

Report to: **Executive**  
Date: **10 December 2015**  
Title: **Budget Proposals Report 2016-17**  
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:**

#### **That the Executive:**

- i) Considers the Budget Proposals report for 2016-17 and the outcomes of the Members' Budget Workshop (Appendix D), prior to requesting the views of the Overview and Scrutiny Panel in January 2016 on the budget issues contained within the report.

#### **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 15 October 2015 are shown in detail in Section 5.11.**

**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:

	<b>2016/17</b> <b>£</b>	<b>2017/18</b> <b>£</b>	<b>2018/19</b> <b>£</b>	<b>2019/20</b> <b>£</b>	<b>2020/21</b> <b>£</b>
Annual budget (surplus)/gap	(753,232) surplus	13,027 gap	489,802 gap	456,310 gap	670,164 gap
<b>TOTAL BUDGET SURPLUS OVER THE FIVE YEARS TO 2020/21</b>					<b>£876,071</b>

Section 6.4 gives more details of the key assumptions regarding these figures. The budget surplus in 2016/17 of £753,232 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, **but this would only be the case if any policy changes to NHB didn’t come in until 2017/18.** The Budget Proposals assume that £0.5 million of NHB will be used annually to support the Revenue Base Budget.

- 1.8 Whilst there remains a great deal of uncertainty about various elements of income and expenditure, the forecast has been based on a set of assumptions which represent a cautious estimate in order to focus attention on the revised scale of the funding gap. The figures will be revised as we progress through the financial year.
- 1.9 The Council's approach to financial planning over the medium term will include a focus on income generation and commercial opportunities. This will strengthen the position of the District Council by developing financial resilience through less exposure to reductions in Government funding.
- 1.10 Members considered the Medium Term Financial Strategy at the Executive meeting on 15 October 2015. Below is an extract of the relevant Minute:

#### **E.35/15 MEDIUM TERM FINANCIAL STRATEGY**

It was then:**RESOLVED**

That the five year Medium Term Financial Strategy be considered and the presented budget principles 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 30 September summarised in Appendix D of the presented report;
- the amount of Council Tax Support Grant to be passed on to Parish and Town Councils (appendix E of the presented agenda report refers);
- bringing forward income generation and budget savings; and maintaining the current Council policy on the minimum level of unearmarked reserves being £1.5 million.

## **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 September 2015 was 0.8% 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%

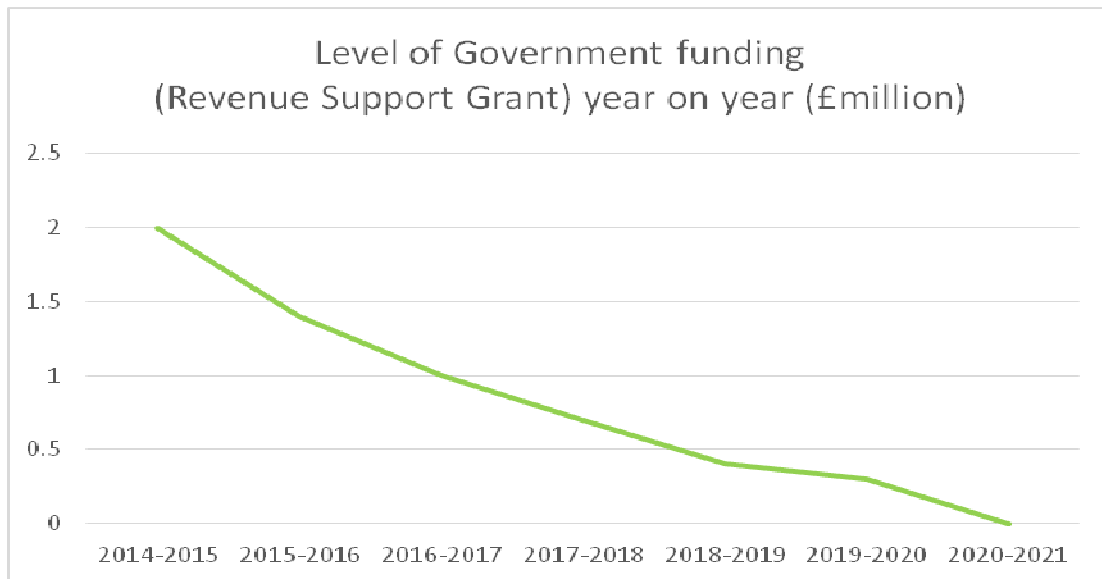
2.4 An increase in council tax of 1.99% for the next five years has been modelled for council tax purposes. This means an increase to £148.31 in 2016/17 as shown in Appendix B1. Appendix B2 shows how this figure differs, if council tax is increased for 2016/17 but then frozen for subsequent years.

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 £
<b>Revenue Support Grant (2015/16 RSG was £1.406m):</b>	£1.032m	£0.719m	£0.429m	£0.35m	Nil
% reduction	27%	30%	40%	18%	100%
<b>TOTAL REDUCTION OVER THE FIVE YEARS TO 2020/21</b>					<b>£1.406m</b>

### 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. ***Detailed local government information at authority level for 2016/17 will not be available until the Provisional Local Government Settlement is announced in mid 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.

The Spending Review was issued on 25 November and a Members' Briefing Note was circulated in the Members' Bulletin on 27<sup>th</sup> November. The key points are:-

- Revenue Support Grant will be reduced to zero by the end of Parliament
- There will be a move to 100% business rates retention which will include the ability for local authorities to be able to reduce rates locally
- Local authorities will be able to spend 100% of fixed asset receipts on the revenue costs of "reform projects"
- There will be an extension to the doubling of small business rate relief for 12 months to April 2017.
- ***The Government will consult on reforms to the New Homes Bonus scheme in December, including the means of 'sharpening' the incentive to reward communities for additional homes and reducing the length of payments from 6 years to 4 years.***
- Nationally there will be an extra £500m for Disabled Facilities Grants
- An extra 3% will be charged on Stamp Duty Land Tax for the purchase of additional residential properties, such as buy to let properties and second homes, with effect from 1 April 2016. ***The Government will use some of the tax collected to provide £60 million for communities where the impact of second homes is particularly acute.***

- 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. 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, 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:

<b>Precepting Authority</b>	<b>Band D 2014/15</b>	<b>Band D 2015/16</b>	<b>£ Increase</b>	<b>% Increase</b>
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%
<b>TOTAL</b>	<b>£1,571.09</b>	<b>£1,600.52</b>	<b>£29.43</b>	<b>1.87%</b>

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 **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. There is no formal indication yet 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.

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 20<sup>th</sup> 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)** – There is a separate report on the Executive agenda regarding the budget monitoring position of the transformation programme.

## CHANGES SINCE THE LAST BUDGET REPORT

- 5.11 The Medium Term Financial Strategy was considered by the Executive on 15 October 2015. This showed a budget surplus of £1,138,232 for 2016/17. The figure has now changed to £753,232. The changes are as below:-

<b><i>Budget Surplus reported in the Medium Term Financial Strategy on 15<sup>th</sup> October 2015 – Items adjusted for:</i></b>	<b><i>£(1,138,232)</i></b>
Additional savings from Housing benefit recoveries	£(30,000)
Fees and Charges report (as per report to the Overview and Scrutiny Panel on 19 November 2015)	£(5,000)
Additional cost pressure regarding trade waste (in addition to the £130,000 built in to 2016/17)	£30,000
Reduce the recycling income budget for 2016/17 to reflect market conditions.	£160,000
Increase the salaries budget for Environmental Services – manual worker's	£100,000
Reverse the reduction in the running costs for Follaton House built in to the 2015/16 Budget	£50,000
Additional cost pressure regarding the Waste Transfer Station haulage costs	£50,000
Additional cost pressure for planning legal fees	£30,000
<b><i>Revised Budget Surplus reported in the Budget Report on 10th December 2015</i></b>	<b><i>£(753,232)</i></b>

- 5.12 ***The items identified in the table above are as a result of the Management Actions identified in the Revenue Budget Monitoring report for 2015/16. This is a separate report on this Executive agenda.*** For example, if an overspend against the budget has been identified for 2015/16 and this is a recurring annual pressure, then a cost pressure has been built into the 2016/17 budget process, to align the future budget to the actual position. Similarly the budget for 2016/17 has been adjusted for any recurring savings identified.

## 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 £8.75 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 B1**). 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:

	<b>2016/17</b>	<b>2017/18</b>	<b>2018/19</b>	<b>2019/20</b>	<b>2020/21</b>
	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
Annual budget (surplus)/gap	(753,232) surplus	13,027 gap	489,802 gap	456,310 gap	670,164 gap
<b>TOTAL BUDGET SURPLUS OVER THE FIVE YEARS TO 2020/21</b>					<b>£876,071</b>

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

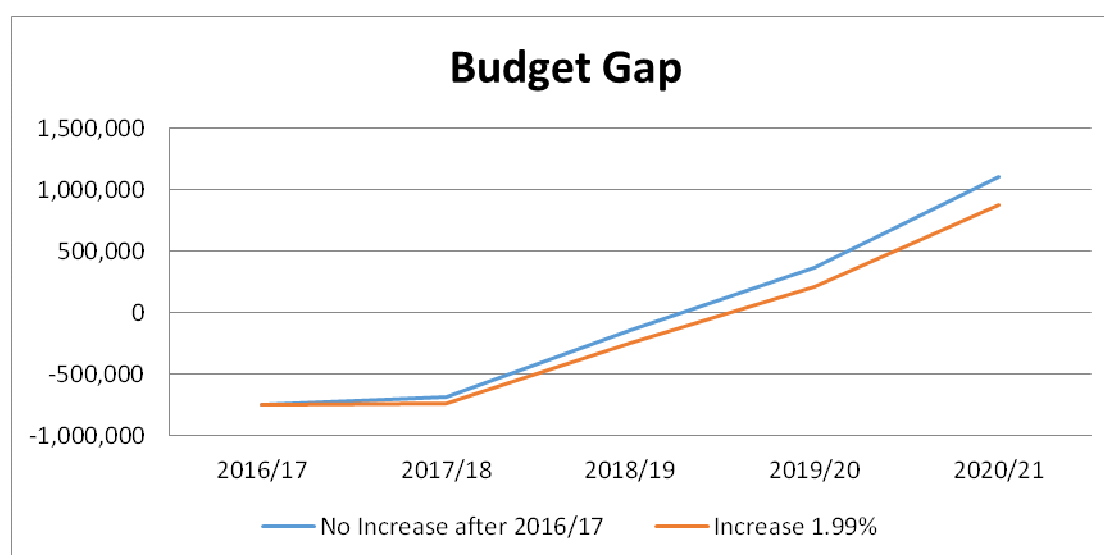
- That a contribution from New Homes Bonus of £500,000 per annum will continue to fund the Revenue Base Budget
- That the budget surplus in 2016/17 is treated as a one-off surplus and is reinvested in one-off items. This could be a one-off investment into a priority area, investment in a specific project or a one-off contribution to Earmarked Reserves or the Capital Programme. (If the £753,232 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)

6.5 The report sets out an anticipated budget surplus for 2016-2017 of **£753,232** 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 £13,027). 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	(753,232)	(688,984)	(144,647)	369,690	1,101,027
Increase 1.99% annually	(753,232)	(740,205)	(250,403)	205,907	876,071



- 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. Further detailed work will be carried out on this before the January 2016 budget report. This is to ensure that the split of the budgets between the four areas is correct.

- 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

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

<b>Year</b>	<b>2011/12 £</b>	<b>2012/13 £</b>	<b>2013/14 £</b>	<b>2014/15 £</b>	<b>2015/16 £</b>
<b>Grant received</b>	<b>297,567</b>	<b>826,317</b>	<b>1,026,018</b>	<b>1,365,325</b>	<b>1,693,533</b>
<b>This is how the New Homes Bonus has been used:</b>					
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
<b>TOTAL</b>	<b>297,567</b>	<b>826,317</b>	<b>1,026,018</b>	<b>1,365,325</b>	<b>1,693,533</b>

7.3 An estimate of New Homes Bonus for the next five years is shown below *(This is assuming there is no policy change on New Homes Bonus – any policy change will change all of these figures):*

<b>NHB Forecast (£)</b>	<b>2016/17 £</b>	<b>2017/18 £</b>	<b>2018/19 £</b>	<b>2019/20 £</b>	<b>2020/21 £</b>
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
<b>TOTAL</b>	<b>1,945,213</b>	<b>1,899,326</b>	<b>1,622,256</b>	<b>1,674,235</b>	<b>1,586,608</b>
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 Capital Programme Reserve	TBA	TBA	TBA	TBA	TBA
<b>Balance (uncommitted)</b>	<b>817,313</b>	<b>771,426</b>	<b>494,356</b>	<b>546,335</b>	<b>458,708</b>

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 The government is **to consult on reforms** to the New Homes Bonus **in December** with the finance settlement, including means of ‘sharpening’ the incentive to reward communities for additional homes and **reducing the length of payments from 6 years to 4 years**. The consultation on NHB will include a preferred option for savings of at least £800 million, which can be used for social care. This will include consideration of proposals to introduce a floor, which is intended to ensure that no authority loses out disproportionately.
- 7.6 It is not yet known how soon any new policy change on New Homes Bonus would come in. If the consultation document comes out in December and the consultation period is say 6 weeks, in theory there would be time for any changes to come in by April 2016.
- 7.7 Unfortunately if the last two years’ allocations of NHB dropped off, this would have a significant financial impact for South Hams. E.g. if the policy change came in for April 2016, this could mean a reduction in the NHB received in 2016/17 from £1.9 million down to £1.1 million – a reduction of £820,000. This would mean all of the ‘uncommitted’ NHB projected for 2016/17 of £820,000 would be reduced to Nil. The 2017/18 allocation would be reduced by £730,000 and so on.
- 7.8 This is assuming the 4 years allocations comes in straight away and applies retrospectively (e.g. this assumes that in 2016/17 the Council would not receive the £297,567 allocation for 2011/12 and the £528,750 allocation for 2012/13). We do not know this is the case until the consultation comes out to explain how New Homes Bonus will work.
- 7.9 **Dartmoor National Park (DNP)** – On an annual basis Dartmoor National Park request a share of the New Homes Bonus to reflect new homes delivered within the park. 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**
- 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:

<b>The Use of Unearmarked Revenue Reserves</b>	<b>2015/16 £'000</b>
Balance B/fwd 1.4.2015	1,741
Revenue Outturn Overspend for 2015-16	(70)
Unearmarked revenue reserves at 31.3.2016	<b>1,671</b>
Earmarked revenue reserves at 31.3.2016 (see Appendix C1)	<b>3,615</b>

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 **Members' Budget Workshop** – Attached in **Appendix D** is a summary of the outcomes from the workshop.
- 10.2 **Council Tax Reduction Scheme** – Following Council Tax Benefit being abolished, Council approved the implementation of a cost neutral local Council Tax Reduction Scheme for 2014/15.
- 10.3 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 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**. **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 be 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	<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 1.7 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 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 C1 – Reserves

Appendix C2 – Transfers to/from reserves

Appendix D – Summary of the Budget Workshop held 30<sup>th</sup> September 15

Appendix E – Town and Parish Council Tax Support Grant allocation

Appendix F – Sensitivity analysis and risk analysis

### **Approval and clearance of report**

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