

Report to: Joint Development Management Committee and
Overview and Scrutiny Panel

Date: 14 January 2021

Title: **Draft Revenue Budget Proposals for 2021-22**

Portfolio Area: Cllr J Pearce – Budget Setting Process

Wards Affected: All

Urgent Decision: N Approval and clearance obtained: Y

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Recommendations:

That the views of the Joint Development Management Committee and Overview and Scrutiny Panel are sought on the content of the Revenue Budget Proposals report for 2021/22.

Views are sought in particular on:-

- i) The proposed increase in Council Tax for 2021/22 of £5 (Band D of £175.42 for 2021/22 – an increase of 10 pence per week or £5 per year – equates to a 2.93% increase);**
- ii) The financial pressures shown in Appendix A of £668,761;**
- iii) The net contributions to/(from) Earmarked Reserves of £414,600 as shown in Appendix D, including the proposed use of £746,000 of New Homes Bonus funding to fund the 2021/22 Revenue Budget as set out in 4.24 of the report;**
- iv) The savings of £122,191 as shown in Appendix A; and**
- v) Partnership funding levels set out in Section 5.**

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 2020/21, the Council's Core Government funding has reduced by £4 million. The Council now receives **no main Government Grant (Revenue Support Grant)** – this has been reduced to zero.

- 1.2 South Hams has continued to work in partnership with West Devon Borough Council which has allowed South Hams 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 per annum. 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 Medium Term Financial Strategy (MTFS) was considered by Members on 22nd October 2020 and it set 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. The MTFS 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.
- 1.4 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 ferry income, car parking income, planning income and council tax and business rates income.
- 1.5 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.
- 1.6 The Draft Budget Proposals report to the Executive on 17th December 2020 showed a budget gap remaining for 2021/22 of £75,871. On the same day, the Draft Local Government Finance Settlement for 2021/22 was announced by the Government. Details of the main announcements are set out in Section 2. The Draft Finance Settlement stated that the Council will receive a Lower Tier Services Grant of £82,123 for 2021/22 and this extra funding announced has enabled the Council to close the budget gap and present a balanced budget position for 2021/22 to this meeting.
Section 2.15 sets out the changes to the budget position since the December Executive meeting.
- 1.7 **The report attached sets out proposals for the Council to achieve a balanced budget in 2021/22, as shown in Appendix B.** South Hams District Council is currently forecasting a £492,835 budget gap by the following year, 2022/23. The cumulative aggregated Budget Gap by

2025/26 is £3.9 million, if no action has been taken in each individual year to close the budget gap annually.

Budget Gaps	2021/22 £	2022/23 £	2023/24 £	2024/25 £	2025/26 £	Total Aggregated Budget Gap £
'New' Budget Gap each year	0 (Balanced Budget)	492,835	292,093	388,608	296,287	1,469,823
*Cumulative Budget Gap	0	492,835	784,928	1,173,537	1,469,823	3,921,123

* (Cumulative Budget Gap assumes annual new budget gaps have not been addressed)

2 CHANGES TO THE 2021/22 BUDGET REPORT SINCE THE EXECUTIVE MEETING OF 17TH DECEMBER 2020

2.1 On 17th December 2020, the Government announced the draft Finance Settlement for 2021/22 for consultation. The key points from the Finance Settlement are below. The full announcement is set out on the following link (Consultation responses are due by 16th January): [Provisional local government finance settlement: England, 2021 to 2022 - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/consultations/provisional-local-government-finance-settlement-england-2021-to-2022)

2.2 **Core Spending Power for South Hams has increased by 2.5% for 2021/22.** Core Spending Power is the term the Government use to say how much money Councils have to run their services. On looking at the detail below, it can be seen that the extra funding of 2.5% is mainly coming from assumed Council Tax increases in 2021/22.

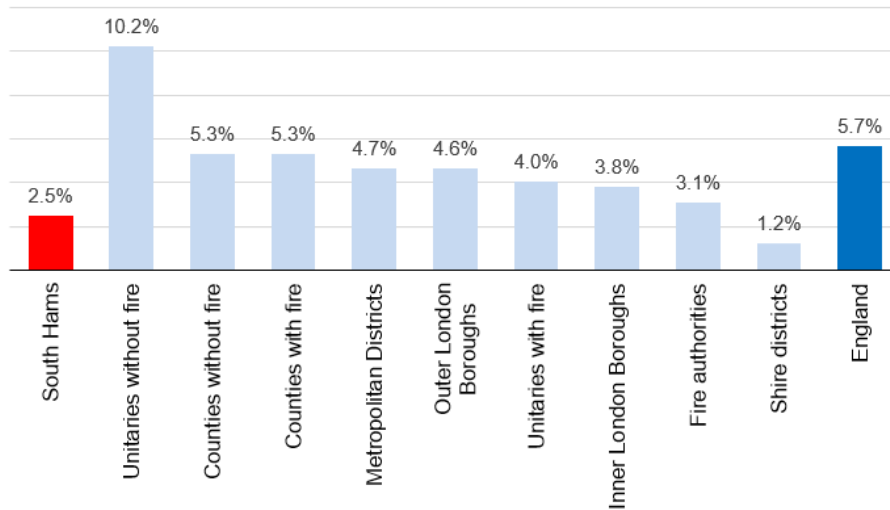
Table 1 - Core Spending Power (£m)

	2020/21	2021/22	Change £m	Change %
Core Spending Power	10.175	10.430	0.255	2.5%
<i>Breakdown of Core Spending Power:</i>				
Settlement Funding Assessment	1.928	1.928	0.000	0.0%
Assumed Council Tax	6.563	6.823	0.260	4.0%
Other Grants	1.685	1.679	-0.005	-0.3%
<i>Breakdown of Other Grants:</i>				
New Homes Bonus	1.199	1.068	-0.131	-10.9%
Improved Better Care Fund	0.000	0.000	0.000	
Social Care Grant	0.000	0.000	0.000	
Rural Services Delivery Grant	0.408	0.428	0.020	4.9%
SFA multiplier compensation ^a	0.077	0.100	0.023	30.0%
Lower Tier Services Grant	0.000	0.082	0.082	

(a) Compensation for under-indexing the business rates multiplier

2.3 The Table below shows the change in Core Spending Power (CSP) by class of Authorities – Shire Districts on average had the lowest increase of 1.2%.

Chart 2 - Change in CSP by class of authority (2020/21 to 2021/22)



- 2.4 Lower Tier Services Grant - A new grant has been announced with the Finance Settlement, a Lower Tier Services Grant. SHDC will receive £82,123. This is unringfenced grant for 2021/22 and it equates to £111 million nationally.
- 2.5 The Council Tax Referendum Limit for Shire Districts has been confirmed at the higher of 1.99% or £5. There is no limit set for Town or Parish Councils for 2021/22. The limit for the Police and Crime Commissioner is £15.
- 2.6 Negative RSG (Revenue Support Grant) – It has been confirmed this has been eliminated for 2021/22.
- 2.7 Rural Services Delivery Grant – SHDC’s allocation will be £428,206 for 2021/22. This is £20,151 higher than in the latest Budget report to the Executive which showed £408,055. This is due to the national allocation being increased from £81 million to £85 million.
- 2.8 New Homes Bonus – The 2021/22 allocation of NHB is £1,068,274.
- 2.9 The Business rates multiplier has been frozen for 2021/22 and the Devon Business Rates Pool is one of 26 Pools nationally for 2021/22.
- 2.10 Local Council Tax Support Grant – There will be £0.67billion provided for meeting the additional costs associated with increases in Local Council Tax Support caseloads in 2021/22. South Hams District Council’s allocation will be £131,000 for 2021/22.
- 2.11 Local Government Funding Reform – No papers were published with the Finance Settlement relating to the Fair Funding Review or the

Business Rates Reset and the Minister could not confirm that the reforms will even take place next year.

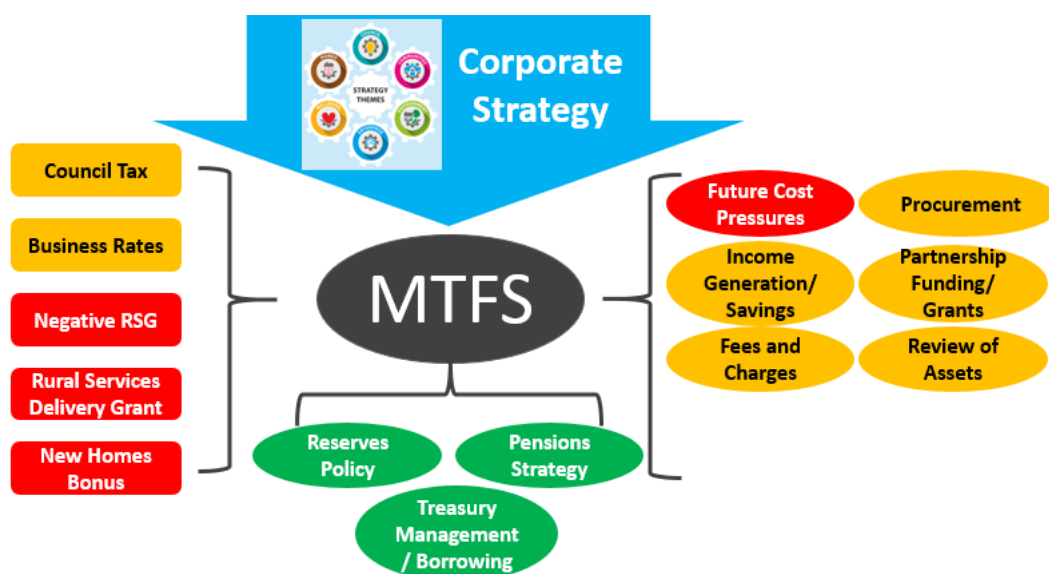
- 2.12 Audit Fees – Funding of £15m has been announced to support Councils with the anticipated rise in audit fees for 2021/22. Allocations will be confirmed in the New Year.
- 2.13 For 2021/22 there will be a **one year “rollover” settlement**, similar to that in 2020/21. A one year settlement has the advantage that it is simple, and there is no significant redistribution of funds. All local authorities will face increased financial pressure through a combination of increased demand for personal & protective services and reduced income from both taxes and demand-led income streams. Capacity to absorb these pressures will vary – which in turn will lead to calls for re-distribution of the total sum available.
- 2.14 Support for the impact of Covid-19 has largely been kept separate from the core funding for local authorities.
- 2.15 The table below shows the summary of changes to the Budget report for 2021/22, following the announcement of the Draft Local Government Finance Settlement on 17th December. A balanced budget is shown for 2021/22 following the announcement.

	Total (£)
Budget Gap for 2021/22 reported to the Executive meeting on 17th December 2020	75,871
<i>Increase in income or funding modelled</i>	
Increase the amount of Rural Services Delivery Grant for 21/22 (increased from £408,055 to £428,206)	(20,151)
Lower Tier Services Grant funding – see 2.4	(82,123)
Fees and Charges report – see 7.1	(3,500)
<i>Reduction in income modelled or increase in cost pressures</i>	
Reduction in Business Rates income modelled (Reduction from £2.35million to £2.325 million)	24,456
Reduction in Council Tax Income modelled (Reduction from £6,722,341 to £6,718,291 to reflect the TaxBase for 2021/22 of 38,298.32)	4,050
Increase in the Collection Fund Deficit for Council Tax (increased from £29,000 to £30,397)	1,397
Revised Budget Gap for 2021/22 as set out in this report (as at January 2021)	Nil – (A balanced budget position is presented)

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 £9.4 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)
- 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. September CPI was 0.5%
- 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%. In terms of the overall council tax bill, the County Council are able to increase their proportion of the council tax bill

by up to 4.99% for 2021/22, to include a 3% precept for adult social care. This could lead to further requests for relief through Council Tax Support. Police and Crime Commissioners will be able to increase their share of the council tax bill by £15. No council tax referendum principles will apply to Town and Parish Councils in 2021/22.

- There will be one more year of the New Homes Bonus payments for 2021/22
- A modest business rates pooling gain of £125,000 has been modelled for 2021/22 with no further gains for 2022/23 onwards. Business rates income is assumed to be down by 3%.
- Normally the Council receive a surplus share of around £60,000 per annum. The Collection Fund will be in deficit in 2021/22 by £30,397.
- Rural Services Delivery Grant has been assumed to continue at the same level with a slight inflationary increase across the 5 years of 3%.
- The last pay award offer for 2020/21 was 2.75%. A 1% pay increase has been modelled from 2021/22 onwards (1% equates to £70,000). Although setting pay levels in Local Government falls outside Central Government control, this freeze will have informed the setting of funding for Local Government and is likely to be a significant factor in determining the outcome. The Government has implied that it expects local government to exercise restraint about pay, given the wider macro-economic climate.
- No permanent reductions to the Council's income streams (such as ferry income, 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. The Government's income compensation scheme for sales, fees and charges for Councils has only been extended for the first three months of 2021/22. The Month 7 Revenue Budget Monitoring report for 2020/21 recommended to transfer £100,000 into a Covid Earmarked Reserve, to protect against future COVID losses in 2021/22.

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 £9.4 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 report attached sets out proposals for the Council to achieve a balanced budget in 2021/22, as shown in Appendix B. South Hams District Council is currently forecasting a £492,835 budget gap by the following year, 2022/23. The cumulative aggregated Budget Gap by 2025/26 is £3.9 million, if no action has been taken in each individual year to close the budget gap annually.

Budget Gaps	2021/22 £	2022/23 £	2023/24 £	2024/25 £	2025/26 £	Total Aggregated Budget Gap £
'New' Budget Gap each year	0 (Balanced Budget Proposal set out in this report)	492,835	292,093	388,608	296,287	1,469,823
*Cumulative Budget Gap	0	492,835	784,928	1,173,537	1,469,823	3,921,123

* (Cumulative Budget Gap assumes annual new budget gaps have not been addressed)

3.7 The Government's Spending Review announcement on 25th November 2020 contained no real surprises for local government, and largely confirmed the assumptions previously made within the Medium Term Financial Strategy (MTFS) in October.

4 BUSINESS RATES, COUNCIL TAX AND NEW HOMES BONUS

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. 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.

Business Rates and Negative Revenue Support Grant (RSG)

4.2 The Business Rates Reset will be delayed to 2022/23. A reset based on the current taxbase would have been badly distorted by the current economic crisis, and very unlikely to reflect the potential business rates that authorities can collect in future years.

4.3 There will be a one year 'rollover settlement' (with no negative Revenue Support Grant in 2021/22). This means the Council won'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 2021/22. Negative RSG is effectively the Council's further predicted funding cuts.

- 4.4 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.
- 4.5 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 2020/21, the £2.155m is the amount the Council retains from its business rates income collected of £30 million (the Council keeps about 7p 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. A final report setting out the full conclusions of the Government review on Business Rates Reform will be published in Spring 2021.

	Business Rates Income projected in the MTFS (£m)					
	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26
Business Rates Income	2.155	2.325	2.350	2.355	2.360	2.370
Less: Negative RSG change to baseline need	0	0	(0.270)	(0.360)	(0.450)	(0.500)
TOTAL	2.155	2.325	2.08	1.995	1.91	1.87

Business Rates reliefs

- 4.6 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 4.19 on the Collection Fund.
- 4.7 The net collectable debt for Business Rates is £18.6 million for 2020/21. Prior to the pandemic, this was predicted to be £30million and the additional NNDR reliefs for the total value of the expanded retail discount and nursery discount for 2020/21 total £13.778million. Therefore over £13.7million worth of the Council's normal business rates bills issued of £30million (46%) 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.

- 4.8 The Council and SWCouncils are lobbying the Government for these business rates reliefs to continue into 2021/22. The Spending Review referred to a freeze in the business rates multiplier next year, as the multiplier was going to increase by 0.5% but will now be frozen. Many businesses are asking whether the business rates reliefs in 2020-21 will be extended into next year to support retail, hospitality and leisure businesses. The Government will make a decision on this in the New Year to respond to the 'evolving challenges presented by COVID-19'. If the Retail Discount is discontinued, then this will place more pressure on business rates income for Councils in 2021-22.
- 4.9 By November 2020, the Council has collected 67.89% of the net collectable debt. This is 5.42% lower than November 2019 – a cash reduction of £970,000. The lockdown in November may have had an impact on payment profiles. Hence a reduction of 3% is assumed. The 2019/20 collection rate for South Hams for business rates was 98.67%. The national average was 98%.
- 4.10 The Government has stated that compensation will be provided for 75% of council tax or business rates income deemed to be irrecoverable. Further information is awaited on what criteria will be applied before tax is deemed to be irrecoverable, but this does at least provide some mitigation for losses that would otherwise feed into Collection Fund adjustments in 2022/23.
- 4.11 It was recommended to Council that South Hams District Council continues to be part of the Devon Business Rates Pool for 2021/22. Modelling has been carried out with the other Devon Authorities and Local Government Futures to inform this recommendation. A modest business rates pooling gain of £125,000 has been modelled for 2021/22 with no further gains for 2022/23 onwards. The Devon Business Rates Pool is one of 26 Pools nationally for 2021/22.

Council Tax

- 4.12 The Draft Council Tax Referendum Principles for 2021-22 have been published with the Draft Local Government Finance Settlement. This confirms that the Council Tax Referendum limits for Shire District Councils is the higher of 1.99% or £5, for 2021/22. ***This would equate to a Band D council tax for South Hams of £175.42 in 2021/22 as shown in Appendix B (an increase of £5 for the year (10 pence per week) which equates to a 2.93% increase).*** The council tax for 2021/22, the SHDC share, will be set at the Council meeting on 11th February 2021. (A 1% increase in council tax generates £67,000 of extra council tax income).
- 4.13 The table below shows how an average Band D council bill is made up for South Hams District Council for 2020/21 as compared to the previous year. Of an average Band D Council Tax within the District of £1,990.82,

an amount of £170.42 is the element of a council tax bill set by South Hams District Council. Therefore 9pence of every £1 paid (9%) in council tax is received by South Hams District 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.

Precepting Authority	Band D 2019/20	Band D 2020/21	£ Increase	% Increase
South Hams District Council	£165.42	£170.42	£5.00	3.02%
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 (*see Note below)	£64.53	£71.06	£6.53	10.12%
TOTAL	£1,913.04	£1,990.82	£77.78	4.07%

*Note – The highest Parish Precept is Totnes with a Band D of £181.61 (which is £11.19 higher than South Hams District Council), giving an overall Band D council tax bill in Totnes of £2,101.37. The lowest Parish Precept is Woodleigh Parish with a Band D of £4.96, giving an overall Band D council tax bill of £1,924.72.

- 4.14 A 1% reduction in council tax collection rates has been assumed for 2021/22 onwards. As at the end of November 2020, 74.21% of the council tax has been collected. This is a decrease of 1.02% against the 2019/20 collection rates at the end of November. The 1.02% drop equates to £790,756 (SHDC share £71,168). See 4.19 on the Collection Fund.
- 4.15 The District Council is responsible for collecting all the Council Tax debt of £78m in 2020/21 as South Hams DC is the Billing Authority. After keeping 9% of the council tax collected to run the Council's 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 South Hams was 98.3% for 2019/20. This was 1.5% higher than the national average of 96.8%.

- 4.16 On 15 December 2020, the Senior Leadership Team approved the calculation of the Council Tax Base for 2021/22 of 38,298.32. This is a decrease of 210.17 Band D properties (0.5%) in comparison to 2020/21. (Individual Town and Parish Councils have different levels of increases and decreases in their Taxbase which they have been notified of). Although there were 425 net additions of housing stock and empty homes brought back into use, the higher levels of council tax support in working age claimants have meant an overall reduction in the Taxbase as a whole. In 2019/20 the actual Council Tax collection rate was 98.3%. Historically a collection rate of 98% has been used in the TaxBase calculation, but due to the impact of COVID-19, a collection rate of 97% has been assumed in the 21-22 tax base calculation.
- 4.17 It has been assumed that the number of properties within the District will increase by 200 per annum from 2022/23 onwards. A low figure has been assumed to partly offset the impact of Council Tax Support on the Taxbase.
- 4.18 The Government is proposing to set no council tax referendum principles for Town and Parish Councils for 2021/22.

The Collection Fund - Council Tax and Business Rates Income

- 4.19 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. In view of the exceptional conditions experienced in 2020/21, the Government has introduced Regulations requiring that the Collection Fund deficit this year be divided equally across 2021/22, 2022/23 and 2023/24. This is a one-off change to established practice.
- 4.20 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.
- 4.21 In the Spending Review 2020, the Government announced a Tax Income Guarantee Scheme for 2020-21. This new reimbursement scheme, worth £762m for 2020-21 local tax losses, will be launched to compensate councils for 75% of irrecoverable losses of council tax and business rates revenues in 2020-21 that would otherwise need to be funded through local authority budgets in 2021-22 and later years. This will be paid through an unringfenced grant. Details of this scheme and how irrecoverable losses will be calculated are being worked through.

Rural Services Delivery Grant

- 4.22 SHDC's allocation will be £428,206 for 2021/22. This is £20,151 higher than in the latest Budget report to the Executive which showed £408,055. This is due to the national allocation being increased from £81 million to £85 million. This is Government grant to recognise the additional cost of delivering services in rural areas.

New Homes Bonus (NHB)

- 4.23 The NHB allocation for South Hams for 2021/22 is **£1,068,274**. This is made up of a Year 11 payment of £422,522 and Legacy payments of £645,753. The Year 11 payment of £422,522 reflects 425 net additions in housing stock and empty homes brought into use and a payment of £50,120 for 179 affordable homes (at £280 per affordable home).

New Homes Bonus	2020/21	2021/22	2022/23	2023/24
	£m	£m	£m	£m
2017/18 allocation	0.195			
2018/19 allocation	0.200	0.200		
2019/20 allocation	0.446	0.446	0.446	
2020/21 allocation	0.359	-		
2021/22 forecast allocation		0.422		
2022/23 forecast allocation			-	<i>NHB is being replaced in 2022/23</i>
Equals NHB Funding	1.199	1.068	0.446	-

- 4.24 The table below shows the proposed allocation of New Homes Bonus for 2021/22:-

New Homes Bonus (NHB)	Amount (£)
New Homes Bonus 2021/22 allocation	£1,068,274
Current proposed allocation:-	
To fund the Revenue Base Budget	(746,000)
To fund the Capital Programme	(200,000)
Amount remaining unallocated	122,274

- 4.25 It is anticipated that £200,000 of NHB will be required to fund the Capital Programme for 2021-22. This would leave £122,274 of NHB remaining unallocated from the 2021-22 allocation.
- 4.26 There is also currently £235,016 of unallocated NHB from 2020/21. It was approved to put this 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. The Government consultation is now expected to be in Spring 2021, with a

view to implementing reform in 2022-23. Note the Budget Forecast in Appendix B assumes that £546,000 from a NHB replacement scheme is used to finance the 2022/23 Revenue Base Budget. Details of the replacement scheme are awaited as this could have a significant impact on the 2022/23 Budget Gap due to the current assumption that £546,000 of funding will be available to fund the Revenue Base Budget in 22/23.

Other assumptions within the Medium Term Financial Strategy (MTFS)

- 4.27 The last pay award offer for 2020-21 was 2.75%. A 1% pay increase has been modelled from 2021/22 onwards (1% equates to £70,000). 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. See 3.2.
- 4.28 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%. CPI in September – the reference point for business rate increases and many welfare benefits – was 0.5%.
- 4.29 The predicted interest rate forecast from our treasury management advisors, Link Services, is that interest rates will remain at 0.1% up to March 2024.
- 4.30 The Council is preparing its Corporate Strategy for adoption by Summer 2021, which will set out any additional resource requirements to deliver the Strategy.
- SAVINGS**
- 4.31 On 24 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 District. 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.
- 4.32 Members have a future opportunity as to whether to implement a charged garden waste service from April 2022. For example an annual charge of £40 for an opt in service, could release net income of £250,000 in the first year, rising to £400,000 in following years with a 20% participation rate. If participation rates are higher, income of up to £700,000 per annum could be achieved. These potential savings have not been reflected within the Medium Term Financial Strategy as Members have not yet taken a decision on charged garden waste.
- 4.33 Due to the rapidly changing financial position, the Council is now undertaking frequent revenue budget monitoring reports. The latest revenue budget monitoring report for Month 7 (end of October) predicts an underspend (surplus) of £69,000 for 2020/21. This report was presented to the Executive on 17th December 2020. This takes into

account the Amended Budget for 2020/21 which was set by Council on 24 September 2020.

5 PARTNERSHIP FUNDING AND GRANTS

5.1 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.

At Council on 13th February 2020, it was resolved:-

That Partnership funding levels be as set out within Section 2.38 of the Revenue Budget Proposals to the Executive on 6 February 2020, with the addition of £10,000 to the South Hams CVS for 2020/21 only, subject to the organisation demonstrating that it meets the criteria set out at Section 2.38 of the Revenue Budget report, with the additional £3,000 required to be taken from Unearmarked Reserves in 2020/21.

At the Executive meeting in December 2020, some Members mentioned the CVS and whether funding could also be made available for 2021/22 (an extra £10,000 was made available for 2020/21). Cllr Hawkins and Cllr Hopwood held a virtual meeting with South Hams CVS in December 2020 and have asked them to submit their partnership funding proposals for 2021/22 by the end of January. Based on initial discussions, it is likely that the request will be for £10,000 as a contribution to central administrative overheads. Consideration can be given to this being for a two year period to align with the above partnerships (i.e. £10,000 in 2021/22 and £10,000 in 2022/23). Members' views are sought on this.

6 Treasury Management and Borrowing Strategy

- 6.1 The Council has taken external treasury management advice on the External Borrowing (for all Council services) as part of the Medium Term Financial Strategy of £75 million in 2019. It is recommended that this limit is retained as the Council's circumstances and financial indicators have not changed since this advice was procured. In March, the Government launched a consultation on reforms to the Public Works Loan Board intended to prevent the trend, in a minority of local authorities, of taking on debt to buy assets primarily for income.
- 6.2 In the Spending Review 2020, the Government has announced the outcome of the consultation and has lowered the interest rate of Public Works Loan Board lending by 1%. This brings Public Works Loan Board interest rates back to the levels they were at before October 2019. Local Authorities will be asked to submit a high-level description of their capital spending and financing plans for the following three years, including their expected use of the PWLB.

7 FEES AND CHARGES

- 7.1 A Fees and Charges report is a separate agenda item for the meeting of the Joint Development Management Committee and Overview & Scrutiny Panel on 14 January 2021. The recommendations within the report would generate additional income from fees and charges of £3,500, being £2,000 from boat storage fees and £1,500 from Street Naming and Numbering.
- 7.2 No permanent reductions to the Council's income streams (such as ferry income, 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. The Government's income compensation scheme for sales, fees and charges for Councils

will only run for the first three months of 2021/22, so any losses from July onwards will have to be addressed by the Council's own finances.

8 FINANCIAL SUSTAINABILITY AND TIMESCALES

8.1 The Council will assess various options for closing the budget gap for 2022/23 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>Extended Leadership Team (ELT) Budget options</p> <p>The Extended Leadership (ELT) will continually look to identify budget options for Members to consider for income generation/savings/reduced expenditure for 2022/23 onwards, taking into consideration the Council's corporate strategy and the latest budget monitoring position. Fees and Charges will be considered at the meeting of Joint Development Management Committee and Overview & Scrutiny Panel on 14 January 2021.</p>	To be quantified	As per the Budget Timetable outlined in 12.3
<p>Monthly Revenue Budget Monitoring reports</p> <p>Regular Revenue Budget Monitoring reports also highlight possible areas of future savings and additional income</p>	To be quantified	Options to be assessed as per the Budget Timetable outlined in 12.3
<p>Asset and Accommodation Review</p> <p>Members and Officers are assessing options for the Council's Asset review.</p>	To be quantified	On-going
<p>Charged Garden Waste</p> <p>Members have a future opportunity as to whether to implement a charged garden waste service from April 2022. For example, a proposed annual charge of £40 for an opt in service, could release net income of £250,000 in the first year, rising to £400,000 in following years with a 20% participation rate. If participation rates are higher,</p>	Net income could be as high as £250,000 in the first year, rising to £400,000	Future decision of the Council These potential savings have not been reflected within the Medium Term Financial Strategy as Members have not yet taken a

Option	Possible Budget Impact	Timescale
income of up to £700,000 per annum could be achieved.	in the following years.	decision on charged garden waste.
Funding Options		
<p>Contributions to Earmarked Reserves</p> <p>The Council could chose to change some of its contributions to Earmarked Reserves currently budgeted for 2021/22 as set out in Appendix D.</p>	As set out in Appendix D	To be decided as part of the Budget Setting process for 2021/22
<p>New Homes Bonus allocations for 2021/22 onwards</p> <p>The Council's NHB allocation for 2021/22 is £1,068,274. It is proposed to use £746,000 to fund the Revenue Base Budget, £200,000 to fund the Capital Programme, leaving an amount unallocated of £122,274. Further details are set out in 4.24 to 4.26.</p> <p>The Government consultation is now expected to be in the New Year (Spring 2021), with a view to implementing reform for NHB in 2022-23.</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.	Awaiting further consultation from the Government on a replacement scheme
<p>Use of Earmarked Reserves as a temporary measure</p> <p>The Council could temporarily utilise an element of Earmarked Reserves to balance an element of the 2022/23 budget, whilst longer term solutions are being implemented.</p> <p>This would be a very short term solution though.</p>	To be assessed	To be decided as part of the Budget Process

8.2 Through the budget setting process, 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.
- 8.4 The Revenue Budget Monitoring report (Month 7) for 2020-21 is projecting an underspend of £69,000, which is 0.7% of the overall budget set for 2020/21 of £9.41 million.

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 Executive on 28th January 2021.
- 9.2 **Investment Property Strategy** – The Council has agreed an Investment Property strategy. To date, Investment Properties have a value of £19.156 million in aggregate as at 31.3.2020.
- 9.3 Purchases made within the strategy are capital expenditure. An income projection of £75,000 from the net ancillary income from investments in Investment property has been included within the 2020/21 Base Budget.
- 9.4 The Council's Asset Base is £99 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 As part of the Budget Workshop on 27th August, the Council also undertook a review of its Earmarked Reserves through reviewing the commitments against the Earmarked Reserves, its unallocated balance and the contributions to/from Earmarked Reserves for 2020/21 also.
- 10.2 A schedule of Earmarked Reserves is attached at Appendix C , which shows Earmarked Reserves have a projected balance of £10.254 million at 31.3.2021. Reserve levels will be kept under constant review.
- 10.3 The Council's level of Unearmarked Reserves currently stands at £1.898 million. The underspend projected for 2020/21 of £69,000 would be added to Unearmarked Reserves, increasing the Unearmarked Reserves to £1.967 million. However, as part of the 2020/21 Amended Budget, Council agreed to use £200,000 from Unearmarked Reserves to fund the Base Budget. This £200,000 was for this financial year (2020/21) and not next year (2021/22). Accordingly this gives a year end projected balance of £1.767 million.
- 10.4 As part of the Medium Term Financial Strategy and at Council in February 2020, Members have set a minimum balance for Unearmarked Reserves of £1.5 million, based on a risk assessment basis and a

sensitivity analysis. Therefore the current level of £1.767m is still above the minimum level set of £1.5m.

- 10.5 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 (this was recommended at £1.5million being the minimum level). Since February 2020, the financial risks which all Councils face will have increased. 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. A risk assessment and sensitivity analysis on the level of reserves will form part of the report to the Executive on 28th January 2021.
- 10.6 Measures to replenish £200,000 of unearmarked reserves will be continually reviewed as part of the budget setting process.
- 10.7 As set out in the report to Council on the Amended Budget for 2020/21, all other uncommitted amounts in all other Earmarked Reserves (see Appendix C) will remain subject to review, with the exception of Reserves for the Salcombe Harbour Board, as these are subject to decisions by the Salcombe Harbour Board.
- 10.8 In view of the balanced budget position predicted for 2021/22 set out in this report (based on current assumptions), limited spending of Earmarked Reserves will be considered to support wider corporate objectives.

11 OTHER ANNOUNCEMENTS WITHIN THE SPENDING REVIEW 2020

- 11.1 The compensation scheme for income lost from sales, fees and charges will continue for the first three months of 2021/22.
- 11.2 A further £1.55 billion in new funding for local government's COVID expenditure pressures was announced in the Spending Review. This is a 5th tranche of COVID funding which was announced with the Draft Local Government Finance Settlement. South Hams's allocation is £380,789. This is COVID grant payable in April 2021 and is for the 21-22 financial year (nationally it equates to £1.55billion).
- 11.3 There will be separate grant funding to help tackle homelessness amounting to £254 million – considerably more than the £103 million previously announced. Details of allocations and criteria are not yet available. The LGA has requested greater flexibility in the use of these funds than has previously been allowed.
- 11.4 Finally, there is a new, albeit small, £16 million grant programme to help local authorities improve their cyber security.

11.5 Many of the Spending Review announcements related to capital investment, which will extend beyond 2021-22. Of particular interest are the following proposals (details of which will follow at a later date):

- a) a new Levelling Up Fund, allowing bids of up to £20 million to be made against a total allocation of £4 billion. Bids are to be evaluated jointly by the Treasury, MHCLG and Department for Transport. The inclusion of the latter department in evaluation suggests the likely focus of the overall fund. Bids must have real impact within the current Parliamentary term - which suggests a very short bidding and evaluation timescale if projects have to be complete and operational in less than four years' time - and must have local support, including that of the local MPs.
- b) £2 billion each for the Affordable Housing Programme and the National Home Building Fund in 2021-22. Over the next five years the funding for these two programmes is expected to come to nearly £20 billion in aggregate.
- c) £0.9 billion for flood and coastal defence projects. This is roughly double the previous provision, and is expected to continue at this level for at least a further four years.
- d) £220 million as a transitional arrangement pending introduction of a new UK Shared Prosperity Fund. This new Fund is intended to take the place of EU regeneration funds, although the 2021/22 funding appears to be for preparatory work, rather than fully-fledged schemes.

12 NEXT STEPS AND PROPOSED WAY FORWARD

12.1 This report is a snapshot (a position statement) in January 2021 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 2021/22 Budget.

17th December 2020	Executive – To consider draft budget proposals for 2021/22.
14 January 2021	Joint Development Management Committee and Overview & Scrutiny Panel - To consider draft budget proposals for 2021/22.
28 January 2021	Executive – To recommend Final Budget Proposals to Council for 2021/22

8th February 2021 (9am)	Date which Council Procedure Rule 16 applies
11th February 2021	Full Council – To approve Final Budget Proposals for 2021/22 and set the SHDC share of the Council Tax
23 February 2021	Council Tax Resolution Panel – to agree the Council Tax Resolution for 2021/22 (This is SHDC 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 Monday 8th February 2021.

13. Implications

Implications	Relevant to proposals Y/N	Details and proposed measures to address
Legal/Governance		<p>The Executive is responsible for recommending to Council the budgetary framework and for preparing initial budget proposals.</p> <p>The views of the Joint Development Management Committee and Overview and Scrutiny Panel are sought on the draft budget proposals before the final proposals are presented to Council in February.</p> <p>The preparation of the Budget report is evidence of whether the Council has considered and taken into account all relevant information and proper advice when determining its financial arrangements in</p>

		accordance with statutory requirements, and in particular, that it will set a lawful budget.
Financial implications to include reference to value for money		<p>The report attached sets out proposals for the Council to achieve a balanced budget in 2021/22, as shown in Appendix B. South Hams District Council is currently forecasting a £492,835 budget gap by the following year, 2022/23. The cumulative aggregated Budget Gap by 2025/26 is £3.9 million, if no action has been taken in each individual year to close the budget gap annually.</p> <p>The recommendations adopted and the annual budget setting process will ensure the Council has arrangements in place to secure economy, efficiency and effectiveness in its use of resources. The Council's auditors, Grant Thornton, provided an unqualified value for money opinion for the District Council for 2019-20, which was reported to the Council's Audit Committee in October 2020.</p>
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		<p>The Council declared a Climate Change and Biodiversity Emergency on 25 July 2019 and 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.</p> <p>The Council has Earmarked £400,000 in a Climate Change Earmarked Reserve as part of the 2020-21 Budget.</p> <p>On 17th December 2020, Council adopted the Climate Change and Biodiversity Strategy. The Council has committed to the following aims;</p> <ol style="list-style-type: none"> a) to reduce its organisational carbon emissions (Scope 1, 2 and 3 emissions) to net-zero by 2030;

		<p>b) to commit to working with partners through the Devon Climate Emergency Response Group to aim to reduce the District of South Hams' carbon emissions to net-zero by 2050 at the latest;</p> <p>c) That the Council aim for a 10% Biodiversity Net Gain in the habitat value of its green and wooded public open space by 2025;</p> <p>The report also set out the proposed initiatives for the £400,000 in the Climate Change Earmarked Reserve. (£20,000 has already been allocated to support the delivery of work to improve the energy efficiency of the existing housing stock in light of the successful Green Homes Grant bid – Minute E.31/20 refers).</p>
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
- Appendix D – Contributions to & from Earmarked Reserves

Background Papers:

- Council 17th December 2020 – Climate Change and Biodiversity Strategy and Action Plan update
- Executive 17th December 2020 – Draft Revenue Budget Proposals for 2020-21
- Executive 17th December 2020 – Revenue Budget Monitoring report (Month 7)
- Council 24th September 2020 – Amended Budget Proposals 2020-21
- Council 24th September 2020 – Climate Change and Biodiversity Strategy and Action Plan Update
- Council 24th September 2020 – Strategic Leisure Options (Fusion Update)