

## **AGENDA ITEM NO 4**

### **TAVISTOCK TOWN COUNCIL**

### **BUDGET & POLICY COMMITTEE**

**3<sup>rd</sup> OCTOBER 2017**

### **BUDGET PREPARATION & PRECEPT SETTING 2018/19**

#### **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 2018/19 should be developed and related matters.

#### **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.

#### **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. Other applicable issues are picked up elsewhere in this report.

A phased budget report outlining actual and committed spend against budget is reviewed at each meeting of Council. In addition it is important to note that the extent of the Council's projected Forward Capital Programme and Accountable Body status for the Townscape Heritage Initiative Scheme add significantly to those legal, risk management, financial, compliance and capacity issues facing the organisation.

Attention is drawn, in particular, to the significantly increased and altered financial risk profile of the proposed Guildhall project since the last budget setting round.

#### **4. RESOURCE ISSUES**

The Resource issues associated with this report are set out therein.

## **5. COMMUNICATIONS ISSUES**

The Content of this report has been developed in association with the Council's Management Team.

## **6. 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 2018/19 Budget proposal and associated Precept.
- b) Preliminary review of matters pertinent to the current in-year (please refer to phased budget report submitted to last Council) and projected Capital Programme 2018/19.

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 The approach being proposed for the budget setting process for the 2018/19 financial year is aligned to past practice, namely:-

- a) Stage 1 – The Committee consider the principles to be applied in, and the priorities attached to, the development of the 2018/19 financial year 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) together with a draft Revenue Budget developed on a zero basis together with overall capital allocations.
- c) Stage 3 – Subsequently to consider and recommend:
  - The 2018/2019 Tavistock Town Council Budget;
  - Individual grants to be made within the parameters established in the emerging budget;
  - The Council Precept 2018/2019.

1.2 The past year has been characterised by improved progress against key organisational objectives, most particularly, as regards the Townscape Heritage Initiative and Guildhall Gateway Centre. However, it is recognised that delivery of the project programme is necessarily challenging alongside other ambitious initiatives.

- 1.3 As prefaced in last years report looking ahead (over the next 2-4 years), the Council faces the challenge of fully moving from "development" to "delivery" mode across a range of substantial and ambitious stretch projects, all of which will require appropriate planning, co-ordination and resourcing.

## **2. ANALYSIS**

### External Environment

- 2.1 There continue to be a number of external variables which 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) 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<sup>1</sup>. It should also be noted that a case is progressing through the courts presently where HMRC are seeking to establish whether markets (who can currently provide space without being subject to VAT) might be brought under the VAT provisions. If successful this would require changes in relation to the Pannier Market operating arrangements (and the possibility of HMRC seeking to claw back past years tax from authorities presently operating within the law).
  - b) Statutory consents – a number of Council projects require some form of statutory consent or similar – Planning, Listed Building, Ancient Monument, etc, together with such other consents from Partners and Funders (such as Heritage Lottery Fund or Public Works Loan Board) which necessarily fall outwith the control of the Council.
  - c) Economy – the effect of the economic downturn on Council income stream.
    - i. The Pannier Market has continued to generate a consistent level of income in a challenging economic environment.
    - ii. In addition, there was a turnover of tenants running at a higher than normal level (and associated cost to the landlord) and downward

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<sup>1</sup> ie a cap on increases over 2% unless a referendum were successful (which the Council would have to fund)

pressure on the value of new leases which has been evident for the past two years (though turnover now seems to be stabilising and there has been improvement in debtor levels).

- d) Localisation of Council Tax - confirmation from West Devon Borough Council is yet to be received regarding the impact next year. However, early indications are that there will be a further reduction in projected income associated with the precept resulting from the continuation of government measures for the localisation of Council Tax Benefits. In previous years this has been in the order of 8-11% of the relevant sum.

In recent years the Council has taken the view that the precept should always increase, as a minimum, by an amount necessary to "replenish" this loss of income arising from the change initiated by government policy.

- e) Wage settlements – the current national settlement extends to 2018. Looking forward sector analysts anticipate a 2 year settlement to be likely with proposals along similar lines to the present ie broadly 1% for higher paid staff with a variable increase for the lowest paid. Alongside operation of the "national living wage" there will continue to be the reduction of the current "entry point" pay scales for junior staff including those workers engaged on a casual basis thereby raising the cost of employment for affected roles at a rate greater than the average. Given the manual worker profile of the Council it is projected that recognition of the lowest paid workers will have a disproportionate impact on the salary budget, a prudent estimate overall would be 4-6%<sup>2</sup> over a two year settlement period. Your officers are therefore working on 3% for budget setting purposes.
- f) Increased regulatory burdens – it remains to be seen whether or not the recent trend toward additional layers of costs/bureaucracy being applied to this sector of local government continue under the new government. Information on the sector impact of the General Data Protection Regulations is awaited.
- g) Partnership working – the successful achievement of Council goals and objectives are now increasingly dependent (although not exclusively) upon developing and sustaining effective

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<sup>2</sup> Derived from the Council employers organisation

partnerships with other public sector (eg Devon County Council, West Devon Borough Council, Heritage Lottery Fund) and voluntary/not for profit (eg Tavistock Heritage Trust, Tavistock Area Support Services, Chamber of Commerce, BID Company etc) bodies. The success of the Council will therefore increasingly be 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 substantially impacted by public sector/funding cuts which, in most cases, are expected to continue.

h) Other constraints – in addition to the foregoing, there will be other constraints placed upon the Council, for example:-

- By funding partners. This is most particularly the case with regard to collaborative initiatives with the Heritage Lottery Fund (and Greater Dartmoor Leaf) which require compliance with their own standards and conditions.
  - The availability of access to grant monies or other sources of funding, in particular, the attention of Members is drawn to the extensive (and yet to be fully funded) Capital Programme identified elsewhere in the report.
  - Notwithstanding the down-turn in general price inflation, the continuing increase in inflation with building costs.
  - The possible impacts of the new Local Plan and associated development pressures in/around the Town.
- 2.2 For the first time in a while inflation is likely to be an increasing pressure on Council budgets (CPI<sup>3</sup> running at 2.7% in August). Given the extent of projected spend on capital projects (building inflation often running at a higher rate) this could have a significant impact on spend at a time when, in any event, the overall environment facing the Council continues to be challenging. The more so as Council initiatives move from development to delivery phases. As the Council increasingly looks to external/alternative sources of funding, these constraints and associated costs/capacity implications will necessarily grow.
- 2.3 Similarly, the “knock on” effect of staff and service cuts made by other public bodies is expected to continue. It is important to note that in other places this has had substantial impact on the sector

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<sup>3</sup> Consumer price inflation

as, in some instances, principal authorities have said with little or no notice to communities 'either you fund this service or we cut it'. Also there is the possible merger of WDBC with South Hams and any consequential affects arising.

### Organisational Environment

2.4 Projects and other initiatives – a range of these are presently being taken forward by the Council with a view to delivery over the short-medium term and beyond. A report will be brought before the next meeting of the Committee outlining the implications of the emerging Capital Programme for the Council with particular regard to the availability of funds, organisational resources and capacity. The attention of Members is drawn at this time, in particular, to:-

a) Townscape Heritage Initiative:-

- i. Accountable Body Status – by becoming the "Accountable Body" for the scheme the Council has taken on responsibility for ensuring the probity, good governance and effective operation of the THI Scheme for a period of up to 5 years and associated liabilities. Notwithstanding the availability within the scheme of provision to meet certain direct staffing/administration costs, it continues to necessarily be the case that a significant and continuing amount of resource will be required from the Council for proper delivery of same. It being exceptional (and possibly unprecedented) for a 'local' Council to deliver such a scheme. Moreover, the inflationary pressures referred to above in relation to Council capital spend are already evident in this scheme with consequential impacts on project scope.
- ii. The Council as Landlord – in addition to (i) above, the Town Council, in its capacity as landlord of critical buildings and areas of the public realm, has committed to a major programme of work. It involves the re-roofing of the former Auction Rooms (now complete), fit out and re-roofing the Pannier Market together with improvements to the Guildhall Car Park and Pannier Market surround. Cumulatively the largest and most ambitious programme of repair and restoration undertaken by the Council.
- iii. Match funding – the Town Council itself is contributing £300,000 over a 5 year term to the "common fund" of the

THI scheme. In addition, there are circumstances where it may become liable for match funding commitments from other organisations in the event that they fail to materialise (in its capacity as the accountable body). The Council is therefore in effect simultaneously running a series of Capital Projects for itself under this scheme alongside delivering the over-arching programme of projects scheduled for both Council and Private Sector Landlords. Within this, it needs to be recognised that there are potentially considerable impacts, not only upon the organisation itself, but also in its relations with (through consultation, negotiation and engagement) licensees, tenants and other key partners whose activities may be affected by the upcoming works to Council premises and the essential due diligence associated with an historic estate. It will be particularly important to manage the programme and works on Council owned critical buildings so as to minimise the adverse impact on tenants/licensees and reduce the potential for consequential issues.

- iv. As one of the funding requirements an additional member of staff – the Market Development Officer has been engaged.

b) The Guildhall –

- i. The Council has made application for “stage two” funding from the Heritage Lottery Fund toward the development of a detailed bid based upon the restoration, repair and bringing back into public use of the Guildhall Complex incorporating a World Heritage Site Visitor Centre. Whilst reserving final decision to year end there have been a number of challenges in bringing the project to this stage. Most significantly at this time the considerable financial pressure projected changes in the capital cost and expected status of the delivery partner have brought to bear on Council finances:
  - Increased capital cost to the Council of est'd £334,160 (over and above the £488,000 previously budgeted<sup>4</sup>) ie an increase of 68.5 %
  - Increased running costs over the 20 year contract term (with no allowance for inflation) projected at<sup>5</sup>:

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<sup>4</sup> More recently £466,970

<sup>5</sup> For more information refer to report to Council on 25<sup>th</sup> July, 2017

- £571,000, (or £1,004,230 inclusive of loan<sup>6</sup>)
      - 'best case' scenario
    - £711,000 or (or est'd £1,144,230 inclusive of loan) – 'mid-range' scenario
    - £2,286,000 (or £ est'd 2,719,230 inclusive of loan) respectively<sup>7</sup> 'worst case' scenario.
- ii. Additionally there will be a need to raise in the order of an additional £350,000 loan from the Public Works Loan Board or other sources toward the capital cost of the project alongside (following purchase of the Molly Owen Centre) identifying over the lifetime of the overall capital programme an additional sum in the order of £340,000.
- c) Council Depot – The Council is in the process of acquiring the 'Molly Owen Centre' site to accommodate its Depot services. In addition to the affect on reserves Council will also be mindful of:
- i. The projected cost of bringing back into good order (currently estimated in the region of up to £100,000<sup>8</sup>);
  - ii. Consequential premises costs (eg rateable value est'd £36,000-45,000 so potential business rates iro approx£17,000-£22,000pa plus stamp duty land tax on acquisition estimated at £10,650);
  - iii. Related project impacts of service relocation
  - iv. The imperative to (as soon as the new premises are in Council ownership) divest the obligations of the current units.
- d) THI/Guildhall/Tavistock Heritage Trust – the Council will be aware that a core building block of both foregoing capital schemes (a)-(b) has been the involvement of Tavistock Heritage Trust. The Council continues to work with and support the work of the Trust as a collaborative umbrella organisation for heritage interests associated with the Town. That organisation itself is going through a period of consolidation and change as it seeks to constitute on a long term basis – moving from shadow board to normal operation.
- e) Strategic Planning – the Council has reviewed its own Strategic Plan and it is anticipated that, in addition work will progress in

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<sup>6</sup> Based on a loan of £350,000.

<sup>7</sup> Note also these do not include any prospective loss of rental in relation to the former TIC building at Courtgate or consequential improvements that might be required to secure rear access from Market Road

<sup>8</sup> For which indicative provision has been made in the capital programme (see report to next meeting)

relation to a Neighbourhood Development Plan. The good practice operating model for this is necessarily time consuming, most especially for the lead Members and should, in normal circumstances, have been accompanied by thorough scoping to ensure that there is clarity of purpose, process & outcome. It would be appropriate to make a budget allocation to provide the necessary technical, planning and other support for the process in the next financial year as this is presently unfunded (beyond a commitment to seek grants).

- f) Precept level – this was unchanged for 2 years prior to the last two Financial Years when it increased by 3.76% and 4.18% (including adjustment for localisation of Council Tax) respectively. Additionally:
- As noted previously, Council has 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. Notwithstanding the other draws upon Council resources your officers would continue to recommend that Council is mindful of the extent of the (now much increased) spending commitments it faces and potential inflationary pressures from specific areas of spend (for example arising from delivering a neighbourhood plan, the introduction of the 'national living wage', building industry and general inflation and the need for resources to support current unfunded commitments).
  - Council will also be aware that the anticipated new (ie unbudgeted<sup>9</sup>) commitments associated with the Guildhall project regarding funding and to support Tavistock Heritage Trust in its role as delivery/anchor partner) add an estimated (at mid range scenario) £61,200pa to expenditure. Given that the reserves of the Council are fully committed it would be appropriate/necessary to address this through the precept<sup>10</sup> which would mean a 'double figure' increase.
- g) Capital Programme (summary) – notwithstanding that a report will be brought to the next meeting of the Committee, it is

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<sup>9</sup> Also including the Neighbourhood Plan

<sup>10</sup> Whilst acknowledging that the potential best/worst case scenario range is iro £54,000-£140,000pa.

helpful to recognise to particular challenges/issues associated with delivery of the Council's Capital Programme<sup>11</sup>, namely:-

- Major Works –
    - Guildhall £1m+
    - Pannier Market Surround
    - Pannier Market roof (spanning the current and the next financial year)
    - Guildhall Car Park
    - Molly Owen Centre fit out and occupation.
    - Decant from Crelake units
    - Potential Meadows safety resurfacing<sup>12</sup>.
    - Future extension of the Cemetery.
  - Progress being made
    - against outstanding general repairing commitments (and associated projected costs) – for example Duke Street re-pointing, Abbey Walk re-surfacing, Cemetery soakaway, Rundle Room refurbishment etc.
    - New Capital Works Projects (mostly of a repairing nature) Most specifically, repairs and associated works to residential units at No's 1 – 2 Market Road and the Cemetery Lodge, together with the Cemetery Chapel and to the Council Chamber (current estimate up to iro £12,500).
    - Ancillary Capital works projects. For example the commitment to provide an internal fit-out of the Butchers Hall over the next two months to enable Market use (previously est'd iro £60,000, since increased to £85,000).
- h) Other material factors – Long-Leases:- the Council continues to negotiate with tenants in connection with the rationalisation of long-leases previously granted with a view to securing equity for both landlord, tenant and community. There remains the possibility of a need to provide additional resources to support legal proceedings to protect the position of the Council/ratepayer should that become necessary.
- i) Income/funding –

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<sup>11</sup> It should also be noted that the cost of delivery is necessarily subject to tender returns for each project (and hence may change)

<sup>12</sup> Whilst formal confirmation has not yet been received informal indications are that the Council may be able to access S106 monies to support this.

- Commercial income - this was previously referenced in relation to external factors. Members will also be cognisant of the potential impact of seeking to bring the Butchers Hall thematic market offer on-stream in the next financial year. In particular alongside what may be a challenging period post Pannier Market repairs for that income stream as well as the possibility of other related claims on the Council's funds. It should also be noted that decantment of Pannier Market Traders will in any event lead to a loss of income for that period alongside a further reduction as the Council will be obliged to charge VAT (the Butchers Hall and Town Hall are VAT registered) and it would be inappropriate to raise fees at such a time. Consequently the Council will additionally incur a related reduction in the order of 16.6p for every £1.00 income generated.
  - Funding – it continues to be the case that the Council's capital programme and significant other initiatives are not fully (or in some cases at all - eg Neighbourhood Plan) funded yet. There is therefore an acknowledged level of dependence on monies to be raised either by way of precept, grant applications, disposals, an increase in debt or other sources of income to meet an otherwise potentially significant funding shortfall.
- j) Staffing – the staffing establishment has undergone some change over the past 12 months. The Works Department is subject to a review (to report at the end of the financial year) and will be running for some time without a service manager alongside interim arrangements for the Cemetery Administrator/Assistant. The THI is seeking consent from HLF to better support (in terms of hours contracted) the project, the Council Office will be reporting on staffing capacity issues around year end and next year the progress of managers whose posts are related to qualification attainment will also be evident. It is also recognised that going forward relocation of the Council's administration/democratic/corporate offer to the Guildhall and Depot to Molly Owen Centre will be significant projects.

As the Council seeks to expand its offer, there will necessarily be additional pressures variously for directly employed staff, project related specialists and/or professional support services alongside existing demands. Most especially the resource implications of

procuring, selecting and delivering the Guildhall Project across capital and activity functions with an embedded but distinct delivery partner are significant.

The Council is itself going through a period of transition where new and/or different skills are becoming increasingly relevant and Council has previously recognised that in some areas "key worker" adjustments are necessary. Council has previously indicated that it would wish to undertake a review of the over-all operation of the Job Evaluation Scheme this year or next which ties in well with the position outlined above.

- k) Council Fees and Charges – a schedule of existing fees and charges and proposed new fees and charges for the 2018/2019 financial year will be brought before the next round of meetings for consideration.

#### Capacity & Compliance

- 2.5 The loss of the THI Project Manager last year and associated interregnum pending the new appointment demonstrates the reliance of the organisation upon a small number of key roles. Whilst the Council has re-structured aspects of its service delivery to accommodate a more demanding environment it is important to recognise that, as a small organisation, the delivery of an ambitious programme of works, projects and initiatives over the next few years will place considerable strain upon parts of the organisation at times. The Council has therefore previously determined that this Committee keeps such matters and associated issues around capacity under on-going review in order to mitigate and minimise the potential for failures to arise within critical paths.
- 2.6 There has been positive progress on the stage 1 works to the Butchers Hall (repair) and Duke Street as well as other smaller projects which serve as a helpful template for how Capital Projects may be capable of being delivered in future. However, it is recognised that (so far as Capital Projects are concerned) the Council is rapidly moving from the delivery of a single large project to the parallel running of multiple large projects which will necessarily increase complexity, risk and demand upon resources going forward. Recent history (not least with the Guildhall Stage 2) suggests the ambitious programme of Council works (be they capital or non-capital in nature) is most challenging to achieve within the existing timescales and resource envelope.

- 2.7 It is also the case that organisational compliance across a range of regulatory and quasi regulatory areas needs attention to avoid disconnection between operations and good practice.
- 2.8 Given their nature and scale these therefore necessarily represent the core priorities for your officers over the remainder of this and the next financial year(s) – certainly for this Council term. In key areas the organisation is operating at the limit of its capacity to deliver the existing service plans. Consequently other ways of supporting/resourcing any new or increased demands will be needed alongside a robust appraisal of current priorities appropriate to an organisation of this size. The neighbourhood plan will appropriately be Member led, however all projects require careful consideration to how they are supported, resourced and led given the substantial challenges already facing the organisation and any new calls on resources will need to be prudently assessed. It is also important to recognise that some projects which may not appear onerous or demanding may have a disproportionate impact upon the flexible/'added value' component of the staffing establishment with consequential impacts elsewhere.
- 2.9 In acknowledging these factors the necessity for additional attention to be given to challenges in areas such as control, compliance, policy development and performance management, recognising that other areas still require effective delivery, should not be overlooked.
- 2.10 In the longer term Council may also wish to consider the extent to which the current staffing establishment, both in terms of number of posts and requisite skills sets as a whole, meet the demands of the organisation going forward.

### **3.CONCLUSION**

- 3.1 This report represents an opportunity to scope and identify the strategic & financial framework within which the Tavistock Town Council Budget and Precept 2018/2019 will be developed, to agree any principles which might inform more in depth future deliberations and set parameters for budget development as appropriate.

- 3.2 In addition it provides an opportunity to consider how the Council will set a precept<sup>13</sup> and/or secure additional income to fund the various matters listed above but, in the upper range:-
- a) Estimated long term running costs of the Guildhall at in the order of £60,000<sup>14</sup> each year;
  - b) Shortfall in the capital programme (estimated iro £342,000)<sup>15</sup>;
  - c) One off cost of delivering a Neighbourhood Plan (estimated Council contribution £30,000-50,000);
  - d) Any short term reduction in income/consequential costs deriving from works to Council premises or other factors.

**CARL HEARN  
TOWN CLERK  
SEPTEMBER 2017  
TAVISTOCK TOWN COUNCIL**

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<sup>13</sup> Current precept before adjustment for Council tax ‘support grant’ being £539,547 or £123.45 per band D property.

<sup>14</sup> Mid range projection but note this will not come into affect fully until the next financial year.

<sup>15</sup> Which, according to current projections will principally fall due in the next financial year as the Council moves into the final stages of THI (ends 2019) and Guildhall delivery.