

Report to: **Executive**  
Date: **15 December 2016**  
Title: **Budget Proposals Report 2017-18**  
Portfolio Area: **Cllr R Tucker**  
Wards Affected: **All**  
Relevant Scrutiny Committee: **Overview and Scrutiny Panel**  
Urgent Decision: **N** Approval and clearance obtained: **Y**

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**Recommendations: It is recommended that the Executive:**

- i) Consider the Budget Proposals report for 2017-18 and the outcomes of the Members' Budget Workshop (Appendix E), prior to requesting the views of the Overview and Scrutiny Panel in January 2017 on the budget issues contained within the report.

**1. Executive summary**

- 1.1 The Council's Medium Term Financial Strategy (MTFS) is based on a financial forecast over a rolling five year timeframe to 2021/22 which will help ensure resources are aligned to the outcomes in Our Plan (see Section 5). The forecast is intended to provide a framework within which decisions can be made regarding the future service provision and council tax levels whilst building an approach that guarantees South Hams District Council's longer term viability.
- 1.2 The Council, along with other local authorities, has faced unprecedented reductions in Government funding since the Comprehensive Spending Review 2010. The Queen's Speech delivered on 27 May 2015 stated that the government will "continue the work of bringing the public finances under control and reducing the deficit, so that Britain lives within its means". The economic backdrop continues to be challenging, resulting in significant on-going reductions in Government funding, with the Council needing to focus on long term financial planning. Looking ahead, given the deficit in public finances, there will undoubtedly be more difficult times ahead in terms of reducing Government grants, which could be as much as 30% to 40%

over the next 4 to 5 years. This will result in continuing pressures to find further significant savings, efficiencies and additional income.

- 1.3 In response, in 2013 the Council alongside its shared services partner, West Devon Borough Council, approved an innovative Transformation Programme (T18). This is delivering a new operating model to ensure that both Councils can continue to deliver quality services for its customers and communities. An investment budget of £4.6 million was approved, to deliver annual recurring revenue savings of £3.3 million. The payback period for the Programme was 2.5 years (see 6.31). The Transformation Programme received the backing of Central Government with an award of £434,000 of Government funding.
- 1.4 The Council's Transformation Programme, coupled with savings from the re-procurement of contracts and other areas, has meant that in 2017/18 the Council has a projected Budget Gap of just over £190,000. In 2019/20 there is a projected Budget Surplus of £112,000. Over the five years, the cumulative projected budget gap is £476,000 as below.
- 1.5 South Hams and West Devon are working together to deliver common strategies and priorities and design new ways of working differently, although how these will apply to the different localities and communities may still vary. However, the Councils continue to face considerable financial challenges as a result of uncertainty in the wider economy and constraints on public sector spending as outlined in the Comprehensive Spending Review announcement.
- 1.6 At the same time though, there are also funding sources and opportunities that the Councils must fully exploit as part of the business model. In this context, and like many other Councils, South Hams and West Devon have to make a number of sometimes difficult and complex financial decisions. The Councils are confident that their budgets and the approaches being adopted represent a sound platform for the medium term.
- 1.7 The following table illustrates the predicted budget gap from 2017/18 onwards for the Council as shown in Appendix B:

	<b>2017/18</b>	<b>2018/19</b>	<b>2019/20</b>	<b>2020/21</b>	<b>2021/22</b>
	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
Annual budget gap	190,866	231,949	Nil	28,020	25,812
<b>CUMULATIVE BUDGET GAP OVER THE FIVE YEARS TO 21/22</b>					<b>£476,647</b>
In the year 2019/20, a budget surplus arises and the modelling assumes that this surplus is used for one-off investment and is taken as a saving in the next financial year.					

- 1.8 *The September Medium Term Financial Strategy set out a £283,000 Budget Gap over the next 5 years to 2021/22. The Budget Gap is now higher by approximately £0.2 million and this report updates the position and shows that the Council is facing a £476,000 Budget Gap over the next 5 years and there is a budget gap of £190,000 still to close for 2017/18. The main reasons for the increase of £0.2 million is due to a cost pressure of £125,000 for a reduction in planning income (see 6.5) and a cost pressure of £125,000 for the waste round review (see 6.10).*
- 1.9 If New Homes Bonus (NHB) were to be used as outlined in Section 8.4 of the report, this would mean that there would potentially be £379,100 of NHB which is uncommitted in 2017/2018. This assumes that £0.5 million of NHB will be used annually to support the Revenue Base Budget. An allocation for Dartmoor National Park would need to be deducted from the £379,100
- 1.10 The Budget for 2016/17 was approved by Council on 11th February 2016. This is the starting point for producing the refreshed MTFs and the detailed budget proposals for 2017/18. The 2016/17 Net Budget approved by South Hams District Council was £8.752 million.
- 1.11 Whilst there remains a great deal of uncertainty about various elements of income and expenditure, the forecast has been based on a set of assumptions (set out in Section 3) which represent a cautious estimate in order to focus attention on the revised funding gap. The figures will be continually updated as we progress through the financial year.
- 1.12 The Council's approach to financial planning over the medium term will include a focus on income generation and commercial opportunities. This will strengthen the position of the District Council by developing financial resilience through less exposure to reductions in Government funding.
- 1.13 The budget setting process is an iterative process that will constantly change over the next five years. As the Council becomes aware of new cost pressures or further reductions in funding over the next 5 years, this will increase the predicted budget gap. The converse is true for any savings or additional income which are identified over the next five years. Announcements during 2015 that local authorities will be able to retain 100% of business rates income from 2020 and that Revenue Support Grant will be phased out, mean that the Council will need to keep its financial strategy under constant review and adapt the Council's business model to continue to respond to the challenges.

## **BUDGET PRINCIPLES**

- 1.14 The MTFs sets out the key Budget Principles for how the Council will be developing its approach to achieving financial sustainability. These are set out below:-

A clear financial strategy, including a revenue budget and capital investment strategy that supports the above and sets out how the Council aims to tackle the Budget gap over the next five years.

To continue working in partnership with West Devon Borough Council, to embed the new business model, to enable the Council to respond to changes in Government funding that will support the delivery of strategic priority outcomes and the medium term financial sustainability.

To adopt an investment strategy that maximises funding streams e.g. New Homes Bonus and Business Rates and that delivers additional income and savings in the future e.g. doing things on an 'Invest to Save' basis.

Achieving efficiencies and cost reductions, through collaborative working and getting the basics right.

A more commercial approach, which could include the establishment of a local authority controlled company, through which we can generate additional income with a 'Profit for Purpose' basis.

## **2 FOUR YEAR SETTLEMENT FUNDING OFFER**

- 2.1 The Government offered to all Councils to apply for a four year settlement funding offer by 14<sup>th</sup> October.
- 2.2 On 16 November, the Council received written confirmation from the Government that South Hams is now formally on the multi-year settlement list, following the Council's application for this. This means that the Council now has certainty over the levels of funding for Revenue Support Grant, Transitional Grant and Rural Services Delivery Grant that it will receive for the next three years.

These are:-

Revenue Support Grant - £245,000 for 17/18 and then Nil thereafter.

Transitional Grant - £56,000 for 17/18 only

Rural Services Delivery Grant - £327,000 for 17/18, £252,000 for 18/19 and £327,000 for 19/20

- 2.3 Business Rates are outside of the four year funding offer. The Government has said that barring exceptional circumstances and subject to the normal statutory consultation process for the local government finance settlement, the Government expects these to be the amounts presented to Parliament each year.

97% of Councils applied which the Government said showed the understandable need for the sector to secure greater certainty at a time of significant reform.

### **3 ASSUMPTIONS FOR FINANCIAL MODELLING PURPOSES**

3.1 A two year employee pay settlement has been agreed which equates to 1% in 2016/17 and 1% in 2017/18. Future levels of pay settlement will be determined by national negotiation between the Local Government Employers and the Trade Unions. A budget provision of 1% for 2017/18 onwards has been modelled. The MTFS 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.

3.2 The MTFS assumes inflation will run at 2% over the five year period. The Office for National Statistics (ONS) has said that the annual inflation rate as measured by the Consumer Prices Index (CPI) rose to 1% in Sept 16. The Retail Prices Index measure of inflation rose to 2% in Sept 2016.

3.3 The MTFS has included a cost pressure of £310,000 for Inflation and increases on Goods and Services. The main items are:-

£80,000 – Staff salary increments

£60,000 – Business Rates increases (Revaluation 2017/18 onwards)

£40,000 – Apprenticeship Levy

£30,000 – Utilities inflation

£26,000 - Development Surveyor post – build into salary establishment  
(O & S 17 March and Council 7<sup>th</sup> April – see 10.6 as year  
1 costs were being funded from an Earmarked Reserve)

£20,000 – Fuel inflation

£10,000 – Insurance premiums

An amount of just over £40,000 is to fund a 2% uplift on other expenditure budgets (£2 million).

3.4 The predicted interest rate forecast from our treasury management advisors, Sector, is shown below. On 4<sup>th</sup> August, the Bank Base Rate was cut from 0.5% to 0.25%. The Council's budgeted investment income in 2016/17 is £148,000. It is assumed that the interest rate return for our investments will average 0.5 % for 2017/18 rising to 1.0% by 2021/22 as shown below:-

2017/18	-	0.5%
2018/19	-	0.5%
2019/20	-	0.5%
2020/21	-	0.75%
2021/22	-	1.0%

The latest predictions for Bank Rate is that they will remain at 0.25% until Summer 2019 when it is predicted they may rise to 0.5%. A cost pressure of £25,000 has been included within 2017/18. The Council is investigating alternative investment vehicles in order to be able to reduce this cost pressure and this will be a focus of the forthcoming Financial Principles Member Workshop on 8 December (repeat session on 5 January).

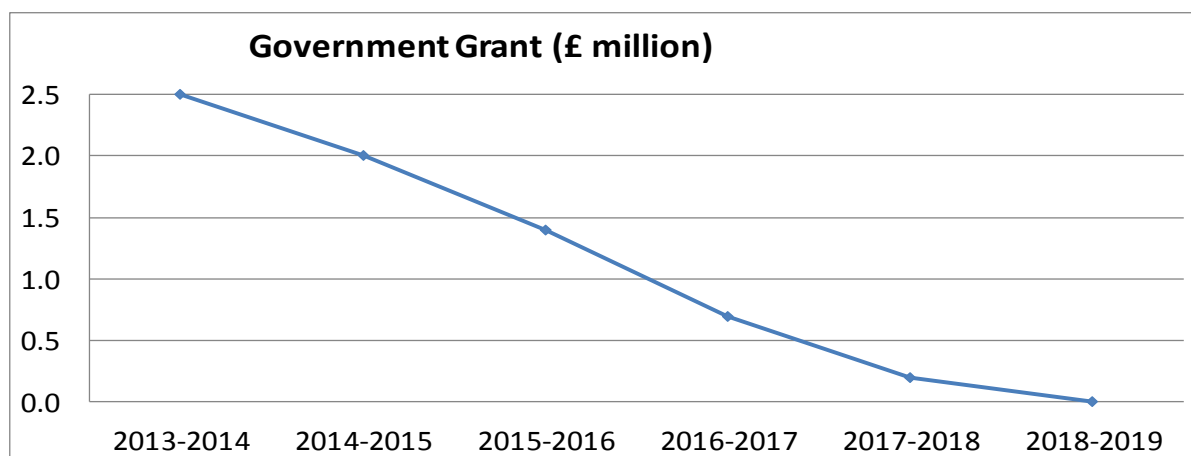
- 3.5 An increase in council tax of £5 for the next five years has been modelled for council tax purposes. This would equate to a Band D council tax for South Hams of £155.42 in 2017/18 as shown in Appendix B.
- 3.6 It has been assumed that the number of properties within the District will increase by 400 per annum from 2017/18 to 2021/22 – this is an increase of just over 1% - the Council had £37,003.99 Band D equivalent properties in 2016/17. These additional properties have been used to calculate the amount of additional Council Tax and also the potential for New Homes Bonus. These figures will be updated when actual figures are known around mid December.
- 3.7 It is predicted that the houses at Sherford which are within the South Hams area will commence occupation in April 2019 and conservative estimates have been built into the MTFs.

#### **4. GOVERNMENT FUNDING, BUSINESS RATES AND COUNCIL TAX**

##### **4.1 Revenue Support Grant (Government Grant funding)**

By 2018/19 the Council will receive no Government funding (Revenue Support Grant) and the Council will need to be self-sufficient. The withdrawal of Government funding has happened two years earlier than expected.

- 4.2 Since 2013, the Council has seen a 40% reduction in Government funding. In 2013/14 the Council received £2.5 million in Revenue Support Grant and this will be reduced to zero by 2018-19 as shown.



- 4.3 The reductions in Revenue Support Grant (RSG), as shown in the four year funding settlement offer by the Government, are as follows:

Table 1	2016/17 £	2017/18 £	2018/19 £	2019/20 £	2020/21 £
<b>Revenue Support Grant (RSG)</b> (2015/16 RSG was £1.406m):	£749,451	£245,393	Nil	Nil	Nil

- 4.4 **Rural Services Delivery Grant** - The Council will receive rural funding through a separate Rural Services Delivery Grant. This is something that was lobbied for through our work with SPARSE to reflect the fact that it costs more to deliver services in rural communities. The Council's grant allocations (from the four year settlement offer) are shown in Appendix B and are:
- |         |          |
|---------|----------|
| 2016-17 | £405,536 |
| 2017-18 | £327,451 |
| 2018-19 | £251,886 |
| 2019-20 | £327,451 |
- 4.5 There is no information available on whether the Rural Services Delivery Grant will continue from 2020/21 when 100% Business Rates Retention (BRR) is introduced. It is potentially one of the grants that could be rolled into the 100% BRR Scheme. The financing of Local Government may look very different and an assumption has been made in the MTFS that funding of £100,000 will be available in 2020/21 and 2021/22 in some form.
- 4.6 **Retained Business Rates** - The Government introduced the Business Rates Retention system from April 2013. There is a risk of volatility in the system because Councils are exposed to any loss of income if businesses go into decline.
- 4.7 In line with good financial management principles, a provision has been made in the Accounts for likely refunds of business rates as a result of appeals, against the rateable value of business properties. The appeals provision is based on the total value of outstanding appeals at the year end as advised by the Valuation Office Agency and on advice from them about the likely success rate of appeals. The Council has withdrawn from the Devonwide Business Rates pool in 2015/2016, due to the risk of some significant business rates appeals.
- 4.8 In 2015/16 there has been a £26.7 million increase in the provision for appeals within the Collection Fund. This has resulted in a deficit in the Business Rates Collection Fund of £26 million. South Hams District Council's share of the deficit is 40% (£10.4 million).

- 4.9 The Council will need to pay additional sums into the Collection Fund in future years to bring the Fund back into balance. Monies have been set aside in the Business Rates Retention Earmarked Reserve (see Appendix D) to mitigate the impact of this in future years and to fund volatility in Business Rates income. The balance on this reserve is £9.9 million at 31 March 2016 which is mainly due to the Council accounting for a safety net payment of £9.9 million in 2015/16. Depending on when and at what value the appeals are settled, the Council will either receive future years' safety net payments or will be able to use resources from the £26.7 million.
- 4.10 The Council's Business Rates Gross amount payable has increased from £26.9 million in 2012/13 to £31.8 million in 2016/17. Therefore over the last 4 years, the District Council's business rates base has grown on average by 4.5% per annum. Of the Business Rates collected of £31.8 million, the Council is predicted to retain in funding only £1.765 million of this in 2016/17. So the District Council retains approximately 6 pence in every £1 to run our services.
- 4.11 The Council has budgeted at the Business Rates Baseline for 2017/18 and future years.

#### **Self-sufficient local government: 100% Business Rates Retention**

- 4.12 The Council's response to the consultation document was an item on the agenda for the September Executive meeting. The consultation paper confirmed that the move from 50% to 100% Business Rates Retention (BRR) will see new responsibilities given to local government, with certain central government grants being phased out (such as Revenue Support Grant). The Government has previously announced that the move to 100% BRR will be fiscally neutral.
- 4.13 **Business Rates Revaluation** - There will be a Business Rates Revaluation which will go live on 1 April 2017. A flyer from the Valuation Office was included with all business ratepayers bills in March 2016. A summary of the revaluation changes are shown below.



Table 2 - Summary of Revaluation Changes - Devon wide				
Devon Authorities	Change in RV £	Change in RV %	Change in Gross rates £	Change in Gross rates %
<b>District</b>				
East Devon	3,672,626	4.12%	199,698	0.46%
Exeter	1,806,153	0.97%	(2,323,577)	-2.58%
Mid Devon	1,229,526	3.01%	(121,278)	-0.61%
North Devon	946,411	1.11%	(1,012,643)	-2.45%
South Hams	2,657,072	3.16%	(187,428)	-0.46%
Teignbridge	1,659,923	2.01%	(631,902)	-1.58%
Torridge	3,438,326	10.28%	1,037,053	6.41%
West Devon	2,343,538	8.09%	601,704	4.29%
Districts total	17,753,575	2.81%	(2,438,373)	-0.80%
<b>Unitary</b>				
Plymouth	1,083,143	0.47%	(3,386,667)	-3.06%
Torbay	(5,795,624)	-5.90%	(4,375,751)	-9.21%
Unitary total	(4,712,481)	-1.44%	(7,762,418)	-4.90%
<b>Overall Devon total</b>	<b>13,041,094</b>	<b>1.36%</b>	<b>(10,200,791)</b>	<b>-2.20%</b>
Gross rates (RV x rating multiplier) - before any transitional, SBRR, mandatory & discretionary relief				

4.14 Although for all Districts in Devon there has been an increase in rateable value, the Government proposes to reduce the national small rate multiplier by 1.7p from 48.4p to 46.7p and the standard multiplier is also estimated to fall by 1.7p to 48.0p so that total business rate receipts in England remain constant in real terms.

4.15 Under the Government's proposals, South Hams would see a reduction in the tariff paid over to the Government. However the Government has acknowledged that this methodology does not take into account the impact of reliefs and has indicated that it will keep the decision under review.

#### COUNCIL TAX

4.16 South Hams District Council's share of the council tax bill in 2016/17 was **9%**, being £150.42 out of an average Band D council tax bill of £1,660.73. The total income from council tax in 2016/17 is £5,566,140.

The table below shows how an average Band D council bill is made up for South Hams for the last two years:

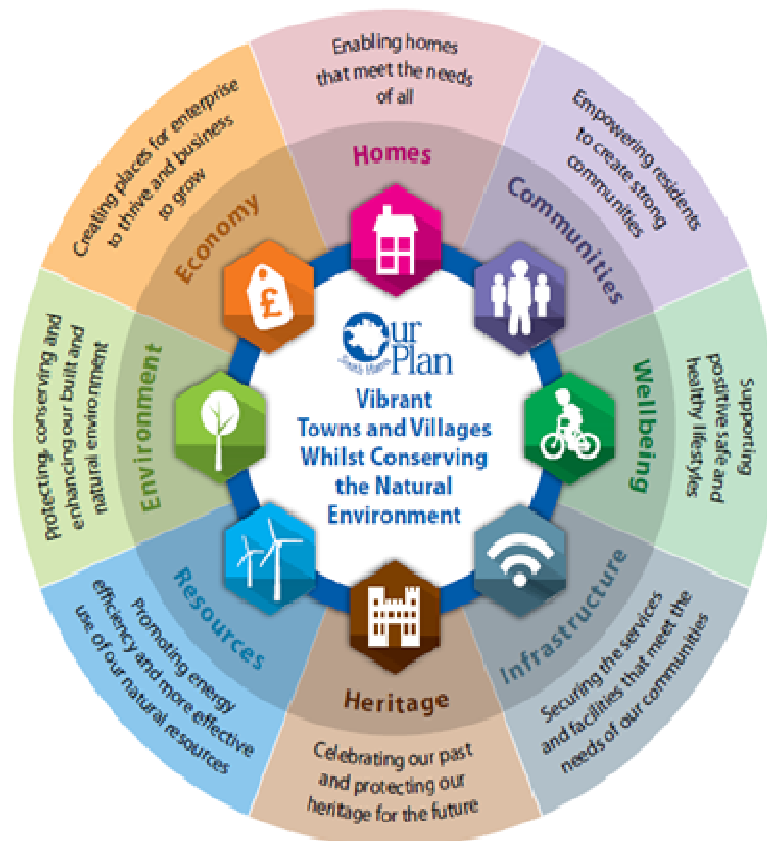
<b>Precepting Authority</b>	<b>Band D 2015/16</b>	<b>Band D 2016/17</b>	<b>£ Increase</b>	<b>% Increase</b>
South Hams District Council	£145.42	£150.42	£5.00	3.44%
Devon County Council Precept	£1,161.27	£1,184.39	£23.12	1.99%
Adult Social Care Precept *		£23.23	£23.23	2.00%
Devon & Cornwall Police & Crime Commissioner	£169.47	£172.84	£3.37	1.99%
Devon & Somerset Fire & Rescue	£78.42	£79.98	£1.56	1.99%
Average Parishes/Towns	£45.94	£49.87	£3.93	8.55%
<b>TOTAL</b>	<b>£1,600.52</b>	<b>£1,660.73</b>	<b>£60.21</b>	<b>3.76%</b>

#### **£5 council tax referendum limit for District Councils for four years**

- 4.17 The final Finance Settlement announced in February 2016 stated that the Council Tax referendum limit for all District Councils for the next four years (2016/17 to 2019/20) is the higher of 2% or more than £5. This means the Council would have the flexibility to increase its Band D council tax by £5 per year until 2019/20. (An increase of £5.01 triggers a council tax referendum).
- 4.18 District Councils lobbied for the ability to be able to increase council tax by up to £5. The Council made the point that given the dramatic cuts to funding in Revenue Support Grant and New Homes Bonus, Councils must be given the freedom to set the council tax locally based on local need and local understanding of the services and demands on those services. The Band D council tax level for 2016-17 was set by Council at £150.42.
- 4.19 **Collection Fund Surplus** – At the end of March 2016, the Council has a balance on its Collection Fund (council tax collection fund) of £2.120 million. A large part of this has been distributed in 16/17 but there is a predicted £1.18 million to distribute in 2017/18. This means that the District Council's share of this distribution is £143,000 which is funding available towards the 2017/18 Budget.

## 5 THE COUNCIL'S STRATEGIC PRIORITIES – OUR PLAN

5.1 The Council's 'Our Plan' describes the Council's vision and its aspirations for our communities. It does this by setting out what the Council wishes to deliver to our communities under eight themes. These themes are: Homes; Economy; Communities; Wellbeing; Infrastructure; Environment; Heritage; and Resources. There is then a plethora of external policies and strategies which support the delivery of 'Our Plan'.



5.2 The Council has a number of strategic documents and plans that guide its approach to achieving its vision and ensuring that it remains financially sustainable. The most impactful and important of these are: Our Plan; Joint Local Plan; Medium Term Financial Strategy (MTFS); and the Asset Management Plan.



## 6 BUDGET PRESSURES, SAVINGS AND INCOME GENERATION FOR 2017/18 ONWARDS

- 6.1 Financial modelling has been undertaken for the next five years to predict the Council's financial situation for the short and medium term.
- 6.2 **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. **These figures in Appendix A show the changes to the existing base budget.** A description of the larger budget pressures are set out below.
- 6.3 **Inflation and increases on goods and services** – There is a cost pressure of £310,000 in the MTF5 for Inflation and increases on goods and services, the detail of which is shown in 3.3.
- 6.4 **Triennial Pension revaluation** – The Council's Pension Fund is valued every three years. A revaluation was due for March 2016. Any new employer's pension contribution rates will apply from April 2017. Some preliminary figures have been made available to the Council and the cost pressure for 17/18 has been reduced from £150,000 to £125,000 as a result. The Council currently pays just under £1.4 million a year in employer's pension contribution rates.
- 6.5 **Planning fee income** – In the Budget Monitoring report to the Executive on 20 October 2016, it was highlighted that there is predicted to be a shortfall in income from planning applications of £70,000. Following the budget scouring process where all budgets have been scrutinised and also from having three months more of data, it is now anticipated that planning income will be under budget by £125,000.

This position is expected to continue in 2017/18 and therefore a cost pressure of £125,000 has been added to the budget report. In 16/17 the budgeted income is £700,000 and it is anticipated actual income will be in the region of £575,000. At the end of November 2016 (end of Month 8) the amount of planning fee income was £386,000.

There is nothing concrete yet in legislation to allow Councils to charge a cost recovery basis for Planning applications. The Council's understanding is that secondary legislation will be required for this to happen. At this stage, it is felt prudent to reduce the planning income budget for next year.

- 6.6 **Salaries** – A 1% provision for a pay award has been included for 2017/18 which totals £90,000. This is explained in section 3.1.
- 6.7 **National Living wage and National Insurance** – The Government has committed to following the recommendations of the independent Low Pay Commission to increase the National Living Wage (NLW) by 4.2% from £7.20 to £7.50 from 2017. The Government's target is for the NLW to reach 60% of median earnings by 2020 subject to sustained economic growth. There will also be a small increase in national insurance contributions. A cost pressure of £75,000 has been included for these elements.
- 6.8 **Sherford project team** – The external funding for the Sherford project team is projected to cease at the end of this year. Therefore the salary costs of the team will need to be funded by the Council after this point. In the MTFS it had been envisaged that this cost of £45,000 could be met from extra planning fee income but this is now not achievable in light of the fact the Council is expecting to be £125,000 down on planning income in 16/17 (as per 6.5) and this will be a cost pressure on the budget.
- 6.9 **Housing Benefit administration subsidy and Council Tax Support Admin Grant** - The Council currently receives grant income of £245,000 in Housing Benefit administration subsidy and £89,000 in Council Tax Support Admin Grant. It is anticipated that these grants could reduce by £40,000 a year in total (between both grants) for the next few years and a cost pressure has been included for these amounts.
- 6.10 **Waste Round review** – The savings for waste linked to the round review were £125,000 and the MTFS in September 16 showed a saving of £85,000 in 17/18. This budget report now shows a cost pressure of £40,000 in 17/18. This is reflecting the fact that the £125,000 of savings which were envisaged from round review are now not achievable in the next financial year.

The waste efficiency savings were taken from IESE projections and informed by the interim IESE waste manager. This was done as a desk top exercise but the route testing was not able to be done until the Council had tested the 5 to 4 day week pattern. The costs of this work piece have been met by IESE through negotiation as acceptance of the indicative nature of the earlier projections. The detailed route testing has shown that the indicated saving cannot be achieved in the current financial year. It is recommended that the budget shows a cost pressure of £125,000 for 17/18 to rebalance the service baseline costs.

The waste task and finish group has adjusted the scope of its' work to review the service in light of changes since 2014 and to recognise changes in Devon County Council strategic waste plans. It is anticipated that the outcomes of this work, due to be completed by April 2017, will deliver efficiencies. It is not recommended that these are estimated at this point. Actual efficiency savings deliverable will be presented to Council in 2017 by the group.

- 6.11 **Recycling credits income** – As highlighted in the Budget Monitoring report (Executive 20 October), it is anticipated there will be a £35,000 cost pressure. Income from recycling credits will reduce by £60,000 due to the Waste Disposal Authority bringing dedicated leaf sweepings into the Devon County contract. This is partly offset by a reduction in the amount paid out as a gate fee for this service (£25,000).
- 6.12 **Treasury management income** – A reduction of £25,000 in 2017/18 is anticipated (as 3.4). The Council is investigating alternative investment vehicles in order to be able to reduce this cost pressure.
- 6.13 **Lease renewal** - A £20,000 cost pressure needs to be included for a lease renewal.
- 6.14 **Finance Community of Practice** – A cost pressure of £15,000 has been included for the cost of an extra 0.6FTE post within the Finance COP team (above the blueprinted establishment for finance). This is to reflect the fact that the blueprinted resources for the team were on the assumption that self-serve for budget holders was fully embedded and that budget managers would manage their budgets with minimal input or assistance from the finance team. Due to changing the coding structure for both Councils, the system support required on Civica Financials, the complexity of shared services accounting and the self-serve training still required on the finance system, it is recommended that the establishment reflects the current position and a cost pressure is recognised.

- 6.15 **Reductions in other income** – There is a reduction in income of £10,000 on S106 contribution income as the legislation has changed and the Council will no longer receive these contributions in future years. The Council is also not achieving the Follaton House room hire target income by £10,000 (e.g. for wedding event hire) and £10,000 from pannier market income. In addition, the Leisure budget needs to be adjusted for a reduction in third party income.
- 6.16 **Transfer Station** - There is likely to be a cost pressure for 2017/18 for use of the transfer station at Torr Quarry. An update will be included within the next Budget report.

### **EARMARKED RESERVES**

- 6.17 As part of the compilation of the MTFs, a review has been carried out of the Council's Earmarked Reserves to assess the adequacy of the level of Earmarked Reserves. A schedule of Earmarked Reserves is shown in Appendix D.
- 6.18 **Vehicle Fleet Replacement programme** - A Fleet Replacement report was presented to the Executive on 20 October 2016. The Budget report reflects the profile of the contribution to the Vehicle Fleet replacement programme set out in this report, in accordance with Option 3a, to ensure the budget is aligned to the timing of vehicle purchases up to March 2022. The profile of contributions in the 20 October report bettered the position originally set out in the Medium Term Financial Strategy in September (which had shown a worse case scenario) by £154,000.
- 6.19 **Land and Development Reserve** - There is a housing policy coming forward that will give the Council the option of buying plots back, if after 12 months of advertising, the self builds haven't happened. This would help the Council meet its affordable housing targets. It would however need funding and an estimate is £50,000 a year is anticipated to be required. A cost pressure for this amount has been included within the MTFs.
- 6.20 **IT Development Reserve** – It is recommended that the Council makes an annual contribution of £50,000 per year into this reserve to fund IT expenditure. An ICT Strategy will be reported to the Executive.
- 6.21 **Sustainable Waste Management Reserve** – It is recommended that the Council makes an annual contribution of £25,000 into this reserve, to fund the replacement of wheeled bins. This reserve has been fully utilised and there is only a balance of £3,000 remaining. Therefore the reserve needs replenishing.

- 6.22 **Planning Policy and Major Developments Reserve** – An annual contribution to the Planning Reserve is recommended, in order to be able to make a provision for the cost of the Council defending planning appeals. The Planning Reserve is projected to have a balance of £67,000 at 31 March 2017 and the level of this reserve is recommended to be increased.
- 6.23 **Contribution to the Strategic Change Reserve (T18)** – The Business Case for the Transformation Programme (T18) approved by Council on 11 December 2014, outlined in Appendix C of the report that the contribution to the Strategic Change Reserve would need to increase from £219,000 in 2016/17 to £285,000 in 2017/18. This is an increase of £66,000 which is shown as a cost pressure in Appendix A for 2017-18. This cost is to meet pension strain costs. The £285,000 then reduces over the Years 2 to 4 to Nil. The reductions are £75,000 in Year 2, £150,000 in Year 3 and then £60,000 in Year 4.

### **SAVINGS AND INCOME GENERATION**

- 6.24 **Income from fees and charges** – A report will be presented to the Overview and Scrutiny Panel on 19<sup>th</sup> January, to consider the fees and charges for 2017/18. Therefore no figure for savings/additional income has yet been shown in the Budget report and this is shown as 'To be agreed'. The report will cover the areas of options for car parking charges, trade waste fees, pre-application fees for planning, parks and open spaces and environmental health charges.
- 6.25 **Re-procurement of contracts** – The MTFs shows the savings in Appendix A from the re-procurement of outsourced contracts.
- 6.26 **Income from Commercial Developments** – Estate management rental income will increase by £95,000 due to the commercial developments at Batson, Salcombe, Burke Road, Totnes and Admiral Court, Dartmouth.
- 6.27 **Budget Scouring savings** - All of the existing base budgets have been scrutinised and challenged by the Leadership Team and Finance Business Partners, in order to identify further savings. The process is still on-going but the following savings of £55,000 have been identified to date:-
- i) £15,000 saving on subscriptions and text books
  - ii) A £25,000 efficiency target has been set to save 3% on the Council's repairs and maintenance budget of its assets of £785,000
  - iii) £10,000 saving on Members' travel and staff travel
  - iv) £5,000 saving on printing and stationery (paper copies of agendas are no longer printed - instead electronic agendas are on Modern.Gov)



The budget scouring process has also identified further budget pressures as well as budget savings and where identified, these budget pressures have been included within this budget report.

- 6.28 **Follaton House** – Additional rental income and reduced running costs of £20,000 per annum for the next two years have been included within the MTFS. This is in addition to £23,000 in 16/17 and £50,000 in 15/16 that was included as additional rental income in the Budget.
- 6.29 **Income from business rates domestic properties for trade waste collection** – This followed the implementation of charging business rated domestic properties for trade waste services. As stated in the Executive Budget report on 4 February 2016, a conservative estimate of £50,000 income target for trade waste was put into the 2016/17 budget process as additional income, with an extra £25,000 in 2017/18.
- 6.30 **Transformation Programme 2018 (T18)** – In 2014/15 the Council achieved £290,000 of T18 salary savings. In 2015/16 the salary savings achieved were £1.2 million. By 2016/17, the T18 salary savings realised will total £2.6 million. The £2.6 million is an annual salary saving from 16/17 onwards. In addition there are predicted to be annual savings from the Delivery Unit and savings from Accommodation.
- 6.31 On 30<sup>th</sup> June 2016, Council approved additional fixed term (12 – 18 months) temporary transitional staffing resources, of which the South Hams District Council share of the cost is £545,972. The temporary additional cost of £545,972 will add approximately 8.5 weeks to the payback period of the T18 Programme (the payback period was 2 years and 6 months).

## **7. OVERALL POSITION – BUDGET GAP**

- 7.1 Appendix B illustrates the overall financial forecast for the forthcoming five years. Although the Council's Net Budget is £8.75 million in 2016/17, the Gross Expenditure of the Council is around £43 million.
- 7.2 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 (shown in Appendix B).
- 7.3 In 2017/18 there is a projected Budget Gap of £190,866. Over the five years, the cumulative projected budget gap is £476,647 as shown below.

7.4 The following table illustrates the predicted budget gap from 2017/18 onwards for the Council as shown in Appendix B:

	<b>2017/18</b> £	<b>2018/19</b> £	<b>2019/20</b> £	<b>2020/21</b> £	<b>2021/22</b> £
Annual budget gap	190,866	231,949	Nil	28,020	25,812
<b>CUMULATIVE BUDGET GAP OVER THE FIVE YEARS TO 21/22</b>					<b>£476,647</b>
In the year 2019/20, a budget surplus arises and the modelling assumes that this surplus is used for one-off investment and is taken as a saving in the next financial year.					

7.5 **Identification of further savings and income generation** – There are several areas where further work is being carried out by officers to identify further savings and income generation:

- Fees and charges (see 6.24) – To be reported to the Overview and Scrutiny Panel on 19<sup>th</sup> January.
- A Financials Principles Workshop is being held with Members on 8 December (repeat session on 5 January) to focus on an approach and strategy for Income Generation

7.6 There are areas which are shown as possible future savings (shown in grey on Appendix A) which are being progressed by the Business Development Group Manager and which were the subject of a report to the Overview and Scrutiny Committee on 17<sup>th</sup> March 2016. These total £125,000 as shown on Appendix A.

7.7 The Finance Settlement will be announced before Christmas and this should announce the level of New Homes Bonus funding for the Council for 2017/18. The Council can then take a view on the proposed allocation and distribution of the New Homes Bonus funding (see Section 8). Depending on the amount received, the Council may want to review the amount of NHB that it uses to fund the Revenue Base Budget. This report is based on the Council using £0.5 million to fund the Revenue Base Budget.

7.8 There maybe an announcement shortly from the Government on second homes. Last November the Government said they would raise an extra £60 million from charging an extra 3% on Stamp Duty Land Tax and that this money would be available to communities acutely impacted by second homes. We have been informed that there will be a Government announcement on this shortly. In South Hams, 9% of the properties are second homes, the Council has just under 4,000 second homes.

7.9 The Overview and Scrutiny Panel have reviewed partnership funding levels and it was resolved (O & S.55/16) that the funding levels remain the same for the South Hams Citizens Advice and South Hams Community Voluntary Service for 2017/18.

## 8 NEW HOMES BONUS (NHB)

8.1 This grant was introduced in 2011/12 and provides incentives for local authorities and local communities to be supportive of housing growth. It is not ring fenced and can be spent on anything.

8.2 Members have approved the following use of the New Homes Bonus to date:

Year	2013/14 £	2014/15 £	2015/16 £	2016/17 £
<b>NHB Grant received</b>	<b>1,026,018</b>	<b>1,365,325</b>	<b>1,693,533</b>	<b>2,079,908</b>
Housing Capital Projects	460,000	460,000	464,000	464,000
Community Reinvestment Projects	153,900	153,900	153,900	153,900
To fund the Revenue Base Budget	100,000	564,043	959,126	500,000
To fund the one-off set up costs of the Local Authority Controlled Company (LACC)				150,000
Community Grants (CAB Outreach worker)	10,000	10,000	10,000	10,000
Dartmoor National Park		17,277	5,779	24,606
Transferred to the Capital Programme Reserve	302,118	160,105	100,728	
Transferred into an Innovation Fund (Invest to Earn) Earmarked Reserve (see 10.6)				777,402
<b>TOTAL</b>	<b>1,026,018</b>	<b>1,365,325</b>	<b>1,693,533</b>	<b>2,079,908</b>

8.3 New Homes Bonus allocations for future years are estimates and cannot be taken with any certainty as the whole NHB system is subject to change following a Government consultation exercise in March 2016. It is hoped that the Finance Settlement (due to be announced before Christmas 2016) will announce the levels of NHB funding for Councils for 2017/18.

8.4 The table below shows estimated amounts of NHB receivable in future years and possible uses of the NHB for Members' views:-

	2017-18 (£)	2018-19 (£)	2019-20 (£)	2020-21 (£)	2021-22 (£)
<b>Potential NHB amount</b>	<b>1,600,000</b>	<b>1,250,000</b>	<b>1,150,000</b>	<b>1,100,000</b>	<b>1,100,000</b>
Potential uses of the NHB:-					
Capital Projects (£317K for Housing projects and £190K for play parks)	507,000	507,000	457,000	317,000	317,000
Community Reinvestment Projects	153,900	153,900	153,900	153,900	153,900
To fund the Revenue Base Budget	500,000	500,000	500,000	450,000	450,000
Joint Local Plan	50,000	-	-	-	-
Community Grants (CAB Outreach worker)	10,000	10,000	10,000	10,000	10,000
Dartmoor National Park allocation	TBA	TBA	TBA	TBA	TBA
<b>Funding remaining</b>	<b>379,100</b>	<b>79,100</b>	<b>29,100</b>	<b>169,100</b>	<b>169,100</b>

8.5 The figures above in 8.4 are based on the NHB consultation proposals to reduce the number of years from 6 years to 4 years (with 5 years funding for 2017/18 as a transitional year).

8.6 The modelling in 8.4 assumes a contribution from NHB of £500,000 per annum towards the revenue base budget, with this decreasing to £450,000 from 2020/21 onwards.

8.7 Dartmoor National Park (DNP) – On an annual basis Dartmoor National Park request a share of the New Homes Bonus to reflect new homes delivered within the park. The money is used to support a local community fund and joint work through the rural housing enabler. Members consider this on an annual basis.

8.8 One consideration for Members would be whether to allocate the funding remaining (approx. £379K) to the Innovation Fund (Invest to Earn) Earmarked Reserve (see 10.6). An extra £50,000 for the Joint Local Plan has been identified by officers as being required in 17/18.

**9. CAPITAL PROGRAMME 2017/18 to 2019/20**

- 9.1 A separate report for the Capital Programme proposals for 2017/18 is on the Executive agenda. This sets out a proposed Capital Programme for 17/18 of £2,525,000.
- 9.2 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.
- 9.3 As part of the budget proposals, it is necessary to review the level and phasing of schemes within the Capital Programme. It is important that the programme is matched with available resources and the impact on reserves and the revenue budget is fully assessed. This will form part of the December report.
- 9.4 **Prudential Borrowing** - The Council will consider the use of prudential borrowing to support capital investment to deliver services and will ensure that the full costs of borrowing are taken into account when investment decisions are made.
- 9.5 In July 2016 (Minute 33/16), the Council agreed to undertake prudential borrowing of £6.337 million for the new leisure contract.

**10. EARMARKED AND UNEARMARKED RESERVES**

- 10.1 The Council's Net Budget is £8.75 million in 2016/17. It is still recommended to retain the same policy of maintaining a minimum level of Unearmarked Reserves of £1.5 million. The summary below shows the position at 31 March 2016:

<b>The Use of Unearmarked Revenue Reserves</b>	<b>2014/15 £'000</b>
Balance B/fwd 1.4.2015	1,741
Revenue Outturn Underspend for 2015-16	69
Unearmarked revenue reserves at 31.3.2016	<b>1,810</b>
Earmarked revenue reserves at 31.3.2016 (see Appendix D)	<b>15,197</b>

The Unearmarked General Fund Revenue Reserve balance at 31<sup>st</sup> March 2016 was £1,810,000 and the Earmarked Reserves balance was £15,197,000. This gave total Revenue Reserves of £17,007,000.

10.2 Our financial strategy recognises the need to maintain un-earmarked revenue reserves to provide stability for both medium and longer term planning and to provide a contingency against unforeseen events. In setting the minimum level at £1.5 million the following have been taken into account:

- The size of the authority
- The volatility of some income and expenditure budgets due to a dependency on the weather, tourism and state of the economy
- The risks faced by the Council with regard to funding unforeseen events
- Uncertainty over future Government funding
- Uncertainty over future New Homes Bonus allocations

10.3 The Unearmarked Reserves (General Fund) balance of £1.8 million stands above the minimum balance of £1.5 million and acts as a safeguard against unforeseen financial pressures.

10.4 **Specific Earmarked Reserves** - The level and commitments for each reserve are kept under review each year to make sure the committed balance is adequate for its purpose (in accordance with LLAP Bulletin 99, a guide on 'Reserves' from the Chartered Institute of Public Finance). Sections 6.17 to 6.23 of the report set out where the adequacy of the level of Reserves has been assessed and where recommendations have been made to increase the annual contribution to Earmarked Reserves.

10.5 A schedule of predicted Earmarked Reserves for 16/17 is shown in Appendix D. Earmarked Reserves are predicted to be £15,026,000 at the end of March 2017.

10.6 The tables below show the movements on the two Earmarked Reserves that were set up as part of the Budget approved for 2016/17.

<b>2016/17 Budget Surplus Contingency Earmarked Reserve (£)</b>	
Opening Balance – This is the Budget Surplus from 2016/17 which was put into an Earmarked Reserve.	767,995
<b>Less known Commitments against this Reserve:</b>	
Council 30 June 2016 – To fund the T18 Transitional Resources	(278,972)
Council 28 July 2016 – To fund the LACC set up costs	(126,750)
<b>Balance left uncommitted</b>	<b>362,273</b>

<b>Innovation Fund (Invest to Earn) Earmarked Reserve (£)</b>	
Opening Balance - Council on 11 Feb 2016 agreed to transfer the unallocated New Homes Bonus of £777,402 into an Innovation Fund (see 8.2)	777,402
<b>Less known Commitments against this Reserve:</b>	
Purchase of Ropewalk (including stamp duty) to aid Kingsbridge K2 development (Council 7 <sup>th</sup> April 2016)	(472,500)
Admiral Court, Dartmouth, Phase 4 (Executive 16 June 16)	(250,000)
Year 1 funding of Development Surveyor (Overview and Scrutiny Panel 7 <sup>th</sup> April 2016)	(26,400)
To finance the business support service provided by Business Information Point at a cost of £8,000 per annum (E.38/16 and O & S.29/16)	(8,000)
<b>Balance left uncommitted</b>	<b>20,502</b>

- 10.7 **Sensitivity analysis and risk analysis** – The figures within the Medium Term Financial Strategy (MTFS) were subject to a sensitivity analysis of the figures and a risk analysis. A copy was attached at Appendix F of the MTFS.

## **11 OTHER BUDGET ITEMS**

- 11.1 **Members' Budget Workshop** – On 21st September 2016 a Members' Budget Workshop was held. This was to give all Members the opportunity to influence and shape the budget setting process.
- 11.2 At this workshop, there was early support for increasing council tax by the maximum allowable of £5. At this event it was recognised that this measure would increase the base budget for ensuing years and protect the delivery of services and the Council's financial resilience.
- 11.3 **Council Tax Reduction Scheme** – The Council approved a grant distribution of £101,658 for 2016-17 for the Town and Parish element of the grant. It is estimated that the Council's funding (Revenue Support Grant, Business Rates, Rural Services Delivery Grant and Transition Grant) will decrease by 29.6% in the next three years of the

funding settlement (see Appendix B). The average of this is 9.85% each year over the next three years.

- 11.4 Towns and Parishes would like more certainty of their grant allocations for planning purposes and have been informed by the Council of a three year funding reduction of 9.85% each year for the next three financial years (2017/18 to 2019/20). This is an overall reduction of £10,014 for 2017-18.

### **Devolution**

- 11.5 The Council plays an active part in the Heart of the South West LEP's devolution project. In September 2015 the Heart of the South West (HotSW) submitted its devolution Statement of Intent to Government. The partners are 17 local authorities, two National Parks, the Local Enterprise Partnership and the three Clinical Commissioning Groups.
- 11.6 In July 2016 (Minute 34/16) Council agreed to sign up to the principle of creating a Combined Authority for the Heart of the South West, as set out in the Prospectus for Productivity, as the basis for negotiation with Government towards a Devolution Deal for the area. It was noted that giving endorsement did not commit the Council to entering into a Devolution Deal or becoming a member of the Heart of the South West Combined Authority. This would be subject to future debate and agreement by the Council and subject to negotiations with Government.

### **Local Authority Controlled Company (LACC)**

- 11.7 On 28 July 2016 (Minute 32/16), Council considered a report on the findings of a business case that had been prepared by PriceWaterhouseCoopers (PWC) at the request of Members, on the merits of establishing a Local Authority Controlled Company (LACC). The company would be wholly owned by South Hams and West Devon Councils, to deliver the full range of District Council services. In doing so, it is anticipated that this would create an opportunity to sell these services to other organisations to generate income.
- 11.8 It was agreed that the Council proceed with the work which enables a more considered decision to be made with regard to the implementation of a LACC, subject to there being a satisfactory outcome to the outstanding pension, tax and governance questions. It was also agreed that a Joint Steering Group (JSG) with West Devon be established to deal with matters concerning the implementation of the LACC.



## **UK vote to leave the European Union**

11.9 The full implications of the decision on 23 June 2016 by the UK to negotiate an exit from the European Union (EU) will become apparent over time. There may be changes in Government policy and any significant changes in the economy may have an impact on local government financing. The MTFS and this Budget report contains the latest high level forecasts in the public domain for budgeting purposes (those announced in the Local Government Finance Settlement in February 2016) and the Council will continue to monitor any impact on public sector funding and the Council's treasury management activity closely.

## **Income generation opportunities and the Council's asset management strategy**

11.10 In this financial climate, income generation becomes a key priority area. Efficient and effective management of the Council's commercial property portfolio is inextricably linked to the Council's response to expected reduction in funding support and increasing the revenue from commercial property will help to bridge future funding gaps.

11.11 The commercial property portfolio is run as a commercial enterprise so as to generate a revenue stream for the Council. It is the aim of the Council to continue to run the commercial estate and over time, to increase its size, by developing out sites in its ownership, as well as through the purchase of new land where required. The development programme will form part of the capital programme, which is predicated on robust and compelling business cases. Whenever financially viable, the Council will consider and deploy renewable energy / environmentally friendly solutions and technologies.

11.12 In summary, the Council's asset management strategy is to:

- Pro-active dispose of non-strategic land to reduce operational expenditure
- Use funds realised from asset disposals for future development
- Bring forward strategic sites for development or disposal as appropriate (investment will be required)
- Actively grow Commercial Asset Portfolio - Focus on Housing (Affordable, Rental, Market) & Employment Units

11.13 Other income generation initiatives will be pursued in tandem with extending the commercial property portfolio; linked to driving more value from Council assets and resources. This could be from providing customers with added value services.

## 12 Timetable for the Budget Setting Process

12.1 Appendix C sets out the timetable for the Budget Setting Process.

## 13 Looking Forward to the Future

13.1 Overall, the Council's finances remain strong. In order to maintain this position, the Council operates continuous monitoring of both income and expenditure. This ensures that services are delivered within approved budgets and that all three elements of value for money (economy, efficiency and effectiveness) are achieved for our residents.

## 14. IMPLICATIONS

Implications	Relevant to proposals Y/N	Details and proposed measures to address
Legal/Governance	Y	<p>The Executive is responsible for recommending to Council the budgetary framework. 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 MTFs and this Budget report is evidence that the Council has considered and taken into account all relevant information and proper advice when determining its financial arrangements in accordance with statutory requirements, and in particular, that it will set a lawful budget.</p>
Financial	Y	The financial implications are set out in Sections 1.7 to 1.8 of the Executive Summary.
Risk	Y	The financial risks are as set out in the report and in Appendix F of the MTFs.
Comprehensive Impact Assessment Implications		
Equality and Diversity		None directly arising from this report.
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 council tax increasing by £5

Appendix C – Budget Timetable for 2017/18 onwards

Appendix D – Schedule of Reserves

Appendix E – Feedback from the Members' Budget Workshop

### Approval and clearance of report

<b>Process checklist</b>	<b>Completed</b>
Portfolio Holder briefed	<b>Yes</b>
SLT Rep briefed	<b>Yes</b>
Relevant Exec Director sign off (draft)	<b>Yes</b>
Data protection issues considered	<b>Yes</b>
If exempt information, public (part 1) report also drafted. (Committee/Scrutiny)	<b>N/A</b>