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Dear Councillor

SOUTH HAMS JOINT DEVELOPMENT MANAGEMENT COMMITTEE AND OVERVIEW & SCRUTINY PANEL - THURSDAY, 3RD SEPTEMBER, 2020

I refer to the agenda for the above meeting and attach papers in connection with the following item(s).

Agenda No Item

8. **Draft Amended Budget 2020/21 (Pages 1 - 16)**

Yours sincerely

Darryl White
Senior Specialist – Democratic Services

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Agenda Item 8

Report to: **Joint Overview and Scrutiny Panel and Development Management Committee**

Date: **3rd September 2020**

Title: **Amended Budget 2020/21**

Portfolio Area: **Budget Setting Process – Cllr Judy Pearce**

Wards Affected: **All**

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

Date next steps can be taken: **Council 24th September 2020**

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Recommendations:

That the Joint Overview and Scrutiny Panel and Development Management Committee resolves to recommend to the Executive:-

- 1) To recommend to Council the ten options set out in 5.2 totalling £1,313,000, in order to produce an Amended Revenue Budget for 2020-21,
- 2) To recommend to Council to replenish unearmarked reserves through a range of measures to be agreed as part of the medium term financial strategy (MTFS) as per 5.8,
- 3) To note the future capacity of reserves set out in 5.13 which may have to be called upon to meet any future financial challenges and/or additional requirements,
- 4) To recommend to Council to earmark the funding within the Business Rates Retention Fund for employment land opportunities as set out in 8.7.

1. Executive summary

- 1.1 Covid 19 has caused financial strain for all Councils up and down the country where Councils find themselves being caught in a 'perfect storm'. Councils have to manage both the increased costs of coping with Covid19 and supporting vulnerable people in the community and the loss of key income streams such as car parking income and council tax income.
- 1.2 The factors affecting the Council's finances are issues affecting the whole Local Government sector. The Council is well-placed to meet the financial challenges arising from Covid19, due to its prudent financial management over previous years.
- 1.3 Due to the rapidly changing financial position, the Council is now undertaking monthly revenue budget monitoring reports (as opposed to quarterly). The latest revenue budget monitoring report for Month 3 (end of June) predicts a budget shortfall of £1.313 million for 2020/21. This equates to 14% of the overall budget set of £9.411 million. The options set out in 5.2 are being proposed, in order to produce an Amended Budget for 2020-21.
- 1.4 This figure will change throughout the financial year as more information comes to light on items such as the collectability of outstanding debt and arrears and how income streams have been affected by the pandemic.
- 1.5 This position is after taking into account the £0.9 million Government grant already received for Covid-19 and the estimated £1.455 million Government funding that the Council is anticipating towards income losses on sales, fees and charges (the Government 'income guarantee scheme'). More detail on this is in section 3.10.
- 1.6 This forecast shortfall is based on a range of assumptions which have been made as to how much the income streams of the Council could be affected by Covid19. Projections could improve and it is difficult to predict as we don't know how quickly things will bounce back. We will be monitoring our finances on a monthly basis and as actual figures emerge, we will refine these figures and our assumptions.
- 1.7 Financial Stability is one of the themes within the Recovery and Renewal Plan which is a separate agenda item on this Committee agenda. The action plan, setting out the areas being progressed and the timescales within which this will take place, is set out in Appendix 1 of the Recovery Plan.

2. Background

- 2.1 On 13 February 2020, the Council approved the Revenue Budget for 2020-21 of £9.41 million. During March 2020, the Covid 19 pandemic started to affect the finances of Councils up and down the country. Income Losses in April, May and June totalled £1.247

million from areas such as ferry income, car parking income, planning income, rental income and the business rates pooling gain.

- 2.2 Prudent financial management in the past has meant that the Council was in a relatively healthy position financially before the pandemic hit. Since 2010, we have had to redesign our services to balance the books. We have done this by sharing a single workforce with West Devon Borough Council, generating an ongoing annual saving of £3.9 million for South Hams and by reducing our staffing levels by 30% through our Transformation Programme.

3 LATEST REVENUE BUDGET MONITORING POSITION

- 3.1 The latest revenue budget monitoring report for Month 3 (end of June) predicts a budget shortfall of £1.313 million for 2020/21. This equates to 14% of the overall budget set of £9.411 million. In this report, assumptions have been made as to how much the income streams of the Council could be affected by Covid19. For example for car parking losses, the report assumes a 30% drop in income levels from 1st July 2020. Projections could improve and it is difficult to predict as we don't know how quickly things will bounce back. We will be monitoring our finances on a monthly basis and as actual figures emerge, we will refine these figures and our assumptions.
- 3.2 The shortfall predicted will change throughout the financial year as more information comes to light on items such as the collectability of outstanding debt and arrears and how income streams have been affected by the pandemic.
- 3.3 The unprecedented nature and scale of the Covid19 pandemic has resulted in severe financial pressure on every Local Authority. Councils are still under a legal obligation to manage their finances to ensure that they provide best value whilst not operating with an overall budget deficit.
- 3.4 Section 30(6) of the Local Government Finance Act 1992 requires precepting authorities to set a balanced budget on an annual basis. A Council's budget must be "balanced", meaning that Councils must ensure that their planned spending can be met by taxation, grants and other income raised in the year, or by the use of their reserves.
- 3.5 Section 25 of the Local Government Act 2003 requires the Council's Chief Finance Officer (known as the S151 Officer), to report to Full Council on the robustness of the Council's budget and the overall adequacy of its reserves.
- 3.6 Balancing the Council's Budget has become more challenging over the years as the demand for services and the reduction in government grant funding via the austerity programme has reduced the financial flexibility of Councils.

- 3.7 Each month, Councils complete a national return that informs the Government of how much COVID-19 is affecting the finances of Councils. The point has been made that these income losses have had a much bigger impact (in proportion to Net Budgets) on District Councils, than they have on County Councils and Unitaries.
- 3.8 A lobbying letter from South West Councils was sent to the Rt Hon Robert Jenrick MP (Secretary of State for Housing, Communities and Local Government). This letter set out that the latest Government returns to MHCLG showed a financial challenge to South West Councils of over £1 billion across the region.
- 3.9 The Society of District Council Treasurers (SDCT) has engaged Local Government Futures (who are specialists in the field of Local Government Finance), to put together evidence to show the losses experienced by District Councils. This will then be used for the purpose of lobbying the Government for further funding for District Councils. In a letter from the Chairman of the District Councils' Network to the Chancellor, the financial needs of District Councils were set out, as well as stating that no part of the public sector is better placed than District Councils to catalyse and lead the recovery and that we will rise to the challenge.
- 3.10 ***On 2nd July, the Rt Hon Robert Jenrick MP announced a new comprehensive package of support for Councils, to address spending pressures and losses in income streams. There were three central pillars of support announced:-***
- A new scheme to compensate Councils for losses of income, though not in their entirety (an 'income guarantee' scheme). Councils have to meet the first 5% of losses of all budgeted sales, fees and charges and only some categories of income are allowable under the scheme. For the categories allowed, once the 5% is deducted, the Government will reimburse 75pence in every £1.
 - An extra £500million to cover extra COVID19 expenditure costs (the District Council's allocation of this funding has been announced at £121,361)
 - To allow council tax and business rate losses in income to be repaid over the next 3 years of budget cycles, instead of just the next one year
- 3.11 We are very pleased that our lobbying has been successful but there is still further work to do on this.
- 3.12 The main element of the announcement is that the Government will compensate Councils for their income losses above the first 5% of their budgeted income from sales, fees and charges. Income losses above the first 5% will be compensated by the Government paying for 75 pence in every pound of the losses thereafter. This is

only the income losses from sales, fees and charges and excludes any rental income and investment income.

- 3.13 This has been estimated at £1.455 million for the Council based on the income shortfalls to date. The government grant funding of £1.455 million anticipated from the 'income guarantee scheme' has already been factored into the projected shortfall of £1.313 million. Guidance from the Government has been published and the claim form is to be shortly released by the Government. The first claim form released in September covers the period 1 April 2020 to 30 July 2020. The second claim form is released in December and covers the period 1 August 2020 to 30 November 2020 and the final claim form is released in April 2021 (for the period 1 December 2020 to 31 March 2021) and is paid in May 2021.
- 3.14 The Government announcement is below:
<https://www.gov.uk/government/news/comprehensive-new-funding-package-for-councils-to-help-address-coronavirus-pressures-and-cover-lost-income-during-the-pandemic>
- 3.15 On 19 March 2020, £1.6bn emergency funding was announced to help local authorities respond to the COVID-19 pandemic. On 18 April 2020, a further £1.6bn funding for local authorities was announced. On 2 July 2020, a further £500m funding for local authorities was announced as part of a new funding package for councils to address coronavirus pressures. South Hams District Council has received £1,021,868 from this £3.7bn of funding (being £0.9million from the first two tranches and £121,361 from the 3rd tranche).
- 3.16 It is recognised that Town and Parish Councils have also similarly had their finances adversely affected by the pandemic. The Council is lobbying alongside NALC (National Association of Local Councils) for a separate financial package of support for Town and Parish Councils.

4 Medium Term Financial Strategy (MTFS)

- 4.1 Whilst looking to set an Amended Budget for 2020-21, the longer term position for the medium term will be borne in mind. The last Medium Term Financial Strategy in February 2020 showed an anticipated Budget Gap for 2021/22 of £0.57million. The aggregated Budget Gap by 2024/25 was £3.2 million.
- 4.2 The key variables will be items such as New Homes Bonus, negative RSG, business rates and council tax collection rates and previous income assumptions around the leisure contract. In the next Medium Term Financial Strategy (being presented in October), various scenarios and modelling around these key variables will be shown and we are pressing the Government for some early announcements on things like negative RSG and NHB (or its replacement) to inform our MTFS which we are currently modelling.

- 4.3 It should be noted that the financial landscape for Councils is ever-changing and there is still a great deal of uncertainty that Councils are working with in planning their finances for the longer term, in particular the items listed in 4.2
- 4.4 Negative Revenue Support Grant provides a 'cliff-edge' for many Councils and it would be an untenable position to introduce this in 2021-22, when there is a need to provide stability for Councils in the current financial climate. It is accepted that this would cost the Government over £150million but it would also benefit over 160 Councils. (In 2019-20 negative RSG totalled £152.9m and affected 168 Councils).
- 4.5 Sparsely populated rural Councils also need the certainty that Rural Services Delivery Grant will be continued for 2021-22, at least at its present value of £81 million in total.

5 Options to address the Budget Shortfall of £0.5million in 2020-21

- 5.1 A Member Budget Workshop took place on 27th August, to explore all options with Members on their preferred approach to addressing the Budget Shortfall identified for 2020-21 of £1.313million. Nineteen responses were received from Members on the SurveyMonkey tool used to capture Members' views on the options. The prioritisation question (the last question on the SurveyMonkey answered by Members) has also been factored into the results.
- 5.2 Each of the below options were supported by the substantial majority of Members who expressed a view:

COVID impact on the Revenue Budget		£
<i>Budget shortfall identified for 2020-21 from the Month 3 Revenue Budget Monitoring report to the Executive on 30th July 2020</i>		1,313,000
Options to address the budget shortfall		£
As per 5.3	Use the 3 rd tranche of COVID funding received from the Government (SHDC share £121,361)	121,000
As per 5.4	Use the New Burdens Government grant funding received for the administration of the Business Rates Grants	170,000
As per 5.5	Utilise the 2019-20 Statement of Accounts underspend	112,000
As per 5.6	Use funding from the Strategic Change Transformation Programme (T18) Earmarked Reserve	30,000

COVID impact on the Revenue Budget		£
As per 5.7	Cease the 2020-21 annual contribution towards building up a budget for future years for the Follaton Roof and Follaton Lift	80,000
As per 5.8	Use funding from Unearmarked Reserves	200,000
As per 5.9	Use funding from the Economic Regeneration (Business Rates Pilot Gain) Earmarked Reserve	127,000
As per 5.10	Cease the repairs and maintenance (R & M) contribution for the R & M Earmarked Reserve	80,000
As per 5.11	Use funding from the Business Rates Retention Reserve	343,000
As per 5.12	Cease making a contribution to the Planning Earmarked Reserve in 2020-21	50,000
	TOTAL	1,313,000

- 5.3 The Council has received a 3rd tranche allocation of COVID Government funding totalling **£121,361**. The funding was the Council's allocation from the £500 million of un-ring fenced grant funding from the Government, to respond to spending pressures.
- 5.4 The Council has paid out over £42 million in Business Grants and the **£170,000** is a New Burdens funding grant (un-ringfenced) from the Government to compensate Councils for the cost of administering the Business Grants on behalf of the Government.
- 5.5 The Statement of Accounts for 2019-20 were presented to the Audit Committee in July 2020 and these showed that the final outturn was an underspend against the budget for 2019-20 of **£112,000**. This underspend on last year's budget could be used to finance part of the budget shortfall in 2020-21.
- 5.6 The Strategic Change Transformation Programme (T18) Earmarked Reserve was created in 2015/16 and funded the T18 (Transformation Programme) set up costs. There are Nil commitments against this reserve and the reserve has an uncommitted balance of **£30,000**.
- 5.7 Cease the 2020-21 annual contribution towards building up a budget for future years for the Follaton Roof and Follaton Lift (**£80,000**). This is an annual amount being contributed every year, to build up a sinking fund for the Follaton Roof and Lift. To date, there is £160,000 currently already in the sinking fund.
- 5.8 Unearmarked Reserves currently stand at £1.9million (prior to the Accounts 2019-20 underspend of £112K being added to the balance) and the Council has agreed that a minimum level of Unearmarked Reserves of £1.5million should be held. The suggested maximum

Unearmarked Reserves could be reduced by is £400,000. The proposal is to utilise **£200,000** of Unearmarked Reserves to fund the shortfall of £1.313m in 2020-21. If this were to happen, it is suggested that a future plan for how Unearmarked Reserves would be replenished should be in place. The proposal is to replenish unearmarked reserves through a range of measures to be agreed as part of the medium term financial strategy (MTFS).

- 5.9 Use funding from the Economic Regeneration Earmarked Reserve which was created to hold the 2018/19 Business Rates Pilot gain. This was additional business rates income that was generated in 2018/19 due to the Devon area having Pilot status for Business Rates. Commitments total £192,000 including £65,000 for the Ivybridge Regeneration project (Executive 18/6/20) and £88,000 for Leisure for July, August and September (Council July 2020). The uncommitted balance is **£127,000**.
- 5.10 Cease making a contribution to the Repairs and Maintenance Earmarked Reserve in 2020-21 (amount **£80,000**). The Repairs and Maintenance Earmarked Reserve has a balance of £203,000, with a £28,000 commitment against this reserve to date.
- 5.11 Use funding from the Business Rates Retention Earmarked Reserve which has a balance of £6.1million, of which at least £900,000 is uncommitted. It is proposed to use **£343,000** of funding from this reserve. Commitments mainly relate to (a) £3.5m ringfenced for Employment for the creation of local jobs (Council Feb 2018) and the acquisition of 10 acres of employment land at Sherford and to extend the lease of the starter units at Langage from 21 years to 125 years, funded from this reserve. Some of this Reserve is also needed to be retained to manage the volatility of Business Rates income in 2020-21 and in future years, as well as appeal costs and arrears. The Business Rates system is being reviewed and redesigned by the Government as well as business rates baselines being reset in future years.
- 5.12 Cease making a contribution to the Planning Earmarked Reserve in 2020-21 (amount **£50,000**). The Planning Earmarked Reserve has a balance of £187,000, with no current commitments against this reserve.
- 5.13 The further options that were supported in the priority ranking were to reduce Unearmarked Reserves further than £200,000 and/or to make further use of a portion of the unallocated funding in the Business Rates Retention Earmarked Reserve. Any decision that Members subsequently take at Full Council on 24th September in relation to additional funding for leisure, please see section 6 below, would potentially require a call on these further options. All such decisions would require difficult choices to be made.

- 5.14 A national pay award has just been reached which equates to a 2.75% increase from 1st April 2020. The Council had budgeted for 2% within its budget and therefore the extra 0.75% would cost an extra £52,500. This will be shown within the next revenue budget monitoring report for 2020/21 and will be reflected within the Medium Term Financial Strategy and incorporated within the budget setting process for 2021/22. This will form part of the year end outturn reported in the Council's Accounts for 2020-21.

6. Leisure provision

- 6.1 Leisure is one of the hardest hit sectors of industry from the lockdown restrictions of the pandemic. Government mandated the closure of leisure centres in March 2020 and they had to remain closed until the announcement of an opening date of 25th July 2020.
- 6.2 The current Government guidance now allows Leisure Centres to reopen with restrictions in place which limit the capacity of the facilities and key guidelines around operating practices to ensure social distancing, enhancing cleaning regimes and changes in ventilation of facilities.
- 6.3 The Covid19 pandemic and a lack of central Government support have created very challenging conditions for Fusion. At a Special Council meeting on 30 July 2020, Council agreed to provide interim financial support of £88,000 to Fusion to secure positive health and wellbeing outcomes in the District, which were the re-opening of the new pool and dryside in Ivybridge and the dryside facilities in Kingsbridge. The cost of mothballing both centres in April, May and June has also been funded by the Council at a cost of £34.5K per month. An amount of £103,500 was approved by Council (Minute Reference CM97/19) to be funded from the Land and Development Earmarked Reserve. Therefore financial support to date for Fusion has totalled £191,500.
- 6.4 At the 24th September Council meeting, the Council will be taking a strategic decision on leisure provision for the months of October 2020 onwards, alongside the decision on the Amended Budget 2020-21 Proposals set out in this report.
- 6.5 The costs of further interim support to Fusion for the months of October 2020 to March 2021 will be set out within the 24th September Council report and these costs are not included within the £1.313million budget shortfall identified within the recent revenue budget monitoring report and would be in addition to this. Options as to how any further support to Fusion could be financed will be set out within this Council report.

- 6.6 The Council is continuing to lobby alongside South West Councils and through the Local Government Association for a specific package of Government support for the provision of leisure facilities. The Department for Culture and Media has also put a specific request for funding to the Treasury and there may be future Government support targeted at the leisure sector but we await announcements on this.
- 6.7 Members will be aware from the previous report that decisions about the operation of the District's leisure centres from October 2020 to March 2021 include a range of potential additional costs from £113,000* to £243,000. These decisions will be a matter for Full Council on 24th September 2020.
- * This figure is for the mothballing of Dartmouth, for Ivybridge having the wet and dryside both open (Ivybridge is cost-neutral over the financial year to March 2021) and for Kingsbridge having the dryside open. The Totnes leisure centre is contracted by Tadpool. These figures are taken from the Council report on 30th July 2020.

7 The Collection Fund - Council Tax and Business Rates Income

- 7.1 The Collection Fund holds all payments in and out relating to Council Tax and Business Rates. As such any losses incurred will be suffered by the Collection Fund in the year and then distributed to the Council and Precepting Authorities in future years. A large part of the reductions in income will affect the Council's financial position in 2021/22 onwards, although it does affect the cashflow position of the Council in 2020/21.
- 7.2 **Council Tax: The net collectable debt for Council Tax is £78m for 2020/21.** By June 2020, SHDC collected 28.9% of the yearly total (compares against 29.73% in 2019/20) – the 0.83% drop equates to £648,000 (SHDC share £58,320). This is how much council tax income is down by in June 2020, compared against June 2019. Collection Fund losses for Council Tax could total £2.6m for the full year 2020-21 (SHDC share £234,000).
(The collection rate was 98.3% for Council Tax in 2019-20)
- 7.3 **Business Rates: The net collectable debt for Business Rates is £18.6 million for 2020/21.** (Prior to the pandemic, this was predicted to be over £30million and the additional NNDR reliefs for the total value of the expanded retail discount and nursery discount for 2020-21 total £13.778million).
- 7.4 By June 2020, SHDC has collected 30.16% of the yearly total (compared to 31.05% in 2019/20). Business rates losses could total between £0.5million to £1.0 million and the Council's share would be 40%. No pooling gain for Business Rates has been assumed for 2020/21. (The collection rate was 98.67% for NNDR in 2019-20).

7.5 Council Tax and Business Rates form a large share of the funding for the Council's budget and therefore these income streams are funding the essential services being delivered.

7.6 In the next Spending Review the Government will also determine what support Councils will need, to help them meet the pressures of income losses from council tax and business rates. The Government has said that they are bringing in changes to allow Councils to spread their Collection Fund losses (for losses in Council Tax and Business Rates income) over the next three years instead of over the next one year. So this will allow council tax and business rate losses in income, to be repaid over the next 3 years of budget cycles, instead of just the next one year. The Government will also agree an apportionment of irrecoverable council tax and business rate losses, between central and local Government for 2020 to 2021. More details are awaited on this from the Spending Review, to be able to understand the detail of how Councils will be supported by this.

8. Review of Earmarked Reserves and General Fund Reserves

8.1 As part of the Budget Workshop on 27th August, the Council also undertook a review of its Earmarked Reserves through reviewing the commitments against the Earmarked Reserves, its unallocated balance and the contributions to/from Earmarked Reserves for 2020/21 also.

8.2 A schedule of Earmarked Reserves is attached at Appendix 1, which shows Earmarked Reserves have a balance of £13.998 million at 31.3.2020. Reserve levels will be kept under constant review.

8.3 The Council's level of Unearmarked Reserves currently stands at £1.9 million (prior to the Accounts underspend for 2019-20 going into Unearmarked Reserves). As part of the Medium Term Financial Strategy, Members have set a minimum balance for Unearmarked Reserves of £1.5 million, based on a risk assessment basis.

8.4 Legislation does not prescribe how much the minimum level of reserves should be. The Section 151 officer is tasked with recommending the minimum level of reserves required as part of the budget setting process having regard to elements of risk in the Council's finances. Section 25 of the Local Government Act 2003 requires the S151 officer to report on the adequacy of the Council's financial resources on an annual basis.

8.5 Unearmarked Reserves currently stand at £1.9million (prior to the Accounts 2019-20 underspend of £112K being added to the balance) and the Council has agreed (February 2020) that a minimum level of Unearmarked Reserves of £1.5million should be held. The suggested maximum Unearmarked Reserves could be reduced by is £400,000. The proposal in 5.8 is to utilise £200,000 of Unearmarked Reserves to fund the shortfall of £1.313m in 2020-21. If this were to happen, it is suggested that a future plan for how Unearmarked Reserves would be replenished should be in place.

- 8.6 It is proposed to replenish unearmarked reserves through a range of measures to be agreed as part of the medium term financial strategy (MTFS). The results of the Members' Budget Survey were such that 55.6% of Members supported using Unearmarked Reserves, with some Members wishing to take as much as £900,000 from Unearmarked Reserves. This would reduce Unearmarked Reserves by nearly half and would mean that Unearmarked Reserves were significantly below the previously minimum level approved by Members of £1.5 million (approved at Full Council on 13th February 2020).
- 8.7 The Business Rates Retention Earmarked Reserve has a balance of £6.1million, of which at least £900,000 is uncommitted. There is a current commitment against this Reserve for the acquisition of 10 acres of employment land at Sherford. As this opportunity no longer looks to be achievable by the Council to make a purchase, **it is proposed that this funding is instead earmarked for employment land opportunities (rather than specifically being for Sherford).**
- 8.8 All other uncommitted amounts in all other Earmarked Reserves (see Appendix 1) will remain subject to review until further notice, with the exception of Reserves for the Salcombe Harbour Board, as these are subject to decisions by the Salcombe Harbour Board.

9. Spending Review and Business Rates Retention

- 9.1 The Government has also confirmed that the Review of Relative Needs and Resource and 75% business rates retention will no longer be implemented in 2021-22. This was to enable Councils to focus on meeting the immediate public health challenge posed by the pandemic.
- 9.2 The Chancellor has confirmed that the 2020 Spending Review will be finalised this Autumn and will cover the years 2021/22 to 2023/24.
- 9.3 Auditing regulations for the Council's accounts has also been changed. There have been amendments to the statutory audit deadlines for 2019/20 for all Local Authorities, meaning that the deadline for final, audited accounts has been extended to 30 November 2020.

10. Options available and consideration of risk

- 10.1 The financial forecasts are based on a number of assumptions including the level of income losses and support from the Government. In addition there are a number of uncertainties that could affect the financial position either now or in the future. These include whether there is a second wave and additional restrictions imposed.

11. Proposed Way Forward

11.1 Members are recommended to recommend to the Council in September to approve the options outlined in Section 5.2 for balancing the Council's Amended Budget for 2020-21.

12. Implications

Implications	Relevant to proposals Y/N	Details and proposed measures to address
Legal/Governance	Y	The Local Government Finance Act 1992 places a legal requirement on Council to approve not only the budget but also any changes to the budget proposed during the year. Council has a legal duty to ensure that the budget is balanced and that any changes to the budget are fully funded.
Financial implications to include reference to value for money	Y	<p>The budget monitoring report identifies an overall predicted shortfall of £1.313 million which is 14% of the overall budget set for 2020/21 of £9.411 million, due to the current pressures on the Council's income targets due to the Covid 19 situation and extra expenditure incurred.</p> <p>Following a Members' Budget Workshop on options for setting an Amended Budget for 2020-21, it is proposed to Council in September to approve the options set out in 5.2 totalling £1.313 million, in order to produce an Amended Revenue Budget for 2020-21.</p> <p>It is proposed to replenish unearmarked reserves through a range of measures to be agreed as part of the medium term financial strategy (MTFS) as per 5.8.</p> <p>To recommend to Council to earmark the funding within the Business Rates Retention Fund for employment land opportunities as set out in 8.7.</p>
Risk	Y	See 10.1
Supporting Corporate Strategy		The budget monitoring process supports all six of the Corporate Strategy Themes of Council, Homes, Enterprise, Communities, Environment and Wellbeing.
Climate Change – Carbon /		None directly arising from this report.

Biodiversity Impact		
<i>Comprehensive Impact Assessment Implications</i>		
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

Appendix 1 – Schedule of Earmarked Reserves

Background Papers:

Executive – 30th July 2020 - Month 3 Revenue Budget Monitoring 2020/2021

Special Council – 30th July 2020 – Fusion Interim Support

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

South Hams Earmarked Reserve Balances				APPENDIX 1
	31.3.2019	31.3.2020	Annual budgeted reserve contribution originally agreed for 20/21	Notes
	£000	£000	£000	
Specific Reserves - General Fund				
Affordable Housing	988	706		£666k has been committed for the Capital Programme and £40k set up costs of the Community Benefit Society, Wholly Owned Company (E.78/19)
Beach Safety	14	14		Nil commitments
Business Rates Retention	5,114	6,192		This relates to a timing issue on the accounting adjustments required for the localisation of business rates. This reserve also deals with any volatility in Business Rate income e.g. due to appeals. Commitments mainly relate to (a) £3.5m ringfenced for Employment for the creation of local jobs (Council Feb 2018) (b) the acquisition of 10 acres of employment land at Sherford and (c) on 31 October 2019 the Executive recommended to Council to use up to £200k to fund the cost of extending the lease of the starter units at Langage from 21 years to 125 years, funded from this reserve. The uncommitted balance is at least £900,000.
Capital Programme	84	26	181.6	An annual contribution of £181,600 is paid into the Capital Programme Reserve from the Revenue Budget. This contribution is used annually to fund the Capital Programme and this reserve is fully committed in 2020/21.
Community Housing Fund	1,285	493		This reserve holds the Community Housing Fund grant received in 2016/17 of just under £1.9m (Government grant). £300k has been committed to date for 2020/21. The Reserve is for Community Housing Schemes.
Community Parks and Open Spaces	107	38	16.9	£17k has been committed in respect of South Devon Tennis Courts
District Elections	78	0	10	This reserve was fully utilised in 2019/20 to fund the cost of District Elections.
Economic Initiatives	27	6		Commitments amount to £4,000 in 2020/21
Economic Regeneration (Business Rates Pilot Gain)	379	319		This reserve was created to hold the 2018/19 Business Rates Pilot Gain. This was additional business rates income that was generated in 2018/19 due to the Devon area having Pilot status for Business Rates. Commitments total £192,000 including £65,000 for the Ivybridge Regeneration project (Executive 18/6/20) and £88,000 for Leisure for July, August and September (Council July 2020). The uncommitted balance is £127,000.
Emergency Climate Change Projects	0	0	400	Set up of this reserve for £400,000 in 2020/21 approved by Executive on 6/2/20 E74/19 and Council (Feb 20), funded by a contribution from New Homes Bonus Reserve
Environmental Health Initiatives	20	20		Commitment of £11k in 2020/21 relates to the employment of an Environmental Health student specialist for 12 months
Ferry Repairs & Renewals	455	446	117	Commitments include fleet refurbishment £24k and engineering works at Dartmouth Lower Ferry Workshops (health & safety urgent works) £94k
Homelessness Prevention	112	112		This reserve has been created following underspends on Homelessness Prevention Costs in previous years.
ICT Development	126	122	50	Commitments of £103,000 in 2020/21 include £83,000 towards the Future IT Procurement, Council 13/2/20 E75/19
Innovation Fund (Invest to Earn)	17	9		Nil commitments
Joint Local Plan	31	21		This is a new reserve for Joint Local Plan Funding
Land and Development	94	210	7	Commitments include £103.5k Fusion Leisure monthly support for April, May and June and £55k Follaton House Arboretum & Wedding Venue works
Leisure Services	57	57		Commitment for £13K for Playing Pitch Strategy
Maintenance, Management and Risk Management (MMRM)	0	8		This is a new reserve set up to manage the ongoing maintenance costs of the Council's Commercial Property. The contributions to the reserve equate to 10% of the rental income, this is anticipated to be £29,000 in 2020/21.
Marine Infrastructure	210	268	58	£200k earmarked for Batson Harbour Workshops as per 19/20 Capital Programme (E.70/18). Annual contributions of £58K are made by Salcombe Harbour.
Members Sustainable Community Locality	6	28		This reserve holds the unspent balances.
New Homes Bonus	1,155	1,697	-564.1	£1.199m will be received in NHB grant in 2020/21. Commitments in 2020/21 include £564k contribution to the base revenue budget, £400k to the Emergency Climate Change Projects Reserve and funding of the Capital Programme. At Council in February 2020, it was approved to transfer the unallocated balance of £235,016 into the New Homes Bonus Earmarked Reserve, with its future use to be decided when more details are known about the Spending Review for 2021/22 and following a Government consultation document on a replacement scheme for NHB. The uncommitted balance is £235,016.
On-Street Parking	44	44		
Pay & Display Equipment Renewals	123	144	20.8	This reserve provides for the periodic replacement of Pay & Display machines.
Pension Fund Strain Payments	0	29	9.9	This reserve is used to fund pension strain costs

South Hams Earmarked Reserve Balances				APPENDIX 1
	31.3.2019	31.3.2020	Annual budgeted reserve contribution originally agreed for 20/21	Notes
	£000	£000	£000	
Planning Policy & Major Developments	125	187	50	This reserve is for all planning matters and is also to meet appeal costs.
Renovation Grants	7	7		Comprises proceeds from repayments
Repairs & Maintenance	45	203	80	£28,000 has been committed in 2020/21 for the Mobile Phone Signal improvement works at Follaton House
Revenue Grants	578	607	-48.7	This reserve comprises of government grants received for specific initiatives or new burdens and are held in the reserve for accounting purposes. The annual contribution of £48,700 from this reserve relates to the funding of three housing posts which were made permanent in the 2020/21 budget process and are funded from the Flexible Homelessness Support Grant.
S106 Monitoring	124	133		This reserve funds the cost of an officer to oversee the administration of S106 deposits and how they are spent
S106 Technical Support	20	16		To meet the salary costs of a S106 technical support officer.
Section 106 Deposits	38	38		This reserve comprises deposits with no repayment conditions - created as a result of IFRS
Strategic Change (Transformation Programme T18)	0	30		Reserve was created in 15/16 and funded T18 (Transformation Programme) set up costs. There are Nil commitments against this reserve. The uncommitted balance is £30,000.
Support Services Trading	43	43		Reserve was created from external work carried out in other Councils e.g. HR work with Councils also embarking on a Transformation Programme. Reserve maybe required in the future.
Sustainable Waste Management	29	54	25	Reserve was created for one-off waste management costs
Vehicles & Plant Renewals	1,264	1,183	550	Earmarked for the Fleet Replacement Programme as part of the Waste Contract. An annual contribution of £550,000 is made to this reserve. All committed.
Sub-Total	12,799	13,510		
Specific Reserves - Salcombe Harbour				
Pontoons	213	162	65	Annual contributions are made by Salcombe Harbour to enable the repairs/replacement of the pontoons
Renewals	117	136	40	Annual contributions are made by Salcombe Harbour to enable assets to be replaced on a rolling programme
Revenue Account	164	190		This reserve accounts for any surplus/deficit made by Salcombe Harbour and is also used to fund one off items that can't be funded from Salcombe Harbour's revenue account.
Sub-Total	494	488		
TOTAL - Earmarked Revenue Reserves	13,293	13,998	1,157.5	