

Report to: **Executive**

Date: **16th September 2021**

Title: **Medium Term Financial Strategy 2022/23 to 2024/25**

Portfolio Area: **Cllr J Pearce – Budget Setting Process**

Wards Affected: **All**

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

Author: **Lisa Buckle** Role: **Corporate Director for Strategic Finance**

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

RECOMMENDATION:

That the Executive considers the Medium Term Financial Strategy and recommends to Council:

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

Recommendation 2: To adopt the principle of using funding in the Business Rates Retention Reserve, to smooth out the anticipated volatility in business rates income over the next three years, as set out in 3.19 of the report. The volatility is due to the business rates baseline reset anticipated in 2023/24 (this will mean the Council will have negative revenue support grant) and the predicted loss of business rates pooling gains at the same time. It is recommended that funding held in the Business Rates Retention Reserve is retained for the purpose of smoothing out the business rates volatility/negative revenue support grant and should not be used for unrelated purposes, other than commitments already made or as part of one-off funding for the Corporate Strategy, for at least for the next three years.

Recommendation 3: To continue to respond to Government consultations on Business Rates Reform.

Recommendation 4: To continue to actively lobby and engage with the Government, Devon MPs, South West Councils and other sector bodies such as the District Councils' Network and the Rural Services Network, for a realistic business rates baseline to be set for the Council for 2023 onwards, when the business rates reset happens.

Recommendation 5: That the Council continues to lobby in support of the Government eliminating Negative Revenue Support Grant in 2022/23 (and thereafter) and continues to lobby for Rural Services Delivery Grant allocations which adequately reflect the cost of rural service provision.

It is also RECOMMENDED that the Executive:

- i) Notes the forecast budget gap for 2022/23 of £79,587 (0.8% of the current Net Budget of £9.68million) and the position for future years.**

1. Executive summary

- 1.1 The Council's Medium Term Financial Strategy (MTFS) is based on a financial forecast over a rolling three year timeframe to 2024/25. The Council has chosen a three year timeframe for its MTFS, as this dovetails to the timescales of the Corporate Strategy, 'Better Lives for all'.
- 1.2 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.
- 1.3 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.
- 1.4 It is important to note that this Medium Term Financial Strategy (MTFS) sets out the budget strategy for the Council for the next three years, with regular reviews (at least annually) and updates when items are further known or are announced by the Government.
- 1.5 This is the starting point for developing a meaningful three year strategy that sets out the strategic intention for all of the different strands of funding available to the Council. The Council will then be able to rely on this to inform future decisions.

- 1.6 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 ferry income, car parking income, planning income and council tax and business rates 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 key assumptions within the Medium Term Financial Strategy are as below. Each of these is described in more detail in Section 4.
- A three year Spending Review for 2022/23 to 2024/25 was announced on 7th September
 - The business rates baseline reset will be deferred until 2023/24 (with no negative Revenue Support Grant in 2022/23)
 - The Settlement Funding Assessment (SFA) will increase in line with inflation – this is essentially the business rates baseline and is the amount of money the Council retains from its share of the business rates income.
 - There will be a phasing in of negative Revenue Support Grant (RSG) as part of the business rates baseline reset with a transition period over three years, to avoid Local Authorities losing/gaining too much in one go
 - It is assumed Council Tax limits for District Councils will remain at the higher of £5 or 1.99% for 2022/23 onwards
 - It is assumed there will be one more year of the New Homes Bonus payments (as part of a one year 'rollover settlement') and that the NHB payments envisaged will be used to finance the revenue base budget
 - A business rates pooling gain of £300,000 has been modelled for 2022/23 with no further gains for 2023/24 onwards. Business rates income is assumed to be down by 3%.
 - No council tax collection fund surplus has been assumed for any years going forward (normally the Council receives a surplus share of around £60,000 per annum) and it has been assumed that the council tax collection rate will be 97%
 - Rural Services Delivery Grant has been assumed to continue at the same level
 - 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 2022/23. This will be regularly monitored over the next few months.
 - A 2% pay increase has been modelled from 2022/23 onwards (2% equates to £185,000).

- 1.9 The following table illustrates the predicted budget gap from 2022/23 onwards for the Council as shown in Appendix B:

Budget Gaps	2022/23 £	2023/24 £	2024/25 £	Total Aggregated Budget Gap £
'New' Budget Gap each year	79,587	536,425	355,337	971,349
*Cumulative Budget Gap	79,587	616,012	971,349	1,666,948

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

- 1.10 ***The forecast budget gap for 2022/23 is £79,587. This is 0.8% of the Net Budget of 21/22 of £9.7million.*** A cumulative budget gap of £616,012 is predicted for 2023/24 (the £616,012 assumes that the 22/23 budget gap of £79,587 has not been closed). The cumulative aggregated Budget Gap by 2024/25 is £1.7 million, if no action has been taken in each individual year to close the budget gap annually.

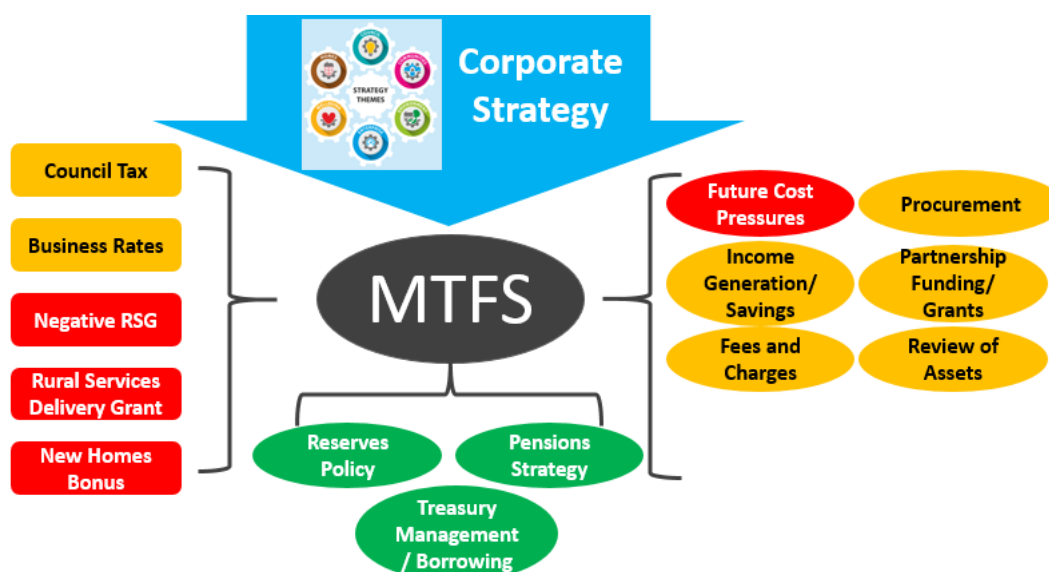
- 1.11 The Council awaits the details of the Government's Spending Review announcement which will enable the Council to further firm up some of the assumptions within the Medium Term Financial Strategy (MTFS). The Spending Review 2021 will conclude on 27 October 2021, alongside an Autumn Budget and set out the Government's spending priorities for the Parliament. A further budget update report will be presented to the Executive in December. Further options for Members' considerations of how to close the predicted budget gap of £79,587 will be presented as part of this December 2021 report.

- 1.12 The report also recommends to adopt the principle of using funding in the Business Rates Retention Reserve, to smooth out the anticipated volatility in business rates income over the next three years, as set out in 3.19 of the report. The volatility is due to the business rates baseline reset anticipated in 2023/24 (this will mean the Council will have negative revenue support grant) and the predicted loss of business rates pooling gains at the same time, meaning there is a 'cliff edge' in business rates income.

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

- 2.1 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.

2021/22 Net Budget £9.7 million



2.2 The key assumptions within the MTFS are set out in Section 3.

OVERALL POSITION – BUDGET GAP

- 2.3 Financial modelling has been undertaken for the next five years to predict the Council's financial situation for the short and medium term.
- 2.4 **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 £9.7 million in 2021/22.
- 2.5 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).

- 2.6 The following table illustrates the predicted budget gap from 2022/23 onwards for the Council as shown in Appendix B:

Budget Gaps	2022/23 £	2023/24 £	2024/25 £	Total Aggregated Budget Gap £
'New' Budget Gap each year	79,587	536,425	355,337	971,349
*Cumulative Budget Gap	79,587	616,012	971,349	1,666,948

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

- 2.7 ***The forecast budget gap for 2022/23 is £79,587. This is 0.8% of the Net Budget of 21/22 of £9.7million.*** A cumulative budget gap of £616,012 is predicted for 2023/24 (the £616,012 assumes that the 22/23 budget gap of £79,587 has not been closed). The cumulative aggregated Budget Gap by 2024/25 is £1.7 million, if no action has been taken in each individual year to close the budget gap annually.

- 2.8 The Council awaits the details of the Government's Spending Review announcement which will enable the Council to further firm up some of the assumptions within the Medium Term Financial Strategy. A further update will be presented to the Executive in December. Further options for Members' considerations of how to close the predicted budget gap of £79,587 for 2022/23 will be presented as part of this report.

3 ASSUMPTIONS FOR FINANCIAL MODELLING PURPOSES

- 3.1 In the Medium Term Financial Strategy (MTFS), it has been assumed that the Settlement Funding Assessment (SFA) will increase in line with inflation.
- 3.2 The SFA is essentially the business rates baseline and is the amount of money the Council retains from its share of the business rates income. The breakdown of the increase in SFA for 2021/22 is shown below.
- 3.3 The 'Core Spending Power' is a headline figure used by MHCLG to represent the key revenue resources available to local authorities, including an estimate of actual and potential council tax, as below. The Council now receives no main Government grant (Revenue Support Grant).

- 3.4 **Core Spending Power for South Hams 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

- 3.5 **Council Tax** The Council Tax Referendum limits for District Councils for 2021/22 was the higher of 1.99% or £5. An increase in council tax of £5 for the next three years has been modelled for council tax purposes. This would equate to a Band D council tax for South Hams of £180.42 in 2022/23 as shown in Appendix B (an increase of £5 for the year (10 pence per week) which equates to a 2.85% increase. The council tax for 2022/23, the SHDC share, will be set at the Council meeting on 10th February 2022. (A 1% increase in council tax generates £67,000 of extra council tax income).

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

- 3.6 The table below shows how an average Band D council bill is made up for South Hams District Council for 2021/22, compared to 2020/21. Of an average Band D Council Tax within the District of £2,090.55, an amount of £175.42 is the element of a council tax bill set by South Hams District Council. Therefore 8pence of every £1 paid (8%) 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 2020/21	Band D 2021/22	£ Increase	% Increase	Date Approved
South Hams District Council	£170.42	£175.42	£5.00	2.93%	11 Feb 2021
Devon County Council Precept	£1,313.73	£1,342.44	£28.71	4.99%	18 Feb 2021
Adult Social Care Precept *	£125.73	£168.84	£43.11		
Devon & Cornwall Police & Crime Commissioner	£221.64	£236.56	£14.92	6.73%	5 Feb 2021
Devon & Somerset Fire & Rescue	£88.24	£90.00	£1.76	1.99%	19 Feb 2020
Average Parishes/Towns (see below)	£71.06	£77.29	£6.23	8.77%	
TOTAL	£1,990.82	£2,090.55	£99.73	5.01%	

The largest Parish Precepts are Totnes (£189.13) and Dartmouth (£183.53), with the smallest Precept being Woodleigh (£4.92) for a Band D property.

- 3.7 A council tax collection rate of 97% has been assumed for 2022/23. This may need to be revisited in future budget reports depending on the payment profiles being experienced in latter months of the year.
- 3.8 The District Council is responsible for collecting all the Council Tax debt of approximately £78m as South Hams DC is the Billing Authority. After keeping 8% 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 97.81% for 2020/21. This was 2.11% higher than the national average of 95.7%.

- 3.9 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.
- 3.10 In 2021/22 the Government set no council tax referendum principles for Town and Parish Councils. It has not yet been announced by the Government whether any referendum principles will apply to Town and Parish Councils in 2022/23 onwards.

Business Rates and Negative Revenue Support Grant (RSG)

- 3.11 It has been assumed that the Business Rates Reset will be delayed to 2023/24. Whilst this change is not confirmed by the Government, a reset based on the current taxbase would appear very unlikely.
- 3.12 A three year settlement (with no negative Revenue Support Grant in 2022/23) is the most likely scenario now. This means the Council wouldn't have to forego some of its business rates income (£360,000) by paying some of it back to Government in the form of 'negative government grant' in 2022/23. Negative RSG is effectively the Council's further predicted funding cuts.
- 3.13 It is anticipated there will be a phasing in of negative RSG as part of the business rates baseline reset in 2023/24, with a transition period over three years, to avoid Local Authorities losing/gaining too much in one go. The modelling assumes negatives RSG of £360,000 in 2023/24 and £450,000 in 2024/25. Some of the negative RSG could be offset by growth.
- 3.14 Estimates have been made of the business rates baseline funding levels for 2022/23 onwards and the relative deductions for negative RSG. For example in 2022/23, the £2.36m is the amount the Council retains from its business rates income collected of £29 million (the Council keeps about 8p in every £1 collected of business rates to fund its services).
- 3.15 **Volatility of Business Rates income – Business Rates Retention Reserve**
- 3.16 The Business Rates Retention (BRR) Earmarked Reserve was set up in 2013/2014 to cover any possible funding issues from the accounting arrangements of the localisation of business rates and to smooth the volatility from business rates income over a period of years.
- 3.17 In 2017/18 the Business Rates Retention Reserve had a balance of £4.5million and this has increased to £7.1million at 31.3.2021.
- 3.18 Approximately £2million of this Reserve is needed as a provision for future appeals, write offs and to meet fluctuations in business rates income. As part of the 2018/19 Budget Report to February Council, £3.5million was ringfenced for employment for the creation of local jobs.

- 3.19 It is recommended that the Council uses funding from the Business Rates Retention Earmarked Reserve to smooth the volatility in business rates income over the next three years. The volatility is due to the business rates baseline reset anticipated in 2023/24 (this will mean the Council will have negative revenue support grant in 23/24) and the predicted loss of business rates pooling gains at the same time in 23/24. *The table below shows that it is modelled to take £0.1m funding from this reserve in 22/23 and £0.5m in both 23/24 and 24/25. This would reduce the reserve by £1.1million over the next 3 years.*

There is a risk that the Government may introduce a more aggressive business rates tariff in 22/23 to account for the fact that the baseline reset is highly likely to be delayed to 23/24. If this happened, it would be recommended that a higher amount of funding from the business rates retention reserve is used in 22/23, to offset the higher tariff rate and the ensuing lower business rates income. More will be known on this when details of the Spending Review are announced. It is recommended that funding held in the Business Rates Retention Reserve is retained for the purpose of smoothing out the business rates volatility/negative revenue support grant and should not be used for unrelated purposes, other than commitments already made or as part of one-off funding for the Corporate Strategy, for at least for the next three years.

Business Rates Income	2022/23 (£m)	2023/24 (£m)	2024/25 (£m)
		Baseline Reset	
Business Rates Income	2.36	2.37	2.38
Less: Negative Revenue Support Grant (RSG)		(0.36)	(0.45)
Anticipated Pooling Gain	0.300	Nil	Nil
Funding proposed to be taken from the Business Rates Retention Reserve to smooth the volatility in business rates income	0.100	0.500	0.500
Total Business Rates Income	2.76	2.51	2.43

Recommendation 2: To adopt the principle of using funding in the Business Rates Retention Reserve, to smooth out the anticipated volatility in business rates income over the next three years. The volatility is due to the business rates baseline reset anticipated in 2023/24 (this will mean the Council will have negative revenue support grant) and the predicted loss of business rates pooling gains at the same time. It is recommended that funding held in the Business Rates Retention Reserve is retained for the purpose of smoothing out the business rates volatility/negative revenue support grant and should not be used for unrelated purposes, other than commitments already made or as part of one-off funding for the Corporate Strategy, for at least for the next three years.

- 3.20 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. The 2020/21 collection rate for South Hams for business rates was 91.74%. The national average was 93%.

Recommendation 3: To continue to respond to Government consultations on Business Rates Reform

Recommendation 4: To continue to actively lobby and engage with the Government, Devon MPs, South West Councils and other sector bodies such as the District Councils' Network and the Rural Services Network, for a realistic business rates baseline to be set for the Council for 2023 onwards, when the business rates reset happens.

Devon Business Rates Pool

- 3.21 South Hams District Council will continue to be part of a Devonwide Business Rates Pool for 2021/22 and it is expected that this opportunity will also be there for 2022/23 (until the baseline reset happens in 2023/24). A business rates pooling gain of £300,000 has been modelled for 2022/23 with no further gains for 2023/24 onwards when the baseline reset is schedule to happen.

Rural Services Delivery Grant

- 3.22 Rural Services Delivery Grant has been modelled to continue for 2022/23 onwards at previous levels (£85m nationally – SHDC share of £428,206) and the methodology for distribution is assumed to remain unchanged from 2021/22. The Council will continue to lobby on the basis that the £85m should be increased. This is Government grant to recognise the additional cost of delivering services in rural areas.

Recommendation 5: That the Council continues to lobby in support of the Government eliminating Negative Revenue Support Grant in 2022/23 (and thereafter) and continues to lobby for Rural Services Delivery Grant allocations which adequately reflect the cost of rural service provision.

New Homes Bonus (NHB)

- 3.23 The New Homes Bonus (NHB) scheme is being phased-out and the future Spending Review will propose a replacement scheme (for consultation). An additional one-off NHB payment in 2022-23 is still a real possibility. In 2021/22 the NHB allocation for South Hams was £1,068,274.

Other assumptions within the Medium Term Financial Strategy (MTFS)

- 3.25 The last pay award offer for 2020-21 was 2.75%. A 2% pay increase has been modelled from 2021/22 onwards (2% equates to £185,000). 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.
- 3.26 This report assumes inflation will run at 1% over the three year period. The Consumer Prices Index (CPI) was 2.5% in June 2021. RPI was 3.9%.
- 3.27 The predicted interest rate forecast from our treasury management advisors, Link Services, is that interest rates (Bank Base rate) will remain at 0.1% up to March 2023. By March 2024 the bank base rate is predicted to increase to 0.5%.

‘BETTER LIVES FOR ALL’

- 3.28 ‘Better Lives for all’, the Council’s strategic vision, sets out projects and schemes that the District Council think will enhance and protect the special place and unique economy that makes up South Hams. This is a separate report on this Executive agenda. The Strategy sets out our longer term ambition. To support this ambition, the Council has developed delivery plans which set out the priorities for each of the next three years. This will enable the Council to ensure its resources are aligned to supporting Members’ priorities. The delivery plans have been developed by Lead Members in consultation with officers from across the Council.
- 3.29 The majority of activities set out in the delivery plans can be delivered through refocusing and reprioritisation of existing resources however, in order to realise the ambition set out in the strategy, some of the activities will require additional resources.
- 3.30 The cost pressure for 2022/23 onwards is envisaged to total an additional £110,000 if Members approve the content of the Delivery Plans for ‘Better Lives for All’. There would also be one-off funding sought for approval from the use of Earmarked Reserves totalling £160,000. The content of the Delivery Plans would also utilise £221,500 of the Recovery Plan budget of £500,000 and £359,000 of the Climate Change Reserve of £600,000.
- 3.31 Subject to Member approval of the ‘Better Lives for All’ Plan, a first call on any additional resources required will be through a range of measures including identifying further savings or income generation measures (such as fees and charges) or utilising more funding such as NHB funding, business rates income or funding from Earmarked Reserves.

SPENDING REVIEW 2021

- 3.32 On 7 September, the Chancellor launched Spending Review 2021 (SR21), which will conclude on 27 October 2021 alongside an Autumn Budget and set out the Government's spending priorities for the Parliament. The three-year review will set UK government departments' resource and capital budgets for 2022-23 to 2024-25.
- 3.33 The Treasury has opened a process for the Spending Review and Autumn Budget to allow external stakeholders to submit representations by 30th September.

OTHER BUDGET ITEMS

- 3.34 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. A report will be presented to the October meeting of the Executive on Leisure. Any financial implications arising from Member decisions within the report will be built into the next iteration of the budget report.
- 3.35 The Planning Improvement Plan report on this Executive agenda, recommends that the additional planning income received as at 31 July 21, is utilised to fund additional temporary staffing costs in planning for 2021/22. We will be reviewing core service delivery through on-going service reviews and will bring reports back to Members at the appropriate point, setting out how this links back to the corporate strategy.

4. Treasury Management and Borrowing Strategy

- 4.1 The Council has previously taken external treasury management advice on the Council's overall borrowing levels and debt levels. The Council set an Upper Limit on External Borrowing (for all Council services) as part of the Medium Term Financial Strategy of £75 million in 2019 and it is not proposed to change this limit at present. The Council's actual long term borrowing is £14.38m at 31 March 2021.

5 FEES AND CHARGES

- 5.1 A Fees and Charges report will be considered at a meeting of the Overview and Scrutiny Panel on 4th November 2021 with recommendations made to the Executive in December 2021.
- 5.2 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 2022/23. This will be regularly monitored over the next few months.

6 FINANCIAL SUSTAINABILITY AND TIMESCALES

- 6.1 The Council will continue to assess various options for closing the budget gap for 2022/23 onwards, and in the longer term, to achieve long term financial sustainability and further options will be presented to Members.
- 6.2 Making the best use of our resources and setting a balanced budget annually is within the 'Delivering Quality Services' Draft Delivery Plan of the Council's long term strategic vision, 'Better Lives for All'.
- 6.3 The Council has undertaken its first revenue budget monitoring report for Month 4 (end of July) which shows a predicted surplus of £92,000 for the 2021/22 year. A separate report is on this Executive agenda.

7 CAPITAL PROGRAMME AND PRUDENTIAL BORROWING

- 7.1 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 2022/23 will be a separate report to the Executive on 2nd December 2021.
- 7.2 Capital projects will be scored on the following criteria:
- Health and Safety compliance
 - Essential to keep operational assets open
 - Fit with the Council's Delivery Plans for 'Better Lives for All'
 - To rationalise service delivery or service improvement
 - To generate income, capital value or to reduce revenue costs
- 7.3 It is important that future bids for capital are aligned with the review of the thematic delivery plans and aims within 'Better Lives for All'. Further work is being undertaken to design a gateway process to facilitate this and will be shared with Members in due course.
- 7.4 **Investment Property Strategy** – The Council has agreed an Investment Property strategy. To date, Investment Properties have a value of £18.56 million in aggregate as at 31.3.2021.
- 7.5 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 2021/22 Base Budget.
- 7.6 The Council's Asset Base is £102 million at 31 March 2021. The Council will continually review and challenge its asset base in order to deliver the optimum value for money from the Council's Assets.

8 Earmarked and Unearmarked Reserves Policy

- 8.1 Unearmarked Reserves have increased by £112,000 in 2020/21 and total £2.122 million at 31 March 2021. Unearmarked Reserves haven't needed to be reduced by £200,000 as part of the Amended Budget for 2020/21, due to the amount of COVID funding the Council has received and the compensation which the Council has claimed from the Government sales, fees and charges income compensation scheme for 2020/21. Unearmarked Reserves therefore won't need to be replenished by £200,000 as part of the Medium Term Financial Strategy for 2022/23 onwards.
- 8.2 Earmarked Reserves have increased by £7.496 million in 2020/21 and total £21.494 million at 31 March 2021. This is mainly due to the new Earmarked Reserve set up in 2020/21 to hold the S31 Business Rates compensation grants (£6.28m) which will be released to the Collection Fund to smooth the impact of the Business Rates deficit over the next 3 years. Therefore this is not money which is available for the Council to spend. A schedule of Earmarked Reserves is attached at Appendix C.
- 8.3 Reserve levels will be kept under constant review and will be reviewed throughout the budget setting process to consider commitments against Earmarked Reserves, their unallocated balance and the contributions to/from Earmarked Reserves for 2022/23 and future years also (the Reserves of Salcombe Harbour are subject to decisions by the Salcombe Harbour Board). This will form part of the December 2021 Budget report to the Executive and will be able to be considered alongside details of the Government's next Spending Review.
- 8.4 At Council on 11 February 2021, 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 £2.1m is still above the minimum level set of £1.5m.
- 8.5 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 in February 2021). 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.

9 NEXT STEPS AND PROPOSED WAY FORWARD

- 9.1 The MTFs is the starting point for developing a meaningful three year strategy that sets out the strategic intention for different strands of funding available to the Council. The Council will then be able to rely on this to inform future decisions.

- 9.2 Officers will continue to work with the Executive and the results of this will be incorporated into future Budget reports.
- 9.3 The Council awaits the details of the Government's Spending Review announcement which will enable the Council to further firm up some of the assumptions within the Medium Term Financial Strategy. A further update will be presented to the Executive in December. Further options for Members' considerations of how to close the predicted budget gap of £79,587 will be presented as part of this report.
- 9.4 The table below shows the budget timetable for the budget meetings for the 2022/23 Budget.

2nd December 2021	Executive – To consider draft proposals for the Revenue and Capital Budget for 2022/23.
13 January 2022	Joint Development Management Committee and Overview & Scrutiny Panel - To consider draft proposals for the Revenue and Capital Budget for 2022/23.
27 January 2022	Executive – To recommend Final Budget Proposals to Council for 2022/23
7th February 2022 (9am)	Date which Council Procedure Rule 16 applies
10th February 2022	Full Council – To approve Final Budget Proposals for 2022/23 and set the SHDC share of the Council Tax
22 February 2022	Council Tax Resolution Panel – to agree the Council Tax Resolution for 2022/23 (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 7th February 2022.

10. 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. It is the role of the Overview and Scrutiny Panel to scrutinise the Budget proposals being proposed by the Council on an annual basis. In accordance with the Financial Procedure Rules, Council must decide the general level of Reserves and the use of Earmarked Reserves.</p> <p>The preparation of the Budget 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 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 forecast budget gap for 2022/23 is £79,587. This is 0.8% of the Net Budget of 21/22 of £9.7million.</i> A cumulative budget gap of £616,012 is predicted for 2023/24 (the £616,012 assumes that the 2022/23 budget gap of £79,587 has not been closed). The cumulative aggregated Budget Gap by 2024/25 is £1.7 million, if no action has been taken in each individual year to close the budget gap annually.</p> <p>The Council awaits the details of the Government's Spending Review announcement which will enable the Council to further firm up some of the assumptions within the Medium Term Financial Strategy (MTFS). This is expected in the Autumn. A further budget update report will be presented to the Executive in December. Further options for Members' considerations of how to close the predicted budget gap of £79,587 for 2022/23 will be presented as part of this December 2021 report.</p> <p>As part of Grant Thornton's external audit of the Statement of Accounts for 2020/2021, they will assess the arrangements the Council has in place for:- Improving economy, efficiency and effectiveness</p> <ul style="list-style-type: none"> • Financial Sustainability • Governance <p>The outcome of Grant Thornton's work in this area will be reported to Members at the Audit Committee meeting on 30th September 2021.</p>

Risk		Each of the budget options taken forward by Members will consider the risks of the option.
Supporting Corporate Strategy		The majority of activities set out in the Council's delivery plans can be delivered through refocusing and reprioritisation of existing resources however, in order to realise the ambition set out in the strategy, some of the activities will require additional resources. This is further explained in 3.26 to 3.29.
Climate Change - Carbon / Biodiversity Impact		<p>The Council declared a Climate Change and Biodiversity Emergency on 25 July 2019 and the potential for this to have significant financial implications for the Council was highlighted.</p> <p>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>A further update report 'Climate Change and Biodiversity Strategy and Action Plan Update' was presented to Council on 24 September 2020.</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:

None