Financial Strategy 2020/21

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Purpose of the Report

1. The purpose of this report is to seek Executive support for an updated Financial Strategy for 2020/21 onwards, and provide Members with information regarding the initial Medium Term Financial Plan estimates for the period 2020/21 to 2024/25.

Forward Plan

2. This report appeared on the District Executive Forward Plan with an anticipated Committee date of September 2019.

Public Interest

3. This report outlines South Somerset District Council's overall financial strategy setting out how the Council proposes to manage its financial position over the medium term (three to five years). It also provides an up to date set of estimates and assumptions regarding service costs and income, the funding available and the planned approach to 'balancing the books' over the same period. It is a legal requirement that the Council sets a balanced budget, and it is in the public interest that priority local services are both affordable and sustainable.

Recommendations

4. That the District Executive:

   a. Approve the Financial Strategy including the proposed new Savings Targets.
   b. Approve the planned movements in reserves as set out in paragraphs 62 and 65.
   c. Note the initial 2020/21 Budget and Medium Term Financial Plan estimates.
   d. Note the approach and timeline for budget setting for 2020/21.

Background

5. The Council set its current Financial Strategy in 2017, and refreshed this in 2018. The principle aim of the strategy is to enable the Council to set a balanced budget each year without the need to cut services. This is a challenge in the context of significant cuts in funding from central Government. At the highest level, the strategy can be summarised as striking a balance between delivering cost efficiency through transforming services, and generating additional income through charging for services, commercial investment and treasury investment. The Council has made good progress in driving these themes forward, and it is very important that Members and the Leadership team continue the momentum to address projected financial pressures in future years and ensure long-term financial sustainability.

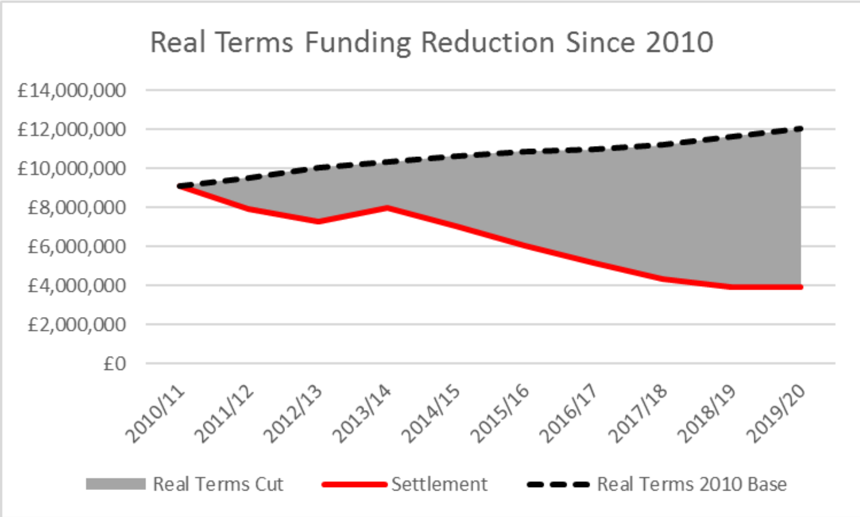
6. Financial year 2019/20 is the last year of the current Council Plan, and following district council elections in May 2019 a new Council Plan will be developed. It is therefore appropriate to review and develop a new Financial Strategy that remains fit for purpose and aligns with updated Council ambitions and priorities.

7. Financial Planning is particularly difficult at this point, with a high degree of risk and uncertainty in particular regarding the Council's funding forecasts. A summary of the key factors affecting this are as follows (and expanded on later in this report) include:

- National context – Brexit uncertainty and potential for instability in the national economy
- Financial stress in the local government sector – with particular emphasis on the NHS, social care, public health and homelessness
- Funding – 2019/20 is the last year of the current 4-Year Finance Settlement
- Funding – the Government's Spending Review was anticipated being announced before the summer recess but has not yet happened, therefore funding for local government next year remains. It is feasible the Review, when issued, will cover one year only.
- Funding – the Fair Funding Review is due to inform 2020/21 Finance Settlement. However, as Government have not yet issued the results for consultation it seems highly likely this will be deferred.
- Funding – Business Rates Retention Reform is due to inform 2020/21 Finance Settlement. However, as Government have not yet issued the results for consultation it seems highly likely this will be deferred.
- Funding – Business Rates Baseline Reset is due for April 2020. This is expected to be a "Full Reset, with funding likely to reduce to Baseline.
- Funding – New Homes Bonus Review is due in 2019 and could impact on 2020/21 Finance Settlement. However, as Government have not yet issued proposals for consultation it seems highly likely this will be deferred, but the risk remains that the current system will still be adjusted leading to a reduction in funding.
- Cost inflation – some items of cost are running ahead of overall inflation including wage growth and there are demands from the unions for significant increases in pay and other entitlements.

8. All of the above means the Council will need to use a range of prudent / cautious assumptions for financial planning, and will need to be agile in responding to changes as further information becomes available. Appropriate levels of contingency will need to be considered when setting the Financial Strategy and calculating budget estimates.

9. General grant funding for local government, more so for shire districts, has been significantly reduced through this decade. This has seen a major reduction in funding, forcing councils to consider a range of measures to balance budgets. The following graph shows reduction in general grant funding since 2010 for South Somerset District Council, which emphasises the scale of the challenge. The grant funding received through the Finance Settlement in 2010/11 was £9.1m. In 2019/20, this had reduced to £3.9m – a cash reduction of £5.2m (further information is shown later in this report, with significant majority of residual funding received through business rates). When factoring in the impact of inflation the **'real terms' reduction equates to £8m per year by 2019/20**. In response, the Council has significantly reduced costs and sought alternative sources of income to ensure ongoing services are affordable and the Council is financially resilient.



This graph reflects changes to general funding income. The impact of this funding reduction adds to financial pressure arising from costs of annual inflation and demand growth.

Financial Strategy – Summary

10. Building on the success of the existing strategy it is proposed that the Council sets a new Financial Strategy for the next three years, and sets new financial targets at the same time. The direction in the financial strategy agreed in 2017 remains relevant and sets out to provide Members with options to respond to the ongoing financial challenges. This strategy builds on this to increase income needed to pay for services and deliver ongoing financial resilience.

11. The key themes to the proposed strategy are:

    a) Ensuring clear service priorities that clearly align with corporate strategy and plans
    b) Maximising operational efficiency and value for money through optimising benefits of the future operating model and exploring how new technologies can further improve efficiency
    c) Adopting robust financial control and reporting arrangements
    d) Developing approaches to manage and reduce demand on services in partnership with Somerset councils and other service delivery organisations
    e) Investing further in property, energy and new services to generate additional income that can be reinvested to maintain and improve services to our community
    f) Increasing the income yield from financial investments as part of a prudent treasury management approach
    g) Taking a more commercial approach and increasing income yield by 5% per year
    h) Reduce reliance on government grants such as New Homes Bonus for the funding of ongoing services
    i) Supporting and enabling economic and housing growth and regeneration to protect and enhance funding through local taxation and grant funding
    j) Focus on long term financial resilience through robust financial planning and maintaining appropriate reserves to manage risk and meet future commitments

12. The remainder of this report, and proposals contained within reflect the above themes.

Updated Medium Term Financial Plan Estimates

13. The Council approved its current Budget and Medium Term Financial Plan in February 2019. This reflected the progress made in recent years towards meeting an annual savings target rising to £6m

per year. As at February 2019, £4.4m of this target had been built into the MTFP as either delivered or with a high degree of confidence that the savings will be delivered in future.

14. In recent weeks, key estimates have been reviewed where appropriate, reflecting as much as possible what is “known”, and providing “best estimates” on areas of uncertainty.

15. Commercial investment: further progress has been made with commercial property investment income with a number of acquisitions completed or in the pipeline since the original 2019/20 budget estimates were finalised. On this basis the net income expectation built into the MTFP has increased to £2m per year by April 2020. As the market has tightened since the Commercial Strategy was approved it is prudent from a budget perspective to assume this will be the average income from the current approved investment fund. This has increased income in the MTFP by £1.1m since February 2019, but assumes for budget purposes there is a risk that the income target of £2.25m by April 2021 may not be achieved due to market conditions and our robust investment criteria.

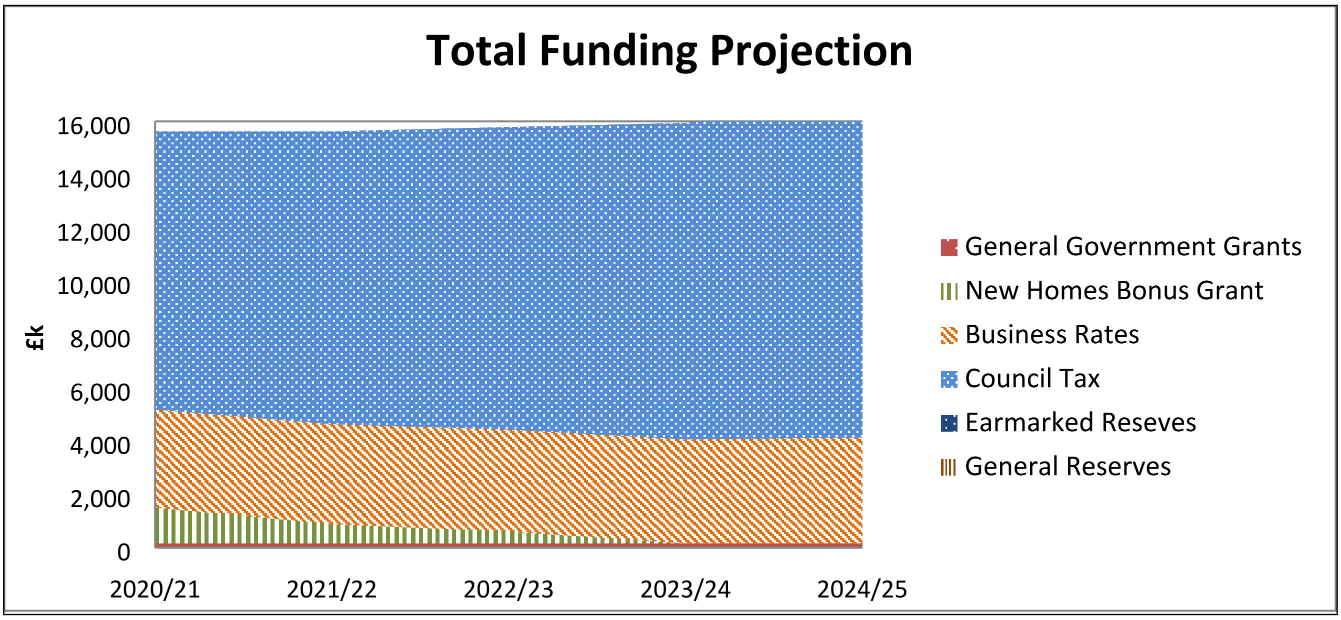
16. Business Rates Reset: financial planning assumptions have been updated on the basis that the Reset in April 2020 will fully reduce retained business rates funding to the Baseline. This adds approximately £0.6m into the projected Budget Gap for 2020/21 onwards.

17. New Homes Bonus: the S151 Officer and Leadership Team recognise reducing confidence in the prospective income levels available through this funding mechanism. The MTFP has therefore been updated to accelerate the approach to removing reliance on this grant for ongoing service costs. The assumption is that the grant will be fully removed from budget by 2024/25. This adds £1.0m into the projected Budget Gap by 2024/25.

18. The following chart and table sets out a summary of the council’s latest forecasts of Net Expenditure and Funding, and shows a provisional budget gap rising to £1.2m by 2022/23 (7% of Net Expenditure). The Gap is projected to rise further to approximately £2.0m by 2024/25 (11% of Net Expenditure).

Table 1 – Initial Medium Term Financial Plan Summary

	2020/21 £k	**2021/22 £k**	**2022/23 £k**	**2023/24 £k**	**2024/25 £k**
Net Expenditure Estimates	**15,258**	**15,868**	**16,683**	**17,333**	**18,056**
Funded By:					
General Government Grants	161	161	161	161	161
New Homes Bonus Grant	-1,341	-720	-441	0	0
Business Rates	-3,682	-3,755	-3,829	-3,902	-3,976
Council Tax	-10,433	-10,897	-11,355	-11,876	-12,360
Earmarked Reserves	25	-130	-59	-200	150
General Reserves	0	0	0	0	0
Total Funding	-15,270	-15,341	-15,523	-15,817	-16,025
Budget Gap	**-12**	**527**	**1,160**	**1,516**	**2,031**
Budget Gap Increase on Prior Year		**539**	**633**	**356**	**515**



Provision for New Priorities

19. As part of considering the new Financial Strategy, it is important to consider new spending requirements that emerge as the new Council (following May 2019 elections) reviews its priorities and develops a new Council Strategy for 2020 to 2024.

20. Spending options will be developed through the budgeting process, however from a financial planning perspective it is prudent to consider possible additional costs when setting an overall savings target. Additional net spending on new priorities would add to the Budget Gap included in Table 1. It is therefore proposed to set a Savings Target that exceeds the current projected Budget Gap, providing potential additional resources for spending on services.

Savings Targets

21. The updated MTFP includes **£5.5m** of annual savings delivered or committed against the previously set target of £6m per year by 2022/23. These savings are summarised as follows:

Table 2 – Savings Built into MTFP since 2017/18

	£k
Transformation (staff and technology costs)	2,500
Operating model non-staff savings	50
Commercial investment portfolio	2,000
Treasury investment	450
Commercial Services and Other Service Income	500
Net Savings Compared to 2017/18 Base Position	**5,500**

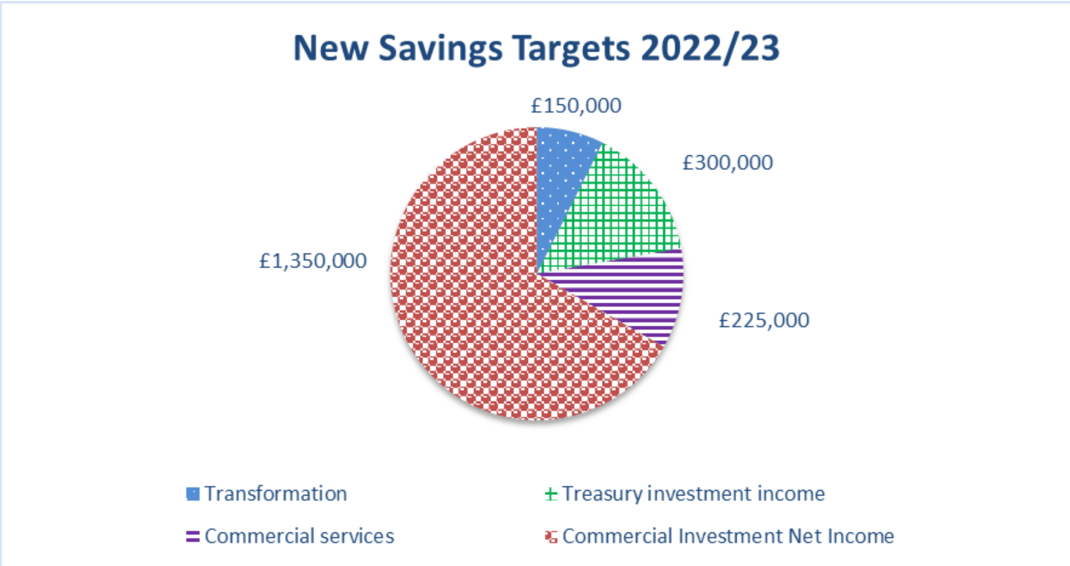
22. By financial year 2020/21 the Transformation Programme will be completed and the £75m fund agreed by the Council for investment will have been invested. It is therefore proposed to set the current MTFP as a new starting 'Base' position for 2020/21, and set new Savings Targets initially for the period 2020/21 to 2022/23 but with a view to the longer term also.

23. In doing this it is proposed to recognise the £5.5m delivered of the previous £6m savings target and draw a line under this. It is recommended a **new Savings Target of £2.0m** is set, to be delivered over the next three years, reflecting the £0.5m still to be delivered and the new funding pressures emerging. The new Target is significantly focussed on income generation, and will mean the Council

aims to be fully self-financing without relying on general Government Grant funding in the medium to longer term. The targets are based on the Council supporting the updated Commercial Strategy investment, which is covered in a separate report.

Table 3 – New Cumulative Savings Targets 2020/21 to 2022/23 (in addition to £5.5m in Table 2)

	2020/21 £k	**2021/22 £k**	**2022/23 £k**
Transformation: Non-staff efficiency savings	150	150	150
Treasury investment income	100	200	300
Commercial Services and Other Service Income	75	150	225
Commercial Investment Net Income (from additional investment fund requested for approval by Council, on top of existing net income built in to MTFP)	675	1,350	1,350
Sub-Total: Financial Strategy Savings	**1,000**	**1,850**	**2,025**



Transformation – Operational Efficiency

24. The base budget position includes the full delivery of the transformation £2.5m efficiency savings from 2019/20 onwards. These savings relate predominantly to staff costs. As the Council's staffing establishment is significantly reduced, and more efficient ways of working are being introduced, it is anticipated a good proportion of historic operational overhead budgets may also be reduced to reflect the needs of the transformed organisation. A detailed and robust review of base budgets will be undertaken during 2019. The 2019/20 budget includes a savings target of £50k, which has been delivered through reduced travel costs. Per Table 4 above, it is proposed this target is increased by £150k in 2020/21 giving a total of £200k efficiency savings on top of the Transformation Business Case.

Table 4 – Operational Efficiency Base Budget Review

	2019/20 £k	2020/21 £k
Base Budget Efficiency Savings Target 2019/20	50	50
Add: Base Budget Efficiency Savings Target 2020/21		150
Ongoing Annual Savings 2020/21 onwards		200

(Negative figures = savings)

25. The results of the Base Budget Review will be reported to Members in future budget reports.

26. In support of the Financial Strategy and continuing to improve efficiency, customer service and adopt good practice, the Council will develop a new approach to Operational Efficiency to reflect that the Transformation Programme will end in 2019/20. As this approach has not been developed yet and experience suggests, will take some time to deliver and realise the benefits, it is not prudent to include financial savings targets or estimates at this stage.

Commercial Strategy and Income Generation

27. 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 essential in responding to the major cuts in central government funding and replace this with other income to maintain and enhance local services and investment in our communities. It is recognised that delivering savings through transformation and efficiencies alone will not fully address the financial challenge faced by the Council.

28. The Council (August 2017) approved a new Commercial Strategy for 2017 to 2021 supplemented with a Land and Property Strategy. The Strategy has been reviewed in light of experience to date, with an updated Strategy being reported and presented to the District Executive in September 2019.

29. The Commercial Strategy makes a significant contribution to the financial savings target through building a portfolio of commercial property investments. The Council is geared up with necessary resources, skills and experience to progress this priority, which is currently projected to provide ongoing net savings of £2m per year. The new Savings Target above will increase this total by £1.35m (Table 3) to £3.35m. Meeting this new Target will require the Council to increase its total Investments Portfolio to generate the additional income.

30. In order for this approach to be affordable, the Council will need to continue to disregard statutory guidance regarding use of borrowing for investment property acquisition, and increase its borrowing limit by £75m within the Treasury Management Strategy. The repayment of this borrowing and related interest costs will be met from the gross income generated from the investment portfolio, with the residual surplus funding Council services / priorities and risk reserves. This disregard of the guidance is necessary in the context that, whilst the guidance classifies the borrowing as 'in advance of need', there is a very clear need for the income to pay for services in response to the major reduction in funding from Government. This disregard is also explained within the Investment Strategy in line with disclosure requirements the Guidance.

31. Increasing income through commercial investment is considered a key component of the options to address the budget gap; however, it is important that Members carefully consider the risks for this approach. Alternatively, Members will need to consider ways of reducing or cutting service costs and spending ambitions in order to maintain a sustainable financial position for the Council.

32. If this element of the Financial Strategy is supported, the S151 Officer will reflect the implications within the detailed Capital, Investment, and Treasury strategy reports which will be presented alongside the Budget in February 2020.

Strategy for Service Income (Fees and Charges)

33. 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 across the Council by 5% per year, which includes a presumption of increasing locally set fees at least in line with inflation. It should be

noted that this is not a target applied to each service but instead is council-wide, reflecting that some services have greater capacity to generate additional income than others.

34. 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.

35. The new Financial Strategy proposes to maintain the target of increasing net services income by £75k per year over the next three years, giving a cumulative ongoing benefit of £225k per year compared to the current base budget.

Treasury Strategy

36. The Council updates its Treasury Management Strategy annually, with the current TMS approved at Full Council in February 2019 alongside the Budget. It is important to recognise that the financial strategies for revenue and capital resources and treasury management are intrinsically linked (as well as the commercial strategy). 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) to secure lower long-term borrowing costs.

37. The Council has a good record of treasury performance. The current strategy has delivered increased investment income whilst continuing to implement an appropriately prudent balance between security, liquidity and yield. The financial strategy anticipates this performance will improve during the current and next financial year. The S151 Officer continues to monitor the overall treasury requirements for the Council, and considers there are opportunities to secure and grow the Council's income through further use of strategic investments. 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.

38. The S151 Officer and Finance Support Service continues to work with our treasury advisors – Arlingclose – to effectively manage opportunities and risks in line with CIPFA's Prudential Code and Treasury Management Code and related Guidance.

39. The current base budget reflects an increase in the budget estimates for treasury investment income by £450k per year. The new Financial Strategy seeks to increase the treasury income target by a further £300k per year (Table 3), as a means of closing the Budget Gap.

Service Prioritisation and Costs

40. 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.

41. 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 £250k in 2020/21 then £200k per year from 2021/22 onwards)
- Cost efficiency through transformation and other savings plans
- Investment income
- Revenue costs of capital investment

42. 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.

Strategy for General Grant Funding

43. Budgeting for General Grant funding is uncertain as explained at the beginning of this report. The current MTFP assumes the Council will face a ‘negative RSG’ in 2020/21, but this will be partly offset by Rural Services Delivery Grant, using 2019/20 figures. Given the delays to the 2019 Spending Review, it remains a possibility that Government will effectively roll-forward the position for 2020/21. It is unknown whether Government will again offset the negative RSG in 2020/21, as happened for 2019/20, which could improve the funding estimates by £327k.

Table 5 – General Grant Estimates

	2019/20 £k	2020/21 £k	2021/22 £k	2022/23 £k	2023/24 £k	2024/25 £k
Negative Revenue Support Grant	0	-327	-327	-327	-327	-327
Rural Services Delivery Grant*	0	166	166	166	166	166

**RSDG of £166k was rolled into Business Rates Pooling in 2019/20 under the 75% Pilot*

Strategy for Business Rates Retention (BRR)

44. The current Business Rates Retention system was introduced from April 2013. It seeks to incentivise business growth by enabling local authorities to keep a share of growth in business rates above funding baseline set by Government.

45. The Business Rates Income Target and Baseline are due to be “Reset” in April 2020. This will mean the historic growth currently built into the Council’s base budget will almost certainly be redistributed, and the Target/Baseline set in line with current position. In other words, the Council will no longer benefit from historic growth, and will need to see new growth in future to benefit from the system. The true impact of the Reset is not yet known, with detailed information required from Government.

46. In the absence of certainty and clarity, the most prudent budget approach is to set the budget and MTFP estimates in line with the current Baseline for initial MTFP estimates for 2020/21 onwards. Estimates for this line of funding will be carefully reviewed and updated through the budget process as more information becomes available.

Table 6 – Business Rates Retention Funding Estimates

	2019/20 £k	2020/21 £k	2021/22 £k	2022/23 £k	2023/24 £k	2024/25 £k
Draft MTFP Indicative Baseline Funding estimates	*3,775*	*3,682*	*3,755*	*3,829*	*3,902*	*3,976*
BRR Estimates February 2019	7,154	4,285	4,375	4,464	4,554	4,643
Funding reduction included in updated Draft MTFP since Feb 2019		603	620	635	652	667

47. The Council maintains a BRR Volatility Reserve to help “smooth” any impact on the budget of reductions in net funding as well as manage accounting timing differences within the BRR system. The balance in this reserve at April 2019 was £4.5m.

48. Reducing the net income estimates down to the Baseline reduces the risk of volatility hitting the Budget during the year. However, given the level of uncertainty over the likely funding position and the future design of the BRR system it is prudent to operate a minimum balance of £2m for this reserve.

Business Rates Pooling

49. A Somerset Business Rates Pool (comprising the County Council and the Districts the County Council area) has provided a positive impact on funding in 2018/19, with increased financial benefit from being a 75% BRR Pilot anticipated in 2019/20. The predicted benefit share for SSDC from Pooling/Pilot status in 2019/20 is c£1.2m.

50. Due to the uncertainty of future BRR system design and financial implications for each authority and the Pool, no pooling financial benefit is included in the current MTFP forecasts for 2020/21 onwards. The potential benefits of Pooling will need to be re-assessed when further information is available. 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

51. The Government has previously indicated its intent to implement changes to the Business Rates Retention system so that local government directly retains 75% of income across the sector. It is uncertain at this stage whether this will be implemented for 2020/21 or possibly deferred. The current BRR projections from 2020/21 are based on the 50% BRR system. Estimates will be reviewed when further information is issued by Government.

Strategy for New Homes Bonus

52. 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. An additional £280 (80% of £350) is granted for every affordable home occupied. Annual growth is currently rewarded for 4 years.
53. Grant is only provided for annual housing growth above a minimum baseline set by Government, which in 2019/20 was 0.4% (approximately 290) of total Band D Equivalents. Government have previously indicated this baseline may increase, and our estimates assume it will increase to 0.5% in 2021/22 assuming the grant continues in its current form.

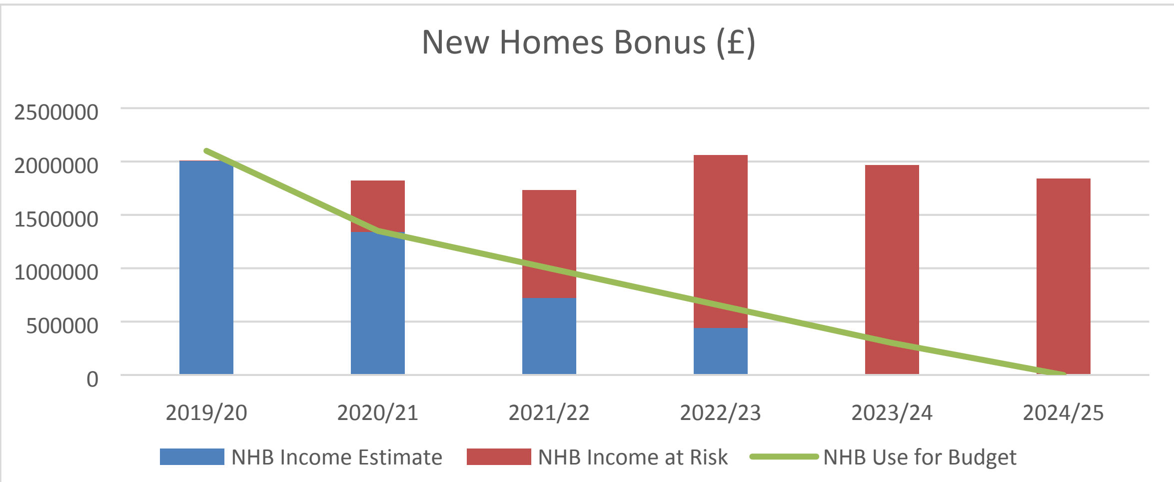
54. The Government previously indicated its intention to consult on the future of New Homes Bonus during 2019, with the potential for changes to be introduced from April 2020. Given no consultation has yet been launched (as at August 2019) it is likely but not certain that any changes will be delayed by at least a year. However, given the uncertainty and the risk of this grant diminishing, it is prudent to reduce reliance on this income to fund ongoing service costs. This is reflected in this new Financial Strategy with an accelerated reduction in use of NHB to fund day to day services, with no grant required for the Annual Budget by 2024/25. Judicious use of the MTFP Support Fund earmarked reserve aims to smooth this gradual reduction if grants reduce quicker than assumed. The projected balance in this reserve in April 2020 is £2.4m.

55. The current MTFP estimates for New Homes Bonus are shown in the table and graph below. There is a high risk that these projections are inaccurate. The table highlights the sums considered to be at risk from both estimation differences and potential reductions applied by future changes to the scheme. It is assumed that as a minimum Government will honour the legacy payments in respect of growth delivered up to 2019/20 allocations.

Table 7 – NHB Grant Income Indicative Projection

Annual settlement:	Actual 2019/20 £k	Estimate 2020/21 £k	Estimate 2021/22 £k	Estimate 2022/23 £k	Estimate 2023/24 £k	Estimate 2024/25 £k
2016/17	667					
2017/18	621	621				
2018/19	279	279	279			
2019/20	441	441	441	441		
2020/21		479	479	479	479	
2021/22			531	531	531	531
2022/23				607	607	607
2023/24					350	350
2024/25						350
Total Annual Grant Estimates	**2,007**	**1,820**	**1,730**	**2,058**	**1,967**	**1,838**
Amount at risk if only 2019/20 Settlement 'honoured'		*479*	*1,010*	*1,617*	*1,967*	*1,838*
Cautious Estimate for NHB Income		*1,341*	*720*	*441*	*0*	*0*

Planned use for service costs per 2019/20 MTFP (as at Feb 2019)	2,100	1,850	1,600	1,300	1,000	1,000
Accelerated reduction – new Strategy		-500	-600	-650	-700	-1,000
Planned use for service costs per 2020/21 MTFP (new Strategy)		1,350	1,000	650	300	0



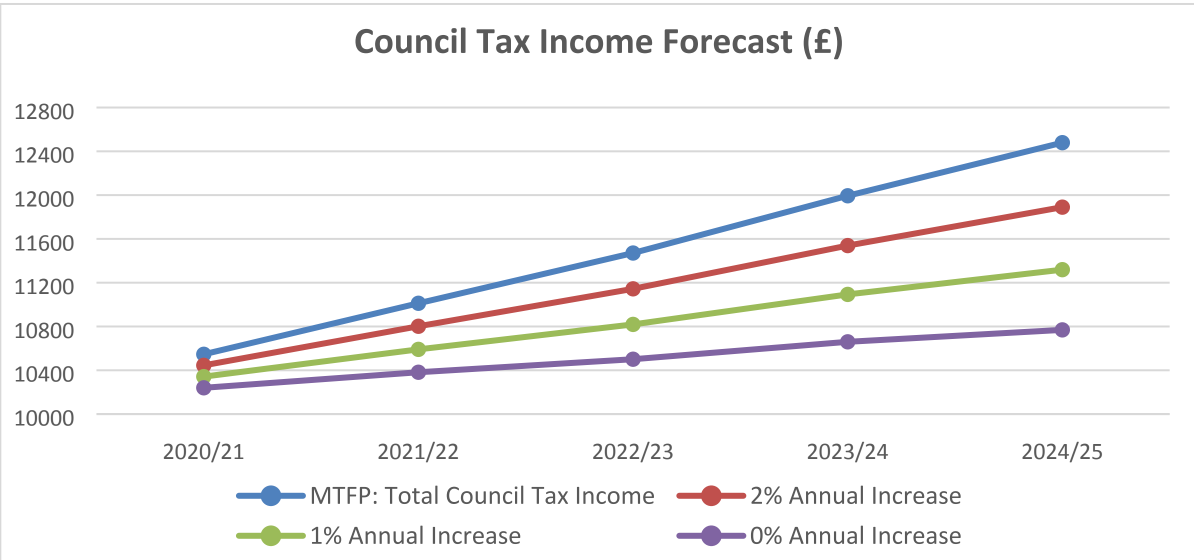
Council Tax

56. The setting of Council Tax is determined by Members each year at Full Council. For 2019/20 the Council increased Band D council tax by £4.63 per year (2.85%) for district council services. The basic annual Band D tax rate set by SSDC for 2019/20 is £167.11 per year, which raises £10.071m in Council Tax income.

57. The current MTFP incorporates the S151 Officer's financial planning assumption that the Council will increase the tax rate by 2.99% per year from 2020/21 onwards. This is subject to Full Council decisions, and the threshold for "excessive" increases set by the Secretary of State each year. The MTFP also assumes the Council Tax Base (number of properties expressed as Band D Equivalents) will grow on average by 1.4% per year. Annual Council Tax income is therefore projected to rise to c£12.48m by 2024/25. To provide indicative scenarios for alternative assumptions, if the tax rate was increased by 2% per year instead of 2.99% the projected Council Tax income in 2024/25 would be c£11.89m – increasing the projected Budget Gap by £590,000. Projections based on 1% and 0% annual increases are also shown in the table below.

Table 8 – Council Tax Income Forecast

	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
Council Tax Base					
Increase %	1.7%	1.4%	1.1%	1.5%	1.0%
Increase in Band D Equivalents	1,009.3	852.2	710.8	954.8	651.6
Tax Base	**61,275.4**	**62,127.6**	**62,838.4**	**63,793.2**	**64,444.8**
Council Tax Rate					
Increase % (MTFP assumption)	2.99%	2.99%	2.99%	2.99%	2.99%
Increase £	5.00	5.15	5.30	5.46	5.62
Band D Rate £	**172.11**	**177.25**	**182.55**	**188.01**	**193.63**
Council Tax Income					
Increase due to Tax Base £k	169	147	126	174	123
Increase due to Tax Rate £k	306	320	333	348	362
MTFP: Total Council Tax Income £k	**10,546**	**11,012**	**11,471**	**11,994**	**12,479**
Council Tax Income indicative scenarios £k:					
2% annual increase	10,445	10,802	11,144	11,539	11,890
1% annual increase	10,342	10,591	10,819	11,093	11,319
0% annual increase	10,240	10,382	10,501	10,660	10,769



58. Included in the above Band D tax rate is £1.85 per year, which is collected by SSDC on behalf of the Somerset Rivers Authority (SRA). This equates to £111k in 2019/20, providing funding towards the 20 Year Flood Action Plan that was developed following the severe flooding experienced in Somerset in early 2014. Total contributions from the County and District Councils in Somerset provide an annual budget for the SRA of c£2.8m per year. There are five key workstreams within Somerset's 20 Year Flood Action Plan:
    - dredging and river management
    - land management (including natural flood management)
    - urban water management
    - resilient infrastructure
    - building local resilience

59. The Executive will recommend proposed Council Tax rates to Full Council in February each year.

Strategy for Reserves and Balances

60. 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. Holding adequate reserves remains a key pillar of the Council's financial resilience.

61. The adequate minimum General Reserve requirement has been reviewed in August 2019, and is recommended to be set at **£2.6m**. This balance takes into account a number of risks, such as for unplanned budget variances for overspend and income shortfalls, bad debts (not covered by provisions), banking failure, civil contingency costs, etc. The assessment also takes into account where risks are covered by insurances or other specific earmarked reserves. This will continue to be reviewed regularly to ensure the minimum balance reflects up to date and future risks. With the level of funding uncertainty, it is advisable to maintain reserves above the minimum requirement to withstand unplanned financial pressures and allow longer term plans to be developed if required. This risk is likely to be low-medium due to the prudent approach to estimating future funding within the MTFP.

62. As shown in the table below, the Council's uncommitted general reserves balance on 1 April 2019 is £4.1m. The approved 2019/20 Budget was balanced without the need to use reserves, and the aim of the Financial Strategy is to continue this approach so that net costs are affordable within total planned income each year without using general balances.

Table 9 – General Reserves

	Balance £k
Balance held 1 April 2019	4,593
Commitments: Area & Economic Development Balances Budget Carry Forwards to 2019/20 Agreed Commitments Not Yet Drawn	 -121 -170 -157
Uncommitted Balance 1 April 2019	**4,145**
Financial Strategy – Transfer to Commercial Investment Risk Reserve Financial Strategy – Transfer to Treasury Investment Risk Reserve Projected Balance if Transfers approved	-661 -150 3,334
Adequate Minimum Reserve Balance	**2,600**
Projected Balance above Adequate Minimum if Transfers approved	634

63. The council also holds capital reserves and revenue earmarked reserves for specific purposes such as planned spending in future years and contingencies not included in general reserves, including.

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

64. 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.

65. For the new Financial Strategy it is proposed to realign some reserve balances to reflect up to date financial risks. These include:

a) Investment Properties – if Members approve the updated Commercial Strategy and Investment Fund balance, the Council will increase its reliance on investment income. It is proposed to quickly build up the current balance in the Investment Risk Reserve to £6.3m, and set aside c6% of net investment income to the reserve each year.

Table 10 – Commercial Investment Risk Reserve

	Estimated Balance £k
Balance held 1 April 2019	132
2019/20 Budgeted Transfer to Reserve from Net Income	57
2019/20 Planned Transfer of Investment Income Surplus	450
Financial Strategy recommended transfer from General Reserves	661
Financial Strategy recommended transfer from BRR Volatility Reserve	2,500
Financial Strategy recommended transfer from MTFP Support Fund Reserve	2,500
Projected Commercial Investment Risk Reserve Balance 31 March 2020	**6,300**

b) Business Rates – the Volatility Reserve currently balance is £4.5m (April 2019), and this provides funding to mitigate risk of fluctuations in funding levels and offset accounting timing differences. By reducing the annual BRR budget to the Baseline, the budget risk is reduced. However, it is prudent to maintain a minimum of £2m in this reserve given the current uncertainty over the future system design and impact of the Fair Funding Review. In view of updated risks it is therefore proposed to transfer £2.5m from this Reserve to the Commercial Investment Risk Reserve.

Table 11 – BRR Volatility Reserve

	Estimated Balance £k
Balance held 1 April 2019	3,955
2019/20 Budgeted Transfer to Reserve	559
Current Balance	4,514
Financial Strategy – Transfer to Commercial Investment Risk Reserve	-2,500
Projected BRR Volatility Reserve Balance	**2,014**

c) Regeneration Fund – More than £5.5m will have been allocated to this earmarked reserve by 2019/20, providing revenue resources to meet the Net Budget commitment agreed by Council. This includes £2.5m reallocated from the MTFP Support Fund agreed as part of the 2019/20 Budget. The majority of the costs will be accounted for as capital expenditure. It is proposed therefore to instead transfer the £2.5m from the MTFP Support Fund to the Commercial Investment Risk Reserve, and replace with this £2.5m of capital funds from the Capital Receipts Reserve.

Table 12 – Regeneration Fund Reserve

	Estimated Balance £k
Balance held 1 April 2019	2,094
2019/20 Budgeted Transfer to Reserve from MTFP Support Fund	2,500
2019/20 Budgeted Transfer using BRR Pooling and Pilot Gains	1,425
2019/20 Budgeted Transfer from annual budget	500
Current Balance – Revenue Funds	**6,519**
Financial Strategy – Reverse MTFP Support Fund allocation	-2,500
Projected Balance – Revenue Earmarked Funds	**4,019**
Financial Strategy – Ring-fenced Capital Receipts Reserve balance	2,500
Projected Balance – Regeneration Fund (Revenue + Capital Resources)	**6,519**

d) Treasury Risk Reserve – the Financial Strategy savings targets includes implementing more cash balances within strategic investment funds, accepting some capital volatility risk whilst improving the Council's income from treasury investments. The Financial Strategy seeks to mitigate this budget risk through building up funds within the Treasury Risk Reserve. It is proposed to increase the minimum balance in this reserve to £845,000 by 2024/25, comprising income volatility £320k (£1.6m income x 10% x 2 years) and capital volatility £525k (up to £35m x 7.5% x 2 years). The MTFP includes plans to add £50k to this reserve each year, therefore it is proposed to reallocate reserve balances from General Reserves and the MTFP Support Fund to meet the minimum balance requirement.

Table 13 – Treasury Risk Reserve

	Estimated Balance £k
Balance held 1 April 2019	150
2019/20 Budgeted Transfer from annual budget	150
Financial Strategy – Reallocation from General Reserves	150
Financial Strategy – Reallocation from MTFP Support Fund	150
Sub-Total – 2019/20 Balance	**600**
Financial Strategy – Budget Contribution £50k per year 20/21 – 24/25	250
Projected Balance 2024/25	**850**

e) Capital Receipts Reserve – this reserve holds income received from the disposal of assets, and is primarily used to finance spending within the Capital Programme. In line with the information above it is proposed to ring-fence £2.5m from the current balance to meet planned costs of key town centre Regeneration Programmes.

Table 14 – Capital Receipts Reserve

	Estimated Balance £k
Balance held 1 April 2019	22,243
Amount Committed to Approved Capital Programme	-10,971
Financial Strategy – commit to funding approved Regeneration Programmes	-2,500
Uncommitted Balance (excluding new capital receipts since 1 April 2019)	8,772

Regeneration Programmes

66. 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 the Yeovil and Chard programmes. The strategy to date has been to build up earmarked funds to finance the Net Budget requirements of each programme. In addition, the

funding approach will require a combination of short term and longer term borrowing, according to the nature of individual projects and schemes ultimately delivered. This will be assessed through each business case as it comes forward.

Medium Term Financial Plan and Annual Budget Strategy 2020/21

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

Table 15 – Net Budget Requirement Estimates 2020/21 to 2024/25

Budget Requirement	**2020/21 £k**	**2021/22 £k**	**2022/23 £k**	**2023/24 £k**	**2024/25 £k**
Base Requirement B/F	16,198	15,258	15,868	16,683	17,333
Plus/Minus In Year Changes:					
Inflation – Staffing	410	448	420	378	348
Inflation – Other Costs / Contracts	169	174	179	180	180
Cost pressures	250	200	200	200	200
Planned savings	-141	-90	-13	-149	-45
Net investment income and capital programme implications *	-1,504	-6	29	41	40
Other	-124	-116	0	0	0
Budget Requirement C/F	**15,258**	**15,868**	**16,683**	**17,333**	**18,056**

(*The 'Net investment income & capital programme implications' line above does not include income achieved in years prior to 2020/21 which is included in the 'Base Requirement B/F' line)

Table 16 – Draft Medium Term Financial Plan 2020/21 to 2024/25

	2020/21 £k	**2021/22 £k**	**2022/23 £k**	**2023/24 £k**	**2024/25 £k**
Budget Requirement (Table 15)	**15,258**	**15,868**	**16,683**	**17,333**	**18,056**
Funded by:					
Revenue Support Grant	327	327	327	327	327
Rural Services Delivery Grant	-166	-166	-166	-166	-166
New Homes Bonus Grant	-1,341	-720	-441	0	0
Business Rates Retention (BRR)	-3,682	-3,755	-3,829	-3,902	-3,976
Collection Fund Surplus (BRR)	0	0	0	0	0
Council Tax	-10,546	-11,012	-11,471	-11,994	-12,479
Less: Council Tax Paid to SRA	113	115	116	118	119
Collection Fund Surplus - Council Tax	0	0	0	0	0
Sub-total: Funding	**-15,295**	**-15,211**	**-15,464**	**-15,617**	**-16,175**
Reserve Transfers:					
MTFP Support Fund Reserve	-9	-280	-209	-350	0
BRR Volatility Reserve	-54	0	0	0	0
Other Earmarked Reserves	88	150	150	150	150
General Reserves	0	0	0	0	0
Sub-total: Net Reserve Transfers	**25**	**-130**	**-59**	**-200**	**150**
Total Funding	**-15,270**	**-15,341**	**-15,523**	**-15,817**	**-16,025**
Budget Gap	**-12**	**527**	**1,160**	**1,516**	**2,031**
Budget Gap Increase on Prior Year		**539**	**633**	**356**	**515**

68. 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£2m by 2024/25.

69. It is vital that Members continue to agree and implement measures to address the Gap. 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

70. 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.
- Employers pension contributions based on 16.1% of pay, based on the latest (2016) actuarial valuation. The impact of the next triennial should be known prior to setting the 2020/21 Budget in February 2020.
- Pension Fund deficit recovery lump sum costs rising from £1.6m in 2018/19 to £2m in 2024/25, based on the most recent 2016 actuarial valuation.
- Transformation savings fully delivered.

Funding Assumptions

- Business Rates Retention (BRR) will be subject to a Full Reset and reduce to the Baseline in April 2020.
- No ‘guess’ included for the future implementation of 75% Business Rates Retention.
- General Government Grant projected based on a ‘Negative’ Revenue Support Grant and continuation of current Rural Services Delivery Grant level.
- NHB grant projections based on pessimistic forecast with 2019/20 legacy payments continuing with no additional increments from 2020/21 onwards.
- Council tax is forecast based on officer assumption of a 2.99% increase each year.

Financial Planning Risks and Uncertainty

71. 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’s Spending Review has not been completed before the summer recess, therefore spending plans likely to emerge in the autumn. It is not known at this stage whether SR19 will cover one or more years, but given Brexit uncertainty it will potentially only be for one year.
    b) **Fair Funding Review** – identifying the “need” for funding that will influence the distribution of funds between authorities. This is due in **2020/21** however it is feasible this will be delayed until 2021/22.
    c) **Business Rates Retention Reset** – the Business Rates Retention system is due to be “Fully Reset” in 2020, with BRR net funding expected to fall back to the Baseline. The Government is yet to issue details of the Reset method or calculations.
    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** – The scheme design for 75% BRR remains under development. It was previously expected this would be implemented for 2020/21 however it is likely this will be delayed until 2021/22. It is also assumed that the 2019/20 Pilot will not continue in 2020/21.
f) **New Homes Bonus** – Government has previously indicated its intention to consult on possible changes to the NHB scheme. This has not yet taken place, and it is unclear whether this will now take place in 2019 or later, what the changes will be, and what the impact on grant will be.

72. 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 proposed savings target is higher than current budget gap forecasts, building in some contingency for over-estimation of funding.
    c) The use of reserves to offset key areas of financial risk and uncertainty

73. 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 base budget includes transformation savings of £2.5m per year. The full benefits of transformation, such as successful channel shift, must be achieved for this reduction in cost to be sustainable.
    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.

Capital Strategy

74. 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

75. SSDC continues to hold significant funds in capital receipts reserves - £22.2million as at 31 March 2019. Of this balance, £11.2m is uncommitted, and therefore available to meet future capital funding priorities. Council has delegated responsibility to the S151 Officer to determine the most appropriate ways to fund commercial investment, which may include some or all of this balance, however 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.

76. The Capital Programme will be developed during the autumn for consideration by Members in January/February 2020. 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.

77. A full Capital Strategy will be prepared for consideration by members alongside the Budget, Treasury and Investment strategies.

78. District Executive has delegated authority to approve the use of up to 5% of capital receipts in any one year (approx. £600k). Approvals beyond this sum must be agreed through full Council.

Summary Budget Timetable

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

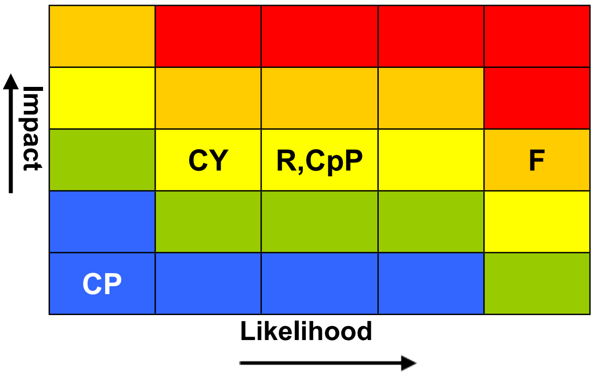
3 September 2019	Scrutiny	Financial Strategy and Initial MTFP Estimates
5 September 2019	District Executive	Financial Strategy and Initial MTFP Estimates
3 December 2019	Scrutiny	Budget Update and Draft Options
5 December 2019	District Executive	Budget Update and Draft Options
23 January 2020	Audit Committee	Capital, Treasury and Investment Strategy
4 February 2020	Scrutiny	Draft 2020/21 Revenue and Capital Budgets
6 February 2020	District Executive	Draft 2020/21 Revenue and Capital Budgets
20 February 2020	Council	2020/21 Revenue and Capital Budgets 2020/21 Council Tax Setting Treasury Management Strategy and Capital Strategy

Financial Implications

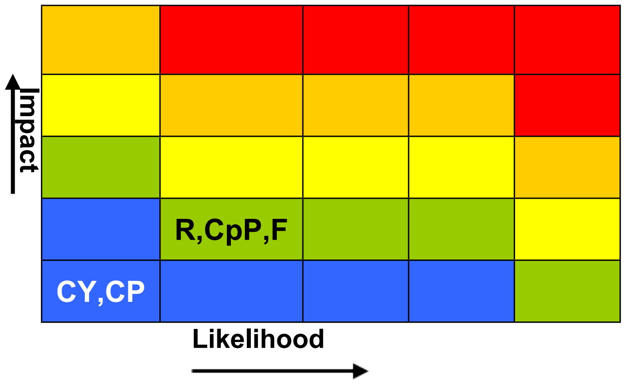
80. This is a finance focussed report with financial implications covered throughout.

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

81. The Financial Strategy 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

82. Not applicable within this report.

Equality and Diversity Implications

83. Not applicable within this report.

Privacy Impact Assessment

84. 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

85. The following reports may provide helpful background information in support of this report:
    - 2019/20 Budget Reports (Council 21 February 2019)