

Report to: **Council**

Date: **15th February 2022**

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

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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RECOMMENDATIONS:

It is RECOMMENDED:

- i) To set an increase in Council Tax for 2022/23 of £5 (Band D of £246.63 for 2022/23 – an increase of less than 10 pence per week or £5 per year – equates to a 2.07% increase). This equates to a Council Tax Requirement of £5,102,220;
- ii) That the financial pressures shown in Appendix A of £689,000 are approved;
- iii) That the net contributions to Earmarked Reserves of £209,350 as shown in Appendix A, including the proposed use of £75,000 from the Business Rates Retention Earmarked Reserve as set out in 3.21 of the report are approved;
- iv) That the proposed transfer of £162,850 into a Financial Stability Earmarked Reserve in 2022/23, to be available for any future financial pressures from future local government funding reforms and any other budget pressures is approved;
- v) That the proposed use of £150,000 of New Homes Bonus funding to fund the 2022/23 Revenue Base Budget as set out in 3.30 of the report is approved;

- vi) That the proposed transfer of £172,084 of the New Homes Bonus grant allocation for 2022/23 to an Affordable Housing Earmarked Reserve as a one-of contribution for 2022/23 as set out in 3.30 to 3.31 is approved;
- vii) That the savings of £221,000 as shown in Appendix A are approved;
- viii) That the Total Net Expenditure of the Council for 2022/23 is £7,769,695 as shown in Appendix B;
- ix) That the Capital Programme Proposals for 2022/23 of £835,000 and the proposed financing of the Capital Programme as set out in Appendix D is approved;
- x) That Unearmarked Reserves should continue to have a minimum level of £900,000 (as set in the Medium Term Financial Strategy in September 2021), but an operating level of a minimum of £1.25million;
- xi) That the level of reserves as set out within this report and the assessment of their adequacy and the robustness of budget estimates be noted. This is a requirement of Part 2 of the Local Government Act 2003;
- xii) That it is noted that West Devon Borough Council will continue to be part of the Business Rates Pool for 2022/23 as per 3.23

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 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.
- 1.6 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.
- 1.7 The key assumptions within this Budget Report are as below, alongside the announcements from the draft Local Government Finance settlement (announced by the Secretary of State for Levelling Up, Housing and Communities by a written statement to Parliament on Local Government Finance on 16th December 21). Each of these is described in more detail in Section 3.
 - The finance settlement is for a single year only and there will be further details on proposed funding reforms and consultations in the New Year. Priority in the finance settlement is "stability in the immediate term", with a more fundamental review of local government funding starting in 2022
 - The business rates baseline reset will be deferred until 2023/24 (with no negative Revenue Support Grant in 2022/23)
 - It is assumed there will be a phasing in of negative Revenue Support Grant (RSG) in 2023/24 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 Referendum limits have been confirmed for District Councils to be the higher of £5 or 1.99% for 2022/23
 - New Homes Bonus has been 'rolled over' for another year, with legacy payments being honoured.
 - 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 will continue at the same level for 2022/23 (£487,296 for WDBC)
 - No permanent reductions to the Council's income streams (such as car parking 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).

- 1.8 The report sets out proposals for the Council to achieve a balanced budget for 2022/23, as shown in Appendix B. The Council is currently forecasting a £450,496 budget gap by the following year, 2023/24. The cumulative aggregated Budget Gap by 2024/25 is £0.97million, if no action has been taken in each individual year to close the budget gap annually. The 2023/24 budget gap is largely attributable to the fact that negative RSG (Revenue Support Grant) of £182,000 is predicted to be applied in 23/24, as well as the loss of the New Services Grant of £113,606 (which is only a one-off grant for 22/23). Also the amount of New Homes Bonus funding the revenue base budget is forecast to reduce by £73,000 in 2023/24.

Budget Gaps	2022/23 £	2023/24 £	2024/25 £	Total Aggregated Budget Gap £
'New' Budget Gap each year	Nil	450,496	67,071	517,567
*Cumulative Budget Gap	Nil	450,496	517,567	968,063

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

- 1.9 The Draft Revenue Budget Proposals report to the Hub Committee on 7th December 2021 identified a budget gap of £40,296 for 2022/23. The table below sets out the changes in this report from the previous report, following the announcement of the Draft Local Government Finance Settlement on 16th December. A balanced budget is shown for 2022/23 following the announcement.

	£
<i>Budget gap for 22/23 reported in the Hub Committee report on 7th December 2021 (Draft Revenue Budget Proposals for 2022/23)</i>	40,296
<i>Increase in income or funding modelled</i>	
New 2022/23 Services Grant for 2022/23 of £113,606 (see 3.25)	(113,606)
Increase in Lower Tier Services Grant – The December 21 budget report predicted an amount of £35,000 for the LTS Grant. The actual amount has been announced in the finance settlement as £73,923 – an increase of £38,923.	(38,923)

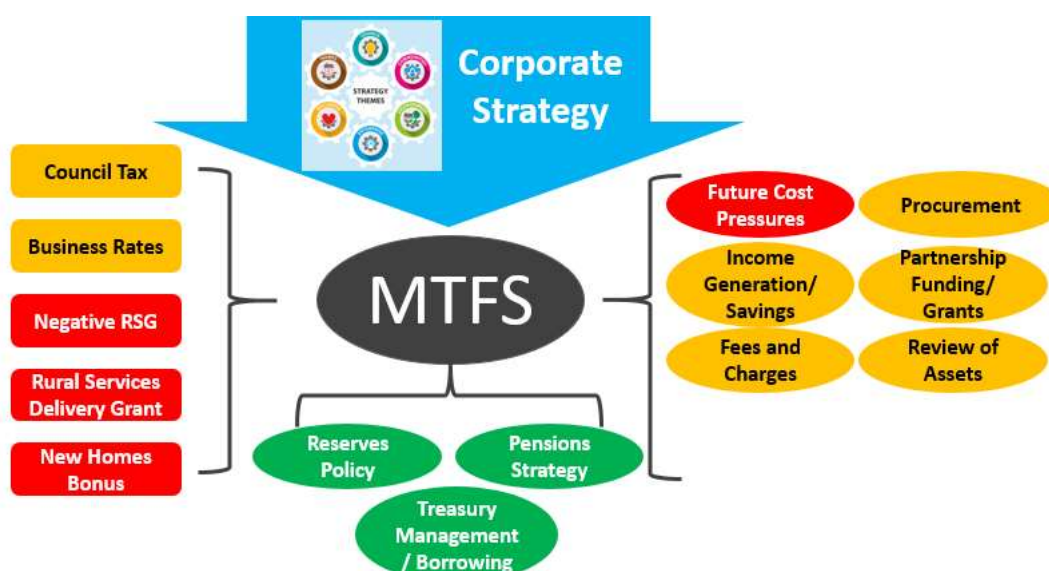
	£
Increase in Council TaxBase – The December 21 budget report estimated the Council TaxBase to be 20,259.51. The final TaxBase for 22/23 has been calculated at 20,687.75 Band D equivalent properties, resulting in an increase of council tax income of £105,617.	(105,617)
<i>Reduction in income modelled or increase in cost pressures</i>	
Rough Sleeper outreach worker post – to make this post a permanent post on the establishment, shared with South Hams. Total cost of £40,000 (wdbc 40% share £16,000).	16,000
To fund the rough sleeper outreach post from homelessness government grant income annually.	(16,000)
IT Support contracts cost pressure – Add an additional cost pressure for £30,000 for the increased number of users on the network, acquiring remote diagnostics software for the increase in remote working, further IT for Disability Access legislation (monitoring compliance and enhancing access online). This was identified as a cost pressure in the latest budget monitoring report to the Hub Committee on 7.12.21.	30,000
Joint Local Plan cost pressure – an element of staff costs of the JLP team were previously funded from the JLP Earmarked Reserve which has now been depleted – recommend to make a contribution to the reserve of £25,000 per annum.	25,000
Contribution to Financial Stability Earmarked Reserve (one-off for 2022-23)	162,850
<i>Revised Budget gap for 2022/23 as set out in this report (as at February 2022)</i>	Nil – (A balanced budget position is presented)

- 1.10 The Draft Revenue Budget Proposals for 2022/23 were considered by the Overview and Scrutiny Committee on 18th January 2022 and the Hub Committee on 1st February 2022. The minutes from the Overview and Scrutiny Committee meeting and the Hub Committee meeting are consistent with the recommendations in this budget report.

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 Draft Revenue Budget Proposals report for 2022/23 are set out in 1.7.

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 report sets out proposals for the Council to achieve a balanced budget for 2022/23, as shown in Appendix B. The Council is currently forecasting a £450,496 budget gap by the following year, 2023/24. The cumulative aggregated Budget Gap by 2024/25 is £0.97million, if no action has been taken in each individual year to close the budget gap annually. The 2023/24 budget gap is largely attributable to the fact that negative RSG (Revenue Support Grant) of £182,000 is predicted to be applied in 23/24, as well as the loss of the New Services Grant of £113,606 (which is only a one-off grant for 22/23). Also the amount of New Homes Bonus funding the revenue base budget is forecast to reduce by £73,000 in 2022/23.

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3 ANNOUNCEMENTS FROM THE DRAFT LOCAL GOVERNMENT FINANCE SETTLEMENT

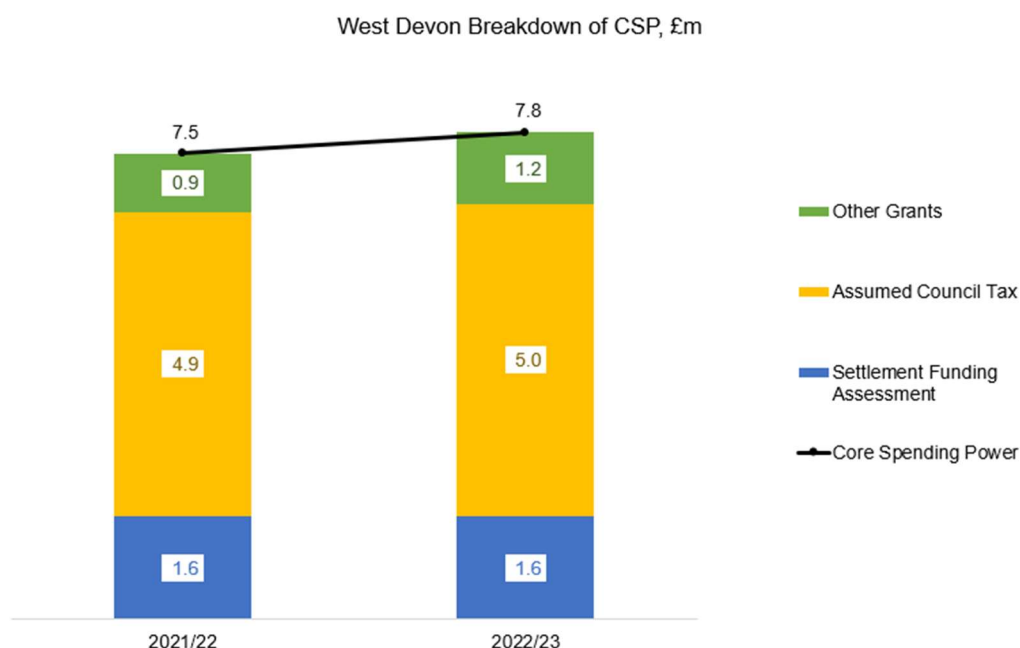
- 3.1 On 16th December, the Secretary of State for Levelling Up, Housing and Communities made a written statement to Parliament on Local Government Finance. The one year finance settlement for 2022/23 was issued for consultation. The full announcement is set out on the following link (Consultation responses are due by 13th January 2022):

<https://www.gov.uk/government/collections/provisional-local-government-finance-settlement-england-2022-to-2023>

- 3.2 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, as below. The Council now receives no main Government grant (Revenue Support Grant).

3.3 **Core Spending Power (which is a measure of how much extra funding a Council has received for next year) has increased by 4.6% for 2022/23.** 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 4.6% is mainly coming from assumed Council Tax increases in 2022/23.

3.4 However this calculation of Core Spending Power already assumes that a Council will increase its council tax up to the maximum allowed under the referendum limits for 2022/23 – so for WDBC a £5 council tax increase (less than 10pence per week) for 2022/23 is included within this 4.6% increase in funding. New Homes Bonus is also included in the measure of Core Spending Power in ‘Other Grants’. Core Spending Power has increased from £7.5m in 2021/22 to £7.8m in 2022/23 as shown below. Nationally, Core Spending Power has increased by 4.4% (factoring in council tax increases).



Council Tax

3.5 The Council Tax Referendum limits for District Councils for 2022/23 have been announced in the finance settlement as 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 (less than 10 pence per week) which equates to a 2.07% increase. The council tax for 2022/23, the WDBC share, will be set at this Council meeting on 15th February 2022. (A 1% increase in council tax generates £50,000 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.

Council Tax legislation sets out that Council Tax is partly a form of general taxation on a property and partly a tax on the people living in a property. Council Tax funds essential services in an area and the cost of public services is spread across all tax payers in the same way, regardless of which services they use or receive. Council Tax is a form of general taxation rather than a service charge.

- 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 for next 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.
- 3.9 On 17th December 2021, the Senior Leadership Team approved the calculation of the Council Tax Base for 2022/23 of 20,687.75. This is an increase of 448.24 Band D equivalent properties in comparison to 2021/22. The increase is attributable to nearly 245 extra properties, a reduction in Council Tax Support eligibility (110 properties) and an increase of 93 Band D equivalents in the TaxBase due to increasing the council tax collection rate from 96.5% in 21/22 to 97% in 22/23 in the 22/23 tax base calculation.
- 3.10 The Government is proposing to set no council tax referendum principles for Town and Parish Councils for 2022/23. There is a new £5 maximum precept increase for the lowest-funded fire authorities (with a 1.99% maximum increase for other fire authorities). Upper Tiers such as DCC can add an additional 1% social care precept (so DCC can increase their council tax Band D by 2.99%). Police will be subject to a £10 referendum limit.

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 Ministers will be re-starting the local government funding reforms in the Spring. This means that the Fair Funding Review and the Business Rates Baseline Reset are both going to be under consideration again, for possible implementation in 2023-24.

- 3.14 The business rates baseline reset will be deferred until at least 2023/24 (with no negative Revenue Support Grant in 2022/23). 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 negative 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 £1.7m 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 Council on 28 September 2021 approved the use of 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 reduction in 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.

The table below shows how funding held in the Business Rates Retention Reserve will be retained for the purpose of smoothing out the business rates volatility/negative revenue support grant.

Business Rates Income	2022/23 (£m)	2023/24 (£m)	2024/25 (£m)
		Baseline Reset	
Business Rates Income	1.70	1.707	1.75
Less: Negative Revenue Support Grant (RSG)		(0.182)	(0.228)
Anticipated Pooling Gain	0.200	0.175	0.150
Funding proposed 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	1.775	1.747

- 3.22 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

- 3.23 At the Hub Committee meeting on 7th December 2021 (Minute HC 52/21), it was recommended to Council to continue to be part of the Devon Business Rates Pool for 2022/23, subject to there being no announcements within the Finance Settlement, which in the opinion of the Section 151 Officer (in consultation with the Leader of the Council and the Hub Committee Member for Finance), would change this recommendation. The finance settlement has been announced and further modelling as been undertaken by the Pool to inform the recommendation for West Devon Borough Council to continue to be part of the 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

- 3.24 Rural Services Delivery Grant will continue for 2022/23 onwards at previous levels (£85m nationally – WDBC share of £487,296). The Council will continue to lobby on the basis that the £85m should be increased, at least by inflation. This is Government grant to recognise the additional cost of delivering services in rural areas.

A new 2022/23 Services Grant

- 3.25 This is a new one-off grant just for 22/23 and is to partly offset the cost of the 1.25% increase in National Insurance social care levy. It is also to fund general responsibilities. WDBC will receive £113,606 for 2022/23. The cost of the 1.25% increase in National Insurance social care levy is estimated to cost £30,000 per annum.

Lower Tier Services Grant

- 3.26 The Lower Tier Services Grant will be £73,923 for 2022-23 (the December budget report had assumed this would be halved, so this is a higher allocation that has been announced in the draft finance settlement).

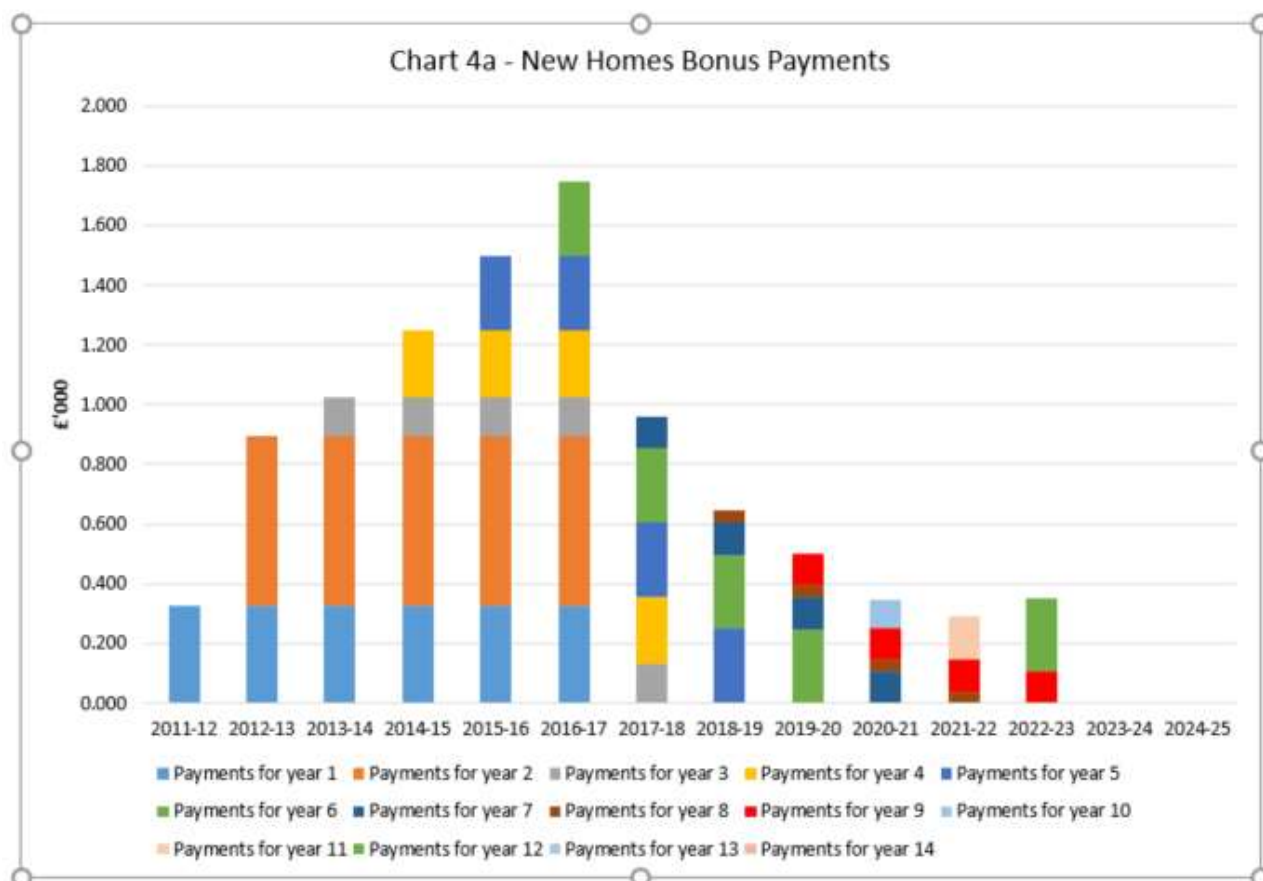
New Homes Bonus (NHB)

- 3.27 The New Homes Bonus (NHB) scheme has been rolled over into 2022-23 for one more year. It had previously been announced by the Government that it was being phased out. A consultation on a replacement scheme for New Homes Bonus is expected in the New Year. It is not known how a replacement scheme will operate.

- 3.28 The Council's provisional allocation of New Homes Bonus payments announced in the draft finance settlement is **an allocation of £352,084** for 2022-23. This is made up of an allocation of £245,000 for housing growth for 22/23 (based on the Council Tax Base 1 Form at October 2021) and a further £107,000 of legacy payments from Year 9 (19/20). The £245,000 is based on property additions of 253 Band D equivalent properties and a baseline of 0.4% (100 properties is deducted). Therefore 153 properties are paid at £1,515 plus 43 affordable housing units at £280.

The table below shows the NHB allocations received to date. Up until Year 9, payments were made for 4 years e.g. the £107,000 earned in 19/20 for housing growth has been paid in 19/20, 20/21, 21/22 and 22/23. From years 20/21 onwards, only one year of growth is paid, but the legacy payment from Year 9 (19/20) of £107,000 has been honoured by the Government and will be paid in 22/23.

	2018/19 (£)	2019/20 (£)	2020/21 (£)	2021/22 (£)	2022/23 (£)
Year 5 (15/16)	249,000				
Year 6 (16/17)	248,000	248,000	-	-	-
Year 7 (17/18)	109,000	109,000	109,000	-	-
Year 8 (18/19)	38,000	38,000	38,000	38,000	-
Year 9 (19/20)		107,000	107,000	107,000	107,000
Year 10 (20/21)			94,000	-	-
Year 11 (21/22)				148,000	-
Year 12 (22/23)					245,000
NHB allocation	£0.643m	£0.501m	£0.348m	£0.293m	£0.352m



3.29 The Draft Budget proposals in this report assumes that funding of £150,000 from NHB in 2022/23 will fund the revenue base budget and that £30,000 of NHB will fund the capital programme in Appendix D in 2022/23. 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.

3.30 The table below shows the proposed allocation of New Homes Bonus for 2022/23. It is proposed to allocate £172,084 of the remaining NHB into an affordable housing earmarked reserve as a one-off contribution for 2022/23.

New Homes Bonus (NHB)	Amount (£)
New Homes Bonus 2022/23 allocation	£352,084
Current proposed allocation:-	
To fund the Revenue Base Budget	(150,000)
To fund the Capital Programme (Appendix D)	(30,000)
A one-off contribution into an Affordable Housing Earmarked Reserve for 2022/23	(172,084)
Amount remaining unallocated	Nil

- 3.31 The £172,084 is additional funding to address the housing crisis and would be allocated by the Hub Committee in response to this. The funding will be used for discrete housing project work, for instance, to bring forward affordable homes.

Other assumptions within the Medium Term Financial Strategy (MTFS)

- 3.32 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.
- 3.33 The Consumer Prices Index (CPI) was 5.4% in December 2021. RPI was 7.5%. The budget report includes cost pressures for inflation and increases on goods and services (£70,000).
- 3.34 The predicted interest rate forecast from our treasury management advisors, Link Services, is that interest rates (Bank Base rate) are predicted to increase to 1% by March 2024 and 1.25% by March 2025.

‘A PLAN FOR WEST DEVON’

- 3.35 ‘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.
- 3.36 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. 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

- 3.37 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 is on this Council agenda for Members’ consideration (this was considered by the Hub Committee on 1 February 2022).

3.38 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. 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.

3.39 Several other cost pressures have been included within the budget report and these are set out in detail in 1.9 of the Executive Summary. The latest budget monitoring report to the Hub Committee on 7 December 2021 identified some of these cost pressures. These are in summary:-

- Rough Sleeper outreach worker post – to make this a permanent post on the establishment, wdbc cost of £16,000, to be funded by homelessness government grant income.
- IT support contracts cost pressure £30,000
- Joint Local Plan cost pressure for staffing costs £25,000

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 £50 million in 2019 and it is not proposed to change this limit at present. In 2020/21 the long term borrowing of the Council decreased from £28,944,000 (19/20) to £28,342,000. Short term borrowing increased from £590,000 to £603,000.

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.

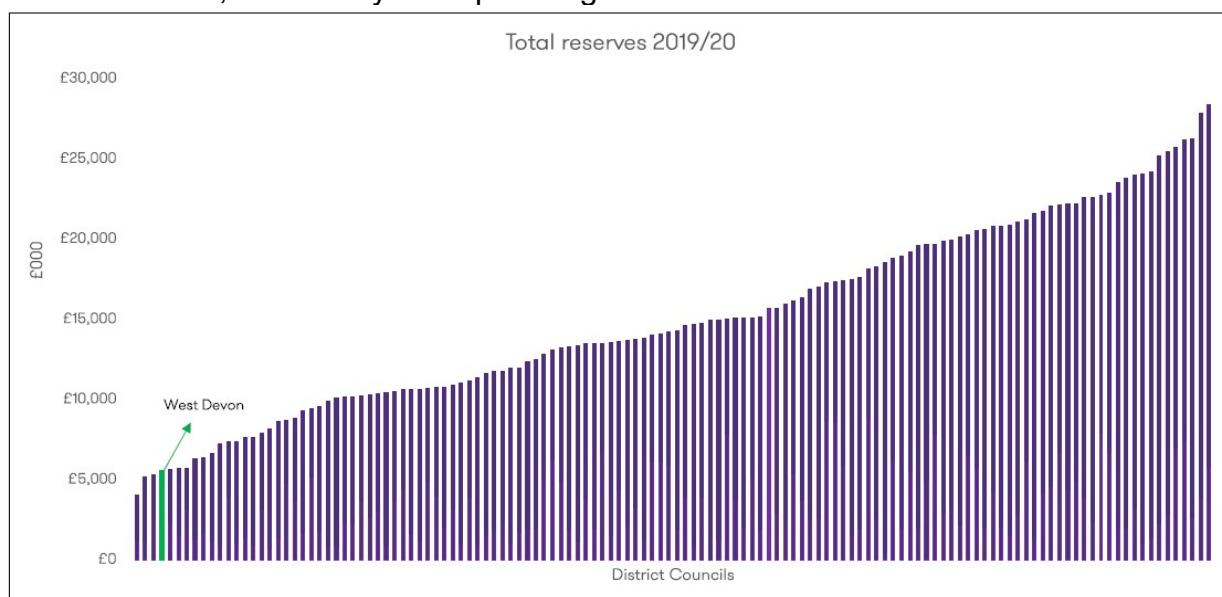
- 5.2 No permanent reductions to the Council's income streams (such as car parking income) as a result of the Covid pandemic, have been built into the Base Budget for 2022/23. The budgeted income targets for these income streams are still the same level as they were in 2019/20 (prior to the pandemic).
- 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 CAPITAL PROGRAMME AND PRUDENTIAL BORROWING

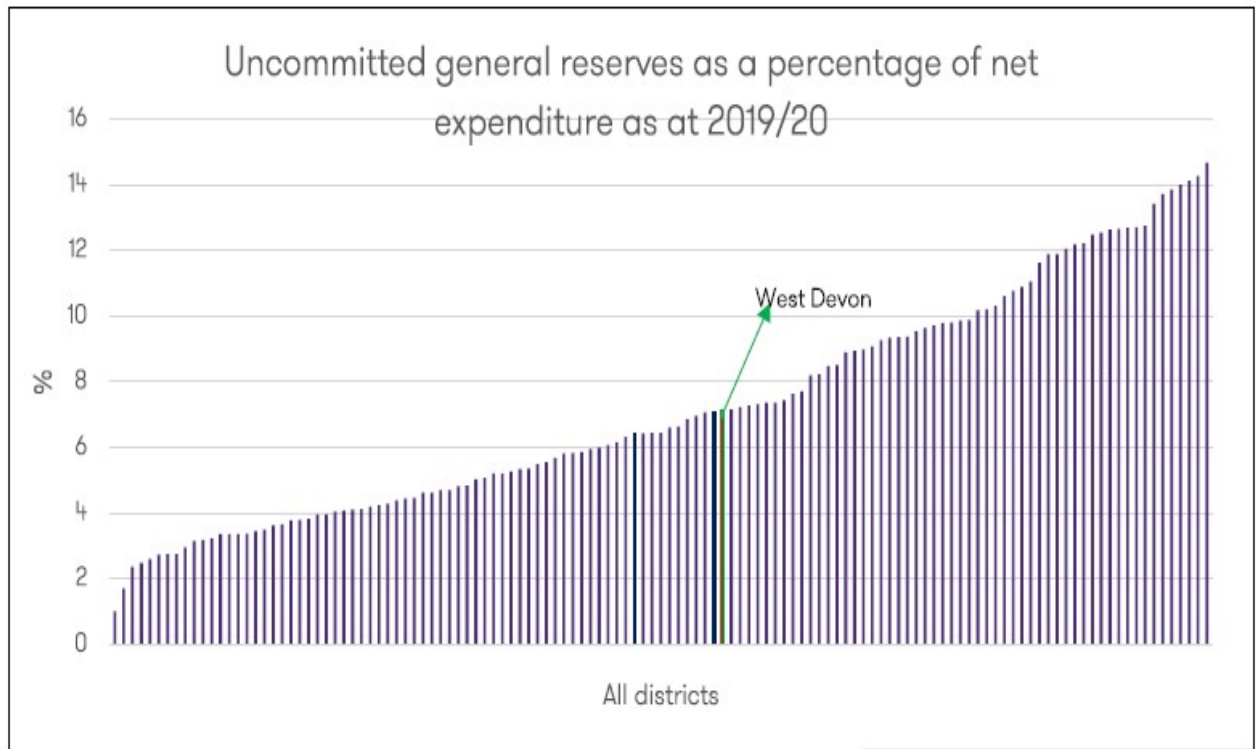
- 6.1 The Capital Programme is set by the Council and may be funded by sale proceeds from the disposal of assets (capital receipts), external grants and contributions, directly from revenue or from borrowing. The Head of Finance invited capital bids from the Extended Leadership Team. The Capital Budget Proposals for 2022/23 are attached in Appendix D.
- 6.2 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
- 6.3 The Draft Capital Budget Proposals for 2022/23 total £835,000. The projects are set out in Appendix D alongside the suggested financing proposals of the Capital Programme.
- 6.4 **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.
- 6.5 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.
- 6.6 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.

7 Earmarked and Unearmarked Reserves Policy

- 7.1 Unearmarked Reserves have increased by £75,000 in 2020/21 and total £1.294 million at 31 March 2021.
- 7.2 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.
- 7.3 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).
- 7.4 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.



- 7.5 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.



- 7.6 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. 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.
- 7.7 Sensitivity analysis and risk analysis – The figures within the Budget proposals have been subject to a sensitivity analysis and a risk analysis. This has identified a potential adverse revenue effect of £813,800 (from the sensitivity analysis in Appendix F). The recommendation of the S151 Officer is for the Council to continue to have a minimum level of unearmarked reserves of £900,000 (as set out in the Medium Term Financial Strategy in September 2021), but to have an operating level of a minimum of £1.25million for unearmarked reserves. The Council should be operating at a level of £0.35m above the minimum level on a day to day basis. Appendix F also sets out the CIPFA Financial Resilience Index for 2022, a comparative tool that can be used by S151 Officers as part of the annual budget report. The S151 Officer therefore confirms the robustness of the Budget Proposals and the adequacy of the reserves.
- 7.8 The Council's latest revenue budget monitoring report for Month 7 (end of October) shows a predicted deficit of £33,000 for the 2021/22 year. This would be deducted from Unearmarked Reserves as per standard accounting practice. The predicted year end balance of Unearmarked Reserves at 31.3.22 is therefore £1.261m.

8 FINANCIAL SUSTAINABILITY AND TIMESCALES

- 8.1 The local government finance settlement for 2022/23 is essentially a 'one year roll-over' budget for just one year, with a great deal of financial uncertainty to come in future years with funding reforms. The Government is committed to updating the needs and resources that the finance settlement is based on, which means an individual Council's share of the 'cake' (in terms of funding) will be updated and there will be winners and losers in any new funding reform. Below is the statement from the Government announced on 16th December:

'Government is committed to ensuring that funding allocations for councils are based on an up-to-date assessment of their needs and resources. The data used to assess this has not been updated in a number of years, dating from 2013-14 to a large degree, and even as far back as 2000. Over the coming months, we will work closely with the sector and other stakeholders to update this and to look at the challenges and opportunities facing the sector before consulting on any potential changes.'

- 8.2 The Council will continue to assess various options for closing the budget gap for 2023/24 onwards, and in the longer term, to achieve long term financial sustainability and further reports will be presented to Members.
- 8.3 Making the best use of our resources and setting a balanced budget annually is within the 'Delivering Quality Services' Delivery Plan of the Council's long term strategic vision, 'A Plan for West Devon'.

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.

9.3 The table below shows the budget timetable for the budget meetings for the 2022/23 Budget.

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 views of the Overview and Scrutiny Committee were sought on the draft budget proposals before the final proposals are presented to Council in February.</p> <p>The preparation of the Budget report is evidence of whether the Council has considered and taken into account all relevant information and proper advice when determining its financial arrangements in 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 report sets out proposals for the Council to achieve a balanced budget for 2022/23, as shown in Appendix B. The Council is currently forecasting a £450,496 budget gap by the following year, 2023/24. The cumulative aggregated Budget Gap by 2024/25 is £0.97million, if no action has been taken in each individual year to close the budget gap annually</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 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 (Appendix A).
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 – Revenue Budget Summary 2022-23
- Appendix F – Sensitivity Analysis

Background Papers:

Members' Budget Workshop presentation slides – dated Tuesday 16th November 2021

Hub Committee – 1st February 2022 – Draft Revenue and Capital Budget Proposals for 2022/23

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