9% reduction to their grant for 2016-17 (from £112,827 to £101,658). This is an overall reduction of **£11,169** and reflects the level of reduction which the District Council has received in funding. **Appendix E** illustrates the effect for each Town and Parish.
- 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 have 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 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 F**.

11 FEES AND CHARGES

11.1 The Overview and Scrutiny Panel considered fees and charges on 19 November 2015 and the outcome of the report is included within this Budget report. Additional income of £5,000 has been included in the 2016/17 Revenue Budget proposals.

12. IMPLICATIONS

Implications	Relevant to proposals Y/N	Details and proposed measures to address
Legal/Governance	Y	<p>The Executive 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 this 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	The financial implications are set out in Sections 1.6 to 1.8 of the Executive Summary.
Risk	Y	The financial risks are as set out in the report and in Appendix F.
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 increase of 1.99% in 16/17 and then freezing council tax thereafter

Appendix B3 – Analysis of 2016/17 Budgets into T18 structure

Appendix C1 – Reserves

Appendix C2 – Transfers to/from reserves

Appendix D – Summary of the Budget Workshop held 30th September 15

Appendix E – Town and Parish Council Tax Support Grant allocation

Appendix F – Sensitivity analysis and risk 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