

EXECUTIVE

LEADER: Cllr Jeremy Christophers

PORTFOLIO HOLDER: Cllr Stuart Barker

DATE: 10 February 2016

REPORT OF: Chief Finance Officer

SUBJECT: FINAL FINANCIAL PLAN PROPOSALS 2016/17 TO 2018/19

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 2016/17 and the outline plan for the subsequent years 2017/18 and 2018/19.

In particular the proposed budget includes:

- The proposal to increase council tax by 1.95% or £2.93 to £153.10
- Increasing reserves slightly to 9.4% of the net revenue budget or just over £1.5 million
- An increase in parking income of £142,000 partly to fund a programme of related capital investment over the next three years
- Ongoing efficiencies using invest to save where possible including the approved Newton Abbot purchase
- 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 statutory national living wage, and increased employer national insurance contributions of £236,000 from 1 April 2016
- An assumed 1% pay increase each year where lower than the national living wage increase
- Continuing staffing reductions and restructuring efficiencies
- Rural aid continuing at £40,000 plus the ongoing £25,000 Dartmoor Grant Fund for Teignbridge villages in the Dartmoor National Park

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1. PURPOSE

- 1.1** To consider the final financial plan proposals 2016/17 to 2018/19 for recommendation to Council on 23 February.
- 1.2** These proposals include recommended revenue and capital budgets for 2016/17 and planned in outline for 2017/18 and 2018/19.

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 spending review and autumn statement 2015 plus the provisional settlement covering the four years from 2016/17. 100% rates retention is promised but with the transfer in of some funding obligations. Revenue support grant is to end and new homes bonus reduces significantly. Much of the detail is still awaited from government but there looks to be a funding shift away from districts towards social care and police.
- 2.2** We have benefitted from previous savings plans and restructuring efficiencies are still producing cost reductions. This budget also gains from the recent Strata partnership and the significant expected returns from the Newton Abbot purchase. The Business Efficiency Service Transition 2020 review in the current year has built on the business challenge in the last two years. The main outcome is the planned further streamlining of services and automation of customer interfaces.
- 2.3** The economy continues to improve resulting in only minor variations to income during the current year. However the recycled materials market is volatile and dependent on demand from countries such as China with income expected to be down. This is anticipated to be offset by the good take up of the garden waste scheme with the new recycling and waste collection now fully rolled out.
- 2.4** The car parking review group reported to Overview and Scrutiny on 8 December 2015 and their recommendations were received by the Executive for consideration in these budget proposals. Off street parking charges are proposed to be amended to raise income to partly fund a programme of relevant capital investment over the next three years. Some minor changes to permits are included.
- 2.5** For businesses it is helpful that government is extending the doubling of small business rate relief for a further year. Also business rate inflation is based on the September retail price index so will only be 0.8%. Our planned investment in Newton Abbot will enhance its vitality and viability and improve access to and within the town centre. Market fees and charges are proposed to increase slightly to continue promotions, advertising and improved signage.

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2.6 The proposed budget continues to support the community in a positive way promoting the Council's commitments to our priorities. We have followed our five year 2011-2015 Council Plan and are now moving forward towards the new ten year Strategy 2016-2025.

2.7 The capital programme has been extended to include 2018/19 infrastructure delivery plan projects funded by community infrastructure levy and external sources where available. The investment in housing continues and the Newton Abbot purchase has been added in. The main aim is to create more homes and jobs. Prudential borrowing is a helpful funding mechanism for priority projects where a good return on capital can be demonstrated.

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 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 Recent budgets have taken account of reductions in government grant over the four year spending review to 2014/15. An ambitious programme of **savings** was identified reducing costs and increasing income over this period and into the current budget plan years. **Revenue support grant** was cut by £1.0 million in each of the current year and last year.

3.3 The senior management structure review was implemented in 2013 significantly reducing overall management costs with increasing savings for the current and next two years. This budget also gains from the recent STRATA partnership and the significant expected returns from the Newton Abbot purchase.

3.4 The **Business Efficiency Service Transition 2020** review in the current year has built on the business challenge in the last two years. The main outcome is the planned further streamlining of services and automation of customer interfaces. The resulting action plan is being implemented by managers and is within budget.

3.5 Teignbridge is working with 22 partners covering Devon and Somerset on the **Heart of the South West Devolution** proposals. The partnership now has a draft negotiation prospectus aimed at opening a conversation with government. More locally Teignbridge is also working re Innovation Exeter in the Greater Exeter/Greater Devon partnership.

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- 3.6** The current council plan has three goals - prosperity, quality environment, and wellbeing. Public and Member **consultation** for the new **Strategy 2016-2025** priorities is complete. The draft document which includes seven key objectives listed in priority order is now being considered by Members for final content and layout. There are ten connected super projects planned with a widespread impact on the economy, community wellbeing and the environment.
- 3.7** County, fire and police are content that there are no proposals to change the current council tax support scheme which was consulted on in 2013. 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. The budget has been presented to the Teignbridge Association of Local Councils
- 3.8** The current council tax for Teignbridge is £150.17 per year for an average band D property. The 2015/16 **tax base** or effective number of properties for calculating council tax income is 45,746. Thus current year council tax income for the district is estimated at £6.9 million as shown in **appendix 2 - the approved council tax base 2016/17**. A table of values for various increases in council tax is shown at **appendix 3 - the council tax calculator**.
- 3.9** Of the current total average annual £1,612.73 council tax collected per property, Teignbridge keeps 9% or just under £2.90 per week for its services. 72% goes to County, 11% to the Police, 5% to the Fire Authority and 3% to parishes and towns for their local precepts.
- 3.10** Significant government funding and cost changes affecting us for future years are as follows:
- The increase in employer's national insurance from 2016/17 costing £236,000;
A statutory National Living Wage from £7.20 this April likely to cost at least £500,000 by 2018/19;
1% public sector pay increase limit assumed by government for next 4 years;
An apprenticeship levy from 1 April 2017 estimated at £43,000;
Consultation on reforms to new homes bonus aimed at reducing the total;
Further cuts in funding over the next 4 years likely to impact most in 2018/19;
Consultation in 2016 on the move to 100% business rates retention but with the transfer in of some funding responsibilities.
- 3.11** The Executive has had three **monitoring** reports this financial year on 21 July, 29 September, and 1 December. These have updated current year budgets and also future year forecasts. This government's first budget was issued on the 8 July and the Spending Review & Autumn Statement 2015 was published on the 25 November. Details were noted in monitoring reports and the Members' newsletter but the latest information is included below.

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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 2015/16 already approved by Executive are included. Future savings expected from the Strata partnership have been fed into the plan. The increasing cost reductions over the next two years from the 2013 management restructure are included. The plan also anticipates the significant expected returns from the Newton Abbot purchase.
- 4.2** Proposed **fees and charges** draft income totals for each service are shown at **appendix 6**. An increase of £355,000 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 increase in income for next year.
- 4.3** Car parking charges are proposed to increase to give extra income above the base figure of £142,000 or just under 5%. The additional 2.5% over that in the forward budget plan will be used for improvements to the car parks and machine upgrades. The main changes are a 10p increase in rural area 1 to 3 hour tariffs but a 20p decrease on all day tariffs.
- 4.4** In Newton Abbot and the resorts the first half hour remains the same but there are small increases on other tariffs. Permit payments have been updated to take account of the additional costs for processing short term permits. The free Sunday parking scheme continues.
- 4.5** The successful opt in green waste subscription of £35, or £30 for those on benefit continues. This rate is comparable with or less than that being charged by other Devon authorities and Cornwall. The scheme is now fully rolled out with over 30% take up and £658,000 income expected for next year. This offsets the significant downturn in recycling income as the materials market is volatile and dependent on demand from countries such as China.
- 4.6** The extra income from any increase in **council tax (CT)** is shown at appendix 3 and this additional amount would be recurring in future years. The proposal is to increase CT in Teignbridge by 1.95% or £2.93 to £153.10 producing an extra £137,000 income for 2016/17. The £153.10 would be the annual charge for an average band D property and equates to less than £3 a week. A 1.95% increase in CT has also been assumed for 2017/18 and 2018/19.
- 4.7** Teignbridge qualified for a one off **freeze grant** in the current year based on no increase in council tax. It was equivalent to a 1% increase in council tax but assumed no council tax support reduction so amounted to £78,000. Council tax freeze grants have not been offered in the provisional settlement for 2016/17 onwards.

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4.8 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 £2 million was estimated which has to be shared between the major preceptors in 2016/17 per their current precepts. The district share is £252,000 towards next year's budget as shown at line 18 in appendix 4 with a small community charge payment we have received this year.

4.9 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.

4.10 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. For 2015/16 our limit was set at 2%. The provisional settlement proposes the limit of an increase below 2% for Teignbridge for 2016/17.

4.11 Main provisional **settlement funding** from government is as follows:

	2015/16	2016/17	2017/18	2018/19
	£millions	£millions	£millions	£millions
Revenue support grant	2.478	1.601	0.847	0.382
Rates baseline funding	3.080	3.106	3.167	3.260
Less CTS grant to towns and parishes	-0.261	-0.261	-0.261	-0.261
Net main grant	5.297	4.446	3.753	3.381
Cash reduction in year		-0.851	-0.693	-0.372
Percentage reduction in year		-16.1%	-15.6%	-9.9%

4.12 The provisional settlement on 17th December offered four year budgets for those authorities that desire them but the qualification terms were unclear. The government figures showed **core spending power** which includes council tax, settlement funding, illustrative new homes bonus, and rural services delivery grant. This spending power total reduces by 12.9% for Teignbridge over the four years with the largest reduction being 9.6% in 2018/19.

4.13 The **business rates retention (BRR)** 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 doubled small business rates relief. The cost of this through loss of BRR income to Teignbridge is covered by separate specific grant.

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- 4.14** Within Devon it has been beneficial for authorities to form a **rates pool** and 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.
- 4.15** Teignbridge's position is better than the BRR baseline because of estimated growth in business rates and the gain from pooling. This is shown in the revenue summary as estimated rates retention and pooling gain which is assumed to grow by £200,000 per annum.
- 4.16** Full 100% BRR is promised by 2020 and the government will consult on the proposed new system during 2016. The transfer in of some funding responsibilities is proposed such as the administration of pensioner's housing benefit and the share of the total for districts could be reduced. Implementation is likely to start from 1 April 2018 and an extra £1 million BRR has been assumed for 2018/19 in the revenue summary.
- 4.17** **New homes bonus (NHB)** is also 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 £3.1 million this year with a total provisional amount of £3.8 million expected for 2016/17. Estimates of NHB are based on 620 homes per annum as in the local plan with each year currently giving six years of grant.
- 4.18** The provisional settlement included a consultation on sharpening the incentive for new homes bonus which closes on 10 March 2016. The government proposes withholding the bonus from areas where an authority does not have a local plan in place, abating the bonus in circumstances where planning permission for a new development has only been granted on appeal, and only paying bonus above a nationally set baseline level of growth.
- 4.19** The consultation also proposes reducing the number of years for bonus payments to five for 2017/18 and four for 2018/19 onwards. Illustrative figures for new homes bonus have been provided in the provisional settlement. However the figure for Teignbridge is above our 2017/18 projection using five years so our lower figure of £3.6 million has been assumed in the revenue summary. The illustrative figure for 2018/19 is £2.4 million and that has been used in our revenue summary.
- 4.20** Council tax benefit was replaced by **council tax support (CTS)** from 1 April 2013. As CTS 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.

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- 4.21** 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 CTS itself continues to go down. In common with all other Devon authorities no changes are proposed to the current levels of discount for second homes and empty properties or to the CTS scheme itself.
- 4.22** Teignbridge currently receives £501,000 for administering housing benefit and £137,000 for CTS plus a new burden grant of £24,000. With the single fraud investigation service 3.6 full time equivalent staff transferred to the department for work and pensions from 1 February 2015. Universal Credit started for Teignbridge from 9 November 2015 for new single job seekers. Grants have been assumed to reduce by £100,000, £50,000 and £50,000 respectively in the next three years.
- 4.23** The statutory minimum National Living Wage (NLW) will be £9 for those aged 25 and over by 2020 starting with £7.20 from 1 April 2016. The budget proposal assumes the higher of a 1% pay increase or the NLW for all staff and maintains the differential for the next level of staff above the NLW. The NLW will thus cost an extra £18,000 next year rising to an extra £532,000 for 2018/19. In addition the increase in national insurance for opted out pension schemes from 1 April 2016 affects Teignbridge costing a further £236,000.
- 4.24** Alternatively introduction of the higher optional Living Wage Foundation (LWF) living wage at £8.25 or the 1% increase for all staff plus maintaining the differential for the next level of staff has been evaluated. Assuming the LWF rate increases as in the past it would cost £391,000 in 2016/17 rising to £1.3 million by 2018/19. The LWF rates increase each November. The optional LWF rate has not been assumed in the budget proposals. The table below compares the estimated extra costs for the statutory NLW and optional LWF rates:

	2016/17	2017/18	2018/19
	£	£	£
Statutory NLW	18,000	215,000	532,000
Optional LWF	392,000	856,000	1,328,000
Extra cost for LWF	374,000	641,000	796,000

- 4.25** The **actuarial valuation** of the **Devon pension fund** effective from 1 April 2014 set Teignbridge contributions at 24.5%. These are made up of a basic amount of 13.3% plus an increasing cash sum to reduce the past service deficit. The cash sum payment started in 2014/15 at £1,145,000 increasing to £1,186,000 for the current year and £1,240,000 for next year. The same amount as in 2016/17 has been assumed in the following two years.

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- 4.26** Teignbridge is the largest of the districts in the Devon fund and had a deficit in the top end of the district range at £24.4 million in the 2013 actuarial review. Teignbridge also had a funding level of 73% as compared to the total Devon fund level of 83%. Teignbridge's cash sum payments are the second highest for districts in Devon although it has the second lowest district future service basic contribution percentage rate.
- 4.27** The Devon fund performs well with a positive return of 10% for last year. For the last three years to 2015 the fund has achieved 8.9% and for the last ten years to 2015 including the credit crunch years the fund still achieved 7.2%. Because of this very good return, Teignbridge's large deficit and our higher level of general revenue reserves at the end of 2014/15 a one off extra payment of £1 million from revenue reserves into the fund is proposed for 2015/16 and included in the budget plan figures.
- 4.28** There will be a new actuarial valuation as at 31 March 2016 effective for the three years 2017/18 to 2019/20. Such a payment would go towards Teignbridge's specific deficit and would not be pooled with other employers. It would be taken account of in that valuation and would help our position in the fund.
- 4.29** There are other factors that will affect the overall fund valuation but if it improves such a payment will make it better for Teignbridge. If the valuation worsens then the payment will help reduce the impact. There will be reduced costs for 2017/18 onwards and returns will be accrued for the Teignbridge element of the fund from the date of the payment.
- 4.30** **Investment income** remains fairly low with base rate staying at 0.5% and now unlikely to rise for some time. £139,000 interest had been forecast at 0.6% for the year compared with the £131,000 in 2014/15. We have reached maximum capacity with bank and building society counterparties on our lending list. This means that funds have been invested with central government and other local authorities, both of which offer lower interest rates, but a secure option for our cash balances.
- 4.28** However the approved Newton Abbot purchase has changed the interest estimates. The budget plan assumes that we will earn £115,000 this year and £41,000 in future years. It also assumes that we may have to undertake temporary borrowing costing £5,000 next year but increasing to £25,000 in 2017/18 and £38,000 in 2018/19. Additional rental income from the Newton Abbot purchase has been assumed.
- 4.29** 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.

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- 4.30** Our main contingent liability was settled three years ago and provision has been made for other smaller potential liabilities. However the current funding regime including business rates retention and new homes bonus carries a likely risk for us of more volatility in resources. This will increase as we move towards 100% business rates retention. We are also more reliant on income generated from our own fees and charges as government funding reduces.
- 4.31** 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 9.4% of the net revenue budget or just over £1.5 million.
- 4.32** 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.
- 4.33** In conclusion these budget proposals show how Teignbridge can manage the grant reductions and current funding regime by continuing to make savings and generate income. At the same time general reserves are maintained at over 9% of the budget or just over £1.5 million. However there is much uncertainty over the longer term new homes bonus changes and move to 100% business rates retention with the likely shift of funding away from districts to social care and the police.
- 4.34** These proposals include a 1.95% increase in council tax and increase in car parking charges partly to fund a programme of relevant capital investment 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 23 February 2016.

5. CAPITAL PROGRAMME

- 5.1** The capital programme is shown at **appendix 7** and includes the latest investments approved by Council in Strata software consolidation, the New Fish Quay for Teignmouth and most significantly the Newton Abbot purchase.
- 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 just over £2 million per annum in the current and next year are enabled by new homes bonus (NHB) receipts. The contributions reduce in later years as NHB is assumed to reduce and this will need to be updated as further details are received. The Newton Abbot purchase has been assumed to be funded by a mixture of internal and external prudential borrowing.

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- 5.3** Government subsidy for housing disabled facilities grants (DFGs) per annum through better care funding via county is assumed to continue at £638,000 per annum. The spending review and autumn statement 2015 implied an increase in the total DFG funding from £220 million in the current year to £500 million by 2019/20 but detailed figures have not yet been received. Right to buy receipts are assumed at £500,000 per annum. All this income is only used to fund housing.
- 5.4** Housing investment continues at current levels with the majority going into the improvement of, and DFGs for, private sector housing. Affordable housing provision is mainly facilitated in rural and/or small sites with the majority of the remainder being achieved through the local plan.
- 5.5** 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)
 - Primary school education provision for South West Exeter (£1.25 million in 2018/19)
 - New green spaces for the Dawlish Coastal and South West Exeter ridge top parks (£2.4 million over four years)
 - Further sports provision in the Teignbridge area including playing pitches (£500,000 next year)
 - Heart of Teignbridge and coastal cycle provision (£450,000 over four years)
- 5.6** In addition the programme provides £1.5 million for employment land purchase and infrastructure development with the aim of improving the economy and jobs in the area. The car parking investment funded partly by the proposed increase in charges includes machinery and equipment upgrades. £209,000 is budgeted over the three years to 2017/18.
- 5.7** The energy and carbon reduction plan will be completed in March 2017 and at present all targets will be met. The main project is the approved Dawlish Leisure Centre replacement heating system in the current year. Other projects which are included cover lighting efficiency improvements, solar power and another heating improvement. Consideration for a new plan and programme will start next year with an anticipated commencement in April 2017.

6. GROUPS CONSULTED

- 6.1** County, fire and police are content that there are no proposals to change the current CTS scheme which was consulted on last summer. The initial budget proposals have been publicised and considered by Overview and Scrutiny on 11 January. Parishes and town councils have also been advised of these financial proposals. There has been a budget presentation to the Teignbridge Association of Local Councils.

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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 to Members for consideration with the final budget proposals by Executive on 10 February and by Council on 23 February 2016.

7. TIME-SCALE

The financial plan covers the years 2015/16 to 2018/19. Final consideration of the budget by Council is due on 23 February 2016. 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)

Call in does not apply as the final budget recommendations will be considered for approval by Council on 23 February 2016.

Lesley Tucker
Chief Finance Officer

Wards affected	All
Contact for more information	Lesley Tucker 01626 215203 or Martin Flitcroft 01626 215246
Background Papers (For Part I reports only)	Budget and settlement files, CTS report to 1 December Executive and relevant papers, The Constitution
Key Decision	Yes
In Forward Plan	Yes
In O&S Work Programme	Yes
Appendices	App 1 – Budget timetable 2016/17 App 2 – Recommended council tax base 2016/17 App 3 – Council tax calculator 2016/17 App 4 – Summary revenue plan 2015/16 onwards App 5 – Revenue budget detail App 6 – Fees and charges summary App 7 – Capital programme