Report to:	**Executive**
Date:	**15 October 2015**
Title:	**Medium Term Financial Strategy for the five year period 2016/17 to 2020/21**
Portfolio Area:	**Support Services – Cllr S Wright**
Wards Affected:	**All**

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

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

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Recommendations:

It is recommended that the Executive considers the five year Medium Term Financial Strategy and provides an indication of the budget principles to be adopted, with particular reference to;

- the level of council tax increase,
- the use of New Homes Bonus to support the revenue budget,
- the outcomes of the Budget Workshop held on 30th September, summarised in Appendix D
- the amount of Council Tax Support Grant to be passed on to Parish and Town Councils (Appendix E)
- bringing forward income generation and budget savings and
- maintaining the current Council policy on the minimum level of unearmarked reserves being £1.5 million (see 9.2).

1. Executive summary

1.1 This is the annual review of the Council's Medium Term Financial Strategy (MTFS). It 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.

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 The Council, along with other local authorities, has faced unprecedented reductions in Government funding since the Comprehensive Spending Review 2010. The Queen's Speech delivered on 27 May 2015 stated that the government will "continue the work of bringing the public finances under control and reducing the deficit, so that Britain lives within its means". The 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 A:

	2016/17 £	**2017/18 £**	**2018/19 £**	**2019/20 £**	**2020/21 £**
Annual budget (surplus)/gap	(1,138,232) surplus	(371,973) surplus	117,829 gap	456,310 gap	670,164 gap
TOTAL BUDGET SURPLUS OVER THE FIVE YEARS TO 2020/21					**£265,902**

Section 6.3 gives more details of the key assumptions regarding these figures. The budget surplus in 2016/17 of £1,138,232 is available for reinvestment (on a one-off basis rather than annually) in the Council's

priorities, projects or as a contribution into Earmarked Reserves or the Council's Capital Programme.

1.7 If New Homes Bonus (NHB) were to be used as outlined in 7.3 of the report, this would mean that there would potentially be £817,313 of NHB which is uncommitted in 2016/2017. This assumes that £0.5 million of NHB will be used annually to support the Revenue Base Budget.

1.8 It is not known how the forthcoming Spending Review 2015 (SR2015) will affect New Homes Bonus and whether there will be any policy changes affecting NHB. There is no doubt that an ending or phasing out of New Homes Bonus would have a very significant budgetary impact on Shire Districts (such as South Hams) in particular.

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 A two year employee pay settlement has been agreed which effectively equates to 1% in 2014/15 and a further 1.2% in 2015/16 for most employees. Future levels of pay settlement will be determined by national negotiation between the Local Government Employers and the Trade Unions. The Summer Budget 2015 did announce the context of a limiting of pay awards to 1% for the period 2016/17 to 2019/20. 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 July 2015 was 1.0% and Consumer Price Index 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%

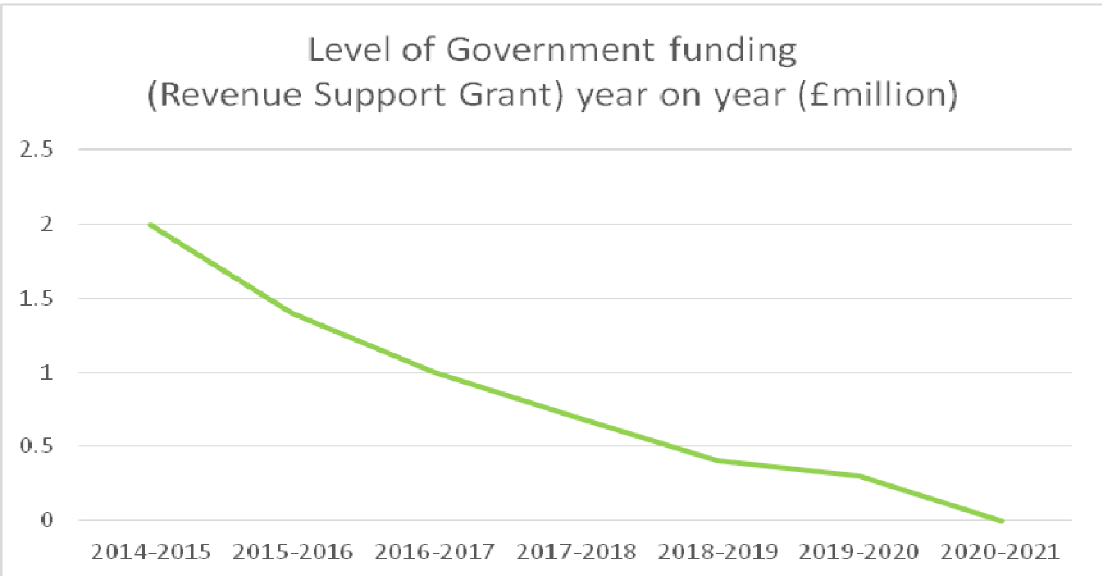
2.4 An increase in council tax of 1.99% for the next five years has been modelled for council tax purposes. This means an increase to £148.31 in 2016/17 as shown in Appendix B.

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):	£1.032m	£0.719m	£0.429m	£0.35m	Nil
% reduction	27%	30%	40%	18%	100%
TOTAL REDUCTION OVER THE FIVE YEARS TO 2020/21					**£1.406m**

3. GOVERNMENT FUNDING

3.1 The Government announced the figures for 2015-16. This was a one year settlement for 2015/16 only. No indicative funding levels have been published for 2016/17 onwards. The Revenue Support Grant was £1.215 million for 2015/2016 and it is assumed this will fall to Nil by 2020/21. The next Spending Review is not due until 25 November 2015 and detailed local government information at authority level for 2016/17 is unlikely to be available until the Provisional Local Government Settlement is announced in December 2015. The graph below shows how Revenue Support Grant has fallen since 2014-15.



3.2 **Spending Review 2015 (SR2015)** - In July 2015, the Chancellor of the Exchequer published a policy paper, 'Spending Review 2015' – A country that lives within its means. It sets out the Government's approach to SR2015. The Chancellor of the Exchequer, George Osborne said:

This Spending Review (2015) is the next step in our plan to eliminate the deficit, run a surplus and ensure Britain lives within its means. We'll invest in our priorities like the NHS and national security. Elsewhere in government, departments will have to find significant savings through efficiencies and by devolving power, so people have a greater say over the issues that affect them and their communities. We'll deliver more with less.

The Spending Review will be set out on 25 November.

3.3 **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 £1.995 million of this in 2015/16. So the District Council retains approximately just under 6.5 pence in every £1 to run our services.

In 10.9 and 10.10 the Medium Term Financial Strategy refers to Devolution and part of any Devolution offering to Government could be around the share of Business Rates retained.

3.4 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.

3.5 Announced alongside this was that the core grant from Government (Revenue Support Grant) will be phased out. This is in tandem with the assumptions made in the Medium Term Financial Strategy that the Revenue Support Grant will be reduced to zero by 2020 (see 2.5 and 3.1).

3.6 It was also announced that local government will take on new responsibilities. More detail on the new responsibilities will be announced in the Spending Review on 25 November. 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.

3.7 Until more detail is released in the Spending Review on the items announced, it is not known what financial impact the announcement will have on the District Council for either 2016/17 or future years. It could take a year or so for the mechanics of how the full retention of business rates system would work to be known, and what that would mean financially for all tiers of local government.

3.8 **Business Rates Revaluation -** There will be a Business Rates Revaluation which will go live on 1 April 2017. Following publication of the draft lists at the end of September 2016, the Valuation Office will be directing business ratepayers to their website where ratepayers can view their rateable value, find answers to their queries, and send factual corrections to the Valuation Office. This should improve ratepayers understanding of their proposed assessment and improve the accuracy and stability of the final lists when they become live on 1 April 2017.

3.9 **Income from Council Tax –** The District Council froze council tax for 2015/16 at £145.42 for a Band D property for South Hams. The total income from Council Tax equates to £5.3 million in 2015/16 as per Appendix B.

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:

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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.

3.11 **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 announced that council tax increases of 2 per cent or over will be subject to a council tax referendum for 2015/16. This did not apply to Towns or Parishes in 2015/16. As at September 2015, there is no formal indication of what a referendum limit might be for 2016/17.

3.12 **Council Tax Freeze Grant -** In 2015/16 the Council froze council tax and accepted a 1% Council Tax Freeze Grant offer for £57,789. Again no details are yet known about any council tax freeze grant offer for 2016/17.

3.13 **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. 'Our Plan' is a separate item on the agenda of the Executive meeting of 15 October.

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 Council currently receives £80,000 per annum in a Homelessness grant. It is possible that this will cease in 2016/17 and therefore provision has been made within the budget for the Council to continue with homelessness prevention activity.

5.9 **Trading company** – The Council will need to engage specialist advice for legal and financial services in order to set up a trading company. Actuarial advice will also need to be taken from the Devon Pension Fund's actuaries. A cost pressure of £75,000 has been included within the modelling.

SAVINGS AND INCOME GENERATION

5.10 **Transformation Programme 2018 (T18) –** In 2016/17 the Council will make staff salary savings of a further £1.119 million as outlined in the original Business Case. This is on top of the savings of £1.95 million per annum which were already built into the base budget for 2015/16. Section 1.5 gives more detail. A further £73,000 of accommodation savings are predicted for 2016/17. Once Public Health England and Devon County Council are in full occupation (expected to be by January and November respectively), 60% of Follaton House will be let out to external tenants. The Council is also in preliminary discussions with other potential tenants that could see this figure rise to 65%.

6. OVERALL POSITION – BUDGET (SURPLUS)/GAP

6.1 ***Appendix B*** illustrates the overall financial forecast for the forthcoming five years. Although the Council's Net Budget is predicted to be in the region of £8.75 million in 2016/17, the Gross Expenditure of the Council is around £42 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% (***shown in Appendix B***). 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 A:

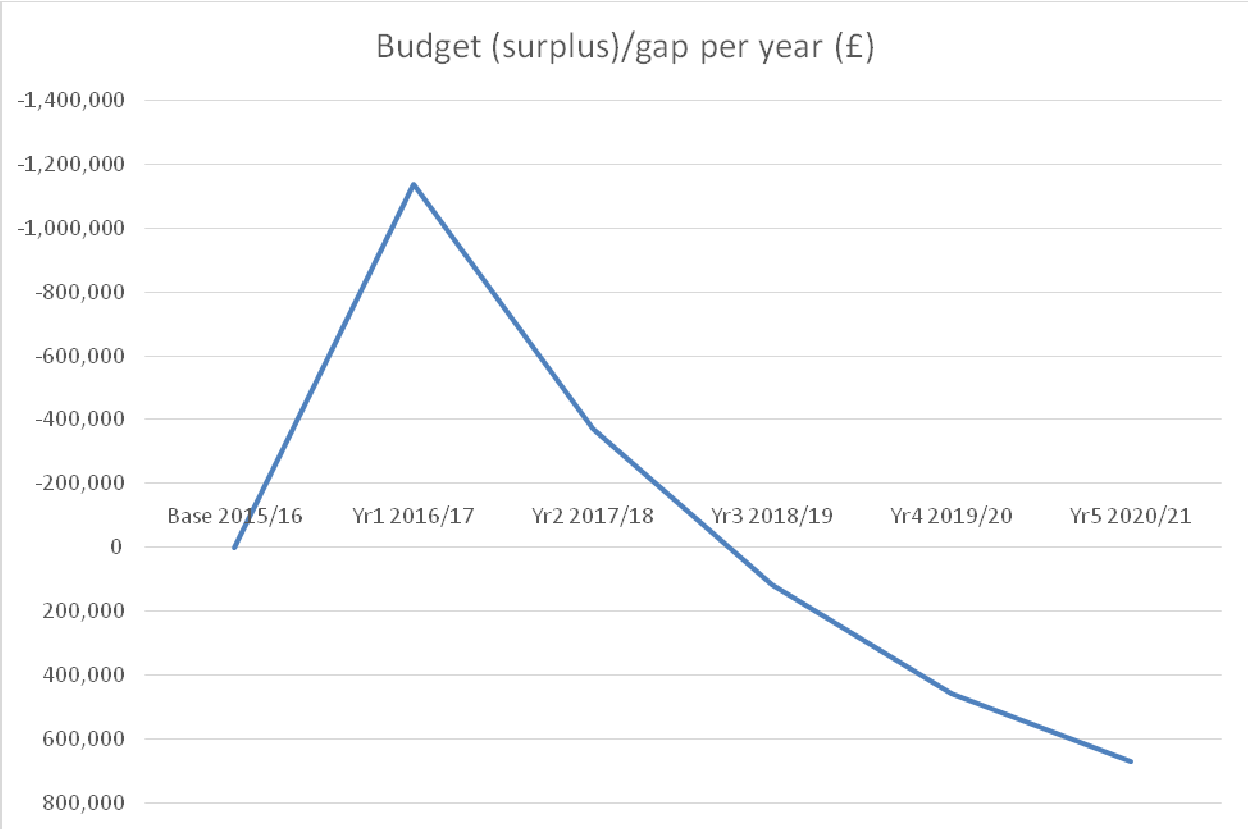
	2016/17 £	**2017/18 £**	**2018/19 £**	**2019/20 £**	**2020/21 £**
Annual budget (surplus)/gap	(1,138,232) budget surplus	(371,973) budget surplus	117,829 budget gap	456,310 budget gap	670,164 budget gap
TOTAL BUDGET SURPLUS OVER THE FIVE YEARS TO 2020/21					**£265,902**

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

- That the budget surplus in 2016/17 is treated as a one-off surplus and is reinvested in one-off items. This could be a one-off investment into a priority area, investment in a specific project or a one-off contribution to Earmarked Reserves or the Capital Programme. (If the £1,138,232 budget surplus in 16/17 is reinvested in annual year on year priorities/commitments, then this would increase the budget gap in 2017/18 to £766,259.)

6.4 The budget surplus/gaps in 6.3 are shown in graphical format below:



6.5 The report sets out an anticipated budget surplus for 2016-2017 of **£1,138,232** if Council Tax is increased by 1.99% as per Appendix B.

6.6 *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 5.10).*

6.7 Section 6.3 sets out the future years' budget positions.

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

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**

7.3 An estimate of New Homes Bonus for the next five years is shown below:

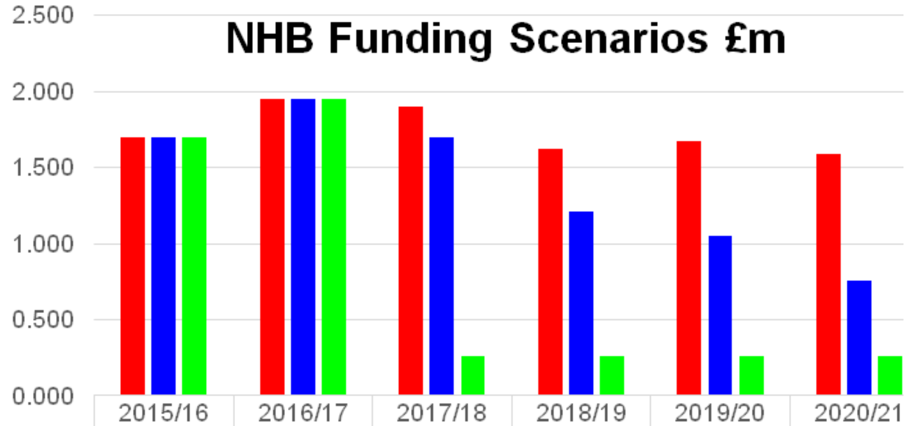
NHB Forecast (£)	**2016/17 £**	**2017/18 £**	**2018/19 £**	**2019/20 £**	**2020/21 £**
2011/12 actual allocation	297,567	-	-	-	-
2012/13 actual allocation	528,750	528,750	-	-	-
2013/14 actual allocation	199,701	199,701	199,701		
2014/15 actual allocation	339,307	339,307	339,307	339,307	
2015/16 actual allocation	328,208	328,208	328,208	328,208	328,208
2016/17 forecast allocation	251,680	251,680	251,680	251,680	251,680
2017/18 forecast allocation		251,680	251,680	251,680	251,680
2018/19 forecast allocation			251,680	251,680	251,680
2019/20 forecast allocation				251,680	251,680
2020/21 forecast allocation					251,680
TOTAL	**1,945,213**	**1,899,326**	**1,622,256**	**1,674,235**	**1,586,608**
Possible uses of the New Homes Bonus (for illustration purposes only):					
To fund Housing Capital Projects	464,000	464,000	464,000	464,000	464,000
To fund Community Re-investment	153,900	153,900	153,900	153,900	153,900
CAB Outreach Worker	10,000	10,000	10,000	10,000	10,000
Existing funding of the Revenue Budget	500,000	500,000	500,000	500,000	500,000
Dartmoor National Park	TBA	TBA	TBA	TBA	TBA
Capital Programme Reserve	TBA	TBA	TBA	TBA	TBA
Balance (uncommitted)	**817,313**	**771,426**	**494,356**	**546,335**	**458,708**

Note 1 – The forecast allocation for future years is based on an extra 200 Band properties per annum increase. The development at Sherford could see an extra 350 properties per annum being built which would annually attract New Homes Bonus of £410,000 for six years. The NHB would be split between Plymouth City Council and South Hams District Council, depending on in which boundary the properties were built and in which financial year.

7.4 If New Homes Bonus were to be used as outlined in 7.3 above, this would mean that there would potentially be £817,313 of NHB which is uncommitted in 2016/2017.

7.5 It is not known how the Spending Review 2015 (SR2015) will affect New Homes Bonus and whether there will be any policy changes affecting NHB.

7.6 The modelling below shows what might happen if there is a policy change on New Homes Bonus in the future. There is no doubt that an ending of New Homes Bonus would have a very significant budgetary impact on Shire Districts (such as South Hams) in particular.



	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
S1 - NHB continues	1.699	1.951	1.905	1.624	1.674	1.585
S2 - NHB is phased out	1.699	1.951	1.697	1.209	1.051	0.755
S3 - NHB is stopped	1.699	1.951	0.263	0.263	0.263	0.263

<u>Key</u>
Red Line = S1 – NHB continues without any policy change
Blue Line = S2 – NHB is gradually phased out from 2016/17 (policy change)
Green Line = S3 – NHB is stopped from 2016/17 onwards (policy change)

7.7 S1 shows the current level of NHB expected to be received with no policy changes and agrees to Section 7.3. Lines S2 and S3 show the decrease in New Homes Bonus levels if NHB is phased out or stopped. So by example in 2020/21, NHB is expected to be £1.58 million. This could reduce to £0.755 million if NHB is phased out or £0.263million if NHB is stopped.

7.8 **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 considered this as part of the Budget process for 2015/16.

8. CAPITAL PROGRAMME 2016/17 to 2020/21

8.1 The Capital Programme for 2015/16 was approved by Council on 15 February 2015 (66/14 and E57/14 refer). The Capital Programme report contained preliminary estimates for the Capital Programme for 2016/17 and 2017/18 which totalled £1,691,000 and £1,640,000 respectively. These capital bids are being reviewed for 16/17 and 17/18 and a Capital Programme budget proposals report for the three years 2016/17 to 2018/19 will be presented to the Executive in December 2015.

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. This will form part of the December report.

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 position at 31 March 2015:

The Use of Unearmarked Revenue Reserves	**2014/15 £'000**
Balance B/fwd 1.4.2014	1,707
Revenue Outturn Underspend for 2014-15	34
Unearmarked revenue reserves at 31.3.2015	**1,741**
Earmarked revenue reserves at 31.3.2015 (see Appendix C)	**5,827**

The Unearmarked General Fund Revenue Reserve balance at 31st March 2015 was £1,741,000 and the Earmarked Reserves balance was £5,827,000. This gave total Revenue Reserves of £7,568,000. The predicted earmarked and unearmarked reserves for 2015/16 are shown below:-

	£'000
Unearmarked Reserves balance as at 31st March 2015	1,741
Earmarked Reserves	5,827
Predicted movement in Earmarked Reserves (Appendix C)	(1,803)
Total Predicted Reserves as at 31st March 2016 (Unearmarked Reserves of £1,741,000 and Earmarked Reserves of £4,024,000 as shown in Appendix C)	5,765

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 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 £4,024,000 at the end of March 2016.

10 OTHER BUDGET ITEMS

10.1 **Members' Budget Workshop** – On 30th September a Members' Budget Workshop was held. This was to give all Members the opportunity to influence and shape the budget setting process, ahead of the five year Medium Term Financial Strategy being considered by the Executive at this meeting. Attached in ***Appendix D*** is a summary of the outcomes from the workshop.

10.2 It is recommended that the Executive considers the five year Medium Term Financial Strategy and provides an indication of the budget principles to be adopted, with particular reference to the outcomes of the Budget Workshop held on 30th September.

10.3 **Council Tax Reduction Scheme** – Following Council Tax Benefit being abolished, Council in December 2013 approved the implementation of a cost neutral local Council Tax Reduction Scheme for 2014/15. This scheme is a discount scheme rather than a state welfare benefit and means that working age claimants will pay a minimum of 20% towards their Council Tax bill. There will be an exception hardship fund to help those claimants experiencing severe financial difficulties.

10.4 These changes have the effect of reducing the council tax base not only for the District Council, but also for Town and Parish Councils, Devon County Council, The Police and Crime Commission and Devon and Somerset Fire Authority. Reductions in the Council Tax Base adversely affect a local authority's ability to raise income from Council Tax.

10.5 The Government is providing financial support for local authorities (Council Tax Support Grant) to assist them in dealing with the effects of the benefit changes on their Council Tax Base.

10.6 In the December 2013 Statement, the Minister reminded local authorities that within the funding for Council Tax Support Schemes there is an element to specifically reflect reductions in the parish tax base resulting from the introduction of Localised Support for Council Tax. He confirms that the funding is not separately identified because it is not ring-fenced. There is recognition that as caseloads change and schemes evolve, the amount that different parishes need will also change. There is also an expectation by the Government that billing authorities will continue to pass on support to town and parish councils to help mitigate any reduction in their tax base due to the local Council Tax support scheme.

10.7 It is therefore considered appropriate that the Council Tax Support Grant to Town and Parish Councils should reduce in line with the reduction that the District Council is experiencing with its Settlement Funding Assessment (SFA). The Council approved a grant distribution of £112,827 for 2015-16. It is estimated that the Council's SFA (Business Rates and Revenue Support Grant) will decrease by 9.9% in 2016-17 (see Appendix B).

10.8 Members' views are now sought on the proposal to consult with Town and Parish Councils on a 9.9% reduction to their grant for 2016-17 (from £112,827 to £101,658). This is an overall reduction of ***£11,169***. ***Appendix E*** illustrates the effect for each Town and Parish.

10.9 **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.

10.10 All Devon and Somerset Councils have signed a Statement of Intent to look at working up a Devolution offering to Government. The Government, spearheaded by the Chancellor, has made clear its intention to make devolution 'deals' a major policy theme for the new Parliament.

10.11 **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 initially be held in a reserve, before being used to reinvest in the commercial property estate.

10.12 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.

10.13 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

10.14 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.

10.15 **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***.

10.16 **Working in partnership -** Opportunities for working in collaboration and partnership and different ways of working will be identified and developed where this will support the delivery of the Council's outcomes and improve service efficiency and delivery. This will include development of trading opportunities and business models and exploiting external funding opportunities.

11. IMPLICATIONS

Implications	Relevant to proposals Y/N	Details and proposed measures to address
Legal/Governance	Y	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. 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.
Financial	Y	The financial implications are set out in Sections 1.6 to 1.7 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 B – Modelling of council tax increasing by 1.99%
Appendix C – Reserves
Appendix D – Town and Parish Council Tax Support Grant allocation
Appendix E – Summary of the Budget Workshop held 30th September 15
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**