

Report to: **Hub Committee**
Date: **5th November 2019**
Title: **Budget Update report for 2020/21 to 2024/25**
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 £225,084 and the position for future years.
- (ii) Notes the current options identified and timescales for closing the budget gap in 2020/21 and in future years, to achieve long term financial sustainability.
- (iii) Considers the results of the consultation exercise with Town and Parish Councils on the Council Tax Support Grant (set out in Appendix C) and recommends to withdraw the Council Tax Support Grant from Town and Parish Councils with effect from 1st April 2020 by 100% as part of the budget process.
- (iv) Agree the revised Terms of Reference for the Financial Stability Review Group attached in Appendix E

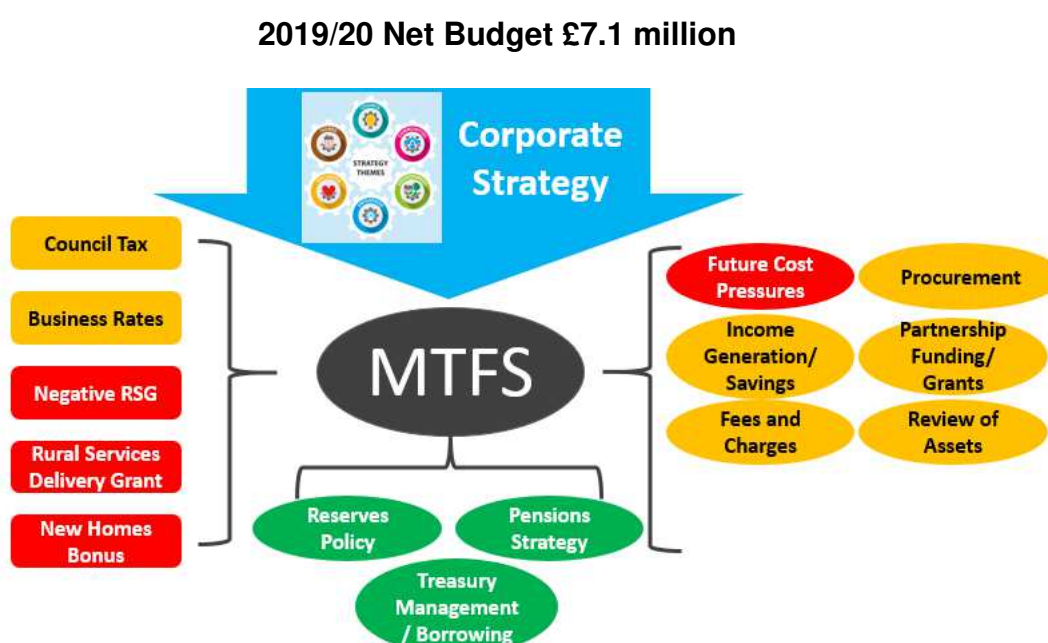
1. Executive summary

- 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. Between 2009/10 and 20/21, the Council's Core Government funding has reduced by £3 million.
- 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. 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.
- 1.3 West Devon Borough Council is currently forecasting a £225,084 budget gap in 2020/21. This is predicted to increase to £554,737 in 2021/22 (the £554,737 assumes the budget gap in 20/21 of £225,084 has not been closed). Over the next five years, the cumulative budget gap is £2.49 million.
- 1.4 The Medium Term Financial Strategy (MTFS) report was approved by Council in September 2019. Since this report, the following changes have been made to the MTFS to reflect the position shown within this Budget update report. The changes are as follows:-
 - Negative Revenue Support Grant has been assumed to be withdrawn by the Government for 2020-21 (one year only)
 - A council tax referendum limit of the higher of £5 or 1.99% has been assumed
 - Rural Services Delivery Grant has been assumed to be paid at the same level in 2020/21 as in 2019/20 – i.e. £464,365
 - The provision for a pay award has been increased from 1% to 2% for each year of the Medium Term Financial Strategy. This is subject to national negotiation on an annual basis. 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 financial planning of the Council.
 - Two planning enforcement posts (the WDBC share of costs) have been included within the cost pressures.
 - The Public Lavatories Bill has been dropped due to the proroguing of Parliament. Therefore the savings from business rates not being payable on public toilets (£18,000) will be delayed until at least 2021-22. This does not change any of the previous discussions between Town and Parish Councils and the Borough Council on public conveniences and the Borough Council would not be seeking to re-open discussions due to the Public Lavatories Bill being delayed.

- The Collection Fund Surplus has been reduced to £67,000 for 2020/21 (from £80,000). This is an annual calculation carried out after the closure of the Accounts and the Collection Fund.
- 1.5 This report also sets out the responses to the consultation on the Council Tax Support Grant. A total of thirteen responses were received, shown in Appendix C. Nine Town and Parish Councils were not in support of the proposed withdrawal in 2020/21. Four Town and Parish Councils were in support of the withdrawal. Dartmoor Forest Parish Council requested that a special case is made for DFPC due to the deprivation of the area, as outlined in their response. Bridestowe Parish Council and Northlew Parish Council also requested that WDBC retain the current phasing out of the Council Tax Support Grant i.e. by a reduction of 8.6% per annum, as in previous years.
 - 1.6 It is recommended that Members consider the results of the consultation exercise with Town and Parish Councils on the Council Tax Support Grant (set out in Appendix C) and recommends to withdraw the Council Tax Support Grant from Town and Parish Councils with effect from 1st April 2020 by 100% as part of the budget process.
 - 1.7 This is due to the fact that the Borough Council now receives no Government grant to pass onto Town and Parish Councils and given the Borough Council's own budget position as set out in this report, where the Borough Council is facing a cumulative budget gap of £2.49 million over the next five years and a budget gap of £225,084 in 2020/21. This is also in line with the reduction of the Grant to Nil that other Devon District Councils have implemented and given the number of years which have passed since Council Tax Benefit was abolished in 2014.
 - 1.8 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 FSRG reconvened in September 2019 and reviewed their Terms of Reference and suggested minor amendments (Appendix E).
 - 1.9 It was agreed that instead of the FSR Group working in two distinct sub groups of the Budget Team and the Income Team, that the FSR Group would instead encompass all of these activities into the work of the whole Group. The amended Terms of Reference are attached at Appendix E. The FSRG will regularly report to the Overview and Scrutiny Committee

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

2.1 The Diagram below sets out all of the component parts which constitute the make-up of a Medium Term Financial Strategy. Appendix C goes through each of these components in detail and makes recommendations where appropriate. The recommendations are summarised below. 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.



2.2 Technical consultation on Local Government Finance Settlement

On 3rd October, a technical consultation on the Finance Settlement for 2020-21 was issued by the Government, with the consultation closing on 31st October.

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/836539/Local_Government_Finance_Settlement_2020-21_Technical_Consultation_.pdf

2.3 The main items within the consultation are as follows:

- Spending Round 2019 - There will be a one year Spending Round for 2020-21 and plans for a more substantial Spending Review for 2021-22 onwards. So effectively this a 'roll-forward' settlement for 2020-21 for one year.

- Business rates – A similar system in 2020-21 to that in place for 2019-20 is being proposed, with further reform delayed until 2021-22.
- Negative Revenue Support Grant (RSG) - It states in 4.3.3 of the consultation that 'the Government is currently minded to pay off negative RSG again in 2020-21'. The Government welcomes views in response to the consultation on whether eliminating negative RSG is the right approach for 2020-21. This means the Council wouldn't have to forego some of its business rates income (£293,000) by paying some of it back to Government in the form of 'negative government grant'.
- Council Tax Referendum Principles – A core referendum principle of 2% for 2020-21, with the consultation asking the question of whether for Shire District Councils such as West Devon, this should be a principle of 2% or £5, whichever is the greater.
- Council Tax referendum limits for Town and Parish Councils
In 5.3.3 the Government proposes to continue with no referendum principles for Town and Parish Councils in 2020-21. Town and Parish Councils have been informed of this and also that they may wish to respond to Question 4 of the consultation.
- Better Care Fund
The Government proposes to continue with the existing Better Care Fund funding at the 2019-20 levels, using the same methodology as 2019-20.
- New Homes Bonus
NHB will continue for 2020-21 for one year, with any funding beyond 2020-21 being subject to the 2020 Spending Review. For one year the Government will fund legacy payments and the Government is minded to make a new round of allocations for 2020-21. However they may change the 0.4% baseline when the Finance Settlement is announced in December. The consultation asks if Councils agree that there should be a new round of 2020-21 NHB allocations or would Councils prefer to see this funding allocated for a different purpose.
- Rural Services Delivery Grant (RSDG)
The Government is proposing to pay Councils the same level of RSDG as they received in 2019-20. This is £464,365 for West Devon Borough Council.

Council Tax

- 2.4 Council in September 2019 (Council Minute CM36) has 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).
- 2.5 A £5 increase in council tax would equate to a Band D council tax of £236.63 for 2020/21. This is an increase of 2.16%. A 1% increase in council tax generates £47,000. It has been assumed that the number of properties within the Borough will increase by 70 per annum from 2020/21 to 2024/25 – this is an increase of approximately 0.3% and is based on projections from the Strategic Planning team.

Business Rates

- 2.6 The income from Business Rates which West Devon Borough Council retained in 2018-19 was the funding baseline of £2,049,573 plus the pilot gain of £460,000. 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.

New Homes Bonus (NHB)

- 2.7 For one year the Government will fund legacy payments and the Government is minded to make a new round of allocations for 2020-21. However the Government may change the 0.4% baseline when the Finance Settlement is announced in December. The financial modelling has included using £200,000 of New Homes Bonus funding for 2020/21 to fund the revenue base budget and this has then been reduced to £100,000 in 2021/22 and £50,000 in 2022/23 for modelling purposes.
- 2.8 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 (Note property growth is modelled at 70 extra properties per year so the Council may only receive legacy payments). The Council's New Homes Bonus allocation for 2019/20 was £500,595. The allocation for 2020/21 will be announced in December 2019 and is expected to be in the region of £330,000.

Pensions Strategy (Actuarial Valuation)

- 2.9 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 31st January 2019 and this work is being progressed by the S151 Officer in accordance with the timetable for the Triennial Pension Revaluation. There is an employers' meeting on 14th November where more information will be known.

Treasury Management and Borrowing Strategy

- 2.10 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 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.

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

- 2.11 The Council has consulted 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.
- 2.12 The Council is mindful of the need for the Borough Council and the Town and Parish Councils to work together collaboratively to deliver services to our residents to effect real change for our communities.
- 2.13 The consultation period ended on 30th September and a total of thirteen responses have been received. These responses are shown in Appendix C. Nine Town and Parish Councils were not in support of the proposed withdrawal in 2020/21. Four Town and Parish Councils were in support of the withdrawal. Dartmoor Forest Parish Council requested that a special case is made for DFPC due to the deprivation of the area, as outlined in their response. Bridestowe Parish Council and Northlew Parish Council also requested that WDBC retain the current phasing out of the Council Tax Support Grant i.e. by a reduction of 8.6% per annum, as in previous years.
- 2.14 It is recommended that Members consider the results of the consultation exercise with Town and Parish Councils on the Council Tax Support Grant (set out in Appendix C) and recommend to withdraw the Council Tax Support Grant from Town and Parish Councils with effect from 1st April 2020 by 100% as part of the budget process. This is due to the fact that the Borough Council now receives no Government grant to pass onto Town and Parish Councils and given the Borough Council's own budget position as set out in this report, where the Borough Council is facing a cumulative budget gap of £2.49 million over the next five years and a budget gap of £225,084 in 2020/21. This is also in line with the reduction of the Grant to Nil that other Devon District Councils have implemented and given the number of years which have passed since Council Tax Benefit was abolished in 2014.

2.15 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.

2.16 Income Generation/Savings

The Council's Extended Leadership Team have been directed by the Financial Stability Review Group to present further budget options to Members for income generation/savings/reduced expenditure for 2020/21, taking into consideration the Council's corporate strategy and the latest budget position. These options will be presented at the Members' Budget Workshop on 12th November.

3 BUDGET PRESSURES, SAVINGS AND INCOME GENERATION

3.1 Financial modelling has been undertaken for the next five years to predict the Council's financial situation for the short and medium term.

3.2 **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. ***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	£566,000	£350,000	£310,000	£385,000	£310,000
Contributions to Earmarked Reserves	£120,000	£120,000	£120,000	£120,000	£120,000
Savings and additional income	(£316,200)	(£239,200)	(£391,200)	(£1,200)	(£1,200)

4. OVERALL POSITION – BUDGET GAP

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

4.2 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 £5 per annum (shown in Appendix B).

4.3 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	225,084	554,737	358,690	582,943	771,496	2,494,950

4.4 In the Modelling in Appendix B, the total budget gap is £225,084 in 2020/21 and this is predicted to increase to £554,737 in 2021/22 (the £554,737 assumes the budget gap in 20/21 of £225,084 has not been closed). The aggregated Budget Gap is £2.49 million.

5 FINANCIAL SUSTAINABILITY AND TIMESCALES

5.1 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. 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>An employers' pension meeting is being held on 14th November 2019.</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 for income generation/savings/reduced expenditure for 2020/21, taking into consideration the Council's corporate strategy and the latest budget position.</p>	<p>To be quantified</p>	<p>The Members' Budget Workshop has been arranged for Tuesday 12th November.</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 was a separate report on the July 2019 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.</p> <p>The Government are consulting on funding negative RSG for one year for 2020-21. This has been assumed in the modelling in Appendix B.</p>	<p>Negative RSG of £293,000 for 2021/22 onwards has been built into this budget report.</p>	<p>It is assumed that negative RSG of £293,000 will be deferred for one year until 2021/22.</p>

Option	Possible Budget Impact	Timescale
<p>New Homes Bonus allocations for 2020/21 onwards</p> <p>The Government has stated that 2020/21 represents the final year of NHB funding and from 2021 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.</p> <p>It is not known what NHB allocations (or a similar scheme) will be in future years when the NHB scheme is replaced. 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>

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

6 CAPITAL PROGRAMME AND PRUDENTIAL BORROWING

- 6.1 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.
- 6.2 **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.
- 6.3 Purchases made within the strategy are capital expenditure. A report on the updated Commercial Investment Strategy to include the renewable energy sector was a separate report on the July 2019 Hub Committee agenda. The Council is progressing work on the business case for the renewable energy sector. An income projection of £280,000 from the net ancillary income from investments in commercial property has been included within the budget model for 2020/21, as this is the level currently being achieved by the portfolio in 2019/20.
- 6.4 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.
- 6.5 **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.
- 6.6 Public Works Loans Board (PWLB) borrowing – On 9th October the Council received notification that overnight, the PWLB borrowing rate had increased by 1% across all of their loans which are available. This was without any prior notice and this dramatic increase overnight is unprecedented in years gone by. For example 50 year borrowing is now 3% interest rate (previously just under 2%). This only affects new loans taken out and this doesn't affect loans taken out for commercial property in 2018/19, which were fixed at the time for a fixed interest rate for the next 50 years.
- 6.7 The Council is assessing the impact on all of its business cases which involve external borrowing. It is thought that other market providers e.g. bank and pension funds will look to offer products that are at a more competitive rate than the current PWLB offering.
- 6.8 An overall Borrowing Limit (£50 million) has been approved as part of the Medium Term Financial Strategy for all of the Council's services.

7 Earmarked and Unearmarked Reserves Policy

- 7.1 The current Levels of Reserves: £1.286 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 was shown in Appendix D of the Medium Term Financial Strategy (reported to Council in September 2019).
- 7.2 Given the increase in financial risks which the Council faces, the Council has increased the minimum level of Unearmarked Reserves to be held to £900,000. The increased financial risks are in part from the Council's commercial investment strategy where prudential borrowing of up to a total borrowing limit of £50 million (for all Council services) has been approved.

8 NEXT STEPS

- 8.1 This report is a snapshot (a position statement) in November 19 and future Member decisions on the budget strategy will inform future figures within the 3rd December 2019 Budget report to the Hub Committee. A Members' Budget Workshop will be held on 12th November, where Members will consider budget options put forward by the Extended Leadership Team. Individual Council funding figures for 2020/21 are due to be released in mid December with the Local Government Finance Settlement.
- 8.2 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 5 sets out the potential timescales against the areas identified.

9. IMPLICATIONS

Implications	Relevant to proposals Y/N	Details and proposed measures to address
Legal/Governance	Y	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.

		The preparation of the Budget report is evidence that the Council has considered and taken into account all relevant information and proper advice when determining its financial arrangements in accordance with statutory requirements, and in particular, that it will set a lawful budget.
Financial Implications to include reference to value for money	Y	In the Modelling in Appendix B, the total budget gap is £225,084 in 2020/21 and this is predicted to increase to £554,737 in 2021/22 (the £554,737 assumes the budget gap in 20/21 of £225,084 has not been closed). The aggregated Budget Gap is £2.49 million. 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, provided an unqualified value for money opinion for the Borough Council for 2018-19, which was reported to the Council's Audit Committee in July 2019.
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 – Components of a MTFS

Appendix D – Schedule of Reserves (Unearmarked and Earmarked)

Appendix E – Sensitivity Analysis

Background Papers

Hub Committee – 16th July 2019 – Medium Term Financial Position for 2020/21 onwards

Council 17th September 2019 – Medium Term Financial Strategy

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