

Report to: **Hub Committee**

Date: **20<sup>th</sup> October 2020**

Title: **Medium Term Financial Strategy 2021/22 to 2025/26**

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

Wards Affected: **All**

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

Date next steps can be taken: 1 December 2020  
(Hub Committee)

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**Recommendations:**

**It is recommended that the Hub Committee considers the Medium Term Financial Strategy and recommends to Council:**

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

**Recommendation 2:** To continue to respond to Government consultations on Business Rates Reform

**Recommendation 3:** To continue to actively lobby and engage with the Government, Devon MPs, South West Councils and other sector bodies such as the District Councils' Network and the Rural Services Network, for a realistic business rates baseline to be set for the Council for 2022 onwards, when the business rates reset happens.

**Recommendation 4:** That WDBC continues to lobby in support of the Government eliminating Negative Revenue Support Grant in 2021/22 (and thereafter) and continues to lobby for Rural Services Delivery Grant allocations which adequately reflect the cost of rural service provision.

**Recommendation 5:** – That the Council maintains an Upper Limit on External Borrowing (for all Council services) as part of the Medium Term Financial Strategy of £50 million.

**It is also recommended that the Hub Committee:**

- i) Notes the forecast budget gap for 2021/22 of £0.175 million (2.2% of the current Net Budget of £7.7million) and the position for future years.
- ii) Notes the current options identified and timescales for closing the budget gap in 2021/22 and future years, to achieve long term financial sustainability.

## **1. Executive summary**

- 1.1 The Council's Medium Term Financial Strategy (MTFS) is based on a financial forecast over a rolling five year timeframe to 2025/26. The Council, along with other local authorities, has faced unprecedented reductions in Government funding. Between 2009/10 and 20/21, the Council's Core Government funding has reduced by £3 million. The Council now receives **no main Government Grant (Revenue Support Grant)** – this has been reduced to zero. Core Government funding has been reduced by £3million per year since 2009/2010.
- 1.2 West Devon has continued to work in partnership with South Hams District Council which has allowed West Devon Borough Council to achieve annual savings of £2.2 million and more importantly protect all statutory front line services. Between both Councils the annual shared services savings being achieved are over £6 million. 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 It is important to note that this Medium Term Financial Strategy sets out the budget strategy for the Council for the next five years, with regular reviews (at least annually) and updates when items are further known or are announced by the Government.
- 1.4 This is the starting point for developing a meaningful five year strategy that sets out the strategic intention for all of the different strands of funding available to the Council. The Council will then be able to rely on this to inform future decisions.
- 1.5 A Cross Party Member Working Group (Financial Stability Review Group) was set up in November 2017 with defined Terms of Reference to look at the Medium Term Financial Strategy and to further look at options for securing financial stability for the longer term.

- 1.6 Covid 19 has caused financial strain for all Councils up and down the country where Councils find themselves being caught in a 'perfect storm'. Councils have to manage both the increased costs of coping with Covid19 and supporting vulnerable people in the community and the loss of key income streams such as car parking income and council tax income.
- 1.7 The factors affecting the Council's finances are issues affecting the whole Local Government sector. The Council is well-placed to meet the financial challenges arising from Covid19, due to its prudent financial management over previous years.
- 1.8 Due to the rapidly changing financial position, the Council is now undertaking monthly revenue budget monitoring reports (as opposed to quarterly). The latest revenue budget monitoring report for Month 3 (end of June) predicted a budget shortfall of £0.501 million for 2020/21. An amended Budget for 2020-21 was set by Council on 22 September 2020.
- 1.9 The key assumptions within the Medium Term Financial Strategy are as below. Each of these is described in more detail in Section 4.
- A one year 'rollover settlement' (with no negative Revenue Support Grant in 2021/22) is the most likely scenario now
  - The business rates baseline reset will be deferred until 2022/23
  - The Settlement Funding Assessment (SFA) will increase in line with inflation – this is essentially the business rates baseline and is the amount of money the Council retains from its share of the business rates income.
  - There will be a phasing in of negative Revenue Support Grant (RSG) as part of the business rates baseline reset with a transition period over three years, to avoid Local Authorities losing/gaining too much in one go
  - Council Tax limits for District Councils will remain at the higher of £5 or 1.99% for 2021/22 onwards
  - There will be one more year of the New Homes Bonus payments (as part of a one year 'rollover settlement') and legacy payments will be honoured and that the NHB payments envisaged will be used to finance the revenue base budget
  - A modest business rates pooling gain of £40,000 has been modelled for 2021/22 with no further gains for 2022/23 onwards. Business rates income is assumed to be down by 3%.
  - No council tax collection fund surplus has been assumed for any years going forward (normally the Council receive a surplus share of around £67,000 per annum) and it has been assumed that the council tax collection rate will reduce by 1%.
  - Rural Services Delivery Grant has been assumed to continue at the same level with a slight inflationary increase across the 5 years.

- No permanent reductions to the Council's income streams (such as car parking income, planning income etc. as a result of the Covid pandemic) have been built into the Base Budget for 2021/22. This will be regularly monitored over the next few months. It is also awaited to see if the Government will implement a similar income compensation scheme for sales, fees and charges for Councils in 2021/22. This has been lobbied for through the South West Councils response to the Comprehensive Spending Review.
- The last pay award offer for 2020-21 was 2.75%. A 2% pay increase has been modelled from 2021/22 onwards (2% equates to £90,000).

1.10 The following table illustrates the predicted budget gap from 2021/22 onwards for the Council as shown in **Appendix B**:

<b>Budget Gaps</b>	<b>2021/22 £</b>	<b>2022/23 £</b>	<b>2023/24 £</b>	<b>2024/25 £</b>	<b>2025/26 £</b>	<b>Total Aggregated Budget Gap £</b>
'New' Budget Gap each year	<b>175,775</b>	115,838	436,275	202,077	222,995	1,152,960
Cumulative Budget Gap (assumes annual new budget gaps have not been addressed)	<b>175,775</b>	291,613	727,888	929,965	1,152,960	3,278,200

- 1.11 ***The forecast budget gap for 2021/22 is £175,775. This is 2.2% of the Net Budget of £7.7million.*** A cumulative budget gap of £291,613 is predicted for 2022/23 (this assumes that the budget gap for 2021/22 of £175,775 has not been closed). This increases to £1.1million by 2025/26. The aggregated Cumulative Budget Gap by 2025/26 is £3.278 million, if no action has been taken in each individual year to close the budget gap annually.
- 1.12 The Council awaits the details of the Government's Spending Review announcement which will enable the Council to further firm up some of the assumptions within the Medium Term Financial Strategy. A further budget update will be presented to the Hub Committee in December. Further options for Members' considerations of how to close the predicted budget gap of £175,775 will be presented as part of this report.

## 2 COMPREHENSIVE SPENDING REVIEW 2020

- 2.1 The Autumn Budget was cancelled on 23 September 2020 because there is too much uncertainty about the UK's economic outlook. A statement from the Treasury said:

“As we heard this week, now is not the right time to outline long-term plans – people want to see us focussed on the here and now – So we are confirming today that there will be no Budget this Autumn.”

- 2.2 Both the Chancellor and the Prime Minister have said that the Spending Review will go ahead as planned and will cover the years 2021-22 to 2023-24.
- 2.3 The Institute for Fiscal Studies (IFS) has published an analysis in advance of the Spending Review later this year:  
<https://www.ifs.org.uk/publications/15048>
- 2.4 The IFS recommends a one –year “spending round” rather than a multi-year Spending Review. There is a very good chance that the Spending Review will indeed be for only one year and that many of the significant decisions affecting local government over the medium term will therefore be delayed.

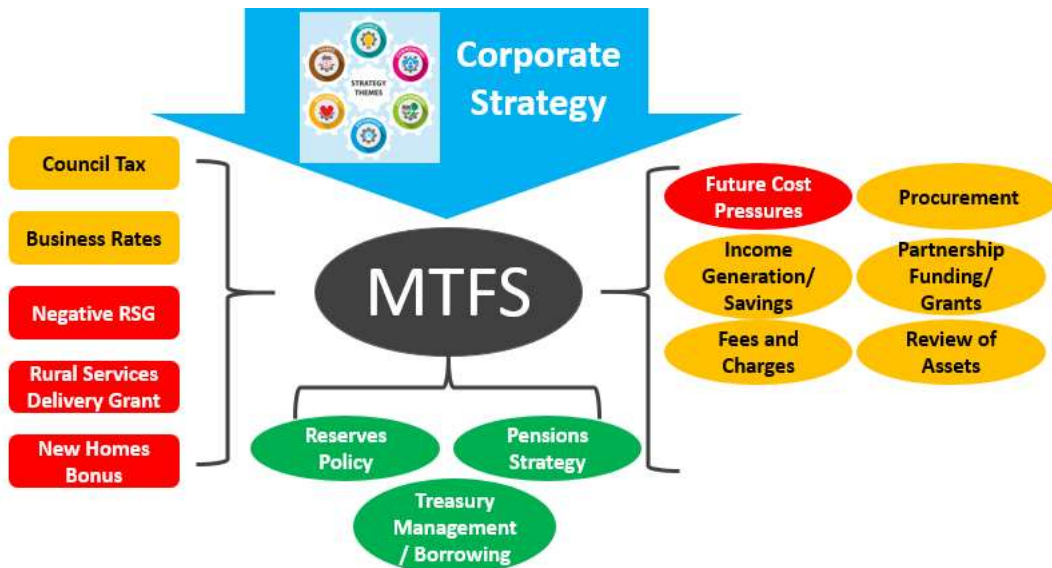
### What are the implications for local Government?

- 2.5 It is expected that in 2021-22 there will be a **one year “rollover” settlement**, similar to that in 2020-21. A one year settlement has the advantage that it is simple, there is no redistribution of funds and it minimises financial pressure on individual Councils.

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

- 3.1 The Diagram below sets out all of the component parts which constitute the make-up of a Medium Term Financial Strategy. Items in Green denote those elements where the Council has a large degree of control over the setting of policies and strategies. Items in Amber denote those components of the MTFS where the Council has a degree of control. Red items signal components where the Council has hardly any control over funding allocations which are decided by the Government and future cost pressures which can largely be outside of the Council's control or influence.

## 2020/21 Net Amended Budget £7.7 million



3.2 The key assumptions within the MTFs are as below. Each of these is described in more detail in Section 4.

- A one year 'rollover settlement' (with no negative Revenue Support Grant in 2021/22) is the most likely scenario now
- The business rates baseline reset will be deferred until 2022/23
- The Settlement Funding Assessment (SFA) will increase in line with inflation – this is essentially the business rates baseline and is the amount of money the Council retains from its share of the business rates income.
- There will be a phasing in of negative Revenue Support Grant (RSG) as part of the business rates baseline reset with a transition period over three years, to avoid Local Authorities losing/gaining too much in one go
- Council Tax limits for District Councils will remain at the higher of £5 or 1.99% for 2021/22 onwards
- There will be one more year of the New Homes Bonus payments (as part of a one year 'rollover settlement') and legacy payments will be honoured and that the NHB payments envisaged will be used to finance the revenue base budget
- A modest business rates pooling gain of £40,000 has been modelled for 2021/22 with no further gains for 2022/23 onwards. Business rates income is assumed to be down by 3%.
- No council tax collection fund surplus has been assumed for any years going forward (normally the Council receive a surplus share of around £67,000 per annum) and it has been assumed that the council tax collection rate will reduce by 1%.
- Rural Services Delivery Grant has been assumed to continue at the same level with a slight inflationary increase across the 5 years.

- The last pay award offer for 2020-21 was 2.75%. A 2% pay increase has been modelled from 2021/22 onwards (2% equates to £90,000).
- No permanent reductions to the Council's income streams (such as car parking income, planning income etc as a result of the Covid pandemic) have been built into the Base Budget for 2021/22. This will be regularly monitored over the next few months. It is also awaited to see if the Government will implement a similar income compensation scheme for sales, fees and charges for Councils in 2021/22. This has been lobbied for through the South West Councils response to the Comprehensive Spending Review.

## OVERALL POSITION – BUDGET GAP

- 3.3 Financial modelling has been undertaken for the next five years to predict the Council's financial situation for the short and medium term.
- 3.4 **Appendix A** to the Medium Term Financial Strategy sets out the Budget Pressures forecast for the next five years and the additional savings and income forecast. **Appendix B** illustrates the overall financial forecast for the forthcoming five years. The Council's Net Budget is £7.7 million in 2020/21.
- 3.5 A Summary forecast is shown below of the potential budget situation if all of the budget pressures and the savings and income generation in Appendix A were approved. It also shows the situation if the Council Tax is increased by £5 per annum (shown in Appendix B).
- 3.6 The following table illustrates the predicted budget gap from 2021/22 onwards for the Council **as shown in Appendix B:**

Budget Gaps	2021/22 £	2022/23 £	2023/24 £	2024/25 £	2025/26 £	Total Aggregated Budget Gap £
'New' Budget Gap each year	<b>175,775</b>	115,838	436,275	202,077	222,995	1,152,960
Cumulative Budget Gap (assumes annual new budget gaps have not been addressed)	<b>175,775</b>	291,613	727,888	929,965	1,152,960	3,278,200

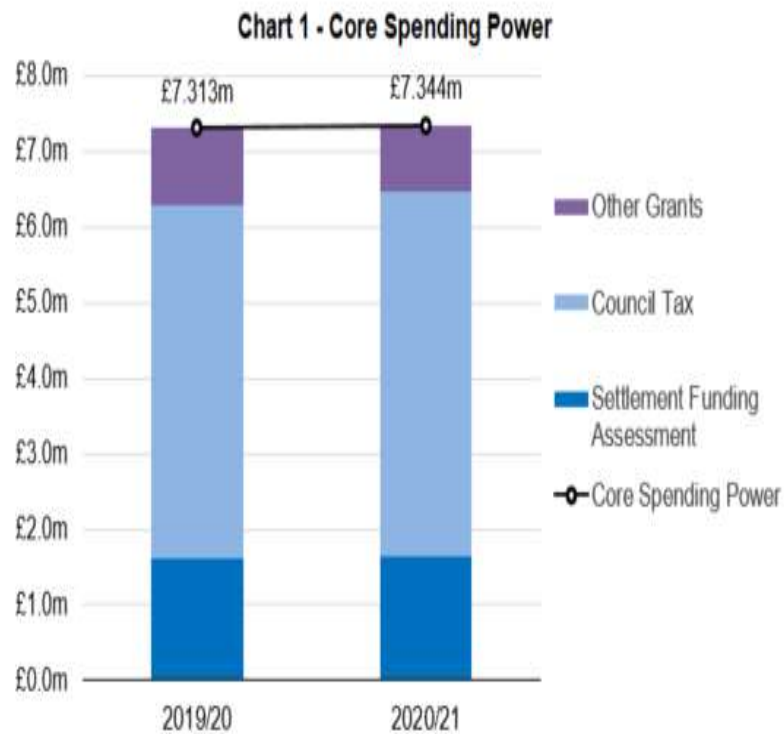
- 3.7 ***The forecast budget gap for 2021/22 is £175,775. This is 2.2% of the Net Budget of £7.7million.*** A cumulative budget gap of £291,613 is predicted for 2022/23 (this assumes that the budget gap for 2021/22 of £175,775 has not been closed). This increases to £1.1million by 2025/26. The aggregated Cumulative Budget Gap by 2025/26 is £3.278 million, if no action has been taken in each individual year to close the budget gap annually.
- 3.8 The Council awaits the details of the Government's Spending Review announcement which will enable the Council to further firm up some of the assumptions within the Medium Term Financial Strategy. A further update will be presented to the Hub Committee in December. Further options for Members' considerations of how to close the predicted budget gap of £175,775 for 2020/21 will be presented as part of this report.

#### **4 ASSUMPTIONS FOR FINANCIAL MODELLING PURPOSES**

- 4.1 In the Medium Term Financial Strategy (MTFS), it has been assumed that the Settlement Funding Assessment (SFA) will increase in line with inflation.
- 4.2 The SFA is essentially the business rates baseline and is the amount of money the Council retains from its share of the business rates income. The breakdown of the increase in SFA for 2020/21 is shown below.
- 4.3 The 'Core Spending Power' is a headline figure used by MHCLG to represent the key revenue resources available to local authorities, including an estimate of actual and potential council tax, as below. The Council now receives no main Government grant (Revenue Support Grant).



'Core Spending Power' is a headline figure used by MHCLG to represent the key revenue resources available to local authorities, including an estimate of actual and potential council tax.



### Core Spending Power (£m)

	2019/20	2020/21	Change
<b>Core Spending Power</b>	<b>7.313</b>	<b>7.344</b>	<b>0.42%</b>
<i>Which consists of:</i>			
<b>Settlement Funding Assessment (Business Rates Baseline)</b>	<b>1.622</b>	<b>1.648</b>	<b>1.63%</b>
Assumed Council Tax	4.674	4.818	3.1%
New Homes Bonus	0.501	0.348	(30.5)%
Rural Services Delivery Grant	0.464	0.464	Nil
Other grants	0.052	0.066	26.9%

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

- 4.4 It has been assumed that the Business Rates Reset will be delayed to 2022/23. Whilst this change is not confirmed by MHCLG, a reset based on the current taxbase would appear very unlikely (e.g. the NNDR3 data (a Government return for business rates) for 2019/20 is not likely to reflect the potential business rates that authorities can collect in future years).

- 4.5 A one year 'rollover settlement' (with no negative Revenue Support Grant in 2021/22) is the most likely scenario now. This means the Council wouldn't have to forego some of its business rates income (£293,000) by paying some of it back to Government in the form of 'negative government grant' in 2021/22. Negative RSG is effectively the Council's further predicted funding cuts.
- 4.6 It is anticipated there will be a phasing in of negative RSG as part of the business rates baseline reset in 2022/23, with a transition period over three years, to avoid Local Authorities losing/gaining too much in one go. Some of the negative RSG is expected to be offset by growth being dispersed across as Local Authorities.
- 4.7 Estimates have been made of the business rates baseline funding levels for 2021/22 onwards and the relative deductions for negative RSG. For example in 2019/20, the £1.648m is the amount the Council retains from its business rates income collected of £10.6 million (the Council keeps about 16p in every £1 collected of business rates to fund its services). The Council responded to the Government consultation on the Call for Evidence on Business Rates Reform. A joint response was also sent by the Devon Business Rates Pooling partners.

	<b>Business Rates Income projected in the MTFS (£m)</b>					
	<b>2020/21</b>	<b>2021/22</b>	<b>2022/23</b>	<b>2023/24</b>	<b>2024/25</b>	<b>2025/26</b>
Business Rates Income	1.648	1.780	1.736	1.747	1.783	1.813
Less: Negative RSG change to baseline need	0	0	(0.136)	(0.182)	(0.227)	(0.293)
<b>TOTAL</b>	<b>1.648</b>	<b>1.748</b>	<b>1.600</b>	<b>1.565</b>	<b>1.556</b>	<b>1.520</b>

**Recommendation 2:** To continue to respond to Government consultations on Business Rates Reform

**Recommendation 3:** To continue to actively lobby and engage with the Government, Devon MPs, South West Councils and other sector bodies such as the District Councils' Network and the Rural Services Network, for a realistic business rates baseline to be set for the Council for 2022 onwards, when the business rates reset happens.

## **Business Rates reliefs**

- 4.8 Aside from the retail relief, the other variance expected in business rates income in 2020/21 will be due to the businesses failing and subsequent reliefs. This is forecast at a -3% reduction in 2020/21, with a further 3% reduction in 2021/22. It is too early to tell the implications for the economy of COVID, other than the more general expectations of negative growth. See 4.20 on the Collection Fund.
- 4.9 The net collectable debt for Business Rates is £4.86 million for 2020/21. Prior to the pandemic, this was predicted to be £10.6million and the additional NNDR reliefs for the total value of the expanded retail discount and nursery discount for 2020/21 total £6.087million. Therefore over £6million worth of the Council's normal business rates bills issued of £10million are entitled to 100% business rates relief and have no business rates to pay in 2020/21 due to the coronavirus expanded retail discount and nursery discount. This amount is being reimbursed to the Council by the Government through a Section 31 Grant.
- 4.10 The Council and SWCouncils are lobbying the Government for these business rates reliefs to continue into 2021/22. The Spending Review should indicate whether the Expanded Retail Discount and other business rates reliefs will continue into 2021-22. If the Retail Discount is discontinued, then this will place more pressure on business rates income for Councils in 2021-22. The detail of the Spending Review may not be announced until the provisional finance settlement in December 2020.
- 4.11 By August 2020, the Council has collected 47.06% of the net collectable debt. This is 2.93% lower than August 2019. Hence a reduction of 3% is assumed. The 2019/20 collection rate for West Devon for business rates was 97.62%. The national average was 98%.

## **Devon Business Rates Pool**

- 4.12 West Devon Borough Council will continue to be part of a Devonwide Business Rates Pool for 2021/22. A modest business rates pooling gain of £40,000 has been modelled for 2021/22 with no further gains for 2022/23 onwards.

## **Council Tax**

- 4.13 The Council Tax Referendum limits for District Councils for 2020/21 was the higher of 1.99% or £5, for 2020/21. An increase in council tax of £5 for the next five years has been modelled for council tax purposes. This would equate to a Band D council tax for West Devon of £241.63 in 2021/22 as shown in Appendix B (an increase of £5 for the year (10 pence per week) which equates to a 2.11% increase. The council tax for 2021/22, the WDBC share, will be set at the Council meeting on 16th February 2021. (A 1% increase in council tax generates £48,000 of extra council tax income).

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

- 4.14 The table below shows how an average Band D council bill is made up for West Devon Borough for 2020/21 as compared to the previous year. Of an average Band D Council Tax within the Borough of £2,066.87, an amount of £236.63 is the element of a council tax bill set by West Devon Borough Council. Therefore 11pence of every £1 paid (11%) in council tax is received by West Devon Borough Council to pay for our services. The rest of the council tax bill is set by Devon County Council, the Fire, the Police and Town and Parish Councils to fund the services they provide.

<b>Precepting Authority</b>	<b>Band D 2019/20</b>	<b>Band D 2020/21</b>	<b>£ Increase</b>	<b>% Increase</b>
<b>West Devon Borough Council</b>	<b>£231.63</b>	<b>£236.63</b>	<b>£5.00</b>	<b>2.16%</b>
Devon County Council Precept	£1,286.19	£1,313.73	£27.54	3.99%
Adult Social Care Precept	£98.10	£125.73	£27.63	
Devon & Cornwall Police & Crime Commissioner	£212.28	£221.64	£9.36	4.41%
Devon & Somerset Fire & Rescue	£86.52	£88.24	£1.72	1.99%
Average Parishes/Towns	£72.02	£80.90	£8.88	12.33%
<b>TOTAL</b>	<b>£1,986.74</b>	<b>£2,066.87</b>	<b>£80.13</b>	<b>4.03%</b>

- 4.15 A 1% reduction in council tax collection rates has been assumed for 2021/22 onwards. This may need to be revisited in future budget reports depending on the payment profiles being experienced in latter months of the year. As at the end of August 2020, 46.42% of the council tax has been collected. This is a decrease of 0.55% against the 2019/20 collection rates at the end of August. The 0.55% drop equates to £235,000 (WDBC share £25,850). See 4.20 on the Collection Fund.

- 4.16 The Borough Council is responsible for collecting all the Council Tax debt of £43m in 2020/21 as we are the Billing Authority. After keeping 11% of the council tax collected to run our services, the rest is paid over to Devon County Council, the Police, the Fire and Town and Parish Councils. The collection rate for Council Tax for West Devon was 97.71% for 2019-20. This was 0.91% higher than the national average of 96.8%.
- 4.17 More work will need to be carried out on the Council TaxBase calculations for 2021/22 onwards, once the Council TaxBase estimate form (CTB1) has been completed in October 2020. The effect of an increase in working age claimants for Council Tax Support for 2021/22 onwards will need to be modelled and this could have the effect of decreasing the TaxBase in 2021/22.
- 4.18 It has been assumed that the number of properties within the Borough will increase by 20 per annum from 2021/22 onwards. A low figure has been assumed to partly offset the impact of Council Tax Support on the Taxbase.
- 4.19 In 2020/21 the Government set no council tax referendum principles for Town and Parish Councils. It has not yet been announced by the Government whether any referendum principles will apply to Town and Parish Councils in 2021/22 onwards.

#### **The Collection Fund - Council Tax and Business Rates Income**

- 4.20 The Collection Fund holds all payments in and out relating to Council Tax and Business Rates. As such any losses incurred will be suffered by the Collection Fund in the year and then distributed to the Council and Precepting Authorities in future years. A large part of the reductions in income will affect the Council's financial position in 2021/22 onwards, although it does affect the cashflow position of the Council in 2020/21.
- 4.21 Council Tax and Business Rates form a large share of the funding for the Council's budget and therefore these income streams are funding the essential services being delivered.
- 4.22 In the next Spending Review the Government will also determine what support Councils will need, to help them meet the pressures of income losses from council tax and business rates. The Government has said that they are bringing in changes to allow Councils to spread their Collection Fund losses (for losses in Council Tax and Business Rates income) over the next three years instead of over the next one year. So this will allow council tax and business rate losses in income, to be repaid over the next 3 years of budget cycles, instead of just the next one year. The Government will also agree an apportionment of irrecoverable council tax and business rate losses, between central and local Government for 2020 to 2021.

More details are awaited on this from the Spending Review, to be able to understand the detail of how Councils will be supported by this.

### **Rural Services Delivery Grant**

- 4.23 Rural Services Delivery Grant has been modelled to continue for 2021/22 onwards at previous levels (£81m nationally – WDBC share of £464,365) and the methodology for distribution to remain unchanged from 2020/21. The Council will continue to lobby on the basis that the £81m should be increased. This is Government grant to recognise the additional cost of delivering services in rural areas.

**Recommendation 4:** That WDBC continues to lobby in support of the Government eliminating Negative Revenue Support Grant in 2021/22 (and thereafter) and continues to lobby for Rural Services Delivery Grant allocations which adequately reflect the cost of rural service provision.

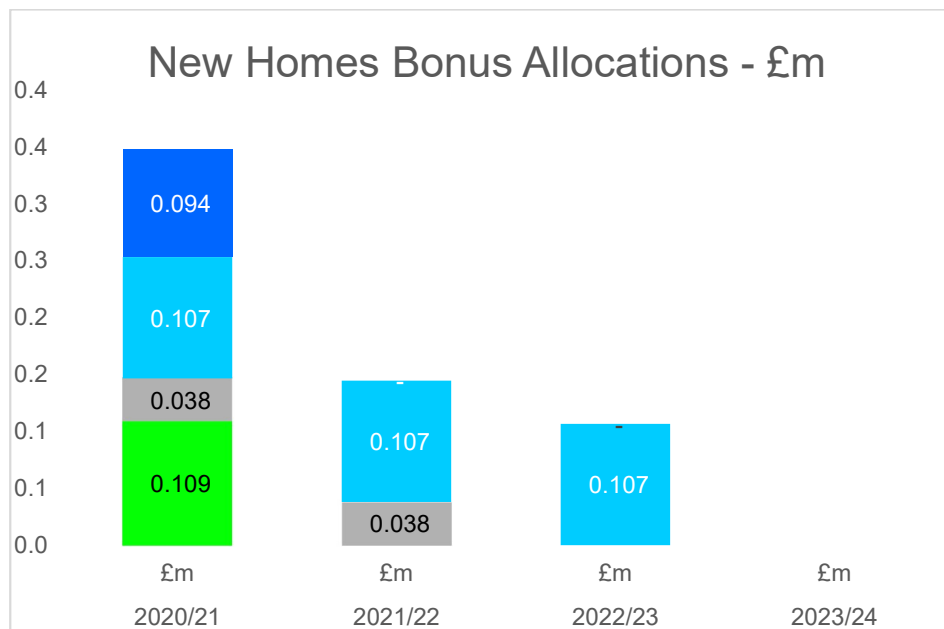
### **New Homes Bonus (NHB)**

- 4.24 In theory, the New Homes Bonus (NHB) scheme is being phased-out and the spending review will propose a replacement (for consultation). It has been confirmed in a letter on the Council TaxBase (CTB1, 25 September 2020) that “the future direction of the NHB incentive will now be considered as part of the Spending Review process”. An additional one-off NHB payment in 2021-22 is still a real possibility. It is thought more likely that New Homes Bonus will continue in its current for 2021-22 as part of a ‘one year rollover settlement’, with changes being put in place after that.
- 4.25 On 25 September, the Ministry for Housing, Communities & Local Government wrote to local authority Chief Finance Officers to request Council Tax Base data. The letter notes that the planned Spring consultation on the future of the New Homes Bonus (NHB) has been delayed. Authorities are asked to provide the usual data relating to NHB calculations, which “may be needed in calculating the bonus”, though explains that “the future direction of the incentive will now be considered as part of the Spending Review process”. This could suggest that the government is considering extending the scheme for a further year.
- 4.26 The letter does not provide any further information on proposals for collection fund deficits relating to 2020/21 to be spread over three years, and does not ask authorities for information on their 2020/21 position.

4.27 The Council's New Homes Bonus allocation for 2020/21 was £347,543 as shown below.

New Homes Bonus	2020/21	2021/22	2022/23	2023/24
	£m	£m	£m	£m
2017/18 allocation	0.109			
2018/19 allocation	0.038	0.038		
2019/20 allocation	0.107	0.107	0.107	
2020/21 allocation	0.094			
2021/22 forecast allocation		-		
2022/23 forecast allocation			-	
<b>Equals NHB Funding</b>	<b>0.348</b>	<b>0.145</b>	<b>0.107</b>	<b>-</b>

No future years' allocations assumed



4.28 If the legacy payments for NHB from previous years are honoured by the Government, this would equate to £145,000 in 2021/22 and £107,000 in 2022/23. In light of the recent Government letter accompanying the CTB1 return issued on 25<sup>th</sup> September, it is reasonable to assume that a further allocation for 2021/22 will also be made (of around £50,000). The modelling in the MTFs therefore assumes NHB funding of £195,000 in 2021/22 and £157,000 in 2022/23 will be available to fund the revenue base budget (being the legacy payments plus an additional allocation of £50,000 for 2021/22).

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

- 4.29 The last pay award offer for 2020-21 was 2.75%. A 2% pay increase has been modelled from 2021/22 onwards (2% equates to £90,000). 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.
- 4.30 This report assumes inflation will run at 1% over the five year period. The Consumer Prices Index (CPI) was 1.0% in July 2020. RPI was 1.6%.
- 4.31 The predicted interest rate forecast from our treasury management advisors, Link Services, is that interest rates will remain at 0.75% up to March 2021. By March 2022 the bank base rate is predicted to increase to 1.25%.

## **SAVINGS**

- 4.32 On 22 September 2020 Council considered a report on strategic leisure options. It was agreed to continue with the Fusion contract as being the most appropriate means of supporting health and wellbeing objectives within the Borough. The savings from the re-profiled management fees from the leisure contract have been built within the Medium Term Financial Strategy. Management fees are repayable from 2021/22.
- 4.33 On 15<sup>th</sup> September 2020 the Hub Committee considered a report on three weekly trials. The annual savings expected from a three weekly scheme across the whole Borough is estimated at between £100,000 to £150,000 a year. These savings are modelled in the Medium Term Financial Strategy and are dependent on the outcome report and the Council decision.
- 4.34 Minute HC19 states that the Committee approve the continuation of the trial of three weekly refuse collections to around 1,000 households in the Borough until March 2021 to allow a full year of data to be analysed. An outcome report in March 2021 will include an officer appraisal over whether or not the Committee should recommend to Council that a three weekly refuse collection should be implemented for all households in the Borough with a potential start date of Autumn 2021. The Hub Committee noted the success of the enhanced recycling service.



## **5 PARTNERSHIP FUNDING AND GRANTS**

5.1 The Hub Committee considered a report on Partnership funding on 5<sup>th</sup> November 2019. Minute HC50 on Partnership Funding resolved the following:-

It was then **RESOLVED** that:

1. The feedback given by each partner had been considered and evaluated based on local need, alignment to the Council's Corporate Strategy and statutory duty;

2. The following partners be awarded funding as follows for the next three years (2020/21 to 2022/23):-

Citizens Advice Torridge, North, Mid and West Devon - £32,900

West Devon Community and Voluntary Services (CVS) - £5,100

Junior Life Skills - £2,510

Okehampton Community Recreation Association (OCRA) - £1,333

Okehampton & District Community Transport Group - £6,533

Tavistock Ring & Ride - £6,533, provided a service still continues

Young Devon - £2,500

Heart of the South West Local Enterprise Partnership (LEP) - £5,000

Tamar Estuaries Consultative Forum - £4,624 + 2.75%

Tamar Valley Area of Outstanding Natural Beauty - £8,835

Cornwall & West Devon Mining Landscape World Heritage Site

Partnership Board (WHS) - £4,000; and

3. No alternative or additional commissioning opportunities be made available at this stage.

5.2 Two Members have requested that additional funds be made available to the Community Safety Partnership and included as an extra cost pressure from 2021/22 onwards. This has not yet been factored into the MTFs and the Hub Committee's views are sought on this.

## **6 Treasury Management and Borrowing Strategy**

6.1 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 £50 million in 2019. It is recommended that this limit is retained as the Council's circumstances and financial indicators have not changed since this work was carried out.

**Recommendation 5:** – That the Council maintains an Upper Limit on External Borrowing (for all Council services) as part of the Medium Term Financial Strategy of £50 million.

## **7 FEES AND CHARGES**

7.1 Fees and Charges will be considered as part of the Budget Proposals report for 2021/22 to the Hub Committee on 1<sup>st</sup> December 2020.

7.2 No permanent reductions to the Council's income streams (such as car parking income, planning income etc as a result of the Covid pandemic) have been built into the Base Budget for 2021/22. This will be regularly monitored over the next few months. It is also awaited to see if the Government will implement a similar income compensation scheme for sales, fees and charges for Councils in 2021/22. This has been lobbied for through the South West Councils response to the Comprehensive Spending Review.

## 8 FINANCIAL SUSTAINABILITY AND TIMESCALES

8.1 The Council will assess various options for closing the budget gap for 2021/22 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><b>Extended Leadership Team (ELT) Budget options</b></p> <p>The Extended Leadership (ELT) will be tasked with identifying budget options for Members to consider for income generation/savings/reduced expenditure for 2021/22 onwards, taking into consideration the Council's corporate strategy and the latest budget monitoring position.</p>	To be quantified	Options to be presented to the Hub Committee on 1 <sup>st</sup> December 2020.
<p><b>Asset Review</b></p> <p>Members and Officers are assessing options for the Council's Asset review.</p>	To be quantified	On-going
<p><b>Revenue Budget Monitoring report</b></p> <p>The next Revenue Budget Monitoring report to the Hub Committee on 1st December 2020 will also identify possible areas of future savings, e.g. savings on travel.</p>	To be quantified	Options to be presented to the Hub Committee on 1 <sup>st</sup> December 2020.

<b>Option</b>	<b>Possible Budget Impact</b>	<b>Timescale</b>
<p><b>Redevelopment of homeless provision</b> A separate report on the potential redevelopment of homeless provision is on this Hub Committee agenda.</p>	<p>The capital project would provide a net income stream. This has not been reflected within the MTFS forecasts within this report.</p>	<p>Report to be considered by the Hub Committee on 20<sup>th</sup> October.</p>
<p><b>Funding Options</b></p>		
<p><b>New Homes Bonus allocations for 2021/22 onwards</b></p> <p>The Council is awaiting details of the Comprehensive Spending Review and an announcement on NHB.</p>	<p>To be assessed. 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><b>Use of Earmarked Reserves as a temporary measure</b></p> <p>The Council could temporarily utilise an element of Earmarked Reserves to balance an element of the 2021/22 budget, whilst longer term solutions are being implemented.</p> <p>This would be a very short term solution though.</p>	<p>To be assessed</p>	<p>To be decided as part of the Budget Process</p>

- 8.2 Through the Financial Stability Review Group, further measures will continue to be considered to balance future years' budget positions.
- 8.3 Financial Stability is one of the themes within the Recovery and Renewal Plan. The action plan, setting out the areas being progressed and the timescales within which this will take place, was set out in Appendix 1 of the Recovery Plan. Following consideration of the Renewal and Recovery Plan in the Summer, the Action Plan for the Financial Stability Theme was updated and agreed by the Financial Stability Review Group (FSRG) on 18 August 2020.

## **9 CAPITAL PROGRAMME AND PRUDENTIAL BORROWING**

- 9.1 The Capital Programme is set by the Council and may be funded by sale proceeds from the disposal of assets (capital receipts), external grants and contributions, directly from revenue or from borrowing. The Capital Budget Proposals for 2021/22 will be a separate report to the Hub Committee on 1<sup>st</sup> December 2020.
- 9.2 **Investment Property Strategy** – The Council has agreed an Investment Property strategy. To date, four investment properties have been purchased with a value of £21.3 million in aggregate.
- 9.3 Purchases made within the strategy are capital expenditure. An income projection of £300,000 from the net ancillary income from investments in Investment property has been included within the Medium Term Financial Strategy.
- 9.4 The Council's Asset Base is £44 million at 31 March 2020. The Council will continually review and challenge its asset base in order to deliver the optimum value for money from the Council's Assets.

## **10 Earmarked and Unearmarked Reserves Policy**

- 10.1 Earmarked Reserves at 31.3.2020 are £4.984 million as set out in Appendix C.
- 10.2 Unearmarked Reserves are £1.1 million at 31.3.2020. The Council's Net Budget is £7.7 million for 2020/21. Therefore Unearmarked Reserves equate to 14.3% of the Council's Net Budget.
- 10.3 No contributions to Earmarked Reserves for the Planning Reserve (£25,000) or the Elections Reserve (£20,000) have been modelled for 2021/22. These contributions have been modelled to re-start in 2022/23.
- 10.4 Legislation does not prescribe how much the minimum level of reserves should be. The Section 151 officer is tasked with recommending the minimum level of reserves required as part of the budget setting process having regard to elements of risk in the Council's finances. Section 25 of the Local Government Act 2003 requires the S151 officer to report on

the adequacy of the Council's financial resources on an annual basis. This is routinely done in February each year when the Budget is set.

- 10.5 In February 2020, Members set a minimum balance for Unearmarked Reserves of £900,000, based on a risk assessment.

## 11 NEXT STEPS AND PROPOSED WAY FORWARD

- 11.1 The MTFs is the starting point for developing a meaningful five year strategy that sets out the strategic intention for all of the different strands of funding available to the Council. The Council will then be able to rely on this to inform future decisions.
- 11.2 Officers will continue to work with the Financial Stability Review Group and the results of this will be incorporated into future Budget reports. Section 8 sets out the potential timescales against the areas identified.
- 11.3 The Council awaits the details of the Government's Spending Review announcement which will enable the Council to further firm up some of the assumptions within the Medium Term Financial Strategy. A further update will be presented to the Hub Committee in December. Further options for Members' considerations of how to close the predicted budget gap of £175,775 for 2020/21 will be presented as part of this report. The table below shows the budget timetable for the budget meetings for the 2021/22 Budget.

1 <sup>st</sup> December 2020	Hub Committee – To consider draft proposals for the Revenue and Capital Budget for 2021/22.
2 February 2021	Hub Committee – To recommend Final Budget Proposals to Council for 2021/22
<b>11th February 2021 (9am)</b>	<b>Date which Council Procedure Rule 16 applies</b>
16th February 2021	Full Council – To approve Final Budget Proposals for 2021/22 and set the WDBC share of the Council Tax
23rd February 2021	Council Tax Resolution Panel – to agree the Council Tax Resolution for 2021/22 (This is WDBC share plus all other precepting authorities share).

**Note 1-** Council Procedure Rule 16 states that ‘Where a member intends to move a motion or amendment in relation to the Budget, the text of that motion or amendment must be put in writing and submitted to the Head of Paid Service by 9am on the third working day before the meeting, in order that officers may have sufficient time to consider and advise the Council of the financial implications of any such motion or amendment’. As per the timetable above, this would need to be submitted by 9am on Thursday 11th February 2021.

## 12. Implications

Implications	Relevant to proposals Y/N	Details and proposed measures to address
Legal/Governance		<p>The Hub Committee is responsible for recommending to Council the budgetary framework. It is the role of the Overview and Scrutiny Committee to scrutinise the Budget proposals being proposed by the Council on an annual basis. In accordance with the Financial Procedure Rules, Council must decide the general level of Reserves and the use of Earmarked Reserves.</p> <p>The preparation of the Budget report is evidence 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		<p><b><i>The forecast budget gap for 2021/22 is £175,775. This is 2.2% of the Net Budget of £7.7million.</i></b></p> <p>A cumulative budget gap of £291,613 is predicted for 2022/23 (this assumes that the budget gap for 2021/22 of £175,775 has not been closed). This increases to £1.1million by 2025/26. The aggregated Cumulative Budget Gap by 2025/26 is £3.278 million, if no action has been taken in each individual year to close the budget gap annually.</p>

		The recommendations adopted and the annual budget setting process will ensure the Council has arrangements in place to secure economy, efficiency and effectiveness in its use of resources. The Council's auditors, Grant Thornton, provided an unqualified value for money opinion for the Borough Council for 2019-20, which was reported to the Council's Audit Committee on 13 October 2020.
Risk		Each of the budget options taken forward by Members will consider the risks of the option.
Supporting Corporate Strategy		The Budget report supports all six of the Corporate Themes of Council, Homes, Enterprise, Communities, Environment and Wellbeing.
Climate Change - Carbon / Biodiversity Impact		A Climate Change Action Plan was presented to Council in December 2019. 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.
Comprehensive Impact Assessment Implications		
Equality and Diversity		Equality Impact Assessments are completed for the budget proposals.
Safeguarding		None directly arising from this report.
Community Safety, Crime and Disorder		None directly arising from this report.
Health, Safety and Wellbeing		None directly arising from this report.
Other implications		None directly arising from this report.

### **Supporting Information**

#### **Appendices:**

Appendix A – Budget pressures and savings

Appendix B – Modelling of the Budget Position

Appendix C - Schedule of Earmarked Reserves

**Background Papers:**

Council 22<sup>nd</sup> September 2020 – Amended Budget Proposals 2020-21

**Approval and clearance of report**

<b>Process checklist</b>	<b>Completed</b>
Portfolio Holder briefed/sign off	<b>Yes</b>
SLT Rep briefed/sign off	<b>Yes</b>
Relevant Heads of Practice sign off (draft)	<b>Yes</b>
Data protection issues considered	<b>Yes</b>
Accessibility checked	<b>Yes</b>