Financial Strategy and Draft Medium Term Financial Plan 2019/20

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Purpose of the Report

1. The purpose of this report is to seek Executive support for the updated Financial Strategy and provide Members with information regarding the initial Medium Term Financial Plan estimates for the period 2019/20 to 2022/24.

Forward Plan

2. This report appeared on the District Executive Forward Plan with an anticipated Committee date of September 2018.

Public Interest

3. This report outlines South Somerset District Council's overall budget strategy setting out how the Council proposes to manage its financial position over the medium term (three to five years) and beyond. It also provides an up to date set of estimates and assumptions regarding service costs and income, the funding available and the savings required each year to 'balance the books' over the same period.

Recommendations

4. That the District Executive:

   a. Approve the Financial Strategy.

   b. Note the current position and timetable for the Medium Term Financial Plan and Budget estimates.

Background

5. This report provides an update to the Financial Strategy agreed by the Executive in 2017, and latest Medium Term Financial Plan (MTFP) estimates that includes projections of the Council's costs and funding for the foreseeable future. This report updates members of the current position with regard to meeting savings targets and the continued approach for achieving a balanced budget over the medium term.

6. The Financial Strategy outlines how the Council proposes to produce a balanced Medium Term Financial Plan over the medium to long-term. The context for the Financial Strategy and MTFP is one of significant cuts in funding for Councils since 2010 and considerable uncertainty around government funding going forward together with significant changes in customer demands and expectations. The MTFP at South Somerset spans three years with a further two years added to show the likely longer-term scenario. The Financial Strategy links the resources required to deliver the Council Plan, the Capital Strategy and the Council's other strategies and priorities as set out in the Council Plan agreed at Full Council in April 2018.

7. Providing an update of the MTFP estimates at this stage is important in providing a realistic and up to date assessment of the Council's financial forecasts to underpin important decisions in progressing the transformation of the council and other actions to 'balance the books' on an ongoing basis.

8. The forecasts have been reviewed and updated since February, reflecting as much as possible what is "known", and providing "best estimates" on areas of uncertainty. These will continue to be updated as new information emerges and further updates shared with Members at key points in the budget process.

9. A key context for our current financial planning is dealing with significant uncertainty beyond 2019/20, which is the final year of the current Spending Review period. Government have previously consulted, and will consult further next year, on various matters including the Fair Funding Review, Business Rates Retention system including moves to 75% and later 100% Retention for local government; New Homes Bonus. There will be changes to the funding of local government from 2020 onwards, the outcome of which is still to be determined. There are also factors arising from accounting changes that could impact, particularly around the treatment of valuation changes in investments and treatment of leases. We need to undertake further analysis to determine the potential impact and risks these changes may bring.

10. In summary, the Council agreed a new Financial Strategy in September 2017 and is making good progress in delivering that strategy. The actions taken by the Council to manage the financial position of the authority remain on track. The indicative budget position for next financial year – 2019/20 – is positive, giving a strong indication that the planned savings and income generation will enable the Council to set a balanced budget. However, there remains a funding gap in future years budgets and in addition, the Council has ambitions for the communities of South Somerset as set out in the Council Plan, the delivery of which will require significant funding. Therefore it is important that Members and Leadership team continue to drive the delivery of the agreed strategy forward, and manage financial risks effectively, to ensure long term financial sustainability for the local authority.

Financial Strategy – Summary

11. The overall proposed financial strategy agreed in 2017 remains relevant and sets out to provide Members with options to respond to the ongoing financial challenges within the local government sector. This strategy builds on previous approaches agreed including the Efficiency Strategy agreed in 2016.

12. The key themes to the strategy are:

    a) **Challenging existing costs and income** estimates and assumed "unavoidable" cost increases
    b) Ensuring **clear service priorities** that demonstrably align with corporate strategy and plans
    c) Maximising operational efficiency through **transformation** of services and ways of working
    d) Taking a more **commercial approach** and increasing income yield by 5% per year
    e) Increasing the **income yield from financial investments** as part of a prudent treasury management approach
    f) **Investing in property, energy and new services to generate additional income** that can be reinvested to maintain and improve services to our community

13. Given the significant reductions in government funding and the uncertainties that are ahead in this as set out in paragraph 64, it is proposed to add a further key theme of:

    g) Reduce reliance on government grants for the funding of ongoing services

14. The financial strategy seeks to deliver savings of £6m per year by 2022/23 (reduced costs and increased income). In September 2017 the forecast annual budget gap in 2022/23 – before transformation savings – was £5.2m. The Target of £6m included a further £0.8m to provide resources to respond to risk of further funding reductions and contribute towards the Council's future ambitions. The Council has made good progress towards this target, with a significant proportion of these savings built into financial plans when Council approved the Budget and MTFP in February 2018 – as explained later in this report. Since February, further updates have been included in financial plans and a number of key assumptions and estimates have been updated.

Medium Term Financial Plan – Summary

15. The following chart and table sets out a summary of the council's latest forecasts of costs and funding. This has been updated since Council approved the 2018/19 Budget in February 2018, to reflect subsequent decisions by the Council and updated financial planning assumptions. The table provides a summary of the MTFP showing forecast costs and funding. The chart shows pictorially the trend of forecast net costs and the funding available to meet those costs – the difference being the "budget gap" i.e. the scale of the financial challenge to ensure ongoing sustainable services.

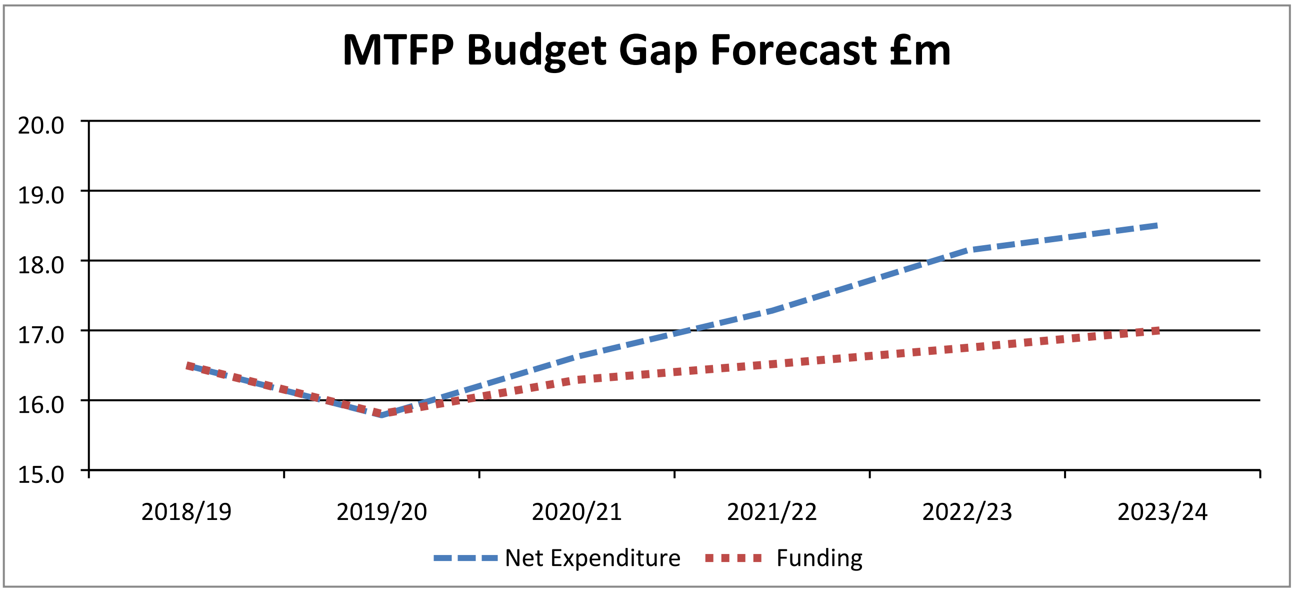


Table 1 – Draft Medium Term Financial Plan High Level Summary

	2019/20 £k	2020/21 £k	2021/22 £k	2022/23 £k	2023/24 £k
Net Expenditure (Budget Requirement)	**15,785**	**16,623**	**17,283**	**18,146**	**18,512**
Funded By:					
Government Grants	-133	194	194	194	194
New Homes Bonus Grant	-2,034	-1,846	-1,756	-2,085	-2,218
Business Rates	-4,746	-4,137	-4,223	-4,309	-4,396
Council Tax	-10,042	-10,487	-10,938	-11,386	-11,851
Earmarked Reserves	1,150	-15	206	835	1,268
General Reserves	0	0	0	0	0
Total Funding	-15,806	-16,292	-16,517	-16,751	-17,003
Budget Gap	**-21**	**331**	**766**	**1,395**	**1,509**
Budget Gap Increase on Prior Year		352	435	629	114

16. This high level summary indicates the short term financial position is positive, reflecting the impact of transformation savings and commercial income generation, however the budget gap grows from 2020 onwards, reaching a projected £1.5m by 2023/24. It is therefore very important that Members and the Leadership Team continue to focus on long term financial sustainability and resilience through financial planning and decision process. As explained later in this report there is significant uncertainty in our funding projections from 2020 onwards.

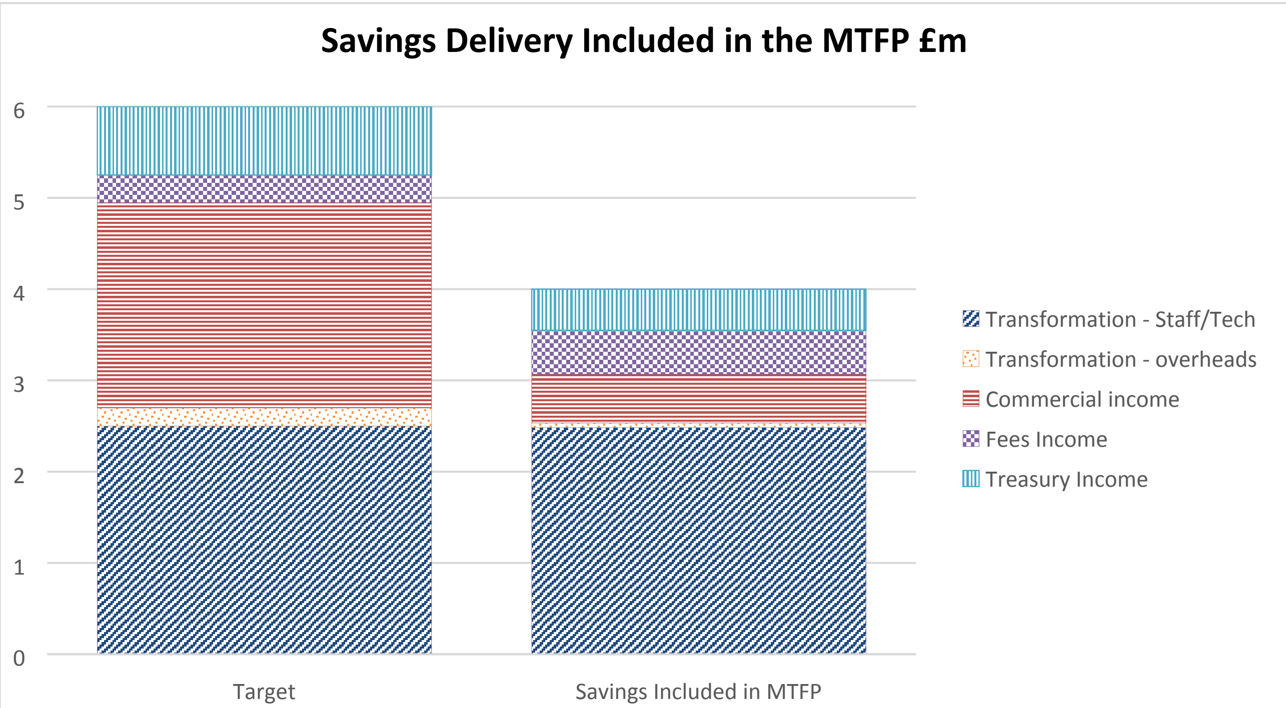
Financial Strategy – Further Information

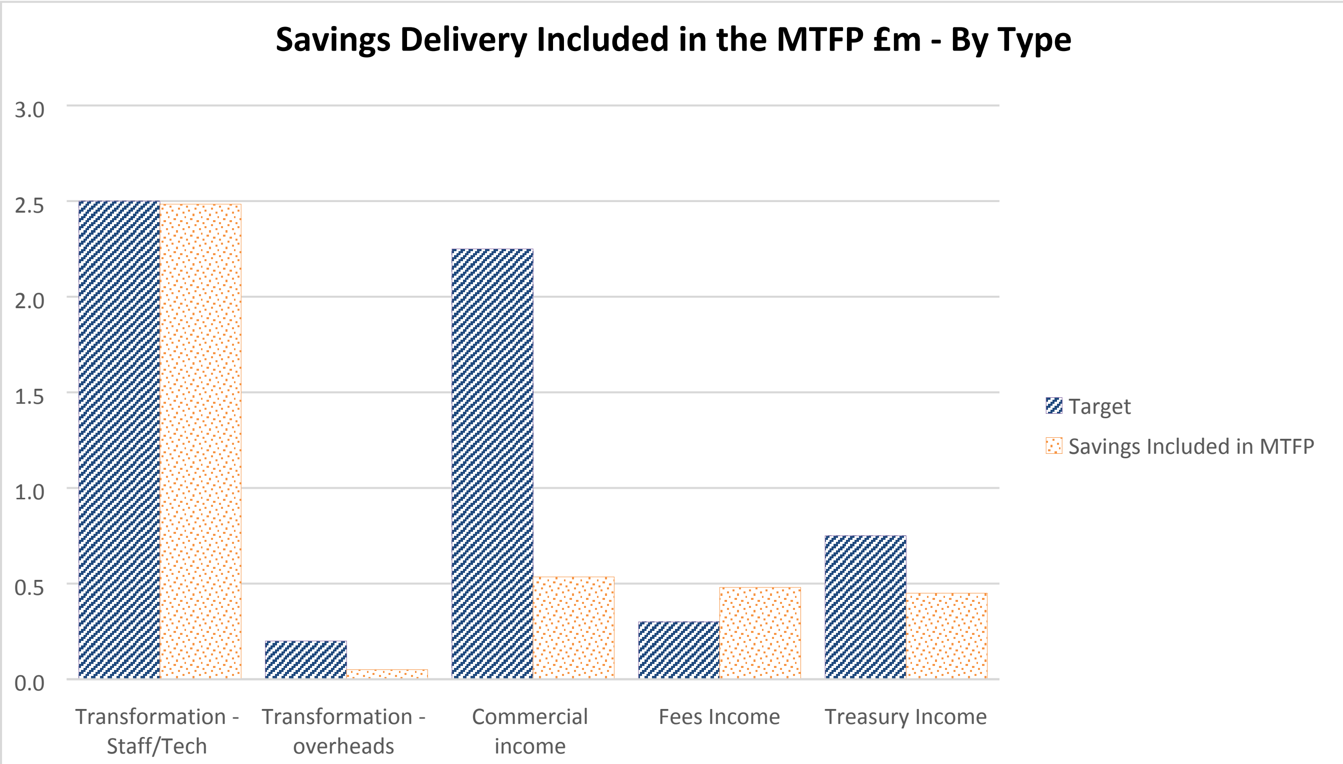
Savings Targets

17. The approach to building in savings to the MTFP is based on savings that have already been delivered or there is a high degree of confidence that the target is achievable both in terms of timing and amount. The updated MTFP estimates included in this report include £4m of savings built in. This demonstrates significant progress towards the £6m target. The table and graphs below provide a high level view of the targets and progress to date.

Table 2 – Savings Target Delivery

	Savings Target 2022/23 £k	Included in MTFP Feb 2018 £k	Added to MTFP Sep 2018 £k	Balance to be delivered £k
Transformation: Staffing/Technology	2,500	2,484	0	16
Transformation: Non-staff efficiency savings	200	0	50	150
Commercial Investment Net Income	2,250	107	428	1,715
Services Income (Fees and Charges)	300	255	225	-180
Treasury investment income	750	250	200	300
Sub-Total: Financial Strategy Savings	**6,000**	**3,096**	**903**	**2,001**





Transformation – Operational Efficiency

18. As reported in the previous financial strategy, organisational development through transformation also delivers significant savings. The MTFP incorporates savings that all-but meets the £2.5m target in full by 2019/20 in line with the business case, with the following savings built into the base budget and MTFP:

Table 3 – Transformation Savings (Staffing and Technology)

	2016/17 £	2017/18 £	2018/19 £	2019/20 £
Cumulative Annual Savings Per Business Case	59,975	-565,025	-1,787,760	-2,483,925

(Negative figures = savings)

19. The Transformation Business Case focusses on staff and IT costs and continues to be closely managed with robust governance and regular reporting to Members. There is a high degree of confidence the full year savings in 2019/20 will be achieved.

20. In addition, as previously reported in the financial strategy, it is anticipated there will be further efficiency savings over and above the business case in respect of non-staff budgets as a related benefit to new ways of working. A detailed and robust review of base budgets is required to deliver this additional saving, and at this stage the draft MTFP includes a target of £50k in 2019/20. With further detailed analysis and review of budgets during 2019 the aim is to increase this target to £200k. This increase is not yet reflected in the MTFP, taking a prudent budget approach pending the completion of the review.

Table 4 – Transformation Savings – Additional Non-Staff Base Budget Review

	2019/20 £	2020/21 £	Cumulative £
Additional Efficiency Savings – Included in MTFP	-50,000		-50,000
Further Target Not Included Pending Base Budget Review		-150,000	-150,000
Updated Cumulative Savings Target	-50,000	-150,000	-200,000

(Negative figures = savings)

21. The Transformation Programme Budget is now fully funded. When the updated Transformation Business Case was approved by Council in April 2017 it was recognised at that stage there was funding gap of £1.1m for the up-front costs i.e. the Council still needed to agree where all of the agreed costs were to be funded from. Various funding allocations have since been made with the final funding requirement met through the 2017/18 Revenue Budget Outturn report to District Executive in July 2018.

Commercial Strategy and Income Generation

22. As part of the wider transformation agenda the Council is taking a more commercial approach, which includes being more business-like across all services and seeking to generate increased income through commercial investment. This commercial approach is designed to respond to cuts in central government funding and replace this with other income to maintain and enhance local services and investment in our communities.

23. The Council (August 2017) approved a new Commercial Strategy for 2017 to 2021 supplemented with a Land and Property Strategy. The aim is to manage our assets and investments well, with:-

- Clear policies on property asset classification and purpose – income generating, strategic value, operational need
- Achieving a balanced portfolio with risks effectively managed
- A significant investment fund supported by effective governance and appraisal processes
- Appetite to support capital investment through borrowing with the principle that investment returns fund the financing costs and provide a net return after borrowing costs for reinvestment in services
- Invest in operational capacity to deliver the strategy

24. Good progress has been made with acquisition of commercial investments since the strategy was approved, as most recently reported to District Executive in June 2018. The MTFP income target from commercial investment is £2.25m, net of all costs. Our prudent budget approach in respect of these investments is to only build into the budget / financial plans once acquisitions are completed and as such the additional income can be relied upon to fund service investment. Therefore the current draft MTFP includes net investment income of £535k (see Table 1 above). The aim is therefore to acquire further investments that bring additional net income of £1.715m in addition to those already completed. This budget estimate will be updated to reflect any further completed investments before the final budget is presented for approval in February 2019.

Strategy for Service Income (Fees and Charges)

25. The agreed strategy for service income seeks to increase net income for services through being more commercial and efficient, increasing fees and charges income, and pursuing new income opportunities. There is an overall target to increase income yield by 5% per year, which includes a presumption of increasing locally set fees at least in line with inflation.

26. Care will need to be taken as certain services can only seek to recover costs under regulations (e.g. licensing), and it is feasible that in cases where operational efficiencies are delivered then fees will potential stand still or reduce, rather than increase. The approach will ensure compliance with the relevant regulations.

27. The MTFP has been updated to reflect an incremental increase in net income of £75k per year over the next three years, giving a cumulative ongoing benefit of £225k per year in addition to net income that was included in the approved budget for 2018/19. This would exceed the financial strategy target of £300k if delivered in full. Commercial services teams are developing business plans to meet these targets.

Treasury Strategy

28. The Council updates its Treasury Management Strategy annually, with the current TMS approved at Full Council in February 2018 alongside the Budget. It is important to recognise that the financial strategies for revenue and capital resources and treasury management are intrinsically linked. The strategies reflect the ongoing challenging and uncertain economic times. Of course, there remains uncertainty regarding the future implications of Brexit, not just on treasury performance but on wider service implications too. The current economic outlook has several key treasury management implications:

    - Short term investment returns are likely to remain relatively low
    - Borrowing interest rates are currently attractive and are likely to remain low for some time, despite some anticipated increases in base rate
    - Approaches to financing capital investment plans should consider the economic outlook e.g. any potential advantages in borrowing "in advance of need" (i.e. before planned capital spending is actually incurred).

29. The Council has a good record of treasury performance. The financial strategy anticipates this performance will improve during the current and next financial year, through greater use of strategic investments that are intended to be held for the long term. This is a risk-managed approach that aims to increase annual investment income whilst accepting more risk of volatility (up and down) on capital values.

30. The S151 Officer and Finance Support Service continues to work with our treasury advisors – Arlingclose – to effectively manage opportunities and risks in line with the Prudential Code and statutory Investment Guidance.

31. The financial strategy savings target includes an additional £750k per year in treasury investment income. The S151 Officer has included an additional £200k of investment income in the budget estimates for 2019/20, based on planned increases to sums held in strategic investments. This brings the cumulative annual savings through treasury investment income growth to £450k per year therefore delivering good progress towards the overall target.

Service Prioritisation and Costs

32. The overarching aim of the financial strategy is to protect services in the face of reductions in government funding. Transformation seeks to ensure the cost of delivering services is more efficient and customer focussed. It remains important that prioritisation of spending and investment in services reflects current and future Council priorities. Such prioritisation is secured thorough ensuring budget decisions are clearly linked to the Corporate Strategy and Council Plan.

33. Currently the estimates for service costs and income are based on using the current base budget, adjusted incrementally for:

- Inflationary pressures on employment and contract costs
- “Unavoidable” cost increases (incremental c£300k+ per year)
- Cost efficiency through transformation and other savings plans
- Investment income
- Revenue costs of capital investment

34. As we move through Transformation, and we make improvements to performance management, we will be getting a richer set of data on services, costs, users of services and the outcomes delivered for the costs. Whilst it will be useful to have an initial set of service priorities, we can use this process to challenge the services being provided, their priority and the required service level.

35. Currently no savings target is identified for services, with the assumption that overall resources will be refocussed / reprioritised in line with priorities each year with some tolerance for unavoidable cost increases.

Funding Strategy

Strategy for Business Rates Retention (BRR)

36. Under the Business Rates Retention system the Government seeks to incentivise business growth by enabling local authorities to keep a share of growth in business rates above funding baseline set by Government. The most prudent budget approach would be to set the budget and MTFP estimates at the “safety net” level, being the minimum level of income each authority can expect to retain. However this could lead to the true business rates funding position being understated and place greater pressure than necessary to make savings in services. The strategy for business rates funding is therefore to make a prudent but realistic estimate of projected income taking into account anticipated inflation, growth, reductions, appeals and refunds to provide a best estimate of a realistic budget forecast, and to set aside appropriate provisions and reserves to mitigate potential funding volatility.

37. Due to the significant uncertainty from 2020 onwards (see para 35 above), the forecast of retained business rates funding for 2020/21 onwards has been reduced by £0.7m from 2020. This is the S151 Officer’s “best guess” of the potential loss of funding. It is not known at this stage how the reset of business rates funding will operate or the extent of the impact in practice – therefore the risk of error in the forecast is high at this stage. Currently our BRR budget is £1m above the Baseline target therefore it is possible the reduction could reach this level. The Government has indicated it will provide early indicative 2020 Finance Settlement figures in the summer 2019. In the meantime, we are maintaining a prudent balance in the Business Rates Volatility Reserve to mitigate budget risk for the next 2-3 years.

Table 5 – Business Rates Retention Funding Estimates

	2019/20 £k	2020/21 £k	2021/22 £k	2022/23 £k	2023/24
BRR Estimates September 2018	4,746	4,136	4,223	4,309	4,396
Memo: Difference to Feb 2018 Estimates	20	-680	-693	-707	N/A

38. We also maintain a BRR Volatility Reserve to help “smooth” any impact on the budget of reductions in net BRR funding as well as manage accounting timing differences within the BRR system. The financial strategy seeks to maintain a minimum balance in this reserve of £2.7m based on two times

the difference between our BRR Budget and the Safety Net. The balance in this reserve at April 2018 was £3.9m.

Business Rates Pooling

39. A Somerset Business Rates Pool was established from April 2018 comprising the County Council and all five Districts within Somerset. The Pooling arrangement is predicted to enable the Councils to keep a greater share of business rates income locally (initial estimates indicate an additional £5.1m across Somerset, with the SSDC share approximately £0.7m). The councils share the risk of income volatility across the whole pooling area. The financial strategy is not to rely on this additional income for the annual budget as it will not be confirmed as 'real' income until the end of the financial year. However, the intention is to utilise any pooling gains to invest in regeneration and financial sustainability initiatives. The Council agreed at its Full Council meeting in May 2018 that the first £0.5m of pooling gains will go towards funding the Regeneration Programmes in Yeovil and Chard.

40. The risks and rewards of pooling are kept under review by the Business Rates Pool Board, comprising the S151 Officers of the Somerset councils.

75% Business Rates Retention

41. In July 2018 Government launched a consultation invited bids from local authority pools to pilot arrangements for 75% Business Rates Retention in 2019/20, which is expected to be implemented for all authorities in 2020/21. This opportunity is currently being explored by the S151 Officers of the Somerset councils to assess the potential opportunities and risks, with a bid deadline of 25 September 2018 and successful bids announced December 2018. The financial plan does not currently assume any financial implications of a successful bid for 2019/20.

42. The Government has indicated it maintains the intention longer term to implement 100% Business Rates Retention, although at this stage it is not clear when this will be.

Strategy for New Homes Bonus

43. New Homes Bonus (NHB) is a non-ring-fenced grant funding mechanism designed to incentivise housing growth. SSDC receives the equivalent of 80% of the national average annual council tax for every new home (or long-term empty home brought back into use) once occupied. A further £280 (80% of £350) is granted for every affordable home occupied. Annual growth is rewarded with grant allocation for 4 years. Growth data is taken from the Council Tax Base each year.

44. Since 2018/19 a growth 'baseline' has been included in the grant calculation. Grant is only provided for growth above this baseline, which was set at 0.4% Band D Equivalent (c.285 Band D equivalent in 2018/19). Through the 2019/20 Finance Settlement Technical Consultation in July 2018, Government has indicated this baseline is likely to increase in 2019/20, and at this stage our financial estimates assume the baseline will be 0.5% (c360 Band D). The actual grant award will be announced with the Provisional Settlement in December 2018.

45. With the expected reduction in NHB grant, it is proposed to reduce the reliance on this income as mainstream funding for annual service costs. The draft MTFP has been updated to use £2.1m NHB funding in 2019/20 (previously £2.75m) reducing to £1.0m (previously £2m) by 2023/24. Differences between the annual grant and the NHB budget requirement are offset with transfers to/from the MTFP Support Fund earmarked reserve, which aims to protect the budget from short term implications of grant volatility.

46. As indicated in para 64 below, the NHB scheme is likely to be reviewed during 2019 with changes (unknown at this stage) potentially implemented from 2020/21. Any changes will be reflected in future financial plans.

47. Further detail regarding New Homes Bonus is included in Appendix A, part 3.

Council Tax

48. The setting of Council Tax is determined each year at Full Council. In 2018/19 the Council utilised the option given to shire districts of increasing Band D council tax by £5 (3.18%). The Technical Consultation for the 2019/20 Finance Settlement indicates the Government's intention to allow Districts to increase 2019/20 council tax by the higher of 2.99% or £5 (which is 3.08% for SSDC) in 2019/20. The S151 Officer's financial planning assumption is that the limit will be 2.99% per year thereafter. This is updated from previous assumptions assuming the recent increases in the core assumption of "excessive" increases set by the Secretary of State continues beyond next year.

49. The basic annual Band D tax rate set by SSDC for 2018/19 is £162.48 per year, raising £9.474m in Council Tax income.

50. Included in the above Band D tax rate is £1.85 which is collected by SSDC on behalf of the Somerset Rivers Authority (SRA), resulting in £111k of Council Tax in 2018/19 being paid over to the SRA towards funding the 20 Year Flood Action Plan that was developed following the severe flooding experienced in Somerset in early 2014. The intention is for the Government to establish primary legislation to allow the SRA to raise funds via a council tax precept in its own right – at this stage the timing is uncertain and the MTFP assumes the current arrangement will continue for the foreseeable future.

51. The Executive will recommend future council tax rates in February each year.

52. Further details regarding Council Tax and Somerset Rivers Authority are included in Appendix A, parts 4 and 5 respectively.

Strategy for Reserves and Balances

53. The approach to general reserves includes a regular review to ensure the level of reserves held are adequate in the context of the financial risks faced and other mitigations in place (e.g. provisions, earmarked reserves, insurances). We will maintain reserves at or above the assessed minimum requirement, and generally any planned use of reserves above the minimum will support one-off expenditure or "bridge" a gap for timing differences on planned delivery of savings / commercial income.

54. The current assessed minimum General Reserves requirement is between £2.8m to £3.1m. This will be reviewed regularly to ensure the minimum balance reflects up to date and future risks. A significant element of this current minimum relates to contingency for transformation costs and business rates volatility. The uncommitted reserve balance is currently £4m (July 2018). With the level of uncertainty in future funding it is advisable to hold adequate 'head room' in our general balances to protect against unplanned financial pressures and allow longer term plans to be developed.

55. The council also holds earmarked reserves for specific purposes such as planned spending in future years and contingencies not included in general reserves. These will also be reviewed annually to ensure the requirement for the funds remains, and re-prioritise or release any surplus balances to general reserves.

56. Further information on reserves and balances in included in Appendix A, parts 6 and 7.

Regeneration Programmes

57. In February 2018 Full Council set out five areas of focus for the Council, and agreed 8 priority projects aligned to these. The projects included:

- To complete the Yeovil Refresh for Yeovil Town Centre and progress implementation
- To develop proposals for the regeneration of Chard and progress implementation
- To create a town centre action plan for Wincanton and progress implementation
- To facilitate appropriate local development to ensure that local housing and infrastructure needs are met
- To support our small and medium sized businesses across the District, including internet access, to meet their needs

58. In May 2018 Full Council approved new governance arrangements and a new financial approach for strategic development and regeneration. This included the Council approving Gross Budgets and Net Budgets for each Programme. The costs are likely to be largely in the form of capital expenditure and the funding approach recognises this will require a combination of short term and longer term borrowing, according to the nature of individual projects and schemes ultimately delivered through the Programmes. Prudential borrowing limits have been revised to provide the necessary flexibility in this regard. In addition, Members were advised of the option to redirect a proportion of New Homes Bonus funding towards regeneration, and Council also supported the principle of using gains from business rates pooling for this purpose, and one-off commercial investment income. Details of financial approvals were included in confidential reports, and therefore not disclosed here. Budget consequences of individual projects/schemes within the Programmes will be added to the MTFP as they are approved under the agreed governance arrangements.

59. As indicated in para 45 above, our initial MTFP estimates include a reduction in use of NHB resources for annual service delivery costs. This has provided the opportunity to include an allocation of £500,000 to a Regeneration Fund earmarked reserve in 2019/20 draft budget. This will add to the pot of available resources to fund the Programmes. This area will continue to be reviewed as the budget process progresses, with final proposals included in recommended budgets in February 2019. It is likely that funding from various sources, including external funding bids, will accumulate over time.

Medium Term Financial Plan and Annual Budget Strategy 2019/20

60. A high level summary of the MTFP and chart showing the projected budget gap is shown earlier in this report (para 15). The tables below show the Net Budget Requirement and the MTFP in more detail.

Table 6a – Net Budget Requirement Estimates 2019/20 to 2023/24

Budget Requirement	**2019/20 £k**	**2020/21 £k**	**2021/22 £k**	**2022/23 £k**	**2023/24 £k**
Base Requirement B/F	16,484	15,785	16,618	17,226	18,037
Inflation – Staffing	363	384	392	399	401
Inflation – Other Costs / Contracts	162	167	172	177	178
Cost pressures	250	250	200	200	200
Planned savings	-972	-140	-95	0	-135
Investment Income	-503	63	64	63	-317
Capital Programme implications	2	115	-11	25	40
Other	0	0	-62	0	0
Budget Requirement C/F	**15,785**	**16,623**	**17,283**	**18,146**	**18,512**

Table 6b – Draft Medium Term Financial Plan 2019/20 to 2023/24

	2019/20 £k	**2020/21 £k**	**2021/22 £k**	**2022/23 £k**	**2023/24 £k**
Budget Requirement (Table 6a)	**15,785**	**16,623**	**17,283**	**18,146**	**18,512**
Funded by:					
Revenue Support Grant	0	327	327	327	327
Rural Services Delivery Grant	-133	-133	-133	-133	-133
New Homes Bonus Grant	-2,034	-1,846	-1,756	-2,085	-2,218
Business Rates Retention (BRR)	-4,746	-4,137	-4,223	-4,309	-4,396
Collection Fund Surplus (BRR)	0	0	0	0	0
Council Tax	-10,154	-10,601	-11,053	-11,502	-11,969
Less: Council Tax Paid to SRA	112	114	115	116	118
Collection Fund Surplus - Council Tax	0	0	0	0	0
Sub-total: Funding	**-16,956**	**-16,276**	**-16,723**	**-17,586**	**-18,271**
Reserve Transfers:					
MTFP Support Fund Reserve	-66	-4	156	785	1,218
BRR Volatility Reserve	0	0	0	0	0
Other Earmarked Reserves	1,216	-12	50	50	50
General Reserves	0	0	0	0	0
Sub-total: Net Reserve Transfers	**1,150**	**-15**	**206**	**835**	**1,268**
Total Funding	**-15,806**	**-16,292**	**-16,517**	**-16,751**	**-17,003**
Budget Gap	**-21**	**331**	**766**	**1,395**	**1,509**
Budget Gap Increase on Prior Year		353	435	629	114

61. The initial MTFP estimates show that costs and funding are closely aligned in 2019/20, with a budget gap that steadily rises year on year to c£1.5m by 2023/24. Base costs in 2019/20 have reduced significantly compared to previous years reflecting the transformation savings and early progress with generating commercial investment income. Despite this, ongoing inflation and other cost pressures see costs increasing. Additionally, a more prudent approach to use of New Homes Bonus shows funding is not expected to keep pace with costs.

62. Members therefore need to continue to support action to address the Gap. Delivering the residual balance of £2m additional income (see para 17 above) provides the opportunity to address this Gap, therefore it is important that Members continue to focus on and keep the momentum with the savings strategy to avoid further pressure on service delivery. As explained later this report, budget risk and uncertainty means medium to longer terms forecasts are likely to change, and this will be carefully monitored on an ongoing basis.

Key Assumptions

63. The MTFP is based on reasonable estimates of costs and income over the period of the plan. These include:

Service Costs and Income Assumptions

- Staff pay awards are estimated at 2% annually.
- Inflation increases incorporated for main contractual arrangements (Waste partnership) and other smaller cost items.
- “Unavoidable” costs allowance included for items such as demographic growth reflected in demand for waste services, increased supported housing costs, etc. No allowance is included currently for potential material increases in the Waste Contract which is subject to procurement for 2020.
- Employers pension contributions based on 16.1% of pay, based on the latest (2016) actuarial valuation.
- Pension Fund deficit recovery lump sum costs rising from £1.6m in 2018/19 to £1.9m in 2023/24, based on the most recent 2016 actuarial valuation.
- Transformation savings of £0.565m included in 2017/18, rising to £1.84m in 2018/19 then £2.48m per year by 2019/20.
- Other savings included in line with targets, as set out in para 16 – Table 2.

Funding Assumptions

- Business Rates Retention (BRR) will be set in line with annual rating income forecasts, projected to grow in line with inflation, with a large reduction expected from the 2020/21 Reset.
- No impact identified in respect of implementation of 75% Business Rates Retention, anticipated to be implemented in 2020/21.
- General Government Grant – Revenue Support Grant, Rural Services Delivery Grant remains in line with the four year settlement agreed with Government in 2016, except for the “Negative RSG” assumption has been updated. Government Consultation on the 2019/20 Settlement sets out Government plans to mitigate the impact of Negative RSG – £327k in 2019/20. The MTFP therefore defers this reduction to 2020/21. A contingency transfer to earmarked reserves is currently included pending confirmation of the Settlement in December.
- NHB grant projections assume a 0.5% housing growth baseline, with grant income expected to reduce. Use of NHB for the annual budget proposed to reduce compared to earlier financial plans (see para 45).
- Council tax is forecast based on an assumed £5 increase in 2019/20 then 2.99% increases thereafter. Government has indicated all shire districts will have the option to increase Band D tax by £5 per year in 2019/20 however this is subject to annual announcement by the Secretary of State.

Financial Planning Risks and Uncertainty

64. The funding projections within the financial plan are based on the current multi-year Finance Settlement which covers the four year period to 2019/20. There is significant uncertainty beyond then:

a) **Spending Review 2019 (SR19)** – the Government will undertake its next Spending Review next year, which will influence future funding made available to local government. It is not known at this stage whether SR19 will cover one or more years, but will be reflected in the

2020/21 Finance Settlement. An important context for the review is the recent projections for public finances by the Office of Budget Responsibility which show a growing deficit over the next decade as service demand increases are not matched by increasing tax revenues, together with the currently unfunded commitment to increase spending on the NHS by £20 billion per year.

b) **Fair Funding Review** – identifying the “need” for funding that will influence the distribution of funds between authorities in the **2020/21 Finance Settlement**.
c) **Business Rates Retention Reset** – the Business Rates Retention system is due to be “Reset” in 2020, so that growth in business rates is redistributed between local authorities through the target, baseline and tariff mechanism. This will be included in the **2020/21 Finance Settlement**.
d) **Business Rates Revaluations** – indications are the next Revaluation will be implemented in 2021, then be undertaken every three years rather current arrangement every five years.
e) **75% Business Rates Retention** – recent consultation indicates that Government propose to “roll in” or devolve Revenue Support Grant (RSG), Rural Services Delivery Grant (RSDG), the Greater London Authority (GLA) Transport Grant and the Public Health Grant (PHG) to local government when the new system commences. The scheme design for 75% BRR remains under development, and this is planned to be implemented within the **2020/21 Finance Settlement**.
f) **New Homes Bonus** – the housing growth baseline (the rate of housing growth that does not attract NHB Grant) is currently 0.4% but is expected to increase in 2019/20. The increase will be set out in the **2019/20 Finance Settlement**. In addition, in respect of 2020 onwards the Government has indicated its intention to “explore how to incentivise housing growth most effectively, for example by using the Housing Delivery Test results to reward delivery or incentivising plans that meet or exceed local housing need.” Government will consult widely on any changes prior to implementation, and it is assumed this will be implemented within the **2020/21 Finance Settlement**.

65. All of the above indicates that the Council’s funding position in 2020/21 and beyond is impossible to predict with certainty, which brings added risk to our financial planning. The financial strategy addresses this uncertainty by:

    a) Prudent assumptions used for future funding forecasts
    b) The savings target builds in an element of savings to mitigate unplanned funding reductions and/or additional unforeseen costs

66. Other main areas of risk and uncertainty within the financial plan are:

    a) Inflation – rising inflation could place additional pressure on pay settlements and prices for purchases of goods and services

    b) Demand volatility – fluctuation in costs and income as a result of changes in demand led services and usage (e.g. planning, building control, parking, garden waste)

    c) Delivery of savings – the MTFP includes transformation savings rising to £2.5m+ per year by 2019/20. Confidence is high that these savings will be delivered but this remains a risk at this stage. If these savings are not realised either in total and/or within the planned timescales this will increase the budget gap

    d) Business Rates Retention – forecasts under BRR are notoriously difficult to predict with accuracy and can therefore change from year to year (e.g. for appeals, reliefs, etc.)

    e) Economic slowdown – impact on business rates and NHB as well as income from fees and charges

    f) Brexit – impact on services, investment performance, funding, etc.

Council Tax Reduction Scheme and Funding Passported to Town and Parish Councils

67. Members approved the current Council Tax Reduction Scheme in January 2018. The Finance and Legal Portfolio Holder will make recommendations to District Executive and Full Council of any proposed amendments to the 2019/20 scheme by the statutory deadline of the 31 January 2019.

68. The 'cost' of the Council Tax Reduction Scheme is reflected in the calculation of the Council Tax Base each year, with current costs estimated at approximately £8.5m per year for 2018/19. This cost is shared by the preceptors in proportion to their elements of the total council tax bills (so c£0.8m for SSDC). Fluctuations in costs will influence the Collection Fund Surplus/Deficit estimates which will be reflected in the MTFP through the budget estimates process, and will also affect future tax base calculations.

69. Since the Government announced that all Revenue Support Grant (RSG) will cease a letter has previously been sent to all of the Town and Parish Councils outlining that their grant will reduce to zero by 2019/20 to enable them to plan ahead for their budgets. This reflects the fact that no RSG is available to pass on.

Capital Strategy

70. This Capital Strategy outlines how SSDC will utilise its capital resources to deliver the Council Plan and key strategies. Resources to fund capital investment comes from a variety of sources, including:

    - Capital receipts reserves
    - Capital grants and contributions
    - Planning obligations (e.g. S106 receipts)
    - Community Infrastructure Levy
    - Other reserves (e.g. Internal Loans Fund)
    - Borrowing
    - Revenue budget contributions to capital

71. SSDC continues to hold significant funds in capital receipts reserves - £24.6million as at 31 March 2018. Of this balance, £11.2m is committed to fund the current approved Capital Programme (previously reported) leaving £13.4m available to invest in commercial investment and/or new schemes. Council has delegated responsibility to the S151 Officer to determine the most appropriate ways to fund commercial investment. The aim is to preserve capital reserves and prioritise borrowing for this purpose. Capital bids will be developed during the autumn to determine an approximate need for future investment.

72. The Capital Programme will be developed during the autumn for consideration by Members in January/February 2019. This will reflect planned investment in service related schemes and transformation, and available costed information in respect of regeneration programmes. In addition, significant funding has been approved to support the acquisition of investment properties – aiming to meet the revenue budget savings target – and the development of regeneration schemes. The current strategy is:

    - Each project will be reviewed initially on a commercial basis so that schemes will be considered utilising "Internal Borrowing" (from £1m internal borrowing reserve) where bids can be made for loans that repay both capital and interest at PWLB rates.

- External borrowing will be considered on a project by project basis for commercial projects so they can in effect be "stand alone" repaying the capital sum and surplus return to SSDC that can be reinvested in services.

- SSDC will utilise the flexibility in the period to 2021/22 to use new receipts from property, plant and equipment disposals for one-off revenue expenditure if required in delivering the Council's approved Efficiency Plan (this flexibility does not apply to ongoing service delivery costs).

- The level of capital receipts will be monitored to ensure that community and non-commercial projects that benefit residents and businesses can continue to be funded from available resources.

73. As reported to Audit Committee in June 2018, important updates have been published by CIPFA in December 2017 (Prudential Code and Treasury Management Code) and by MHCLG in February (Investment Guidance and Minimum Revenue Provision Guidance). It is planned to develop a new Capital Strategy in the coming months, which Council will be requested to consider for approval in February 2019.

74. District Executive has delegated authority to approve the use of up to 5% of capital receipts in any one year (approx. £700k). Approvals beyond this sum must be agreed through full Council.

Summary Budget Timetable

75. Below is a summary outline of the key budget reporting dates to Members.

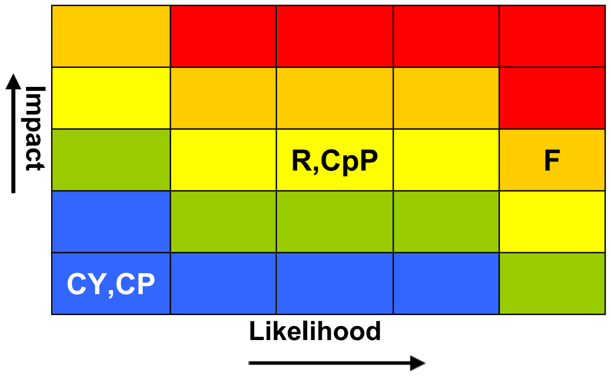
4 September 2018	Scrutiny	Financial Strategy and Initial MTFP Estimates
6 September 2018	District Executive	Financial Strategy and Initial MTFP Estimates
4 December 2018	Scrutiny	MTFP Update
6 December 2018	District Executive	MTFP Update
24 January 2019	Audit Committee	Treasury Management Strategy and Capital Strategy
5 February 2019	Scrutiny	Draft 2019/20 Revenue and Capital Budgets
7 February 2019	District Executive	Draft 2019/20 Revenue and Capital Budgets
26 February 2019	Council	2019/20 Revenue and Capital Budgets Council Tax Setting Treasury Management Strategy and Capital Strategy

Financial Implications

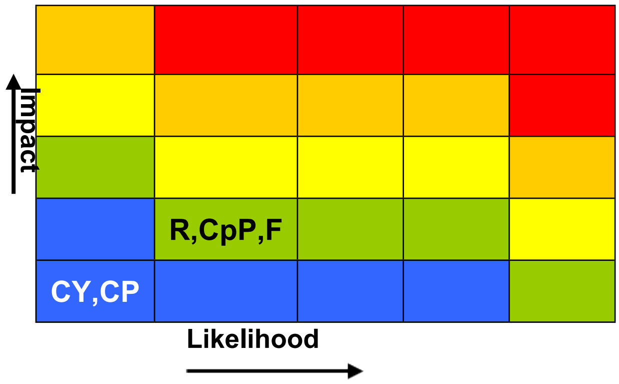
76. This is a finance focussed report with financial implications covered throughout.

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

Council Plan Implications

77. The MTFS and MTFP incorporate costs, income and funding implications directly related to the delivery the Council's aims and priorities.

Carbon Emissions and Climate Change Implications

78. Not applicable within this report.

Equality and Diversity Implications

79. Not applicable within this report.

Privacy Impact Assessment

80. 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

81. The following reports may provide helpful background information in support of this report:
    - Medium Term Financial Plan – 4 Year Settlement (Council 13 October 2016)
    - Revenue Budget 2018/19 – Medium Term Financial Plan and Capital Programme (Council 22 February 2018)
    - SSDC Transformation Programme (Council 20 April 2017)

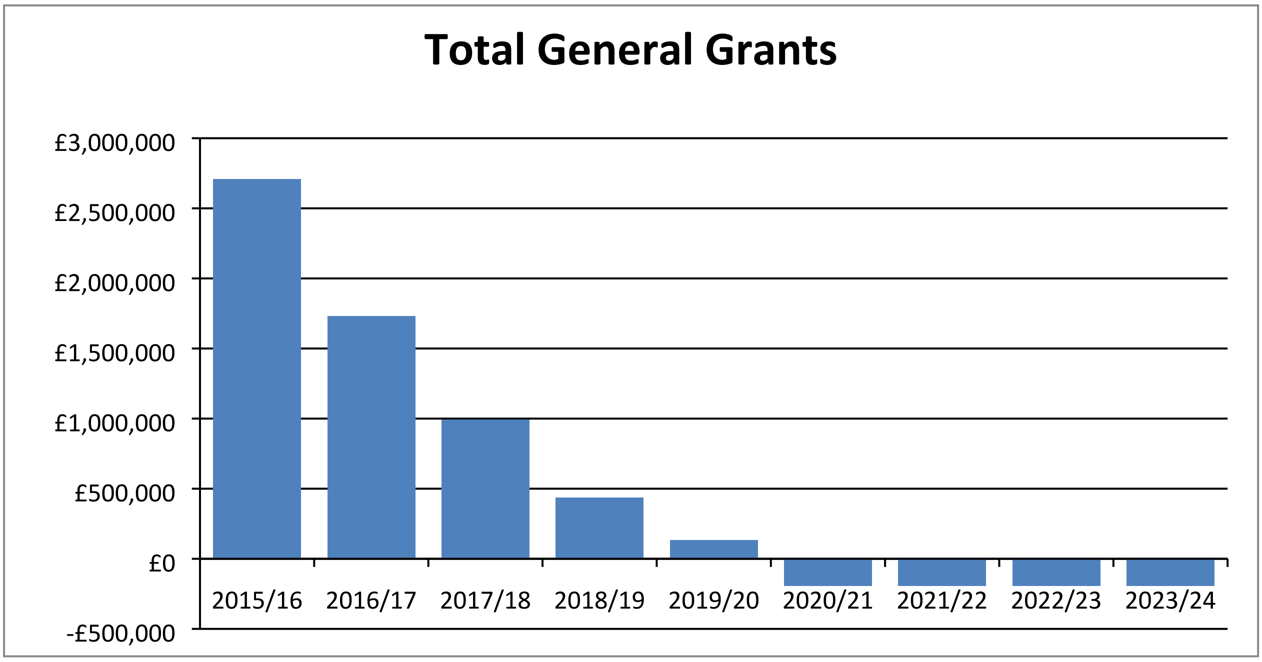
Appendix A – Additional Funding Information

1 General Government Grant

1.1 Included within the four year funding settlement offered by government, commencing in 2016/17, are three general revenue grants. The table and chart below show the reduction in this grants year on year. The figures assume Government will mitigate negative RSG in 2019/20 (assumed one-year only) however this won't be confirmed until the Provisional Settlement in published in December 2018.

General Revenue Grants

	2015/16 Actual £k	2016/17 Actual £k	2017/18 Actual £k	2018/19 Estimate £k	2019/20 Estimate £k
Revenue Support Grant	2,709.4	1,675.5	802.6	268.9	0.0
Transitional Grant	0.0	57.2	57.0	0.0	0.0
Rural Services Delivery Grant	0.0	165.3	133.4	166.2	133.4
Total General Grant Funding	2,709.4	1,898.0	993.0	371.5	133.4



2 Business Rates Retention (BRR)

2.1 The approach to funding for local authorities changed in April 2013 with a move away from needs-based formula grant to a system that incentivises growth. This included the introduction of Business Rates Retention (BRR). The BRR scheme is based on 50% of business rates collected in the local area being retained by the Local Authorities (40% District, 9% County, 1% Fire).

2.2 Each Local Authority was allocated a Business Rates Funding Baseline by the Government based on the level of funding needed under the previous formula scheme. Under BRR, SSDC receives a "standard share" of 40% of business rates collected. However, because this a greater amount than the Baseline "need" we pay a Tariff to redistribute part of the funds to Top Up authorities whose standard share is below the Baseline "need". Any income collected over and above the baseline figure has a levy of 50% which is paid to Government with the other 50%

retained by SSDC.

2.3 The BRR system is quite complex, and is susceptible to volatility and fluctuation based on inflation, rate of growth, appeals and refunds, bad debt, and changes in Government policy. Since the inception of the scheme the biggest area of risk, uncertainty and volatility relates to appeals and refunds. The Council mitigates this risk through a combination of:

- prudent forecasting through analysis of past trends, and future risks and opportunities
- budgeting for a provision for funding reductions in respect of appeals and refunds
- maintaining an earmarked "BRR Volatility" reserve to guard against large reductions in funding for services and also address accounting timing differences.

2.4 The initial BRR estimates for 2019/20 assume net funding growth is in line with inflation, with growth in rating income being offset by appeals and other reductions. These assumptions will be reviewed during the budget process in the autumn and reflected in budget estimates around October/November.

2.5 In addition, there is significant budget risk regarding the impact of the planned Reset of the rating income target, baseline and tariff which is due to be implemented in April 2020. This will be the first Reset under the BRR system, and it is not known at this stage what the true impact will be. A prudent contingency for a reduction in business rates from April 2020 has been included in the MTFP estimates pending further information being issued by Government.

Business Rates Retention Estimates

	2019/20 £k	2020/21 £k	2021/22 £k	2022/23 £k	2023/24 £k
40% Share of BR Income	17,056	17,368	17,715	18,061	18,408
100% Renewable Energy BR Income	281	286	292	297	303
S31 Grant Income for Government-funded reliefs	2,095	2,137	2,183	2,230	2,276
Tariff	-13,632	-13,881	-14,158	-14,435	-14,712
Levy cost	-1,054	-1,073	-1,094	-1,116	-1,137
Safety Net income	0	0	0	0	0
Contingency for Reset impact	0	-700	-714	-728	-742
Net Retained Business Rates Funding	4,746	4,137	4,223	4,309	4,396

3 New Homes Bonus

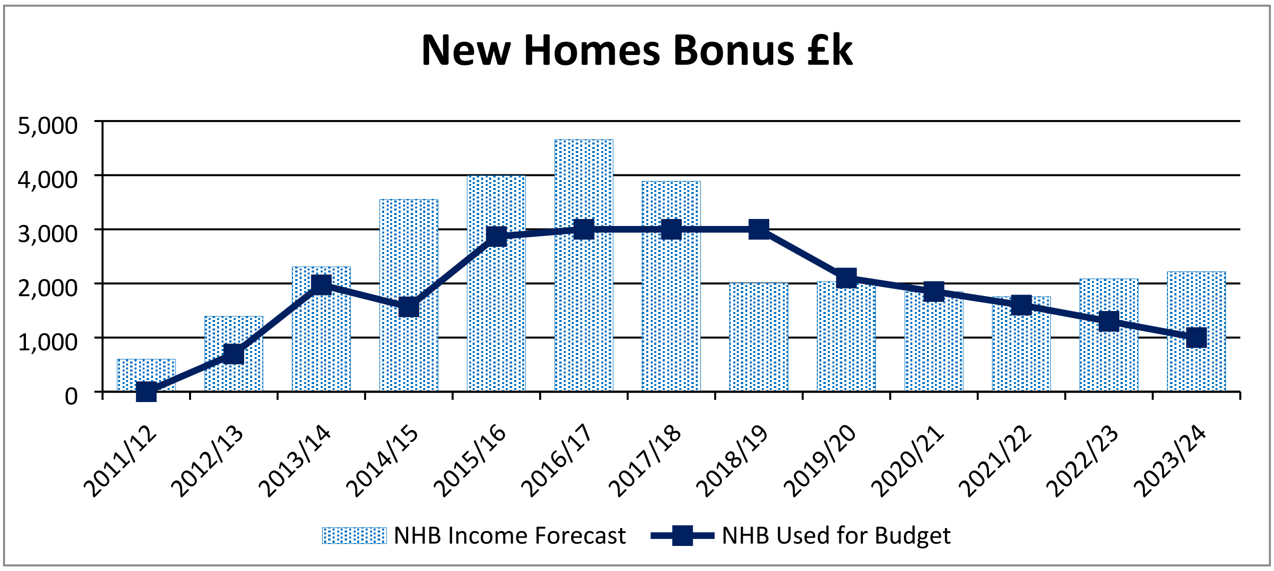
3.1 The New Homes Bonus (NHB) Grant is a grant from the Government which 'rewards' housing growth. The NHB Grant is not ring-fenced, which means the Council is free to decide how to use it based on local priorities.

3.2 The calculation of the grant has changed from 2017/18 onwards, as the government has redirected funding available under NHB to the Better Care Fund in support of social care funding pressures. The scheme was originally designed such that each year of housing growth attracted funding for 6 years; therefore in 2016/17 we received 6 years' worth of grants. As part of the Finance Settlement for 2017/18 the Government confirmed this would reduce to 5 years' worth in 2017/18 and then 4 years' worth from 2018/19. In addition, a new growth baseline was introduced in 2018/19 with no grant due on the first 0.4% of Band D equivalent growth. Our estimates assume this baseline will increase in 2019/20 to 0.5%.

3.3 The table below summarises the grant calculations and estimates from 2016/17 onwards, and the following graph also includes the total grant received since the NHB grant was introduced in 2011/12. This is then shown in graph format, followed by a projection of the MTFP Support Fund balances.

New Homes Bonus Projection

Allocations in respect of:	Actuals		Estimates					
	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
	£k	£k	£k	£k	£k	£k	£k	£k
2011/12	601.1							
2012/13	790.3							
2013/14	915.9	915.9						
2014/15	1,243.7	1,243.7						
2015/16	440.1	440.1	440.1					
2016/17	667.1	667.1	667.1	667.1				
2017/18		621.1	621.1	621.1	621.1			
2018/19			278.9	278.9	278.9	278.9		
2019/20				467.0	467.0	467.0	467.0	
2020/21					479.3	479.3	479.3	479.3
2021/22						530.7	530.7	530.7
2022/23							607.6	607.6
2023/24								600.0
Total	**4,658.2**	**3,887.9**	**2,007.2**	**2,034.1**	**1,846.3**	**1,755.9**	**2,084.6**	**2,217.6**
NHB in MTFP	**3,000.0**	**3,000.0**	**3,000.0**	**2,100.0**	**1,850.0**	**1,600.0**	**1,300.0**	**1,000.0**



MTFP Support Fund Forecast

	2018/19 £k	2019/20 £k	2020/21 £k	2021/22 £k	2022/23 £k	2023/24 £k
Balance Brought Forward	5,776	4,783	4,717	4,713	4,869	5,654
To/From Annual Budget	-993	-66	-4	156	785	1,217
Balance Carried Forward	4,783	4,717	4,713	4,869	5,654	6,871

3.4 Based on the current strategy the Fund would need to maintain a balance carried forward of at least £2m (2 x £1m) from 2023/24. This would indicate the potential for surplus funds in future years, however this is dependent on several factors and not certain at this stage. Government have indicted an intention to review NHB funding from 2020 onwards therefore future projections beyond 2019/20 are uncertain.

4 Council Tax Base and Council Tax Band D Rate

4.1 The Council Tax Base on which the Council generates its local tax revenue is the sum residential properties expressed as Band D equivalents. It reflects adjustments for reductions including Single Person Discount and Local Council Tax Support as well as assumptions around net growth and collection rates. The Tax Base is increasing each year by between approximately 1% and 1½%. The actual tax base for 2019/20 will be determined in December 2018.

4.2 The Council Tax Base for 2018/19 is 59,988.3 Band D Equivalent properties. The 2018/19 Band D tax rate is £162.48, which includes £1.85 collected and passed on to the Somerset Rivers Authority.

4.3 Each 1% increase equates to approximately £100k additional income.

4.4 An assumed £5 increase in 2019/20 equates to 3.08%, and together with the estimated tax base increase has added £407k additional income within the current MTFP estimates for 2019/20.

4.5 The following table summarises the projected Council Tax Base and income budget estimates within the Plan (including SRA precept).

	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
Council Tax Base					
Increase %	1.1%	1.4%	1.2%	1.0%	1.0%
Increase in Band D Equivalents	641.1	830.0	756.0	651.6	651.6
Tax Base	**60,629.4**	**61,459.3**	**62,215.3**	**62,866.9**	**63,518.5**
Council Tax Rate					
Increase % (MTFP assumption)	3.08%	2.99%	2.99%	2.99%	2.99%
Increase £	5.00	5.01	5.16	5.31	5.47
Band D Rate £	**167.48**	**172.49**	**177.65**	**182.96**	**188.43**
Council Tax Income					
Increase due to Tax Base £k	-104	-139	-130	-116	-119
Increase due to Tax Rate £k	-303	-308	-321	-334	-347
Total Council Tax Precept £k	**-10,154**	**-10,601**	**-11,053**	**-11,502**	**-11,969**

5 Somerset Rivers Authority Precept

5.1 The Somerset Rivers Authority (SRA) was created following the severe flooding that hit the area in the winter of 2013/14. It has developed a 20 Year Flood Action Plan which will target long term investment to develop improved flood prevention and resilience when flooding is unavoidable. In 2015/16 through a combination of Government funding and contributions from local authorities in Somerset, the SRA had a budget of £2.7m to progress the Action Plan. In future the SRA will be able to set its own Precept to raise Council Tax income to help deliver the Plan.

5.2 In 2016/17 the County Council and the five district Councils in Somerset had the opportunity to raise additional council tax funding, based on 1.25% of the 2015/16 Council Tax rate, to raise funding the Somerset Rivers Authority pending its establishment as a precepting body. For SSDC this equates to £1.85 a year on a Band D. In 2018/19 the Council Tax raised and passed on to the SRA is £111k.

5.3 The SRA Board approves its budget in February each year, where the £2.7m is prioritised to progress the five key workstreams within Somerset’s 20 Year Flood Action Plan. These are:

- dredging and river management
- land management (including natural flood management)
- urban water management
- resilient infrastructure
- building local resilience

5.4 The Government has previously committed to implementing the necessary legislation to allow the SRA to precept in its own right. The timing of this is uncertain, and the MTFP assumes the current arrangements remain in place for the foreseeable future.

6 General Reserves

6.1 The Council's uncommitted General Reserves balance as at 1 April 2018 is £4,043k. This is above the recommended minimum balance provided some resilience to unforeseen costs if required in the short term. The MTFP currently does not rely on the use of general reserves to meet annual costs.

General Reserves	**Estimated Balance £k**
Balance 1 April 2018	4,361
Area & Economic Development Balances	-121
Budget Carry forwards to 2018/19	-119
Previously approved commitments not yet drawn from reserves	-78
Estimated uncommitted balance April 2018	4,043

7 Earmarked Reserves

7.1 In addition to General Reserve balances, the Council holds funds in a range of Capital Reserves and Revenue Earmarked Reserves. These are held for a range of purposes including:

- Grants received in advance of spending
- Capital receipts not yet spent
- Revenue budgets set aside where spending is planned in future years
- Contingencies for specified financial risks (such as business rates volatility)

7.2 The following table summarises the main capital reserves and earmarked reserves held as at 31 March 2018.

Reserves	**Balance as at 31/03/18 £k**
Usable Capital Receipts	24,611
Internal Borrowing Reserve	657
Capital Reserve	1,274
Cremator Replacement Capital Reserve	549
Internal Borrowing Repayments	59
Election Reserve	190
Risk Management Reserve	0
Wincanton Sports Centre Reserve	21
Local Plan Enquiry Reserve	71
Yeovil Athletic Track Repairs Fund	151
Planning Delivery Reserve	16

Bristol to Weymouth Rail Reserve	26
Local Authority Business Growth Initiative Reserve	14
Yeovil Vision	122
IT Replacement Reserve	10
Insurance Fund	50
Transformation Reserve	2,266
Treasury Management Reserve	100
Local Plan Implementation Fund	125
Revenue Grants Reserve	788
MTFP Support Fund	6,012
Council Tax/Housing Benefits Reserve	625
Closed Churchyards Reserve	-2
Health Inequalities	31
Deposit Guarantee Claims Reserve	4
Park Homes Replacement Reserve	165
Planning Obligations Admin Reserve	35
LSP	8
Artificial Grass Pitch Reserve	108
Business Support Scheme	139
Infrastructure Reserve	803
NNDR Volatility Reserve	3,955
Ticket Levy Reserve	35
Waste Reserve	215
Community Housing Fund	211
Total Usable Reserves	**43,444**