

Report to: **Executive**

Date: **2nd December 2021**

Title: **Revenue and Capital Budget Proposals for 2022/23 to 2024/25**

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

Wards Affected: **All**

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

Author: **Lisa Buckle** Role: **Corporate Director for Strategic Finance**

Contact: Email: lisa.buckle@swdevon.gov.uk

RECOMMENDATION: It is recommended that the Executive:

- i) Notes the forecast budget gap for 2022/23 of £28,500 (0.3% of the Net Budget of 21/22 of £9.7million) and the position for future years.
- ii) Notes the timescales for closing the budget gap in 22/23 and future years, to achieve long term financial sustainability.
- iii) Notes the current level of Unearmarked and Earmarked Reserves set out in Section C, aswell as the net contributions to Earmarked Reserves modelled for 2022/23 (set out in Appendix D)
- iv) Notes the forecast Capital Programme Proposals for 2022/23 of £1.61 million and the proposed financing of the Capital Programme as set out in Appendix E.
- v) Requests the views of the Executive on the draft Revenue Budget Proposals and the draft Capital Budget Proposals for 2022/23

- vi) Requests the views of the Joint Development Management Committee and Overview and Scrutiny Committee on the draft Revenue Budget Proposals and the draft Capital Budget Proposals for 2022/23, at the January 2022 Joint meeting.

It is recommended to Council:

- vii) That South Hams District Council continues to be part of the Devon Business Rates Pool for 2022/23, subject to there being no announcements within the Finance Settlement (expected to be announced in mid December), which in the opinion of the S151 Officer (in consultation with the Leader of the Council and the Portfolio Holder for Finance), would change this recommendation.

1. Executive summary

- 1.1 The Council's Medium Term Financial Strategy (MTFS) is based on a financial forecast over a rolling three year timeframe to 2024/25. The Council has chosen a three year timeframe for its MTFS, as this dovetails to the timescales of the Corporate Strategy, 'Better Lives for all'.
- 1.2 The Council, along with other local authorities, has faced unprecedented reductions in Government funding. Between 2009/10 and 2020/21, the Council's Core Government funding has reduced by £4 million. The Council now receives **no main Government Grant (Revenue Support Grant)** – this has been reduced to zero.
- 1.3 South Hams has continued to work in partnership with West Devon Borough Council which has allowed South Hams to achieve annual savings of £3.9 million and more importantly protect all statutory front line services. Between both Councils the annual shared services savings being achieved are over £6 million per annum. 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 It is important to note that the Medium Term Financial Strategy (MTFS) sets out the budget strategy for the Council for the next three years, with regular reviews (at least annually) and updates when items are further known or are announced by the Government. The MTFS was considered by the Executive on 16th September 2021.
- 1.5 This is the starting point for developing a meaningful three 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 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 ferry income, car parking income, planning income and council tax and business rates income.

1.7 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.

1.8 The key assumptions within this Budget Report are as below. Each of these is described in more detail in Section 3.

- A three year Spending Review for 2022/23 to 2024/25 was announced on 7th September and it is assumed that this in turn will mean there is a three year Local Government Finance Settlement announced in mid December.
- The business rates baseline reset will be deferred until 2023/24 (with no negative Revenue Support Grant in 2022/23)
- The Settlement Funding Assessment (SFA) will increase in line with inflation – this is essentially the business rates baseline and is the amount of money the Council retains from its share of the business rates income.
- There will be a phasing in of negative Revenue Support Grant (RSG) as part of the business rates baseline reset with a transition period over three years, to avoid Local Authorities losing/gaining too much in one go
- It is assumed Council Tax limits for District Councils will remain at the higher of £5 or 1.99% for 2022/23 onwards
- It is assumed there will be one more year of the New Homes Bonus payments (or a replacement scheme) and that the NHB payments envisaged will be used to finance the revenue base budget and the capital programme
- A business rates pooling gain of £300,000 has been modelled for 2022/23 with reduced gains for 2023/24 onwards.
- The Council Tax collection rate has been assumed to be 97%
- Rural Services Delivery Grant has been assumed to continue at the same level
- No permanent reductions to the Council's income streams (such as ferry income, car parking income, planning income etc. as a result of the Covid pandemic) have been built into the Base Budget for 2022/23. This will be regularly monitored over the next few months.
- A 2% pay increase has been modelled from 2022/23 onwards (2% equates to £185,000)

1.9 The following table illustrates the predicted budget gap from 2022/23 onwards for the Council **as shown in Appendix B:**

Budget	2022/23	2023/24	2024/25	Total
--------	---------	---------	---------	-------

Gaps	£	£	£	Aggregated Budget Gap £
'New' Budget Gap each year	28,500	321,425	374,424	724,349
*Cumulative Budget Gap	28,500	349,925	724,349	1,102,774

* (Cumulative Budget Gap assumes annual new budget gaps have not been addressed)

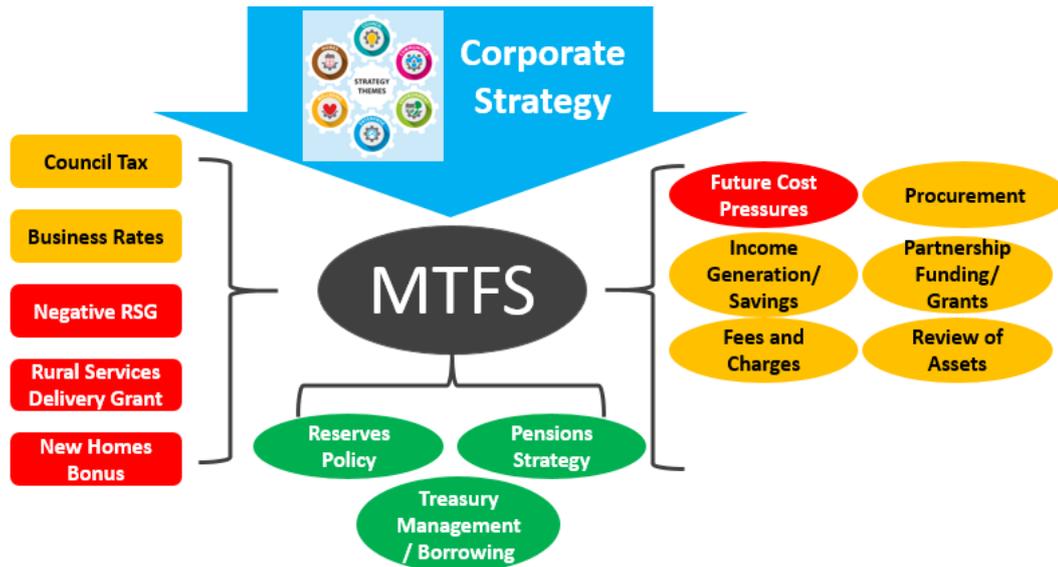
- 1.10 **The forecast budget gap for 2022/23 is £28,500. This is 0.3% of the Net Budget of 21/22 of £9.7million.** A cumulative budget gap of £349,925 is predicted for 2023/24 (the £349,925 assumes that the 22/23 budget gap of £28,500 has not been closed). The cumulative aggregated Budget Gap by 2024/25 is £1.1 million, if no action has been taken in each individual year to close the budget gap annually.
- 1.11 The Council awaits the details of the Local Government Finance Settlement announcement in early December, which will enable the Council to further firm up some of the assumptions within the Budget for 2022/23. Further options for Members' considerations of how to close the predicted budget gap of £28,500 will be presented as part of the January 2022 Budget report.
- 1.12 As part of the Medium Term Financial Strategy report in September 2021, the Council approved the principle of using funding in the Business Rates Retention Reserve, to smooth out the anticipated volatility in business rates income over the next three years, as set out in 3.21 of the report. The volatility is due to the anticipated business rates baseline reset anticipated in 2023/24 (this will mean the Council will have negative revenue support grant) and the predicted loss of business rates pooling gains at the same time, meaning there is a 'cliff edge' in business rates income.
- 1.13 The Medium Term Financial Strategy report (MTFS) in September 2021 identified a budget gap of £79,587 for 2022/23. The table below sets out the changes in this report from the previous report.

	£
<i>Budget gap for 22/23 reported in the MTFS Executive report in September 21</i>	79,587
'Better Lives for all' strategy – Council 23.9.21 £110,000 cost pressures for 22/23 and 23/24 See 3.31 for further information	110,000
National Insurance (social care levy of 1.25%) and National Living Wage (NLW) extra cost pressure	70,000
Increase the staffing budget for four planning specialists and two legal specialists (shared with WDBC), to be financed by extra planning income – Planning Improvement Plan (Exec 14.10.21)	164,000
Extra planning income – increase the planning income fee target	(164,000)
Extra financing of the Revenue Budget identified	
Collection Fund Surplus predicted for 22/23 of £181,000 (replaces a collection fund deficit which was previously forecast for 22/23 of £9,087) – see 3.12 for explanation	(190,087)
Lower Tier Services Grant assumed for 22/23	(41,000)
<i>Budget gap for 22/23 reported in this Executive report in December 21 (Draft Revenue Budget Proposals for 2022/23)</i>	28,500

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. 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.

2021/22 Net Budget £9.7 million



2.2 The key assumptions within the Draft Revenue Budget Proposals report for 2022/23 are set out in 1.8.

OVERALL POSITION – BUDGET GAP

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

2.4 **Appendix A** to the Medium Term Financial Strategy sets out the Budget Pressures forecast for the next three years and the additional savings and income forecast. **Appendix B** illustrates the overall financial forecast for the forthcoming three years. The Council's Net Budget is £9.7 million in 2021/22.

2.5 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).

2.6 The following table illustrates the predicted budget gap from 2022/23 onwards for the Council **as shown in Appendix B**:

Budget Gaps	2022/23 £	2023/24 £	2024/25 £	Total Aggregated Budget Gap £
'New' Budget Gap each year	28,500	321,425	374,424	724,349
*Cumulative Budget Gap	28,500	349,925	724,349	1,102,774

* (Cumulative Budget Gap assumes annual new budget gaps have not been addressed)

2.7 ***The forecast budget gap for 2022/23 is £28,500. This is 0.3% of the Net Budget of 21/22 of £9.7million.*** A cumulative budget gap of £349,925 is predicted for 2023/24 (the £349,925 assumes that the 22/23 budget gap of £28,500 has not been closed). The cumulative aggregated Budget Gap by 2024/25 is £1.1 million, if no action has been taken in each individual year to close the budget gap annually.

2.8 The Council awaits the details of the Local Government Finance Settlement announcement in early December, which will enable the Council to further firm up some of the assumptions within the Budget for 2022/23. Further options for Members' considerations of how to close the predicted budget gap of £28,500 will be presented as part of the January 2022 Budget report.

3 ASSUMPTIONS FOR FINANCIAL MODELLING PURPOSES

3.1 In the Medium Term Financial Strategy (MTFS), it has been assumed that the Settlement Funding Assessment (SFA) will increase in line with inflation.

3.2 The SFA is essentially the business rates baseline and is the amount of money the Council retains from its share of the business rates income. The breakdown of the increase in SFA for 2021/22 is shown below.

3.3 The 'Core Spending Power' is a headline figure used by the Government to represent the key revenue resources available to local authorities, including an estimate of actual and potential council tax, as below. The Council now receives no main Government grant (Revenue Support Grant).

3.4 ***Core Spending Power for South Hams increased by 2.5% for 2021/22.*** Core Spending Power is the term the Government use to say how much money Councils have to run their services. On looking at the detail below, it can be seen that the extra funding of 2.5% is

mainly coming from assumed Council Tax increases in 2021/22.

Table 1 - Core Spending Power (£m)

	2020/21	2021/22	Change £m	Change %
Core Spending Power	10.175	10.430	0.255	2.5%
<i>Breakdown of Core Spending Power:</i>				
Settlement Funding Assessment	1.928	1.928	0.000	0.0%
Assumed Council Tax	6.563	6.823	0.260	4.0%
Other Grants	1.685	1.679	-0.005	-0.3%
<i>Breakdown of Other Grants:</i>				
New Homes Bonus	1.199	1.068	-0.131	-10.9%
Improved Better Care Fund	0.000	0.000	0.000	
Social Care Grant	0.000	0.000	0.000	
Rural Services Delivery Grant	0.408	0.428	0.020	4.9%
SFA multiplier compensation ^a	0.077	0.100	0.023	30.0%
Lower Tier Services Grant	0.000	0.082	0.082	

(a) Compensation for under-indexing the business rates multiplier

Council Tax

- 3.5 The Council Tax Referendum limits for District Councils for 2021/22 was the higher of 1.99% or £5. An increase in council tax of £5 for the next three years has been modelled for council tax purposes. This would equate to a Band D council tax for South Hams of £180.42 in 2022/23 as shown in Appendix B (an increase of £5 for the year (10 pence per week) which equates to a 2.85% increase. The council tax for 2022/23, the SHDC share, will be set at the Council meeting on 10th February 2022. (A 1% increase in council tax generates £67,000 of extra council tax income).

Council agreed on 23 September 21 to 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.

In the Spending Review announced in October 2021, it was indicated that the council tax referendum limits for District Councils are likely to remain the same as previous years e.g. the higher of a £5 increase or 1.99%.

Council Tax legislation sets out that Council Tax is partly a form of general taxation on a property and partly a tax on the people living in a property. Council Tax funds essential services in an area and the cost of public services is spread across all tax payers in the same way, regardless of which services they use or receive. Council Tax is a form of general taxation rather than a service charge.

- 3.6 The table below shows how an average Band D council bill is made up for South Hams District Council for 2021/22, compared to 2020/21. Of an average Band D Council Tax within the District of £2,090.55, an amount of £175.42 is the element of a council tax bill set by South Hams

District Council. Therefore 8pence of every £1 paid (8%) in council tax is received by South Hams District Council to pay for our services. The rest of the council tax bill is set by Devon County Council, the Fire, the Police and Town and Parish Councils to fund the services they provide.

Precepting Authority	Band D 2020/21	Band D 2021/22	£ Increase	% Increase	Date Approved
South Hams District Council	£170.42	£175.42	£5.00	2.93%	11 Feb 2021
Devon County Council Precept	£1,313.73	£1,342.44	£28.71	4.99%	18 Feb 2021
Adult Social Care Precept *	£125.73	£168.84	£43.11		
Devon & Cornwall Police & Crime Commissioner	£221.64	£236.56	£14.92	6.73%	5 Feb 2021
Devon & Somerset Fire & Rescue	£88.24	£90.00	£1.76	1.99%	19 Feb 2021
Average Parishes/Towns (see below)	£71.06	£77.29	£6.23	8.77%	
TOTAL	£1,990.82	£2,090.55	£99.73	5.01%	

The largest Parish Precepts are Totnes (£189.13) and Dartmouth (£183.53), with the smallest Precept being Woodleigh (£4.92) for a Band D property. A full list of Town and Parish Precepts for 2021-22 is shown in Appendix F.

- 3.7 A council tax collection rate of 97% has been assumed for 2022/23. This may need to be revisited in future budget reports depending on the payment profiles being experienced in the latter months of the year.
- 3.8 The District Council is responsible for collecting all the Council Tax debt of approximately £78m as South Hams DC is the Billing Authority. After keeping 8% of the council tax collected to run the Council's services, the rest is paid over to Devon County Council, the Police, the Fire and Town and Parish Councils to pay for their services.
- 3.9 It has been assumed that the number of properties within the District will increase by 200 per annum from 2022/23 onwards. A low figure has been assumed to partly offset the impact of Council Tax Support on the Taxbase.
- 3.10 In 2021/22 the Government set no council tax referendum principles for Town and Parish Councils. It has not yet been announced by the

Government whether any referendum principles will apply to Town and Parish Councils in 2022/23 onwards.

Collection Fund Surplus for 2022/23

- 3.11 On an annual basis, the Council calculates the Collection Fund surplus or deficit on the Collection Fund. The Collection Fund is a Statutory Statement that forms part of the Annual Accounts each year and collates the position in terms of Income from Council Tax (actual amounts of council tax collected from council taxpayers) and the payments made to precepting authorities (DCC, Police, Fire, SHDC) and calculates an annual surplus or deficit after some adjustments for items such as write offs and bad debts. The annual surplus/deficit is distributed on an annual basis to precepting authorities.
- 3.12 Due to the pandemic in 2021/22 a small collection fund deficit was distributed to precepting authorities (SHDC share of the deficit was £30,397). Council Tax collection rates held up well in 2020/21 with 97.81% being collected in South Hams, which was 2.11% higher than the national average of 95.7%. A collection fund surplus of £1.5million has been calculated to be distributed for 2022/23 (with a SHDC share of the collection fund surplus of £181,000).

Business Rates and Negative Revenue Support Grant (RSG)

- 3.13 It has been assumed that the Business Rates Reset will be delayed until at least 2023/24. Whilst this change is not confirmed by the Government, a reset based on the current taxbase would appear very unlikely.
- 3.14 A three year settlement (with no negative Revenue Support Grant in 2022/23) is the most likely scenario now. This means the Council wouldn't have to forego some of its business rates income (£360,000) by paying some of it back to Government in the form of 'negative government grant' in 2022/23. Negative RSG is effectively the Council's further predicted funding cuts.
- 3.15 It is anticipated there will be a phasing in of negative RSG as part of the business rates baseline reset in 2023/24 or later, with a transition period over three years, to avoid Local Authorities losing/gaining too much in one go. The modelling assumes negative RSG of £360,000 in 2023/24 and £450,000 in 2024/25. Some of the negative RSG could be offset by growth.
- 3.16 Estimates have been made of the business rates baseline funding levels for 2022/23 onwards and the relative deductions for negative RSG. For example in 2022/23, the £2.36m is the amount the Council retains from

its business rates income collected of £29 million (the Council keeps about 8p in every £1 collected of business rates to fund its services).

3.17 Volatility of Business Rates income – Business Rates Retention Reserve

3.18 The Business Rates Retention (BRR) Earmarked Reserve was set up in 2013/2014 to cover any possible funding issues from the accounting arrangements of the localisation of business rates and to smooth the volatility from business rates income over a period of years.

3.19 In 2017/18 the Business Rates Retention Reserve had a balance of £4.5million and this has increased to £7.1million at 31.3.2021.

3.20 Approximately £2million of this Reserve is needed as a provision for future appeals, write offs and to meet fluctuations in business rates income. As part of the 2018/19 Budget Report to February Council, £3.5million was ringfenced for employment for the creation of local jobs.

3.21 Council on 23 September 2021 approved the use of funding from the Business Rates Retention Earmarked Reserve to smooth the volatility in business rates income over the next three years. The volatility is due to the business rates baseline reset anticipated in 2023/24 (this will mean the Council will have negative revenue support grant in 23/24) and the predicted reduction in business rates pooling gains at the same time in 23/24.

The table below shows that it is modelled to take £0.1m funding from this reserve in 22/23 and £0.5m in both 23/24 and 24/25. This would reduce the reserve by £1.1million over the next 3 years.

There is a risk that the Government may introduce a more aggressive business rates tariff in 22/23 to account for the fact that the baseline reset is highly likely to be delayed until at least 23/24. If this happened, it would be recommended that a higher amount of funding from the business rates retention reserve is used in 22/23, to offset the higher tariff rate and the ensuing lower business rates income. More will be known on this when details of the Local Government Finance Settlement are announced around mid December.

The table below shows how funding held in the Business Rates Retention Reserve will be retained for the purpose of smoothing out the

business rates volatility/negative revenue support grant. Council approved on 23 September 21 that this should not be used for unrelated purposes, other than commitments already made or as part of one-off funding for the Corporate Strategy, for at least for the next three years.

Business Rates Income	2022/23 (£m)	2023/24 (£m)	2024/25 (£m)
		<i>Potential Baseline Reset</i>	
Business Rates Income	2.36	2.37	2.38
Less: Negative Revenue Support Grant (RSG)		(0.36)	(0.45)
Anticipated Pooling Gain	0.300	0.250	0.200
Funding proposed to be taken from the Business Rates Retention Reserve to smooth the volatility in business rates income	0.100	0.500	0.500
Total Business Rates Income	2.76	2.76	2.63

- 3.22 The Council responded to the Government consultation on the Call for Evidence on Business Rates Reform. The 2020/21 collection rate for South Hams for business rates was 91.74%. The national average was 93%.

Devon Business Rates Pool

- 3.23 It is recommended that South Hams District Council continues to be part of the Devonwide Business Rates Pool for 2022/23. A business rates pooling gain of £300,000 has been modelled for 2022/23 with lower gains predicted for 23/24 and 24/25.

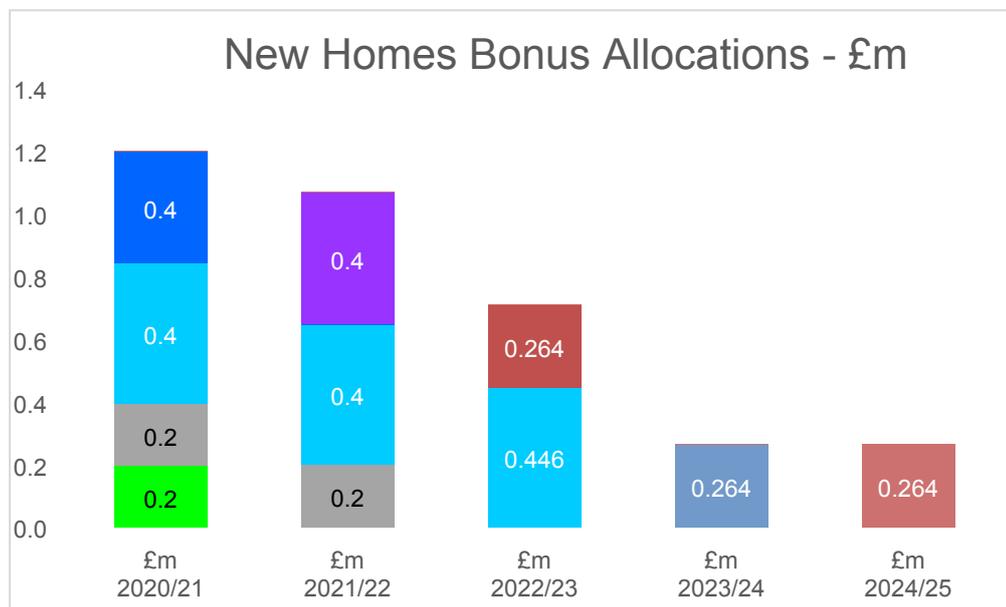
Rural Services Delivery Grant

- 3.24 Rural Services Delivery Grant has been modelled to continue for 2022/23 onwards at previous levels (£85m nationally – SHDC share of £428,206) and the methodology for distribution is assumed to remain unchanged from 2021/22. The Council will continue to lobby on the basis that the £85m should be increased. This is Government grant to recognise the additional cost of delivering services in rural areas.

New Homes Bonus (NHB)

3.25 The New Homes Bonus (NHB) scheme is being phased-out and the Government Spending Review announcement in October 2021 was silent on whether there will be an additional one-off NHB payment in 2022/23. It is thought that this is still a real possibility. In 2021/22 the NHB allocation for South Hams was £1,068,274.

3.26 The latest modelling predicts an allocation of around £0.7million for 2022/23 as shown below. The modelling in this Budget report assumes that funding of £0.5million from NHB in 2022/23 to 2024/25 will fund the revenue base budget and £0.1million will fund the capital programme in Appendix E (although the NHB scheme is due to be replaced, it is assumed that a successor scheme will be implemented that will also be based on housing growth).



Up until 2020/21, allocations earned in a year were paid for a four year period. From 2020/21 onwards, only a single year was paid plus some 'legacy payments' as shown in the diagram above. For example in 2021/22, an allocation of £0.4m was earned for 21/22, plus legacy payments for previous years. Amounts for 2022/23 onwards have been forecast based on Revenue Support Grant (RSG) share. The colours shown below correspond to the same colours shown in the table above.

New Homes Bonus	2020/21	2021/22	2022/23	2023/24	2024/25
	£m	£m	£m	£m	£m
2017/18 allocation	0.2				
2018/19 allocation	0.2	0.2			
2019/20 allocation	0.4	0.4	0.446		
2020/21 allocation	0.4				
2021/22 allocation		0.4			
2022/23 Forecast Based on 2020/21 Share			0.264		
2023/24 Forecast Based on 2020/21 Share				0.264	
2024/25 Forecast Based on 2020/21 Share					0.264
Total Allocation	1.2	1.068	0.710	0.264	0.264

Other assumptions within the Medium Term Financial Strategy (MTFS)

- 3.27 The last pay award offer for 2020/21 was 2.75%. A 2% pay increase has been modelled from 2021/22 onwards (2% equates to £185,000). 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.
- 3.28 The Consumer Prices Index (CPI) was 3.1% in September 2021. RPI was 4.9%. The budget report includes cost pressures for inflation and increases on goods and services.
- 3.29 The predicted interest rate forecast from our treasury management advisors, Link Services, is that interest rates (Bank Base rate) could increase from 0.1% to 0.25% in December 2021. It is then further predicted to increase to 0.5% in June 2022, 0.75% in March 2023, 1% in March 2024 and 1.25% by March 2025.

‘BETTER LIVES FOR ALL’

- 3.30 ‘Better Lives for all’, the Council’s strategic vision, sets out projects and schemes that the District Council think will enhance and protect the special place and unique economy that makes up South Hams. The Strategy sets out our longer term ambition. To support this ambition, the Council has developed delivery plans which set out the priorities for each of the next three years. This will enable the Council to ensure its resources are aligned to supporting Members’ priorities. The delivery plans have been developed by Lead Members in consultation with officers from across the Council.

- 3.31 The cost pressures identified in the 'Better Lives for all' report (Council 23 September 2021) are £110,000 for 2022/23 and 2023/24. This has been built into the cost pressures in Appendix A.

OTHER BUDGET ITEMS

- 3.32 On 24 September 2020, Council considered a report on strategic leisure options. It was agreed to continue with the Fusion contract as being the most appropriate means of supporting health and wellbeing objectives within the District. A report will be presented to the January meeting of the Executive on Leisure.
- 3.33 The Planning Improvement Plan (Executive 14.10.21) recommended increasing the staffing budget for four planning specialists and two legal specialists (shared with WDBC) by £164,000, to be financed by extra planning income. This has been built into the budget report.

4. Treasury Management and Borrowing Strategy

- 4.1 The Council has previously 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 £75 million in 2019 and it is not proposed to change this limit at present. The Council's actual long term borrowing is £14.38m at 31 March 2021.

5 FEES AND CHARGES

- 5.1 During the 2021/22 Budget setting process (Development Management Committee and Overview and Scrutiny Committee on 14th January 2021), Members approved the following:
'delegated authority be given to the relevant Head of Practice, in consultation with the relevant lead Executive Member, to adjust Fees and Charges within their service area by inflation at suitable periodic intervals, with reports being presented to the Executive as appropriate'. The Head of Finance will co-ordinate this work with the relevant Extended Leadership Team (ELT) leads and the relevant Executive Members.
- 5.2 No permanent reductions to the Council's income streams (such as ferry income, planning income, car parking income) as a result of the Covid pandemic, have been built into the Base Budget for 2022/23. The budgeted income targets for these income streams are still the same level as they were in 2019/20 (prior to the pandemic).
- 5.3 This will be regularly monitored over the next few months. The Revenue Budget Monitoring report shows that income from the ferry, car parking and planning is currently above the budgeted target in 2021/22.

6 FINANCIAL SUSTAINABILITY AND TIMESCALES

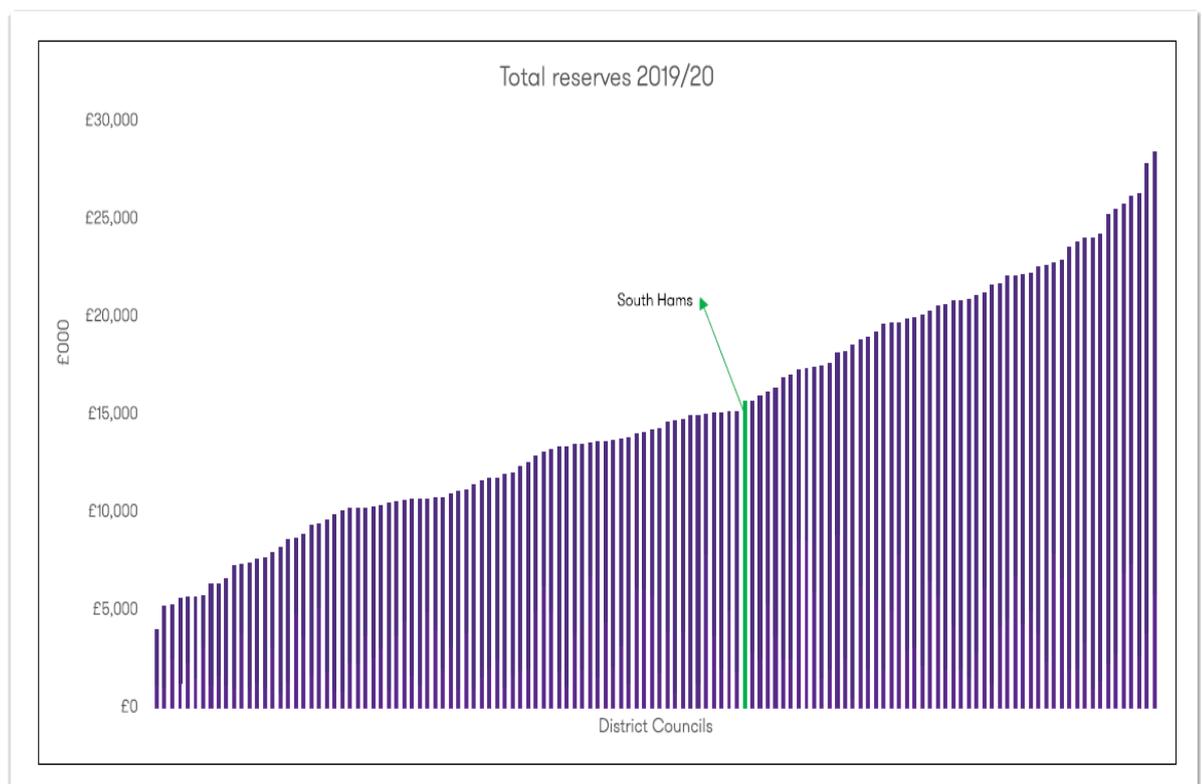
- 6.1 The Council will continue to assess various options for closing the budget gap for 2022/23 onwards, and in the longer term, to achieve long term financial sustainability and further options will be presented to Members.
- 6.2 Making the best use of our resources and setting a balanced budget annually is within the 'Delivering Quality Services' Delivery Plan of the Council's long term strategic vision, 'Better Lives for All'.
- 6.3 The Council's latest revenue budget monitoring report for Month 7 (end of October) shows a predicted surplus of £157,000 for the 2021/22 year. A separate report is on this Executive agenda.

7 CAPITAL PROGRAMME AND PRUDENTIAL BORROWING

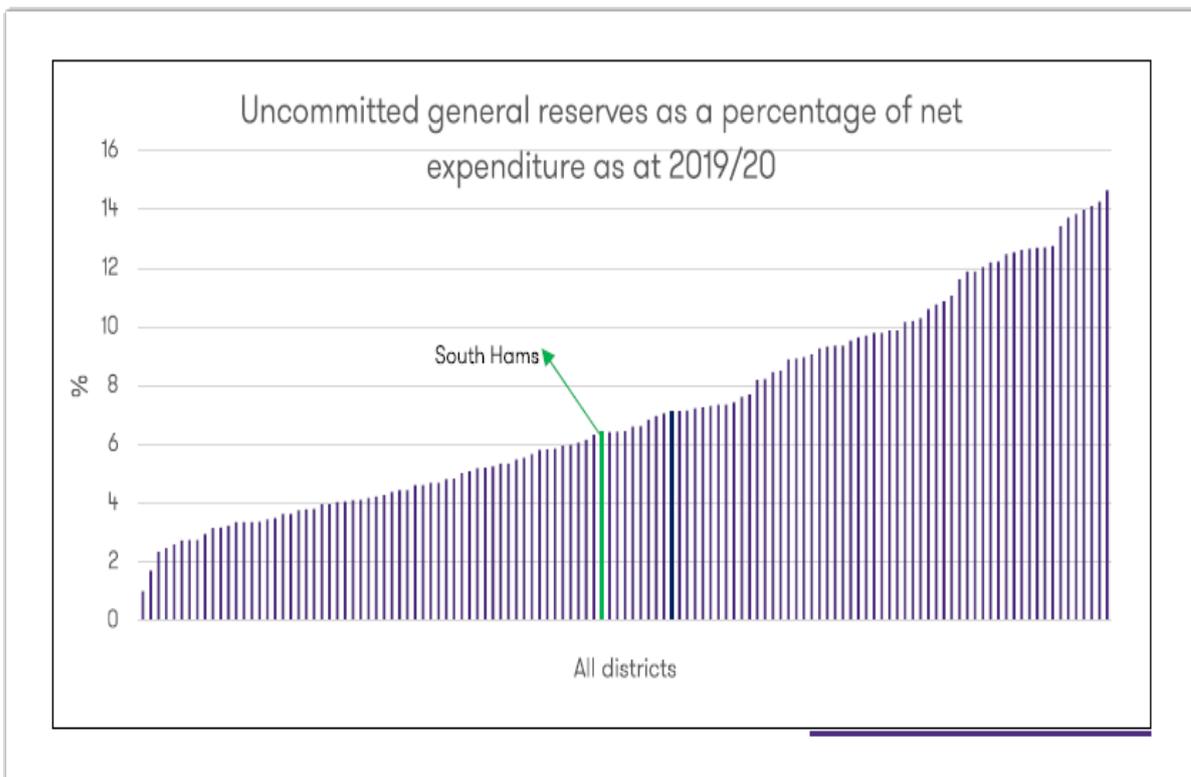
- 7.1 The Capital Programme is set by the Council and may be funded by sale proceeds from the disposal of assets (capital receipts), external grants and contributions, directly from revenue or from borrowing. The Head of Finance invited capital bids from the Extended Leadership Team. The Capital Budget Proposals for 2022/23 are attached in Appendix E.
- 7.2 Capital projects have been assessed against the following criteria:
- Health and Safety compliance
 - Essential to keep operational assets open
 - Fit with the Council's Delivery Plans for 'Better Lives for All'
 - To rationalise service delivery or service improvement
 - To generate income, capital value or to reduce revenue costs
- 7.3 The Draft Capital Budget Proposals for 2022/23 total £1.61 million. The projects are set out in Appendix E alongside the suggested financing proposals of the Capital Programme.
- 7.4 **Investment Property Strategy** – The Council has agreed an Investment Property strategy. To date, Investment Properties have a value of £18.56 million in aggregate as at 31.3.2021.
- 7.5 Purchases made within the strategy are capital expenditure. An income projection of £75,000 from the net ancillary income from investments in Investment property has been included within the 2022/23 Base Budget.
- 7.6 The Council's Asset Base is £102 million at 31 March 2021. The Council will continually review and challenge its asset base in order to deliver the optimum value for money from the Council's Assets.

8 Earmarked and Unearmarked Reserves Policy

- 8.1 Unearmarked Reserves have increased by £112,000 in 2020/21 and total £2.122 million at 31 March 2021.
- 8.2 Earmarked Reserves have increased by £7.496 million in 2020/21 and total £21.494 million at 31 March 2021. This is mainly due to the new Earmarked Reserve set up in 2020/21 to hold the S31 Business Rates compensation grants (£6.28m) which will be released to the Collection Fund to smooth the impact of the Business Rates deficit over the next 3 years. Therefore this is not money which is available for the Council to spend. A schedule of Earmarked Reserves is attached at Appendix C.
- 8.3 Reserve levels will be kept under constant review and will be reviewed throughout the budget setting process to consider commitments against Earmarked Reserves (set out in Appendix C), their unallocated balance and the contributions to/from Earmarked Reserves for 2022/23 (set out in Appendix D) and future years also (the Reserves of Salcombe Harbour are subject to decisions by the Salcombe Harbour Board).
- 8.4 At the Audit Committee meeting on 28th October 2021, Grant Thornton presented their Annual Audit report for 2020/21. As part of their annual audit, Grant Thornton have benchmarked the Council's total reserves against all other District Councils, based on the 2019/20 Outturn data. The chart below demonstrates that the Council has a reasonable amount of usable reserves to support financial pressures.



- 8.5 At Council on 11 February 2021, Members have set a minimum balance for Unearmarked Reserves of £1.5 million, based on a risk assessment basis and a sensitivity analysis. Therefore the current level of £2.1m is still above the minimum level set of £1.5m. Grant Thornton also benchmarked the level of the Council’s Unearmarked Reserves against all other District Councils. South Hams is in line with the midpoint as shown below.



- 8.6 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 (this was recommended at £1.5million being the minimum level in February 2021). 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.

9 NEXT STEPS AND PROPOSED WAY FORWARD

- 9.1 The Medium Term Financial Strategy (Executive 16th September 2021) is the starting point for developing a meaningful three year strategy that sets out the strategic intention for different strands of funding available to the Council.

- 9.2 Officers will continue to work with the Executive and the results of this will be incorporated into future Budget reports. An all Member Budget Workshop took place on Thursday 18th November. Members requested a Glossary of terms used in Local Government Finance and this is attached in Appendix G.
- 9.3 The Council awaits the details of the Government's Spending Review announcement which will enable the Council to further firm up some of the assumptions within the Revenue Budget Proposals for 2022/23. A further update will be presented to the Executive in January 2022. Further options for Members' considerations of how to close the predicted budget gap of £28,500 will be presented as part of this report.
- 9.4 The table below shows the budget timetable for the budget meetings for the 2022/23 Budget.

2nd December 2021	Executive – To consider draft proposals for the Revenue and Capital Budget for 2022/23.
13 January 2022	Joint Development Management Committee and Overview & Scrutiny Panel - To consider draft proposals for the Revenue and Capital Budget for 2022/23.
27 January 2022	Executive – To recommend Final Budget Proposals to Council for 2022/23
7th February 2022 (9am)	Date which Council Procedure Rule 16 applies
10th February 2022	Full Council – To approve Final Budget Proposals for 2022/23 and set the SHDC share of the Council Tax
22 February 2022	Council Tax Resolution Panel – to agree the Council Tax Resolution for 2022/23 (This is SHDC share plus all other precepting authorities share).

Note 1- Council Procedure Rule 16 states that ‘Where a member intends to move a motion or amendment in relation to the Budget, the text of that motion or amendment must be put in writing and submitted to the Head of Paid Service by 9am on the third working day before the meeting, in order that officers may have sufficient time to consider and advise the Council of the financial implications of any such motion or amendment’. As per the timetable above, this would need to be submitted by 9am on Monday 7th February 2022.

10. Implications

Implications	Relevant to proposals Y/N	Details and proposed measures to address
Legal/Governance		<p>The Executive is responsible for recommending to Council the budgetary framework. It is the role of the Overview and Scrutiny Panel 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>The preparation of the Budget report is evidence of whether the Council has considered and taken into account all relevant information and proper advice when determining its financial arrangements in accordance with statutory requirements, and in particular, that it will set a lawful budget.</p>
Financial implications to include reference to value for money		<p><i>The forecast budget gap for 2022/23 is £28,500. This is 0.3% of the Net Budget of 21/22 of £9.7million.</i> A cumulative budget gap of £349,925 is predicted for 2023/24 (the £349,925 assumes that the 22/23 budget gap of £28,500 has not been closed). The cumulative aggregated Budget Gap by 2024/25 is £1.1 million, if no action has been taken in each individual year to close the budget gap annually.</p>

		<p>The Council awaits the details of the Local Government Finance Settlement announcement in mid December, which will enable the Council to further firm up some of the assumptions within the Budget for 2022/23. Further options for Members' considerations of how to close the predicted budget gap of £28,500 will be presented as part of the January 2022 Budget report.</p> <p>As part of Grant Thornton's external audit of the Statement of Accounts for 2020/2021, they have concluded that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.</p>
Risk		Each of the budget options taken forward by Members will consider the risks of the option.
Supporting Corporate Strategy		The cost pressures identified in the 'Better Lives for all' report (Council 23 September 2021) are £110,000 for 2022/23 and 2023/24. This has been built into the cost pressures in Appendix A.
Climate Change - Carbon / Biodiversity Impact		<p>The Council declared a Climate Change and Biodiversity Emergency on 25 July 2019 and the potential for this to have significant financial implications for the Council was highlighted.</p> <p>A Climate Change Action Plan was presented to Council in December 2019. Following this report, a strategy will be implemented as to how the Council could finance the items within the Action Plan, whether that is from external grant sources or some funding from the Council's own resources.</p> <p>The Council has Earmarked £400,000 in a Climate Change Earmarked Reserve as part of the 2020/21 Budget, with a further £200,000 being agreed as part of the 2021/22 Budget Process.</p>
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 - Schedule of Earmarked Reserves

Appendix D – Contributions to/from Earmarked Reserves

Appendix E – Capital Programme Proposals for 2022/23

Appendix F – Town and Parish Precepts for 2021/22

Appendix G – Glossary of Terms in Local Government Finance

Background Papers:

Members' Budget Workshop presentation slides – dated Thursday 18th November