AGENDA ITEM NO 6

TAVISTOCK TOWN COUNCIL
BUDGET & POLICY COMMITTEE
16TH JULY 2018
COUNCIL FUNDING & CAPITAL PROGRAMME

A. PURPOSE OF REPORT

This Report reviews matters pertinent to the financial position of the Council - principally regarding the Capital Programme. It follows on from a review requested to be held in the early part of this financial year following the re-opening of the Pannier Market.

B. CORPORATE POLICY CONSIDERATIONS

The Tavistock Town Council Strategic Plan 2017-2021 incorporates a vision, inter alia, to "….protect the built environment of the town….provide efficient and high quality services." More specifically applicable priorities include:- C5 (Community Assets), EN1/EN2 (Environment), EC4 (Best Value) and EC5 (Income Generation).

C. LEGAL AND RISK MANAGEMENT ISSUES

The Council is subject to a range of statutory and other obligations in the management of its (extensive) investment and community property holdings as part of its overall responsibility for the prudent management of its financial and other resources. The principal risks attaching to the subject matter of this report are the availability of funding and, potentially, capacity to deliver.

D. RESOURCE ISSUES

The Resource issues which potentially arise from this Report are set out therein and represent a significant challenge.

E. COMMUNICATIONS ISSUES

There are no external communications issues arising from this Report at this stage. The report has been subject to consultation with the Accountant to the Council.

F. RECOMMENDATIONS

That the Committee recommend to Council that

i) a review of the loan based option be undertaken in association with the Councils Accountant, including a review of projected capital cash flows and other options available to finance Council initiatives; and

ii) The Committee continue to consider other options to address the funding shortfall; and these matters be prioritised in the budget setting round this Autumn for the 2019/20 Financial Year.

1. BACKGROUND

1.1 The Committee will recall previous reports setting out the projected financial position and extensive capital programme of the Council.

1.2 In particular regarding the position of the General Reserve and capital reserves. In January of this year the Committee and, subsequently Council, agreed the following approach:

a) *To review and replenish the General Reserve*[1] *to typical operating levels. It was acknowledged that the most appropriate time for such a review would be in or after June (when the Council would be in a better position to predict with some degree of certainty future income levels following major works to some of its commercial assets*[2]*);*
b) *To explore the potential to achieve capital receipts which might be used to obviate/defray the need for a loan/loan repayments or to enable early repayment – the Surveyors to the Council to be instructed to undertake a preliminary review of options;*
c) *Linking to (a) above the removal of £140,000 in 2019/20 from the current 2019/20 Rolling Capital Programme thereby bringing the underlying budget back into its (historically) balanced state;*
d) *Address all other possible avenues to effect a budget surplus from 2019/20, thereby redressing (over time) the current General Reserve deficit against policy levels*
e) *To review the existing capital programme, make savings where appropriate and commit to no new capital projects (other than emergency works) prior to the rebuilding of reserves;*
f) *Authorise a public works loan board loan sanction (for up to £350,000 on an interest only 5 year term) in connection with works to the Guildhall accompanied by a costed and budgeted programme of repayments.*

1.3 Previous to that in December the Committee and Council further agreed, inter alia

i. *The prioritisation of measures to ensure the General Reserve operates at a satisfactory level;*
ii. (in relation to the Drake Road Premises) *With regard to the Capital Programme the Council:-*
commission its Surveyors to undertake

[1] NOTE in accordance with the principles of sound financial management and the priority attached by Council the general reserve has been replenished to its agreed operating level of iro £450,000. This has consequential impact on reserve levels available for capital works.
[2] This was particularly driven by the view that the Council needed to understand the implications of works to the Pannier Market. Whilst it is recognised that external (public realm) works are still to be undertaken the building works do not appear to have significantly impacted future income potential.

- *An up to date Market Valuation;*
- *As assessment of the letting potential of the premises if let in part or as a whole;*
- *A preliminary assessment of the potential of the site to be redeveloped for residential use, any uplift in value that could arise and an estimate of the costs of preparing same;*
- *And then review the position.*

1.4 In recent years reserves have been impacted, in particular, by unforeseen &/or unscheduled circumstances, most notably in 3 areas:

a) Acquisition of the Molly Owen Centre (iro £350,000) and costs of bringing into use (est'd £70,000);

b) Agreement to undertake works additional to the THI at the Pannier Market with the extra costs being borne fully by the Council (£200,000);

c) An increase in the[3]allocation associated with the Guildhall project by in the order of £400,000[4].

1.5 This leaves the Council with an anticipated capital shortfall of £632,000 in the current financial year - potentially reducing by (all other circumstances notwithstanding) iro[5] £80,000 year on year[6] for the next two years to approximately £472,000[7] at the end of 2020/21.

1.6 It therefore continues to be evident that the priority for the Council is to avoid increases in capital or other spend in the short to medium term, so as to meet the shortfall.

1.7 It will then be prudent to rebuild capital reserves to an acceptable level. For a Council such as Tavistock with an extensive portfolio of heritage and listed assets it is submitted this is likely to need to be in the range £500,000 - £1,000,000 to cover routine future and also emergency maintenance liabilities. This matter is not addressed further in this report.

1.8 As regards the immediate priority (shortfall) asset disposal has been discussed and is addressed elsewhere on this agenda. However, for

[3] Note this does not take into account increased projected future revenue costs – for example the Guildhall may cost an amount equivalent to an additional 10+%pa on the current level of precept

[4] Note – this could reduce by up to £60,000 if grant applications funded on behalf of Tavistock Heritage Trust in connection with the Guildhall Project are successful with a consequential reduction in the overall shortfall indicated below.

[5] iro = in the region of

[6] Assuming that other costs and income are unchanged

[7] Note – this does not include the potential, as agreed in principle, by the Council to take out a £350,000 loan. However, this is of course balanced by increased revenue (repayment) costs.

the reasons indicated in that report this is likely to only represent at best a partial solution. The Committee will also be aware that capital receipts are strictly ring fenced to capital spend (ie cannot be used for revenue purposes) and of course that assets, once sold, are lost (together with any accompanying income stream or future opportunity value).

2. NEXT STEPS

2.1 The Committee will be aware of the options which have been discussed previously and will also note that, whilst a solution is required, the position is not yet time critical. This is because the spend on the Guildhall is likely to fall mainly in the next financial year and so there is some opportunity to use the budget setting round this Autumn as a base for reviewing next steps and setting out a measured approach.

2.2 The emerging view from your officers is that the first and most important measure remains a prohibition on new projects or any increased spend on existing projects pending a period of normalisation in accordance with recent decisions of Council. To achieve that there will of necessity be a challenging period of consolidation during which the capacity/resources of the Council would realistically be unlikely to bear the weight of new/other/increased activity.

2.3 An option which might merit further investigation could include the reallocation of the (approx £80,000) reducing balance referred to above (para 1.5 refers) from a transfer into the capital reserves to a repayment of a short term loan. If accompanied by an annual transfer, perhaps of £20,000 from property maintenance[8] this would enable repayment of a potentially sizeable loan over a modest time frame.

2.4 Short term funding, if required, is considered preferable because the Council has only recently increased its loan exposure by £500,000 for the THI. It would therefore, it is submitted, be inadvisable to fetter future Councils by a substantial increase in long term debt which was not accompanied by a compensating revenue stream. However, a loan duration of 5-7 years could be considered significantly less onerous on the ratepayer and on future Council finance.

[8] This budget was, until recently, £35,000 but then increased to £70,000 so £50,000 would continue to represent a uplift on the historic allocation.

3. CONCLUSION

3.1 There is not necessarily a single way to address the Council funding shortfall. Any of the options previously discussed have implications over one or more timelines. If the Committee and Council are agreeable it is suggested that your officers, with the Accountant to the Council:

- work up a more detailed review of how a short term loan based proposal might work
- undertake additional work with regard to capital cash flow;

and bring a further report to the Committee at the time of budget setting.

CARL HEARN
TOWN CLERK