

**TAVISTOCK TOWN COUNCIL
BUDGET AND POLICY COMMITTEE
TUESDAY 20TH OCTOBER, 2020**

BUDGET PREPARATION & PRECEPT SETTING 2021/22

1. PURPOSE OF REPORT

To provide the Committee with an opportunity to consider the basis upon which the draft Budget & Precept for the Financial Year 2021/22 should be developed and related matters. The report should be read in conjunction with the Emergency Financial Planning report previously considered.

2. CORPORATE POLICY CONSIDERATIONS

The effective management of resources and forward planning underpin the delivery of the Town Council's Strategic Plan 2017-2021. 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 impact of Coronavirus 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 following completion of the main capital programme (in the current financial year) the extent of the Council's exposure to impacts consequential on coronavirus materially add to the legal, risk management, financial, compliance and capacity issues facing the organisation.

The Committee will be aware from the service planning process, individual project risk registers and this report, of the unacceptable, if

unavoidable, level of short/medium term risk being taken by the organisation.

4. RESOURCE ISSUES

The resource issues associated with this report are set out therein, they principally refer to impact of coronavirus - availability of finance, staffing/capacity, skills sets and the associated impact of work programme constraints. Attention is drawn, most especially, to the substantial challenges in funding (both capital and particularly revenue) available to support the Council's projected activities and the potential that staffing resource may be overstretched or harmed. In addition, and as previously acknowledged, the rebuilding of reserves remains priority for the Council.

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 in mid-October

7. RECOMMENDATIONS

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

- a) Any principles it would wish to be applied, or areas of change identified, for the development of a draft 2021/22 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 2021/22;
- c) Committee and Council note the possibility that, in view of the uncertainties in the macro environment, it may be prudent to defer the final setting of the Budget and Precept 2021-22 til the Meeting of Council scheduled for 26th January, 2021.

To that end, and subject to (a) – (c) 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 seeks to address the proposed budget for the 2021/22 financial year. As such it is separate from, though necessarily influenced by, in-year impacts on current finances and the uncertainties those pose to the projected financial position as at year end. The Council has previously agreed development of a Medium Term Financial Strategy and it is anticipated this will be progressed in the next financial year as/when (hopefully) the depth and range of prospective scenario's regarding Council finances become less volatile.

- 1.2 Looking ahead the approach being proposed for the Budget setting process for the 2021/22 financial year remains significantly aligned to past practice, namely:-
 - a) Stage 1 – The Committee consider the principles to be applied in, and priorities attached to, the development of the 2021/22 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 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), together with a draft revenue budget and together with overall Capital allocations;
 - c) Stage 3 – Subsequently to consider and recommend;
 - The 2021/22 Tavistock Town Council Budget;
 - The Town Council Precept 2021/22.

- 1.3 Reviewing the position (excluding Covid) the strategic Capital Programme of the Council is moving toward the end of the “delivery” phase in the current financial year. The parallel running of multiple large projects and initiatives, for a small organisation such as the Town Council necessarily increases complexity, risk and demand upon resources and contributes to a challenging

period in respect of both work and compliance even in more 'normal' times.

- 1.4 In relation to these the main activities are completion of the Guildhall Capital works, Guildhall Car Park Public Realm and finalisation of measures in relation to the THI completion (ie as Accountable Body).
- 1.5 Looking to the next financial year there are also the (currently) continuing demands of embedding the restructuring of the Town Hall and Events Team, development of the delivery relationship with Tavistock Heritage Trust (THT) and public conveniences.
- 1.6 However, most significantly arising from Covid there will be the pressing need to address:
 - a) the loss of income incurred in 2020/21 (and potentially continuing in 2021/22);
 - b) consequential measures to restore the General Reserve to appropriate operating levels;
 - c) subject to Coronavirus - the restoration of Council services to more normal operating levels, reinstatement of the staffing establishment;
 - d) remedial governance and compliance activity.
- 1.7 There is also the need to come to a view on the extent to which Coronavirus may have impacted the longer term financial operating model of the Council with particular reference to the resilience of commercial income streams.
- 1.8 To place matters in context in 2019 the equivalent report to Council stated *'the Council is in an unprecedented period of demand upon its resources and challenge to its ability to deliver both "business as usual" alongside ambitious projects. Combined with no uncommitted reserves and increasing projected revenue costs the level of financial/organisational risk attaching to the next budget period and beyond, and related strain upon staff and capacity, will be considerable'*
- 1.9 That position still applies (albeit magnified) and through Coronavirus the Council is now operating a reduced establishment

with accompanying projected loss on budgeted income alongside consequential in-year service closures and reductions.

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) Coronavirus – generally impacting across the organisation including on income, service levels and configuration, also potential demand for different types of public service;
- b) 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 under estimated.
- c) 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 successful, this would require changes in relation to the Pannier Market operating arrangements (potentially also the possibility of HMRC seeking to claw back previous year’s tax from authorities presently operating within the law). There is also the complexity of VAT treatment in connection with the diverse range of projects run by the Council.
- d) Economy – last year it was reported; *there continues to be a degree of uncertainty in the economy at both the national and regional level which has the potential to impact upon Council income streams:*
 - i. *Historically the Pannier Market has continued to generate a consistent level of income in a challenging economic environment. However, there has been a change in traders, including some anchor businesses together with the necessary disruption caused by works undertaken to improve the Market and Surround. It remains to be seen*

as to the extent to which income patterns return to historic norms.

- ii. Commercial properties - more generally it continues to be evident that tenant turnover has been running at higher than historic levels (with associated costs to the Landlord) and continuing downward pressure on the value of leases and lease terms.*

Those trends have been accelerated by Coronavirus with (nationally) predictions of 30-40% of all markets closing, fundamental shifts to on-line shopping and stresses on high street businesses. There is also the uncertainty around (notwithstanding the foregoing) the continuing impact of both the pandemic and associated safety measures on economic recovery.

- e) 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 may provide more clarity.
- f) 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.
- g) Wage settlement – the current national settlement runs to March 2021. Negotiations are still to commence between the employer and staff sides in connection with the next financial year. It is therefore too soon to make a prediction with a reasonable level of certainty. However, the Government is currently committed (subject to any autumn statement) to securing the national living wage at 66% of the median wage by 2024. If that commitment continues the employers’ organisation estimates an impact of not less than 3% additional cost on the wage bill before other adjustments.
- h) Increased Regulatory Burdens – these continue (such as Website Accessibility Regulations in this year), but currently at a lower level given the focus of Government on pandemic and international events.

- i) Partnership Working – the successful achievement of Council goals and objectives and support for the community (such as ‘reopening’ the town centre) 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, National Lottery Heritage Fund) 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 are themselves impacted by the pandemic and public sector/funding cuts which in most cases are expected to continue alongside the period of challenge encountered by this Council. One emerging example of co-working is the communication and collaboration between the Town and Borough Council regarding the financial position of the Town Council and related matters.

- 2.1 Inflation - in addition to the foregoing this report normally includes an estimate for consumer price inflation CPI and retail price inflation (RPI). In view of the impact of the pandemic and the distorting effect of Government economic support measures it is not currently possible to make an informed estimate of what inflation might be over the budget period. The report is also mindful of uncertainties which might affect the value of sterling arising from the success or otherwise of prospective international trade negotiations.
- 2.2 Covid and post Covid - the “knock – on” effect of staff and service cuts to other bodies is expected to continue. It is important to note that in places this has had a substantial impact on the sector. There is also the (re) emerging longer term possibility of a debate in Devon around local government reorganisation now that Cornwall, Dorset, Bristol, Bath and North East Somerset and Wiltshire are unitary and Somerset is anticipated to follow that path.

Organisational Environment

2.3 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. At the time of writing current projections suggest that the requirements of the capital programme (2020-21) can be met (just) within existing budgets subject to a successful application for additional assistance to the National Lottery Heritage Fund. This represents a material dependency (and risk) in budget planning.

2.4 However, at this stage no funds are yet available to deal with overspends (whether or not relating to coronavirus), to replenish the General Reserve (projected to be diminished by iro £400,000 (from £450,000) as at year end (before savings), nor to take forward a range of other anticipated commitments (capital and revenue) not least:-

- Public Conveniences
 - revenue costs;
 - any capital/refurbishment costs;
- commitment to rebuilding other reserves (capital to £500,000);
- Meeting the necessary costs associated with underwriting Tavistock Heritage Trust (THT – see below);
- Ongoing loss of Council Tax Support Grant;
- Funding a Neighbourhood Development Plan;
- Meeting the necessary costs of legal proceedings;
- The potential for end of capital contract variations/adjustments to add to project costs in the current financial year and thereby impact on the position next;
- Any cost/resource based initiatives which might flow from the work being undertaken around sustainability and the environment;
- Addressing organisational capacity and compliance issues;
- Risk areas, such as the Market Road Riverbank boundary, Betsy Grimbal's Tower, emergency building maintenance/repairs, 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. Therefore it is suggested that the Council continue (from last year) a control mechanism for those items which represent 'discretionary' spend (such as NDP, environmental initiatives etc). Namely, utilise the 'localism' budget head to dedicate an affordable sum (amount to be decided) from which Council may draw to fund associated projects and items each year. The Committee may wish to recommend a sum, perhaps £20,000.

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

a) The Guildhall

- i. The Council has committed to delivering the Guildhall Gateway Centre Project based upon the restoration, repair and bringing back into public use of the Guildhall complex incorporating a World Heritage Site Visitor Centre. Delivery of the project to budget, in the present financial circumstances, is critical, as is the active support of Tavistock Heritage Trust – anchor partner.

By way of recap, the Council has an unlimited liability to provide funding to THT for the current stage and for three years after opening, following which it has agreed an arrangement which caps the annual subsidy at an additional £35,000 per annum and other factors in respect of "necessary operating costs". The Committee will be aware that the Council is bound by its contract with National Lottery Heritage Fund to deliver the "approved purposes" associated with the Scheme, any failure to do so having the potential to result in a requirement to repay Grants received. It is provisionally estimated that to operate the Centre once opened Council will need to find (taking into account loan repayment) of in the order of £60,000 per annum (but not necessarily including costs for the Council occupied area).

- ii. Additionally, as the Committee will be aware there is the risk that claims consequential on Coronavirus and other unplanned costs will add to completion costs. In an effort to mitigate impact a submission is being made to funders for a grant uplift, also official opening has been delayed (subject to NLHF consent) to (anticipated) May/June next year. Regrettably application to Pennon for financial assistance toward two components has proven unsuccessful. A Covid related grant from WDBC (iro £18,000) has been notified.

- b) Council Depot – the Council has acquired the Molly Owen Centre site to accommodate its Depot Services and no doubt will, when funds and capacity become available, review the operation and usage of the remainder of the site.

- c) Townscape Heritage Initiative (scheduled to end 2020-21):-
 - i. Accountable Body Status by becoming the “Accountable Body” for the Scheme the Council assumed responsibility for ensuring the probity, good governance and effective operation of a £2.2 million THI Scheme for a period of up to five years and associated liabilities. It is exceptional (and believed to be a national ‘first’) for a “local” council to deliver such a Scheme.
 - ii. Match Funding – the Town Council itself contributed £300,000 over the five year term to the “Common Fund” of the THI Scheme..
 - iii. General -the Council has therefore, in effect, been simultaneously running a series of capital projects for itself for the scheme alongside delivery of the overarching programme of projects scheduled for both Council and private sector landlords to benefit the Town which draw to a close in the current financial year. The evaluation process has just drawn to a close.

d) Strategic Planning – the Council previously placed its Neighbourhood Development Plan on hold pending further developments with both the Local Plan and the review of the Conservation Area Management Plan and Appraisal which, at the time of writing, are subject to public consultation. If this is a matter which the Council wishes to take forward, an overall localism budget is referred to above.

e) 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).
- the Council has previously acknowledged the first priority to be attached to rebuilding the General (and then Capital) Reserve to acceptable, and then appropriate levels – accentuated by Coronavirus;
- Commercial income streams are addressed elsewhere in this report.
- These factors suggest that an appreciable increase in Precept over each of the next two (and likely more) years, is expected to be necessary to meet existing Council commitments (by way of context each 1% Council Tax increase would raise in the order of £7,200).

Other Material Factors –

f) Council Tax base – over the past 9 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, in some other Counties the sector has been advised that as a result of coronavirus impacts benefits claimant numbers are expected to increase with consequential downward pressure on the Council tax base of (currently) in excess of

1%. It is suggested that for Tavistock (and given the extent of new development) a prudent approach might be to work on the basis of no change whilst acknowledging a risk.

- g) 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 extent of increased tenant turnover;
- h) Commercial Income – this has been extensively referenced elsewhere in reporting since March. 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 is necessarily speculative but, in the interests of providing a baseline from which to work:
- it seems reasonable to expect rental (shop) income to potentially reduce by not less than 10% with 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 (should the foregoing be addressed before the new financial year) residual appetite for trading/customer demand;
 - Town Hall/event income is dependent on more 'normal' times.

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.

- i) Funding – as indicated it continues to be the case that beyond the immediate capital programme other initiatives

are not yet fully funded (or in some cases not at all). Many of these Projects may be discretionary, however the Council will be mindful that it has specific obligations such as in relation to Betsy Grimbal's Tower (Scheduled Ancient Monument) and Market Road (both highway and watercourse related). Not least for the latter the identification by the Environment Agency of potential structural issues has the potential to require significant/substantial spend;

- j) Staffing – subject to final review next year (as recently endorsed by Council) the organisation has a fit for purpose and current job evaluation scheme/pay and grading model in place. However, it is recognised that operating without Works Manager, Community & Compliance Officer, two Duty Officers, a Landscape Maintenance Operative and Administrative & Democratic Support Officer til the end of the current financial year places considerable strain on residual resource.

Looking to the next twelve months, and assuming that these budgets are reinstated to provide a sustainable basis for operation after year end, there remains considerable challenge both in reintroducing withdrawn or reduced services, and addressing the shortfall in areas of administration, regulation and compliance. To date the approach of the Council not to add establishment resource to support higher level administrative skills (such as policy development, research, analysis, communications, grant sourcing, project management, community/capacity building, compliance etc) has been justified by progress against major projects and (for those) partial replacement of internal resource with consultancy services. However, there has been an adverse impact on wider organisational governance, residual capacity and increased organisational vulnerability. Also, the ambitions of the current Council point strongly in the direction of skills which are in either short supply or not held at sufficient levels within the Council.

- k) Council Fees and Charges – a schedule of existing fees and charges and proposed new fees and charges for the 2021/22 financial year will be brought before the next round of meetings for consideration. In the largest area of income generation (Pannier Market) your officers are currently reluctant to recommend an increase (which would otherwise normally be due) in current trading circumstances.
- l) Compliance – whilst the Council has restructured aspects of its service delivery to accommodate a more demanding environment it is recognised that, as a small organisation, the adoption of such an extensive and diverse programme of works and activity places considerable strain upon parts of the organisation.

In particular compliance with statutory and other regulatory standards. 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. As at last year 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 next Meeting after October we expect to be better placed to understand
 - the actual position as at half year;
 - in some more detail the position of commercial tenants.
- 3.2 Regarding the continuing commitment for the organisation to seek to make £200,000 savings on existing budgets - it is fully recognised that, assuming such savings can be made, these will necessarily sit alongside uplifts in other budget heads. In other words the savings planned are not a saving on overall organisational spend (and could not achievably be in light of the capital programme position) but rather within and across applicable budget heads. As such the core role of savings is to

protect an element of general reserve (albeit much reduced on recommended good practice levels) and provide some support for Covid costs – be that reduced/loss of income or increased capital obligations.

- 3.3 As indicated earlier the position can change rapidly in light of Coronavirus and also capital activities. However, subject to those caveats the decisive and timely action taken by the Council places it in the best position it can be, taking into account the extent of its commercial exposure.

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 2021/22 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 In addition 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) Replenishment of Revenue Reserves to safe operating levels;
 - b) Any increased costs (over allocated budget)/end of contract variations/additional costs on capital works regarding Guildhall Project and Guildhall Car Park Public Realm this year that might affect the position next;
 - c) Maintaining appropriate reserves to deal with outstanding legal matters;
 - d) Longer-term (once (a) is complete) re-building of capital reserves to acceptable levels – the Council has agreed that these should be not less than £500,000 in order to cope with either shocks (bearing in mind the size and scale of its liabilities) or future aspirations;
 - e) The cost of any other 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 need

to make is to estimate what its commercial income streams are likely to be in the next financial year.

3.7 Whilst the Pannier Market is likely the largest variance amongst Council income streams a similar impact may be anticipated regarding e.g. commercial rents (see confidential report to last meeting), Town Hall (not currently open) and events. The position regarding Coronavirus (in particular), and the local economy more generally, suggest that future income will be difficult to forecast with accuracy. It therefore falls to be decided as to what a prudent assessment of continuing loss of income might be (and hence the reason for suggesting a January Council Tax setting date). At present a working figure of not less than £200,000 may provide a basis for discussion.

3.8 The instructions of the Committee and Council are sought.

CARL HEARN
TOWN CLERK
OCTOBER 2020
TAVISTOCK TOWN COUNCIL