

**TAVISTOCK TOWN COUNCIL
BUDGET AND POLICY COMMITTEE
TUESDAY 3rd SEPTEMBER, 2024**

BUDGET PREPARATION & PRECEPT SETTING 2025/26

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 2025/26 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 2024-2027. 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 inflation, most especially (but not exclusively) 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 balanced 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 global/inflationary pressures. Notwithstanding extensive mitigations these potentially continue to 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 anticipated level of short/medium term risk taken by the organisation. There is also prospective risk attaching to the financial position of other public bodies and their commitment to continuing service provision.

4. RESOURCE ISSUES

The resource issues associated with this report are set out therein. They principally refer to inflationary pressures in expenditure and strains on commercial income 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. Notwithstanding positive progress in the rebuilding of the General Reserve the rebuilding of other 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 the 'half year' review 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 2025/26 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 2025/26.

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 2025/26 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 anticipated this will be initiated 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.
- 1.3 In recent years priority issues addressed in budget setting included unprecedented challenges around commercial income (pandemic), uplifts in energy, professional service and construction costs (inflation), insurance costs (changed insurance market), and unanticipated emergency property repairs. In particular appreciation is extended to the Council's Accountant for the application of his sector knowledge and expertise in supporting the Council through this particularly challenging period. The current year has been less exceptional and it is to be hoped that the next financial year may represent return to a more historically typical operating environment.
- 1.4 Looking ahead, the approach being proposed for the Budget setting process for the 2025/26 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 2025/26 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 (ie 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 2025/26 Tavistock Town Council Budget;
 - The Town Council Precept 2025/26.

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 recent emergency works programme is concluded.

1.6 In terms of the position reported last year:-

- a) the Town Hall and Events Team is now fully staffed alongside limited additional resource to support the Guildhall. Overall staffing levels have now normalised post-pandemic (albeit extending the range of activities required in relation to the Guildhall);
- b) The interim Guildhall operating arrangement with THT concludes in March 2025. The Budget (2025/26) will need to reflect future long-term operating arrangements;
- c) The Public Conveniences offer in Guildhall Car Park is in development with West Devon Borough Council (WDBC) and expected to be in place by/in 2025-26;
- d) The development and implementation of arrangements to meet environmental standards for let properties requires progression;
- e) To address any prospective emergency repair works as may arise.

1.7 As indicated previously there remains uncertainty as to the extent:

- a) Pandemic legacy issues and attendant changes in customer (eg out of town/on-line shopping) and commercial (eg bank closures) 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) Of the impact/quantum (and duration) of current inflationary pressures.

- 1.8 Therefore the challenge to 'business as usual' outlined in prior reports continues. One other point – the report does not cover at this time any potential items of significant capital spend. This reflects the position that:
- a) the Council is rebuilding its reserves after recent unforeseen emergency works;
 - b) there is uncertainty around some extant revenue cost bases;
 - c) such capital projects as are envisaged (such as Betsy Grimbals Tower/Still House refurbishment, and any replacement mixed wheeled use leisure facility) are predicated upon grant funding with any Council contribution not exceeding £50,000 per project.

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) Global/National Factors - such as political issues in the run up to US presidential elections, conflict in Europe and the Middle East, the Autumn Statement by the Chancellor of the Exchequer, the approach of the new Government to local authority funding and services, interest rates/inflation and the possibility of sector based industrial action have the potential to impact the sector/Council (as applicable).
- b) Inflationary Pressures - currently the Consumer Price Index is at iro 2.2%. However this follows recent levels as high as 11.8% which have embedded an elevated overall cost base.

Likewise, as noted last year, 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. Furthermore 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 alongside the extent to which existing budget heads appropriately reflect the current cost base.

In that regard inflationary pressures may arise variously, including 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 (where typically construction cost increases have in recent years substantially exceeded CPI in general);
- iii. Increases in Council operating costs such annual changes in salaries/wages driven both by sector negotiations nationally and legislative requirements (eg minimum wage threshold changes, national insurance rates etc);
- iv. Although a sub-set of the above, worthy of note in its own right – energy costs (gas and electric) which come up for tender in the next financial year.

It is unclear what inflation in these areas might prove to be – either overall, or sector by sector.

- c) Recruitment and Retention, both within the sector and more generally, continues to be a challenge in a relatively 'tight' labour market. This can be anticipated to accelerate as local authority pay falls increasingly out of kilter with the rest of the public sector due to employer policy. Potentially accentuated by the approach of local authorities nationally to treat different categories of employees differently leading to skills shortages and remuneration package disparities.
- d) 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. To this can be added the uncertainty associated with the policy of the new Government for the sector in general and, more specifically, so far as local government finance and planning in particular are concerned
- e) VAT – the Committee will also be aware of longstanding uncertainty regarding the position of HMRC in connection with the

potential that 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. There is also the periodic complexity of VAT treatment in connection with the diverse range of projects run by the Council. Goose Fair is under review.

- f) 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. Furthermore, the 'high street' is under substantial structural pressure from altered/altering customer behaviour.
- g) Interest Rates – at current levels both increase the cost of borrowing and provide some support through deposit rate returns. There is currently a general expectation of a downward trend.
- h) Constitutional – the focus of Government previously on international and pandemic issues led to a more limited approach to potential legislation in the Town and Parish Council sector. However, stresses on other public bodies may yet feed through. In addition the direction of the policy of the new Government regarding the sector is, at the time of writing, unclear regarding any impacts arising from the progression (or not) of the Devon and Torbay Combined Authority proposal for a (de facto) fourth tier of local government in some parts of Devon.

In the circumstances, and bearing in mind Devon is the only County in the West of England to retain the three-tier (perhaps soon to be 'four') model of local government principally 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. On a point of continuity the new Government has continued the preference of its predecessor for

the metropolitan model of regional Mayors as the strategic regional 'partner of choice.'

- i) 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 then 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.

- j) Wage settlement – the current national employers' offer (2024) comprises an employers offer of £1,290 (for most posts) approximating in percentage terms from 5.77% at entry level down to a maximum of 2.5% for those posts beyond a certain spinal column point. It is understood Unison and Unite have rejected the offer and will be balloting on strike action. 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 (ie a lump sum and not a common % 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 the lowest paid staff. That is however accompanied by:

- a consequential and proportionately greater adverse effect on overall organisational cost base;
- structural inequalities – for example there are supervisory posts in the Council which around 10 years ago received approximately 25% more than those staff supervised, that is now down to closer to 7% and diminishing.

This means the erosion of entry level pay grades and the consequential degrading impact on the organisational job evaluation scheme caused by the National Living Wage commitment.

Looking to next year the projections the Council makes for the wage settlement will very much reflect 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 in finding an equitable solution both for the sector specifically, and now increasingly in comparison with other public sector pay more generally.

It may also be noted that the previous Government's commitment to rapidly securing the national living wage (nlr) at 66% of the median wage added further pressure to lower wage employers pay bills. The new Administration has yet to confirm a position on this.

When assessing the position in due course the Council will need to decide, for the next financial year, if:

- The number and type of posts will continue broadly as at present;
- What it expects a pay settlement next for the current year (ie 2024-25 in view of possible industrial action) and, most importantly for 2025-26 might arrive at. Whilst such matters are hard to predict on the balance of probabilities it is perhaps more likely than not that strike action will occur in the sector if not this year next unless the differential with the public sector in the round is addressed.

Provision in an amount broadly similar to that applying for the current financial year at this time may therefore be prudent.

- k) Increased Regulatory Burdens – there are no anticipated new changes in this area, however some such as relating to building energy performance and the Protect Duty etc are 'working through'.
- l) 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 are themselves impacted by public sector/funding cuts exacerbated in most cases by inflationary pressures.

There are also those partnerships with funders – such as National Lottery Heritage Fund, English Heritage, West Devon Borough Council (£106 monies)

Organisational Environment

- 2.1 Projects and other initiatives:- the Committee will recall the challenges facing the funding of the Rolling Capital Programme (RCP) in recent years arising from circumstances/events that were outside of Council control/not foreseeable.

Subsequently it became possible to identify and progress two emergency and one priority project (Market Road Retaining Wall, Museum and Town Hall) which are now complete. Accordingly, for the timebeing, Minute No 74 (2022-23) continues to apply, ie excepting extant emergency works no new capital commitments will be made without having funding in place or the accompanying identification and prioritisation process.

- 2.2 The funding position of any new necessary/desirable projects is not at this time yet capable of being clarified but the Budget setting round will assist in this regard.
- 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;

- 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 (ie over and above grant drawdown or approved spend) funding for the Neighbourhood Development Plan (unlikely to apply in the next financial year);
- 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;
- Contributions to projects principally funded via grant assistance;
- 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, if/as necessary 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). Council has recently sought to set the precept at below the prevailing rate of inflation where possible;
- 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 expensive by the standards of the last decade or more (albeit interest rates on deposits have become favourable);
- 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 – (this links to (i) above) 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 inflationary pressures impacting benefit claimant numbers in some authority areas this 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 presently 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 and 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) develops and the commercial options to provide support where appropriate.

- d) Commercial & Other Income – last year, as previously, this report indicated in relation to commercial income streams
- *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 isharder to predict.....;*

Similar issues potentially apply going forward in relation to inflationary pressures and any economic downturn. It is also acknowledged any recession would further impact commercial tenants and associated 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.

- e) Staffing – the Council has a current job evaluation scheme/pay and grading model in place. However, as referred to above, 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, most especially at entry levels and above. This situation cannot be remedied without amendment to both scheme parameters and the overall budget envelope. At the point Government interventions cease/diminish it is suggested that, in the interests of fairness, the Scheme be revisited.

More generally it continues to be the case, as reported last year, that:

'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'.

- f) Council Fees and Charges – a schedule of existing fees and charges and proposed new fees and charges for the 2025/26 financial year will be brought before a future round of meetings for consideration. In the largest single area of income generation (Pannier Market) and both following an increase in fees this year, and the challenging economic position generally, your officers are currently reluctant to recommend another increase at this time.
- g) 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 referred to previously arising in areas such as environmental/insulation standards for lettable properties and the emerging 'Protect Duty'.

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 to four 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 and much will depend on the extent to which inflation meets target and the extent to which that is representative of the Councils cost base.
- 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 2025/26 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 recently undertaken, 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 judgements the Council will continue to need to make is to estimate what its revenue costs (and commercial income received) 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, and continue to address inflationary pressures alongside a realistic view of capacity to ensure continuing robust and secure operating arrangements.

3.8 The instructions of the Committee and Council are sought.

**CARL HEARN
TOWN CLERK
AUGUST 2024
TAVISTOCK TOWN COUNCIL**