

Medium Term Financial Plan and Capital Programme Update 2017/18

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Purpose of Report

1. To update members of the current position on the Medium Term Financial Plan (Revenue Budgets for 2017/18 to 2021/22) and the Capital Programme.

Forward Plan

2. This report appeared on the District Executive Forward Plan for January 2017.

Public Interest

3. This report is an update on setting the Council's budget for the next financial year 2017/18 and beyond.

Recommendation

4. That the District Executive:
 - a) Note the current position and timetable for the Medium Term Financial Plan and Capital Programme;
 - b) Approve in principle the savings and additional income outlined in Appendix A;
 - c) Approve in principle the additional budget pressures outlined in Appendix B;
 - d) Note the impact and position of general fund balances as outlined in paragraphs 29 and 30;
 - e) Approve the internal borrowing policy document and the setting up of an internal borrowing reserve of £1m as detailed in Appendix C;
 - f) Note that all capital bids are being deferred pending an update to the Annual Action Plan within the approved Council Plan;
 - g) Note the current status of funding for Disabled Facilities Grants and that a guarantee has been sought from SCC to enable grant applications to continue to be assessed and approved.

Background

5. The Medium Term Financial Strategy and Medium Term Financial Plan report for the financial year starting in 2017/18 was presented to District Executive in September 2016 outlining the approach to balancing the budget. This report updates members of the current position and requests an "in principle" approval to enable officers to consult on individual savings proposals.

The Autumn Statement

6. The Autumn Statement was announced on the 23rd November 2016. There were a number of announcements that will affect SSDC's budgets going forward including:-

- Devolution remains at the heart of this government's approach to supporting local growth;
- An increase in mandatory rural rate relief to 100% to ensure that rural businesses are not disadvantaged;
- Funding of a £2.3bn housing infrastructure fund, and a further £1.4bn for an additional 40,000 affordable homes.
- More funding for Local Enterprise Partnerships in a bid to tackle productivity and growth, as well as more cash for transport, infrastructure and broadband, including 100% business rate relief for five years for fibre infrastructure.

The Medium Term Financial Plan

7. Figures provided at this stage are still indicative and will continue to be amended until the budget is finalised in February 2017. Budget savings have been included to date and it is estimated that the budget for 2017/18 is balanced pending the final details being confirmed:-

	2017/18	2018/19	2019/20	2020/21	2021/22
	£'000	£'000	£'000	£'000	£'000
Base budget	17,291.3	17,791.6	16,709.1	16,291.4	16,347.0
Additional payroll requirement	911.3	219.2	202.4	191.1	134.7
Inflation allowance on contracts	129.8	163.5	166.8	170.1	173.5
Unavoidable Budget Pressures	718.8	286.9	162.8	319.8	322.8
Savings	(938.5)	(1,011.9)	(663.9)	(52.3)	349.0
Revenue effects of Capital Programme	70.9	99.2	4.7	30.3	(5.9)
Once-Off Expenditure	(392.0)	0.0	0.0	0.0	0.0
Total Budget Requirement	17,791.6	17,548.5	16,581.9	16,950.4	17,321.2
Financed by:					
Revenue Support Grant	802.6	268.9	0.0	0.0	0.0
Council Tax Reduction Scheme Grant to Town and Parish Councils	(104.1)	(34.9)	0.0	0.0	0.0
Rural Services Delivery Grant	133.4	102.6	133.4	0.0	
Transition Grant	57.0				
Council Tax Precept	9,340.3	9,770.9	10,221.9	10,605.6	10,887.1
Council Tax Funding for the Somerset Rivers Authority	(112.3)	(118.4)	(124.0)	(128.6)	(132.0)

Surplus on Collection Fund (Council Tax)	0.0				
Business Rate Income	16,860.0	17,280.0	17,680.0	17,740.0	17,740.0
Business Rate Tariff	(13,140.0)	(13,560.0)	(14,040.0)	(14,040.0)	(14,040.0)
Negative Revenue Support Grant to be Deducted from Business Rate Income			(330.0)	(330.0)	(330.0)
Confirmed New Homes Bonus to Support Revenue Budget	3,000.0	3,000.0	2,750.0	1,508.0	
New Homes Bonus Requirement Future Years	0.0	0.0	0.0	992.0	2,250.0
MTFP support from balances	954.7				

	17,791.6	16,709.1	16,291.4	16,347.0	16,375.1
Budget Shortfall	0.0	(839.5)	(290.5)	(603.4)	(946.1)

Assumptions Made

8. There are several assumptions in line with the MTFS as part of the overall estimates contained therein:

	2017/18	2018/19	2019/20	Notes
Inflation	contractual obligations	contractual obligations	contractual obligations	Assumes inflation remains below 2%
Council Tax	£5.00 per Band D	£5.00 per Band D	£5.00 per Band D	Assumes that an additional £5 is added each year
Pay	1%	1%	1%	
Pensions	13.9% plus £1,240k As of 8/12 16.1% £1,556k	13.9% plus £1,440k As of 8/12 16.1% £1,580k	13.9% plus £1,440k As of 8/12 16.1% £1,604k	Assume employers contributions increases as per actuarial valuation
Investment Income	Base 0.25%	Base 0.25%	Base 0.25%	Assume no change to interest rates
Revenue Support Grant	-52.1% -£0.88m	-66.5% -£0.53m	-223.1% -£0.6m	Based on the accepted government multi-year settlement
Non-Domestic Rates	-5.3% -£208.2k	0% £0k	1.65% £60k	Estimates based on 2016/17 NDR1 and Government baselines
New Homes Bonus	£3.9m	£2.5m	£2.7m	Based on Government figures for 2017/18 and then reducing from 6 to 4 years.

The Council Plan

9. Members approved the new Council Plan in April 2016 and as part of that approval agreed that an Annual Action Plan would be provided at the same time as the budget to ensure that there were sufficient funds in place for the Plan. Although the Annual

Action Plan has not yet been completed for 2017/18 the revenue budget still reflects the overarching Council Plan that was approved (see Appendix D). However, it is recommended that all new capital bids are deferred until the Action Plan is updated and approved by members.

Pension Costs

10. SSDC received provisional pension figures on the 8th December 2016. These indicated an overall increase in pension costs of £749k compared to 2016/17 and £549k more than budgeted for in the MTFP reported in September 2016. The actuary has been asked for a detailed explanation that will be sent to members as soon as it is received. The initial explanation received outlines that the Government Actuaries Department will be undertaking a review of LGPS valuations/contributions under section 13 of the Public Sector Pensions Act with the likelihood that it will force increases in payments upwards. This has meant that the actuary for Somerset's pension scheme has built additional prudence into the discount rate driving the overall contribution rates up in advance of that inspection.

Government Settlement

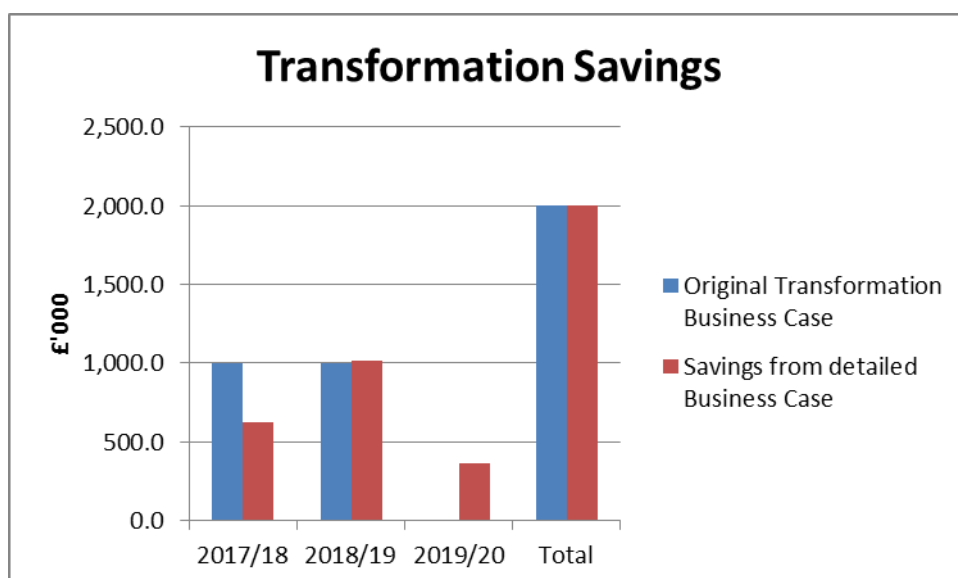
11. Following Full Council approval on October 13th 2016, SSDC accepted the offer of fixing its Government settlement for the next three years.

Financial Year	Revenue Support Grant (RSG) £'m	Rural Services Delivery Grant £'m
2016/17	1.675	165.3
2017/18	0.803	133.4
2018/19	0.269	102.6
2019/20	-0.330	133.4

The settlement announced on the 15th December has confirmed these figures. Amendments have however been made to NDR to adjust for revaluation.

Savings

12. Savings plans are outlined in Appendix A. Members are requested to approve these in principle at this stage to enable any required consultation to take place.
13. Transformation savings have been reprofiled (as shown in the chart below) in line with the detailed business case, produced in October 2016, confirming that the £2 million already allocated to the MTFP is achievable. The proposed timetable for implementation has required £357k of balances to be proposed to be utilised in 2017/18 due to the timing of savings being achieved. The detailed business case outlined that further investment in the project is likely to be required to deliver it within the timetable set out and to maximise the customer and efficiency benefits. This is not certain at this stage and will depend on a number of factors including the outcome of the technology procurement process. An updated report will be presented to District Executive and full Council for further funding once figures for the procurement of the ICT have been obtained. In the meantime the project is continuing without locking into long-term contracts as stopping the project at this point will delay savings further, with resultant pressures on the budget.



14. Income generation savings are being added but only when the project has been confirmed. Therefore the “target” of £800k is not included in the MTFP at the current time.
15. The revised waste collection and recycling model savings have been included in the MTFP as well as an allowance for an increase in costs once the service is retendered in 2021.

Unavoidable Budget Pressures

16. Members are requested to approve in principle the unavoidable budget pressures attached at Appendix B.

Council Tax

17. The MTFP currently reflects a £5 increase in council tax for 2017/18, 2018/19, and 2019/20 followed by annual increases of 2% per annum. The Government has included an expectation that authorities will utilise this ability within their calculations of “spending power”. The Government has outlined that an increase greater than £5.00 will result in a local referendum.

Somerset Rivers Authority and Council Tax Impact

18. The Government amended the Somerset Council Tax Levels last year to a notional amount to allow each of the Somerset authorities to raise 1.25% towards interim funding for the Somerset Rivers Authority. This will continue for 2017/18 pending legislation that will enable the SRA to become a separate precepting body.

Council Tax Support Scheme

19. Members of the District Executive will be asked to approve the scheme for 2017/18 in January 2017. The Medium Term Financial Plan currently assumes the same number of recipients as at the end of November 2017 will continue into 2017/18. The estimated budget is £8,556 million compared to £8,478 million in 2016/17. This results in an increase in costs of £0.078 million in 2017/18 of which SSDC’s share is £8k.

20. The Government grant to support the Council Tax Scheme for local authorities and town and parish councils has been absorbed into Revenue Support Grant and cannot be identified separately. Members approved in September that £104,000 would be passported to Town and Parish Councils for 2017/18.
21. As the reduction in Revenue Support Grant has been frontloaded the reduction in grant to the Town and Parish Council will also reduce at a faster rate and the MTFP currently reflects that there will be no allocation by 2019/20.

Non-Domestic Rates

22. In 2013 the Government introduced Non Domestic Rate (NDR) Retention that passed some of the risks and rewards from NDR to local authorities. Each local authority must set a budget for the NDR they expect to retain and in South Somerset this has been delegated to the S151 Officer (Assistant Director – Finance and Corporate Services) because of the considerable time constraints in place. Central Government requires the budget to be set by the 31st January 2017.
23. The current MTFP reflects an estimate of the 2016/17 NDR1 and is £300k above the baseline in 2017/18 and £200k above the baseline for 2018/19. There are a number of adjustments that the Government has introduced because of revaluation and we are still awaiting the final valuation list. The budget for 2017/18 may therefore be set on this estimate if the work cannot be completed on the NDR1 in time.
24. SSDC has participated in the Somerset NDR Pool over the last two years. However, the decision has been made to withdraw from the pool because of the risks of NDR revaluation and also the request for NDR relief by NHS Trusts. The Local Government Association is assisting local authorities with the latter and SSDC will contribute £6,300 towards the associated costs.

New Homes Bonus

25. In October 2012 members agreed that New Homes Bonus would be mainstreamed as part of the overall funding package for SSDC services. This is because in effect it is top-sliced from Revenue Support Grant and then reissued as New Homes Bonus. SSDC has received a provisional figure of £3,862,682 for 2017/18.
26. Previously a sum equivalent to 80% of the average annual council tax is received in grant for every new home once occupied. This sum is payable for six years with an additional bonus of £280 (80% of £350) for every affordable home occupied. The Government has laid out the following as part of the annual financial settlement:-
 - The introduction of national baseline for housing growth of 0.4% and NHB will only be paid for new homes built and occupied above this (so SSDC will not receive NHB for around the first 300 new homes built each year).
 - From 2018/19 the Government will consider “withholding New Homes Bonus payments from local authorities that are not planning effectively, by making positive decisions on planning applications and delivering housing growth”.
 - The Government will also consider withholding payments for homes that are built following an appeal although this will follow further consultation;
 - A reduction will be made in the number of years for which payments are made from 6 years to 5 years in 2017/18, and to 4 years from 2018/19.

27. SSDC had already made a prudent assessment of future payments and with 2017/18 provisional figures can fund £3 million within the MTFP up to and including 2019/20. However, it is expected that further cuts will be made and therefore the Council's dependence on this income should be reduced. The MTFP therefore reflects a reduction of £250k per annum reliance on NHB from 2019/20. This would mean that even if SSDC did not receive any further NHB the MTFP would still be supported by £1.5 million in 2020/21.

Public/Stakeholder Consultation

28. It is recommended that individual savings and additional income plans that are approved in principle are individually consulted upon where there is partnership, economic, or equalities issues to consider.

Impact on Balances

29. Members approved the Transformation Project in March 2016. Some of the £2.7 million funding required, was offset against the Medium Term Support Grant in 2019/20 (from NHB) to give a longer period of time to fund the revenue consequences. To date this has reduced to £1.5 million with a target of £0.5 million to be offset against capital receipts that can be utilised for revenue purposes. Therefore for financial planning purposes the project as approved still requires funding of £1 million.
30. It is possible that further funding may need to be found but this will not be known until the procurement exercise has been completed for the technological solution and will be found from the original allocation that was set aside in the 2016/17 budget of £2 million.
31. The current budget for 2017/18 requires £0.955 million of revenue balances which would leave our balances at £2.9 million and at the bottom of the range required to meet our financial risks. The reprofiling of Transformation savings was expected but the increase in pension contributions was not. Members need to be aware that any reduction below this minimum would mean that any future requests for balances require full Council approval until balances have been replenished. Therefore in year budget monitoring and further use of balances need close scrutiny to manage this.

Budget Scrutiny

32. This report will be presented to Scrutiny Committee in January before District Executive and full Council in February 2017.

Diversity and Equality

33. Each saving put forward has been reviewed by the Equalities Officer to ensure that any impact the saving will have on diversity and equality has been assessed and to ensure that any issues are highlighted to members before a decision is made.

Capital Programme 2017/18 to 2021/22

34. Members are requested to defer any decisions on capital bids until the revised Annual Action Plan of the Council Plan is approved to ensure that all bids can be prioritised fully. There are no bids at present that are fundamental to the functioning of any service at the present time.

Disabled Facilities Grants

35. Disabled Facilities Grant remains a statutory requirement of District authorities although the funding is now made through the Better Care Fund. Funding for DFG's has been ringfenced for the last 2 years but this ceases next year. Somerset County Council has been requested to guarantee that at least 25% of the £984k required will be passported to the District Authorities to enable SSDC to approve allocations in advance. The recommendations as set out in this report reflect this request.

Internal Borrowing

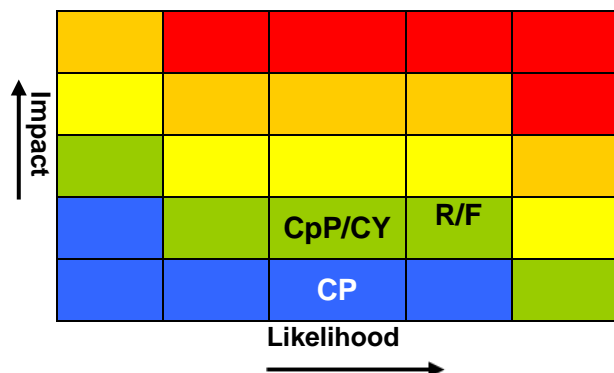
36. The Capital Strategy outlined in the October 2016 Medium Term Financial Strategy report introduced the use of SSDC capital for internal borrowing. This would be utilised in two ways:-
- Internal borrowing would be used for future capital schemes as part of efficient Treasury Management;
 - Replacement assets such as equipment and vehicles could be funded through capital rather than leases
37. The latter links to the Financial Procedures Rules that state "The Assistant Director Finance & Corporate Services shall ensure that there is sufficient budget as outlined and calculate whether a lease or purchase through internal borrowing is the best financial option". However there is no simple mechanism to free up capital funds to facilitate this. Members are therefore requested to approve the procedure outlined as attached at Appendix C. This outlines a process for replacement assets where a revenue budget for lease payments already exists. It is requested that the use of capital for this purpose is delegated to the Assistant Director – Finance and Corporate Services or the S151 Officer. For new assets that require additional revenue funding it is recommended that authorisation is sought from District Executive.

Next Steps

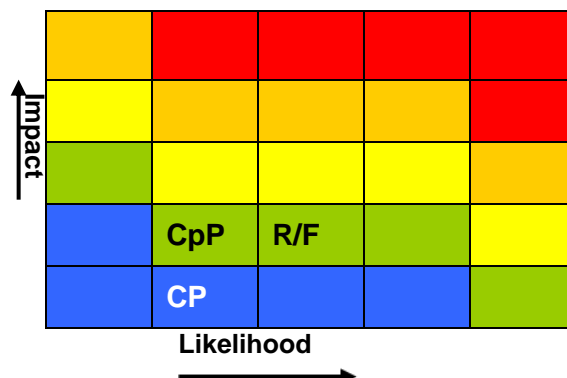
38. Work on the budget for 2017/18 will continue until February 2017. There are a number of issues and final adjustments outstanding:-
- A budget for NDR will be set in January 2017;
 - Confirmation of New Homes Bonus will be given in the middle of January 2017;
 - Members will also review the results of consultation and equalities impacts of the savings outlined before approval in February 2017;
 - Government Grants will be finalised by the middle of January 2017;
 - The Council Tax Reduction Scheme will require approval in January 2017;
 - The level of Council Tax will be approved in February 2017 and Council Tax surpluses in January 2017 as part of the MTFP;
 - Use of Balances and final utilisation of NHB will be approved in February once the overall position of the MTFP is known.

Risk Matrix

Risk Profile before officer recommendations



Risk Profile after officer recommendations



Key

Categories		Colours (for further detail please refer to Risk management strategy)	
R	= Reputation	Red	= High impact and high probability
CpP	= Corporate Plan Priorities	Orange	= Major impact and major probability
CP	= Community Priorities	Yellow	= Moderate impact and moderate probability
CY	= Capacity	Green	= Minor impact and minor probability
F	= Financial	Blue	= Insignificant impact and insignificant probability

Background Papers

District Executive Reports

- February 2016
- September 2016

Council Reports

- February 2016