

## **2018/19 Draft Budget and Medium Term Financial Plan Update**

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### **Purpose of the Report**

1. The purpose of this report is to provide an update the latest estimates for 2018/19 draft budget and Medium Term Financial Plan estimates for the period 2018/19 to 2022/23, together with an update on the Capital Programme.

### **Forward Plan**

2. This report appeared on the District Executive Forward Plan with an anticipated Committee date of December 2017.

### **Public Interest**

3. This report is an update on setting the Council's budget for the next financial year 2018/19 and the council's longer term financial sustainability.

### **Recommendations**

4. That the District Executive:
  - a. Note the current estimates and next steps in respect of the draft Medium Term Financial Plan and Capital Programme.
  - b. Approve in principle the changes to budget estimates in respect of pressures and savings included within the report (paras 13,14,15).

### **Background**

5. The Financial Strategy and Medium Term Financial Plan estimates for the period 2018/19 to 2022/23 were approved and noted by the District Executive on 7 September 2017. This was supported by an informal briefing available to all Members on 30 August 2017. This report provides members with a progress update on the preparation of draft estimates for 2018/19 and towards achieving a balanced budget over the medium term.
6. It is worth noting that the current multi-year finance settlement extends to 2019/20. Beyond 2019/20 the level of uncertainty within our financial plan in terms of funding increases significantly.

### **The Autumn Statement 2017**

7. The Autumn Statement was announced on 22 November 2017. There were a number of announcements that will or may affect the Council's financial plans in future including:
  - Changes to business rates including: bringing forward the switch in indexation from RPI to CPI to 2018/19 rather than 2020/21, reducing bills for rate payers; and continuing the £1,000 business rates discount for public houses with a rateable value up to £100,000.

Local government will be fully compensated for the loss of income as a result of these changes;

- Following the next revaluation of business rates, due in 2022, revaluations will be every three years instead of five;
- Local authorities will be able to increase the Council tax premium on empty homes from 50% to 100%;
- A package of new policy which aims to raise housing supply, through; additional financial support, introducing planning reforms (to ensure more land is available and to make better use of underused land) and providing funding in the construction sector;
- Reforms of Universal Credit were announced such as; removing the 7 day waiting period, Housing Benefit continuing for the first two weeks of UC, roll out of UC more gradually between Feb and Apr 2018 and longer recovery periods for advances.

8. The Department for Communities and Local Government (DCLG) are expected to announce the Provisional Settlement during week commencing 18 December. A verbal update will be provided at the Executive meeting.

## 2018/19 Budget and MTFP Update

9. The report to District Executive in September showed a projected Budget Gap – the difference between our estimated budget requirement and the estimated funding available – of £195,000 in 2018/19, rising to £2.76m by 2022/23 financial year.

### Medium Term Financial Plan (as at September 2017)

	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000
Total Budget Requirement	17,126.5	16,901.6	17,690.8	18,849.6	19,742.6
Total Funding	-16,931.5	-16,461.0	-16,638.6	-16,806.3	-16,982.1
Budget Gap (Cumulative)	195.0	440.6	1,052.2	2,043.3	2,760.5
Budget Gap Increase on Prior Year	195.0	245.6	611.6	991.1	717.2

10. A range of estimates have been updated since the September report was prepared, and are reflected in the up to date MTFP position set out below. It is important to emphasise that the budget estimates and medium term forecasts remain indicative at this stage, with further updates to be provided leading to final budget being presented for approval in February 2018.

### Indicative Medium Term Financial Plan Estimates (as at November 2017)

	2018/19 £k	2019/20 £k	2020/21 £k	2021/22 £k	2022/23 £k
<b>Base Budget</b>	<b>17,379.2</b>	<b>16,687.5</b>	<b>16,738.1</b>	<b>17,638.7</b>	<b>18,358.2</b>
<i>Incremental Changes:</i>					
Employment cost inflation	701.2	349.4	340.1	341.1	364.5
Inflation allowance on contracts	128.6	162.0	166.6	171.6	176.6
Unavoidable budget pressures	300.0	250.0	300.0	300.0	300.0
Planned savings	-1,338.0	-712.4	-20.2	-20.2	0.0
Investment Income	-726.0	0.0	-1.0	0.0	-1.0
Revenue effects of Capital Programme	404.8	1.5	115.1	-11.3	24.9
Other	-162.3	0.1	0.0	-61.7	0.0
<b>Total Budget Requirement</b>	<b>16,687.5</b>	<b>16,738.1</b>	<b>17,638.7</b>	<b>18,358.2</b>	<b>19,223.2</b>
<b>Funded By:</b>					

	2018/19 £k	2019/20 £k	2020/21 £k	2021/22 £k	2022/23 £k
<i>Absolute Amounts Each Year:</i>					
Revenue Support Grant	-268.9	327.3	327.3	327.3	327.3
Less: CTRS Grant to Town/Parish	34.9	0.0	0.0	0.0	0.0
Rural Services Delivery Grant	-102.6	-133.4	-133.4	-133.4	-133.4
New Homes Bonus Grant	-2,006.4	-2,229.6	-2,041.8	-1,951.3	-2,280.9
Revenue Support Fund Transfer	-993.6	-520.4	-458.2	-298.7	280.9
Business Rates Retention	-3,958.1	-3,845.1	-3,927.4	-4,009.7	-4,092.0
Collection Surplus – Business Rates	0.0	0.0	0.0	0.0	0.0
BRR Volatility Reserve Transfer	0.0	0.0	0.0	0.0	0.0
Council Tax – SSDC	-9,635.9	-10,091.8	-10,435.1	-10,775.3	-11,106.6
Council Tax – SRA	-111.0	-112.7	-114.3	-115.7	-116.9
Less: Council Tax Paid to SRA	111.0	112.7	114.3	115.7	116.9
Collection Surplus - Council Tax	-36.5	0.0	0.0	0.0	0.0
<b>Sub-total: Funding</b>	<b>-16,967.1</b>	<b>-16,493.0</b>	<b>-16,668.6</b>	<b>-16,841.1</b>	<b>-17,004.7</b>
<b>Other Reserve Transfers</b>					
Other Earmarked Reserves	-11.6	-11.7	-11.7	50.0	50.0
General Reserves	0.0	0.0	0.0	0.0	0.0
<b>Sub-total: Net Reserve Transfers</b>	<b>-11.6</b>	<b>-11.7</b>	<b>-11.7</b>	<b>50.0</b>	<b>50.0</b>
<b>Total Funding</b>	<b>-16,978.7</b>	<b>-16,504.7</b>	<b>-16,680.3</b>	<b>-16,791.1</b>	<b>-16,954.7</b>
<b>Budget Gap</b>	<b>-291.2</b>	<b>233.4</b>	<b>958.4</b>	<b>1,567.1</b>	<b>2,268.5</b>
<b>Budget Gap Increase on Prior Year</b>		<b>524.6</b>	<b>725.0</b>	<b>608.7</b>	<b>701.4</b>

11. As the updated MTFP estimates show, the progress in delivering the Council's agreed financial strategy is making a positive impact on the financial position. Based on the updates incorporated so far – in particular through the effects of the income generation through commercial and treasury investment – good progress has been made towards producing a balanced budget for next year.
12. It is important to note that the above position is not the final position. The current projected surplus in 2018/19 will change. It is strongly recommended that any surplus within the final budget estimates will be used to contribute to the current £956,000 funding shortfall for the transformation one-off costs.

### 2018/19 Draft Budget Estimates - Main Changes to Date (Work In Progress Position)

13. The main changes included in the forecasts since September in respect of 2018/19 are summarised in the table below. This provides a reconciliation of the change from September to November estimates

	2018/19 £'000	2018/19 £'000
<b>Budget Gap Estimate – September 2017</b>		<b>195.0</b>
Garden Waste Income	-63.6	
SWP Draft Budget requirement changes	-43.0	
Treasury investment income (additional to £40,000 already included in September)	-210.0	
Investment Properties income	-926.0	
Commercial property and investment delivery resources	450.0	
Property investment financing costs (MRP + Interest)	302.7	
Yeovil Refresh Programme Manager (funded from Infrastructure Reserve)	61.6	

	2018/19 £'000	2018/19 £'000
Other minor changes	-10.7	
<b>Sub-total: Changes to Budget Requirement</b>		<b>-439.0</b>
Collection Fund Council Tax Surplus provisional estimate	-36.5	
Transfer from Infrastructure Reserve	-61.6	
Council Tax Base	0.9	
Transfer to treasury investment volatility reserve	50.0	
<b>Sub-total: Changes to Funding and Reserves</b>		<b>-47.2</b>
<b>Budget Gap Estimate – December 2017</b>		<b>-291.2</b>

14. The changes are explained as follows:

- Garden waste income reflects updated estimates of customer demand and the agreed price increases that take effect in April 2018.
- Somerset Waste Partnership (SWP) has produced a business plan for 2018/19. The latest financial estimates have been included in the updated draft budget, with the draft business plan supported by District Executive on 7 September 2017. SWP is due to approve its final budget in February 2018.
- Treasury investment income is increased, reflecting the greater emphasis on investment return within our prudent balance of achieving security, liquidity and return in managing our cash investments.
- Investment properties net income reflects property investments completed to date this year as we start to deliver against the new commercial strategy.
- Council approved the resources needed to manage the acquisition, maintenance and performance management of the investment property portfolio, including staff costs and 'bought in' professional services. As the investment portfolio increases, the proportion of this cost as a percentage of net income will reduce, with investments completed to date covering this management cost.
- The financing costs for the commercial property investment portfolio have been updated for completed acquisitions, comprising minimum revenue provision (MRP) for debt repayment plus interest costs.
- The Yeovil Refresh requires programme management resources to deliver the objectives of the scheme (reported to DX 7 December). This is a proposed post for 3 years, to be funded from the existing Infrastructure Reserve.
- The Collection Fund council tax surplus estimate for 2018/19 is to be formally calculated in 15 January 2018; however we have updated the draft budget for our provisional estimate at this stage.
- It is proposed to set aside a proportion of increased treasury investment income in a contingency fund to mitigate investment performance volatility.

15. It is important to state at this stage that this reflects changes to draft budget estimates to date, and is not the final position. Final budget proposals will be reported to District Executive and Full Council in February.

## Unavoidable Pressures and Savings

16. The following table summarises the pressures and savings that are reflected in the current draft budget estimates. District Executive is requested to approve in principle the retention of these items within the draft budget for 2018/19, subject to approval of final budget in February 2018.

	2018/19 £'000	2018/19 £'000
<b>Unavoidable Pressures:</b>		
Waste contract growth in demand (new properties)	21.3	
Strategic management events and sponsorship	10.0	
Markets – Income trend below budget	32.2	
Westlands business plan subsidy increase	83.9	
Local discounts for council tax	4.6	
Somerset Growth Board Contribution	-4.6	
<b>Sub-Total</b>		<b>147.4</b>
<b><i>Provision for new unavoidable pressures emerging in final budget estimates</i></b>		<b>152.6</b>
<b>Total Unavoidable Pressures</b>		<b>300.0</b>
<b>Savings:</b>		
Transformation	-1,222.7	
External audit fees	-8.9	
SWP costs of Ex-SSDC transferred to partnership	-3.2	
Income – Private Sector Leasing and Letting Service	-34.6	
Income – Garden Waste	-63.6	
Income – Bulky Waste	-5.0	
<b>Total Planned Savings</b>		<b>-1,338.0</b>

17. It is likely that further changes will be included in final budget proposals, however the above reflects changes identified to date.

## Other Background Information Related to Budget Requirement

### Main assumptions

18. The main financial planning assumptions underpinning the MTFP forecasts were set out in the report to District Executive in September. This includes explanations around costs pressures such as staff pay award, pension costs, etc. The majority of the assumptions are unchanged.
19. Members will recall we included a provision for a 2% increase in staff pay (an increase on the previous 1% assumption). Local Government has recently published details of a final pay offer of 2% in both 2018/19 and 2019/20, with a higher percentage increase on the lowest paid spinal points reflecting the move towards National Living Wage. Detailed salaries estimates are currently being revised in light of the recent information and any additional cost pressures reflected in the final budget.

### Transformation

20. The overall position for transformation remains on track. Costs are expected to be maintained within the overall approved budget. This will be determined largely by the level of staff exit costs which will not be known with certainty until the recruitment to the new operating model has been completed during 2018/19.

21. The expectation within the budget is for the following savings to be achieved:

	<b>2018/19 £'000</b>
2017/18 Savings – delivered through Leadership changes, vacancies held in 2017/18 and Phase 1 implementation from January 2018	625.0
2018/19 Savings – including full year effect of Phase 1, part year effect of Phases 2 and 3, plus vacancy savings	1,222.7
2019/20 Savings – full year effect of Phases 2 and 3	696.2
<b>Full Year Annual Total Savings</b>	<b>2543.9</b>

22. The delivery of savings will continue to be carefully monitored, and vacancies held where appropriate to ensure the timing of savings aligns with the budget. Mitigation exists for the risk of timing delays with some allowance included within General Reserves balance.

### **Investment Income - Commercial**

23. During the summer the Council approved a new Commercial Strategy. This is designed to generate significant additional income from commercial investment in order to mitigate the cuts to government grant funding and protect the council's delivery of services to the community.
24. In order to deliver the Commercial Strategy, the Council has approved a significant investment fund. Part of this fund has been used to acquire property that is rented for retail use in Yeovil town centre. As well as providing a commercial income this investment also demonstrates the Council's commitment to supporting a sustainable town centre retail offer. At this stage the MTFP has been updated to reflect completed acquisitions as at November 2017. The 2018/19 budget therefore reflects net income – after deducting capital financing costs (debt repayment and interest) – of £625,000.
25. The Strategy aims to deliver net income of £3m per year over the medium term. In order to provide the capacity to grow and manage the commercial investment portfolio, Council also approved funding for the commercial property team and associated professional services. The MTFP has been updated to reflect the approved additional costs of £450,000 per year, which will be offset in achieving the net income target of £3m. Good early progress has been made towards achieving this target.

### **Investment Income – Treasury Management**

26. As part of the agreed financial strategy, the Council has also reviewed its approach to treasury management. The Treasury Strategy for 2018/19 is currently being updated, and will be reviewed by Audit Committee in January, prior to being considered for approval at Full Council in February. The approach to our treasury investments continues to follow the principles of the Prudential Code and Guidance issued by CIPFA. Through updating our mix of investments, and taking a longer term view for investing a proportion of the Council's cash reserves, it is anticipated the amount of investment income will increase.
27. The draft budget for investment income in 2018/19 has been increased by £210,000 (in addition to £40,000 already included in the MTFP in September) reflecting an expected increase in returns through a diversified range of investments in higher earning financial instruments. The Council will continue to use advice from Arlingclose to effectively manage its portfolio of investments. As the investment mix will include some increase in risk it is proposed to set aside £50,000 per year into

a Treasury Risk Management Reserve, to provide some resilience to volatility in capital values and/or budget variations on investment income.

28. The Financial Strategy has a target increase for investment income of £400,000, of which £250,000 will therefore be included in the MTFP in 2018/19. It is proposed to monitor the performance of treasury investments for the next twelve months before increasing the budget for income within the MTFP for future years.

### Revenue Effects of Capital Programme

29. The revenue effects of capital comprise the interest cost (interest on loans and loss of interest on investments). The current estimates reflect the assumed loss of interest as reserves are used to support already approved capital schemes, plus a contingency for new schemes to be considered for next year's capital programme.
30. The increase in 2018/19 reflects the financing of the Council's commercial investment property acquisitions to date. This includes a Minimum Revenue Provision (MRP) charge to the revenue budget to set aside funds to repay debt, plus interest costs on capital borrowing. As at December 2017 the Council has no external loans, with the capital financing requirement currently provided through internal borrowing from cash reserves.

### Funding and Reserves Estimates

#### New Homes Bonus (NHB)

31. The Financial Strategy relies on utilising £3m of NHB funding to support the budget in 2018/19, and this figure then reduces by £250,000 each year so that by 2022/23 the funding requirement is £2m per year. Members will recall from previous reports that the NHB funding methodology changed in 2017/18, reducing the number of years from 6 to 4 for awards of grant for annual growth in the tax base. A new 'baseline' top-slice of 0.4% (c285 Band D equivalent properties) was also introduced.
32. The initial estimate of actual NHB Grant for 2018/19 was £2.4m. This estimate has been revised to £2.0m (subject to the Provisional Settlement expected in December) with a lower than anticipated tax base figure in October 2017. Therefore £1.0m will need to be taken from the MTFP Support Fund reserve to provide the total of £3m funding required for the year.
33. The projections for 2019/20 onwards have also been updated to reflect updated housing trajectory figures, and to reflect the grant methodology. NHB Grant income estimates are significantly reduced compared to previous forecasts; however the MTFP funding plan remains sustainable at this stage. The estimated Revenue Support Fund balance – representing the balance of deferred NHB funding – is updated as shown below.

#### MTFP Support Fund Forecast

	2018/19 £k	2019/20 £k	2020/21 £k	2021/22 £k	2022/23 £k
Balance Brought Forward	5,776	4,782	4,262	3,804	3,505
NHB Projected Income	2,006	2,230	2,042	1,951	2,281
Sub-total	7,782	7,012	6,304	5,755	5,786
Allocated to Budget	-3,000	-2,750	-2,500	-2,250	-2,000
Balance Carried Forward	4,782	4,262	3,804	3,505	3,786

34. Government consulted on New Homes Bonus funding arrangements earlier this year. This signalled the Government continues to consider options to incorporate planning 'performance' within the NHB calculations, with the potential for grant to be cut based on planning appeals. In addition, we know the 0.4% baseline will be reviewed each year and may change in 2018/19 and beyond.
35. The NHB Grant for 2018/19 should be confirmed as part of the Provisional Settlement in December 2017.
36. In the longer term it is proposed to consider revising the strategy for use of New Homes Bonus, with the potential to reduce the Council's reliance on this funding for the cost of day to day service delivery, and explore options to invest in schemes such as infrastructure to support wider growth and regeneration for housing and businesses. This will be explored further to inform future financial strategy updates.

### **Business Rates**

37. In 2013 the Government introduced Business Rates Retention (BRR) that passed some of the risks and rewards of business rates collection to local authorities – replacing a fixed annual grant. Each local authority must set a budget for BRR they expect to retain and in South Somerset this has been delegated to the S151 Officer because of the considerable time constraints in place. Central Government requires the budget to be set by the 31 January 2018.
38. The current draft budget reflects business rates income estimates completed in the summer. Updated estimates will be finalised in early January and reflected in the final budget report.

### **Business Rates Pooling and 100% Retention Pilot**

39. On 16 November 2017 Full Council endorsed the decision of the Chief Executive and Leader to apply to Government for the establishment of a new Somerset Business Rates Pool – comprising the County Council and all five district councils in Somerset – and to trial 100% Business Rates Retention (for one year only) in 2018/19. The Government will announce whether these applications have been successful through the Provisional Settlement in December.
40. At this stage the MTFP does not include the additional financial benefits of pooling, or the additional expenditure that the additional funding will support, as this will be dependent on the applications being successful.

### **Council Tax**

41. The S151 approved the 2018/19 Council Tax Base in early December. This was only marginally less than the previous estimate, resulting in less than £1,000 reduction in the council tax income estimate for next year. The Council Tax income estimate is therefore calculated as follows:

	<b>2018/19 £'000</b>	<b>2018/19</b>
Council Tax Base – Band D Equivalents		59,988.28
SSDC Council Tax Rate per Band D Estimate (not yet approved)		£162.48
Council Tax Income Estimate (Tax Base x Tax Rate)		£9,746,896

42. The Council Tax Rate includes £160.63 for SSDC services and £1.85 levied on behalf of the Somerset Rivers Authority (SRA). Therefore, of the council tax income figure shown in the table above, £110,978 will be passported to the SRA.



## Earmarked Reserves

43. The S151 Officer will finalise a review of earmarked reserves in December, and include an updated reserves position with the final budget reports at the end of January.

## General Reserves

44. The current approach to setting the budget for 2018/19 aims to achieve a balanced budget within the need to use funds from general balances. The current estimates indicate we are on track to meet this aim.
45. The S151 Officer will review the minimum reserves requirement in January in light of the Provisional Settlement and confirmation of the business rates funding arrangements for next year. This will be reported in the final budget report at the end of January. Currently the adequate minimum balance required is in the range £2.8m to £3.1m, and the current balance is as follows:

<b>General Fund Balances</b>	<b>£000</b>
Balance at 1 April 2017	5,078
Area & Economic Development Balances	(124)
Support for 2017/18 budget	(789)
2016/17 Carry Forwards	(246)
Funding for Property Review	(30)
Commitments	(73)
Recommended 2016/17 net underspend to transformation Reserve	(145)
Utilisation of general fund for transformation	(231)
Estimated 2017/18 overspend (Q2 forecast)	(243)
<b>Unallocated General Fund Balance at 30<sup>th</sup> November 2017</b>	<b>3,197</b>

## Capital Programme

46. The Senior Leadership Team is currently reviewing the capital strategy principles, to assist in developing an updated approach to prioritising capital bids for 2018/19 onwards. This will be progressed in December, with recommended principles together with prioritised bids to be included in the next budget report.

## Summary of Items To Be Finalised for the 2018/19 Budget

47. Salaries: Detailed salaries estimates to be updated to reflect pay settlement offer.
48. Transformation savings: The delivery of the transformation savings continues to be monitored to ensure to ensure benefits are realised as planned and the budget estimates remain prudent.
49. Transformation funding: The gap in funding transformation up-front costs is currently £956k. Proposals to reduce this gap will be reflected in final budget proposals.
50. Unavoidable costs: The draft budget continues to include a provision for unavoidable costs of £300k for 2018/19. Actual pressures identified to date are less than this, providing some contingency in the event of new information prior to the budget being finalised.
51. Fees and charges: some but not all fees and charges for 2018/19 have been reflected in the MTFP. Final estimates will be included in the proposed budget in January.



## Key

Categories	Colours <i>(for further detail please refer to Risk management strategy)</i>
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

## Council Plan Implications

61. The MTFS and MTFP incorporate costs, income and funding implications directly related to the delivery the Council's aims and priorities. The Council Plan for 2018/19 is due to be presented to Council for approval in February at the same time as the final budget.

## Carbon Emissions and Climate Change Implications

62. Not applicable within this report.

## Equality and Diversity Implications

63. Not applicable within this report.

## Privacy Impact Assessment

64. There are no specific privacy impacts in respect of this report. Individual budget changes will be assessed and salient comments included in budget update reports through the budget setting process.

## Background Papers

65. The following reports may provide helpful background information in support of this report:

- Financial Strategy (District Executive 7 September 2017)
-