

NOT FOR PUBLICATION

This report contains exempt information as defined in Paragraph 3 of Part 1 of Schedule 12A to the Local Government Act 1972 (applies to Appendix E)

Report to: **Hub Committee**
Date: **16th July 2019**
Title: **Medium Term Financial Position for 2020/21 onwards**
Portfolio Area: **Cllr N Jory - Budget Setting Process**
Wards Affected: **All**

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

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Recommendations:

It is recommended that the Hub Committee:

- (i) Notes the forecast budget gap for 2020/21 of £0.4 million and the position for future years.
- (ii) Notes the current options identified and timescales for closing the budget gap in 2020/21 and future years, to achieve long term financial sustainability as set out in Section 7.

- (iii) Recommends to Council that the Borough Council consults with all of the Town and Parish Councils within the Borough, on the basis that the Borough Council is 'minded to' withdraw the Council Tax Support Grant from Town and Parish Councils with effect from 1st April 2020, in line with the other Devon District Councils as set out in 4.15.
- (iv) Recommends to Council to approve a capital budget provision for remedial works to the Tavistock Viaduct as set out in Exempt Appendix E and to fund the budget provision from useable capital receipts.

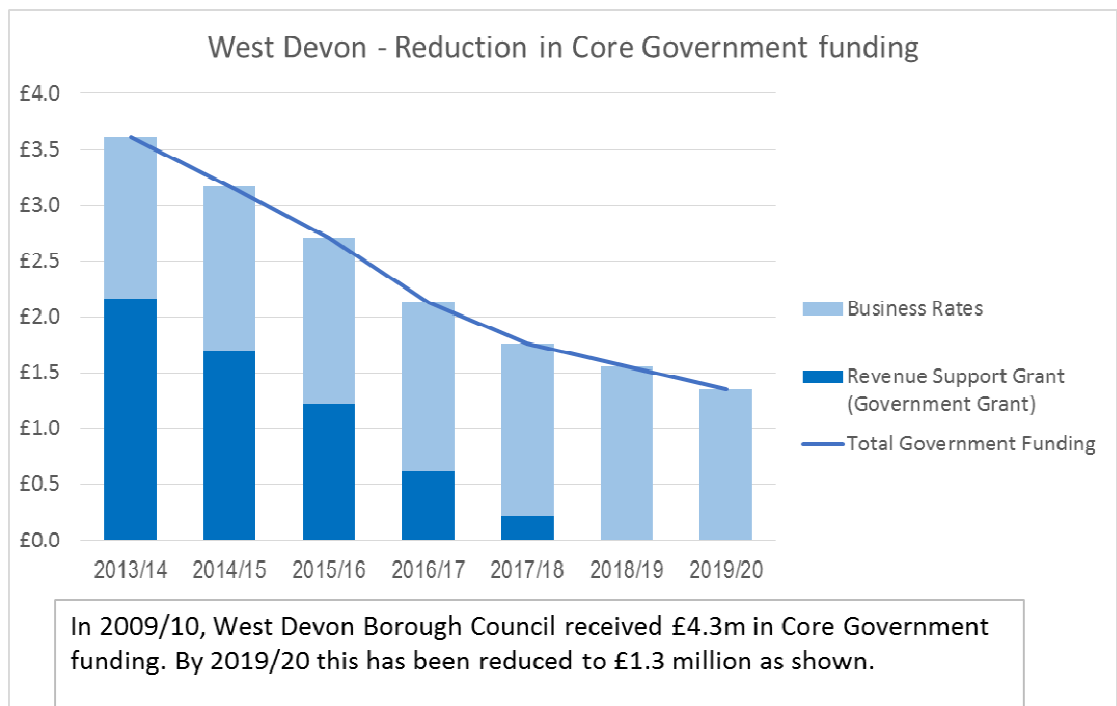
1. Executive summary

- 1.1 The Council's Medium Term Financial Strategy (MTFS) is based on a financial forecast over a rolling five year timeframe to 2024/25. The Council, along with other local authorities, has faced unprecedented reductions in Government funding since the Comprehensive Spending Review 2010. Between 2009/10 and 2020/21, the Council's Core Government funding has reduced by £3 million as shown in 2.1.
- 1.2 West Devon has continued to work in partnership with South Hams District Council which has allowed West Devon Borough Council to achieve annual savings of £2.2 million and more importantly protect all statutory front line services.
- 1.3 Between both Councils the annual shared services savings being achieved are over £6 million. However, the Councils continue to face considerable financial challenges as a result of uncertainty in the wider economy and constraints on public sector spending.
- 1.4 West Devon Borough Council is currently forecasting a £0.4 million budget gap in 2020/21. It is important to note that this is a snapshot (a position statement) in July 19 and future Member decisions on the budget strategy will inform future figures within the Medium Term Financial Strategy (MTFS), which will be presented to Members at the Hub Committee meeting on 10th September 2019.
- 1.5 This is the starting point for developing a meaningful five year strategy that sets out the strategic intention for all of the different strands of funding available to the Council. The Council will then be able to rely on this to inform future decisions.

- 1.6 A Cross Party Member Working Group (Financial Stability Review Group) was set up in November 2017 with defined Terms of Reference to look at the Medium Term Financial Strategy and to further look at options for securing financial stability for the longer term. The Group regularly reports to the Hub Committee and the Overview and Scrutiny Committee. The FSRG is due to reconvene in September 2019 when the announcements on the Spending Review 2019 are envisaged to be made (see details in Section 2.4).

2 BACKGROUND AND UPDATE ON THE BUDGET 2020/21

- 2.1 Over the past four years, West Devon Borough Council has had a 38.2% reduction in Government funding. This compares against 38.8% for the average for Shire District Councils. The Council now receives **no main Government Grant (Revenue Support Grant)** – this has been reduced to zero. Core Government funding has been reduced by £3million per year since 2009/2010, as shown below.



- 2.2 Negative Revenue Support Grant (RSG) for 2019/20 of £293,000 was eliminated by the Government for one year. There has been no news on what will happen to negative RSG from 2020/21 onwards and therefore the modelling in this report has assumed negative RSG will remain for 2020/21 onwards in some form (e.g. as part of the business rates baseline reset). It is currently estimated to be £293,000 per annum which would be deducted off the Council's business rates funding and represents negative Government grant (it is effectively the Council's further predicted funding cuts). The Council would need to pay this money (£293,000) over to the Government out of its business rates income.

- 2.3 It is thought that the Council Tax Referendum limits for District Councils for 2020/21 will remain the same (the higher of £5 or 2.99%).
- 2.4 The Council is waiting an announcement from the Government on the Spending Review for 2019 (called SR2019). This is expected to be announced around September time. The Spending Review 2019 might not proceed as planned and therefore there may only be a one year Spending Review, followed by a further Spending Review in 2020. There are questions around whether the reforms around Business Rates, the Fair Funding Review and New Homes Bonus will all be delayed.

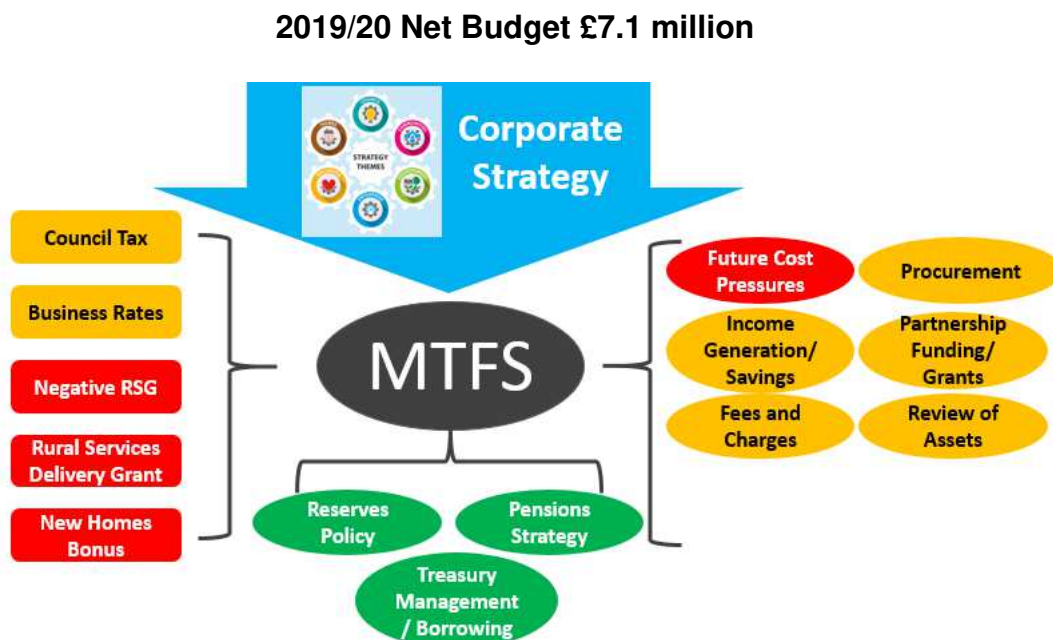
3 ASSUMPTIONS FOR FINANCIAL MODELLING PURPOSES

- 3.1 The last pay offer covered the two years up to 31 March 2020. A 1% pay increase has been modelled from 2020/21 onwards. The Medium Term Financial Strategy is not an expression of Council Policy on pay awards, but a means of ensuring an appropriate provision is made as part of the overall financial planning of the Council.
- 3.2 This report assumes inflation will run at 2% over the five year period. The Consumer Prices Index (CPI) was 2.1% in April 2019.
- 3.3 The predicted interest rate forecast from our treasury management advisors, Link Services, is that interest rates will remain at 0.75% up to December 2019. By June 2021 the bank base rate is predicted to increase to 1.5%.
- 3.4 An increase in council tax of 2.99% for the next five years has been modelled for council tax purposes. This strategic principle was approved as part of the Medium Term Financial Strategy in September 2018 (Minute CM33). This would equate to a Band D council tax for West Devon of £238.54 in 2020/21 as shown in Appendix B (an increase of £6.91 for the year which equates to 2.99%). The Council will reconsider the Medium Term Financial Strategy in September 2019.
- 3.5 It has been assumed that the number of properties within the Borough will increase by 70 per annum from 2020/21 onwards – this is an increase of approximately 0.3% and is based on projections from the Strategic Planning team.

4. THE COMPONENTS MAKING UP A MEDIUM TERM FINANCIAL STRATEGY (MTFS)

4.1 The Diagram below sets out all of the component parts which constitute the make-up of a Medium Term Financial Strategy. Appendix C of the MTFS report to Council on 25th September 2018 went through each of these components in detail and made recommendations where appropriate. The Council will reconsider the MTFS in September 2019.

Items in Green denote those elements where the Council has a large degree of control over the setting of policies and strategies. Items in Amber denote those components of the MTFS where the Council has a degree of control. Red items signal components where the Council has hardly any control over funding allocations which are decided by the Government and future cost pressures which can largely be outside of the Council's control or influence.



Council Tax

4.2 Council on 25th September 2018 (Minute CM33) set the strategic intention to raise council tax by the maximum allowed in any given year, without triggering a council tax referendum, to endeavour to continue to deliver services. The actual council tax for any given year will be decided by Council in the preceding February. (The council tax for 2020/21, the WDBC share, will be set at the Council meeting on 18th February 2020). The Council will reconsider the Medium Term Financial Strategy on 10th September 2019.

Business Rates

- 4.3 Estimates have been made of the Baseline funding Level for 2020/21 onwards as set out in Appendix B. This is £1.66m for 2020/21 and £1.70m for 2021/22. RSDG has been modelled at £464,365 per annum. Negative Revenue Support Grant of £293,000 per annum from 2020/21 has been assumed to be deducted from the business rates funding. The Council will continue to lobby for negative RSG to be withdrawn by the Government (negative RSG was withdrawn for one year in 2019/20 – it is unknown what will happen to negative RSG for 2020/21 onwards. The Council is awaiting announcements from the Government on this. See Section 2.2.

New Homes Bonus (NHB)

- 4.4 The Government has stated that 2019/20 represents the final year of NHB funding and from 2020 onwards they will explore how to incentivise housing growth most effectively and will consult on this issue. The financial modelling has included using £200,000 of New Homes Bonus (or its replacement) funding for 2020/21 to fund the revenue base budget and this has then been reduced to £100,000 for 2021/22 and £50,000 for 2022/23 onwards for modelling purposes. The Council is awaiting announcements from the Government on how New Homes Bonus is going to be reformed.

- 4.5 For 2019/20 there were no changes to the New Homes Bonus baseline of 0.4% (the previous concern was that this could be increased to 0.6%). The baseline is the proportion of housing growth which is deducted as 'natural growth as such' before New Homes Bonus is paid to a Council – this is the equivalent of 98 properties for West Devon. So the Council receives no New Homes Bonus on the first 98 properties of property growth per year. The Council's New Homes Bonus allocation for 2019/20 was £500,595.

Pensions Strategy (Actuarial Valuation)

- 4.6 The Council has taken specialist pension advice on the options for the Council's Pension position (informing the actuarial valuation), with the aim of reducing the current deficit contributions, increasing affordability, whilst best managing the pension deficit. Options were presented to the Council's Audit Committee on 22nd January and this work is being progressed by the S151 Officer in accordance with the timetable for the Triennial Pension Revaluation.

Treasury Management and Borrowing Strategy

- 4.7 The Council has taken external treasury management advice on the Council's overall borrowing levels and debt levels. The Council set an Upper Limit on External Borrowing (for all Council services) as part of the Medium Term Financial Strategy (MTFS) in September 2018 of £50 million. In March 2019, the Council considered its Capital Strategy and Treasury Management Strategy which contained the new requirements issued by MHCLG in February 2018 of the new guidance.

- 4.8 The Council will re-consider its borrowing limit as part of the MTF5 in September 2019, but officers will not be recommending any change to the current borrowing limit of £50 million.

Partnership Funding/Grants

- 4.9 A report to review all Partnerships Grants for 2020/21 is on the Forward Plan to be considered in September at the Hub Committee meeting on 10th September.

Commercial Property and Review of Assets

- 4.10 The Invest to Earn Committee consider commercial property business cases within the Commercial Property acquisition strategy. A report on the updated Commercial Investment Strategy is a separate report on this Hub Committee agenda.
- 4.11 The Council's Asset Base is £46 million at 31 March 2019. The Council will continually review and challenge its asset base in order to deliver the optimum value for money from the Council's Assets.

Council Tax Support Grant (CTSG) for 2020/21 onwards

- 4.12 Following Council Tax Benefit being abolished in 2014, District Councils around the country introduced Council Tax Reduction Schemes. The schemes were discount schemes instead of a state welfare benefit and meant that working age claimants paid an amount towards their Council Tax bill. (Note the Borough Council has since moved to a banded scheme – Minute CM57, Council on 12th February 2019)
- 4.13 The changes in 2014 had the effect of reducing the council tax base not only for the Borough Council but also for Town and Parish Councils. The Government provided financial support for local authorities (Council Tax Support Grant) to assist Town and Parish Councils in dealing with the effects of the benefit changes on their Council Tax Base. The Council paid this grant over to Town and Parish Councils and over the past four years the grant has been reduced by 8.6% per annum, in line with the reduction in Grant which the Borough Council was receiving. As the last financial settlement was a four years settlement (from 2016/17 to 2019/20), four years of reduction of 8.6 % per annum for the Council Tax Support Grant were agreed with Town and Parish Councils.

- 4.14 As the last Spending Review ended in 2019/20, the Council needs to consider the level of Council Tax Support Grant for Town and Parish Councils for 2020/21 onwards. The Council has consulted with other Devon District Councils and they have ceased paying the council tax support grant, as shown in the table below. South Hams had taken the same approach as West Devon and will also be considering this in this year's budget setting process.

Last year of payment	
Teignbridge	2018/19
North Devon	2019/20
Mid Devon	2018/19
East Devon*	2019/20
Torrige	2017/18

- 4.15 In previous years' modelling of the Medium Term Financial Strategy, it was modelled that the Council would cease payments in 2020/21. It is recommended to Council that the Borough Council consults with all of the Town and Parish Councils within the Borough, on the basis that the Borough Council is 'minded to' withdraw the Council Tax Support Grant from Town and Parish Councils with effect from 1st April 2020, in line with the other Devon District Councils as set out in 4.14 and given the number of years which have passed since Council Tax Benefit was abolished in 2014.
- 4.16 The Parishes and Towns would need to consider increasing their Precepts in 2020/21 in order to absorb the reduction in Council Tax Support Grant. This ranges from £26,670 for Tavistock and £13,782 for Okehampton, to £5 for Boodleigh. The levels of Council Tax Support Grant for 2019/20 are shown in Appendix D, and the percentage that the grant equates to as a % of their Precept for 2019/20 is also shown. The total Council Tax Support Grant paid to all Town and Parish Councils equates to £59,178 as per Appendix D.

5 BUDGET PRESSURES, SAVINGS AND INCOME GENERATION

- 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 Position sets out the Budget Pressures forecast for the next five years and the additional savings and income forecast.

5.3 ***These figures in Appendix A show the changes to the existing base budget.***

(As set out in Appendix A)	2020/21	2021/22	2022/23	2023/24	2024/25
Cost Pressures	£479,500	£300,000	£260,000	£335,000	£260,000
Contributions to Earmarked Reserves	£120,000	£120,000	£120,000	£120,000	£120,000
Savings and additional income	(£256,200)	(£221,200)	(£391,200)	(£1,200)	(£1,200)

6. OVERALL POSITION – BUDGET GAP

6.1 Appendix B illustrates the overall financial forecast for the forthcoming five years. The Council's Net Budget is £7.1 million in 2019/20.

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 2.99% per annum (shown in Appendix B).

6.3 The following table illustrates the predicted budget gap from 2020/21 onwards for the Council as shown in Appendix B:

Cumulative Budget Gap	2020/21 £	2021/22 £	2022/23 £	2023/24 £	2024/25 £	Total Aggregated Budget Gap £
Modelling as set out in Appendix B	439,913	414,158	120,124	241,562	322,220	1,537,977

6.4 In the Modelling in Appendix B, the total budget gap is £439,913 in 2020/21 and this is predicted to decrease to £414,158 in 2021/22 (the £414,158 assumes the budget gap in 20/21 of £439,913 has not been closed). The aggregated Budget Gap is £1.54 million.

7 FINANCIAL SUSTAINABILITY AND TIMESCALES

7.1 The Council is progressing various options for closing the budget gap for 2020/21 onwards, to achieve long term financial sustainability. The table below sets out a timescale for those options and the various strands that the Council is exploring.

Option	Possible Budget Impact	Timescale
<p>Pensions Strategy (Actuarial Valuation)</p> <p>The Council has received specialist pensions advice on its Pensions position (informing the actuarial valuation). Options were reported to the January Audit Committee and the S151 Officer is progressing this work with the Pensions team at Devon County Council and the actuaries.</p>	<p>To be quantified (could be up to £100,000 or more)</p>	<p>Reported to the Audit Committee 22nd January 2019.</p> <p>New pensions contributions for the three years 2020/21 to 2022/23 are likely to be notified to the Council by December 2019.</p>
<p>Council Tax Support Grant</p> <p>The grant to Town and Parish Councils has been reduced by 8.6% over the four year period of the finance settlement from 2016/17 to 2019/20.</p> <p>It is recommended to Council that the Borough Council consults with all of the Town and Parish Councils within the Borough, on the basis that the Borough Council is 'minded to' withdraw the Council Tax Support Grant from Town and Parish Councils with effect from 1st April 2020, in line with the other Devon District Councils as set out in 4.14 and given the number of years which have passed since Council Tax Benefit was abolished in 2014.</p> <p>Further details are set out in 4.12 to 4.16</p>	<p>£59,000 for 2020/21 onwards</p> <p>(already factored into the modelling figures in Appendices A and B)</p>	<p>To be considered as part of the 2020/21 Budget process</p>

Option	Possible Budget Impact	Timescale
<p>Extended Leadership Team (ELT) Budget options</p> <p>The Extended Leadership (ELT) have been tasked with identifying budget options for Members to consider in September and these are currently being collated and assessed.</p>	<p>To be quantified</p>	<p>September 2019</p>
<p>Senior Leadership Team (SLT) restructure</p> <p>There is a separate report on this Hub Committee agenda on the restructure of the Senior Leadership Team (SLT). The combined restructures of SLT and the Extended Leadership Team (ELT) would achieve ongoing annual revenue savings estimated to be at least £120,000 per annum (£60,000 per annum for each Council)</p>	<p>£60,000</p>	<p>SLT restructure by September 2019 and ELT restructure by December 2019</p>
<p>Asset Review</p> <p>The Invest to Earn Committee are considering commercial property business cases within the Commercial Property acquisition strategy. A report on the updated Commercial Investment Strategy is a separate report on this Hub Committee agenda.</p>	<p>To be quantified</p>	<p>On-going through meetings of the Invest to Earn Committee</p>
<p>Funding Options</p>		
<p>Negative Revenue Support Grant (RSG)</p> <p>Negative Revenue Support Grant (RSG) for 2019/20 of £293,000 was eliminated by the Government for one year. There has been no news on what will happen to negative RSG from 2020/21 onwards and therefore the modelling in this report has assumed negative RSG will remain for 2020/21 onwards in some form (e.g. as part of the business rates baseline reset).</p>	<p>Negative RSG of £293,000 for 2020/21 onwards has been built into this budget report.</p>	<p>The position for 2020/21 onwards is not known and it is assumed that negative RSG of £293,000 per annum will be in place.</p>

Option	Possible Budget Impact	Timescale
<p>It is currently estimated to be £293,000 per annum which would be deducted off the Council's business rates funding and represents negative Government grant (it is effectively the Council's further predicted funding cuts). The Council would need to pay this money (£293,000) over to the Government out of its business rates income.</p>		
<p>New Homes Bonus allocations for 2020/21 onwards</p> <p>The Government has stated that 2019/20 represents the final year of NHB funding and from 2020 onwards they will explore how to incentivise housing growth most effectively and will consult on this issue.</p> <p>The financial modelling has included using £200,000 of New Homes Bonus (or its replacement) funding for 2020/21 to fund the revenue base budget and this has then been reduced to £100,000 for 2021/22 and £50,000 for 2022/23 onwards for modelling purposes. The Council is awaiting announcements from the Government on how New Homes Bonus is going to be reformed. This remains a risk for the Council.</p>	<p>To be assessed</p> <p>It is not known what NHB allocations (or a similar scheme) will be in future years when the NHB scheme is replaced.</p>	<p>Awaiting further announcements from the Government</p>
<p>Use of Reserves as a temporary measure</p> <p>The Council could temporarily utilise Reserves to balance an element of the 2020/21 budget, whilst longer term solutions are being implemented.</p> <p>This would be a very short term solution though. The current levels of Reserves are £1.3 million Unearmarked Reserves and Earmarked Reserves of £4.3 million.</p>	<p>To be assessed</p>	<p>To be decided as part of the Budget Process</p>

- 7.2 Through the Financial Stability Review Group, further measures will be considered to balance the 2020/21 onwards budget positions.

8 CAPITAL PROGRAMME AND PRUDENTIAL BORROWING

- 8.1 The Capital Programme is set by the Council and may be funded by sale proceeds from the disposal of assets (capital receipts), external grants and contributions, directly from revenue or from borrowing. Bids to the Capital Programme will be presented to Members by December 2019.

- 8.2 **Commercial Property Acquisition Strategy** – The Council has agreed a commercial property acquisition strategy. To date, four investment properties have been purchased with a value of £21.3 million in aggregate. Purchases made within the strategy are capital expenditure. A report on the updated Commercial Investment Strategy is a separate report on this Hub Committee agenda.

- 8.3 **Prudential Borrowing** - The Council will consider the use of prudential borrowing to support capital investment to deliver services and will ensure that the full costs of borrowing are taken into account when investment decisions are made.

9. Sensitivity analysis and risk analysis

- 9.1 The Council carries out sensitivity analysis and risk analysis of its Budget Proposals on an annual basis. This will form part of the Medium Term Financial Strategy presented to Members in September 2019.

10. Earmarked and Unearmarked Reserves

- 10.1 The current levels of Reserves are £1.3 million Unearmarked Reserves and Earmarked Reserves of £4.3 million. The Council's Net Budget is £7.1 million for 2019/20. Therefore Unearmarked Reserves equate to 18% of the Council's Net Budget. A full list of Earmarked Reserves is shown in Appendix C.

- 10.2 **Budget Monitoring** – The first revenue budget monitoring report for 2019/20 will be presented to Members at the Hub Committee on 10th September 2019.

11 PROPOSED WAY FORWARD

- 11.1 This report is a snapshot (a position statement) in July 19 and future Member decisions on the budget strategy will inform future figures within the Medium Term Financial Strategy (MTFS), which will be presented to Members at the Hub Committee meeting on 10th September 2019. The MTFS is the starting point for developing a meaningful five year strategy that sets out the strategic intention for all

of the different strands of funding available to the Council. This was approved at Council in September 2018. The Council is now able to rely on this to inform future decisions. An updated MTFs for September 2019 will be presented to Members in September so that the strategic intentions for 2020-21 can be approved.

- 11.2 Officers will continue to work with the Cross Party Member Working Group (Financial Stability Review Group) and the results of this will be incorporated into future Budget reports. Section 7 sets out the potential timescales against the areas identified.

12. IMPLICATIONS

Implications	Relevant to proposals Y/N	Details and proposed measures to address
Legal/Governance	Y	<p>The Hub Committee is responsible for recommending to Council the budgetary framework. It is the role of the Overview and Scrutiny Committee to scrutinise the Budget proposals being proposed by the Council on an annual basis. In accordance with the Financial Procedure Rules, Council must decide the general level of Reserves and the use of Earmarked Reserves.</p> <p>Since there is commercially sensitive information in Appendix E, regarding the budget for an individual project, there is grounds for the publication of this Appendix to be restricted and considered in exempt session.</p> <p>The public interest has been assessed and it is considered that the public interest will be better served by not disclosing the information in the Appendix. Accordingly this report contains exempt Information as defined in paragraph 3 of Schedule 12A to the Local Government Act 1972.</p> <p>Council is responsible for setting the Capital Programme and approving Capital Budgets, following consideration and recommendation from the Hub Committee.</p>

Financial Implications to include reference to value for money	Y	<p>In the Modelling in Appendix B, the total budget gap is £439,913 in 2020/21 and this is predicted to decrease to £414,158 in 2021/22 (the £414,158 assumes the budget gap in 20/21 of £439,913 has not been closed). The aggregated Budget Gap is £1.54 million.</p> <p>It is recommended that the Hub Committee recommend to Council to approve a capital budget provision for remedial works to the Tavistock Viaduct as set out in Exempt Appendix E and to fund the budget provision from the useable capital receipts reserve. This reserve contains past sale receipts from the sale of land.</p> <p>The recommendations adopted and the annual budget setting process will ensure the Council has arrangements in place to secure economy, efficiency and effectiveness in its use of resources. The Council's auditors, Grant Thornton, provide an annual value for money opinion for the Borough Council, which will be reported to the Council's Audit Committee in July 2019.</p>
Risk	Y	Each of the budget options taken forward by Members will consider the risks of the option.
Supporting Corporate Strategy		The Budget report supports all six of the Corporate Themes of Council, Homes, Enterprise, Communities, Environment and Wellbeing.
Comprehensive Impact Assessment Implications		
Equality and Diversity		Equality Impact Assessments are completed for the budget proposals.
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 the Budget Position

Appendix C – Earmarked Revenue Reserves as at 31 March 2019

Appendix D – Council Tax Support Grant 2019-2020 onwards

Appendix E (Exempt) – Capital Programme item

Background Papers

Council – 12th February 2019 – Budget Proposals 2019-20 onwards update report

Hub Committee – 11th September 2018 – Medium Term Financial Strategy 2019/20 to 2023/24

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
Accessibility checked	Yes