

**TAVISTOCK TOWN COUNCIL
BUDGET AND POLICY COMMITTEE
TUESDAY 31st AUGUST, 2021**

BUDGET PREPARATION & PRECEPT SETTING 2022/23

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 2022/23 should be developed and related matters. The report should be read in conjunction with the Finance 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 (previously delayed but expected in the current financial year) the Council continues to be exposed to impacts consequential on Coronavirus 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 unacceptable, if unavoidable, level of short/medium term risk

being taken by the organisation (albeit projected to reduce somewhat, though to still high levels, if the capital programme can be completed in-budget).

4. RESOURCE ISSUES

The resource issues associated with this report are set out therein, they principally refer to impact/legacy 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 revenue) available to support any new projected activities and the potential that staffing resource is overstretched or harmed. In addition, and as previously acknowledged, the rebuilding of reserves remains the first priority for the Council to ensure a sustainable basis for future operations.

5. ENVIRONMENTAL ISSUES

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

6. COMMUNICATIONS ISSUES

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

7. RECOMMENDATIONS

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

- a) Any principles it would wish to be applied, or areas of change identified, for the development of a draft 2022/23 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 2022/23.

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

1. BACKGROUND

- 1.1 It is important to note that this report seeks to address the proposed budget for the 2022/23 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 now be progressed in the following financial year as/when the depth and range of prospective scenario's regarding Council finances become less volatile. The Council also continues to take mitigating measures to manage financial risk.
- 1.2 Looking ahead the approach being proposed for the Budget setting process for the 2022/23 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 2022/23 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 2022/23 Tavistock Town Council Budget;
 - The Town Council Precept 2022/23.
- 1.3 Reviewing the position (excluding Covid) the strategic Capital Programme of the Council is expected to complete in the current financial year. The parallel running of multiple large projects and initiatives, for a small organisation such as the Town Council necessarily increased complexity, risk and demand upon resources and contributed (even outwith the pandemic) to a challenging period in respect of both work and compliance even in more 'normal' times. Looking ahead these projects move from works to delivery based activities.

- 1.4 In relation to these the main activities are now the scheduled completion this financial year of the Guildhall Gateway Centre Capital works and Guildhall Car Park Public Realm alongside a range of repair projects. Measures in relation to the THI completion (ie as Accountable Body) concluded at the end of the last financial year (although obligations are ongoing).
- 1.5 Looking to the next financial year there are also the (currently) continuing demands of embedding the restructuring of the Town Hall/Market and Events Team, development of the delivery relationship with Tavistock Heritage Trust (THT) and Guildhall Public Conveniences.
- 1.6 Arising from Covid there has been some success (July report to Committee refers) of the pressing need to address:
- a) the loss of income incurred in 2020/21 and 2021/22 (and any ongoing impacts);
 - b) the restoration of Council services to more normal operating levels, reinstatement of the staffing establishment;
 - c) remedial governance and compliance activity; alongside consequential measures to restore capital reserves to safe operating levels.
- 1.7 As indicated last year 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'*. A position that still persisted last year, (albeit magnified) and thereby necessitating a reduced establishment with accompanying losses of 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 – potentially still impacting across the organisation including on income, service levels and configuration, also potential demand for different types of public service, recruitment and retention etc;
- 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 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.
- d) Economy – two years ago 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 were 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 is still awaited.
- 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. As such it is no longer an issue. However, it is possible (certain in some locations), that the council tax base may reduce as more households become eligible for benefits (particularly post pandemic) and the tax base adjusts accordingly. This is not currently anticipated in Tavistock in view of the extent of new build occurring, but it should not be ignored.
- g) Wage settlement – the current national settlement runs to March 2022 but is technically unresolved. The employers offered 1.5% initially and a decision was deferred (in effect pending the outcome of the NHS wage claim) after which a revised final offer of 1.75% (for most grades – 2.75% on scp 1) was made. This offer was rejected by the employee side which is expected to ballot on industrial action. 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 for next year 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 Government retains this commitment it is estimated to involve at the lower end of the scale wage rises of 3.53% pa til 2025 to reach the designated £11per hour with

either consequential erosion on the other entry level grades or consequential uplift.

- h) Increased Regulatory Burdens – these continue (such as Website Accessibility Regulations last 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 Sector (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 development of a Neighbourhood Development Plan for the Town.

- 2.1 Inflation - in addition to the foregoing this report normally includes an estimate for consumer price inflation (CPI) and retail price inflation (RPI). As at June CPI was running above target at 2.4% and RPI 3.9%. In some sectors, such as building supplies, inflation is running especially high due to a combination of factors. It remains to be seen if the increases in CPI and RPI prove to be temporary or the beginning of a structural inflationary economic cycle. Whilst it is not therefore currently possible to make an informed estimate of what inflation might be over the next budget period a prudent assessment would suggest that both measures will continue at significantly above their recent trend and this is likely to impact on Council finances accordingly.

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 – for example the Governments decision that Somerset ‘go unitary’. There is also the (re) emerging longer term possibility of a debate in Devon around local government reorganisation now that Cornwall, Dorset, Bristol, Plymouth, South Gloucester, Torbay, Bath and North East Somerset and Wiltshire are unitary.

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 current requirements of the capital programme can be met (just) within existing budgets following successful application for additional assistance to the KICKstart Fund.

2.4 However, at this stage no funds are yet available to deal with overspends or unforeseen/unplanned capital expenditure/requirements not least:-

- Guildhall Public Conveniences - any capital/ refurbishment costs;
- commitment to rebuilding other reserves (capital to £500,000);
- Meeting the necessary costs associated with full underwriting of Tavistock Heritage Trust (THT – see below);
- Funding the Neighbourhood Development Plan;
- Meeting the necessary costs of any legal proceedings;
- 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, the Chapel, 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 the control mechanism for those items which represent 'discretionary' spend (such as NDP, environmental initiatives etc). Namely, to utilise the 'localism' budget head to dedicate an affordable sum from which Council may draw to fund associated projects and items each year. The Committee may wish to again recommend the sum of £20,000.

2.6 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 aligned to the importance attached to 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 repayments) 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. Fortunately an application to funders for a grant uplift (Kickstart) was successful alongside some support from WDBC and also official opening has been delayed.

- 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 - Town Regeneration Scheme (ended 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 still 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. Residual obligations persist for 10 years.

- d) Strategic Planning – the Council previously placed its Neighbourhood Development Plan (NDP) on hold pending further developments with both the Local Plan and the review of the Conservation Area Management Plan and Appraisal (the latter of which, at the time of writing, are subject to decision by the Local Planning Authority as to how it intends to proceed). The Town Council has decided

to proceed with a NDP and discussions with core stakeholders and associated initiation arrangements are in hand. Looking to the next financial year it is anticipated that a drawdown of grant will take place to supplement the allocated budget. Work is being undertaken by the NDP Steering Group to identify budget requirements.

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). Now that the localisation reduction has been removed a more normal budgeting arrangement will subsist (subject to Council tax base variations (see below));
- the Council has previously confirmed its overriding priority to be rebuilding reserves to acceptable, and then safe levels – accentuated by Coronavirus;
- Commercial income streams are addressed elsewhere in this report;
- The strategy adopted when last setting the budget was to do what was necessary to safeguard the financial future of the Council in the pandemic. Then review the position in this budget setting round in anticipation of a more modest increase in precept (by way of context each 1% Council Tax increase would raise in the order of between £7,000 & £8,000) if/as circumstances permit.

Other Material Factors –

- f) 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, last year as a result of coronavirus impacting benefit claimant numbers

in some authority areas led to tax base reductions with consequential downward pressure on the Council tax. 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 potential 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 over the past year. In short the assessment that Council needs to make is what changes Coronavirus may have on its commercial income streams in general (such as Town Hall and events) and more especially Market fees and charges and also commercial rents. At this point in time any figure remains necessarily speculative but, in the interests of providing a baseline from which to work:
- it remains to be seen if downward pressure on rental (shop) income 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.

- i) Funding – as indicated it continues to be the case that beyond the immediate capital programme and allocations such as localism (including the NDP) there are not currently any funds for new initiatives. That reflects the in/post pandemic consolidation and repair phase the Council is currently in. However the Council will be mindful that it has specific obligations such as in relation to Betsy Grimbal’s Tower (Scheduled Ancient Monument), Market Road (both highway and watercourse related) and the Cemetery Chapel (listed building) which may (or even are likely to) require resources within the next budget period. Investigations are proceeding with the Environment Agency in connection with Market Road;

- j) Staffing – subject to final review of the organisational pay and grading structure as endorsed by Council the organisation has a 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 (now one), a Landscape Maintenance Operative (anticipated to be filled shortly) and Administrative & Democratic Support Officer has placed considerable strain on resources whilst also securing much needed savings during the pandemic.

Looking to the next twelve months there remains considerable challenge both in recruiting to vacant roles in a difficult labour market, 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) often replacement of internal resource supplemented by 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 continue to point strongly in the direction

of skills which are in either short supply or not held sufficiently within the Council which suggests that, when finances are stabilised (hopefully within 3 years) there may be opportunity for a new Council to audit skills against objectives to ensure 'best fit'.

- k) Council Fees and Charges – a schedule of existing fees and charges and proposed new fees and charges for the 2022/23 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 until we have been able to establish the viability of operating at full occupancy. However, it may now be necessary to consider an increase given the completion of capital works (for which the Council delayed increase) and emergence from the pandemic with a period of more normal trading in the second part of the current financial year. Over the course of the past 10 years pitch fees have increased from £8.50 in 2011 to £9.00 in 2012 and then remained unchanged. That compares with rpi equating to iro 24% before compounding. Recommendations will be brought to a future meeting.

- 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 has placed 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. Prior to and then exacerbated by the reduced operational capacity during the pandemic 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;
 - emerging trends in income/spend;
 - any residual/continuing consequences of the pandemic.
- 3.2 The decisive and timely action taken by the Council over the past 18 months has placed it in the best position it can be (albeit still challenging), taking into account the extent of its commercial exposure. This meant in the past financial year the Council was, not without considerable difficulty, successful in making a range of savings and adjustments by way of mitigating an unprecedented financial threat. In areas where it can it has continued to try to make savings - such as staffing. However, as it now tries to remobilise the ability to recruit staff is significantly impaired by a difficult labour market (some posts have now been advertised without success 3 times) which is now impacting its capacity to deliver (nationally the number of vacancies now exceeds 1 million).
- 3.3 As reflected in the prior report to this Committee the success of mitigation measures has for the time being stabilised the revenue reserve position (subject to no new systemic or organisational financial shocks). On that basis and, as already agreed by Council, the overriding priority is now to bring reserves for capital projects back to iro £500,000 and, if at all possible, also provide some additional revenue reserve support to reflect the legal restrictions applying to the use of different categories of funds held by the Council.

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 2022/23 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 all Reserves to safe operating levels in order to cope with either shocks (bearing in mind the size and scale of its liabilities) or future needs/aspirations;
 - b) Any increased costs (over allocated budget)/end of contract variations/additional costs on capital works – together with any new costs (eg Market Road);
 - c) Maintaining appropriate reserves to deal with outstanding legal matters;
 - d) 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 commercial income streams are likely to be both for the remainder of this, and for the next financial year. This alongside the extent to which secondary activities (like Town Hall) develop – either in terms of income and/or cost base, acknowledging that such services historically lose money.
- 3.7 Looking forward the Council has the opportunity to apply rigour and discipline in its financial management over the next three years, alongside a realistic view of capacity to deliver, to restore safe and secure operating arrangements post pandemic.
- 3.8 The instructions of the Committee and Council are sought.

**CARL HEARN
TOWN CLERK
AUGUST 2021
TAVISTOCK TOWN COUNCIL**