

Report to: **Hub Committee**

Date: **13 December 2022**

Title: **Draft Revenue and Capital Budget Proposals for 2023/24**

Portfolio Area: **Cllr N Jory – Budget Setting Process**

Wards Affected: **All**

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

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**RECOMMENDATION:**

**It is RECOMMENDED that the Hub Committee:**

- i) Notes the forecast budget gap for 2023/24 of £137,296 (1.6% of the Projected Net Budget of 23/24 of £8.69million) and the position for future years.**
- ii) Notes the timescales for closing the budget gap in 23/24 and future years, to achieve long term financial sustainability.**
- iii) Notes the current level of Unearmarked and Earmarked Reserves set out in Appendix C, aswell as the net contributions to Earmarked Reserves modelled for 2023/24 (set out in Appendix A)**
- iv) Notes the outline initial proposals for the Capital Programme for 2023/24 of £905,000 as set out in Appendix D (with Full Business Cases to be presented to Members as part of the January 2023 budget cycle of meetings).**

- v) **Requests the views of the Hub Committee on the draft Revenue Budget Proposals and the outline capital bids for 2023/24**
- vi) **Requests the views of the Overview and Scrutiny Committee on the draft Revenue Budget Proposals and the draft Capital Budget Proposals for 2023/24, at the 17 January 2023 meeting.**

**It is RECOMMENDED to Council:**

- vii) **That West Devon Borough Council continues to be part of the Devon Business Rates Pool for 2023/24, 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 Hub Committee Member for Resources), 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 2025/26. The Council adopted a three year timeframe for its MTFS in 2021, as this dovetailed to the timescales of the Corporate Strategy, 'A Plan for West Devon'. This timeframe has been emulated with the 2022 MTFS as it gives a good balance between long term financial planning and having realistic assumptions to be able to work with. This is in light of the current volatility within local government financial planning, due to the lack of certainty from continued one-year financial settlements. The previous one year financial settlements announced by the Government have aimed to address short-term pressures rather than focus on long term sustainability.
- 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 £3 million. The Council now receives **no main Government Grant (Revenue Support Grant)** – this has been reduced to zero.
- 1.3 The Council has continued to work in partnership with South Hams District Council which has allowed West Devon 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 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.
- 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 Prudent financial management in the past, has meant that the Council was in a relatively healthy position financially before the pandemic hit. When Councillors set the Budget for 2020/21 in February 2020, no-one could have foreseen how our future finances and everyday lives were about to be impacted. The pandemic has also changed the world we operate in. Across the Council, staff have been called upon to continue the efforts to help local communities against the impact of the pandemic.
- 1.7 The management of risk and promoting financial resilience is a key principle of our budget strategy and this has helped facilitate our response. Key to the authority's financial resilience are our reserves, which are at a prudent level.
- 1.8 The recent challenges presented by the war in Ukraine with its broader implications along with the current 'cost of living crisis' will have an impact on the Council's finances as well as the finances of the residents of the Borough. The Council's approach to delivering services remains steadfast.
- 1.9 The latest inflation figures show prices are rising at their fastest rate for 40 years with the headline CPI (Consumer Price Index) rate at 10.1% (September 2022). These increases have also impacted the MTFS and increased the cost pressures. At present, there is no indication from Government of any additional funding. The financial standing of the Council is secure in the immediate future, but there is still much work to do to ensure the long term financial sustainability of the Council.
- 1.10 It had been expected that a technical consultation paper on the local government finance settlement for 23/24 would happen before Parliament's summer recess. However the political turmoil has meant that this hasn't happened.
- 1.11 In his speech to the Local Government Association (LGA) conference on 28 June 2022, the Secretary of State, Michael Gove MP, promised to give local authorities greater "financial certainty". It was confirmed that a 2-year financial settlement will be introduced. The proposal for a 2-year settlement suggests that there will be rollover settlements in both 2023/24 and 2024/25, meaning financial settlements that are broadly similar to 2022/23.

1.12 The Fair Funding Review, business rates baseline reset, and other funding reforms now look set to be pushed back to 2025/26 although this has not been confirmed by the Government so the MTFs assumes that these changes could happen in 2024/25 at the earliest.

1.13 The key assumptions within the Medium Term Financial Strategy are as below. Each of these is described in more detail in Section 4.

- The business rates baseline reset will be deferred until 2024/25 at the earliest (with no negative Revenue Support Grant in 2023/24)
- There will be a phasing in of negative Revenue Support Grant as part of the business rates baseline reset (predicted to be in 2024/25 at the earliest) with a transition period over three years, to avoid Local Authorities losing/gaining too much in one go. The modelling assumes negative RSG of £227,500 in 2024/25 and 2025/26. Some of the negative RSG could be offset by growth.
- A Council Tax limit at the higher of £5 or 1.99% has been modelled for 2023/24 and future years in Appendix B.
- The awaited local government finance settlement could indicate whether Ministers are minded to allow a further year or two years of one-off allocations of New Homes Bonus (NHB), or the Government may implement some other changes. It is assumed that the roll over settlement for 2023-24 will give an amount of at least £150,000 of NHB funding (or a similar replacement housing incentive scheme) that could be used to fund the 23/24 revenue base budget.
- A business rates pooling gain of £200,000 has been modelled for 2023/24 with no further gains for 2024/25 onwards.
- A council tax surplus of £377,000 for 23/24 has been assumed, with a council tax collection rate of 98.25% for 23/24 (97.8% was achieved in 2021/22)
- Rural Services Delivery Grant has been assumed to continue at the same level for 23/24 with uplifts for 24/25 and 25/26
- A 3% pay increase has been modelled from 2023/24 onwards (3% equates to £150,000) – see 3.30

1.14 The following table illustrates the predicted budget gap from 2023/24 onwards for the Council **as shown in Appendix B**:

<b>Budget Gaps</b>	<b>2023/24 £</b>	<b>2024/25 £</b>	<b>2025/26 £</b>	<b>Total Aggregated Budget Gap £</b>
'New' Budget Gap each year	137,296	239,571	455,816	832,683
*Cumulative Budget Gap	137,296	376,867	832,683	1,346,846

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

addressed)

- 1.15 **The forecast budget gap for 2023/24 is £137,296. This is 1.6% of the Projected Net Budget for 23/24 of £8.69million.** A cumulative budget gap of £376,867 is predicted for 2024/25 (the £376,867 assumes that the 23/24 budget gap of £137,296 has not been closed). The cumulative aggregated Budget Gap by 2025/26 is £1.35 million, if no action has been taken in each individual year to close the budget gap annually.
- 1.16 There is no indication yet of the detailed local government funding levels for 2023/24 and beyond. Therefore there are many uncertainties in preparing for the challenges we know we will face in the near future.
- 1.17 There is little Government appetite for full reform of Local Government finances in the short term.
- 1.18 The Medium Term Financial Strategy report (MTFS) in September 2022 identified a budget gap of £269,296 for 2023/24. The table below sets out the changes in this report from the previous report.

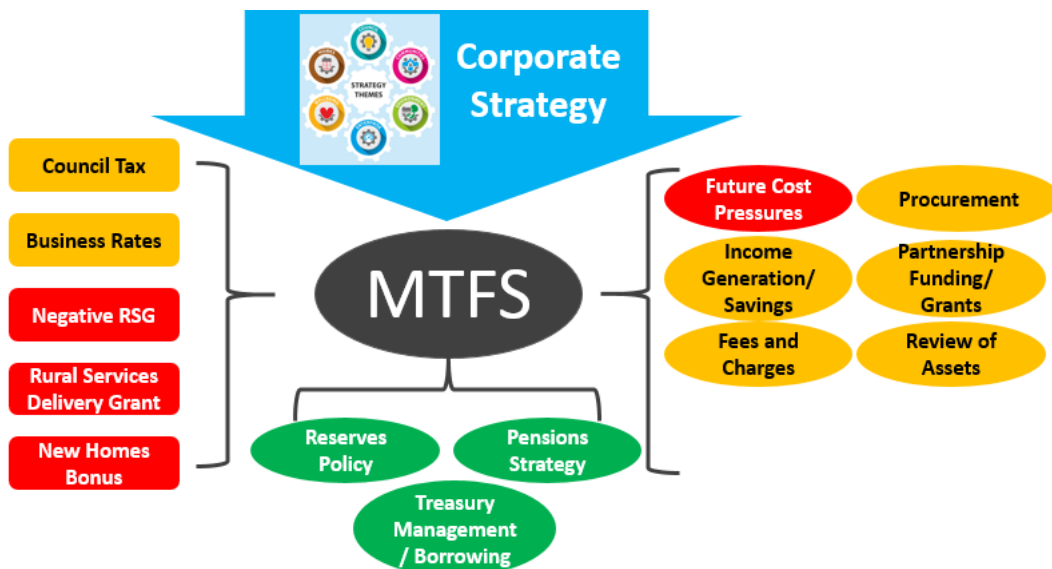
	£
<b><i>Budget gap for 23/24 reported in the MTFS Hub Committee report in September 22</i></b>	<b>269,296</b>
Cost pressure for the reduction in car parking income	150,000
Cost pressure for additional audit fees for external audit	60,000
Reduce assumptions for business rates income from £1.95m in 23/24 to £1.85m in 23/24	100,000
<b>Extra income/ financing of the Revenue Budget identified</b>	
Extra treasury management income – this has been increased from £175,000 to £375,000	(200,000)
Income target for housing benefit overpayments (£82,000 achieved in 2021/22)	(40,000)
Collection Fund Surplus predicted for 23/24 of £377,000 (replaces a collection fund surplus previously forecast of £175,000)	(202,000)
<b><i>Budget gap for 23/24 reported in this Hub Committee report in December 22 (Draft Revenue Budget Proposals for 2023/24)</i></b>	<b>137,296</b>

- 1.19 The Chancellor's Autumn Statement was announced on 17<sup>th</sup> November. A briefing note on the announcements within the Autumn Statement was emailed to all Members on the day. A Policy Statement is due to be published by the Government in early December which will give an indication of which grants (such as New Homes Bonus) will continue into 2023/24. The Local Government Finance Settlement will also be issued in December. The implications of these announcements will be presented to Members as part of the January budget cycle of meetings.

## 2 COMPONENTS OF THE MEDIUM TERM FINANCIAL STRATEGY

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.

### 2022/23 Net Budget £7.77 million



2.2 The key assumptions within the MTFs are set out in Section 3.

### OVERALL POSITION – BUDGET GAP

2.3 Financial modelling has been undertaken for the next five 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 five years and the additional savings and income forecast. **Appendix B** illustrates the overall financial forecast for the forthcoming five years. The Council's Net Budget is £7.77 million in 2022/23.

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 2023/24 onwards for the Council **as shown in Appendix B:**

<b>Budget Gaps</b>	<b>2023/24 £</b>	<b>2024/25 £</b>	<b>2025/26 £</b>	<b>Total Aggregated Budget Gap £</b>
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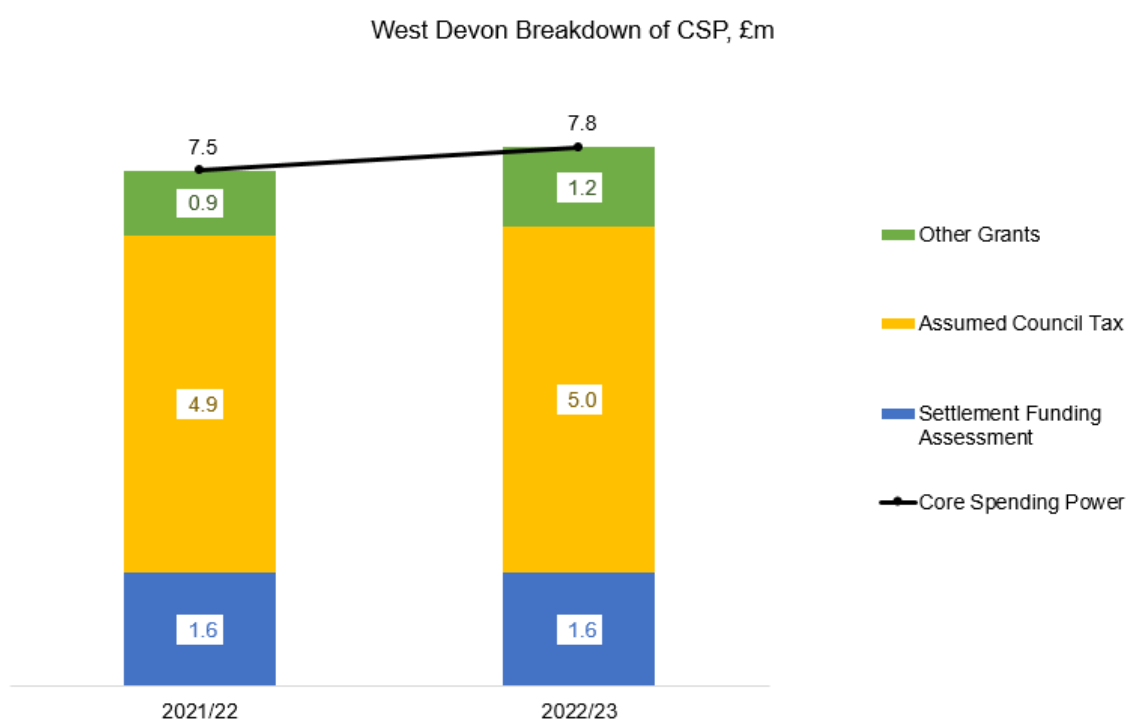
\* (Cumulative Budget Gap assumes annual new budget gaps have not been addressed)

- 2.7 ***The forecast budget gap for 2023/24 is £137,296. This is 1.6% of the Projected Net Budget for 23/24 of £8.69million.*** A cumulative budget gap of £376,867 is predicted for 2024/25 (the £376,867 assumes that the 23/24 budget gap of £137,296 has not been closed). The cumulative aggregated Budget Gap by 2025/26 is £1.35 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. Further options for Members' considerations of how to close the predicted budget gap of £137,296 for 2023/24 will be presented as part of further budget reports in January 2023.

### **3 ASSUMPTIONS FOR FINANCIAL MODELLING PURPOSES**

- 3.1 The Settlement Funding Assessment (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 2022/23 is shown below.
- 3.2 The 'Core Spending Power' is a headline figure used by MHCLG 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).
- 3.3 ***Core Spending Power for West Devon (which is a measure of how much extra funding a Council has received for next year) increased by 4.6% for 2022/23.*** 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 4.6% is mainly coming from assumed Council Tax increases in 2022/23.

- 3.4 The calculation of Core Spending Power already assumes that a Council will increase its council tax up to the maximum allowed under the referendum limits for 2022/23 – so for WDBC a £5 council tax increase (less than 10pence per week) for 2022/23 was included within this 4.6% increase in funding. New Homes Bonus is also included in the measure of Core Spending Power in ‘Other Grants’.
- 3.5 Core Spending Power increased from £7.5m in 2021/22 to £7.8m in 2022/23 as shown below. Nationally, Core Spending Power increased by 4.4% (factoring in council tax increases).



### Council Tax

- 3.6 The Council Tax Referendum limits for District Councils for 2022/23 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 the Borough Council of £251.63 in 2023/24 as shown in Appendix B (an increase of £5 for the year (10 pence per week) which equates to a 2.03% increase. The Council's share of the council tax for 2023/24, will be set at the Council meeting on 21st February 2023. (A 1% increase in council tax generates £51,000 of extra council tax income).



3.7 The table below shows how an average Band D council bill is made up for West Devon Borough Council for 2022/23, compared to 2021/22. Of an average Band D Council Tax within the Borough of £2,230.64, an amount of £246.63 is the element of a council tax bill set by West Devon Borough Council. Therefore 11pence of every £1 paid (11%) in council tax is received by West Devon Borough 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.

In 2022/23, the council tax for an average Band D property in West Devon increased by £64.06 per annum, an annual increase of 2.96% as shown below.

<b>Precepting Authority</b>	<b>Band D 2021/22</b>	<b>Band D 2022/23</b>	<b>£ Increase</b>	<b>% Increase</b>
West Devon Borough Council	£241.63	£246.63	£5.00	2.07%
Devon County Council Precept	£1,342.44	£1,372.59	£30.15	2.99%
Adult Social Care Precept *	£168.84	£183.87	£15.03	
Devon & Cornwall Police & Crime Commissioner	£236.56	£246.56	£10.00	4.23%
Devon & Somerset Fire & Rescue	£90.00	£91.79	£1.79	1.99%
Average Parishes/Towns	£87.11	£89.20	£2.09	2.40%
<b>TOTAL</b>	<b>£2,166.58</b>	<b>£2,230.64</b>	<b>£64.06</b>	2.96%

3.8 The Borough Council is responsible for collecting all the Council Tax debt of approximately £46m as West Devon BC is the Billing Authority. After keeping 11% 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. The collection rate for Council Tax for West Devon was 97.8% for 2021/22. This was 1.9% higher than the national average of 95.9%.

3.9 A council tax collection rate of 97% has been assumed for 2022/23 in the TaxBase calculation.

- 3.10 It has been assumed that the number of properties within the Borough will increase by 150 per annum from 2023/24 onwards.
- 3.11 In 2022/23 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 2023/24 onwards.

### **Business Rates and Negative Revenue Support Grant (RSG)**

- 3.12 It has been assumed that the Business Rates Reset will be delayed to 2024/25 at the earliest.
- 3.13 Whilst this change is not confirmed by the Government, a reset based on the current taxbase would appear very unlikely.
- 3.14 The proposal for a one or two year settlement suggests that there will be rollover settlements in both 2023/24 and 2024/25, meaning financial settlements that are broadly similar to 2022/23 in cash terms.
- 3.15 The Fair Funding Review, business rates baseline reset, and other funding reforms now look set to be pushed back to 2025/26 although this has not been confirmed by the Government so the MTFS assumes that these changes could happen in 2024/25 at the earliest.
- 3.16 Pushing these major changes back to 2025/26 means that they can be aligned with the next spending review period (the current spending review runs to 2024/25). 2025/26 now looks like it is shaping up to be a very significant financial year for local government, incorporating a new spending review, the 2021 Census and funding reforms.
- 3.17 A one or two year settlement (with no negative Revenue Support Grant, RSG, in 2023/24) is the most likely scenario now. This means the Council wouldn't have to forego some of its business rates income (£227,500) by paying some of it back to Government in the form of 'negative government grant' in 2023/24. Negative RSG is effectively the Council's further predicted funding cuts.
- 3.18 It is anticipated there will be a phasing in of negative RSG as part of the business rates baseline reset (predicted to be in 2024/25 at the earliest), with a transition period over three years, to avoid Local Authorities losing/gaining too much in one go. The modelling assumes negative RSG of £227,500 in 2024/25 and 2025/26. Some of the negative RSG could be offset by growth.
- 3.19 Estimates have been made of the business rates baseline funding levels for 2023/24 onwards and the relative deductions for negative RSG. For example in 2023/24, the £1.85m is the amount the Council is projected to retain from its business rates income collected of around £12.2 million (this equates to around 15p in every £1 collected of business rates).

- 3.20 The 2021/22 collection rate for West Devon for business rates was 93.67%. This was slightly below the national average of 95.5% for 2021/22.
- 3.21 It is modelled to take £150,000 funding from the business rates retention reserve in all three years 23/24 to 25/26. This would reduce the business rates retention reserve by £450,000 over the next 3 years to smooth the impact of the business rates baseline reset and the future loss of pooling gains.

<b>Business Rates Income</b>	<b>2023/24 (£m)</b>	<b>2024/25 (£m)</b>	<b>2025/26 (£m)</b>
		<b>Possible Baseline Reset</b>	
Business Rates Income	1.85	2.00	2.00
Less: Negative Revenue Support Grant (RSG)		(0.228)	(0.228)
Anticipated Pooling Gain	0.200	-	-
Funding proposed to be taken from the Business Rates Retention Reserve to smooth the volatility in business rates income	0.150	0.150	0.150
<b>Total Business Rates Income</b>	<b>2.20</b>	<b>1.922</b>	<b>1.922</b>

- 3.22 **Business Rates Revaluation** – There will be a business rates revaluation from 1 April 2023, based on the rental market at 1 April 2021. The purpose of a business rates revaluation is to update rateable values and therefore, business rates bills, to reflect changes. Transitional arrangements will be in place to support businesses to adjust to their new bills.

#### **Devon Business Rates Pool**

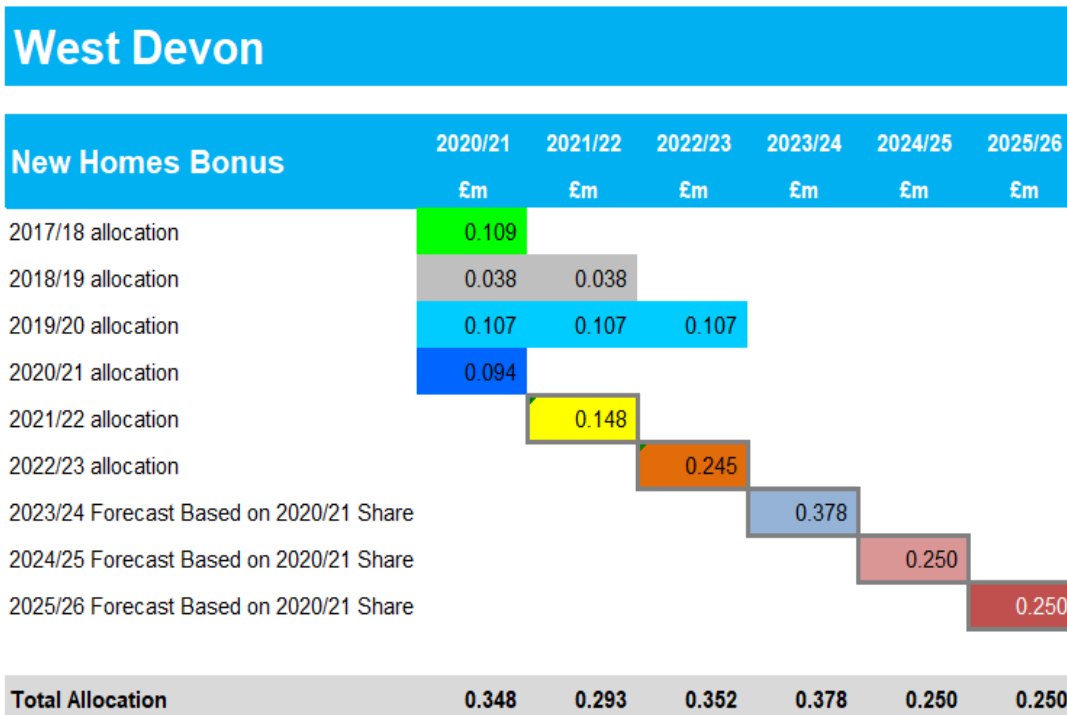
- 3.23 West Devon Borough Council will continue to be part of a Devonwide Business Rates Pool for 2022/23 and it is recommended to continue to pool for 2023/24 (until the baseline reset happens in 2024/25 at the earliest). A business rates pooling gain of £200,000 has been modelled for 2023/24 with no further gains for 2024/25 onwards when the baseline reset is scheduled to happen.

#### **Rural Services Delivery Grant**

- 3.24 Rural Services Delivery Grant has been modelled to continue for 2023/24 onwards at previous levels (£85m nationally – WDBC share of £487,296) and the methodology for distribution is assumed to remain unchanged from 2022/23. 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 timing of the cessation of the current NHB scheme is not clear, but if it does continue, it will be smaller in value with no historic legacy payments. The final legacy payment was made in 2022-23 and in theory there is £750m of NHB funding to be re-distributed to local authorities from 2023-24.
- 3.26 In 2022/23 the NHB allocation for the Council was £352,084. It is assumed that the roll over settlement for 2023-24 will give an amount of at least £150,000 of NHB funding (or a similar replacement housing incentive scheme) that could be used to fund the 23/24 revenue base budget. **It is estimated that the 23/24 NHB payment could be £378,000.** Of this amount, it has been modelled that £150,000 of NHB will be available to fund the revenue base budget for 2023/24. Some of the rest could be available to fund capital bids (£155,000), or to decrease the budget gap or to put into Earmarked Reserves.
- 3.27 There is a net property increase of 342 properties. When the baseline (0.4%) is deducted of 101 properties (0.4% of 25,329 overall Band D equivalent properties), this means that NHB could be payable at 80% of £1,965 (national average Band D council Tax) x 241 additional Band D properties over the baseline. So for the first 101 extra properties, WDBC receives no NHB. ( $241 \times £1965.71 \times 80\% = £378,000$ )



## **Other assumptions within the Medium Term Financial Strategy (MTFS)**

- 3.28 The last pay award offer for 2022/23 has recently been agreed. The pay award is an increase of £1,925 on all NJC pay points 1 and above with effect from 1 April 2022 and an extra day of annual leave entitlement with effect from 1 April 2023. All employees on a NJC pay spine receive a minimum 4.04% pay increase, with a minimum of £10.50 hourly rate of pay. (The estimate of the National Living Wage, set at two-thirds of medium earnings for those aged 21 and over in 2024 is £10.95). For example for Level 8, this would equate to a pay increase of around 9%.
- 3.29 The amount agreed for 2022/23 (as set out above) is higher than the amount that was previously provided for of a 2% provision.
- 3.30 The budget report includes a total provision for the 2022/23 pay award of £360,000 in 23/24. This is an extra £210,000 for the 22/23 pay award (this is the amount on top of the 2% provided for in the 22/23 budget), plus a provision of a 3% (equating to £150,000) pay award for 23/24 and thereafter.
- 3.31 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.
- 3.32 The Consumer Price Index (CPI) has reached 10.1% (September 2022 CPI), which is a 40 year high. Half of this increase can be attributed directly to gas/electricity price inflation.
- 3.33 An extra £150,000 cost pressure for inflation on goods and services has been included within the cost pressures in Appendix A. This is around a 150% increase in some areas of utilities.
- 3.34 Interest rates are increasing and the Bank Base rate is currently 3.0%. It is predicted that the Council's treasury management income will increase to £400,000 in 2023/24 and an extra £375,000 has been built into the MTFS for 2023/24 (the existing base budget is £25,000).

## A Plan for West Devon – The Council's 20 year vision

- 3.35 'A Plan for West Devon' sets out the Council's 20 year vision for West Devon and its communities and how we will work towards it over the next three years. It forms the strategy for both the Council as an organisation and West Devon as a Place. The six areas of focus are supported by detailed annual delivery plans.

<https://westdevon.gov.uk/plan-for-west-devon>



### Climate Change

- 3.36 The Council's annual delivery plan on 'Growing our natural environment' sets out the Council's action plan for addressing climate change and the carbon/biodiversity impact.

### OTHER BUDGET ITEMS

- 3.37 The Council will be reviewing core service delivery through on-going service reviews and will bring reports back to Members at the appropriate point, linking back to the corporate strategy.

- 3.38 The Levelling Up and Regeneration Bill is making its way through Parliament. The Government is aiming for Royal Assent in Spring 2023. There is a proposal within the bill to allow Billing Authorities the discretion to charge second home owners a council tax premium of 100% (so a second home dwelling would pay double the council tax charge). The Bill requires Billing Authorities to have a minimum period of 12 months between making its first determination and the financial year in which it takes effect. Billing Authorities might be able to charge the premium to second home owners in 2024-25, but the timing will be very tight if Authorities only get the powers in Spring 2023. A Member decision would need to be taken on this as part of the future budget setting process. Modelling shows that extra council tax income of £145,000 could be generated.

#### **Waste and Recycling service**

- 3.39 An update on the waste and recycling service was considered by the Hub Committee on 12 July 2022 and Council on 19 July 2022. A further report was considered by the Hub Committee on 1 November 2022 (Minute HC 58/22).

#### **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 £50 million in 2019 and it is not proposed to change this limit at present.
- 4.2 In 2021/22 the long term borrowing of the Council decreased from £28,342,000 (20/21) to £27,726,000. Short term borrowing increased from £603,000 to £615,000 due to the maturity profile of borrowing.

#### **5 FEES AND CHARGES**

- 5.1 As part of the budget process, fees and charges will be reviewed. A delegation is in place to enable service managers to increase fees and charges by inflation where these are not material changes or increases.
- 5.2 A recommendation on the annual subscription fee for 2023/24 for the collection of garden waste, will form part of the January 2023 Budget report to the Hub Committee.

## **6 FINANCIAL SUSTAINABILITY AND TIMESCALES**

- 6.1 The Council will continue to assess various options for closing the budget gap for 2023/24 onwards, and in the longer term, to achieve long term financial sustainability and further options will be presented to Members in further budget reports. This will consider ways to reduce the Council's operating costs and generating further income and savings.
- 6.2 Making the best use of our resources and setting a balanced budget annually is within the 'Delivering Quality Services' Draft Delivery Plan of the Council's long term strategic vision, 'A Plan for West Devon'.

## **7 Earmarked and Unearmarked Reserves Policy**

- 7.1 Unearmarked Reserves have increased by £196,000 in 2021/22 and total £1.490 million at 31 March 2022.
- 7.2 Earmarked Reserves have increased by £248,000 in 2021/22 and total £9.189 million at 31 March 2022. A full list of Reserves is shown in Appendix C. The proposed contributions to/from Earmarked Reserves are shown in Appendix A.
- 7.3 Earmarked Reserves includes £1.631m held in the Business Rates s31 Compensation Grant Reserve. This is due to a technical accounting adjustment where Councils were compensated for the business rates holidays that were announced by the Government for the retail, hospitality and leisure sectors in 2020/21 and 2021/22 (this funding is in the S31 Compensation Grant Reserve). This temporary increase in reserves will reverse back out again in the 2022/23 Accounts, to fund the deficit on the Collection Fund. Therefore this is not money which is available for the Council to spend and it is important that this is not misinterpreted in the Accounts, as this is a national issue.
- 7.4 Reserve levels will be kept under constant review and will be reviewed throughout the budget setting process to consider commitments against Earmarked Reserves, their unallocated balance and the contributions to/from Earmarked Reserves for 2023/24 and future years also. This can then be considered alongside details of the Local Government Finance Settlement.
- 7.5 At Council on 15th February 2022, Members set a minimum balance for Unearmarked Reserves of £900,000, with an operating level of a minimum of £1.25million. This was based on a risk assessment basis and a sensitivity analysis. Therefore the current level of £1.490m is still above these levels previously set.



- 7.6 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 £900,000 being the minimum level in February 2022, with an operating level of £1.25million). Section 25 of the Local Government Act 2003 requires the Section 151 officer to report on the adequacy of the Council's financial resources on an annual basis.
- 7.7 The provision of an appropriate level of balances is a fundamental part of prudent financial management, enabling the Council to build up funds to meet known and potential financial commitments.
- 7.8 As highlighted above there is a high degree of uncertainty about future levels of funding for local government. However, the Section 151 Officer is keeping a close watch on developments and planning for this longer-term uncertainty. For example, the Council has a Financial Stability earmarked reserve to help secure financial stability for the longer term. This will include addressing any future financial pressures from changes in local government funding levels. The balance on the Financial Stability earmarked reserve at 31 March 2022 is £0.454m. It is also projected to increase to £0.62m in 2022/23.

## **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.
- 8.2 Capital projects will be scored on the following criteria:
- 1 - Health and Safety compliance
  - 2 - Essential to keep operational assets open
  - 3 - Fit with the Council's Delivery Plans for 'A Plan for West Devon'
  - 4 - To rationalise service delivery or service improvement
  - 5 - To generate income, capital value or to reduce revenue costs
- 8.3 It is important that future bids for capital are aligned with the review of the thematic delivery plans and aims within 'A Plan for West Devon'.
- 8.4 **The outline capital bids (for information only) are set out in Appendix D alongside ways the Capital Programme could be financed for modelling purposes. They currently total £905,000.** Full Business cases for each of the Capital Bids will be presented to Members as part of the January cycle of budget reports. The current proposals are currently in outline only and much fuller information will be presented to Members in the next cycle of budget reports. By early January, the Local Government Finance Settlement will be known and the Council will be clearer on the amount of funding that will be available to fund potential Capital Programme bids.

- 8.5 **Regeneration and Investment Strategy** – The Council has approved a Regeneration and Investment Strategy (Minute Reference CM72, Council 5<sup>th</sup> April 2022). To date, Investment Properties have a value of £19.12 million in aggregate as at 31.3.2022.
- 8.6 Purchases made within the strategy are capital expenditure. An income projection of £300,000 from the net ancillary income from investments in Investment property has been included within the 2022/23 Base Budget and it is predicted that this will increase by £50,000 for 2023/24 in line with rental reviews.
- 8.7 The Council's Asset Base is £45.7 million at 31 March 2022. The Council will continually review and challenge its asset base in order to deliver the optimum value for money from the Council's Assets.

## **9 NEXT STEPS AND PROPOSED WAY FORWARD**

- 9.1 The MTF5 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 (Hub Committee 13th September 2022).
- 9.2 The Council's budget is essentially fixed in cash terms and its ability to raise income is limited as there are national controls in place around council tax and business rates.
- 9.3 Officers will continue to work with the Hub Committee and the results of this will be incorporated into future Budget reports. This will consider ways to reduce the Council's operating costs and generating further income and savings.
- 9.4 The Council awaits the details of the Government's Local Government Finance Settlement for 2023/24 and the announcement which will enable the Council to further firm up some of the assumptions within the Revenue Budget Proposals for 2023/24. A further update will be presented to the Hub Committee in January 2023. Further options for Members' considerations of how to close the predicted budget gap of £137,296 will be presented as part of this report. The table below shows the budget timetable for the 2023/24 Budget process.

13 <sup>th</sup> September 2022	Hub Committee – To consider the three year MTFS (Medium Term Financial Strategy) for 2023/24 to 2025/26
13th December 2022	Hub Committee – To consider draft proposals for the Revenue and Capital Budget for 2023/24.
17th January 2023	Overview & Scrutiny Committee - To consider draft proposals for the Revenue and Capital Budget for 2023/24.
31 <sup>st</sup> January 2023	Hub Committee – To recommend Final Budget Proposals to Council for 2023/24
<b>16th February 2023 (9am)</b>	<b>Date which Council Procedure Rule 16 applies</b>
21st February 2023	Full Council – To approve Final Budget Proposals for 2023/24 and set the WDBC share of the Council Tax
22 February 2023	Council Tax Resolution Panel – to agree the Council Tax Resolution for 2023/24 (This is WDBC 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 Thursday 16th February 2023.

## 10. Implications

Implications	Relevant to proposals Y/N	Details and proposed measures to address
Legal/Governance		<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>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><b><i>The forecast budget gap for 2023/24 is £137,296. This is 1.6% of the Projected Net Budget for 23/24 of £8.69million.</i></b> A cumulative budget gap of £376,867 is predicted for 2024/25 (the £376,867 assumes that the 23/24 budget gap of £137,296 has not been closed). The cumulative aggregated Budget Gap by 2025/26 is £1.35 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 2023/24. Further options for Members' considerations of how to close the predicted budget gap of £137,296 will be presented as part of the January 2023 Budget report.</p> <p>There is no indication yet of the detailed local government funding levels for 2023/24 and beyond. Therefore there are many uncertainties in preparing for the challenges we know we will face in the near future.</p>

		<p>As part of Grant Thornton's external audit of the Statement of Accounts for 2021/2022, they will assess the arrangements the Council has in place for:-</p> <ul style="list-style-type: none"> <li>• Improving economy, efficiency and effectiveness</li> <li>• Financial Sustainability</li> <li>• Governance</li> </ul> <p>The outcome of Grant Thornton's work in this area will be reported to Members at the Audit Committee meeting in March 2023.</p>
Risk		Each of the budget options taken forward by Members will consider the risks of the option.
Supporting Corporate Strategy		The majority of activities set out in the Council's delivery plans can be delivered through refocusing and reprioritisation of existing resources however, in order to realise the ambition set out in the strategy, some of the activities will require additional resources.
Climate Change - Carbon / Biodiversity Impact		<p>A report was presented to Council on 8<sup>th</sup> December 2020 'Climate Change and Biodiversity Strategy and Action Plan update'.</p> <p>In March 2021, Council approved to set up an Earmarked Reserve for £200,000 for the Recovery Plan and Corporate Strategy.</p> <p>Further detail is set out in the Council's 'A Plan for West Devon' strategic vision.</p>
Comprehensive Impact Assessment Implications		
Consultation and Engagement Strategy		External consultation and engagement has not been undertaken with regard to this report.
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 Reserves

Appendix D – Outline Capital bids for 2023/24

Appendix E – Glossary of Terms in Local Government Finance

### **Background Papers:**

None