

Report to: **Executive**
Date: **6th February 2020**
Title: **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: 13th February 2020

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Recommendations:

That the Executive resolves to RECOMMEND to Council:-

- i) To increase Council Tax for 2020/21 by £5 (Band D of £170.42 for 2020/21 – an increase of 10 pence per week or £5 per year – equates to a 3.02% increase)
- ii) The financial pressures shown in Appendix A of £1,603,640
- iii) The net contributions to/(from) Earmarked Reserves of (£117,843) as shown in Appendix D
- iv) The savings of £904,877 as shown in Appendix A
- v) Partnership funding levels set out in 2.38, with the addition of £10,000 to the CVS, subject to the CVS demonstrating that they meet the criteria set out in 2.38
- vi) The use of £564,143 of New Homes Bonus funding to fund the 2020/21 Revenue Budget as set out in 2.25 of the report

- vii) The use of £400,000 of New Homes Bonus funding to set up an emergency climate change projects Earmarked Reserve (2.20)
- viii) To transfer the unallocated balance (currently £235,016) of New Homes Bonus into the New Homes Bonus Earmarked Reserve, with its future use to be decided when more details are known about the Spending Review for 2021/22 and following a Government consultation document on a replacement scheme for NHB which will be published in the Spring of 2020
- ix) The inclusion of an Economy post (shared with West Devon Borough Council within the staffing establishment for two years, as 2.37)
- x) To delegate to the S151 Officer, in consultation with the Leader and Executive Member for Finance to agree the final amount of New Homes Bonus funding for the Dartmoor National Park Sustainable Community Fund for 2020/21
- xi) That the Council should set its total net expenditure for 2020/21 as shown in Appendix B as £9,413,672
- xii) That the minimum level of the Unearmarked Revenue Reserve is maintained at £1.5 million.
- xiii) That the level of reserves as set out within this report and the assessment of their adequacy and the robustness of budget estimates are noted. This is a requirement of Part 2 of the Local Government Act 2003.

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 report attached sets out proposals for the Council to achieve a balanced budget in 2020/21, as shown in Appendix B. South Hams District Council is currently forecasting a £568,974 budget gap by the following year, 2021/22. The aggregated Budget Gap by 2024/25 is £3.2 million.

- 1.4 The Revenue Budget Proposals for 2020/21 were considered by a Joint meeting of the Overview and Scrutiny Panel and the Development Management Committee on 23rd January 2020. At this meeting, an alternative set of Revenue Budget recommendations were proposed and voted on. The full minutes of this meeting are a separate item on this Executive agenda.
- 1.5 This Executive report has been finalised after the Leader has given consideration to the budget proposal from the Joint Scrutiny meeting on 23rd January 2020 as per 1.4. The following items from the Joint Scrutiny meeting have been included within the final Executive Budget Proposals being recommended to Council on 13 February 2020:-
- To use £400,000 of New Homes Bonus funding to set up an emergency climate change projects Earmarked Reserve
 - To increase Partnership funding levels set out in 2.38, with the addition of £10,000 to the CVS, subject to the CVS demonstrating that they meet the criteria set out in 2.38
 - To fund the revenue budget gap from New Homes Bonus funding (see 2.25)
 - The inclusion of an Economy post, with the proposal for this to be a two year post and reviewed after two years. This would be a shared post with West Devon Borough Council, with the South Hams share of the cost being £25,000 (see 2.37), to be funded by business rates pooling gains. A Job Description will be circulated to all Members by separate cover, in advance of the Executive meeting.

In addition, the final Budget Proposals have removed the income of £9,600 from the introduction of a premium planning service. This is not being proposed to be introduced, due to the Members' concerns about offering this service.

- 1.6 The table in 2.20 shows the summary of changes to the Budget report for 2020/21, following the Joint Scrutiny meeting of 23rd January. It is also being recommended by the Executive, to transfer the unallocated balance (currently £235,016) of New Homes Bonus into the New Homes Bonus Earmarked Reserve, with its future use to be decided when more details are known about the Spending Review for 2021/22 and following a Government consultation document on a replacement scheme for NHB which will be published in the Spring of 2020.
- 1.7 The Executive's Budget Proposals include increasing car parking pay and display fees by 4% from 1st April 2020, equating to £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. The 4% over the four year period (approximately 1% per year) is less than the anticipated inflation over the four years. (Annual Inflation at November 2019 was 1.5% for the Consumer Price Index and 2.2% for the Retail Price Index).

1.8 No changes to the amount budgeted for Planning income for 2020/21 are being proposed by the Executive. (This was a proposal from the Joint Scrutiny Budget meeting). The full minutes of the meeting of the Overview and Scrutiny Panel and the Development Management Committee on 23rd January 2020 are a separate item on this Executive agenda.

2. DETAILS OF THE 2020/21 BUDGET REPORT

Draft Local Government Finance Settlement for 2020/21

2.1 On 20th December 2019, the Government announced the draft Finance Settlement for 2020/21 for consultation. The key points from the Finance Settlement are below.

2.2 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 is a ‘roll-forward’ settlement for 2020-21 for one year.

2.3 Core Spending Power has increased by 2.8%. This is made up of Income from Council Tax, Business Rates, New Homes Bonus and Rural Services Delivery Grant. The analysis of the 2.8% increase in Spending Power (increased resources available) is made up of:-

- an ‘assumed’ increase in council tax of £5
- a reduction of New Homes Bonus funding of 2.28%
- an increase in income from business rates of 1.63%

Chart 1 - Core Spending Power

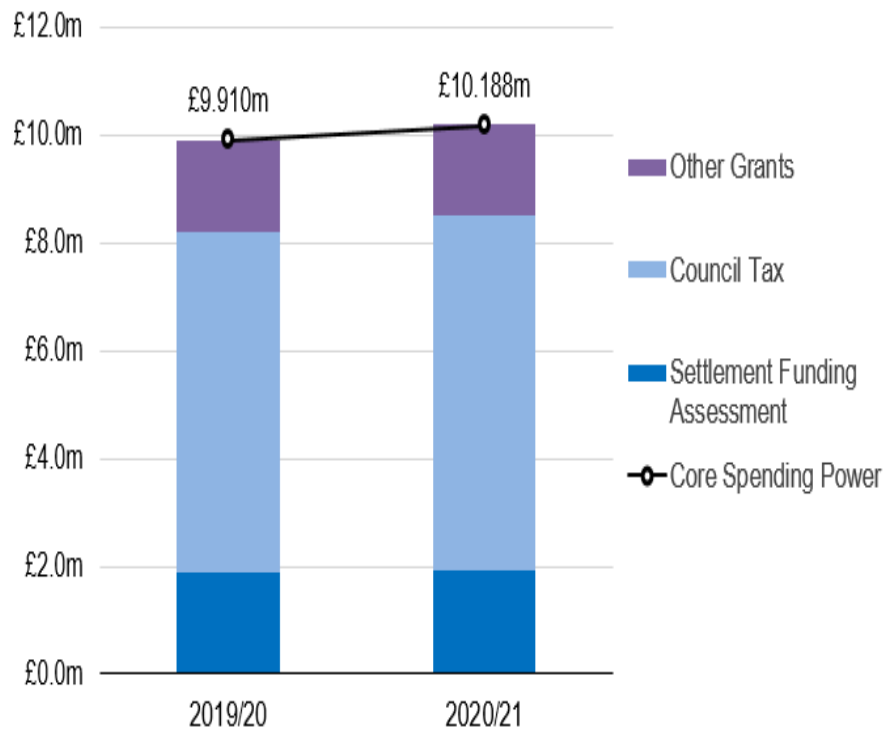


Chart 2 – Core Spending Power (£m)

	2019/20	2020/21	Change
Core Spending Power	9.910	10.188	2.81%
<i>Which consists of:</i>			
Settlement Funding Assessment (Business Rates Baseline)	1.897	1.928	1.63%
Assumed Council Tax	6.316	6.575	4.10%
New Homes Bonus	1.227	1.199	(2.28)%
Rural Services Delivery Grant	0.408	0.408	-
Other grants	0.062	0.078	25.8%

**Chart 3 – Change in Core Spending Power by class of Authority
(2019/20 to 2020/21)**

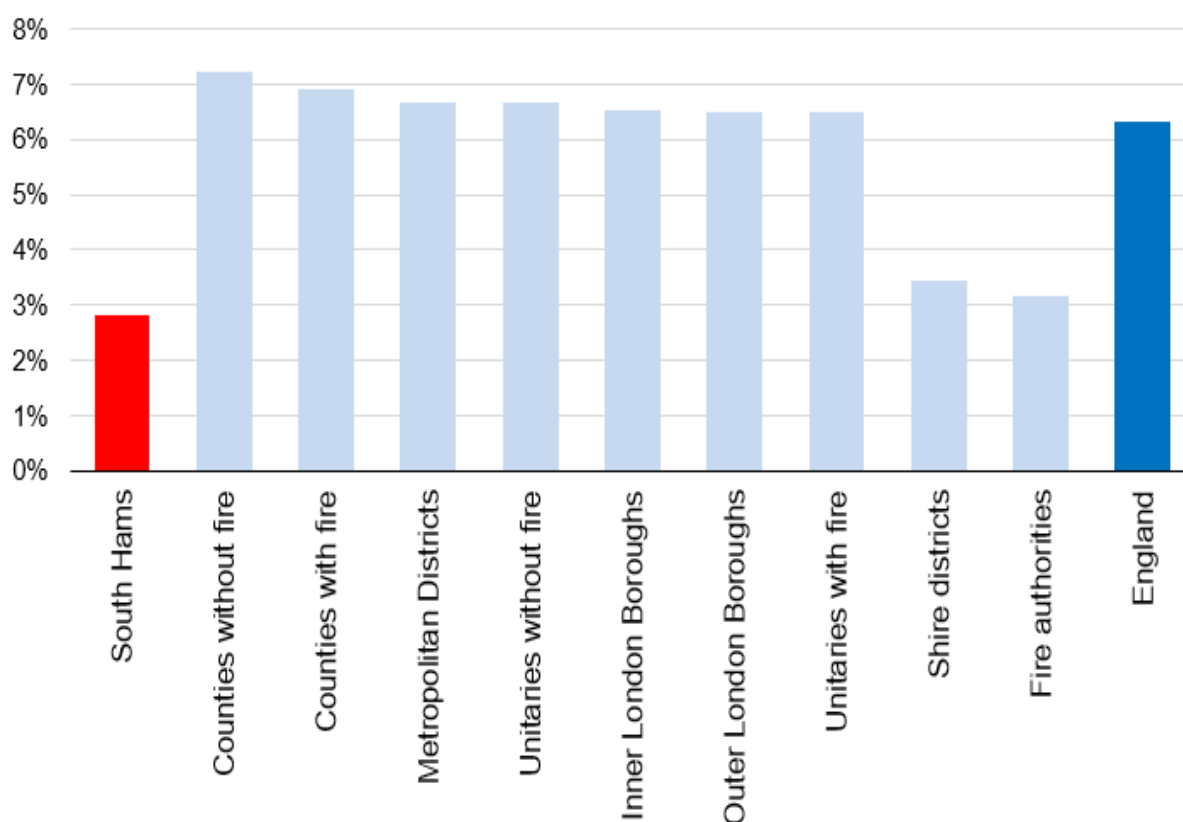


Chart 3 shows how the increase in Core Spending Power for South Hams District Council (2.81%) compares against other classes of Local Authorities. South Hams is lower than the average Shire District, mainly due to a reduction in New Homes Bonus funding.

Council Tax

- 2.4 The Council Tax Referendum limits for District Councils will be the higher of 1.99% or £5, for 2020/21. The Budget report includes modelling an increase in council tax in 2020/21 of £5, equating to a Band D council tax of £170.42 for 2020/21. This is an increase of 10 pence per week or £5 per year and equates to a 3.02% increase.
- 2.5 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).
- 2.6 A 1% increase in council tax generates £64,000. It has been assumed that the number of properties within the District will increase by 400 per annum from 2021/22 to 2024/25.
- 2.7 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.

Negative Revenue Support Grant

- 2.8 Negative Revenue Support Grant (RSG) for 2020/21 will be withdrawn and will continue to be funded by the Government. 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' in 2020/21.
- 2.9 There has been no news on what will happen to negative RSG from 2021/22 onwards and therefore the modelling in this report has assumed negative RSG will remain for 2021/22 onwards in some form (e.g. as part of the business rates baseline reset). It 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).

Rural Services Delivery Grant

- 2.10 For 2020/21, the funding amount (£81m nationally) and the methodology for distribution remain unchanged from 2019/20. The Council will continue to lobby on the basis that the £81m should be increased. South Hams District Council's share of this is £408,055 for 2020/21. This is Government grant to recognise the additional cost of delivering services in rural areas.

Business Rates

- 2.11 A similar system in 2020/21 to that in place for 2019/20 is being proposed, with further reform delayed until 2021/22. The business rates baseline for 2020/21 has been confirmed at £1.928m in the draft Finance Settlement. This was previously estimated at £1.944m for 2020/21. Estimates have been made of the Baseline funding Levels for 2021/22 onwards. The £1.928m is the amount the Council retains from its business rates income collected of £31 million (the Council keeps about 6p in every £1 collected of business rates to fund its services).

The Council has estimated from its business rates modelling that the amount of business rates income achieved from growth above the baseline level equates to approximately £230,000. This is based on future predictions of business rates growth and updated financial modelling tools following the draft Finance Settlement being issued on 20th December 2019. This is an increase of £74,000 on the draft figures presented to the Executive on 19th December where this figure was estimated at £156,000. In addition, the estimated business rates pooling gain for 2020/21 has been increased from £150,000 to £225,000, in light of the current monitoring position on the Devon Business Rates Pool.

Chart 4 – Settlement Funding Assessment (£m)

	2019/20	2020/21	Change
Settlement Funding Assessment (SFA)	1.897	1.928	1.6%
Which consists of:-			
Business Rates Baseline funding	1.897	1.928	1.6%
Revenue Support Grant (Government grant)	Nil	Nil	Nil

- 2.12 There are five 100% pilot areas from 2017/18 that will continue for 2020/21 being Liverpool, Greater Manchester, West of England, Cornwall and West Midlands.
- 2.13 There are 27 local authority areas that have applied to pool in 2020/21, of which the Devon Business Rates Pool is one. South Hams District Council will continue to be part of a Devonwide Business Rates Pool for 2020/21.
- 2.14 The TaxBase for 2020/21 was approved by the Senior Leadership Team on 18th December and has been confirmed at 38,508.49. This is an increase of 328.77 Band D Equivalent properties from the 2019/20 TaxBase. (The increase of just under 329 Band D properties is fewer than the previously modelled assumption that the number of properties would increase by 600 per annum). Future growth predictions for future years have been reduced to 400 extra properties.

Haulage and processing of waste and recyclable materials

- 2.15 The revenue budget monitoring position for Quarter 3 (the end of December 2019) is being compiled in preparation for presentation to the Executive on 6th February 2020. At Quarter 2 the Council reported a net budget pressure of £130,000 in 2019/20 due to contamination and the suppressed market continuing to affect income for recyclable materials. This also took into account a reduction in haulage costs due to the new reprocessor being closer to the South Hams, combined with an increase in costs for processing recycling.
- 2.16 As reported at a recent Waste Partnership Board meeting, the changes in the global recycling market is currently one of the biggest challenges in the business. There have been increasing restrictions on contamination and moisture content on fibre materials (paper and card) throughout global markets, with fibre prices around 2/3rd lower than 12 to 15 months ago. Demand for metals is also currently low and there has been a 25% reduction in price over the last 12 months.
- 2.17 In light of the further market downturn, revised predictions show a further cost pressure of £60,000 (increasing the cost pressure in 2019/20 from £130,000 to £190,000). This includes a loss of around £26,000 from recycling credits, as when materials are rejected due to contamination, they do not attract recycling credits. The total predicted net budget pressure for haulage and reprocessing of recyclable materials for 2019/20 is therefore £190,000. To put this into context, the overall net cost of the Council's waste, recycling and street cleansing service is £4.2 million.
- 2.18 These predictions are based on the current market rates and therefore may change positively or negatively by the end of the financial year. Members will be kept informed of any significant changes.
- 2.19 Whilst the Council will continue to be affected by the market in future years, once the Devon Aligned Service starts in September 2020, this cost will be halved by sharing the market risk with the waste contractor. *A cost pressure of £95,000 has been built into the Medium Term Financial Strategy to reflect this for 2020/21 (this is an increase of £30,000 on the position reported to the Executive on 19th December 2019, where a cost pressure of £65,000 was included).*

Summary of the Budget changes since the report to the Joint Scrutiny meeting

2.20 The Revenue Budget Proposals for 2020/21 were considered by a Joint meeting of the Overview and Scrutiny Panel and the Development Management Committee on 23rd January 2020. At this meeting, an alternative set of Revenue Budget recommendations were proposed and voted on. The full minutes of this meeting are a separate item on this Executive agenda.

This Executive report has been finalised after the Leader has given consideration to the budget proposal from the Joint Scrutiny meeting on 23rd January 2020. The following items from the Joint Scrutiny meeting have been included within the final Executive Budget Proposals being recommended to Council on 13 February 2020:-

- To use £400,000 of New Homes Bonus funding to set up an emergency climate change projects Earmarked Reserve, in order to give effect to the Action Plan being produced by the Council.

The text below is an extract from the minutes of the Joint Scrutiny meeting on 23rd January 2020 regarding this:

That a fund of £400,000 be set up for Emergency Climate Change projects in order to give effect to the Action Plan being produced by the Council. It is proposed that part of the fund be open to bids from Community Groups with proposals for Climate Change projects. The mechanism for providing such funds to be established as well as the extent of the expenditure by the Council and that awarded to Community Groups;

Emergency Climate Change Projects Fund – there was widespread support expressed for this proposal which it was felt reflected the seriousness of the Climate Change agenda and the fact that the Council had declared a Climate Change and Biodiversity Emergency.

Whilst it was recognised that the mechanism to allocate monies from the Fund was still to be developed, it was noted that the Climate Change and Biodiversity Working Group would have a key role to play in this process.

*When put to the vote, this proposal was declared **CARRIED**.*

- To increase Partnership funding levels set out in 2.38, with the addition of £10,000 to the CVS, subject to the CVS demonstrating that they meet the criteria set out in 2.38
- To fund the revenue budget gap from New Homes Bonus funding (see 2.25)
- The inclusion of an Economy post, with the proposal for this to be a two year post and reviewed after two years. This would be a shared post with West Devon Borough Council, with the South Hams share of the cost being £25,000 (see 2.37), to be funded by business rates pooling gains. A Job Description will be circulated to all Members by separate cover, in advance of the Executive meeting.

In addition, the final Budget Proposals have removed the income of £9,600 from the introduction of a premium planning service. This is not being proposed to be introduced, due to the Members' concerns about offering this service.

The Executive's Budget Proposals include increasing car parking pay and display fees by 4% from 1st April 2020, equating to £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. The 4% over the four year period (approximately 1% per annum) is less than the anticipated inflation over the four years. (Annual Inflation at November 2019 was 1.5% for the Consumer Price Index and 2.2% for the Retail Price Index).

No changes to the amount budgeted for Planning income for 2020/21 are being proposed by the Executive. (This was a proposal from the Joint Scrutiny Budget meeting). The full minutes of the meeting of the Overview and Scrutiny Panel and the Development Management Committee on 23rd January 2020 are a separate item on this Executive agenda.

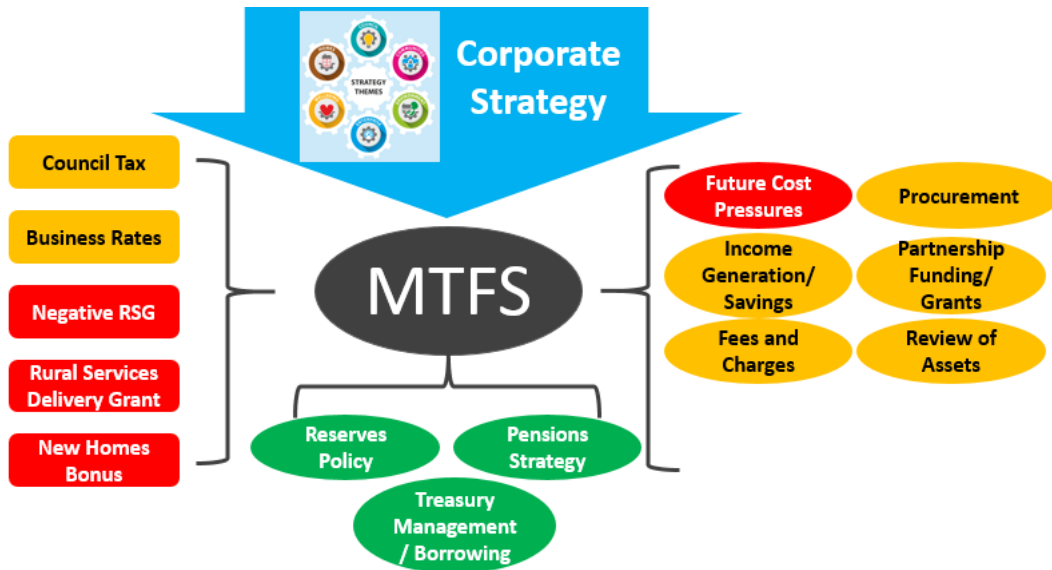
The table below shows the summary of changes to the Budget report for 2020/21, following the Joint Scrutiny meeting of 23rd January 2020.

	Total (£)
Budget Gap for 2020/21 reported to the Joint Development Management Committee and Overview and Scrutiny Panel on 23/1/2020	51,543
<i>Reduction in income modelled or increase in cost pressures</i>	
Remove the income from the introduction of the premium planning service (see 2.20)	9,600
Include within the partnership funding budget, £10,000 for the CVS. A budget of £7,000 is available within the partnership budget, so this creates a cost pressure of £3,000 (see 2.38).	3,000
Include within the staffing establishment, an economy post for two years at a cost of £25,000 per annum for two years, to be funded from business rates pooling gains. (see 2.20).	25,000
<i>Increase in income or funding modelled</i>	
Increase the amount of New Homes Bonus funding of the revenue base budget (see 2.25). This increases the amount from £500,000 in the Joint Scrutiny report of 23 rd January 2020, to £564,143 as set out within this Executive report.	(64,143)
Increase the amount of funding from business rates pooling gains from £200,000 in the Joint scrutiny report of 23 rd January 2020, to £225,000 as set out within this Executive report (see 2.20).	(25,000)
Revised Budget Gap for 2020/21 as set out in this report (as at February 2020)	Nil – (A balanced budget position is presented)

2.21 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



2.22 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:-

- 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 financial planning of the Council.
- Two planning enforcement posts (the SHDC share of costs) have been included within the cost pressures.

New Homes Bonus (NHB)

2.23 NHB will continue for 2020/21 for one year, with any funding beyond 2020/21 being subject to the next Spending Review. A replacement scheme will be consulted on in Spring 2020. For one year the Government will fund legacy payments and the baseline will remain at 0.4%. 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.

2.24 The Council's New Homes Bonus allocation for 2020/21 has been announced at £1,199,159. The financial modelling has included using £564,143 of New Homes Bonus funding for 2020/21 to fund the revenue base budget and this has then been reduced to £400,000 in 2021/22 and £300,000 in 2022/23 for modelling purposes.

2.25 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	1,199,159
Current allocation:-	
To fund the Revenue Base Budget (see 2.20)	(564,143)
Dartmoor National Park allocation*	TBA
To fund the set up of an emergency climate change projects Earmarked Reserve (see 2.20)	(400,000)
Amount remaining unallocated**	235,016

*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. Allocations in previous years have been in the region of £20,000 to £30,000.

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 2021/22* and/or
- Fund the Capital Programme from 2021/22 onwards, as the Council has minimal predicted funding from capital receipts (from the sale of assets) in future years.

*(*Note: the Council's financial modelling in Appendix A assumes that the Council will use £400,000 of funding from NHB or a similar replacement scheme in 2021/22 to fund its base budget. There is no guarantee that the Council will receive anything in future years from whatever scheme replaces the New Homes Bonus Scheme)*

It is being recommended by the Executive, to transfer the unallocated balance (currently £235,016) of New Homes Bonus into the New Homes Bonus Earmarked Reserve, with its future use to be decided when more details are known about the Spending Review for 2021/22 and following a Government consultation document on a replacement scheme for NHB which will be published in the Spring of 2020.

Pensions Strategy (Actuarial Valuation)

2.26 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.

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.

- **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.

2.27 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.

Pension Revaluation Position for South Hams District Council

	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%

A summary of all of the financial implications arising from the Pension Revaluation at 31.3.2019 is shown below:-

Pension Revaluation 31.3.2019	Financial Impact
Increase in the primary rate - i) the employer's pension contribution rate is increasing by 2.2% for SHDC from 14.6% to 16.8%	£140,000
ii) 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	£25,000
Decrease in the secondary rate iii) 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.	(200,000)
Overall saving from the Pension Revaluation at 31.3.2019	(35,000)

Therefore the net budget impact is a saving of £35,000.

Treasury Management and Borrowing Strategy

- 2.28 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

- 2.29 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. This has been approved by Council.

Results of the Members' Budget Survey 2019

2.30 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 was presented 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 £225,000 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 2.26 and 2.27). 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.
- The Executive's Budget Proposals include increasing **car parking pay and display fees** by 4% from 1st April 2020, equating to £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. The 4% over the four year period (approximately 1% per year) is less than the anticipated inflation over the four years. (Annual Inflation at November 2019 was 1.5% for the Consumer Price Index and 2.2% for the Retail Price Index).

- **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 has gone 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.
- 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.
- 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.

2.31 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 further resource for the Town Centres Strategy** – Some Members have made the point that some of this work could be encompassed within the Economy Officer role.
- **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

- 2.32 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'.
- 2.33 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.
- 2.34 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.
- 2.35 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.
- 2.36 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).

- 2.37 The Executive's Budget proposals include an Economy post (shared with West Devon Borough Council) within the staffing establishment for two years, to be funded from the business rates pooling gains. The cost of this post is expected to be £25,000 per annum (SHDC share). The post would be reviewed after two years. A Job Description will be circulated to all Members by separate cover, in advance of the Executive meeting.
- 2.38 At the Executive meeting on 19th December 2019, Members considered future Partnership funding and grants. The relevant Minute (Minute 63) is attached below.

Partnership Funding

Members were presented with a report that provided feedback from each of the partners that the Council currently funded. Members were asked to consider the merits of each partner submission and decide which partners they would like to enter into a three year funding agreement with.

The Lead Members for Communities and Wellbeing introduced the report. Members had a detailed discussion on this item, and non-Executive Members were included in the debate. Whilst acknowledging that these were to be subject of discussion during the draft 2020/21 Revenue Budget Setting process, the following recommendations reflect the decision of the Executive in respect of the partner submissions that were submitted. The total amount of funding allocated was £89,647. This amount was £7,000 less than the amount currently committed for partnership funding. Additional funds were recommended to support the Ivybridge Ring and Ride, and the SH CVS funding (£10,000) was recommended for withdrawal on the basis of a lack of clear financial information within their submission.

It was then:

RESOLVED that:

1. the feedback given by each partner as shown in presented Appendix A was considered based on
 - a. local need
 - b. alignment to the Council's Corporate Strategy
 - c. statutory duty; and

2. the following partners be awarded funding for the next three years of the following amounts per annum, subject to endorsement through the 2020/21 Revenue Budget setting process:

- a) South Devon Area of Outstanding Natural Beauty Partnership - £20,700
- b) South Hams Citizens Advice - £51,867
- c) South Hams Community Volunteer Service - £0
- d) Ivybridge Ring and Ride - £5,710
- e) Totnes & Dartmouth Ring & Ride (Newton Abbot Community Transport Group) - £7,370
- f) South West Youth Games - £0
- g) South Hams Museums Group - £4,000

The total amount of funding allocated in the Executive meeting on 19th December 2019 was £89,647 as above. The current partnership funding in the base budget is £96,647.

Following the Joint Scrutiny meeting on 23rd January 2020, it is recommended to Council on 13 February 2020, to increase the Partnership funding levels set out above, with the addition of £10,000 to the CVS, subject to the CVS demonstrating that they meet the specific criteria as detailed below.

All partnerships were asked to demonstrate how they meet the following criteria:

- a. Local need
- b. Alignment to the Council's Corporate Strategy
- c. Statutory duty

The Executive report on Partnerships Funding on 19th December 2019 gives more detail. Each of the Council's partners were asked to detail:

- The services they provide
- How Council funding would be spent
- How their services meets local need
- How their service aligns to the Council's Corporate Strategy
- How their service meets statutory duty
- What other funding they receive and how they spend it

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	1,603,640	630,761	400,000	425,000	450,000
(Reduction)/ Increase in contribution to Earmarked Reserves	(117,843)	219,143	130,000	130,000	78,000
Savings and additional income	(904,877)	(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	Nil (balanced budget)	£0.569m	£0.647m	£0.880m	£1.099m	£3.2m

4.3 The report attached sets out proposals for the Council to achieve a balanced budget in 2020/21, as shown in Appendix B. South Hams District Council is currently forecasting a £568,974 budget gap by the following year, 2021/22. The aggregated Budget Gap by 2024/25 is £3.2 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
<p>Asset Review/ Corporate Property Strategy There was a separate report on the Executive agenda in December 2018 for ‘Commercial Development Opportunities’.</p>	<p>Initial income projections have been included within this report.</p>	<p>Regular updates will be provided to Members.</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>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 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 by April 2020.</p>	<p>To be quantified</p>	<p>By April 2020</p>

Option	Possible Budget Impact	Timescale
<p>Garden Waste charges</p> <p>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, as 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>
<p>Funding Options</p>		
<p>Negative Revenue Support Grant</p> <p>Negative Revenue Support Grant (RSG) for 2020/21 of £400,000 will be eliminated by the Government for one year.</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>

Option	Possible Budget Impact	Timescale
<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 £564,143 of New Homes Bonus funding for 2020/21 to fund the revenue base budget and this has then been reduced to £400,000 in 2021/22 and £300,000 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>A replacement scheme for NHB will be consulted on by the Government in the Spring of 2020</p>
<p>Use of Reserves as a temporary measure</p> <p>The Council could temporarily utilise Reserves to balance an element of the 2021/22 budget, whilst longer term solutions are being implemented. This would be a very short term solution though.</p> <p>The current predicted levels of Reserves are £1.9 million Unearmarked Reserves and Earmarked Reserves of £10.3 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 £3.77 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. Public consultation on the Kingsbridge and Ivybridge schemes are currently taking place, with the links shown below.
www.southhams.gov.uk/ropewalk
www.southhams.gov.uk/ivybridge
- 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 predicted current levels of Reserves are £1.9 million Unearmarked Reserves and Earmarked Reserves of £10.3 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 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 3 Revenue Budget Monitoring report shows that actual net revenue expenditure is forecast to be under budget by £27,000 when compared against the total budget set for 2019/20.

9. Fees and Charges

9.1 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.

10. Senior Leadership Team/Extended Leadership Team restructure

10.1 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 (This is made up of £34,000 from the Interim arrangements and a further £60,000 from the restructure). 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 NEXT STEPS

11.1 This report is a snapshot (a position statement) in February 2020 and future Member decisions on the budget strategy will inform future budget reports.

The table below shows the budget timetable for the future budget meetings for the 2020/21 Budget.

6 th February 2020	Executive – To recommend Final Budget Proposals to Council for 2020/21
Monday 10th February 2020 (9am)	Date for receipt of a motion or amendment in relation to the Budget
13 th February 2020	Full Council – To approve Final Budget Proposals for 2020/21 and set the SHDC share of the Council Tax
21 st February 2020	Council Tax Resolution Panel – to agree the Council Tax Resolution for 2020/21 (This is SHDC share plus all other precepting authorities share).

Note 1- The Constitution states that ‘Where a member intends to move a motion or amendment in relation to the Budget, the text of that motion or amendment must be put in writing and submitted to the Head of Paid Service by 9am on the third working day before the meeting, in order that officers may have sufficient time to consider and advise the Council of the financial implications of any such motion or amendment’. As per the timetable above, this would need to be submitted by 9am on Monday 10th February 2020.

12. IMPLICATIONS

Implications	Relevant to proposals Y/N	Details and proposed measures to address
Legal/Governance	Y	<p>The Executive is responsible is responsible for recommending to Council the budgetary framework. It is the role of the Joint Development Management Committee and 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	The report attached sets out proposals for the Council to achieve a balanced budget in 2020/21, as shown in Appendix B. South Hams District Council is currently forecasting a £568,974 budget gap by the following year, 2021/22. The aggregated Budget Gap by 2024/25 is £3.2 million.
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	A Climate Change Action Plan was presented to Council in December 2019.
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)

Appendix D – Contributions to/(from) Earmarked Reserves

Background Papers

Joint Development Management Committee and Overview and Scrutiny Panel
– 23rd January 2020

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

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

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

Executive – 19th December 2019 – Budget update report for 2020/21 onwards

Joint Development Management Committee and Overview & Scrutiny Panel
23rd January 2020 – Revenue Budget Proposals for 2020/21

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