

**ENVIRONMENT PDG
30 JANUARY 2020**

BUDGET 2020/21 - UPDATE

Cabinet Member Cllr Alex White
Responsible Officer Andrew Jarrett, Deputy Chief Executive (S151)

Reason for the report: To review the revised draft budget changes identified and discuss any further changes required in order for the Council to move towards a balanced budget for 2020/21. Also, to highlight the impact of the proposed changes on the Medium Term Financial Plan (MTFP).

RECOMMENDATION:

- 1) To consider the updated budget proposals for 2020/21 included in Appendix 1 and 2 and the Capital Programme included in Appendix 4.**
- 2) To consider the proposal to make a payment in advance of the next 3 Years' Pension Deficit (see Section 4)**
- 3) To note the revised Medium Term Financial Plan (MTFP).**
- 4) To consider the proposed revision of the minimum General Reserves (General Fund) limit to £2m see Section 5 and Appendix 6.**

Relationship to the Corporate Plan: To deliver our Corporate Plan's priorities within existing financial resources.

Financial Implications: The current budget for the General Fund shows a deficit of £234k. In addition we have predicted a funding deficit of £1.630m on our General Fund in 2021/22. This highlights the need to take steps to plan for further reductions to our ongoing expenditure levels.

Legal Implications: None directly arising from this report, although there is a legal obligation to balance the budget. There are legal implications arising from any future consequential decisions to change service provision, but these would be assessed at the time.

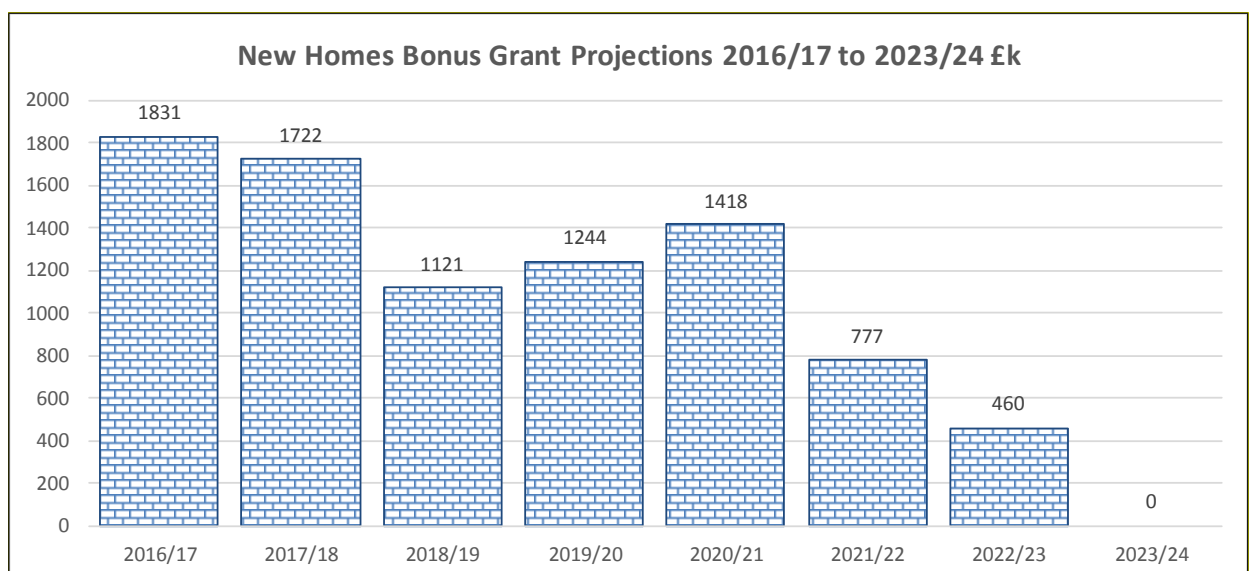
Risk Assessment: In order to comply with the requirement to set a balanced budget, management must ensure that the proposed savings are robust and achievable. We must also ensure that the assumptions we have used are realistic and prudent. Failure to set a robust deliverable budget puts the Council at risk of not being able to meet its commitments and casts doubt on its "going concern" and VFM status.

Equality Impact Assessment: There are no Equalities Impact implications relating to the content of this report.

Climate Change Assessment: The allocation of resources will impact upon the Council's ability to implement/fund new activities linked to climate change, as the MTFP sets the broad budgetary framework for the Council over the coming years.

1.0 Introduction

- 1.1 As this Report has been compiled, we have just received the Provisional Settlement from Central Government for 2020/21. The Provisional Settlement has confirmed the assumptions we have made in our budget setting. Members will recall that we are expecting only a one-year settlement as the Fair Funding Review and Business Rates Baseline reset has been delayed by a year. The Provisional Settlement has brought us an additional £88k in Business Rates in relation to previous years' assumptions. Due to the uncertainty of the baseline reset in 21/22 and the fact that we do not confirm our Business Rates levels until the end of January, we are proposing to put these funds in the Business Rates Smoothing Reserve which helps address the volatility of Business Rates and the impact of appeals.
- 1.2 Within our assumptions we have increased the Council Tax on a Band D property by £5. The Provisional Settlement has confirmed this will be within the referendum limits which have previously stood at 1.99% but in recent years have been higher with an additional choice of £5 for Shire districts. This would give us an extra £28k over the 1.99% limit
- 1.3 We have also based our New Homes Bonus (NHB) income on the current methodology. Although we are prudent in limiting the amount of NHB we use to support our revenue services, we need the future funding stream to support our capital projects.
- 1.4 The Provisional Settlement confirmed our fears that NHB will be eliminated over the next 3 years and there is no confirmation of a replacement. This is a significant risk to our Capital Programme funding. Below is a table showing how NHB has reduced over the last few years.



NB. 16/17 was the first and only year we received 6 years' payment. Followed by 5 years' in 17/18; 4 years' in 18/19, 19/20 and 20/21. We believe we will receive 2 years' in 21/22; 1 in 22/23 and then nil 23/24. From 17/18 councils have also suffered a 0.4% top-slice of growth.

2.0 2020/21 General Fund Budget – Revised Position

- 2.1 Since the first round Cabinet and PDG meetings the Finance team and Group Managers have been revisiting a range of budgets to deliver more savings or increase income levels. These options will have been discussed with the relevant portfolio holders.
- 2.2 The table below shows the position that was reported to Cabinet in October 2019 and highlights the movements since then to arrive at the current budget gap position. A more detailed view is shown in Appendix 2.

Table 1 – Reconciliation of Major 2020/21 Budget Variances

Movements	Amount £k
20/21 Budget Shortfall (Cabinet Report 17/10/19)	346
Further Cost Pressures identified	293
Additional Savings identified	-613
Change in Pensions Lump sum and rate	41
Additional Rural Services Delivery Grant	-92
Reduction (net) recharge to HRA	100
Minimum Revenue Provision (MRP) reduction	-10
Pensions Deficit – upfront payment	-32
Impairment of 3Rs loan	131
Business Rates Forecast adjustment	261
Use of Earmarked Reserves – for specific pressures	-248
Amendment to Car Parking increase	57
Draft budget gap for 2020/21	234

3.0 Consultation

- 3.1 Members will be aware that we undertook a Public Consultation alongside our budget setting process to capture the priorities of our communities. This has helped inform our deliberations and ensure that we understand what is most important to our council taxpayers and in particular, the services they want us to protect wherever possible.

4.0 Pension Fund

- 4.1 We have been notified by the Devon Pension Fund that the employers' contributions for 20/21 will need to increase from 14.7% to 16.6% this adds £177k to our costs but is partly offset by a reduction in our lump sum payment of £134k. This is reflected in the detailed Gap Tracker (Appendix 2).
- 4.2 We have also been given two options by the Pension Fund to reduce our future lump sum payments by paying in advance. Option 1 allows us to make an advance payment but this would be spread over the whole of the deficit period. Option 2 which is our preferred option allows us to pay 3 years' deficit lump sum payments in advance and to take a 4.5% reduction in the lump sum cost. With our return on investments generally providing less than 1%, this is an attractive proposal to reduce costs. In-keeping with accountancy practice, the benefit and cost would be spread across the 3 years although the cash will be paid in one tranche. This would reduce our budget gap by c£32k for each of the next 3 years.

4.3 Members are asked to approve Option 2 in the recommendations.

5.0 Minimum Level of Reserves

5.1 Budget Setting is a good time to consider the level of reserves required to fund known pressures (from earmarked reserves) and adhoc pressures which would need to be found from General Reserves.

5.2 We have undertaken a review of General Reserves. The methodology used and recommendation of a minimum level of £2m is shown in Appendix 6.

6.0 Medium Term Financial Plan (MTFP)

6.1 The table below shows the effect of the proposals in this budget report on the MTFP over the next four years.

	2019/20 £	2020/21 £	2021/22 £	2022/23 £	2023/2024 £
Net Service Costs	10,297,692	10,367,148	10,766,796	10,265,068	10,405,650
Net Interest Costs	-279,540	-158,104	-100,416	-7,082	-5,082
Provision for Repayment of Borrowing	292,620	767,540	842,140	841,420	1,100,830
Earmarked Reserves - New Homes Bonus	1,243,500	1,418,190	776,750	460,260	0
Earmarked Reserves - Other	-1,375,540	-615,013	24,787	80,887	465,067
General Reserves	0	0	0	0	0
Total Budget Requirement	10,178,732	11,779,761	12,310,057	11,640,553	11,966,465
Funded By:					
Retained Business Rates	-3,213,601	-3,142,727	-3,014,940	-3,061,859	-3,114,850
Business Rates prior year surplus/deficit	778,906	-95,230	0	0	0
Pooling Dividend	-100,000	-150,000	-150,000	-150,000	-150,000
Revenue Support Grant	0	0	0	0	0
Rural Services Delivery Grant	-466,695	-466,695	-466,695	-466,695	-466,695
BR Levy Surplus Grant	-33,408	0	0	0	0
New Homes Bonus	-1,243,500	-1,418,190	-776,750	-460,260	0
Council Tax-MDDC	-5,829,104	-6,064,831	-6,272,132	-6,482,973	-6,697,396
Council Tax prior year surplus/deficit	-71,330	-112,000	0	0	0
Total Funding	10,178,732	11,544,903	10,680,517	10,621,787	10,428,941
Gap – Increase/In-year	0	234,857	1,394,682	-610,774	518,758
Gap – Cumulative	0	234,857	1,629,540	1,018,766	1,537,524

7.0 SW Mutual Bank

7.1 Members will recall that we invested £50k alongside other District councils to facilitate the first stage of a proposal by SW Mutual to establish branches across the South West. Please see Appendix 5 for an update from the founders.

8.0 Conclusion

8.1 It is encouraging that the Council has managed to significantly close the budget gap of £346k discussed at earlier meetings, considering the factors that have been outside of our control such as inflation; the increase in Employers' pension contribution rates and business rates volatility.

8.2 Moving forward Members and officers need to look to the pressures over the next few years reflected in our recently updated MTFP and our need to address ongoing pressures which cannot be satisfactorily addressed by the one-off use of reserves.

- 8.3 In order to conclude the statutory budget setting process, this updated draft budget position will go through Cabinet, another round of PDG's, Scrutiny, and a final meeting of the Cabinet before being agreed at Full Council on the 26 February 2020. During this period officers will continue to identify and examine further savings possibilities that can reduce the current budget gap.

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Background Papers: Draft 2020/21 Budget Papers
Provisional Settlement Email

Circulation of the Report: Leadership Team, Cabinet Member for Finance,
and Group Managers