

Report to: **Executive**
Date: **19 December 2019**
Title: **Draft Revenue Budget Proposals for 2020/21**
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: 23 January 2020

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Recommendations:

It is recommended that the Executive:

- (i) Notes the forecast budget gap for 2020/21 of £33,320 and the position for future years (a projected £0.530 million budget gap in 2021/22).
- (ii) Notes the current options identified and timescales for closing the budget gap in 2020/21 and in future years, to achieve long term financial sustainability.
- (iii) Resolves to request the views of the Overview and Scrutiny Panel on the Revenue Budget Proposals set out within this report for 2020/21.

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 SHDC to achieve annual savings of £3.9 million and more importantly protect all statutory front line services. Between both Councils the annual shared services savings being achieved are over £6 million. However, the Councils continue to face considerable financial challenges as a result of uncertainty in the wider economy and constraints on public sector spending.
- 1.3 The latest Budget position for the Revenue Budget 2020/21 is set out in this report. In the Modelling in Appendix B, the total projected budget gap is £33,320 in 2020/21 and this is predicted to increase to £529,711 in 2021/22 (the £529,711 assumes the budget gap in 2020/21 of £33,320 has not been closed). The aggregated Budget Gap to 2024/25 is £2.809 million.
- 1.4 A Members' Budget Workshop was held on 7th November. Based on the results of the Members' Budget Survey, the following changes have been reflected within this latest budget report:-
- A **Climate Change Policy Officer** (a two year temporary post) has been included at a cost of £25,000 per annum (SHDC share).
 - The **Business Rates Pooling Gain** has been increased by £50,000 to £200,000 in 2020/21, in line with current forecasts for 2019/20.
 - Following the **Triennial Pension Revaluation** the Council has been notified that it will have no actuarial pension deficit as at 31.3.2019, resulting in a saving of £200,000 per annum (see 2.9 and 2.10). There is now no need for the Council to pay any lump sum into the Pension Fund as SHDC's pension fund is in a small surplus position. However, the primary rate, the employer's pension contribution rate is increasing by 2.2% from 14.6% to 16.8% producing a cost pressure of £140,000 from 2020/21 until the next actuarial pension revaluation. The Devon Pension Fund in general is experiencing a 2% increase in the primary rate due to the change in financial assumptions. An allowance of an additional 2% (£25,000) for the pension contributions for the externalised waste contract has also been built in for 2020/21 onwards.
 - An increase in **car parking pay and display fees** of 4% from 1st April 2020, generating £80,000 additional income per annum. It is envisaged that this will be the only increase in car parking pay and display fees within this four year period of the Council. This is less than the anticipated inflation over the four years.
 - Additional income from the Council's **Commercial Investment Strategy** of £75,000 per annum.
 - Additional **employment estates income** of £25,000 per annum.
 - Additional **treasury management income** of £20,000 per annum.

- Additional **corporate consultancy income** of £10,000 per annum.
- Additional planning income of £9,600 per annum from the introduction of a **premium planning service**.
- A reduction in **ICT contracts** of £12,000 per annum.

1.5 In addition, three temporary posts shared with West Devon Borough Council) have been proposed in this report to be made permanent, to be funded by the Flexible Homelessness Government grant funding, to provide stability of resource within the Council's Housing team. The SHDC share of costs is £48,700. This does not create a cost pressure on the 'bottom line' as the cost pressure is offset by the government grant income (both the cost and the income are budgeted for), therefore there is a neutral impact on the budget.

1.6 Other changes that have been incorporated in this latest Budget position for 2020/21 are as follows:

- Pressures identified within the Quarter 2 Revenue Budget Monitoring Report and the Public Conveniences Report, both separate items on this Executive agenda. These pressures relate to large or hazardous fly tipping collection costs (£20,000), a management recharge from Salcombe Harbour to Dartmouth Lower Ferry (£21,100) and Public Conveniences (£12,850). The Public Conveniences budget pressure will reduce to £7,500 per annum from 2021/22 onwards.
- Additional income of £20,000 per annum in respect of Dartmouth Lower Ferry.
- Estimated one off redundancy and pension strain costs following the Senior Leadership Team and Extended Leadership Team restructure of £25,000 per annum for three years (see 11.1).
- An increase in the National Living Wage/National Insurance estimate of £20,000 per annum.
- An increase in the annual contribution to the Repairs and Maintenance Reserve of £25,000.
- Additional income of £4,100 per annum following the review of fees and charges for 2020/21 at the Overview and Scrutiny Panel on 17th October 2019 (Minute ref. 37).

1.7 Members views are also sought on including an Economy post (shared with West Devon Borough Council) within the staffing establishment going forward, to be funded from the business rates pooling gains, to further drive the Council's economic aims and the Enterprise strategic theme, creating places for enterprise to thrive and business to grow (see 2.20). The cost of this post is expected to be around £25,000 per annum (SHDC share). Currently, this cost has not been built in to Appendix A as a budget pressure for 2020/21 onwards.

2. BACKGROUND

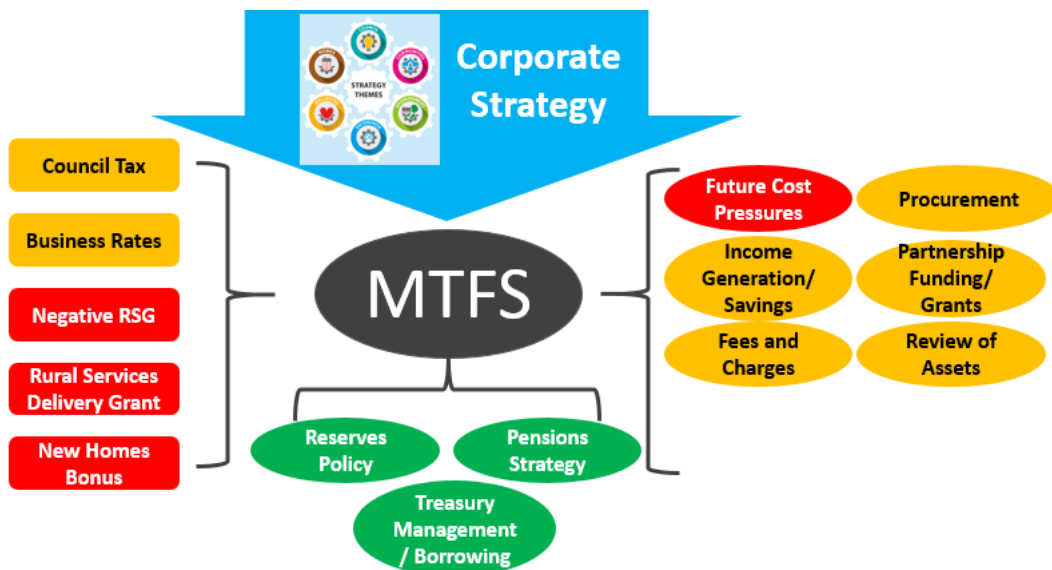
2.1 The Medium Term Financial Strategy (MTFS) report was approved by Council in September 2019. A Budget update report was presented to the Executive on 31st October 2019 and reflected the following changes:-

- Negative Revenue Support Grant has been assumed to be withdrawn by the Government for 2020/21 (one year only)
- A council tax referendum limit of the higher of £5 or 1.99% has been assumed
- Rural Services Delivery Grant has been assumed to be paid at the same level in 2020/21 as in 2019/20 – i.e. £408,055
- The provision for a pay award has been increased from 1% to 2% for each year of the Medium Term Financial Strategy. This is subject to national negotiation on an annual basis. The Medium Term Financial Strategy is not an expression of Council Policy on pay awards, but a means of ensuring an appropriate provision is made as part of the overall financial planning of the Council.
- Two planning enforcement posts (the SHDC share of costs) have been included within the cost pressures.
- The Public Lavatories Bill has been dropped due to the proroguing of Parliament. Therefore the savings from business rates not being payable on public toilets will be delayed until at least 2021/22.
- The estimated business rates pooling gain for 2020/21 has been increased, in light of the current monitoring position on the Devon Business Rates Pool.
- The Collection Fund Surplus has been reduced to £60,000 for 2020/21. This is an annual calculation carried out after the closure of the Accounts and on the closure of the Collection Fund.

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

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.

Net Budget £8.8 million 2019/2020



2.2 Technical consultation on Local Government Finance Settlement

On 3rd October, a technical consultation on the Finance Settlement for 2020/21 was issued by the Government, with the consultation closing on 31st October. A copy of the Council's response to the consultation was circulated to all Members in the Members' Bulletin. [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/836539/Local Government Finance Settlement 2020-21 Technical Consultation .pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/836539/Local_Government_Finance_Settlement_2020-21_Technical_Consultation_.pdf)

2.3 The main items within the consultation were as follows:

- Spending Round 2019 - There will be a one year Spending Round for 2020/21 and plans for a more substantial Spending Review for 2021/22 onwards. So effectively this a 'roll-forward' settlement for 2020/21 for one year.
- Business rates – A similar system in 2020/21 to that in place for 2019/20 is being proposed, with further reform delayed until 2021/22.
- Negative Revenue Support Grant (RSG) - It states in 4.3.3 of the consultation that 'the Government is currently minded to pay off negative RSG again in 2020/21'. The Government welcomes views in response to the consultation on whether eliminating negative RSG is the right approach for 2020/21. This means the Council wouldn't have to forego some of its business rates income (£400,000) by paying some of it back to Government in the form of 'negative government grant'.

- Council Tax Referendum Principles – A core referendum principle of 2% for 2020/21, with the consultation asking the question of whether for Shire District Councils such as South Hams, this should be a principle of 2% or £5, whichever is the greater.
- Council Tax referendum limits for Town and Parish Councils
In 5.3.3 the Government proposes to continue with no referendum principles for Town and Parish Councils in 2020/21. Town and Parish Councils have been informed of this and also that they may have wished to respond to Question 4 of the consultation.
- Better Care Fund
The Government proposes to continue with the existing Better Care Fund funding at the 2019/20 levels, using the same methodology as 2019/20.
- New Homes Bonus
NHB will continue for 2020/21 for one year, with any funding beyond 2020/21 being subject to the 2020 Spending Review. For one year the Government will fund legacy payments and the Government is minded to make a new round of allocations for 2020/21. However they may change the 0.4% baseline when the Finance Settlement is announced in December. The consultation asks if Councils agree that there should be a new round of 2020/21 NHB allocations or would Councils prefer to see this funding allocated for a different purpose.
- Rural Services Delivery Grant (RSDG)
The Government is proposing to pay Councils the same level of RSDG as they received in 2019/20. This is £408,055 for South Hams District Council.

Council Tax

- 2.4 Council in September 2019 (Council Minute 34/19) has 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. (The council tax for 2020/21, the SHDC share, will be set at the Council meeting on 13th February 2020).
- 2.5 A £5 increase in council tax would equate to a Band D council tax of £170.42 for 2020/21. This is an increase of 3.02%. A 1% increase in council tax generates £64,000. 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.

Business Rates

- 2.6 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 estimated business rates pooling gain for 2020/21 has been increased from £150,000 to £200,000, in light of the current monitoring position on the Devon Business Rates Pool.

New Homes Bonus (NHB)

- 2.7 For one year the Government will fund legacy payments and the Government is minded to make a new round of allocations for 2020/21. However the Government may change the 0.4% baseline when the Finance Settlement is announced in December. The financial modelling has included using £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.
- 2.8 The baseline is the proportion of housing growth which is deducted as 'natural growth as such' before New Homes Bonus is paid to a Council – this is the equivalent of 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. The allocation for 2020/21 will be announced in December 2019 and is expected to be in the region of £1 million. The table below sets out the current proposed use of New Homes Bonus funding for 2020/21:-

NHB	Amount (£)
New Homes Bonus 2020/21 estimated allocation	1,000,000
Current allocation:-	
To fund the Revenue Base Budget	(500,000)
Dartmoor National Park allocation*	TBA
Amount remaining unallocated**	500,000

*Dartmoor National Park (DNP) – On an annual basis Dartmoor National Park request a share of the New Homes Bonus to reflect new homes delivered within the Park. The money is used to support a local community fund and, for example, joint work through the rural housing enabler. Members consider this on an annual basis as part of the Budget process.

**The Council has not yet received the draft Local Government Finance Settlement for 2020/21 and therefore the New Homes Bonus Allocation for 2020/21 has not been confirmed. Members will be aware that this will be the last year of New Homes Bonus funding and the remaining amount unallocated may be required to:

- Fund the Revenue budget gap in 2020/21 or 2021/22 if the position changes, and/or
- Fund the Capital Programme from 2021/22 onwards.

Pensions Strategy (Actuarial Valuation)

2.9 The Council has taken specialist pension advice on the options for the Council's Pension position (informing the actuarial valuation), with the aim of reducing the current deficit contributions, increasing affordability, whilst best managing the pension deficit. Options were presented to the Council's Audit Committee on 31st January 2019. The preliminary results of the Triennial Pension Revaluation were received on 21st November 2019. The total pension contribution rates payable for employers consists of two elements, the primary rate and the secondary rate:

- **The primary rate** – this is the anticipated cost to the Council of the pension rights that members will accrue each year in the future. The primary rate, or future service rate is expressed as a percentage of pensionable payroll. The primary rate, the employer's pension contribution rate is increasing by 2.2% for SHDC from 14.6% to 16.8% producing a cost pressure of £140,000 from 2020/21 until the next actuarial pension revaluation. The Devon Pension Fund in general is experiencing a 2% increase in the primary rate due to the change in financial assumptions.
- **The secondary rate** – this arises where the cost of pension rights that have already been accrued turn out to be higher than expected, resulting in a deficit. 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 secondary rate, or deficit recovery rate is set as a cash figure.

2.10 The Council will no longer have a pension actuarial deficit as at 31.03.2019, resulting in a saving of £200,000 per annum in employer secondary rate contributions. There is now no need for the Council to pay any lump sum into the Pension Fund as SHDC's pension fund is in a small surplus position. The funding level and the movement in the Council's pension position following the Triennial Pension Revaluation is shown in the table below. The table shows that the Council's pension fund is 101.1% funded as at 31st March 2019, a small surplus position. Advice has been sought from the Actuaries in terms of whether the Council's primary rate could be reduced given this small surplus. However, the Actuaries advice is that this is only considered for employers where the surplus is 105% or more. This provides an allowance for experience going forward against the actuarial assumptions, with the aim of trying to make sure that employers who are 100% funded don't go back to a deficit position in future years.

	At 31 March 2016	At 31 March 2019
	£000	£000
Assets	78,440	97,607
Liabilities	82,291	96,570
Surplus/(Deficit)	(3,851)	1,037
Funding level	95.3%	101.1%

Treasury Management and Borrowing Strategy

- 2.11 The Council has taken external treasury management advice on the Council's overall borrowing levels and debt levels. The Council set an Upper Limit on External Borrowing (for all Council services) as part of the Medium Term Financial Strategy of £75 million. In March 2019, the Council considered its Capital Strategy and Treasury Management Strategy which contained the new requirements issued by MHCLG in February 2018 of the new guidance. Members received training on the new requirements in November 2018.

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

- 2.12 At the Executive meeting on 31st October 2019, (Minute E.50/19) Members considered the results of the consultation exercise with Town and Parish Councils on the Council Tax Support Grant. It was resolved that Council be recommended to withdraw the Council Tax Support Grant from Town and Parish Councils with effect from 1 April 2020 by 50% per annum over the next two years as part of the budget process, in order to allow time for Town and Parish Councils to plan for the reduction in their budget setting processes.

Results of the Members' Budget Survey 2019

- 2.13 A Members' Budget Workshop was held on 7th November, Based on the results of the Members' Budget Survey the following changes have been reflected within this latest budget report:

- A **Climate Change Policy Officer** (a two year temporary post) has been included at a cost of £25,000 per annum (SHDC share). The Climate Change Action Plan will be brought to Members at the December Council meeting. In order to deliver the Action Plan, a temporary 2 year post is recommended for a Climate Change Policy Officer. The post will be reviewed after year 2.
- The **Business Rates Pooling Gain** has been increased by £50,000 to £200,000 in 2020/21, in line with current forecasts for 2019/20.
- Following the **Triennial Pension Revaluation** the Council has been notified that it will have no actuarial pension deficit as at 31.3.2019, resulting in a saving of £200,000 per annum (see 2.9 and 2.10). There is now no need for the Council to pay any lump sum into the Pension Fund as SHDC's pension fund is in a small surplus position. However, the primary rate, the employer's pension contribution rate is increasing by 2.2% from 14.6% to 16.8% producing a cost pressure of £140,000 from 2020/21 until the next actuarial pension revaluation. The Devon Pension Fund in general is experiencing a 2% increase in the primary rate due to the change in financial assumptions. An allowance of an additional 2% (£25,000) for the pension contributions for the externalised waste contract has also been built in for 2020/21 onwards.

- An increase in **car parking pay and display fees** of 4% from 1st April 2020, generating £80,000 additional income per annum. Car parking charges were last increased in July 2018 by 2% (for the 2018/19 financial year). It is envisaged that this will be the only increase in car parking pay and display fees within this four year period of the Council. This is less than the anticipated inflation over the four years.
- **Commercial Investment Strategy** of £75,000 per annum. The Council has agreed a commercial investment strategy of up to £60 million. The Council is progressing various investment opportunities including the renewable energy sector. An income budget for 2020/21 of approximately £75,000 could be achieved (this would be the net return to the Council). This does not include projects on a later timescale where the Council is preparing to go out to public consultation such as Kingsbridge and Ivybridge.
- Additional **employment estates income** of £25,000 per annum. The 2018/19 and 2019/20 capital budgets included provisions for the development of 4 units in Ermington. The units are now complete and are in the process of being let. They are expected to generate a rental income of £25,000 p.a. when fully let.
- Additional **treasury management income** of £20,000 per annum. The investment interest budget based on our daily Treasury Management activity is currently £183,000. In the quarter 2 revenue monitoring report an additional £30,000 of investment income is anticipated for 2019/20.
- Additional **corporate consultancy income** of £10,000 per annum. The Council will look to attract more work from other Councils. This would primarily be through us delivering consultancy or short term work activities rather than delivering full services. An example of this would be continuing the work on Disabled Facilities Grants for Torridge DC. The current budget for consultancy income is £20,000, so this would increase the income target to £30,000 for 2020/21.
- Additional planning income of £9,600 per annum from the introduction of a **premium planning service**. This service would involve the applicants paying an additional fee, over and above the statutory fee, in return for a set of specific actions/commitments with a view to getting an application determined faster than under the normal service. The additional income is based on an estimate of one application per month over the year. The service would not in any way influence the outcome of the decision making process. This option was only just supported by the majority of Members (55.56%) and one Member said that they would only support this option if the additional income was ring fenced to pay for an additional planning post.
- A reduction in **ICT contracts** of £12,000 per annum. Cancellation of the IEG4 Contract and implementation of the Northgate Citizen access portal would generate savings from

2020/21 of £12,000 (SHDC share), increasing to £24,000 a year from 2021/22.

2.14 The following items were not supported by the majority of Members in the Budget Survey and have therefore not been included in Appendix A:

- **A Town Centres Strategy Officer** – at the recent Overview and Scrutiny Panel, Members considered the Town Centres Strategy and passed the following resolution 'That Option 3 (namely that the Council could 'take a more active role in promoting, leading and delivering change in the community. This might be achieved by a lead Officer/Officers and Members dedicating additional time to convening meetings, assessing opportunities and creating working groups/task and finish groups to deliver against the agenda') be fully costed and presented to the draft 2020/21 Budget Setting Workshop on Thursday, 7 November 2019.
- **Increase car parking pay and display fees and transfer the additional income to an earmarked reserve to help fund installation of rapid electric charging points (on a larger scale, over and above grant funding already available)** – Members considered an option which looked at increasing car parking pay and display fees and transferring the additional income to an earmarked reserve to help fund investment in the installation of rapid electric charging points in the Council's car parks. Some Members made the point that the Council should be able to access government grant funding.

Other Budget Ideas raised by Members in the Budget Survey

2.15 One Member asked if we could research the model from Wigan Council around Assets Based Community Development. This was an item on the September 2019 Council agenda and shown below is an extract of the relevant minute:-

'This Council proposes that the Deputy Chief Executive and the Executive Lead for Communities together examine the benefits that Assets Based Community Development could offer to South Hams DC and its communities and report back to Council within four months in order to determine the next steps'.

2.16 Another Member asked if the Council could investigate charging double for retrospective planning applications, as this was the case in Jersey. This idea has been looked at by the Head of Development Management Practice and the planning regulations which apply in England set out the planning charges at a national level and the Council does not have the ability to set fees locally. Different planning regulations apply in Jersey.

2.17 One Member suggested incentivising electric vehicles with free/reduced parking charges and providing storage/lock up facilities

for bicycles and electric bike hire. In addition, another Member commented that they would support the 5% additional car park income but then offer a 4 hour free parking to electric vehicles parked in charging bays charging their cars.

- 2.18 This latest budget position includes a provision for the pay award of 2% per annum in line with the previous Medium Term Financial Strategy. This is subject to national negotiation on an annual basis. The Medium Term Financial Strategy is not an expression of Council Policy on pay awards, but a means of ensuring an appropriate provision is made as part of the overall financial planning of the Council. The 2020/21 pay award is still being negotiated and therefore the pay award cost pressure might change once this has been agreed in the New Year.
- 2.19 In addition, three temporary housing posts (shared with West Devon Borough Council) have been proposed in this report to be made permanent, to be funded by the Flexible Homelessness Government grant funding, to provide stability of resource within the Council's Housing team. The SHDC share of costs is £48,700. This does not create a cost pressure on the 'bottom line' as the cost pressure is offset by the government grant income (both the cost and the income are budgeted for), therefore there is a neutral impact on the budget. The Government has reformed temporary accommodation finance through a flexible homeless support grant. There has also been financial recognition of the enormous additional burden placed on local authorities through the Homeless Reduction Act, meaning that the service has been able to continue delivering its statutory service, perform highly in preventing homelessness and reducing lengths of stays in temporary accommodation. The Council has robust homeless and rough sleeper prevention strategies which has meant the Council has prevented homelessness for 986 households since its inception in 2017. The short term nature of grant funding has meant the Council has only been able to offer short term contracts, and the Council has used significant resource on the training and induction of staff, only to lose staff to our neighbouring Authorities when permanent positions have arisen. In order to provide stability of resource to really drive homeless prevention in our area, it is recommended that three housing posts are made permanent posts on the establishment, to be funded by flexible homelessness grant (Government grant funding).
- 2.20 Members' views are also sought on including an Economy post (shared with West Devon Borough Council) within the staffing establishment going forward, to be funded from the business rates pooling gains, to further drive the Council's economic aims and the Enterprise strategic theme, creating places for enterprise to thrive and business to grow. The cost of this post is expected to be £25,000 per annum (SHDC share). Currently, this cost has not been built in to Appendix A as a budget pressure for 2020/21 onwards. It is envisaged that this Economy post would:

- Put together bids for external funding and use Grantfinder to attract external grants
- Set up projects to support local business growth, create new jobs and improve local skills.
- Help to promote tourism and investment in the local region.
- Conduct research and analyse statistics.
- Build partnerships between local government, businesses and communities.
- Work in partnership with the Federation of Small Businesses (FSB).
- Advise businesses and community groups about available grants and funding.
- Work with the Local Enterprise Partnership on opportunities for funding.
- Promote our local area to attract new businesses and retain existing businesses through a targeted approach.
- Develop local economic development strategies and an action plan to implement them – assist with the Town Centre work.
- Help local businesses to become more competitive in finding new markets.

3 BUDGET PRESSURES, SAVINGS AND INCOME GENERATION

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

3.2 **Appendix A** to the Medium Term Financial Position 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	1,545,640	630,761	425,000	425,000	450,000
(Reduction)/ Increase in contribution to Earmarked Reserves	(53,700)	205,000	130,000	130,000	78,000
Savings and additional income	(914,477)	(446,220)	(179,196)	(12,100)	(2,100)

4. OVERALL POSITION – BUDGET GAP

4.1 Appendices A and B illustrates the overall financial forecast for the forthcoming five years. The Council's Net Budget is £8.8 million in 2019/20. 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 1.99% or £5 (Appendix B).

4.2 The following table illustrates the predicted budget gap from 2020/21 onwards for the Council as shown in Appendix B:

Cumulative Budget Gap	2020/21 £	2021/22 £	2022/23 £	2023/24 £	2024/25 £	Total Aggregated Budget Gap £
Modelling in Appendix B	33,320	529,711	548,364	730,113	967,426	2,808,934

4.3 In the Modelling in Appendix B, the projected budget gap is £33,320 in 2020/21 and this is predicted to increase to £529,711 in 2021/22 (the £529,711 assumes the budget gap in 2020/21 of £33,320 has not been closed). The aggregated Budget Gap to 2024/25 is £2.809 million.

5 FINANCIAL SUSTAINABILITY AND TIMESCALES

5.1 The Council is progressing various options for closing the budget gap for 2020/21 onwards, to achieve long term financial sustainability. The table below sets out a timescale for those options and the various strands that the Council is exploring.

Option	Possible Budget Impact	Timescale
Asset Review/ Corporate Property Strategy There was a separate report on the Executive agenda in December 2018 for 'Commercial Development Opportunities'.	Initial income projections have been included within this budget report.	Regular updates will be provided to Members.
Strategic Accommodation Review Members of the Accommodation Working Group are reviewing options. A report will be presented to a future meeting of the Executive. Currently West Devon Borough Council pays South Hams District Council £90,000 per year which reflects the cost of the shared service provision and the far greater footprint used at Follaton House for the	To be quantified	By April 2020

Option	Possible Budget Impact	Timescale
<p>provision of some frontline services (call centre) and all back office functions. Members at West Devon have requested that this annual payment is reviewed. The original figure of £90,000 was calculated in 2014 as part of the T18 Transformation Programme business case. It is acknowledged that working practices have changed in the last 5 years and the review would look to address this. This work will be undertaken during January 2020.</p>		
<p>Car parking permits On 31 October 2019, the Executive (Minute E.53/19) resolved that the sale of all new parking permits be ceased with immediate effect, pending a complete review of permits across the District. This will be the subject of a future Executive report.</p>	<p>To be quantified</p>	<p>During 2020/21</p>
<p>Garden Waste charges The Council has the opportunity to charge for garden waste in the future. Based on a subscription level of £40 and a 20% participation rate, a net income of around £110k per annum is projected. In addition, there could be an operational saving of around £50k per annum. So there is a potential total saving of £160k. These figures are conservative estimates. A service change would not be anticipated until April 2021. This is because the Council could not introduce this service until after the September 2020 change-over to the Devon Aligned Service which separates the food from the garden waste collections, thus allowing for charging on garden waste (if this is the direction from Members) and the optimum time for any launch of chargeable garden waste would be at the start of the growing season.</p>	<p>£160,000 of income per annum</p>	<p>From April 2021</p>

Option	Possible Budget Impact	Timescale
Funding Options		
<p>Negative Revenue Support Grant Negative Revenue Support Grant (RSG) for 2019/20 of £400,000 was eliminated by the Government for one year.</p> <p>The Government are consulting on funding negative RSG for one year for 2020/21. This has been assumed in the modelling in Appendix B.</p>	<p>Negative RSG of £400,000 for 2021/22 onwards has been built into this budget report.</p>	<p>It is assumed that negative RSG of £400,000 will be deferred for one year until 2021/22.</p>
<p>New Homes Bonus allocations for 2020/21 onwards</p> <p>The Government has stated that 2020/21 represents the final year of NHB funding and from 2021 onwards they will explore how to incentivise housing growth most effectively and will consult on this issue.</p> <p>The financial modelling has included using £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>It is not known what NHB allocations (or a similar scheme) will be in future years when the NHB scheme is replaced. This remains a risk for the Council.</p>	<p>To be assessed</p> <p>It is not known what NHB allocations (or a similar scheme) will be in future years when the NHB scheme is replaced.</p>	<p>Awaiting further announcements from the Government</p>
<p>Use of Reserves as a temporary measure</p> <p>The Council could temporarily utilise Reserves to balance an element of the 2020/21 budget, whilst longer term solutions are being implemented. 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>

6. CAPITAL PROGRAMME AND PRUDENTIAL BORROWING

- 6.1 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. The Capital Budget Proposals for 2020/21 are a separate report on this agenda. This sets out a Proposed Capital Programme for 2020/21 of £3.73 million and the sources of funding for the Capital Programme.
- 6.2 **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. Consultation on the Kingsbridge and Ivybridge schemes will be taking place in the New Year and stakeholders e.g. Members, residents, businesses, will be made aware of how to engage in the consultation process.
- 6.3 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.
- 6.4 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.
- 6.5 **Prudential Borrowing** - The Council will consider the use of prudential borrowing to support capital investment to deliver services and will ensure that the full costs of borrowing are taken into account when investment decisions are made.
- 6.6 Public Works Loans Board (PWLB) borrowing – On 9th October the Council received notification that overnight, the PWLB borrowing rate had increased by 1% across all of their loans which are available. This was without any prior notice and this dramatic increase overnight is unprecedented in years gone by. For example 50 year borrowing is now 3% interest rate (previously just under 2%). This only affects new loans taken out and this doesn't affect loans taken out in the past e.g. for leisure. The Council is assessing the impact on all of its business cases which involve external borrowing. It is thought that other market providers e.g. bank and pension funds will look to offer products that are at a more competitive rate than the current PWLB offering.
- 6.7 An overall Borrowing Limit (£75 million) has been approved as part of the Medium Term Financial Strategy, with £60 million being for the Commercial Property Strategy and £15 million for other borrowing requirements.

7. Earmarked and Unearmarked Reserves

- 7.1 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 and the projected balances as at 31st March 2020 is attached at Appendix C.
- 7.2 There are some small historic earmarked reserves e.g. the Innovation Fund (Invest to Earn) which has a balance of £2,000, which will be recommended as part of the February 2020 budget report to be amalgamated back into general unearmarked reserves.
- 7.3 As part of the 2020/21 budget setting process it has been identified that the annual contribution to the Repairs and Maintenance Reserve of £55,000 has not been increased since 2009/10. Therefore it is proposed to increase this contribution by £25,000 in 2020/21 to £80,000, and then a further £25,000 amounting to an annual contribution of £105,000 from 2021/22 onwards. This will bring the contribution in line with current demand and will also allow for money to be put aside for the roofs at Garden Mill Industrial Estate in Kingsbridge.

8. Budget Monitoring

- 8.1 The latest Quarter 2 Revenue Budget Monitoring position is a separate report on this agenda. This shows that actual net revenue expenditure is forecast to be under budget by £37,000 when compared against the total budget set for 2019/20. As part of this latest monitoring exercise two budget pressures have been identified that have been built into the latest budget position. These relate to:

- **Large or hazardous fly tip collections** - the budget for large or hazardous fly tip collections is predicted to be overspent by £20,000 in 2019/20. This continues the trend of previous years. Large or hazardous fly tips sit outside of the FCC contract and this is a Council cost. Household and small fly tips are included within the FCC contract and are part of the contract cost. Therefore a cost pressure of £20,000 per annum has been reflected in this budget report.
- **Salcombe Harbour management recharge** – the involvement of Salcombe Harbour staff in ensuring the continuing compliance of the Dartmouth Lower Ferry with the legislation set out in the Maritime and Coastguard Agency (MCA) has been estimated at £21,100 per annum from 2020/21 in terms of a staff recharge. Going forward this level of involvement by Salcombe Harbour (a ring-fenced account) is likely to continue and therefore a cost of £21,100 per annum has been built into the latest budget position to reflect this management recharge. In this year, two out of three

major refits have been completed as well as health and safety works being carried out at the Dartmouth Lower Ferry workshops.

- 8.2 In addition, the Quarter 2 Revenue Budget Monitoring report forecasts additional income for Dartmouth Lower Ferry of £40,000 for 2019/20. It is anticipated that some of this income will continue in future years and therefore an additional income target of £20,000 has been built into the 2020/21 budget for Dartmouth Lower Ferry.

9. Public Conveniences

- 9.1 There is a public conveniences update report on this Executive agenda. The report sets out that the proposals represent a budget pressure of £12,850 in 2020/21 and an on-going annual pressure from 2021/22 of £7,500. Appendix A has been updated to reflect these figures. Overall the public conveniences project will achieve an annual saving of £228,015 by 2021/22.

10. Fees and Charges

- 10.1 At the Overview and Scrutiny Panel on 17th October 2019 (Minute ref. 37) Members considered the review of fees and charges for 2020/21. The changes proposed for 2020/21 onwards will generate additional income of £4,100 per annum in respect of boat storage charges (£2,000) and S257 footpath diversion orders (£2,100). These additional income targets have been built into Appendix A.

11. Senior Leadership Team/Extended Leadership Team restructure

- 11.1 The Corporate Peer Challenge report, carried out in November 2018, recommended a review of the management structure of the Councils. The first part of this review was carried out in September 2019 with the formation of a Senior Leadership Team (SLT) that provides the clarity and capacity to meet the challenge of delivering the ambitious objectives of the Councils. The report to Council on 18th July requested that the Chief Executive review and implement changes to the Extended Leadership Team (ELT) by December 2019. The annual savings (SHDC share) from the SLT and ELT staff restructure are £94,000 per annum. There are estimated to be some one-off redundancy and pension strain costs associated with the restructure and an amount of £25,000 for three years has been budgeted for as a cost pressure.
- 11.2 In addition, in terms of salaries a further £20,000 pressure has been included in respect of the National Living Wage and National Insurance for 2020/21 onwards.

12 NEXT STEPS

- 12.1 This report is a snapshot (a position statement) in December 19 and future Member decisions on the budget strategy will inform future figures within the 23rd January 2020 Budget report to the Overview and Scrutiny Panel.

12.2 Individual Council funding figures for 2020/21 are due to be released in December with the Local Government Finance Settlement.

13. 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	In the modelling in Appendix B, the budget gap is predicted to be £33,320 in 2020/21 (the £529,711 in 2021/22 assumes the budget gap in 20/21 of £33,320 has not been closed). The aggregated Budget Gap is £2.809 million over the five years.
Risk	Y	Each of the budget options taken forward by Members will consider the risks of the option.
Supporting Corporate Strategy	Y	The Budget report supports all six of the Corporate Themes of Council, Homes, Enterprise, Communities, Environment and Wellbeing.
Climate Change - Carbon / Biodiversity Impact	Y	<p>A Climate Change Action Plan will be presented to Council in December 2019, with associated financial implications.</p> <p>Following this report, a strategy will be implemented as to how the Council could finance the items within the Action Plan, whether that is from external grant sources or some funding from the Council's own resources.</p>
Comprehensive Impact Assessment Implications		
Equality and Diversity	N	Equality Impact Assessments are completed for the budget proposals.
Safeguarding	N	None directly arising from this report.

Community Safety, Crime and Disorder	N	None directly arising from this report.
Health, Safety and Wellbeing	N	None directly arising from this report.
Other implications	N	None directly arising from this report.

Supporting Information

Appendices:

Appendix A – Budget pressures and savings

Appendix B – Modelling of the Budget (MTFS) Position

Appendix C – Schedule of Reserves (Unearmarked and Earmarked)

Background Papers

Executive – 19th September 2019 – Medium Term Financial Strategy 2020/21 to 2024/25

Executive – 31st October 2019 – Budget Update report for 2020/21 onwards

Council – 26th September 2019 - Medium Term Financial Strategy 2020/21 to 2024/25

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