

OVERVIEW AND SCRUTINY

LEADER: Cllr Jeremy Christophers

PORTFOLIO HOLDER: Cllr Stuart Barker

DATE: 5 February 2018

REPORT OF: Interim Chief Finance Officer

SUBJECT: FINAL FINANCIAL PLAN PROPOSALS 2018/19 TO 2020/21

PART I

RECOMMENDATIONS

The Executive propose a budget set out as in appendix 4 for revenue and appendix 7 for capital and

Resolve

That these proposals be considered together with any subsequent consultation comments for approval by Council as the final budget for 2018/19 and the outline plan for the subsequent years 2019/20 and 2020/21.

In particular the proposed budget includes:

- An increase in council tax of £5 or 3.12% to £165.17
- The continuing significant reduction in new homes bonus
- Other central funding reductions especially revenue support grant
- Reserves at 11% of the net revenue budget or just under £1.9 million
- Continuing support for housing whilst backing business and bringing people and organisations together for local neighbourhood planning
- Infrastructure delivery plan investment funded by community infrastructure levy and external sources where available
- The final pay offer including increases linked to the national living wage for 2018/19 and increases of 2% for all other staff
- The provisional assumptions following the successful bid to be a 100% business rates pilot authority with the rest of Devon for 2018/19
- Rural aid continuing at £40,000

1. PURPOSE

- 1.1 To consider the final financial plan proposals 2018/19 to 2020/21 for recommendation to Council on 22 February.
- 1.2 These proposals include recommended revenue and capital budgets for 2018/19 and planned in outline for 2019/20 and 2020/21.

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2. INTRODUCTION

- 2.1** Recent budgets have taken account of reducing government grant over the period of the last comprehensive spending review. We now have the autumn statement 2017 and continue to be on the multi-year settlement covering the four years from 2016/17. 100% rates retention is promised but with the transfer in of some funding obligations. 75% rates retention is now being proposed to be introduced in 2020/21. Revenue support grant is to end from 2019/20.
- 2.2** New homes bonus has not been altered in the provisional settlement however we continue to suffer the reductions identified by the settlement for last years financial plan proposals. Savings have been found to eliminate the deficits identified rather than having to use the business rate retention reserve.
- 2.3** We have benefitted from previous savings plans and restructuring efficiencies are still producing cost reductions. This budget also benefits from the Strata partnership and the significant ongoing returns from Market Walk. We are in the third year of Business Efficiency Service Transition 2020 review following business challenge in earlier years.
- 2.4** The economy continues to be buoyant however uncertainty continues around future demand, inflation and the outcome of the European Union negotiations. Teignbridge has seen some minor positive variations to income in the current year apart from general rental income and market income which is down on the original budget.
- 2.5** Car parks are continuing with the programme of relevant capital investment agreed and partly funded by the increase in income. A general increase in most off street parking charges is proposed to cover inflation and in particular the higher rates from the revaluation which mainly falls on car parking.
- 2.6** The capital programme has been extended to include 2020/21 infrastructure delivery plan projects funded by CIL and external sources where available. The investment in housing continues including provision of affordable homes. The main aim is to create more homes and jobs. Significant provisions have also been included for town centre investment and employment land. Prudential borrowing is a helpful funding mechanism for priority projects where a good return on capital can be demonstrated. The additional gains from the business rates pilot scheme will be invested in Newton Abbot town centre.

3. BACKGROUND

- 3.1** The budget and policy framework procedure rules in the Constitution set out the process for developing annual budgets and their approval by Council. Thus there is a budget timetable in the Executive forward plan which includes Overview and Scrutiny consideration of the financial plan proposals. The

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detailed **timetable** is shown at **appendix 1**. The Council is responsible for the adoption of its budget including approving the appropriate level of council tax.

- 3.2** Previous budgets took account of reductions in government grant. An ambitious programme of **savings** was identified reducing costs and increasing income. **Revenue support grant** was cut by £1.0 million in 2015/16, nearly an additional £0.9 million in 2016/17 and a further reduction of £0.75 million in the current year. We were due to receive just under £0.4 million in 2018/19 and nothing thereafter (the allocated funds for 2018/19 have now been rolled into business rates baseline funding following the successful pilot bid).
- 3.3** The senior management structure review was implemented in 2013 with an update in April 2016 and further changes in 2017. Management costs have been significantly reduced with savings continuing for the current and future years. This budget also gains from the Strata partnership and significant returns from Market Walk.
- 3.4** The third year of **Business Efficiency Service Transition 2020** has built on the business challenge in the last two years. Options for continuing to reduce budgets have been evaluated and also the pressures or investment that might require those savings. Teignbridge is also working with nineteen partners on the Heart of the South West devolution proposals and more locally re Innovation Exeter in the Greater Exeter/Greater Devon partnership.
- 3.5** We are in the second year of our new ten year Strategy 2016-2025. This sets the tone for contributing to civic life and ensuring public services focus on 'place and person' while remaining accountable, fair and value for money. At the heart are the Teignbridge Ten overarching projects that guide our activities, where we focus our resources and how we shape services to deliver real progress for the district.
- 3.6** There are no proposed changes to the council tax support scheme. A budget survey was put on the website on 22 December with a response deadline of 9 February and publicised to encourage feedback. In particular it has been brought to the attention of **businesses**, the residents' panel and Teignbridge relationship groups.
- 3.7** The current council tax for Teignbridge is £160.17 per year for an average band D property. The 2017/18 **tax base** or effective number of properties for calculating council tax income is 47,614. Thus current year council tax income for the district is estimated at £7.6 million as shown in **appendix 2 - the recommended council tax base 2018/19**. A table of values for various increases in council tax is shown at **appendix 3 - the council tax calculator**.
- 3.8** Of the current total average annual £1,749.02 council tax collected per property, Teignbridge keeps 9% or just over £3 per week for its services. 72% goes to County, 10% to the Police, 5% to the Fire Authority and 4% to parishes and towns for their local precepts. The Teignbridge council tax of £160.17 is below the current average of Devon districts of £166.19.

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3.9 Significant government funding and cost changes affecting us for future years are as follows:

The continuing reduction in new homes bonus receipts;

A 4.4% increase in the statutory National Living Wage from £7.50 to £7.83 next year;

Pay increases for future years. An offer to employees has been tabled by the National Employers for Local Government Services for the 2 years 2018/19 and 2019/20. A flat rate increase for the majority of grades of 2% in each year and higher increases on lower pay points of up to 9.2%. A revised pay spine has also been introduced in the offer with effect from 1 April 2019;

The actuarial valuation of the Devon pension fund for 31 March 2016 requiring increased employers contributions to 2019/20;

Further cuts in funding over the next 3 years with revenue support grant reducing to NIL for 2019/20 and thereafter;

The outcome of consultation on the move to 100% business rates retention but with the transfer in of some funding responsibilities;

A full reset of the baseline for the business rates retention scheme in 2020/21 and the impact on business rates retained compared to the current 50% retention with a 75% retention proposed by the Government.

3.10 The Executive has had three **monitoring** reports this financial year on 18 July, 3 October, and 5 December. These have updated current year budgets and also future year forecasts. The Autumn Statement 2017 was published on the 22 November. The provisional settlement was announced on the 19 December and Teignbridge responded on the 15 January.

4. REVENUE FINANCIAL PLAN

4.1 **Appendix 4** to this report is the draft budget scenario for the next three years. The detail is in **appendix 5**. The effects of budget variations in 2017/18 already approved by Executive are included. Future savings expected from the Strata partnership have been fed into the plan. The increasing cost reductions from the management restructure are included. The plan also includes the significant ongoing returns from Market Walk.

4.2 Proposed **fees and charges** draft income totals for each service are shown at **appendix 6**. An increase of £301,000 in income is anticipated for next year. Detailed proposed fees and charges have been available on the website since early January at this [link](#). There are minimal changes proposed for leisure charges with a small change in income for next year.

4.3 Car parking charges are proposed to increase to give extra income of £125,000 which equates to 3.6%. This will help towards inflation and in particular the rates increase arising from the revaluation that mostly affects car parks. The main changes are a 10p increase in the majority of the car parks and no increase in the majority of the parking permits as these were increased substantially last year.

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- 4.4 The successful opt in green waste subscription of £35, or £30 for those on benefit continues. This rate is less than that being charged by other Devon authorities and Cornwall. The scheme is now fully rolled out with over 33% take up and £750,000 income expected for next year.
- 4.5 The **Localism Act** introduced the power for the Secretary of State to set principles each year under which council tax increases are determined as excessive. This can apply to Teignbridge, county, fire, police, or towns and parishes. For the current year limits were set for all but towns and parishes with a referendum being triggered if districts had an increase of 2% and above AND above £5.
- 4.6 In all such cases Teignbridge has to make the arrangements to hold a **local referendum** for residents. Costs can be recovered from the relevant precepting authority. The provisional settlement increased the trigger limit for districts by 1% so that they would be allowed increases of less than 3% or up to and including £5 whichever is the higher. This is not the case for town and parish councils. The Government expects town and parish councils to demonstrate restraint when setting precept increases. They will be looking for clear evidence of how the sector is responding to this challenge, mitigating increases by the use of reserves where they are not earmarked for other purposes or for 'invest to save' projects which will lower ongoing costs. Any controls for town and parish councils are to be deferred for 3 years subject to these conditions being adhered to.
- 4.7 The extra income from any increase in **council tax** is shown at **appendix 3** and this additional amount would be recurring in future years. The proposal is to increase council tax in Teignbridge by 3.12% or £5 to £165.17. This is the annual charge for an average band D property and the increase equates to less than 10p a week. A £5 increase has also been assumed for 2019/20 and 2020/21.
- 4.8 Council tax **freeze grants** have ceased with the last one being received in 2015/16. This was equivalent to a 1% increase in council tax but assumed no council tax support reduction so amounted to £78,000.
- 4.9 Teignbridge is required to estimate the surplus or deficit on the council tax collection fund on 15 January each year for the following budget year. A surplus of £1.0 million was estimated which has to be shared between the major preceptors in 2018/19 per their current precepts. The district share is £128,000 towards next year's budget as shown at line 18 in appendix 4.
- 4.10 **Settlement funding** of revenue support grant and business rates retention baseline to the council from government is £4.0 million for the current year. Teignbridge is paying total council tax support grant of £261,850 to towns and parishes which is reducing to £234,790 in 2018/19. The grant will be eliminated in future years as grant funding to support this is withdrawn.

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- 4.11** With the **four year funding deal** in place published figures for revenue support grant and business rates baseline are available to 2019/20. These have been used in the financial plan and are shown in the table below:

Table of reducing main grant from 2016/17 to 2019/20

	2016/17	2017/18	2018/19	2019/20
	£millions	£millions	£millions	£millions
Revenue support grant	1.601	0.847	0.000	0.000
Rates baseline funding	3.106	3.169	3.685	3.337
New homes bonus	3.848	3.436	2.917	2.412
Main grant funding	8.555	7.452	6.602	5.749
Cash reduction in year		-1.103	-0.850	-0.853
Percentage reduction in year		-12.9%	-11.4%	-12.9%

- 4.12** The table shows how greatly main grant funding reduces over the next three years with cash reductions of £1.1 million, £0.85 million and £0.85 million. Percentage reductions are up to 13% in each year. From 2013/14 when rates retention and council tax support started main grant funding will have reduced by one third by 2019/20. Revenue support grant will also have reduced from £4.5 million to zero over the same period. Uncertainty exists for 2020/21 when a full or partial reset of the baseline may occur, reducing gains established from growth and altering business rates retention to 75%.
- 4.13** The table also includes **new homes bonus** which is part of core funding and is top sliced from settlement grant. It is based on additional property brought into occupation in the previous year with a higher amount for affordable housing. Teignbridge is receiving £3.4 million this year. Estimates of new homes bonus are based on 620 homes per annum as in the local plan with each new year now giving four years of grant.
- 4.14** Government reformed the new homes bonus reducing the length of payments from 6 years to 4 years. Estimates for future years assume 4 years bonus as per the government preferred option for reducing years in the consultation from 2016.
- 4.15** The **provisional settlement** announced on the 19 December did not introduce any further changes to the years of payment or the baseline reduction to the new homes bonus grant. Other options were explored but not taken up. They may be revisited in next years settlement. The budgeted figures are based upon the provisional settlement with little change anticipated for the final settlement. Immaterial changes will be funded through alterations to the general reserve balance and any major reductions will be funded initially by use of the business rates retention reserve with savings to be found in future years to replenish the reserve.
- 4.16** The reductions in new homes bonus is £0.5 million in 2018/19 and a further £0.5 million in 2019/20.

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- 4.17** The **business rates retention** 50% funding system started on 1 April 2013. Rules for charging and rateable values are still set nationally by government and the valuation office respectively. The system includes top ups, tariffs, levies and safety nets. The latter is to protect income to some extent within overall reducing national funding levels. The system is more complicated as government has introduced small and rural business rates relief. The cost of this through loss of rates retention income to Teignbridge is generally covered by separate specific grant.
- 4.18** Within Devon it has been beneficial for authorities to form a **rates pool** to avoid any payment of levy from Devon to the government. With current assumptions of moderate business growth in the area significant savings are being achieved increasing over the years. The pool also spreads the risk of any business downturn in an authority over all members of the pool and encourages economic prosperity across authority boundaries. The Devon pool will become a 100% business rates pilot for 2018/19 following its successful submission with the assumption of reverting back to a rates pool in 2019/20.
- 4.19** Teignbridge's position is better than the rates baseline because of estimated growth in business rates. We also gain from pooling and this has been shown together with growth in the revenue summary as estimated rates retention and pooling gain. 100% rates retention was promised by 2020 but there will be the transfer in of some funding responsibilities and the share of the total for districts could be reduced.
- 4.20** Levies will cease but there may still be some opportunity for pooling of risk. Negotiations to exit the European Union may delay the roll out of 100% business rates retention and a full or partial reset of baselines in 2020/21 could have a negative impact on funding levels. The provisional settlement also suggests that 75% business rates retention will now be introduced in 2020/21.
- 4.21** Council tax benefit was replaced by **council tax support** from 1 April 2013. As the support reduces the tax base there is less council tax income for county, fire, police, and towns & parishes. The cost was around 90% funded by government grant but this is now in main grant and not identified separately. The 10% shortfall was covered at Teignbridge in the first year by one minor change to benefit, technical reforms, and use of transitional grant.
- 4.22** For 2014/15 two minor changes to compensate for the loss of transitional grant were consulted on and introduced. The majority of taxpayers have adapted well to these changes, collection has been maintained and spend on council tax support itself continues to go down. There were further changes to the scheme from 1 April 2017 to align as far as possible and mirror work incentives in Universal Credit and changes to housing benefit. No changes are proposed for 2018/19.

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- 4.23** Teignbridge currently receives £377,000 for administering **housing benefit** and £150,000 for council tax support. **Universal Credit** started for Teignbridge from 9 November 2015 for new single job seekers and we are due to go live with the full service in May 2018. There has been specific help from the department for work and pensions in connection with the transition but the current funding agreement ends this year. The main grant funding has been assumed to continue in future years.
- 4.24** The statutory minimum **National Living Wage** is targeted to be close to £9 for those aged 25 and over by 2020 (60% of median earnings). It increases by 4.4% to £7.83 from 1 April 2018. The impact of the increase in the national living wage through the pay award as detailed above which also addresses differentials in the pay spine will have cost implications of around £548,000 in 2018/19 and further increases in subsequent years of the financial plan.
- 4.25** The **actuarial valuation** of the **Devon pension fund** effective from 1 April 2017 set Teignbridge contributions for future years. These were made up of a basic amount of 14.6% plus an increasing cash sum to reduce the past service deficit. The amended cash sum payment started in 2017/18 at £1,369,000 increasing to £1,436,000 for 2019/20.
- 4.26** **Investment income** remains fairly low however the base rate rise from 0.25% to 0.5% in November 2017 will increase income slightly. £31,000 interest has been forecast assuming 0.3% for each year based on average lending of £10.25 million.
- 4.27** The latest professional guidance on **reserves** issued in November 2008 recommends a working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing and a contingency to cushion the impact of unexpected events or emergencies. Earmarked reserves can also be built up to meet known or predicted requirements. Teignbridge operates with a low level of reserves compared to many districts.
- 4.28** Our main contingent liability was settled five years ago and provision has been made for other smaller potential liabilities. However the current funding regime including rates retention, reducing new homes bonus and council tax support carries a risk for us of likely more volatility in resources. This will increase as we move towards 100% rates retention. We are more reliant on income generated from our own fees and charges as government funding reduces.
- 4.29** The Audit Commission December 2012 report 'Striking a balance' stated that reserves are an essential part of good financial management. They help councils cope with unpredictable financial pressures and plan for their future spending commitments. The proposed budget recommends reserves to increase slightly to 11.3% of the net revenue budget at just under £1.9 million. This equates to 11.6% in later years as general reserves reduce to £1.8 million. General reserves are held to accommodate future uncertainties and increasing reliance on generating our own income.

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- 4.30** Historically the **Executive** has **authority** to exceed the approved overall revenue budget by up to £100,000 from general reserves to meet unexpected expenditure within the year. The aim is to replenish the reserves in the same year by making compensating savings as soon as possible. It is recommended to maintain this allowance at £100,000 for future years. All other decisions with regard to budgetary change will be approved by reference to virement rules in the financial instructions.
- 4.31** In conclusion these budget proposals show how Teignbridge can prepare for the grant reductions and anticipated funding regime by continuing to make savings and generate income. General reserves are recommended at 11.3% of the budget which is just under £1.9 million. However there is much uncertainty over the move to 100% business rates retention with the higher risks that Teignbridge will face.
- 4.32** These proposals include a £5 increase in council tax and capital investment details over the next three years. They have been publicised and comments will be brought back to the Executive before making the final budget recommendation to Council for 22 February 2018.

5. CAPITAL PROGRAMME

- 5.1** The capital programme is shown at **appendix 7** with links to the Teignbridge 10 strategy projects. It continues to include significant provisions for investment in town centres and employment land. Some of these will require prudential borrowing and each will be the subject of separate report as the business cases are developed.
- 5.2** The programme is partly funded by sales of assets. Community infrastructure levy is anticipated to fund the infrastructure plan. Significant contributions from revenue at £2.3 million in the current year and £1.3 million next year are enabled by new homes bonus receipts, business rate pilot funding (and carry forwards for 2017/18 only). The contributions reduce in later years (being £0.4 million in 2020/21) as new homes bonus is assumed to reduce.
- 5.3** Government subsidy for housing disabled facilities grants through better care funding via county is assumed to continue at £1 million per annum. Right to buy receipts are estimated at £0.7 million per annum. All this income is only used to fund housing. Housing investment continues at current levels with the majority going into the provision of, and disabled facilities for, private sector housing. Affordable housing provision is facilitated through identified sites with the majority of the remainder being delivered through the local plan.
- 5.4** The infrastructure delivery plan investment over the next few years contributes to:
- A new railway station at Marsh Barton for South West Exeter and Teignbridge residents access to employment (£1.3 million by March 2021)

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- Provision for improvements to the A382 of £5.1 million over 3 years
- Provision for Education in SW Exeter and the wider Teignbridge area of £6.25 million over 4 years
- Provision for further green spaces of £2.33 million over 4 years
- Sports and leisure provision of £1.5 million over 4 years including Decoy and the Den play area refurbishments
- Heart of Teignbridge, coastal and other cycle provision (£1.2 million over four years)

5.5 Indicative figures are included for major town centre and employment site investment. In total £44.8 million has been provided over the next three years. Expenditure would be through prudential borrowing with individual business cases being brought to members for consideration as they are developed over the financial plan period.

5.6 The energy and carbon reduction plan has been completed. A provision has been made for a project to investigate a major heating improvement for Forde House for 2018/19.

6. GROUPS CONSULTED

6.1 County, fire and police and the public are consulted about any changes to the council tax support scheme. The initial budget proposals have been publicised and considered by Overview and Scrutiny on 15 January. They also scrutinised these final plans on the 5 February 2018. Parishes and town councils have been advised of these proposals. There has been a budget presentation to the Teignbridge Association of Local Councils.

6.2 A budget survey has been put on the website and publicised to encourage feedback. In particular it has been brought to the attention of businesses, the residents' panel and Teignbridge relationship groups. Responses will be reported verbally to this Executive and in the final Council budget report on 22 February 2018.

7. TIME-SCALE

The financial plan covers the years 2017/18 to 2020/21. Final consideration of the budget by Council is due on 22 February 2018. At that time the council tax resolution is also approved which covers the total council tax including county, fire, police and towns & parishes.

8. JUSTIFICATION

The Executive is required under the budget and policy framework procedure rules in the constitution (part 2, article 4, section 4.4b) to agree and recommend a budget to Council each year.

9. DATE OF IMPLEMENTATION (CONFIRMATION OF DECISION SUBJECT TO CALL-IN)

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Call in does not apply as the final budget recommendations will be considered for approval by Council on 22 February 2018.

Martin Flitcroft
Interim Chief Finance Officer

Wards affected	All
Contact for more information	Martin Flitcroft 01626 215246 or Claire Moors 01626 215242
Background Papers (For Part I reports only)	Budget and settlement files The Constitution
Key Decision	Yes
In Forward Plan	Yes
In O&S Work Programme	Yes
Appendices	App 1 – Budget timetable 2018/19 App 2 – Approved council tax base 2018/19 App 3 – Council tax calculator 2018/19 App 4 – Summary revenue plan 2017/18 onwards App 5 – Revenue budget detail App 6 – Fees and charges summary App 7 – Capital programme