

AGENDA ITEM No. 5

**TAVISTOCK TOWN COUNCIL
BUDGET & POLICY COMMITTEE**

**TUESDAY 14th JUNE 2022
COUNCIL FINANCES**

1. PURPOSE OF THE REPORT

To provide the Committee and Council with an opportunity to consider the developing position regarding Council spend, informed by emerging and anticipated budget pressures. This report should be read in conjunction with the outturn Phased Budget Report considered at the last Meeting of the Council, Rolling Capital Programme (RCP - Appendix 1), and the financial statements which will be considered in due course by Council at its June Meeting.

2. CORPORATE POLICY CONSIDERATIONS

The effective management of resources and appropriate forward planning underpin the delivery of the Council's Strategic Plan 2017-23 and support its commitment to value for money, the promotion of best value and continuous organisational improvement. A failure to match expenditure to income, in the absence of effective mitigation, could put the Council in breach of its legal and/or other obligations.

3. LEGAL AND RISK MANAGEMENT ISSUES

A failure to match expenditure to income and reserves could lead, at the higher levels, amongst others, to:-

- a) Inability to meet calls for payment as they become due and associated susceptibility to proceedings for recovery;
- b) Inability to appropriately discharge the express (and implied) obligations (legal and other) of the Council in its various capacities - such as service provider, landlord, employer, contracting body, partner etc;
- c) Potential that work streams in hand are not capable of completion, some of which may carry financial and/or other penalties for failure to complete and/or loss of contingent funding/support;
- d) Increased cost burden on the local ratepayer and/or reduction in service offer;
- e) Inability to meet longer term obligations (e.g. a failure to manage an appropriately funded RCP would lead to a deterioration in the building stock);

f) Consequential reputational damage.

In addition, there are the unknown potential future macro risks associated with local and national economic performance.

Increasingly risks are manifesting themselves in the form of substantial unplanned increases in revenue costs - most especially the insurance and energy markets (alongside general inflationary pressures), and pressures in recruitment/retention.

4. RESOURCE ISSUES

The resource issues associated with this report are as set out therein, in the attachments, and in previous reports (and in part indicated in the section above). Whilst in broad terms these date back to the impact of Covid on Council income streams the Council performed well through a major savings programme in mitigating same.

However, a net impact of that, alongside the concluding of a multi-year capital investment programme for the town centre, was to leave reserves depleted at a time of intense inflationary pressure which is the context to this report. In practice (and subject to the earmarked allocations not changing) the RCP indicates the Council has an estimated £374,376 to cover the foregoing unplanned expenses, and any other projects (such as works to Council property – see the report of the General Manager) in this financial year.

5. ENVIRONMENTAL ISSUES

There are no environmental issues directly arising in connection with this report. However, all areas of spend are subject to review and recommendation at the time of resource allocation through the corporate reporting framework. Clearly some projects (eg Market Road Retaining Wall) have evident environmental implications which will be addressed through the job specification.

6. COMMUNICATION ISSUES

The content of this report has been developed in association with the Council's Management Team and Accountant and is derived from the recent deliberations of the Committee and Council.

7. RECOMMENDATIONS

The Budget & Policy Committee consider, amend as appropriate and recommend that the Council endorse the approach as set out in paragraph 3.2 of the report below.

1. BACKGROUND

- 1.1 Tavistock Town Council has a longstanding and continuing commitment to a prudent approach to its finances. This has been underpinned by provision of :-
 - a) An appropriate General Reserve set above the minimum recommended by sector Audit;
 - b) Appropriate earmarked reserves (EMR) to address foreseeable future calls on resources (including repair and maintenance sinking funds);
 - c) A funded Capital (RCP) reserve (to address both foreseeable and unforeseen/unforeseeable capital requirements) – necessary in view of the size, age and protections applying to the Councils estate;
 - d) Appropriate levels of insurance.
- 1.2 The impact of Coronavirus has previously been extensively reported and this document can be read in conjunction with those reports. In addition, attention is drawn to the accompanying report included on the Agenda for this meeting outlining a list of potential, (but substantially unfunded) projects to Council property.
- 1.3 The RCP incorporates the positive transfers that have been made from savings achieved by the Council. Turning then to the phased Budget Report submitted to the last meeting of the Council, it is evident that through a combination of strong financial management, together with circumstances sometimes outside its control (such as the timing of payments to partners), significant savings were achieved in the last financial year. As such these exceeded projections and are welcome.
- 1.4 In that context attention is drawn, in particular, to:
 - a) The underspend on salaries 4001 (even after adjustment for higher spend on agency/temp staff 4005). This reflects the

major challenges being met in recruiting back into vacant posts. As such these savings cannot be expected to be repeated or, if they are, the pressure upon existing staff may prove unsustainable.

- b) Property Maintenance 4036 – the underspend reflects lack of capacity to address identified projects. As such this is less a 'saving' than an inter-year transfer of previously agreed commitments. The available balances have been transferred to the RCP in accordance with the prior instructions of Council.
- c) Grounds Maintenance 4037 – the same applies as for property maintenance.
- d) Cleaning and Rubbish 4016 this represents a saving on budget.
- e) Park and Ride expenditure – 4048 in the absence of Goose Fair this represents a saving on budget.
- f) Localism 4078 – this represents a saving on budget although note some spend was incurred shortly after year end.
- g) THT Grant 4099 – the funding phase of the project started proper around December 2021. Invoicing arrangements are being worked through. Consequently, the balancing figure will reduce notwithstanding that for the last financial year it is expected there will still be a positive balance. That is not expected to be repeatable (ie it represents a one-off saving) and there is uncertainty as to the future cost base of the facility.
- h) Ex WD Public Toilets 4120 – it is expected the Town Council will take these over in this financial year. Therefore, this is again a one off saving not capable of repetition and future costs cannot yet be accurately predicted.

1.5 It is evident the savings achieved have provided appreciable support to the finances of the Council in excess of projections and thereby enabled:

- The restoration of the General Reserve to the agreed minimum;
- A transfer to the burial ground reserve of £50,000;
- Transfer of the residue to the RCP (but see below regarding the extent to which transfers *out* to meet revenue obligations may be required).

- 1.6 Turning then to notes of caution/concern. Firstly, it is important to acknowledge the savings made in 2021-22 are not repeatable in 2022-23 for the reasons outlined above.
- 1.7 Secondly, and gravely, there has been a major and unexpected increase in certain revenue cost heads since the Budget was set. Most particularly to date:

- Insurance 4025. The Council was on a fixed 3 year deal at iro £26-27,000 pa. Its insurer then withdrew from the Market after 1 year and its new premium is £50,000 pa *higher* at a little under £80,000. A further retendering exercise later this year may or may not see that change (up or down);
- Energy costs. When budgeting (in 2021) the Council was anticipating price increases (when its energy contract was retendered in July, 2022) – potentially in the region of up to 40%. However, the war in Ukraine meant that for electricity (but gas is not expected to be materially different) most recent indications on a bill by bill basis suggest increases ranging from 360% to 900%.

Modelling on that basis means that under a tentative 'better/best case' scenario of a 400% increase, that combined annual spend on gas 4015 and electric 4014, would potentially rise from £44,226 in 2021-22 (also note 21/22 was a mild winter depressing seasonal consumption) to £176,904 (albeit with some adjustment for April – July reflecting the ending of the old tariff).

- 1.8 These are necessarily loose projections at this stage, based on early supplier and broker feedback. As such much can change between now and when energy services are re-tendered later this month. However, unless/until more authoritative data is available it is considered prudent to work on the basis of the most recent currently available information.
- 1.9 Adopting that approach, and looking solely at current insurance and anticipated energy cost uplifts, gives a projected budget

deficit in the current financial year which *could* potentially represent iro in excess of a £150,000 additional draw on revenue. This is a major impact that was unforeseeable at the time of budget setting. Moreover, it does not take account of the impact of inflation running at close to, or greater than, double figures across other areas of Council spend from services and consumables to core running costs.

- 1.10 It is important to note that to protect the financial position of the Council, and in the interests of the ratepayer, for the reasons outlined the effect of the recommendations in this report if adopted will mean that (with the exceptions of the 'essential' projects and (subject to funding) 'let/committed' projects in the accompanying properties report of the General Manager together with routine essential maintenance) no new works contracts or commitments will be committed to or entered into prior to review of the financial position in September.

2. NEXT STEPS

- 2.1 In looking to next steps there are certain factors the Council will wish to bear in mind. These include, but are not limited to:
- a) The level of confidence in the preliminary financial projections given;
 - b) The direction of travel in relation to *the identified costs* year on year;
 - c) The direction of travel in relation to *other costs* year on year –
 - existing; and
 - new and foreseeable (eg public convenience operations, support for the Guildhall offer); and
 - new and unknown (such as recently with the Market Road retaining wall and Museum) ie what next?
 - levels and sources of funding.
 - d) The extent to which a credible and sustainable remedial funding plan can be put in place.
- 2.2 Once again it is necessary to take precautionary measures to protect the financial position.
- 2.3 However, in the short term the positive outturn from last year from one off savings means it would be prudent to await the conclusion of the energy re-tender (when actual costs will be

known, also there will also be more insight into the real costs of supporting the operation of the Guildhall and inflation generally and any savings that can be made this year) before finalising any courses of action. To do so requires not committing spend within the RCP (other than the projects in para 1.10 that can be funded) and continuing to make savings as/where necessary. By doing so a sum of up to £200,000 can be available to be repurposed from the RCP for deployment against the revenue cost uplift in year as/if needed.

- 2.4 Then when there is greater understanding around the revenue cost base, both for this and future years, an informed review can take place of both revenue and capital resources.

3. OVERVIEW

- 3.1 As with Coronavirus, although to a different extent, the Council finds itself once again facing an unforeseen and (at the time of budget setting) unforeseeable external financial challenge. The positive outcome of savings in 2021-22 is, as outlined, expected to provide support in this financial year. However, that still leaves the challenges of:

- a) How the Council will meet increased revenue costs if they are (as expected) persistent year on year, and not for one year only (by way of context a 1% Council tax increase equates to approx £9,000, also capital monies cannot be applied to revenue spend);
- b) Funding future essential, (or indeed desirable), works on Council land;
- c) Recruitment and retention and associated stability of the service offer.

- 3.2 Therefore, in terms of sequencing actions to best mitigate the position, and as indicated above, it would be prudent for the Council to agree:

- a) it endorse no new spend on works (other than routine necessary maintenance from the property and grounds maintenance budgets or those listed in para 1.10 which are funded) until after a review of the prospective calls on revenue after letting the energy contracts;

- b) then at the next (September) Council Meeting review the revenue spend position, taking account of all known and anticipated inflationary and other pressures including any prospective savings;
- c) from that identify anticipated overall revenue costs projected to be incurred by the Council 'in year' and agree an appropriate transfer from the retained amount in the RCP to revenue to fund same;
- d) following on from (c) above, form an initial view on the anticipated quantum of future years increased revenue costs and how these can be met;
- e) identify which, if any, other works projects can proceed 'in year' on a funded basis (see preliminary report of the General Manager accompanying this Agenda);
- f) informed by the foregoing, and as part of the upcoming budget setting round, review the Councils asset base, associated income streams, issues and opportunities for recommendation to the new Council in 2023 in order that it can lead on future arrangements.

4. CONCLUSION

- 4.1 The foregoing sections provide a preliminary backdrop to the current situation, and set out a series of steps which, if adopted and successful, provide a basis to improve near term stability and minimise the impact on the tax payer. Whilst insurance is a known cost (additional £50,000 pa despite a clear no claims record), energy costs are volatile on a day by day (even hour by hour at times) basis and general inflationary pressures – depth and duration, are as yet hard to predict.
- 4.2 In practice that may mean that the suite of measures needed in the longer term to address the anticipated increased call on revenue may need to extend beyond conventional savings/efficiencies and tax base to include factors such as service reconfiguration, demand management, invest to save, priority review and the like.

- 4.3 As referred to in a previous report the challenge posed should not be underestimated - either in terms of the uncertain nature of factors outside the Councils control, the intense pressure it will place on staff to deliver with limited resources, or the discipline it will ask of elected Members. Until stability returns that means inevitably some things the organisation would like to do, or it needs to do, or the public expect it to do, may not be achievable.
- 4.4 The core requirement remains adequate anticipation for, and resourcing of, projected increased calls to meet standard operating costs in future years. The tentative view of your officers is that, all other factors being equal, the situation is manageable this financial year and, subject to the autumn review recommended previously, next. However, to do so will require imagination, discipline, and in all likelihood a re-purposing of future income that would have historically been allocated to the RCP to revenue, a review of the tax base and a re-evaluation of prospective future initiatives.
- 4.5 For the reasons outlined review in the autumn budget round will provide a more rigorous and better informed assessment of the viability of that view.

5. RECOMMENDATION

- 5.1 That the Committee and Council consider and endorse the approach as set out in paragraph 3.2 of the report above.
- 5.2 The instructions of the Committee and Council are sought.

**CARL HEARN
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TAVISTOCK TOWN COUNCIL
JUNE 2022**