

**TAVISTOCK TOWN COUNCIL**

**BUDGET & POLICY COMMITTEE  
TUESDAY 4<sup>TH</sup> OCTOBER, 2022**

**BUDGET PREPARATION AND PRECEPT SETTING 2023/24**

**1. PURPOSE OF THE REPORT**

Further to the provisions of Minute No. 159 to provide the Committee with an opportunity to consider options/avenues to address the anticipated revenue shortfall arising principally from existential events, and to inform more detailed work. 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 Council's Strategic Plan 2017-23. The projected impact upon revenue funding/spend represent a particular challenge to the delivery of the Council's 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.

The substantial projected increases in costs to the Council arising from external factors such as energy price inflation, general inflation (highest in 40 years), and structural changes in the insurance sector, represent a substantial challenge - both to the financial position of the Council, and its ability to deliver planned projects and services.

**4. RESOURCE ISSUES**

The resource issues associated with this report are as set out therein. However, it should be noted that notwithstanding the major impact of Coronavirus upon Council income (a loss of in the order of £400,000), the current revenue position, if not mitigated, represents a greater and continuing year-on-year impact on the revenue position.

## **5. ENVIRONMENTAL ISSUES**

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

## **6. COMMUNICATION ISSUES**

The content of this report has been developed in association with the Council's Management Team and, subject to the deliberations of the Committee and Council, will be subject to review with the Council's Accountant at the next stage of the Budget setting process.

## **7. RECOMMENDATIONS**

The Committee consider how best to address the revenue shortfall projected in the next financial year in principle, together with the acceptability or otherwise of the courses of action listed in para 6.1 below as a basis for working up a more detailed Budget subject to the half year outturn.

### **1. BACKGROUND**

- 1.1 The background to this report is as set out previously and, most recently as considered by the Committee on Tuesday 30<sup>th</sup> August, 2022. As such, and because half year information is not yet available, this report primarily represents a discussion/scoping paper to test potential avenues and inform a more detailed submission to a future round of meetings.
- 1.2 The Committee will be aware, for reasons previously outlined, that a reasonable best estimate of potential revenue pressures for 2023-24 (and thereafter) indicate an anticipated increase in the base revenue (expenditure) Budget (as distinct from capital) of in the order of £200,000pa, before taking into account future/wider inflation. This compares to a current annual precept of £852,554.
- 1.3 The reason for this is primarily (but not solely) driven by unprecedented increases in energy and insurance costs (iro 300-500%) and larger than anticipated costs associated with the subsidy to Tavistock Heritage Trust (THT) for delivery of the Guildhall Gateway Centre approved purposes (not yet capable of being quantified but anticipated to substantially exceed the

allocated annual £35,000) subsidy/grant. Note, these are also increases substantially arising this year, as well as anticipated to continue next) and therefore will require adjustments to the present Budget (as previously discussed and agreed) as well as next. The situation regarding the current year will be addressed after the half year figures become available.

1.4 Alongside these are variables such as the future operating cost of the Guildhall Toilets, the impacts of general inflation (at a 40-year high) and uncertainty around sector pay. In very rough terms the more or less 'known' major increases are estimated in the order of approximately:

i) Energy £90,000 over budget (£140,000 over prior spend);

**NOTE** because the Government Business Energy Relief Scheme runs for 6 months only, it is not a factor in budgeting for the next financial year and (as outlined below), may not benefit the Council this in any event.

ii) Insurance £50,000 over budget;

iii) Pay (nationally set) iro £28,000 over budget;

iv) Grant/subsidy to THT (over and above the allocated £35,000) – not quantifiable. At this time, pending further work and information from THT regarding its cost base). However, a loosely estimated initial range to work from might reasonably be an additional (i.e. over current subsidy/grant) allocation of up to a further £34,000 pa.

1.5 Any projected shortfall in the *current year* revenue Budget (2022-23) has been agreed to be met by a transfer from the Rolling Capital Fund (RCP). This will necessarily have the effect of reducing the capacity to deliver either existing or new capital projects subject to quantum. With that caveat in mind a copy of the current RCP is enclosed for information (Appendix 1 refers).

1.6 Consequently, the Council has prioritised capital works in the following order and *strictly subject to the availability of funding*. As such (excepting only lightning conductor works) these projects are necessarily sequential and contracts will only be let when funding is in place and secured in the allocated order of precedence. In two instances (Market Road and Museum there is

also a potential material dependence on complementary financial support from other bodies).

- a) Market Road Retaining Wall (note discretionary other/associated works such as road markings are currently wholly contingent on new funding becoming available).
- b) Lightning Conductor Works in/around Duke Street;
- c) Tavistock Museum remedial works;
- d) Town Hall repairs to the Mayor's Parlour (Note associated suggested Bay Window and Stairwell works whilst identified in the overall schedule of works in the interests of completeness do not form part of the original priority project unless/until new funding becomes available).

1.7 At this stage any/all other capital/maintenance works will need to be made through the annual allocation to the Property Maintenance cost centre, if/as made.

1.8 As the Committee is aware the wider background is that the Council committed capital reserves (pre-Covid) to the combined delivery of the Townscape Heritage Initiative Town Centre Improvement Scheme (alongside consequential & discretionary improvements to its property base) and Guildhall refurbishment. Whilst that placed a strain on finances, based on past income performance, it left the Council in a still sufficiently resourced financial position.

1.9 However, since then the financial impact of external events on the Council has been unprecedented, in particular:

- a) An unplanned additional £175,000 (over and above that budgeted) was required to complete the Guildhall (thereby removing the residual capital reserve);
- b) Coronavirus had the effect of reducing budgeted income by in the order of approaching £400,000, causing the Council to call upon the General (emergency) Reserve, together with the impact of new and unforeseen inflationary revenue pressures as outlined above (and without taking account of the current emergency works (Market Road/Museum) which were not known when resources were previously allocated).

1.10 Any one of these impacts is substantial in and of itself. But to have each following in close succession - and immediately after

drawdown of reserves for capital projects, is the most unprecedented challenge to organisational resilience since the special budget and precept required in the early part of the century in connection with the then contractual issues around the Town Hall roof.

1.11 Accordingly, this report is comprised of a normal 'part 1' report which looks mitigation and related measures, and a 'part 2' which looks further at structural and other options attendant on the challenging (and varying) circumstances applying to the Council.

1.12 It is also acknowledged (amongst other factors) that the availability or otherwise, both of grant monies to support capital works, and Government intervention on energy, can materially impact the assumptions underlying this report.

## **2. ISSUES AND OPTIONS**

2.1 With that in mind and acknowledging that the projected £200,000 revenue shortfall is necessarily an estimate that will in large part remain so for the duration of the Budget setting process, and including significant variables, it is incumbent on the Council to, inter alia:

- a) Identify what measures can be taken to mitigate, or better quantify, the increases;
- b) More broadly identify where improvements, savings & efficiencies can be made;
- c) Review income streams to ensure that they are set at appropriate levels;
- d) So as to set an appropriate Precept and Budget.

2.2 Measures in hand and proposed (see also para 2.10 below) include:

- a) The Council has previously agreed to retender insurance services prior to the next financial year to retest the market;
- b) The Council has agreed that capital works will only be undertaken when revenue spend is covered and any scheme under consideration is fully funded;
- c) Certain projects – Museum rainwater goods, lightning conductors and Mayor's Parlour external works (note - not including internal works or the other areas of discretionary

work being investigated) were agreed previously by the Council and subject (in part) to transfers of funds year on year. The estimated costs were RWG's £15,000, lightning £25,000-30,000 and Mayor's Parlour £50,000 (but note caveat above). Looking at the RCP it is submitted that Council still considers these its priorities, (or, if not, it substitutes others of not more than equivalent value).

- d) A review being commissioned from a suitably qualified heating engineer to look at the main Council premises heating systems and make recommendations as to the most efficient levels of operation (alongside an officer assessment of minimum heating levels for each building, most especially those not permanently occupied). Also, identification of viable (if available) alternatives in the event of system failure;
- e) Investigations into the availability of grant support
  - i. for critical repair projects (Market Road/Museum);
  - ii. more generally for other medium/high impact works;
- f) For bookable premises that have a high cost of heat/light an energy 'supplement' being added to the booking fee where the service is requested by the booker (e.g. Butchers' Hall heating);
- g) To better understand the potential impact of inflation on capital/repair works an estimate being obtained from a suitably qualified architect/structural surveyor of current and projected sector cost increases;
- h) An exercise, working with THT, to better quantify the anticipated future subsidy draw on Council resources;
- i) See also the range of additional 'mitigation measures' below.

### 2.3 Other cost pressures (excluding the general rate of inflation) include, but are not limited to:-

Cost pressures arising from legislation or contract:-

- a) Energy Performance Certificates (EPC's). The Committee will be aware that legislation imposes an obligation on landlords of both residential and commercial properties to meet new (upgraded) energy performance criteria to be able to let. The position around applicability to listed buildings (which form the bulk of Council stock) is unclear. However, material factors will include:

- i. The extent to which requirements for improvement works are imposed on owners of listed buildings;
- ii. In the alternative the extent to which (for listed buildings) there are either no requirements, or the obligation is more based on what is 'reasonably' practicable (or similar);  
*Note - for both the above discussions with current providers indicate considerable lack of clarity for listed buildings.*
- iii. Notwithstanding the foregoing, the extent to which having an EPC, and then the applicable performance category, becomes a material consideration for prospective tenants (likely heightened by the energy crisis);
- iv. The cost of EPC's themselves (i.e. £90 residential, £200, commercial). The ATTC is currently looking at where the Council does/not have them;
- v. Linking to these, but distinct from them, is the possibility that at some point legislation might require organisations to commission carbon audits of their activities. This is not yet the position but remains a possibility with attendant costs.

b) Salaries (general). Because of the non-standard way in which it was formulated nationally by the employer side, and the emphasis placed upon lower paid jobs (of which the Council has a high %), the employer pay offer 2022-23 significantly exceeded the allocated budget for TTC (and most other Councils). For the next financial year Council will need to come to a view as to what an appropriate provision might be (which in itself will be influenced by the (then) prevailing rate of inflation, moving baseline of the national living wage, and outcome of current union consultations on the in-year settlement).

Another variable will be whether the award is made on the same basis as this year (i.e. focussed on entry level roles at the expense of others), or on a more traditional % allocation across all posts. At this early stage it is suggested that an estimated allocation of between 7.5% and 5% be made,

dependent on whether the Council takes the view the former or latter scenario more likely (and subject to inflation expectations).

- c) Works Department - Out of hours allowance. The Committee will recall the General Manager undertook to consult with staff on and review this scheme earlier in the year. It presently carries a remuneration of £175 for allocated tasks and hours over the weekend. Following consideration the recommendation is that, subject to formal consultation with the Union as necessary, it increase to £200 subject to clarification around the breadth of activities covered (ie including support for services of the Council other than purely parks and properties).
- d) Health, Safety etc – it is acknowledged that work will need to be commissioned by way of external audit and support to update policies and related matters. There will also be activities commissioned around refreshing arrangements for factors such as legionella and asbestos.

#### Other Cost pressures

2.4 There are also such other cost pressures as might arise (notwithstanding the general impact of inflation across all budget heads), which realistically can include:

- a) Vehicle replacement – two vehicles are being replaced in the current financial year through the replacement reserve. However, it is acknowledged the two remaining (and to a lesser extent tractor) are reaching a point where repairs may become less economic over time;
- b) Equipment replacement – funding has been requested for a replacement woodchipper and/or, if possible, replacement ride on mower.
- c) Heating systems – both in the Town Hall and Drake Road Offices are close to the end of their lives and repair may be uneconomic, or not possible.
- d) Public Conveniences – the taking on of the Guildhall public conveniences will incur costs both for refurbishment, repair, maintenance and cleaning. The current budget head is necessarily an estimate.

- e) In the absence of a detailed strategy, and with due regard to the extent of facilities offered, play equipment provision/replacement is an ongoing, if periodic, issue.

#### General

- 2.5 It may also be helpful to note that there are a number of other factors which, at the time of writing, remain uncertain in relation to various cost pressures. Insurance is to be retendered in 2023 – costs may/or may not increase.

- 2.6 With regard to energy prices at the time of writing it appears that the Governments proposed relief scheme for businesses and charities will apply to local authorities – but only for the remaining 6 months of this financial year - so inapplicable to next.

(NOTE however, if the operation of the Scheme is understood correctly it is unlikely to materially benefit the Council even this year. That is because the Council has secured electricity and gas (it believed) at (respectively) iro 41.8kwh and iro 11.9p. The Government Scheme appears to cap business costs at 34p and 10.3p representing an improvement on electricity and a negligible difference on gas. Unfortunately, the new gas contracts for the Council's 3 largest premises are presently in dispute (the General Manager will report orally at the Meeting). Consequently, if those contracts fail it is almost certain that any new contracts entered into now, absent other factors, will be at a considerably higher price than the Council thought it had secured. By way of example the variable rate on the Guildhall is presently around 22p (double that anticipated via prior retender).

- 2.7 More generally, the operating costs of public conveniences and the subsidy made available to THT for operation of the Guildhall Gateway Centre are, in the absence of prior operating costs, necessarily estimates. Note – it is anticipated that costs for projects such as the Coronation will be met (as with the Platinum Jubilee) from the Localism Budget in the normal way.
- 2.8 Income and efficiencies (see also indicative schedule of fees and charges to be circulated under separate cover) - by way of

context it should also be borne in mind that some cost centre budgets which were reduced 'in pandemic' have not yet returned to pre-pandemic levels and, in those cases, the scope for cuts is reduced. In view of the general inflationary pressures applying the operating arrangement for redress within this report is presently proposed as follows:

- a) Seek to address directly the main cost pressures previously outlined (baseline iro £200,000);
- b) Adjust other budgets where cost increases are projected to exceed the 10-12% maximum currently projected by Government;
- c) Subject to input from your Accountant, freeze all other cost centre budgets and agree that any 'in year' underspends be re-allocated to overspend areas.

2.9 Pursuant to (b) above, the areas where Managers have identified cost (or demand) increases anticipated ahead of inflation are, in the main:

- a) Vehicle running costs – increase by £2000 (ageing fleet);
- b) Grounds maintenance – increase by £5,000 (to deliver arboricultural survey outcomes);
- c) Property maintenance (tbd dependent on report of Quantity Surveyor regarding sector pressures);
- d) Cemetery Equipment – increase by £500;
- e) Civic Ball – increase by £750 (note this is a working budget (float) that is replenished from ticket sales, reflecting increased hospitality cost pressures. At year end the 'underspend' is reallocated to mitigate other cost centre pressures or carried forward as a standing figure).
- f) Christmas lights – no increase recommended but a danger area due to ageing units;
- g) Cleaning and rubbish – being kept under review;
- h) Equipment – purchase ride on mower – increase by up to £5,000;
- i) Contract maintenance – this is a risk area but a meaningful quantum is not available – kept under review.

2.10 Turning to mitigation measures themselves in addition to those set out in paras 2.2 and 2.9 above:

- a) Pannier Market –
- i. The Market Reeve is reviewing occupancy levels post Covid. Pre Covid (social distancing/reduced occupancy/ closures) the projected Market income budget was £390,500 and it is anticipated to be more or less back to that level this year. However, Market tolls rose from £9 last year to £10 this which suggests that increasing occupancy back to pre-pandemic levels, if that can be achieved, could provide a material uplift of 5% - 10%;
  - ii. More specifically, and regarding pitch fees, it is suggested that if a further increase is applied, (that is a matter to be determined at a later stage in the Budget setting process), this be both proportionate, evidenced and subject to an agreed cap for a period of 2 or 3 years to provide trading certainty in view of the increase last year and the uncertain trading environment.
- b) Bedford Square – in view of increased energy charges a fee has been introduced by the Market Reeve for electricity usage. In addition, policy arrangements for temporary advertising space, which is prioritised for users of Tavistock Town Council venues, open spaces and partnership activities, but may be hired by others, if deemed appropriate, within the parish of Tavistock and hinterland are confirmed;
- c) Butchers’ Hall – in view of the nature of heating arrangements and associated costs introduction of a supplementary charge where heating is requested.
- d) The return of the play equipment budget to normal operating levels next year - resulting in a ‘saving’ of £10,000;
- e) Proposed introduction, with THT, of charging for entry to the Guildhall Gateway Centre with proceeds specifically hypothecated to meeting the agreed project ‘necessary operating costs’;

f) A suggested general decision to reallocate any current year projected/actual underspends on any cost centres to revenue at the end of the financial year.

2.11 In the interests of clarity, the Committee will be mindful that a Council *cannot* either:

- dispose of Capital Assets and then use the proceeds to offset revenue costs; or
- raise a loan and then use the proceeds to offset revenue costs;

in the way that individuals or businesses can – neither being lawful.

2.12 Consequently, the Council will need to either increase its income and/or reduce expenditure (in practice a mix of the two), in order to meet increased costs. It is also acknowledged that, as referred to earlier, this is not a spike in costs for a single year, but represents for the foreseeable future, an embedded increase in the revenue budget cost base.

2.13 It is therefore evident that the nature and scale of the challenge posed by increased revenue costs require robust measures which mean the normal range of savings and/or increases in income will not be sufficient of themselves to avoid an impact on the Precept.

### **3. ADDITIONAL OPTIONS**

3.1 Further potential mitigations are available subject to severity (refer also to the confidential addendum to this report). Such additional/alternative options could include, but are not necessarily limited to:

- **Grants**

It is self-evident that where projects and initiatives can be either wholly or substantially grant funded, or indeed where a project is essential, any grant funding which can be secured serves to reduce the strain on Council resources. Necessarily subject to avoiding the trap of chasing grants for projects that are non-essential and which would not otherwise merit progression. Looking both at Council priorities, and affordability the following are worthy of progression: -

- a. Market Road Retaining Wall – the General Manager is in negotiation with the Environment Agency to explore the extent to which financial support might become available to assist with the cost of making good this stretch of the flood barrier to the Town;
- b. Town Museum – when plans to the appropriate RIBA standard have been drawn up the Museum will be in a position to make application for supplementary funding;
- c. Bannawell Park – provision of play equipment in Bannawell Park is subject to the availability (time limited) of material Section 106 funding from the Local Planning Authority;
- d. Neighbourhood Development Plan – this is already subject to funding support from locality and further applications will be made subject to project scope and eligibility for support;
- e. General – a review is taking place by the Works Department of core projects/initiatives which could potentially benefit from grant funding, if available. For the top 2 or 3 of these it is proposed that a specialist in sourcing grant funding be engaged to identify available options and if/as appropriate, work up applications on behalf of the Council;
- f. Other – Government Energy Support scheme – see above.

- **Loans**

There remains the possibility, subject to meeting the eligibility criteria of the Public Works Loan Board, of the Council taking out loans for appropriate *Capital* Projects. However, the Committee will be mindful, in particular of restrictions on use (para 2.11 refers) and that PWLB eligibility requirements are more onerous than was previously the case.

- **General Reserve**

No changes are recommended to the base level of the General Reserve; this is in essence the fund of last resort for the Council and should be maintained as such in the event of unforeseen calls upon the Council's resources.

- **Rolling Capital Programme**

Provided emergency works can be funded, and given the continuation of the property maintenance budget (currently £68,750pa), there remains the possibility of suspending, or reducing payments to the RCP on a temporary basis. This could save up to £60,000pa (historically more given virements of underspends at year end).

Although not sustainable year on year for a Council with the asset base of Tavistock, and likely not something your Accountant would recommend, a *one-off* adjustment to enable a graded approach to Precept adjustment is not precluded in isolation. Alternatively, any transfer could be made in the normal way but with a 'lock' attached preventing spend 'til after the half year mark (i.e. subject to understanding the financial position in the round on either capital or revenue as required).

#### **4. OTHER OPTIONS**

4.1 The foregoing sections include some of the principal emergency measures which are potentially available for the Council to deploy. Some are standard, others less so. There are of course more drastic arrangements such as cutting services. However, it is suggested, the impacts on the community that would give rise to at this time do not yet warrant these measures for a Council whose Precept is currently well below that of nearby authorities such as Callington, Launceston and Saltash and broadly on a par with comparable authorities in South/West Devon such as Totnes and Dartmouth.

4.2 Other options fall into the more typical arrangements at budget setting with a particular focus on increasing income and/or reducing costs. Potential structural arrangements are referenced in the companion report to this.

#### **5. REVIEW**

5.1 The Council finds itself in a challenging financial position, in the main through circumstances outwith its control. This is further complicated by virtue of the uncertainties accompanying some of those factors:

- The underlying general rate of inflation (at the time of writing just below 10% (CPI – RPI higher);
- The extent to which certain areas of spend (such as construction) might be running at a different or higher rate (for example some cleaning supplies are projected to increase 30%);
- Uncertainty around the impact of the pay settlement in the next financial year;
- Whether or not it is a cold winter;
- The extent to which THT is/not successful in generating income, subsidising its own running costs, raising grants (and linked unknowns around actual operating costs);
- The actual cost of emergency repair works to premises;
- The lifecycle of various plant and equipment;
- The applicability (or not) of Government energy support measures to the sector;
- The outcome of the insurance re-tender exercise, etc.

5.2 The twofold challenge is therefore firstly adequately predicting the quantum (and duration) of uplift in cost, second finding arrangements appropriate to address it.

5.3 Quantum is important because if one looks through the figures on an historic basis (pre covid) insurance and energy alone accounted for iro 6.5% of the allocated revenue budget (and a lesser % of actual spend). Applying current projected costs against the same overall budget for comparative purposes increases that to a little over 16%. That compares to the 7.1% of overall spend if it were rising only in line with the current cpi rate of inflation.

5.4 Consequently, the principal cost increases referred to in this report are those which are anticipated, in the main, to be running well *ahead* of inflation. But that does not mean that on average general inflationary pressures will not push up the cost base elsewhere, indeed it would be surprising if they did not.

5.5 In practice that means there is greater uncertainty around revenue spend projections for next year than has been experienced before, and a simple application of the rate of cpi is an inadequate tool.

5.6 In the circumstances, and subject to the outcome of more detailed discussions with the Council's Accountant when half year figures become available, your officers best very rough *estimate* is that if inflation comes under control toward the end of 2023 (ie in line with Government statements) then a baseline budget increase needed to reflect inflationary pressures is likely to be in the region of £200,000 as identified previously. If Government projections prove to be over optimistic that will however increase.

## **6. CONCLUSION**

- 6.1 To mitigate the impact of the anticipated increase in spend it is suggested that consideration be given, in principle (i.e. without prejudice to the final decision on the Budget in due course) at this stage, to
- a) Taking the measures in paras 2.2 & 2.10 above forward to the next round of the Budget setting process
  - b) Recommending to the new Council in 2023, when the financial position is clearer (likely at the half year mark) that it consider whether or not to progress any aspects in the confidential addendum to this report, being as they are of a structural and strategic nature;
  - c) In addition, at the next Meeting consider:
    - i. How best to proceed in relation to the Rolling Capital Programme (Para 3.1 RCP refers);
    - ii. Progressing the Grant options listed (para 3.1 Grants refers)
  - d) Acknowledge the need to adopt a precept commensurate with the shortfall, as identified after reviewing the half year position together with more detailed analysis, in due course.
- 6.2 The instructions of the Committee and Council are sought.

**CARL HEARN  
TOWN CLERK  
TAVISTOCK TOWN COUNCIL  
OCTOBER 2022**