

Report to: **Executive**
Date: **19 September 2019**
Title: **Medium Term Financial Strategy 2020/21 to 2024/25**
Portfolio Area: **Cllr J Pearce – Budget Setting Process**
Wards Affected: **All**

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

Date next steps can be taken: Recommendation to Council 26th September 2019

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Recommendations:

It is recommended that the Executive considers the Medium Term Financial Strategy and recommends to Council: (These recommendations are set out in detail in Appendix C)

Recommendation 1: To set the strategic intention to raise council tax by the maximum allowed in any given year, without triggering a council tax referendum, to enable the continued delivery of services. The actual council tax for any given year will be decided by Council in the preceding February.

Recommendation 2: To respond to any Government announcement/consultation on Business Rates Reform

Recommendation 3: To continue to actively lobby and engage with the Government, Devon MPs and other sector bodies such as the District Councils Network and the Rural Services Network, for a realistic business rates baseline to be set for the Council for 2020 onwards and for when the business rates reform is introduced for 2021-22.

Recommendation 4: That SHDC continues to lobby in support of the Government eliminating Negative Revenue Support Grant in 2020/21 (and thereafter) and continues to lobby for Rural Services Delivery Grant allocations which adequately reflect the cost of rural service provision.

Recommendation 5: To use £500,000 of New Homes Bonus funding for 2020-21 (or any alternative scheme) to fund the revenue base budget and then reduce to £350,000 by 2021-22 and £250,000 by 2022-23 for modelling purposes.

Recommendation 6: That the Council maintains a policy of a minimum level of Unearmarked Reserves of £1.5 million and that the annual level of contributions to Earmarked Reserves (£684,300 as per Appendix E) and the adequacy of the existing level of Unearmarked Reserves (£1.9 million) and Earmarked Reserves (£13.3 million) is reviewed by Members as part of the budget setting process. This will assess the adequacy of Reserves levels, in light of future plans and pressures.

Recommendation 7 - That the Council continues dialogue with the actuaries of the Devon Pension Fund and DCC on the options for the Council's Pension position, with the aim of reducing the current contributions, increasing affordability, whilst best managing the pension deficit. One option the Council could consider is paying off some or all of the Deficit in a lump sum. This will be modelled, with a report being presented to Members by January 2020 on this option with both the costs and the benefits, once the results of the Triennial Pension Revaluation are known.

Recommendation 8 – That the Council maintains an Upper Limit on External Borrowing (for all Council services) as part of the Medium Term Financial Strategy of £75 million.

It is also recommended that the Executive:

- (ix) Notes the forecast budget gap for 2020/21 of £0.49 million and the position for future years.
- (x) Notes the current options identified and timescales for closing the budget gap in 2020/21 and future years, to achieve long term financial sustainability.

1. Executive summary

- 1.1 The Council's Medium Term Financial Position (MTFP) is based on a financial forecast over a rolling five year timeframe to 2024/25. The Council, along with other local authorities, has faced unprecedented reductions in Government funding since the Comprehensive Spending Review 2010. Between 2009/10 and 2020/21, the Council's Core Government funding has reduced by £4 million.

- 1.2 South Hams has continued to work in partnership with West Devon Borough Council which has allowed South Hams District Council to achieve annual savings of £3.9 million and more importantly protect all statutory front line services.
- 1.3 Between both Councils the annual shared services savings being achieved are over £6 million. However, the Councils continue to face considerable financial challenges as a result of uncertainty in the wider economy and constraints on public sector spending.
- 1.4 South Hams District Council is currently forecasting a £0.49 million budget gap in 2020/21. It is important to note that this is a snapshot (a position statement) in September 19 and future Member decisions on the budget strategy and Government announcements will inform future figures within the Medium Term Financial Strategy (MTFS).
- 1.5 In the Financial Modelling in Appendix B1 (including Negative RSG in 2020/21), the total budget gap is £495,992 in 2020/21 and this is predicted to decrease to £413,733 in 2021/22 (the £413,733 assumes the budget gap in 20/21 of £495,992 has not been closed). The aggregated Budget Gap is £2.36 million over the five years.
- 1.6 In the Financial Modelling in Appendix B2 (excluding Negative RSG in 2020/21), the total budget gap is £95,992 in 2020/21 and this is predicted to increase to £413,733 in 2021/22 (the £413,733 assumes the budget gap in 20/21 of £95,992 has not been closed). The aggregated Budget Gap is £1.96 million over the five years.
- 1.7 It is important to note that this Medium Term Financial Strategy sets out the budget strategy for the Council for the next five years, with annual reviews and updates when items are further known or are announced by the Government (e.g. it is envisaged that the One Year Spending Review for 2020-21 will be announced in September 2019).
- 1.8 This is the starting point for developing a meaningful five year strategy that sets out the strategic intention for all of the different strands of funding available to the Council. The Council will then be able to rely on this to inform future decisions.

2 BACKGROUND AND UPDATE ON THE BUDGET 2020/21

- 2.1 Over the past four years, South Hams District Council has had a 39.5% reduction in Government funding. This compares against 38.8% for the average for Shire District Councils. The Council now receives **no main Government Grant (Revenue Support Grant)** – this has been reduced to zero. Core Government funding has been reduced by £4million per year since 2009/2010.

- 2.2 Negative Revenue Support Grant (RSG) for 2019/20 of £400,000 was eliminated by the Government for one year. It is probable that there will be Government funding to remove negative Revenue Support Grant (RSG) for one more year in 2020/21, but this has not been confirmed by the Government. The modelling in this report shows different scenarios, one which assumes that negative RSG will remain for 2020/21 onwards in some form (e.g. as part of the business rates baseline) and one where it is assumed that negative RSG is excluded for 2020/21 and will not impact on the Council until 2021/22 – i.e. a delay of implementation of one year.
- 2.3 Negative RSG is currently estimated to be £400,000 per annum which would be deducted off the Council's business rates funding and represents negative Government grant (it is effectively the Council's further predicted funding cuts). The Council would need to pay this money (£400,000) over to the Government out of its business rates income.
- 2.4 The new Chancellor (Sajid Javid) has announced that there will be a one year Spending Review covering the period 2020-21, with a multi year (covering more than one year) Spending Review held thereafter.
- 2.5 Rishi Sunak (Chief Secretary to the Treasury) announced that the Government's Priorities in the Spending Review will be: "We will invest in the priority areas of schools and policing, while delivering our promises on the NHS, defence and Official Development Assistance (ODA)." It is noted that local government is not mentioned as a priority for funding by Rishi Sunak – therefore investment for local Councils is not a stated priority.
- 2.6 The Chancellor announced the Spending Review for 2019 on 4th September. The Council is awaiting a technical consultation to be announced by the Government but it is thought that the key elements will be as below. The Council Tax Referendum limit is likely to be proposed at 2% for District Councils. It has not yet been confirmed whether this would also include the normal £5 limit and officers are anticipating it will be a 2% or £5 council tax limit for District Councils – whichever is the higher.
- 2.7 It is probable that there will be funding to remove negative Revenue Support Grant (RSG) for one year in 2020/21, but this has not been confirmed. In addition, legacy payments for New Homes Bonus are likely to be honoured but the scheme for 2020/21 is still for discussion with Ministers. Reform of the Business Rates Retention Scheme and the Fairer Funding Review will both be delayed until 2021/22. Individual Council funding figures for 2020/21 are due to be released in December with the Local Government Finance Settlement.

3 ASSUMPTIONS FOR FINANCIAL MODELLING PURPOSES

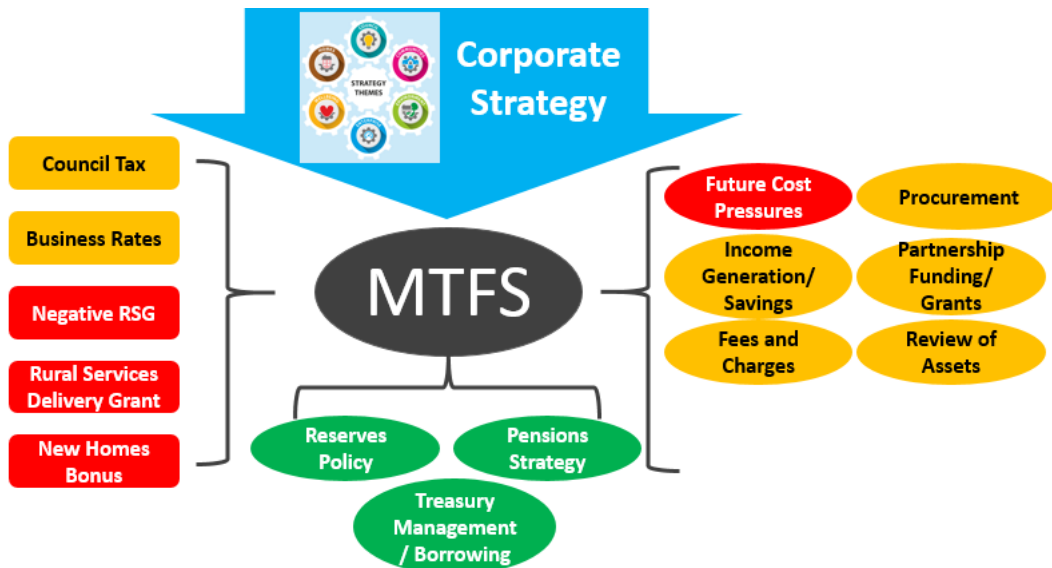
- 3.1 The last pay offer covered the two years up to 31 March 2020. A 1% pay increase has been modelled from 2020/21 onwards. In view of past national agreements, consideration may need to be given to this being increased for modelling purposes to say 2%. The Medium Term Financial Strategy is not an expression of Council Policy on pay awards, but a means of ensuring an appropriate provision is made as part of the overall financial planning of the Council.
- 3.2 The report assumes inflation will run at 2.5% over the five year period. The Consumer Prices Index (CPI) was 2.0% in July 2019.
- 3.3 The predicted interest rate forecast from our treasury management advisors, Link Services, is that interest rates will remain at 0.75% up to December 2020. By March 2022 the bank base rate is predicted to increase to 1.5%.
- 3.4 An increase in council tax of the higher of £5 or 2% for the next five years has been modelled for council tax purposes. This would equate to a Band D council tax for South Hams of £170.42 in 2020/21 as shown in Appendices B1 and B2 and equates to a council tax increase of 3.02% (an increase of £5). A 1% increase in council tax generates £64,000.
- 3.5 It has been assumed that the number of properties within the District will increase by 600 per annum from 2020/21 to 2024/25 – this is an increase of approximately 1.6% and is based on projections from the Strategic Planning team.

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

- 4.1 The Diagram below sets out all of the component parts which constitute the make-up of a Medium Term Financial Strategy. Appendix C 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.

Net Budget £8.8 million 2019/2020



Council Tax

- 4.2 Members have options to either freeze council tax or to raise council tax anywhere between zero and the higher of £5 or 2% (this is assumed to be the council tax referendum limit for 2020/21 – this has not been confirmed by the Government). Anything above 2%/£5 would require a council tax referendum, which is a costly exercise. Recent funding settlements from the Government are based on the assumption that Councils increase council tax by the maximum allowed. The actual council tax for any given year will be decided by Council in the preceding February. (The council tax for 2020/21, the SHDC share, will be set at the Council meeting on 13th February 2020).

A £5 increase in council tax for 2020/21 would equate to an increase of 3.02% and a Band D council tax for SHDC of £170.42.

Recommendation 1: To set the strategic intention to raise council tax by the maximum allowed in any given year, without triggering a council tax referendum, to enable the continued delivery of services. The actual council tax for any given year will be decided by Council in the preceding February.

Business Rates

- 4.3 The income from Business Rates which South Hams District Council retained in 2018-19 was the funding baseline of £2,262,987 plus the pilot gain of £575,000. Estimates have been made of the Baseline funding Level for 2020/21 onwards as set out in Appendix B. This is £1.94m for 2020/21 and £1.99m for 2021/22. The reform of Business Rates will now be delayed until 2021-22.

Recommendation 2: To respond to any Government announcement/consultation on Business Rates Reform.

Recommendation 3: To continue to actively lobby and engage with the Government, Devon MPs and other sector bodies such as the District Councils Network and the Rural Services Network, for a realistic business rates baseline to be set for the Council for 2020 onwards and for when the business rates reform is introduced for 2021-22.

Negative Revenue Support Grant and Rural Services Delivery Grant (RSDG) for 2020-21 onwards

The negative RSG currently included within the Council's modelling for 2020/21 amounts to £400,000. If the Government eliminates this, as an outcome of the one year Spending Review for 2020/21, the Council's budget position is bettered by £400K for 2020/21. However the benefit of this is likely to only be for one year, with negative RSG expected to be implemented in full in 2021/22 – so it just gives the Council longer to prepare for the extra cuts in funding. If the position changes, the MTFS will be updated to reflect this.

It is probable that there will be funding to remove negative Revenue Support Grant (RSG) for one year in 2020/21, but this has not been confirmed.

Rural Services Delivery Grant (RSDG) – The Council currently receives an allocation of £408,055 per annum for this grant which is given to Councils to compensate for the extra costs of delivering services in rural areas. The Government has not indicated what RSDG allocations will be for 2020-21 onwards (The financial modelling for 2020-21 onwards assumes that this grant will continue at the same level of £408K per annum).

Recommendation 4: That SHDC continues to lobby in support of the Government eliminating Negative Revenue Support Grant in 2020/21 (and thereafter) and continues to lobby for Rural Services Delivery Grant allocations which adequately reflect the cost of rural service provision.

New Homes Bonus (NHB)

- 4.4 The Government has stated that 2019/20 represents the final year of NHB funding and from 2020 onwards they will explore how to incentivise housing growth most effectively and will consult on this issue. The financial modelling has included using £500,000 of New Homes Bonus funding for 2020/21 to fund the revenue base budget and this has then been reduced to £350,000 in 2021/22 and £250,000 in 2022/23 for modelling purposes. The Council is awaiting announcements from the Government on how New Homes Bonus is going to be reformed. Legacy payments for New Homes Bonus are likely to be honoured but the scheme for 2020/21 is still for discussion with Ministers.

- 4.5 For 2019/20 there are no changes to the New Homes Bonus baseline of 0.4% (the previous concern was that this could be increased to 0.6%). The baseline is the proportion of housing growth which is deducted as 'natural growth as such' before New Homes Bonus is paid to a Council – this is the equivalent of 179 properties for South Hams. So the Council receives no New Homes Bonus on the first 179 properties of property growth per year. The Council's New Homes Bonus allocation for 2019/20 was £1,226,862.

Recommendation 5: To use £500,000 of New Homes Bonus funding for 2020-21 (or any alternative scheme) to fund the revenue base budget and then reduce to £350,000 by 2021-22 and £250,000 by 2022-23 for modelling purposes.

Reserves Policy

- 4.6 The current levels of Reserves are £1.9 million Unearmarked Reserves and Earmarked Reserves of £13.3 million. The Council's Net Budget is £8.83 million for 2019/20. Therefore Unearmarked Reserves equate to 21.5% of the Council's Net Budget. A full list of Earmarked Reserves is shown in Appendix D.
- 4.7 As part of the Medium Term Financial Strategy report, it is recommended to approve the same policy of maintaining a minimum level of Unearmarked Reserves of £1.5 million. The Unearmarked Reserves (General Fund) balance of £1.898 million stands above the minimum balance of £1.5 million and acts as a safeguard against unforeseen financial pressures. Given the increase in financial risks which the Council faces through undertaking additional borrowing of up to a limit of £75 million, the Council should consider increasing this level through a stepped increase over the next five years, to reflect the new level of risks.

Recommendation 6: That the Council maintains a policy of a minimum level of Unearmarked Reserves of £1.5 million and that the annual level of contributions to Earmarked Reserves (£684,300 as per Appendix E) and the adequacy of the existing level of Unearmarked Reserves (£1.9 million) and Earmarked Reserves (£13.3 million) is reviewed by Members as part of the budget setting process. This will assess the adequacy of Reserves levels, in light of future plans and pressures.

Pensions Strategy (Actuarial Valuation)

- 4.8 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 and this work is being progressed by the S151 Officer in accordance with the timetable for the Triennial Pension Revaluation.

Recommendation 7 - That the Council continues dialogue with the actuaries of the Devon Pension Fund and DCC on the options for the Council's Pension position, with the aim of reducing the current contributions, increasing affordability, whilst best managing the pension deficit. One option the Council could consider is paying off some or all of the Deficit in a lump sum. This will be modelled, with a report being presented to Members by January 2020 on this option with both the costs and the benefits, once the results of the Triennial Pension Revaluation are known.

Treasury Management and Borrowing Strategy

- 4.9 The Council has taken external treasury management advice on the Council's overall borrowing levels and debt levels (see Exempt Appendix G to the Medium Term Financial Strategy in September 2018). The Council set an Upper Limit on External Borrowing (for all Council services) as part of the Medium Term Financial Strategy (MTFS) in September 2018 of £75 million. In March 2019, the Council approved its Capital Strategy and Treasury Management Strategy which contained the new requirements issued by MHCLG in February 2018 of the new guidance.
- 4.10 The Council needs to re-consider its borrowing limit as part of this MTFS in September 2019. Officers are not recommending any change to the current borrowing limit of £75 million. The previous treasury management advice on an appropriate and proportional borrowing limit for Borough Council was based on a range of benchmarking of indices. Borrowing needs to be proportionate and affordable and with always having regard to the risks involved in the repayment of the debt.

Recommendation 8 – That the Council maintains an Upper Limit on External Borrowing (for all Council services) as part of the Medium Term Financial Strategy of £75 million.

Income Generation/Savings and Fees and Charges

- 4.11 The Council's Extended Leadership Team will present further budget options to Members for income generation/savings/reduced expenditure, as part of the Budget Setting Workshop being planned for late September/early October.

Procurement

- 4.12 A separate report was considered in July 2019 for the IT procurement. This report considered the options available for procuring an IT platform which meets the Councils' customer satisfaction aspirations, and digital vision, and describes the rationale and methodology used in arriving at a recommendation.

Partnership Funding/Grants

4.13 Partnership Funding levels for 2020/21 onwards is a separate report on the Executive agenda. It is recommended that the Executive adopts a commissioning model to award partnership funding from 2020-23, based on one or all of the following:

- i) local need
- ii) alignment to the Council's Corporate Strategy
- iii) statutory duty

Commercial Property and Review of Assets

4.14 The Council's Asset Base is £91 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.

4.15 In July 2019, the Executive considered reports on the Kingsbridge hotel, Ivybridge Regeneration and Dartmouth Health and Wellbeing Hub development. Consultation on the Kingsbridge and Ivybridge schemes will be taking place at the end of September and stakeholders e.g. Members, residents, businesses, will be made aware of how to engage in the consultation process.

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

4.16 The Council is consulting with all of the Town and Parish Councils within the District, on the basis that the District Council is 'minded to' withdraw the Council Tax Support Grant from Town and Parish Councils with effect from 1st April 2020 (by a 50% reduction per annum over the next two years), in order to allow time for Town and Parish Councils to plan for the reduction in their budget setting processes. 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.

4.17 The Council is mindful of the need for the District Council and the Town and Parish Councils to work together collaboratively to deliver services to our residents to effect real change for our communities.

4.18 The Council has requested responses back from Town and Parish Councils by the end of September 2019 and the results will be presented to Members at the Executive meeting on 31st October 2019.

5 BUDGET PRESSURES, SAVINGS AND INCOME GENERATION

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

- 5.2 **Appendix A** to the Medium Term Financial 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	1,125,762	515,761	335,000	335,000	335,000
Contribution to Earmarked Reserves	(30,000)	180,000	130,000	130,000	78,000
Savings and additional income	(515,627)	(424,870)	(139,196)	(12,100)	(2,100)

- 5.3 On 5 September 2019 the Overview and Scrutiny Panel considered a report on Planning Enforcement, which contained a recommendation (to Executive on 19th September and Council on 26th September) for two additional permanent case managers for Planning Enforcement.

- 5.4 The two posts are recommended to be funded from the Planning Earmarked Reserve in 2019/20 and will be built into the budget setting process as a cost pressure for 2020/21 onwards in the next budget report, if approved (these posts are not yet included as a cost pressure within the financial modelling in Appendices A and B). The annual cost pressure will be £50,078 (SHDC share of the cost).

6. OVERALL POSITION – BUDGET GAP

- 6.1 Appendices A, B1 and B2 illustrate the overall financial forecast for the forthcoming five years. The Council's Net Budget is £8.8 million in 2019/20.
- 6.2 A Summary forecast is shown below of the potential budget situation if all of the budget pressures and the savings and income generation in Appendix A were approved. It also shows the situation if Council Tax is increased by the higher of 2% or £5 (Appendices B1 and B2).

- 6.3 The following table illustrates the predicted budget gap from 2020/21 onwards for the Council as shown in Appendices A and B1 and B2: (Two scenarios are shown – Appendix B1 which includes negative RSG in 2020/21 and Appendix B2 which excludes negative RSG in 2020/21)

Cumulative Budget Gap	2020/21 £	2021/22 £	2022/23 £	2023/24 £	2024/25 £	Total Aggregated Budget Gap £
Modelling in Appendix B1 (Includes Negative RSG in 2020/21)	495,992	413,733	382,386	474,135	596,448	2,362,694
Modelling in Appendix B2 (Excludes Negative RSG in 2020/21)	95,992	413,733	382,386	474,135	596,448	1,962,694

- 6.4 In the Financial Modelling in Appendix B1 (including Negative RSG in 2020/21), the total budget gap is £495,992 in 2020/21 and this is predicted to decrease to £413,733 in 2021/22 (the £413,733 assumes the budget gap in 20/21 of £495,992 has not been closed). The aggregated Budget Gap is £2.36 million over the five years.

- 6.5 In the Financial Modelling in Appendix B2 (excluding Negative RSG in 2020/21), the total budget gap is £95,992 in 2020/21 and this is predicted to increase to £413,733 in 2021/22 (the £413,733 assumes the budget gap in 20/21 of £95,992 has not been closed). The aggregated Budget Gap is £1.96 million over the five years.

7 FINANCIAL SUSTAINABILITY AND TIMESCALES

- 7.1 The Council is progressing various options for closing the budget gap in 2020/21 and future years, 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) 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>One option the Council could consider is paying off some or all of the Deficit in a lump sum. This will be modelled, with a report being presented to Members by January 2020 on this option with both the costs and the benefits.</p>	<p>Up to £200,000</p>	<p>Report to the Audit Committee in January 2019. New pension contributions for the three years 2020/21 to 2022/23 are likely to be notified to the Council by December 2019.</p> <p>Report of options by January 2020</p>
<p>Council Tax Support Grant The grant to Town and Parish Councils has been reduced by 9.85% over the four year period of the finance settlement from 2016/17 to 2019/20.</p> <p>Council has approved to consult with all of the Town and Parish Councils within the District, on the basis that the District Council is 'minded to' withdraw the Council Tax Support Grant from Town and Parish Councils with effect from 1st April 2020 (by a 50% reduction per annum over two years), in line with the reduction 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.</p>	<p>£74,000 for 2020/21 Onwards</p>	<p>To be considered as part of the 2020/21 Budget process</p> <p>The results of the consultation exercise will be reported back to Members at the Executive meeting on 31st October 2019.</p>
<p>Asset Review/ Corporate Property Strategy There was a separate report on the Executive agenda in December 2018 for 'Commercial Development Opportunities'. See Section 4.15</p>	<p>Initial income projections have been included within the budget</p>	<p>Regular updates will be provided to Members.</p>

Option	Possible Budget Impact	Timescale
<p>Extended Leadership Team (ELT) Budget options</p> <p>The Council's Extended Leadership Team have been directed by the Executive 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.</p>	To be quantified	October 2019
<p>Funding Options</p>		
<p>Negative Revenue Support Grant</p> <p>Negative Revenue Support Grant (RSG) for 2019/20 of £400,000 was eliminated by the Government for one year.</p> <p>It is probable that there will be funding to remove negative Revenue Support Grant (RSG) for one year in 2020/21, but this has not been confirmed.</p>	<p>Negative RSG of £400,000 for 2020/21 onwards has been built into this budget report in Appendix B1.</p> <p>Appendix B2 shows the position if negative RSG is excluded for 2020/21.</p>	<p>The position for 2020/21 onwards has not been formally confirmed and it is hoped that this will be announced as part of the Local Government Finance Settlement in December 2019.</p>
<p>New Homes Bonus allocations for 2020/21 onwards</p> <p>The Government has stated that 2019/20 represents the final year of NHB funding and from 2020 onwards they will explore how to incentivise housing growth most effectively and will consult on this issue. Legacy payments for New Homes Bonus are likely to be honoured but the scheme for 2020/21 is still for discussion with Ministers.</p>	To be assessed	Awaiting further announcements from the Government

Option	Possible Budget Impact	Timescale
<p>The financial modelling has included using £500,000 of New Homes Bonus funding for 2020/21 to fund the revenue base budget and this has then been reduced to £350,000 in 2021/22 and £250,000 in 2022/23 for modelling purposes</p> <p>The Council is awaiting announcements from the Government on how New Homes Bonus is going to be reformed. This remains a risk for the Council.</p>	<p>It is not known what NHB allocations (or a similar scheme) will be in future years when the NHB scheme is replaced.</p>	
<p>Contributions to Earmarked Reserves</p> <p>The Council could vary the amount of contribution into some of the Earmarked Reserves. This will be considered in more detail as part of the budget process.</p> <p>Contributions to Earmarked Reserves are shown in Appendix E.</p>	<p>To be Assessed</p>	<p>To be decided as part of the Budget Process</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. This would be a very short term solution though.</p> <p>The current levels of Reserves are £1.9 million Unearmarked Reserves and Earmarked Reserves of £13.3 million.</p>	<p>To be Assessed</p>	<p>To be decided as part of the Budget Process</p>

8. CAPITAL PROGRAMME AND PRUDENTIAL BORROWING

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

8.2 **Commercial Property Acquisition Strategy** – The Council has agreed a commercial property acquisition strategy of up to £60 million. In July 2019, the Executive considered reports on the Kingsbridge hotel, Ivybridge Regeneration and Dartmouth Health and Wellbeing Hub development as detailed in 4.15 of this report. Purchases made within the strategy will be capital expenditure. A report on the updated Commercial Investment Strategy to include the renewable energy sector was a separate report on the July 2019 Executive agenda. The Council is progressing work on the business case for the renewable energy sector.

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

8.4 An overall Borrowing Limit (£75 million) has been approved as part of the Medium Term Financial Strategy, with £60 million being for the Commercial Investment Strategy and £15 million for other borrowing requirements.

9. **Sensitivity Analysis and Risk Analysis**

9.1 The Council carries out sensitivity analysis and risk analysis of its Budget Proposals on an annual basis and this is shown in Appendix F.

10 **PROPOSED WAY FORWARD**

10.1 The MTFS is the starting point for developing a meaningful five year strategy that sets out the strategic intention for all of the different strands of funding available to the Council. The Council will then be able to rely on this to inform future decisions. The different elements that make up a Medium Term Financial Strategy are shown in the diagram in 4.1 and Appendix C. This report is asking Members to set the strategic intention for each of these components of the MTFS.

11. IMPLICATIONS

Implications	Relevant to proposals Y/N	Details and proposed measures to address
Legal/Governance	Y	<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 annually 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.</p>
Financial Implications to include reference to value for money	Y	<p>In the Financial Modelling in Appendix B1 (including Negative RSG in 2020/21), the total budget gap is £495,992 in 2020/21 and this is predicted to decrease to £413,733 in 2021/22 (the £413,733 assumes the budget gap in 20/21 of £495,992 has not been closed). The aggregated Budget Gap is £2.36 million over the five years.</p> <p>In the Financial Modelling in Appendix B2 (excluding Negative RSG in 2020/21), the total budget gap is £95,992 in 2020/21 and this is predicted to increase to £413,733 in 2021/22 (the £413,733 assumes the budget gap in 20/21 of £95,992 has not been closed). The aggregated Budget Gap is £1.96 million over the five years.</p> <p>The recommendations adopted and the annual budget setting process will ensure the Council has arrangements in place to secure economy, efficiency and effectiveness in its use of resources. The Council's auditors, Grant Thornton, provided an unqualified value for money opinion for the District Council for 2018-19, which was reported to the Council's Audit Committee in July 2019.</p>
Risk	Y	<p>Each of the budget options taken forward by Members will consider the risks of the option.</p>

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		Comprehensive 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 B1 – Modelling of the Budget (MTFS) Position including negative RSG in 2020/21

Appendix B2 – Modelling of the Budget (MTFS) Position excluding negative RSG in 2020/21

Appendix C – Components of a MTFS

Appendix D – Schedule of Reserves (Unearmarked and Earmarked)

Appendix E – Contributions to Earmarked Reserves

Appendix F – Sensitivity Analysis

Background Papers

Council – 21st February 2019 – Budget Proposals 2019-20 onwards update report

Executive – 13th September 2018 – Medium Term Financial Strategy 2019/20 to 2023/24

Executive – 18th July 2019 – Medium Term Financial Position for 2020/21 onwards

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