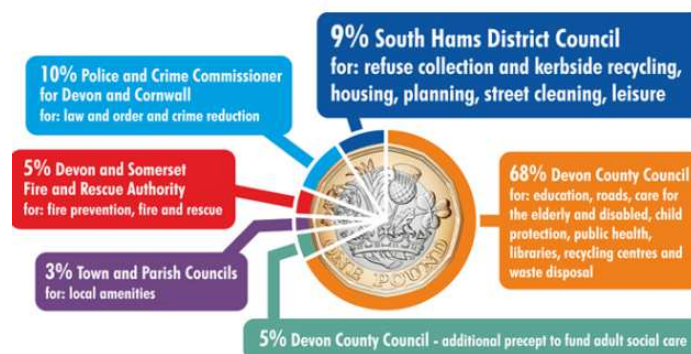


## Council Tax



- Average Band D total bill was £1,913 for 2019-20 (SHDC Band D of £165.42 equates to a 9% share of the council tax bill)



- 2019/20 increase of £5 to £165.42 (3.12%) – a 1% increase raises £63,000
- Government Council Tax referendum threshold higher of £5 or 2.99% for 2019-20. The Council Tax Referendum limit is likely to be proposed at 2% for District Councils for 2020-21. 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.
- The Government has not announced any plans to change the council tax system or to carry out a council tax revaluation within the near future. In 2018/19 the Council had 43,998 properties on the Valuation List, the make of up of which was 4,977 (Band A), 8,621 (Band B), 8,628 (Band C), 7,985 (Band D), 6,718 (Band E), 3,709 (Band F), 3,020 (Band G) and 340 properties in Band H. There are more Band C properties in the District than any other Band (representing 20%).
- **Council Tax Strategy Options:** Members have options to either freeze council tax or to raise council tax anywhere between zero and £5 (or 2%). Anything above £5 (or 2%) will require a council tax referendum (limits to be confirmed for 2020-21), 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.

**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.**

If this recommendation were to be agreed, it would have the following impact on council tax:

Council Tax	2019/20 CURRENT YEAR	2020/21 Year 1	2021/22 Year 2	2022/23 Year 3	2023/24 Year 4	2024/25 Year 5
<b>Band D</b>	£165.42	£170.42	£175.42	£180.42	£185.42	£190.42
<b>£ Increase</b>		<b>£5.00</b>	£5.00	£5.00	£5.00	£5.00

## ENTERPRISE

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## Business Rates

- Self-sufficient local government: Business Rates Retention (BRR) of **growth above the business rates baseline**. The Government introduced the BRR system in April 2013 with the aim of providing a direct link between business rates growth (economic growth) and the money councils have to spend on local services.
- The title of the scheme (Business Rates Retention) has caused public confusion – as it implies that Councils are able to keep 40% of **all of** the business rates that they collect. This is not the case. Councils are only able to keep a share of any business rates growth above a baseline set by the Government.
- The baseline is the amount of money that the Government has assessed that the Council needs to keep to fund its services, based on a needs formula. The Baseline is around £1.9 million for South Hams for 2019/20. Out of the total business rates of £31 million, the Council currently keeps approximately 6 pence in every £1 to run its services. The rest is paid back to the Government and a proportion goes to Upper Tier Councils e.g. the County Council, to pay for their services.
- There is a risk of volatility in the system because Councils are exposed to any loss of income if businesses go into decline. The Council retains a Business Rates Volatility Earmarked Reserve to cope with any fluctuations in business rates.
- Since 2013/14 (when Business Rates Retention was introduced with a 50% scheme), the Council has been part of a Devonwide Business Rates Pool which has included all of the Devon District Councils (except South Hams for some of the latter years), Plymouth City Council (Lead Authority), Devon County Council and Torbay Unitary Council. The Pool has made Pooling gains every year and South Hams receives a share of the gains. The table below shows the business rates position from the 2018/19 Accounts.
- The Income from Business Rates (receivable in 2018/19) was £31.03million. The amount which was retained by the Council (40% share less the tariff less other adjustments) was the funding baseline of £2,262,987 (£1,854,932 plus £408,055 of rural services delivery grant) plus the pilot gain of £575,000.

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## Business Rates Pilot 18/19

- In 2018/19 the Devon Authorities applied to the Government to be a business rates Pilot area and Devon was chosen by the Government to be one of ten Pilot areas nationally.
- South Hams benefitted by approximately £575,000. This was one-off additional revenue money for the year of the pilot only (2018-19). Of this amount, £100,000 was used to fund the revenue base budget in 2018/19, with the remainder (£475,000) being transferred into an Economic Regeneration Projects Earmarked Reserve, to meet the primary aims of the Pilot bid which were to achieve higher levels of investment in economic regeneration in Devon and encourage further business rates growth.
- South Hams is a low growth area. South Hams is a beneficiary of the pooling and pilot arrangements as the growth across the whole of Devon is divided up amongst all Devon Councils
- As Council funding is more reliant on business rates income, it puts South Hams in a more precarious position than most Councils due to its low growth and it is extremely important that the Council remains within the Devon pooling arrangements.
- The diagram below compares the split of business rates income under the 50% scheme (from 2013/14 to 2017/18) to the 100% scheme (Pilot status in 2018/19) to the 75% scheme which could be rolled out nationally from 2020/21 onwards.

<b>Split of business rates income</b>	<b>50% scheme (Devon Pool)</b> From 2013/14	<b>100% scheme (Devon Pilot status)</b> 2018/19 only	<b>75% scheme (could be rolled out nationally)</b>
SHDC (see note)	40%	40%	40%
Central Government	50%	Nil	25%
DCC	9%	59%	34%
Fire	1%	1%	1%
Total	100%	100%	100%

NOTE: Even though South Hams starts off with a 40% share, a tariff is then deducted and paid over to Central Government, and therefore the amount of money South Hams ends up keeping is its business rates baseline funding amount plus any Pooling or Pilot Gain each year.

## Business Rates Baseline Re-set

### ENTERPRISE

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### The future for Business Rates in 2020 onwards

- One of the largest financial risks that the Council is facing is around how the Government will re-set the Business Rates Baseline for the Council in 2020 onwards when the 75% scheme is rolled out nationally. Many factors will influence this, including the Government's Fairer Funding Review.
- Business Rates Reform 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.**

## Rural Services Delivery Grant

### COUNCIL

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- Rural Services Delivery Grant – The 2018/19 funding was increased from £65m to £81m. 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. In 2018-19, the £408,055 was built into the Council's business rates baseline due to the Council's Pilot status. 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 ).
- The Strategy for Rural Services Delivery Grant (RSDG) is that the Council will continue to provide local evidence of the cost of delivering services in rural areas, in order to lobby for higher allocations of RSDG as has happened in previous years.

## Negative Revenue Support Grant



### Business Rates Tariff Adjustment in 2019/20 (Negative Revenue Support Grant)

- The Business Rates Tariff Adjustment is an amount (originally scheduled to be applied in 2019/20) which increases an authority's tariff. It is applied where cuts to a Council's Settlement Funding Assessment (SFA) cannot be achieved through further cuts to the Revenue Support Grant (RSG), as the RSG is already zero. In effect the Tariff Adjustment is negative Revenue Support Grant which the Government chose to reflect through a change to the tariff, although this change has nothing to do with the business rates system and has caused confusion.
- In response to the technical consultation issued on 24 July 2018, the Government withdrew temporarily Negative Revenue Support Grant in 2019/20. This cost the Government £153m as negative RSG affects 168 Councils (with both South Hams and West Devon being affected).
- It is not known what will happen to negative RSG in 2020/21 and Councils including ourselves have stressed to the Government the importance of being given certainty of this as soon as possible. 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.
- The modelling within the MTFS currently assumes that negative RSG remains in some form (e.g. as part of the business rates baseline reset) from 2020/21 onwards in Appendix B1. Appendix B2 shows the modelling if negative RSG is excluded for 2020/21.
- The negative RSG currently included within the Council's modelling for 2020/21 amounts to £399,900. **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.

**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.**



## COMMUNITIES

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## New Homes Bonus

- The New Homes Bonus was introduced in 2011 to provide a clear incentive for local authorities to encourage housing growth in their areas. It rewards local Councils for additional homes added to the council tax base, as well as long term empty properties brought back into use. The Council receives £1,337 per property over the baseline plus £280 per affordable home. The Council has modelled an extra 600 properties per annum in its Taxbase (estimate of housing growth).
- The length of New Homes Bonus payments was reduced in length from 6 years to 5 years in 2017-18 and 4 years from 2018-19. From 2017-18 the Government has introduced a national baseline for housing growth of 0.4% below which New Homes Bonus will not be paid, which the Government has said reflects a percentage of housing that would have been built anyway. The baseline equated to 179 Band D Equivalent properties for South Hams. **So for the first 179 extra properties per annum the Council receives no NHB.**
- **The Government has previously 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, for example by using the Housing Delivery Test results to reward delivery or incentivising plans that meet or exceed local housing need. The Government will consult widely on any changes prior to implementation. It is not known if NHB will continue for one more year in 2020-21 with wider reform for 2021-22. Legacy payments for New Homes Bonus are likely to be honoured but the scheme for 2020/21 is still for discussion with Ministers. The table below shows possible levels of NHB (or an alternative introduced post 2020) and how this could be used.

	2019-20	2020-21	2021-22	2022-23
Amount of NHB	1,226,862	1,100,000	1,000,000	900,000
To fund Capital (e.g. affordable housing)	(690,000)	(600,000)	(650,000)	(650,000)
To fund the Revenue Base Budget	(500,000)	(500,000)	(350,000)	(250,000)
Other	(36,862)	TBA	TBA	TBA
Funding remaining/shortfall	Nil	TBA	TBA	TBA

**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.**

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## Reserves Policy

- Current Levels of Reserves (at 31/3/19): £1.898 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.
- The Council currently makes annual contributions to Earmarked Reserves of £714,300 (2019/20) and these are shown in Appendix E.
- It is recommended that the annual level of contributions to Earmarked Reserves (£684,300 projected for 2020/21 as per Appendix E) and the adequacy of the existing level of Earmarked Reserves (£13.3 million) is reviewed by Members as part of the budget setting process. This will assess their adequacy in light of future plans and pressures.

### Minimum level of Reserves to be held

- 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.
- Further detail on the Council's Unearmarked and Earmarked Reserves is set out in Appendix D of the Medium Term Financial Strategy.

**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.**

## Pension Strategy

- SHDC currently pays a 14.6% employer pension contribution for staff in the Local Government Pension Scheme. This is called the future service contribution rate. This is the anticipated cost to the Council of the pension rights that staff will accrue in the future and is expressed as a percentage (%) of pensionable payroll. Employees pay a separate amount out of their salary into the Pension Fund (the employee contribution).
- In addition to the 14.6%, the Council pays an annual sum of £215,000 into the Pension Fund as a past service deficit annual contribution. This cost arises where the cost of pension rights that have already been accrued turn out to be higher than expected. This happens where the Fund experience differs from previous assumptions, and so the contributions paid do not match the cost of the pension rights accrued during a previous period. The Council has been paying this sum annually for a long period of time.
- The Pension Fund has an Actuarial Valuation every 3 years which re-calculates the employer contributions that need to be paid for the next three years and the deficit contributions. Below are the results of the 2016 Actuarial Valuation. The results of the 2019 Actuarial Valuation are expected to be known around December 2019.
- The Council is currently paying the Deficit off over a 24 years recovery period. 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. The Council has currently included a £25,000 cost pressure for 2020/21 for the Triennial Pension Valuation. New contribution rates will be advised to the Council by DCC in December 2019, which will inform the cost pressure.

SHDC Pension Fund	2016 Actuarial Valuation
Assets	£78.4 million
Liabilities	£(82.3) million
Deficit	£(3.9) million
Funding Level	95%
Deficit Recovery Period	24 years

**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 (e.g. paying a lump sum to pay off the deficit either in part or in whole), with the aim of reducing the current contributions, increasing affordability, whilst best managing the pension deficit. A report will be presented to Members by January 2020 of options, once the results of the Triennial Pension Revaluation are known.**



## Treasury Management /Borrowing Strategy



The Council's Treasury Management Strategy details its borrowing limits and specifies approved institutes for investment, (with maximum limits), based on credit ratings and other pertinent factors. It also publishes Prudential Indicators which set investment and borrowing performance indicators to ensure that the Council stays within these guidelines.

### **Borrowing Limits**

- The Treasury Management Strategy for 2019-20 (approved by Council in March 2019) shows the approved level of Borrowing Limits: Operational Boundary of £70 million and Authorised Limit of £75 million
- The Council took external treasury management advice on the Council's overall borrowing levels in September 2018 and this advice was attached in Exempt Appendix G to the Medium Term Financial Strategy in September 2018. Their recommendation was that the Council limits its overall borrowing envelope for its whole operations and services to £75 million. This advice was based on a range of benchmarking of indices that they undertook. Borrowing needs to be proportionate and affordable and with always having regard to the risks involved in the repayment of the debt. Members are able to set a higher borrowing limit if they wish to do so. The S151 Officer's advice is to keep borrowing levels within the £75 million limit advised. Sensitivity analysis is shown in Appendix F.
- The Council has published new indicators for the Investment Strategy for 2019/20 and these include indicators such as the following:  
 Level of debt compared to Net Service Expenditure (proportionality)  
 (This indicator shows debt in 2019/20 is projected to be 259.4% the net service expenditure)  
 Net Commercial Income to Net Service Expenditure ratio (7.3%)

**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.**

## Treasury Management /Borrowing Strategy (continued)

- The Council maintains regular engagement with our Treasury Management advisors and constantly seeks their advice on our strategic direction and key operational decisions. The Council's Borrowing Strategy will be to borrow appropriately to meet the Council's objectives as a form of financing. The key is affordability criteria and the Council being able to service that borrowing.
- The Council will set a framework around the borrowing through its annual Treasury Management Strategy. There will be regular (at least annual) reviews of the Council's borrowing levels and the Council will weigh up opportunities against that borrowing limit. The key borrowing mechanism is through the PWLB. However the Council will continue to explore other sources.

## Minimum Revenue Provision (repaying the Principal element of debt repayments)

- The Council has currently approved the following Minimum Revenue Provision Policy through its Treasury Management Strategy for 2019/20. No changes are currently proposed to the Council's MRP Policy but this will be kept under regular review. If there are projects which officers feel would warrant a different approach, this will be brought back to Members on a business case basis for approval to vary the current MRP Policy.

<b>Borrowing</b>	<b>MRP Methodology</b>
Commercial Property acquisition (Borrowing of up to £60 million)	<p><b>Annuity Method (over the 50 years)</b></p> <p>The revenue budget bears an equal annual charge (for principal and interest) over the life of the asset by taking into account the time value of money. Since MRP only relates to the 'principal' element, the amount of provision made annually gradually increases during the life of the asset. The interest rate used in annuity calculations will be referenced to prevailing average PWLB rates.</p> <p>For some commercial property investments it is proposed to repay MRP based on 50% on the annuity method over the 50 year life (the assets will be regularly maintained), and 50% will be paid on maturity of the loan from either sale of the asset (a capital receipt) or through refinancing of the debt. The position will be regularly monitored. If at any point in time the valuation of the asset falls below the open market value then the MRP policy will be revisited.</p>

<b>Borrowing</b>	<b>MRP Methodology</b>
Waste Fleet, Leisure Investment	<p><b>Asset Life Method</b></p> <p>MRP is charged using the Asset Life method – based on the estimated life of the asset.</p> <p>This option provides for a reduction in the borrowing need over approximately the assets' life.</p>

### Investments

The Council has widened its use of approved counterparties from countries with a minimum sovereign credit rating of AA-. The criteria, time limits and monetary limits applying to institutions are set out within the Council's treasury management strategy approved at Council in March 2019.



## Future Cost Pressures

- The Council's Strategy is to identify cost pressures as early as possible. Cost pressures can be annual or one-off and can arise for a variety of reasons e.g. legislative changes, increase in demand, factors beyond the Council's control e.g. market conditions such as recycling rates, economic conditions or natural events.
- Appendix A of the Medium Term Financial Strategy (MTFS) sets out the cost pressures which have been identified for the next five years and these total £2.646 million for 2020/21.
- The Medium Term Financial Strategy has included a cost pressure of £110,000 for Inflation and increases on Goods and Services. The main items are for staff salary increments, Business Rates increases, Utilities inflation and fuel inflation and an amount to fund a 2.5% uplift on other expenditure budgets.
- The strategy takes account of a 1% rise in pay, however, the Council needs to respond to national pay bargaining. The Council built the 2% pay award for 2019/20 which was nationally agreed into the MTFS and this equated to £280,000. Thereafter 1% has been profiled each year for years 1 to 5 of the MTFS.
- A cost pressure of £150,000 has been included in 19/20 for ICT future service provision and there was a separate report on the Executive agenda in July regarding this for consideration.
- The strategy will be to state cost pressures as they come onto the horizon and to put mitigation in place through the budget setting process on an annual basis.

## Income Generation / Savings

### Fees and Charges



- 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.
- The Extended Leadership Team will bring forward business cases to Members to invest in technology to make savings or reduce costs in the base budget. This could also be through working with Partners e.g. Town and Parish Councils.
- Income from Fees and Charges will be annually reviewed and set. Some fees and charges are set by statute (e.g. planning fees) and others are set on a cost recovery basis e.g. licensing.
- The Council's strategy is that COP Leads will work with Executive Lead Members to review fees and charges on a regular (at least annual) basis and these will be presented to the relevant Committee or Council for approval as part of the budget setting process.
- For those not prescribed, fees will be set at a realistic rate following appropriate consultation e.g. car parking tariffs, where the Council will be looking to work with towns to achieve the optimum flow of parking to generate business in the towns with neutral income effect.
- Some income will be incidental e.g. recycling and will be market led in terms of income received. The strategy will be to share that risk with the contractor.
- The Council will continue to carry out paid consultancy work for other Local Authorities for example business transformation (T18), Human Resources (carrying out assessments using the behavioural framework) – to generate income for SHDC.
- Assets and Estate Management – the strategy is that rental income will be at market rates and rents are reviewed in a timely manner with active debt recovery. The Council has target occupancy levels, though rent free periods can also be allowed in limited circumstances where there is a business need.



## ENVIRONMENT

Protecting, conserving and enhancing our built and natural environment

## Procurement

- The Council's strategy is to market test its services through a pragmatic and rational approach and to look at the whole value for money case in terms of whether or not to procure. This would include soft market testing and taking procurement advice around the legislative framework.
- Where the Council does go out to procurement, there will be a balance between cost and quality. The Council's strategy is to build flexibility and risk sharing into the Council's contracts, whilst retaining value for money and having the ability to make potential changes on the contract.
- The Council will procure some services externally, where appropriate, keeping risk in mind. Where the Council doesn't have the necessary in-house expertise, the cost of using external advisers will be included within the cost of the project.
- The Council will also future proof its services. For example ICT contracts are much more dynamic and ever-changing and more suited to shorter contracts. Other services such as waste are more suited to longer term contracts.
- In July 2019, the Executive considered a report 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.



## COMMUNITIES

Council and residents working together to create strong and empowered communities

## Partnership Funding/Grants



## WELLBEING

Supporting positive, safe and healthy lifestyles and helping those most in need

- There is a separate report on the Executive agenda for Partnership Funding levels for 2020/21 onwards. 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
- The Council's SeaMoor Lotto (Community Lottery) will help certain projects / groups. Partners can join the Lottery facilitated by the Council in order to raise funding.

## Review of Assets



### COMMUNITIES

Council and residents working together to create strong and empowered communities

### ENTERPRISE

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- 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.

### Commercial Investment Strategy

- The Council has approved a commercial investment strategy of £60 million within the Council's overall borrowing limit of £75 million.
- On 18<sup>th</sup> July the Executive recommended to Council (which was approved), an update to the Commercial Investment Strategy to include the renewable energy sector. The Council's commercial investment strategy has multiple objectives as stated below:

### Overall Objectives:

The Council's Commercial Investment strategy has multiple objectives as stated below:

- To support regeneration and the economic activity of the District
- To enhance economic benefit & business rates growth
- To assist with the financial sustainability of the Council as an ancillary benefit
- To help the Council continue to deliver and/or improve frontline services in line with the Council's adopted strategy & objectives.

South Hams District Council was a business rates pilot area for 2018/19, which set out the economic objectives of the pilot area.

- New property acquisitions are assessed against the Council's multiple objectives and the criteria which are set out in the Strategy. The Council will only acquire properties where the running cost does not require Council subsidy. Per acquisition, a target minimum net yield (an ancillary benefit) of 2.0% is to be sought, after acquisition, management, maintenance, capital repayment and funding costs. However, the Council may opt to accept a lower net yield return if the community benefits of job creation or safeguarding, tourism, town centre regeneration, business rate growth or effective asset utilisation are deemed more important than a purely financial return.