

Report to: **Hub Committee**

Date: **7 December 2021**

Title: **Revenue and Capital Budget Proposals for 2022/23 to 2024/25**

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

Wards Affected: **All**

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

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

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RECOMMENDATION:

It is recommended that the Hub Committee:

- i) Notes the forecast budget gap for 2022/23 of £40,296 (0.6% of the Net Budget of 21/22 of £7.3million) and the position for future years.**
- ii) Notes the timescales for closing the budget gap in 22/23 and future years, to achieve long term financial sustainability.**
- iii) Notes the current level of Unearmarked and Earmarked Reserves set out in Section C**
- iv) Notes the forecast Capital Programme Proposals for 2022/23 of £780,000 and the proposed financing of the Capital Programme as set out in Appendix D.**
- v) Requests the views of the Hub Committee on the draft Revenue Budget Proposals and the draft Capital Budget Proposals for 2022/23**

vi) Requests the views of the Overview and Scrutiny Committee on the draft Revenue Budget Proposals and the draft Capital Budget Proposals for 2022/23, at the 18 January 2022 meeting.

It is RECOMMENDED to Council that:

vii) West Devon Borough Council continues to be part of the Devon Business Rates Pool for 2022/23, subject to there being no announcements within the Finance Settlement (expected to be announced in mid December), which in the opinion of the S151 Officer (in consultation with the Leader of the Council and the Hub Committee Member for Finance), would change this recommendation.

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, 'A Plan for West Devon'.
- 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 £3 million. The Council now receives **no main Government Grant (Revenue Support Grant)** – this has been reduced to zero.
- 1.3 West Devon has continued to work in partnership with South Hams District Council which has allowed West Devon 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 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 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 this Budget Report are as below. Each of these is described in more detail in Section 3.
- A three year Spending Review for 2022/23 to 2024/25 was announced on 7th September and it is assumed that this in turn will mean there is a three year Local Government Finance Settlement announced in mid December.
 - 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 (or a replacement scheme) and that the NHB payments envisaged will be used to finance the revenue base budget and the capital programme
 - A business rates pooling gain of £200,000 has been modelled for 2022/23 with reduced gains for 2023/24 onwards.
 - The Council tax collection rate has been assumed to 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 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 £90,000).

- 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	40,296	478,670	139,224	658,190
*Cumulative Budget Gap	40,296	518,966	658,190	1,217,452

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

- 1.10 **The forecast budget gap for 2022/23 is £40,296. This is 0.6% of the Net Budget of 21/22 of £7.3million.** A cumulative budget gap of £518,966 is predicted for 2023/24 (the £518,966 assumes that the 22/23 budget gap of £40,296 has not been closed). The cumulative aggregated Budget Gap by 2024/25 is £1.2 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 Local Government Finance Settlement announcement in early December, which will enable the Council to further firm up some of the assumptions within the Budget for 2022/23. Further options for Members' considerations of how to close the predicted budget gap of £40,296 will be presented as part of the 1st February 2022 Budget report to the Hub Committee.
- 1.12 As part of the Medium Term Financial Strategy report in September 2021, the Council approved 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 3.21 of the report. The volatility is due to the anticipated 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.

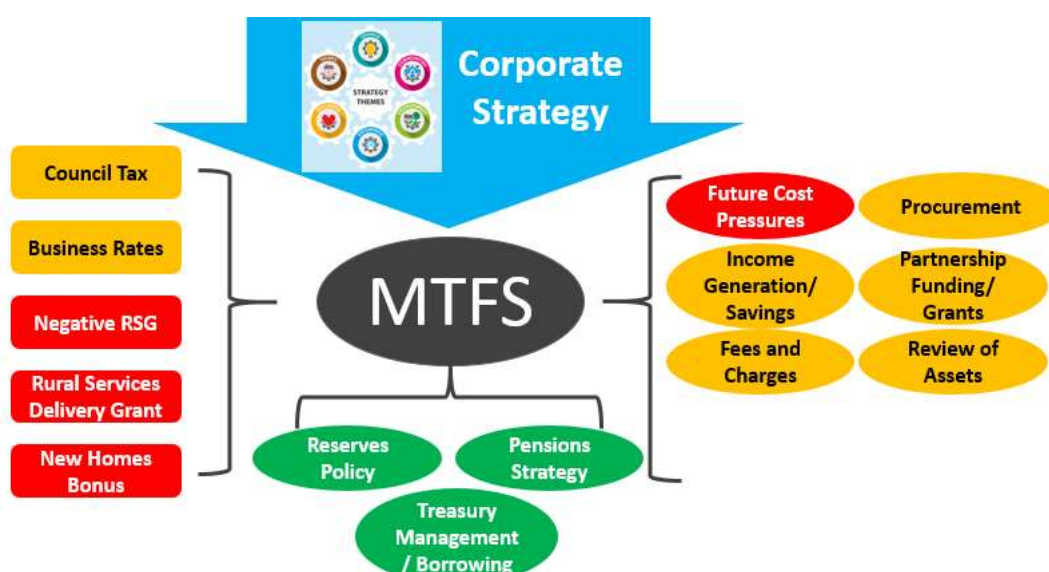
- 1.13 The Medium Term Financial Strategy report (MTFS) in September 2021 identified a budget gap of £78,731 for 2022/23. The table below sets out the changes in this report from the previous report.

	£
<i>Budget gap for 22/23 reported in the MTFs Hub Committee report in September 21</i>	78,731
A Plan for West Devon' – Council 28.9.21 £122,000 cost pressures for 22/23 and £168,000 for 23/24 - See 3.31 for further information	122,000
National Insurance (social care levy of 1.25%) and National Living Wage (NLW) extra cost pressure	40,000
Increase the staffing budget for four planning specialists and two legal specialists (shared with SHDC), to be financed by extra planning income – Planning Improvement Plan (Hub 2.11.21)	71,000
Extra planning income – increase the planning income fee target	(71,000)
<i>Extra financing of the Revenue Budget identified</i>	
Collection Fund Surplus predicted for 22/23 of £152,000 (replaces a collection fund deficit which was previously forecast for 22/23 of £3,435) – see 3.12 for explanation	(155,435)
Lower Tier Services Grant assumed for 22/23 of £35,000 and extra £10,000 assumed on Business Rates income	(45,000)
<i>Budget gap for 22/23 reported in this Hub Committee report in December 21 (Draft Revenue Budget Proposals for 2022/23)</i>	40,296

2 COMPONENTS OF THE MEDIUM TERM FINANCIAL STRATEGY

- 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 £7.3 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 three 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 three years and the additional savings and income forecast. **Appendix B** illustrates the overall financial forecast for the forthcoming three years. The Council's Net Budget is £7.3 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 £
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*Cumulative Budget Gap	40,296	518,966	658,190	1,217,452

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

2.7 **The forecast budget gap for 2022/23 is £40,296. This is 0.6% of the Net Budget of 21/22 of £7.3million.** A cumulative budget gap of £518,966 is predicted for 2023/24 (the £518,966 assumes that the 22/23 budget gap of £40,296 has not been closed). The cumulative aggregated Budget Gap by 2024/25 is £1.2 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 Local Government Finance Settlement announcement in early December, which will enable the Council to further firm up some of the assumptions within the Budget for 2022/23. Further options for Members' considerations of how to close the predicted budget gap of £40,296 will be presented as part of the 1st February 2022 Budget report to the Hub Committee.

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 the Government to represent the key revenue resources available to local authorities, including an estimate of actual and potential council tax. The Council now receives no main Government grant (Revenue Support Grant).

3.4 **Core Spending Power for West Devon 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

Council Tax

- 3.5 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 West Devon of £246.63 in 2022/23 as shown in Appendix B (an increase of £5 for the year (10 pence per week) which equates to a 2.07% increase. The council tax for 2022/23, the WDBC share, will be set at the Council meeting on 15th February 2022. (A 1% increase in council tax generates £49,000 of extra council tax income).

Council agreed on 28 September 21 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. In the Spending Review announced in October 2021, it was indicated that the council tax referendum limits for District Councils are likely to remain the same as previous years e.g. the higher of a £5 increase or 1.99%.

- 3.6 The table below shows how an average Band D council bill is made up for West Devon Borough Council for 2021/22, compared to 2020/21. Of an average Band D Council Tax within the Borough of £2,166.58, an amount of £241.63 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 2020/21	Band D 2021/22	£ Increase	% Increase	Date Approved
West Devon Borough Council	£236.63	£241.63	£5.00	2.11%	16 Feb 2021
Devon County Council	£1,439.46	£1,511.28	£71.82	4.99%	18 Feb 2021
Police & Crime Commissioner	£221.64	£236.56	£14.92	6.73%	5 Feb 2021
Fire & Rescue	£88.24	£90.00	£1.76	1.99%	19 Feb 2021
Average Parishes/Towns	£80.90	£87.11	£6.21	7.68%	
TOTAL	£2,066.87	£2,166.58	£99.71	4.82%	

The largest Parish Precepts in 2021/22 are **North Tawton (£193.45)**, **Tavistock (£181.24)** and **Okehampton Town (£133.93)**, with the smallest precepts being **Bondleigh (£3.40)** and **Gidleigh (Nil)** 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 £43m as West Devon BC is the Billing Authority. After keeping 11% 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 West Devon was 97.33% for 2020/21. This was 1.63% higher than the national average of 95.7%.
- 3.9 It has been assumed that the number of properties within the Borough will increase by 20 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.

Collection Fund Surplus for 2022/23

- 3.11 On an annual basis, the Council calculates the Collection Fund surplus or deficit on the Collection Fund. The Collection Fund is a Statutory Statement that forms part of the Annual Accounts each year and collates the position in terms of Income from Council Tax (actual amounts of council tax collected from council taxpayers) and the payments made to precepting authorities (DCC, Police, Fire, WDBC) and calculates an annual surplus or deficit after some adjustments for items such as write offs and bad debts. The annual surplus/deficit is distributed on an annual basis to precepting authorities.
- 3.12 Due to the pandemic in 2021/22 a small collection fund deficit was distributed to precepting authorities (WDBC share of the deficit was £9,771). Council Tax collection rates held up well in 2020/21 with 97.33% being collected in West Devon, which was 1.63% higher than the national average of 95.7%. A collection fund surplus of £1million has been calculated to be distributed for 2022/23 (with a WDBC share of the collection fund surplus of £152,000).

Business Rates and Negative Revenue Support Grant (RSG)

- 3.13 It has been assumed that the Business Rates Reset will be delayed to 2023/24. Whilst this change is not confirmed by MHCLG, a reset based on the current taxbase would appear very unlikely.
- 3.14 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 (£182,000) 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.
- 3.15 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 £182,000 in 2023/24 and £227,500 in 2024/25. Some of the negative RSG could be offset by growth.
- 3.16 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 £1.69m 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).
- 3.17 **Volatility of Business Rates income – Business Rates Retention Reserve**
- 3.18 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.
- 3.19 In 2017/18 the Business Rates Retention Reserve had a balance of £509,550 and this has increased to £1.26million at 31.3.2021. A sum of £0.5m needs to be retained in the reserve to manage the cost of appeals, arrears, write offs and general fluctuations in business rates income.
- 3.20 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.
- 3.21 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 £75,000 funding from this reserve in 22/23 to 24/25. This would reduce the business rates retention reserve by £225,000 over the next 3 years.*

- 3.22 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 Draft Finance Settlement are announced in mid December.

Business Rates Income	2022/23 (£m)	2023/24 (£m)	2024/25 (£m)
		Baseline Reset	
Business Rates Income	1.70	1.74	1.75
Less: Negative Revenue Support Grant (RSG)		(0.182)	(0.228)
Anticipated Pooling Gain	0.200	0.175	0.150
Funding proposed to be taken from the Business Rates Retention Reserve to smooth the volatility in business rates income	0.075	0.075	0.075
Total Business Rates Income	1.975	1.808	1.747

- 3.23 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 West Devon for business rates was 91.53%. The national average was 93%.

Devon Business Rates Pool

- 3.24 It is recommended that West Devon Borough Council continues to be part of the Devonwide Business Rates Pool for 2022/23. A business rates pooling gain of £200,000 has been modelled for 2022/23 with lower gains for 2023/24 onwards when the baseline reset is scheduled to happen.

Rural Services Delivery Grant

- 3.25 Rural Services Delivery Grant has been modelled to continue for 2022/23 onwards at previous levels (£85m nationally – WDBC share of £487,296) 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.

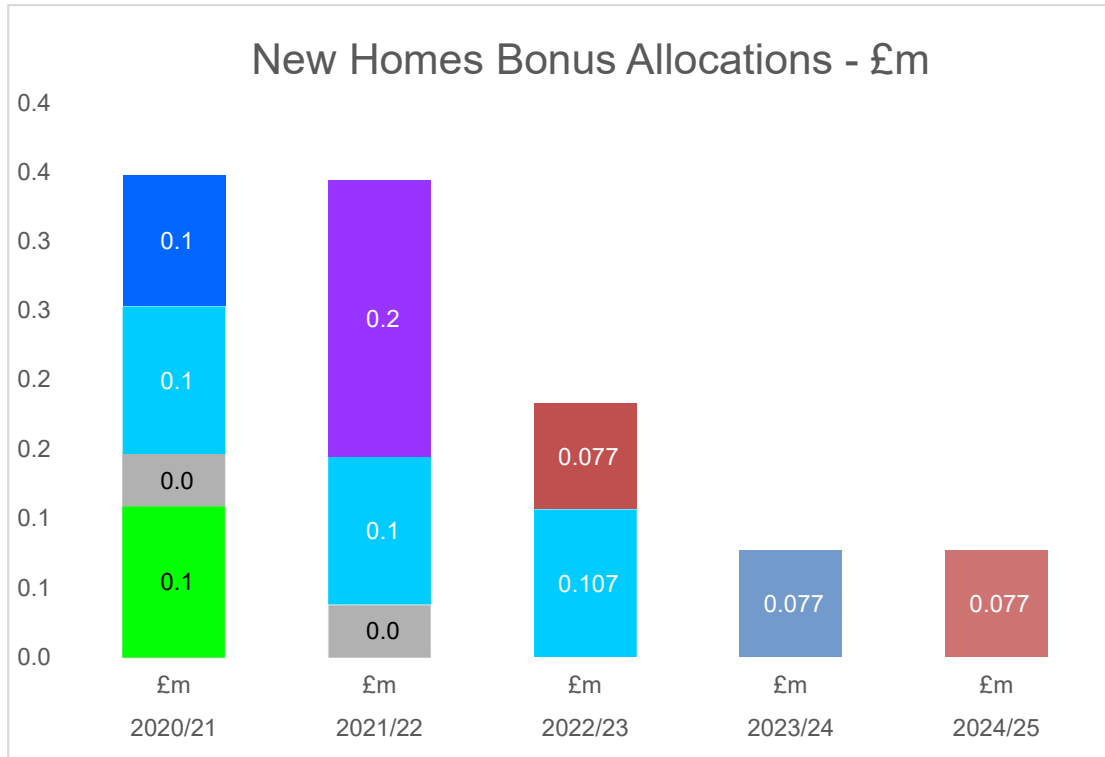
New Homes Bonus (NHB)

- 3.26 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 West Devon was £292,772.
- 3.27 The latest modelling predicts an allocation of around £184,000 for 2022/23 (from either NHB or a replacement scheme). The modelling in this Budget report assumes that funding of £150,000 from NHB in 2022/23 will fund the revenue base budget (although the NHB scheme is due to be replaced, it is assumed that a successor scheme will be implemented that will also be based on housing growth). The other £30,000 of predicted NHB in 2022/23 is to fund capital expenditure.

The NHB modelling is shown in the table below.

New Homes Bonus	2020/21	2021/22	2022/23	2023/24	2024/25
	£m	£m	£m	£m	£m
2017/18 allocation	0.1				
2018/19 allocation	0.0	0.0			
2019/20 allocation	0.1	0.1	0.107		
2020/21 allocation	0.1				
2021/22 allocation		0.2			
2022/23 Forecast Based on 2020/21 Share			0.077		
2023/24 Forecast Based on 2020/21 Share				0.077	
2024/25 Forecast Based on 2020/21 Share					0.077
Total Allocation	0.3	0.293	0.184	0.077	0.077

Up until 2020/21, allocations earned in a year were paid for a four year period. From 2020/21 onwards, only a single year was paid plus some 'legacy payments' as shown in the diagram above. For example in 2021/22, an allocation of £0.2m was earned for 21/22, plus legacy payments for previous years. Amounts for 2022/23 onwards have been forecast based on Revenue Support Grant (RSG) share. The colours shown below correspond to the same colours shown in the table above. The Council receives 80% of the average national council tax (1,898) for each property growth over the baseline, this equates to £1,518 per property.



Other assumptions within the Medium Term Financial Strategy (MTFS)

- 3.28 The last pay award offer for 2020/21 was 2.75%. A 2% pay increase has been modelled from 2021/22 onwards (2% equates to £90,000). The Medium Term Financial Strategy is not an expression of Council Policy on pay awards, but a means of ensuring an appropriate provision is made as part of the overall financial planning of the Council.
- 3.29 The Consumer Prices Index (CPI) was 3.1% in September 2021. RPI was 4.9%. The budget report includes cost pressures for inflation and increases on goods and services.
- 3.30 The predicted interest rate forecast from our treasury management advisors, Link Services, is that interest rates (Bank Base rate) could increase from 0.1% to 0.25% in December 2021. It is then further predicted to increase to 0.5% in June 2022, 0.75% in March 2023, 1% in March 2024 and 1.25% by March 2025.

‘A PLAN FOR WEST DEVON’

- 3.31 ‘A Plan for West Devon’, the Council’s strategic vision, sets out projects and schemes that the Borough Council think will help our communities to thrive. There is a separate report on this Hub Committee 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.
- 3.32 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.
- 3.33 The cost pressures identified in the ‘A Plan for West Devon’ report (Council 28 September 2021) are £122,000 for 2022/23 and £168,000 for 2023/24. This has been built into the cost pressures in this budget report.

OTHER BUDGET ITEMS

- 3.34 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. A further report will be presented to the 1st February 2022 meeting of the Hub Committee on Leisure.
- 3.35 The Planning Improvement Plan report (Hub Committee 2.11.21) recommended increasing the staffing budget for four planning specialists and two legal specialists (shared with SHDC) by £71,000, to be financed by extra planning income. This has been built into the budget report.
- 3.36 The Council will be reviewing core service delivery through on-going service reviews and will bring reports back to Members at the appropriate point, linking back to the corporate strategy.

5 FEES AND CHARGES

- 5.1 During the 2022/23 Budget setting process (Hub Committee, 2nd February 2021), Members approved the following:

‘delegated authority be given to the relevant Head of Practice, in consultation with the relevant lead Hub Committee Member, to adjust Fees and Charges within their service area by inflation at suitable periodic intervals, with reports being presented to the Hub Committee as appropriate’.

The Head of Finance will co-ordinate this work with the relevant Extended Leadership Team (ELT) leads and the relevant Hub Committee Members for inflationary increases.

- 5.2 No permanent reductions to the Council’s income streams (such as planning income, car parking income) as a result of the Covid pandemic, have been built into the Base Budget for 2022/23. The budgeted income targets for these income streams are still the same level as they were in 2019/20 (prior to the pandemic).
- 5.3 This will be regularly monitored over the next few months. The Revenue Budget Monitoring report shows that the net loss on car parking income is predicted to be £69,000 for 2021/22 (after claiming Government compensation for lost income of £46,000 through the sales, fees and charges compensation scheme). Planning income is predicted to be above the budgeted level by £30,000.

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, ‘A Plan for West Devon’.
- 6.3 The Council’s latest revenue budget monitoring report for Month 7 (end of October) shows a predicted deficit of £33,000 (0.5% of the total Budget of £7.302 million) which is very close to a break-even position for the 2021/22 year. A separate report is on this Hub Committee 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 Head of Finance invited capital bids from the Extended Leadership Team. The Capital Budget Proposals for 2022/23 are attached in Appendix D.
- 7.2 Capital projects have been assessed on the following criteria:
- Health and Safety compliance
 - Essential to keep operational assets open
 - Fit with the Council's Delivery Plans for 'A Plan for West Devon'
 - To rationalise service delivery or service improvement
 - To generate income, capital value or to reduce revenue costs
- 7.3 The Draft Capital Budget Proposals for 2022/23 total £780,000. The projects are set out in Appendix D alongside the suggested financing proposals of the Capital Programme.
- 7.4 **Investment Property Strategy** – The Council has agreed an Investment Property strategy. To date, Investment Properties have a value of £19.83 million in aggregate as at 31.3.2021.
- 7.5 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 2021/22 Base Budget.
- 7.6 The Council's Asset Base is £46 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.

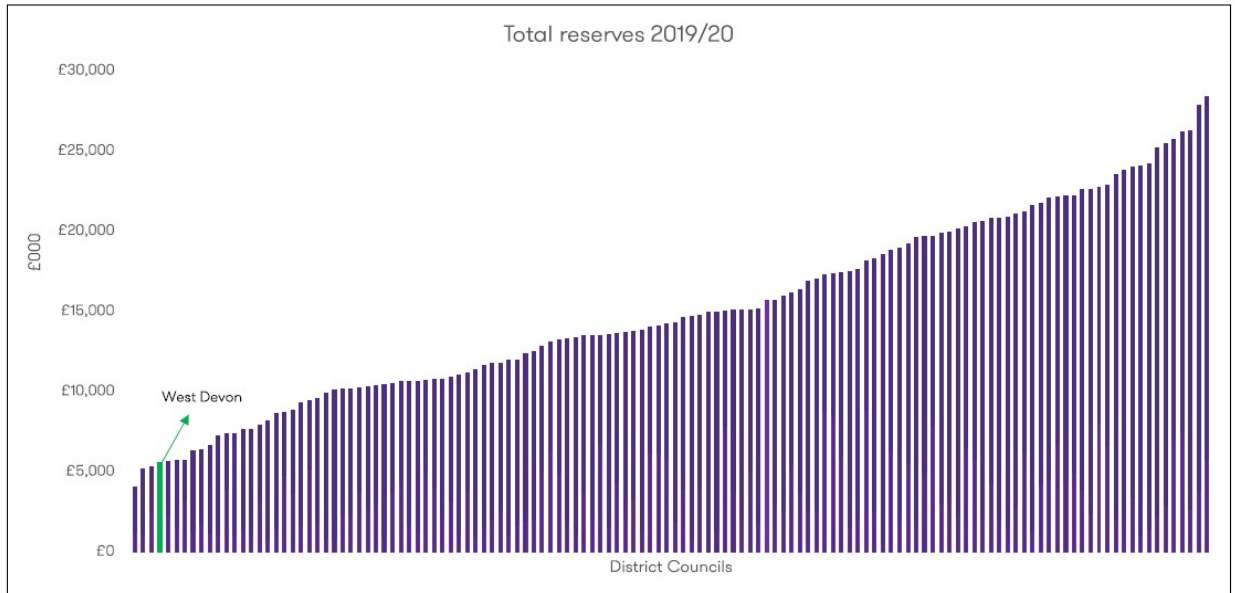
8 Earmarked and Unearmarked Reserves Policy

- 8.1 Unearmarked Reserves have increased by £75,000 in 2020/21 and total £1.294 million at 31 March 2021.
- 8.2 Earmarked Reserves have increased by £3.957 million in 2020/21 and total £8.941 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 (£2.609m) 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.

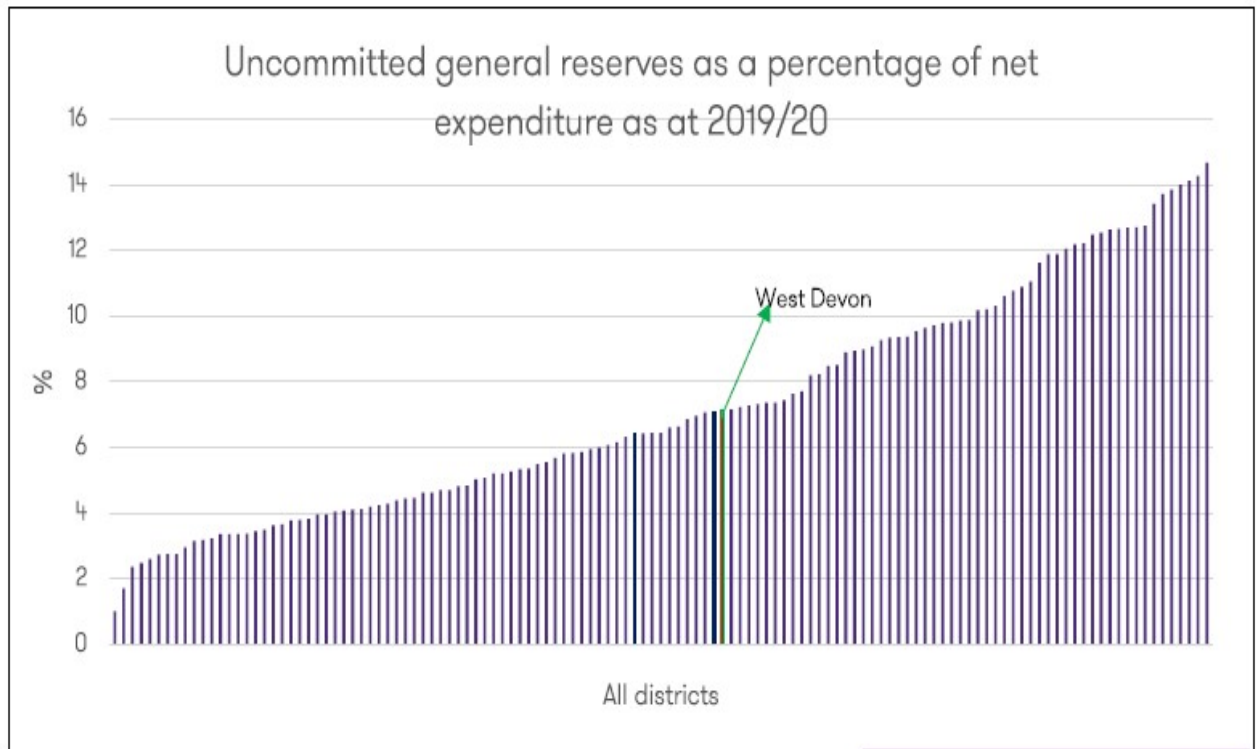
Reserve levels will be kept under constant review and will be reviewed throughout the budget setting process to consider commitments against Earmarked Reserves (set out in Appendix C), their unallocated balance

and the contributions to/from Earmarked Reserves for 2022/23 (set out in Appendix A).

- 8.3 At the Audit Committee meeting on 2nd November 2021, Grant Thornton presented their Annual Audit report for 2020/21. As part of their annual audit, Grant Thornton have benchmarked the Council's total reserves against all other District Councils, based on the 2019/20 Outturn data. These charts demonstrate that the Council is at the lower end of District Councils, which may be expected given the relative size of the Council.



- 8.4 At Council on 16.2.21, Members have set a minimum balance for Unearmarked Reserves of £900,000, based on a risk assessment basis and a sensitivity analysis. The current level of £1.294m is still above the minimum level set of £900,000. Grant Thornton also benchmarked the level of the Council's Unearmarked Reserves against all other District Councils. West Devon is in line with the midpoint as shown below.



- 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 £900,000 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 Medium Term Financial Strategy (Hub Committee 21st September 2021) 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.
- 9.2 Officers will continue to work with the Hub Committee and the results of this will be incorporated into future Budget reports. An all Member Budget Workshop took place on Tuesday 16th November. For Members' information, a 'Glossary of Terms' used in Local Government Budgeting is attached at Appendix E.
- 9.3 The Council awaits the details of the Government's Local Government Finance Settlement which will enable the Council to further firm up some of the assumptions within the Revenue Budget Proposals for 2022/23. A further update will be presented to the Hub Committee on 1st February 2022. Further options for Members' considerations of how to close the predicted budget gap of £40,296 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.

7th December 2021	Hub Committee – To consider draft proposals for the Revenue and Capital Budget for 2022/23.
18 January 2022	Overview & Scrutiny Committee - To consider draft proposals for the Revenue and Capital Budget for 2022/23.
1 February 2022	Hub Committee – To recommend Final Budget Proposals to Council for 2022/23
10th February 2022 (9am)	Date which Council Procedure Rule 16 applies
15th February 2022	Full Council – To approve Final Budget Proposals for 2022/23 and set the WDBC share of the Council Tax
22 February 2022	Council Tax Resolution Panel – to agree the Council Tax Resolution for 2022/23 (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 10th February 2022.

10. Implications

Implications	Relevant to proposals Y/N	Details and proposed measures to address
Legal/Governance		<p>The Hub Committee is responsible for recommending to Council the budgetary framework. It is the role of the Overview and Scrutiny Committee to scrutinise the Budget proposals being proposed by the Council on an annual basis. In accordance with the Financial Procedure Rules, Council must decide the general level of Reserves and the use of Earmarked Reserves.</p> <p>The preparation of the Budget report is evidence 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>The forecast budget gap for 2022/23 is £40,296. This is 0.6% of the Net Budget of 21/22 of £7.3million. A cumulative budget gap of £518,966 is predicted for 2023/24 (the £518,966 assumes that the 22/23 budget gap of £40,296 has not been closed). The cumulative aggregated Budget Gap by 2024/25 is £1.2 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 Local Government Finance Settlement announcement in mid December, which will enable the Council to further firm up some of the assumptions within the Budget for 2022/23. Further options for Members' considerations of how to close the predicted budget gap of £40,296 will be presented as part of the 1 February 2022 Budget report.</p> <p>As part of Grant Thornton's external audit of the Statement of Accounts for 2020/2021, they have concluded that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.</p>
Risk		<p>Each of the budget options taken forward by Members will consider the risks of the option.</p>

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 3.30 to 3.33.
Consultation and Engagement Strategy		External consultation on the Council's Budget Proposals will be undertaken prior to the Budget being agreed by Council in February 2022. The Budget supports all of the Thematic Delivery Plans within the Council's strategic vision, 'A Plan for West Devon'. There was a public consultation on the Plan during the Summer.
Climate Change - Carbon / Biodiversity Impact		A report was presented to Council on 8 th December 2020 'Climate Change and Biodiversity Strategy and Action Plan update'. In March 2021, Council approved to set up an Earmarked Reserve for £200,000 for the Recovery Plan and Corporate Strategy. Further detail is set out in the Council's 'A Plan for West Devon' strategic vision.
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 – Capital Programme Proposals for 2022/23

Appendix E – Glossary of Terms in Local Government Finance

Background Papers:

None