

**TAVISTOCK TOWN COUNCIL
BUDGET AND POLICY COMMITTEE
TUESDAY 5th SEPTEMBER, 2023**

BUDGET PREPARATION & PRECEPT SETTING 2024/25

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 2024/25 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, following Coronavirus, there is the impact of inflation, most especially in areas such as energy, insurance, construction and professional fees, 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 impacts consequential on the Ukraine war/inflationary and also contract 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.

There is also prospective risk attaching to the financial position of other public bodies. Whilst the anticipated completion of the capital works presently under way tends toward mitigating prior risk levels (as regarding capital commitments) the current position shows continuing 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, operational capacity. Areas affected include availability of finance/sustainability of income streams, staffing/capacity, legacy requirements, skill sets and the associated impact of/on work programme constraints. Attention is drawn again, as last year, to the material challenges in funding (capital and revenue) 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. More information will become available after 'half year' and the visit of the Accountant 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 2024/25 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 2024/25.

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 and, in particular, the approach as set out in para 1.4.

1. BACKGROUND

- 1.1 It is important to note that this report principally seeks to address the proposed budget for the 2024/25 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 in the text) 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 Ongoing issues addressed in the last budget round (i.e. for the current financial year) included unprecedented uplifts in energy and insurance costs (revenue) and unanticipated emergency property repairs (Market Road, Museum and Town Hall) (capital).
- 1.4 Looking ahead, the approach being proposed for the Budget setting process for the 2024/25 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 2024/25 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 (i.e. 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 2024/25 Tavistock Town Council Budget;

- The Town Council Precept 2024/25.

1.5 Reviewing the recent position, and looking forward, the strategic/long term major capital improvement programme of the Council has now completed and the emergency works programme should substantially conclude this year. A consequence of that, combined with Covid impacts on income streams, remains a depleted reserve position.

1.6 In certain other respects the position continues to reflect aspects reported last year, i.e. the need to:-

- a) Address the continuing demands of embedding the restructuring of the Town Hall and Events Team (not yet fully staffed)
- b) Re-develop the delivery relationship with Tavistock Heritage Trust (THT) (which may additionally require additional resources reflecting changed responsibilities e.g. meeting 'returning' business rates obligations (iro £11,800), a sinking fund for periodic Interpretation material refresh and replacement (est'd £5,000pa) etc);
- c) Develop the Public Conveniences offer in Guildhall Car Park;
- d) Develop and implement arrangements to meet environmental standards for let properties;
- e) Address any prospective emergency repair works as may arise.

1.7 Excepting the Town Hall and Events Team, the staffing establishment is now operating at normal levels. However, emerging areas such as amended Guildhall delivery and toilet provision (see later) require attention, amongst others.

1.8 Last year Council addressed an unprecedented:-

- a) projected increase in revenue costs in areas such as insurance and energy. Whilst these are now locked in (through fixed contracts) it is acknowledged that inflation both in specific areas (such as professional fees) and more generally continues to represent a challenge;
- b) convergence of unforeseen emergency (capital costs) projects in the form of Market Road Retaining Wall and the Museum.

- 1.9 As indicated previously there is also the need to come to a view on the extent to which
- a) Coronavirus and attendant changes in customer (e.g. out of town/on-line shopping) and commercial (e.g. bank withdrawals) activities may have impacted the longer term financial operating model of the Council, with particular reference to the resilience of its commercial income streams;
 - b) Together with the impact/quantum (and duration) of current inflationary pressures.
- 1.10 The challenge to 'business as usual' outlined in this report last year continues.

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 - currently (and excepting last year when it was 11.8% (July)) with inflation at a 40-year high (RPI at 10.7%, CPI 7.9% (June) 2023) this remains a material issue. In last years' report your officers commented

'whilst some commentator projections are for a fall toward Bank of England target levels next year (2023) 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'.

Whilst other factors, such as political issues in the run up to US presidential elections can be added, most of the above (interest rates apart) continue to exercise a drag on the economy with the added complication of a full employment market insofar as domestic inflation is concerned.

It should also be noted that whilst the effect of entering into multi-year contracts for insurance and energy provides certainty

when budget setting for the contract term, it simultaneously caps against both upward *and* downward movements in prices. More generally the Council will need to make an assessment as to the potential impact of current and projected inflation upon operating costs in the next financial year.

For example, those inflationary pressures 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 in the current financial year);
- iii. Increases in Council operating costs such annual changes in salaries/wages driven both by sector negotiations nationally and legislative requirements (e.g. minimum wage threshold changes, national insurance rates etc).

It is unclear what sectoral inflation in these areas might prove to be, but it continues to be the case that some areas (such as construction) continue to run 'hot'.

- b) Recruitment and Retention, both within the sector and more generally, continues to be a challenge in a 'tight' labour market.
- c) 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.
- d) VAT – the Committee will also be aware of longstanding 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.

- e) Economy – the comments made in recent years still substantially stand in relation to Council services (in particular Pannier Market and commercial properties) and the broader position regarding stresses in retail, inflation, tightness in the jobs market, and poor levels of productivity nationally which add weight to the importance of making realistic projections for the assessment of economic impacts.
- f) 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). This was reflected in the devolution bill. However, stresses on other public bodies may yet feed through (see also see para (j) below)
- g) Localisation of Council Tax – this facility was withdrawn by the Borough Council in 2020 equating to an ongoing loss of income for the Town Council approximating to iro 4% on a Band D property. As such it is no longer an issue. However, it remains technically possible that (irrespective of growth in housing units actually delivered) 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 can have an offsetting (reducing) effect on Council Tax revenue in some circumstances.
- h) Wage settlement – the current national employers’ offer (2023) comprises an employer’s offer of an additional £1,925 across all grades other than where same represents an increase of less than 3.88% (where that figure becomes the operating minimum). It is understood Unite and GMB have rejected the offer and Unison has balloted on industrial action on a disaggregated basis but is not planning to proceed with action. GMB are not opening ballots until September (to align with the return of schools after the Summer holidays) and therefore further developments on this year’s (2023-24) settlement are likely some way off. Therefore, an announcement on whether or not there may be some industrial action in the sector is awaited.

Turning to the recent nature of settlements (a lump sum and not a % increase) it is evident that for a generally lower wage employer such as Tavistock (as compared to a locally high wage employer like West Devon) this will be relatively more helpful to lower paid staff - albeit with a consequential and relatively greater adverse effect on overall organisational cost base. 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, the likelihood or not of industrial action, and the view taken by the unions and employers.

It may also be noted that the Government's 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 lifting of the National Insurance Health and Social Care Levy in November last year. Furthermore, for staff 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, in due course 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 2024-25 might arrive at. Given expectations inflation will continue at a high (above target) level for some time a prudent estimate could be based on an amount broadly similar to that applying for the current financial year at this time.
- i) Increased Regulatory Burdens – these continue but currently at a lower level given the recent focus of Government on other events.
- j) 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 sector bodies (e.g. Devon County Council, West Devon Borough Council,

Cornwall Council/World Heritage Site Office) and voluntary/not for profit organisations (e.g. Tavistock Heritage Trust, Chamber of Commerce, BID Company, etc) to support the delivery of shared goals and objectives. Some of which may appropriately be led by the Council, some by others. Examples of co-working include the development of a Neighbourhood Development Plan for the town, securing World Heritage Site Key Centre status for Tavistock and emerging work around the Guildhall Public Conveniences.

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.

For example, Devon County Council's (DCC) Director of Finance and Public Value has observed *'This trend of rising demand pressure and rising prices is expected to continue into 2023/24, which will create a very challenging financial environment for the council going forward'* and indications are that DCC continues to be financially challenged. In the circumstances, and bearing in mind Devon is the only County in the West of England to retain the three-tier model of local government originating in the 1970's, the repurposing (if not reorganisation itself) of local democracy in the county within the foreseeable future must remain a possibility.

Organisational Environment

2.1 Projects and other initiatives:- the Committee will recall it was agreed in 2022, 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 unplanned extra costs such as insurance, pay settlement etc).

Subsequently it became possible to identify, subject to funding and project progress, two emergency and one priority project (Market Road Retaining Wall, Museum and Town Hall) which are currently in progress. Looking ahead to 2024-25, and when there is greater clarity on the financial position, there will be opportunity to review the RCP. Accordingly, for the time being,

Minute No. 74 (2022-23) continues to apply, i.e. excepting extant emergency works no new capital commitments will be made without having funding in place or the accompanying identification and prioritisation process. The upcoming review of the Strategic Plan (referred to elsewhere on this Agenda) provides the opportunity to support that exercise.

- 2.2 The funding position of any new necessary/desirable projects is not at this time yet capable of being clarified.
- 2.3 Cost base - there also remain uncertainties over certain revenue costs in addition to those previously listed. In particular:
- Public Conveniences – this will become clearer as discussions on pre-refurbishment transfer (including 'make good') and operational cleaning contract costs progress;
 - Guildhall Gateway Centre operating costs – the change of operating arrangement following Tavistock Heritage Trust's (THT) changed status will require greater and different input from the Council along the lines previously reported through the notes of the Advisory Forum. The cost base of this is being assessed and estimates will be provided in the next reporting cycle. However, it can realistically be expected that, in particular business rates will revert to the Council and staffing costs will increase – both to provide a staffing presence and for cleaning. Other matters remain in negotiation with THT.
 - any cost/resource-based initiatives which might flow from the work being undertaken around sustainability and the environment in general;
 - the cost of bringing Council properties up to necessary standards meet statutory energy performance requirements;
 - 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.
- 2.4 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.
- 2.5 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 previously) etc). Namely, to utilise the 'Localism' budget head to dedicate an affordable sum on which Council may draw to fund associated projects and items each year. The Committee may wish to again recommend the sum of £20,000.
- 2.6 More generally within the organisational context the attention of the Committee is drawn at this time in particular to:-
- a) Precept Level:-
- the Council has previously confirmed its overriding priority to be rebuilding reserves to acceptable, and then safe levels – accentuated first by Coronavirus (and subsequently inflationary pressures);
 - Commercial income streams are addressed elsewhere in this report;
 - It is noted that, with changes in bank base rates, public sector borrowing (restricted to capital purposes), is now very expensive by the standards of the last 25 years;
 - The strategy adopted when last setting the budget was to do what was necessary to safeguard the financial future of the Council and then review the position (by way of context each 1% Council Tax increase would raise in the order of a little over £9,000) if/as circumstances permit. A similar approach is recommended.

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, as a result of Coronavirus impacting benefit claimant numbers in some authority areas has led to tax base reductions with consequential upward pressure on the Council Tax. As referenced previously, inflationary pressures could have a similar impact although this is not anticipated. 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 for both parties. Whilst consensus is desirable there remains the possibility of the need to provide additional resources to support appropriate measures 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 (or economic downturn) arrives and the options to support them where appropriate.

- d) Commercial & Other Income – last year this report indicated in relation to commercial income streams and acknowledging the legacy of Coronavirus
- *it remains to be seen if downward pressure on rental (shop) income 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.

Notwithstanding that Coronavirus has receded, the same issues potentially apply going forward in relation to inflationary pressures and a recession. Accordingly, '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. Given the (highly untypical within its sector) reliance of the Council upon commercial activities and associated income, the assessment of the resilience or otherwise of commercial income streams is of central importance to budget planning. In the alternative bank base rates have provided some relief in the form of increased interest receivable on earmarked reserves.

- e) Funding – as previously indicated it continues to be the case that beyond the current emergency repair programme and allocations such as localism (including the NDP) and subject to the review as at the half year mark there are no current funds available for new initiatives. That reflects the 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 until recently been able to make some savings on budgets through vacant posts. However, there is now only one vacancy and it is anticipated that will need to be utilised to meet changed requirements in the Guildhall.

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. At the point Government interventions cease/diminish it is suggested that, in the interests of fairness, the Scheme be revisited.

Organisationally 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). 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 this new Council to audit skills against objectives (and budget) to ensure 'best fit'.

- g) Council Fees and Charges – a schedule of existing fees and charges and proposed new fees and charges for the 2024/25 financial year will be brought before the next round of meetings for consideration. In the largest single area of income generation (Pannier Market) and both following an increase this year and the challenging economic position generally your officers are currently reluctant to recommend another increase. However, this is an area which should be kept under annual review.
- 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. There are also potential impacts arising in areas such as environmental/insulation

standards for lettable properties and the emerging Protect Duty as referenced above.

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 three financial years has been successful in making a range of savings and adjustments by way of mitigating an unprecedented financial threat (pandemic, emergency works and inflationary pressures far exceeding RPI/CPI). In areas where it can it has continued to try to make revenue savings on budget - such as staffing, alongside one-off areas annually. However, the future revenue impact of new inflationary pressures is necessarily uncertain.
- 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 2024/25 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 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) Linking to (b) above and the Strategic Plan Review, the identification of affordable and funded capital projects that might form part of the RCP deliverable over the longer term (such as Burial Ground or Allotment extensions);
- d) Any increased costs (over allocated budget) on property works – together with any new costs;
- e) Maintaining appropriate reserves to deal with outstanding or prospective property maintenance and legal matters;
- f) The treatment of the Council’s property estate;
- g) 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 continue 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 ensure continuing robust and secure operating arrangements.

3.8 The instructions of the Committee and Council are sought.

**CARL HEARN
TOWN CLERK
SEPTEMBER 2023
TAVISTOCK TOWN COUNCIL**