

**TAVISTOCK TOWN COUNCIL
BUDGET AND POLICY COMMITTEE
TUESDAY 30th AUGUST, 2022**

BUDGET PREPARATION & PRECEPT SETTING 2023/24

1. PURPOSE OF REPORT

To provide the Committee with an opportunity to consider the basis upon which the draft Budget and Precept for the Financial Year 2023/24 should be developed and related matters. The report should be read in conjunction with prior reports on the financial position of the Council.

2. CORPORATE POLICY CONSIDERATIONS

The effective management of resources and forward planning underpin the delivery of the Town Council's Strategic Plan 2017-2023. They support its commitment to the economic, efficient and effective use of resources, the promotion of best value and continuous organisational improvement as evidenced in the service planning process. In addition, there is the residual impact of Coronavirus, and the current impact of inflation (both general and specific to utilities), on current and future operating arrangements, income/expenditure and organisational goals and objectives.

3. LEGAL AND RISK MANAGEMENT ISSUES

The Council is under an obligation to consider, approve and adopt a Budget including, where appropriate, necessary authority for the issue of a Precept upon the relevant Authority.

A phased budget report outlining actual and committed spend against Budget is reviewed at each Meeting of Council. It is important to note that the Council continues to be exposed to (often major) impacts consequential on coronavirus/the Ukraine war/inflationary pressures which materially add to the legal, risk management, financial, compliance and capacity issues facing the organisation.

The Committee will be aware from the service planning and risk management process, individual project risk registers and this report, of the level of short/medium term risk being taken by the organisation.

Whilst the completion of the major capital items tends toward mitigating prior risk levels as regarding capital spend the current position, for the reasons listed above, shows increasing risk in/around revenue.

4. RESOURCE ISSUES

The resource issues associated with this report are set out therein, they principally refer to inflationary pressures in revenue, together with, in lesser part, the legacy of coronavirus. Areas affected include availability of finance, staffing/capacity, skillsets and the associated impact of/on work programme constraints. Attention is drawn again, as last year, to the substantial challenges in funding (both capital now increasingly revenue e.g. insurance, energy etc) available to support any new projected activities. In addition, and as previously acknowledged, the rebuilding of reserves to prudent levels remains a priority.

5. ENVIRONMENTAL ISSUES

There are no direct issues arising from this report. Where projects or initiatives are agreed the relevant reports will address topic specific issues arising in connection with sustainability and the environment.

6. COMMUNICATIONS ISSUES

The content of this Report has been developed in association with the Council's Management Team and Accountant. More information will become available after the visit of the Accountant later in the Autumn.

7. RECOMMENDATIONS

This Report is primarily scoping in nature in order that the Budget & Policy Committee and Council can consider:-

- a) Any principles it would wish to be applied, or areas of change identified, for the development of a draft 2023/24 Budget proposal and associated Precept together with areas of material risk and/or uncertainty;
- b) A preliminary review of matters pertinent to the current in-year (please refer to phased budget report submitted to the last Council) and current/projected Capital Programme 2023/24;
- c) Note as previously agreed when more information becomes available a provisional transfer will be made from the rolling capital programme to meet projected increased costs – most especially of insurance, energy and utilities.

To that end, and subject to (a) – (b) above, it is recommended that Tavistock Town Council adopt and endorse the content of the following Report.

1. BACKGROUND

- 1.1 It is important to note that this report principally seeks to address the proposed budget for the 2023/24 financial year. As such it is separate from, though necessarily influenced by, in-year impacts on current finances (other than where these are specifically referred to) and the uncertainties those pose to the projected financial position as at year end.
- 1.2 The Council has previously agreed development of a Medium-Term Financial Strategy and it is still anticipated this will be progressed as/when the depth and range of prospective scenarios regarding Council finances become less volatile. The Council also continues to take mitigating measures to manage financial risk.
- 1.3 Looking ahead the approach being proposed for the Budget setting process for the 2023/24 financial year remains significantly aligned to established practice, namely:-
 - a) Stage 1 – The Committee consider the principles to be applied in, and priorities attached to, the development of the 2023/24 budget (together with such other matters as may require specific consideration at this stage with regard to current “in-year” spend);
 - b) Stage 2 – Subject to, and informed by (a) above at the next available (ie post half year mark) meeting the Committee consider the projected out – turn for the current financial year (based upon adjusted half year figures and recognising already agreed in-year cost savings if available), together with a draft revenue budget and together with overall Capital allocations;
 - c) Stage 3 – Subsequently to consider and recommend;
 - The 2023/24 Tavistock Town Council Budget;
 - The Town Council Precept 2023/24.
- 1.4 Reviewing the position, the strategic/long term major capital improvement programme of the Council has completed (with the Guildhall project). However, it is acknowledged that significant

capital works of a maintenance nature remain, most especially as regards the safety works to Market Road and the Museum.

- 1.5 In certain other respects the position is little changed from last year, ie the need to:-
 - a) Address the continuing demands of embedding the restructuring of the Town Hall and Events Team (not yet fully staffed)
 - b) Develop the delivery relationship with Tavistock Heritage Trust (THT)
 - c) Develop the Public Conveniences offer.
- 1.6 Notwithstanding the permanent loss of substantial revenue 'in Covid' measures to address the future loss of income arising, alongside unprecedented savings through factors (such as running reduced services on a not yet full staffing footprint) have proven broadly positive.
- 1.7 However, the unprecedented current and projected increase in revenue costs (see next section), alongside the challenge of effectively remobilising/catching up, present major challenges.
- 1.8 As indicated previously there is also the need to come to a view on the extent to which
 - a) Coronavirus may have impacted the longer term financial operating model of the Council, with particular reference to the resilience of commercial income streams;
 - b) Together with the impact/quantum (and duration) of current inflationary pressures.
- 1.9 The challenge to 'business as usual' outlined in this report last year continues, albeit under a different guise

2. ANALYSIS

External Environment

- 2.1 There remain a range of external variables that have the potential to impact upon the Council over the course of the next budget period. These include, but are not necessarily limited to:-

- a) Inflationary Pressures – Energy/Insurance. This was flagged as a cause for concern last year.

Currently with inflation at a 40-year high (RPI at 11.8% in July 2023 – it was 3.9% this time last year) and CPI in excess of 10% and rising this has become an existential issue. In no small part because of when the renewal of long-term energy contracts fell for the Council – 1st August. Whilst some commentator projections are for a fall toward Bank of England target levels next year that likely requires a golden scenario of a return to globalisation, reversal of low interest rates, absence of Covid, the global normalisation of relations with Russia/Ukraine, an increase in the strength of Sterling, fiscal prudence by government, reduction in government borrowing, withdrawal of quantitative easing, lower international commodity prices and reduced tensions in the far East.

The added difficulty for the Council is that there are a number of areas of significant spend where inflation is running at a much higher level than benchmark. These are, in particular:

- i) Insurance - notwithstanding a clear 'no claims' record Council insurance cover costs have increased from iro £27,000pa to iro £80,000pa.
- ii) Energy costs. These are harder to estimate, not least because over the past two years consumption was impacted by Covid (e.g. reduced/different operations), the Guildhall was not on stream and winters were exceptionally mild. However, we can observe that the cost of:
 - Gas to the Council has increased from iro 1.7p-3.0p to iro 10.8p-13.0p per therm
 - Electricity to the Council has increased from iro 13.9p to 41.8p per kw/h

Actual costs vary from premise to premise (which makes calculating the overall impact, alongside the factors listed above, a matter of 'best estimate').

However, assuming they provide a basis for a rough quantum of anticipated increase. Using the figures for 2019-20 (the last (nearly) normal year of operation pre Covid and where the legacy rates listed above applied)

and applying the % increase listed above would take spend from

- Electric £32,112 to £96,000
- Gas £18,507 to £93,645

Whilst these figures cannot be relied on as authoritative, both for the reasons listed above, and the vagaries of invoice timings (and potential to adjust usage), they do give a sense of the scale of challenge (ie a potential net increase of iro £140,000 over cost in 2019-20).

Fortunately the Council foresaw energy price increases (though not the war) when setting the budget last year and made appreciable uplifts. That means that, when applied against the current agreed combined budget of £97,980 the net potential impact would be an increase over budget of iro £91,665 and not the £140,000 listed above). However that is still a major impact.

For the current year that figure will be skewed by virtue of the new billing coming into play from 1st August and uncertainty as to what actual Guildhall usage will prove to be.

However, for the purposes of next years budget, which is the primary focus of this report, and subject to any energy reduction measures that can be applied, it would appear that a year on year increase in budget provision for energy of (say) £90,000 would not be unreasonable.

NOTE if this is correct the combined additional provision needed for energy and insurance alone will amount to £140,000pa (or equivalent 16.5% current precept of £852,554)

- b) Inflationary Pressures – Projects and Other. This strongly links to the above but relates more to those inflationary pressures which may arise through:
 - i. Increases in the cost of routine goods and services (whether stocks, equipment, professional, contracting/sub-contracting or other services etc);

- ii. Projects – in particular those of a specialist and/or construction type (such as Market Road safety works or Museum repairs)

It is unclear what sectoral inflation in these areas might prove to be, but it is already evident that some areas (such as construction) have been running 'hot' for some time now.

- c) Coronavirus – whilst a diminished direct impact (subject to vaccination success and reinfection levels) there are material legacy impacts in areas such as recruitment and retention, supply availability, service configuration and ill health.
- d) Statutory Constraints – The Secretary of State has the power to introduce regulations to “cap” the ability of the Town/Parish Council sector to raise the Precept above a set amount. Whilst this is still a “reserve” power, the impact, if implemented, should not be underestimated.
- e) VAT – the Committee will also be aware of continuing uncertainty regarding the position of HMRC in connection with where markets (which can currently provide space without being subject to VAT) might be brought under the VAT provisions in respect of fees and charges. If test cases were to be successful this would require changes in relation to operating arrangements and consequential costs, alongside the complexity of VAT treatment in connection with the diverse range of projects run by the Council.
- f) Economy – the comments made last year still substantially stand in relation to Council services (in particular Pannier Market and commercial properties) and the broader position regarding inflation, tightness in the jobs market, and poor levels of productivity nationally add weight to the importance of making realistic projections for the assessment of economic impacts.
- g) Constitutional – the focus of Government on international and pandemic issues has led to a much more limited approach to potential legislation in the Town and Parish Council sector (beyond pandemic mitigating measures themselves). The upcoming devolution bill reflects this with the removal of sections

formerly in the White Paper around matters such as community governance reviews.

- h) Localisation of Council Tax – this facility was withdrawn by the Borough Council in 2020 equating to an ongoing loss of income for the Council approximating to iro 4% on a Band D property. As such it is no longer an issue. However, it is possible (increasingly likely in some locations), that the council tax base may reduce as more households become eligible for benefits and the tax base adjusts accordingly. This is not currently anticipated in Tavistock in view of the extent of new build occurring, but it is recognised this will have an offsetting (reducing) effect on council tax revenue in some circumstances.
- i) Wage settlement – the current national settlement comprises an employers’ offer of an additional £1,925 across all grades alongside other factors (e.g. an additional leave day from 2023). It is understood Unite have rejected the offer and Unison will consult on it. Whilst, for a lower wage employer such as Tavistock (as compared to a locally high wage employer like West Devon) this will be helpful to lower paid staff, it does mean that the additional cost to the Council (est’d iro £65,000 with on-costs) will appreciably exceed budgeted estimates this year. However, because of low staffing levels it is hoped that can be appreciably offset ‘in-year’.

Looking to next year the projections the Council makes for the wage settlement will very much ride on whether the view is taken inflation will fall appreciably, or not.

It may also be noted that the Governments commitment to rapidly securing the national living wage (nlw) at 66% of the median wage adds further pressure to lower wage employers pay bills and accordingly significantly outweighs any modest benefit from the (mooted) lifting of the National Insurance Health and Social Care Levy. There is also the erosion of entry level pay grades and consequential degrading impact on the organisational job evaluation scheme caused by the nlw commitment.

Accordingly, the Council will need to decide, for next year, if:

- The number and type of posts will continue broadly as at present;
 - What it expects a pay settlement next for 2023-24 might arrive at. Given expectations inflation will continue at a high level for some time a prudent (gu)estimate could be based on an amount similar to that applying for the current financial year at this time.
- j) Increased Regulatory Burdens – these continue but currently at a lower level given the recent focus of Government on other events.
- k) Partnership Working – the successful achievement of Council goals and objectives and support for the community continues to be increasingly dependent (but not exclusively) upon developing and sustaining effective Partnerships with other Public Sectors (e.g. Devon County Council, West Devon Borough Council, and voluntary/not for profit (e.g. Tavistock Heritage Trust, Chamber of Commerce, BID Company, etc)) bodies.

The success of the Council is increasingly measured by its ability to work effectively with such organisations to support the delivery of shared goals and objectives, some of which may appropriately be led by the Council, some by others. It should also be noted, that many of these organisations were themselves impacted by the pandemic and public sector/funding cuts exacerbated in most cases by inflationary pressures. One emerging example of co-working is the development of a Neighbourhood Development Plan for the Town.

Organisational Environment

- 2.1 Projects and other initiatives – a range of these are being taken forward by the Council with a view to delivery over the short-medium term and beyond. This Committee and Council met to consider these, amongst others, in June (Minute no 73 refers).

The Committee will recall it was agreed then, amongst others, to place the rolling capital programme (RCP) in abeyance pending the completion of the energy contract letting (and indicative identification of a consequential requirement for an in year

virement to meet the additional costs of that and any other increased costs such as insurance, pay settlement etc).

Note - because of the timing of meetings in relation to the financial timetable it will be the November meeting of the Committee which considers the 'half year' figures, the projected outturn for the current financial year and potential budget for the next.

The Committee will also be mindful of the decision regarding how/if works to properties will be prioritised in relation to scarce resources as set out in Minute No. 74 (Council Property Maintenance) i.e. as set out below:

RECOMMENDED THAT Tavistock Town Council endorse the actions as set out in Section 3.2 (a – f) of the report as follows:-

- a) it endorse no new spend on works (other than routine necessary maintenance from the property and grounds maintenance budgets or those listed in para 1.10 of the report which are funded) until after a review of the prospective calls on revenue after letting the energy contracts;*
- b) then at the next (September) Council Meeting review the revenue spend position, taking account of all known and anticipated inflationary and other pressures including any prospective savings;*
- c) from that identify anticipated overall revenue costs projected to be incurred by the Council 'in year' and agree an appropriate transfer from the retained amount in the RCP to revenue to fund same;*
- d) following on from (c) above, form an initial view on the anticipated quantum of future years increased revenue costs and how these could be met;*
- e) identify which, if any, other works projects could proceed 'in year' on a funded basis;*
- f) as soon as reasonably practicable, informed by the foregoing, and as part of the upcoming budget*

setting round, review the Councils asset base, associated income streams, issues and opportunities.

- 2.2 At the time of writing it continues to be expected that the Market Road safety project will remain fundable after allowance for a transfer from the RCP to revenue. Your November meeting will be better placed to consider this, and any other projects, in light of half year figures and a more developed cost base for the riverside works together with a wider review of the asset position. The General Manager is also exploring the possibility of financial assistance from the Environment Agency (Market Road refers).
- 2.3 However, the funding position of the various other necessary/desirable projects is not at this time yet capable of being clarified.
- 2.4 There also remain uncertainties over certain revenue costs in addition to those previously listed. In particular:
- Public Conveniences – this will become clearer as these are taken on (scheduled October);
 - Guildhall Gateway Centre operating costs – in the absence of a representative period of operation these are necessarily based on ‘best estimates’ (this financial year being the first year of operation) – see also accompanying item on this Agenda;
 - Guildhall Subsidy costs – linking to the above meeting the necessary costs associated with underwriting THT (an agreed budget of £35,000 has been set but there is real concern that by next year, when certain staffing costs will start to need to be funded by the Council, in addition to those other costs THT is unable to meet from income, that this will be breached.

Note the £35,000 allocation is in addition to an estimated £30,000 additional Council cost base which includes loan repayments but *excludes* day to day running of the Council occupied part of the premises).

- Any cost/resource-based initiatives which might flow from the work being undertaken around sustainability and the environment;
- Addressing organisational capacity and compliance issues;
- Any additional (i.e. over and above grant drawdown or approved spend) funding for the Neighbourhood Development Plan;
- commitment to rebuilding reserves;
- Meeting the necessary costs of any legal proceedings;
- Risk areas, such as emergency property repairs, unforeseen spend, income sustainability, VAT etc;
- Various other goals and objectives agreed by the Council and as listed in the Strategic/Service Plans.

2.5 Clearly not all of the above can be fully funded and/or resourced, whilst others must be delivered by virtue of the strict contractual or legal obligations they impose.

2.6 Therefore it is suggested that the Council continue the control mechanism for those items which represent 'discretionary' spend (such as NDP, environmental initiatives (Platinum Jubilee this year) etc). Namely, to utilise the 'localism' budget head to dedicate an affordable sum from which Council may draw to fund associated projects and items each year. The Committee may wish to again recommend the sum of £20,000.

2.7 More generally within the organisational context the attention of the Committee is drawn at this time in particular to:-

a) Precept Level:-

- As noted previously, Council has for some time now taken the view that, as a minimum, the Precept should continue to increase each year by such amount as will enable it to keep a constant level of Precept income after allowing for reductions arising from the annual loss through the localisation of Council Tax (which was equivalent to approx. 4% precept). Now that the

- localisation reduction has been removed a more normal budgeting arrangement will subsist;
- the Council has previously confirmed its overriding priority to be rebuilding reserves to acceptable, and then safe levels – accentuated by Coronavirus (and now inflationary pressures);
 - Commercial income streams are addressed elsewhere in this report;
 - The strategy adopted when last setting the budget was to do what was necessary to safeguard the financial future of the Council in/post the pandemic and then review the position (by way of context each 1% Council Tax increase would raise in the order of a little over £8,000) if/as circumstances permit.

Other Material Factors –

- b) Council Tax base – over the past 10 years there has only been one year in which the Council Tax base for the town reduced. The amount of current new development for the town further mitigates against that. However, recently as a result of coronavirus impacting benefit claimant numbers in some authority areas led to tax base reductions with consequential downward pressure on the Council tax. As referenced previously, inflationary pressures could have a similar reductive impact. It is suggested that for Tavistock (and given the extent of new development) a prudent approach might be to again work on the basis of no change whilst acknowledging a potential risk.
- c) long leases: the Council continues to negotiate with one of its Tenants in connection with the rationalisation of long leases, previously granted, with a view to securing equity both for Landlord and Tenant. There remains the possibility of the need to provide additional resources to support appropriate action to protect the position of the Council/ratepayer should that become necessary. More generally the Committee will be mindful of the potential for increased distress amongst tenants if/as a recession arrives and the options to support them where appropriate;

d) Commercial Income – last year this report indicated *'In short the assessment that Council needs to make is what changes Coronavirus may have on its commercial income streams in general (such as Town Hall and events) and more especially Market fees and charges and also commercial rents. At this point in time any figure remains necessarily speculative but, in the interests of providing a baseline from which to work:*

- it remains to be seen if downward pressure on rental (shop) income to stabilises or reduces acknowledging the possibility of accompanying potential for increased voids or losses;*
- Market income is much harder to predict because of the impact of social distancing on trading numbers, the effect of coronavirus on days of opening and residual appetite for trading/customer demand;*
- Town Hall/event income is dependent on more 'normal' times and capacity to deliver.*

Because the Council is historically 'geared' at up to 2:1 commercial vis precept income any reduction in commercial income has heightened impacts on the Precept.

It is suggested that whilst Coronavirus has (subject to the success of the vaccination programme) receded, the same issues potentially apply going forward in relation to inflationary pressures and a recession, and 'coronavirus' or 'social distancing' where they occur can be substituted with 'inflation/recession'. It is also acknowledged a recession would further impact commercial tenant income streams.

e) Funding – as indicated it continues to be the case that beyond the immediate emergency repair programme and allocations such as localism (including the NDP) there are not currently funds for new initiatives. That reflects the in/post pandemic repair, and inflationary cost phase the Council is currently in. However, the Council will be mindful that it has specific statutory and other obligations which are not necessarily predictable.

- f) Staffing – the organisation has been able to make some savings on budgets through vacant posts. Increasingly though as it moves toward a fuller establishment (notwithstanding challenges around recruitment and retention) that will no longer be the case.

More generally the Council has a current job evaluation scheme/pay and grading model in place. However, in common with all other such schemes its fitness for purpose diminishes annually due to legislative changes that reduce the objectivity/fairness of the scheme, especially at entry levels and above, a situation which cannot be remedied without amendment to the overall budget envelope.

Since last year progress has been made in recruitment albeit slowly and with some roles advertised three or more times before recruitment could take place. As such the jobs market remains 'tight' and, as with other areas of the economy, much will depend both on local circumstances and national trends so far as recruitment and retention are concerned. There remains a structural shortfall in areas of administration, regulation and compliance alongside a lack of higher level administrative skills (such as policy development, research, analysis, communications, grant sourcing, project management, community/capacity building, compliance etc). Notwithstanding an adverse impact on wider organisational governance, residual capacity and increased organisational vulnerability the resource base is insufficient to address these at this time. It is to be hoped that when finances are stabilised (hopefully within 3 years) there may be opportunity for the new Council to audit skills against objectives (and budget) to ensure 'best fit'.

The Committee will also recall the General Manager is undertaking a review of the 'on-call' allowance scheme for Depot staff.

- g) Council Fees and Charges – a schedule of existing fees and charges and proposed new fees and charges for the 2023/24 financial year will be brought before the next

round of meetings for consideration. In the largest area of income generation (Pannier Market) and both following an increase this year and the challenging economic position your officers are currently reluctant to recommend an increase.

However, if inflation and delivery costs continue at current levels this may be something to be revisited in the budget round next year. Consideration of fees and charges will also provide opportunity to review associated arrangements, such as a request from the immediate past Mayor, following the Annual Town Meeting, that arrangements for billboard advertising be reviewed.

- h) Compliance – as previously reported this has been a challenging area. This Committee has been tasked with keeping such matters/capacity under on-going review in order to mitigate and minimise the potential for failures to arise within critical paths. It remains the case that organisational compliance across a range of regulatory and quasi regulatory areas needs attention to avoid disconnection between operations and good practice once resources become available.

3. CONCLUSION

- 3.1 Projections for half year and year end outturn are being developed. By the time of the November Meeting we expect to be better placed to understand
- the actual position as at half year;
 - emerging trends in income/spend;
 - better (but not fully) the emerging impact of inflationary pressures.
- 3.2 The timely and decisive action of the Council over the past two financial years has been successful in making a range of savings and adjustments by way of mitigating an unprecedented financial threat (pandemic). In areas where it can it has continued to try to make savings - such as staffing. However, the future revenue impact of new inflationary pressures (roughly estimated at £150,000- £200,000 pa) are considerable. Whilst it is possible that some might abate, energy contracts are fixed (subject to no

supplier failure) for 2 and 3 year terms, wages are driven by inflation in part and the insurance market is both volatile and sector restricted.

- 3.3 The Committee will also be mindful of the statutory restrictions which prevent the use of either capital monies held, or loans, for revenue purposes. In other words revenue spend can only be sourced from revenue income.

Next Steps

- 3.4 This stage of the Budget setting process represents the principal opportunity to scope and identify the strategic and financial framework within which the Tavistock Town Council Budget and Precept 2023/24 will be developed. Also to agree any principles which might inform more in depth future deliberations, and set parameters for budget development as appropriate.
- 3.5 Moreover, it provides an opportunity to consider how the Council will set a Precept and/or secure additional income to fund the various matters listed above, most critically (in summary);
- a) Addressing current and future year increased revenue costs;
 - b) Replenishment of all Reserves to safe operating levels in order to cope with either shocks (bearing in mind the size and scale of its liabilities) or future needs/aspirations;
 - c) Any increased costs (over allocated budget) on property works – together with any new costs (e.g. Market Road);
 - d) Maintaining appropriate reserves to deal with outstanding or prospective legal matters;
 - e) The treatment of the Councils property estate;
 - f) The cost of any new projects or initiatives which the Council might wish to promote.
- 3.6 Notwithstanding the range of variables referenced it is anticipated that the most critical judgement the Council will continue to need to make is to estimate what its revenue costs are likely to be both for the remainder of this, and for the next financial year.
- 3.7 Looking forward the Council has the opportunity to apply rigour and discipline in its financial management over the next three

years, address inflationary pressures, alongside a realistic view of capacity to deliver, to restore safe and secure operating arrangements post pandemic and inflation (and perhaps recession).

3.8 The instructions of the Committee and Council are sought.

**CARL HEARN
TOWN CLERK
AUGUST 2022
TAVISTOCK TOWN COUNCIL**