

Report to: **Overview and Scrutiny Committee**

Date: **19th January 2021**

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

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:

Hub Committee 2nd February 2021

Author: **Lisa Buckle** Role: **Corporate Director for Strategic Finance (S151 Officer)**

Contact: Email: lisa.buckle@swdevon.gov.uk

Recommendations:

That the views of the Overview and Scrutiny Committee 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 £241.63 for 2021/22 – an increase of 10 pence per week or £5 per year – equates to a 2.11% increase);
- ii) The financial pressures shown in Appendix A of £434,000;
- iii) The net contributions to/(from) Earmarked Reserves of £42,500 as shown in Appendix A
- iv) The proposed use of £192,772 of New Homes Bonus funding to fund the 2021/22 Revenue Budget as set out in 4.24 of the report;
- v) The savings of £344,200 as shown in Appendix A; and
- vi) Noting the further business case to be received on partnership funding for the Community Safety Partnership set out in 5.2

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 The Medium Term Financial Strategy (MTFS) was approved by Members on 20 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.
- 1.4 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.
- 1.5 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 The Draft Budget Proposals report to the Hub Committee on 8th December 2020 showed a budget gap remaining for 2021/22 of £103,713. 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 £70,182 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 Hub Committee meeting.

1.9 **The report attached sets out proposals for the Council to achieve a balanced budget in 2021/22, as shown in Appendix B.** West Devon Borough Council is currently forecasting a £115,912 budget gap by the following year, 2022/23. The cumulative aggregated Budget Gap by 2025/26 is £1.95 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)	115,912	325,413	163,326	188,218	792,869
*Cumulative Budget Gap	0	115,912	441,325	604,651	792,869	1,954,756

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

2 CHANGES TO THE 2021/22 BUDGET REPORT SINCE THE HUB COMMITTEE MEETING OF 8TH 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)

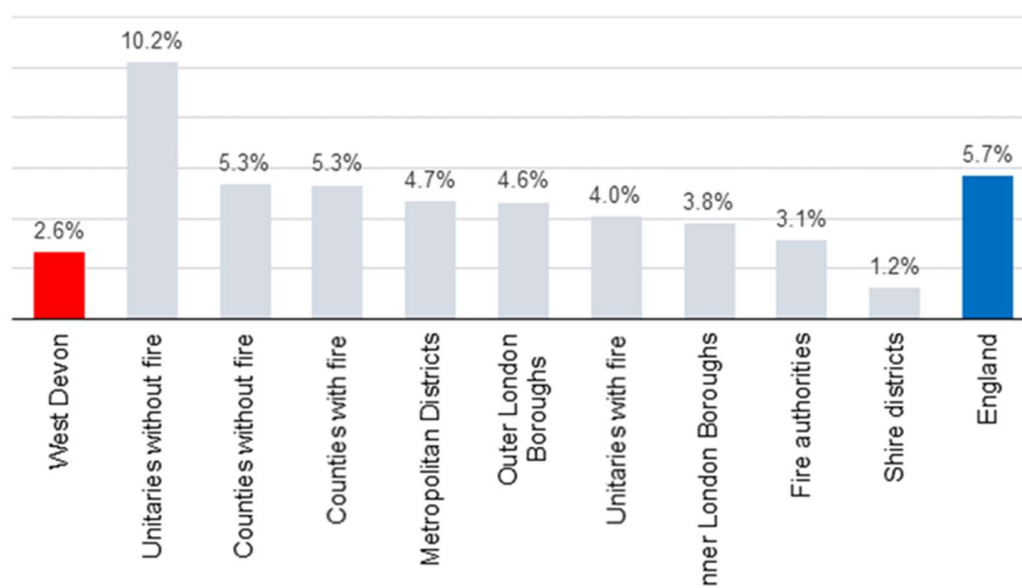
2.2 **Core Spending Power for West Devon has increased by 2.6% for 2021/22.** Core Spending Power is the term the Government use to say how much money Councils have to run their services. On looking at the detail below, it can be seen that the extra funding of 2.6% is mainly coming from assumed Council Tax increases in 2021/22.

Table 1 - Core Spending Power (£m)

	2020/21	2021/22	Change £m	Change %
Core Spending Power	7.323	7.515	0.193	2.6%
<i>Breakdown of Core Spending Power:</i>				
Settlement Funding Assessment	1.648	1.648	0.000	0.0%
Assumed Council Tax	4.797	4.931	0.134	2.8%
Other Grants	0.878	0.936	0.058	6.6%
<i>Breakdown of Other Grants:</i>				
New Homes Bonus	0.348	0.293	-0.055	-15.8%
Improved Better Care Fund	0.000	0.000	0.000	
Social Care Grant	0.000	0.000	0.000	
Rural Services Delivery Grant	0.464	0.487	0.023	4.9%
SFA multiplier compensation ^a	0.066	0.086	0.020	30.0%
Lower Tier Services Grant	0.000	0.070	0.070	

(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%.



2.4 Lower Tier Services Grant - A new grant has been announced with the Finance Settlement, a Lower Tier Services Grant. West Devon will receive £70,182. 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 – WDBC’s allocation will be £487,296 for 2021/22. This is £22,931 higher than in the latest Budget report to the Hub Committee which showed £464,365. 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 £292,772.
- 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. West Devon Borough Council’s allocation will be £102,816 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.

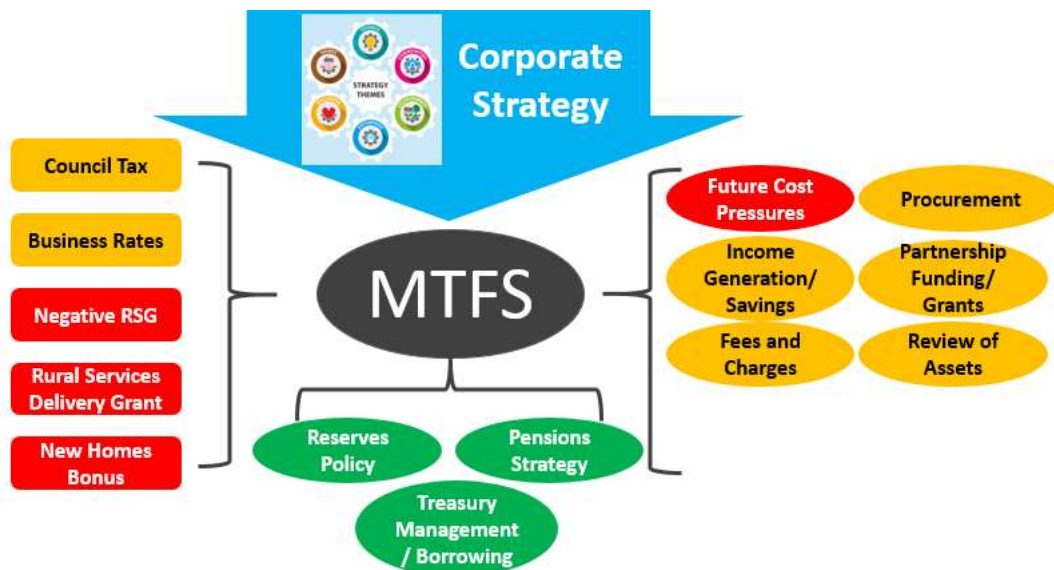
	Total (£)
Budget Gap for 2021/22 reported to the Hub Committee meeting on 8th December 2020	103,713
<i>Increase in income or funding modelled</i>	
Increase the amount of Rural Services Delivery Grant for 21/22 (increased from £464,365 to £487,296)	(22,931)
Lower Tier Services Grant funding – see 2.4	(70,182)
Increase in Council Tax Income modelled (Increased from £4,832,117 to £4,890,473 to reflect the TaxBase for 2021/22 of 20,239.51)	(58,356)
Reduction in the future provision for a pay award (reduced from 2% provision to 1% provision) as set out in 3.2	(45,000)
Reduction in the Collection Fund Deficit for Council Tax (reduced from £26,000 to £9,771)	(16,229)
<i>Reduction in income modelled or increase in cost pressures</i>	
Reduction in Business Rates income modelled (Reduction from £1.78million to £1.67million)	106,757
Reduction in New Homes Bonus funding modelled to fund the 2021/22 Revenue Base Budget (Reduced from £195,000 to £192,772)	2,228
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 £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)
- 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 £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%.
- Normally the Council receive a surplus share of around £67,000 per annum. The Collection Fund will be in deficit in 2021/22 by £9,771.
- 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 £45,000). 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 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 £220,000 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 £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 report attached sets out proposals for the Council to achieve a balanced budget in 2021/22, as shown in Appendix B.** West Devon Borough Council is currently forecasting a £115,912 budget gap by the following year, 2022/23. The cumulative aggregated Budget Gap by 2025/26 is £1.95 million, if no action has been taken in each individual year to close the budget gap annually.

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- 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 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. 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 (£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.

- 4.4 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 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. A final report setting out the full conclusions of the Government review 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	1.648	1.673	1.690	1.710	1.730	1.750
Less: Negative RSG change to baseline need	0	0	(0.136)	(0.182)	(0.227)	(0.293)
TOTAL	1.648	1.673	1.554	1.528	1.503	1.457

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 £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.

- 4.8 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 69.85% of the net collectable debt. This is 5.16% lower than November 2019 – a cash reduction of £270,000. A reduction of 3% is assumed in the overall year – the impact of the national lockdown in November may have had an impact on payment profiles. The 2019/20 collection rate for West Devon for business rates was 97.62%. 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.

Devon Business Rates Pool

- 4.11 It was recommended to Council that West Devon Borough 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 £40,000 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 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 WDDBC share, will be set at the Council meeting on 16th February 2021. (A 1% increase in council tax generates £49,000 of extra council tax income).

- 4.13 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.

Precepting Authority	Band D 2019/20	Band D 2020/21	£ Increase	% Increase
West Devon Borough Council	£231.63	£236.63	£5.00	2.16%
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%
TOTAL	£1,986.74	£2,066.87	£80.13	4.03%

- 4.14 A 1% reduction in council tax collection rates has been assumed for 2021/22 onwards. As at the end of November 2020, 73.63% of the council tax has been collected. This is a decrease of 0.98% against the 2019/20 collection rates at the end of November. The 0.98% drop equates to £424,000 (WDBC share £46,640). See 4.19 on the Collection Fund.
- 4.15 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%.

- 4.16 On 15 December 2020, the Senior Leadership Team approved the calculation of the Council Tax Base for 2021/22 of **20,239.51**. This is a decrease of 32.20 Band D properties (0.2%) 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 199 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 97.71%. Historically a collection rate of 97% has been used in the TaxBase calculation, but due to the impact of COVID-19, a collection rate of 96.5% has been assumed in the 2021/22 tax base calculation.
- 4.17 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.
- 4.18 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 WDBC's allocation will be £487,296 for 2021/22. This is £22,931 higher than in the latest Budget report to the Hub Committee which showed £464,365. 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 West Devon for 2021/22 is **£292,772**. This is made up of a Year 11 payment of £148,219 and Legacy payments of £144,553. The Year 11 payment of £148,219 reflects 199 net additions in housing stock and empty homes brought into use less the deduction of 0.4% baseline of 100 properties (£1,454 is received for each being 80% of the average 2020/21 Council Tax of £1,817.62) and a payment of £4,200 for 15 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	0.109			
2018/19 allocation	0.038	0.038		
2019/20 allocation	0.107	0.107	0.107	
2020/21 allocation	0.094			
2021/22 allocation		0.148		
2022/23 forecast allocation			-	<i>NHB is being replaced in 2022/23</i>
Equals NHB Funding	0.348	0.293	0.107	-

- 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	£292,772
Current proposed allocation:-	
To fund the Revenue Base Budget in 2021/22	(192,772)
To fund the Capital Programme for 2021/22	(100,000)
Amount remaining unallocated	Nil

- 4.25 It is anticipated that £100,000 of NHB will be required to fund the Capital Programme for 2021/22. This is £85,000 for an IT hardware capital bid and £15,000 for Community Grants. This would leave Nil NHB remaining unallocated from the 2021/22 allocation.

- 4.26 The modelling in the Budget therefore assumes NHB funding of £192,772 in 2021/22 will be available to fund the revenue base budget and that £107,000 from the replacement scheme for NHB will be available in 2022/23. The Government will consult on reforms to the New Homes Bonus scheme shortly, with a view to implementing reform in 2022/23 (2021/22 will be the last year of NHB funding).

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 £45,000). 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 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.
- 4.32 On 15th 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.

4.33 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.

4.34 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 £90,000 for 2020/21. This report was presented to the Hub Committee on 8th December 2020. This takes into account the Amended Budget for 2020/21 which was set by Council on 22 September 2020.

5 PARTNERSHIP FUNDING AND GRANTS

5.1 The Hub Committee considered a report on Partnership funding on 5th 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 Some 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 Budget report. This item was discussed at a meeting of the Financial Stability Review Group (FSRG) on 16 November 2020 and it was agreed to request that the Partnership set out a business case to demonstrate the need for extra funding (e.g. for youth outreach). This will be included within the Budget report to the Hub Committee on 2nd February 2021.

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 to Council in December 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 Fees and Charges will be considered as part of the Budget Proposals report for 2021/22 to the Hub Committee on 2nd February 2021.

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. 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 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.</p> <p>Fees and Charges will be considered at the meeting of the Hub Committee on 2nd February 2021.</p>	To be quantified	As per the Budget Timetable outlined in 11.3
<p>Asset Review Members and Officers are assessing options for the Council's Asset review.</p>	To be quantified	On-going
<p>Revenue Budget Monitoring report Each Revenue Budget Monitoring report to the Hub Committee will identify possible areas of future savings and additional income</p>	To be quantified	Options to be assessed as per the Budget Timetable outlines in 11.3
<p>Redevelopment of homeless provision A separate report on the potential redevelopment of homeless provision was on the Hub Committee agenda for 20th October.</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 was considered by the Hub Committee on 20th October.</p>

Option	Possible Budget Impact	Timescale
Funding Options		
<p>New Homes Bonus allocations for 2021/22 onwards</p> <p>The Council's NHB allocation for 2021/22 is £292,772. It is proposed to use £192,772 to fund the Revenue Base Budget and £100,000 to fund the Capital Programme. Further details are set out in 4.24 to 4.25.</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>	<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 consultation from the Government on a replacement scheme</p>
<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>	<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.

- 8.4 The Revenue Budget Monitoring report (Month 7) for 2020/21 is projecting an underspend of £90,000, which is 1.2% of the overall budget set for 2020/21 of £7.7 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 presented to the Hub Committee on 2nd February 2021.

- 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 31.3.2021 are predicted to be £4.612 million as set out in Appendix C.

- 10.2 Unearmarked Reserves are £1.086 million at 31.3.2020. The Council's Net Budget is £7.7 million for 2020/21. Therefore Unearmarked Reserves equate to 14% 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 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. West Devon's allocation is £281,404. 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.
- 12.2 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.
- 12.3 The table below shows the budget timetable for the budget meetings for the 2021/22 Budget.

8th December 2020	Hub Committee – To consider draft proposals for the Revenue Budget for 2021/22 (this report)
19 th January 2021	Overview and Scrutiny Committee – To consider draft proposals for the Revenue Budget for 2021/22
2 February 2021	Hub Committee – To recommend Final Budget Proposals to Council for 2021/22
11th February 2021 (9am)	Date which Council Procedure Rule 16 applies
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.

13. 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. The views of the Overview and Scrutiny Committee 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 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><i>The report attached sets out proposals for the Council to achieve a balanced budget in 2021/22, as shown in Appendix B.</i> West Devon Borough Council is currently forecasting a £115,912 budget gap by the following year, 2022/23. The cumulative aggregated Budget Gap by 2025/26 is £1.95 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 Borough Council for 2019/20, which was reported to the Council's Audit Committee on 13 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.

Implications	Relevant to proposals Y/N	Details and proposed measures to address
Climate Change - Carbon / Biodiversity Impact		<p>The Council declared a Climate Change and Biodiversity Emergency on 23 July 2019 and a Climate Change Action Plan was presented to Council in December 2019.</p> <p>Following this report, a strategy will be implemented as to how the Council could finance the items within the Action Plan, whether that is from external grant sources or some funding from the Council's own resources.</p> <p>On 8th December 2020, Council adopted the Climate Change and Biodiversity Strategy. The Council has committed to the following aims;</p> <ul style="list-style-type: none"> a) That the Council aim to reduce its organisational carbon emissions to net-zero by 2030; b) That the Council commit to working with partners through the Devon Climate Emergency Response Group to aim to reduce the Borough of West Devon's carbon emissions to net zero by 2050 at the latest; 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
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 8th December 2020 – Climate Change and Biodiversity Strategy and Action Plan update

Hub Committee 8th December 2020 – Revenue Budget Monitoring report (Month 7)

Hub Committee 8th December 2020 – Draft Revenue Budget Proposals for 2020-21

Council 22nd September 2020 – Amended Budget Proposals 2020-21

Hub Committee 20th October 2020 – Medium Term Financial Strategy

Approval and clearance of report

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