

Financial Strategy 2020/21

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Purpose of the Report

1. The purpose of this report is to provide Members with updated Medium Term Financial Plan (MTFP) estimates further to the 2019 Spending Round, with an overview on the implications for the Financial Strategy agreed by District Executive in September.

Forward Plan

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

Public Interest

3. It is essential that the Council sets a balanced budget each year, and in doing so is able to allocate resources to priority local services. Members should have sufficient awareness and information of the Council's financial position to inform decision making for budget and tax setting.

Recommendations

4. That the District Executive:
 - a. Note the updated 2020/21 Draft Budget and Medium Term Financial Plan estimates.
 - b. Note and support the updated Financial Strategy as a result of updated forecasts of estimated available resources.

Background

5. The Executive approved the current Financial Strategy in September 2019. The principal aim of the strategy is to enable the Council to set a balanced budget each year without the need to cut services, and the key themes agreed in September remain the same.
6. The financial forecasts included in the September report were prepared before the Spending Round (SR), which was announced the day before the District Executive meeting. It was agreed at that time therefore that an update would be included in the Forward Plan to inform Members of the impact. This report therefore focusses on updated funding forecasts following the SR.
7. The S151 Officer sent all Members the headlines from the Spending Round on 5 September, together with the Local Government Association's (LGA) 'On the Day Briefing'. Since then, on 3 October 2019, the Ministry of Housing, Communities and Local Government (MHCLG) issued a Technical Consultation on the 2020/21 Finance Settlement. This provides additional information to inform assumptions within the Council's MTFP.
8. The key changes to the financial forecasts since the September report are summarised below:

SR / Consultation Headline	Summary of Impact
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1	The implementation of the Fair Funding Review and Business Rates Funding Reform, including the move to 75% Business Rates Retention, has been deferred to 2021/22.	The implications of these changes continues the significant uncertainty for financial planning purposes, with a lack of confidence regarding funding estimates and assumptions beyond 2020/21.
2	The Business Rates Reset has been deferred to 2021/22.	The Reset is expected to significantly reduce the Council's income, therefore deferring this drop for a year improves the Business Rates funding estimates for 2020/21 compared to September assumptions.
3	The 75% Retention business rates pilots will cease at the end of 2019/20.	The County Council and four District Councils in Somerset are currently operating a 75% Business Rates Retention Pilot for 2019/20. The SR confirms the Government's position that the Pilot is for one year only. This is consistent with our previous assumption therefore no additional impact on the MTFP.
4	The Business Rates Baseline funding will increase by CPI inflation.	This is no change to the current basis. However, the uplift is based on the September inflation indices each year, and the September CPI was announced on 16 October as 1.7%. This is lower than previous budgeting assumption of 2%, and marginally reduces the income estimate.
5	Negative Revenue Support Grant (RSG) will again be mitigated from central government resources in 2020/21	The previous MTFP assumed a Negative RSG funding adjustment of £327k from 2020/21 onwards. The proposed mitigation is expected to be for one-year only but improves the funding estimates by the above amount in 2020/21. Funding for subsequent years are expected to be determined through the Fair Funding Review.
6	The core Council Tax referendum threshold is expected to be 2%.	The September MTFP was based on the assumption that the core referendum threshold would remain at 2.99% in line with recent previous years. The council tax income estimates have now been reduced with a revised assumption of a 1.99% annual increase. Through the Consultation the Government has asked whether respondents think there should be a referendum principle of the greater of 2% or £5 for shire districts, suggesting it is considering this option for 2020/21.
7	The current New Homes Bonus scheme will continue in 2020/21, but the scheme is still being considered by Ministers for later years.	It is expected the 2020/21 grant allocation will be for one-year only. This is consistent with our financial planning assumption in September. It remains an area of uncertainty therefore it is prudent to plan for no NHB Grant income from 2021/22 onwards.

Updated Medium Term Financial Plan Estimates

9. The following table sets out a summary of the council's latest forecasts of Net Expenditure and Funding, and shows a provisional budget gap rising to £1.5m by 2022/23 (9% of Net Expenditure). The Gap is projected to rise further to approximately £2.6m by 2024/25 (15% of Net Expenditure). The Gap in the MTFP has grown since the September report, mainly as a result of lower council tax income and business rates income forecasts as explained in this report.

Table 1 – Draft Medium Term Financial Plan Summary (November 2019)

	2020/21 £k	2021/22 £k	2022/23 £k	2023/24 £k	2024/25 £k
Net Expenditure Estimates	15,726	15,868	16,683	17,333	18,056
<i>Funded By:</i>					
General Government Grants	-166	161	161	161	161
New Homes Bonus Grant	-1,820	0	0	0	0
Business Rates	-5,263	-3,734	-3,807	-3,881	-3,954
Council Tax	-10,331	-10,684	-11,024	-11,417	-11,765
Earmarked Reserves	1,854	-500	-500	-200	150
General Reserves	0	0	0	0	0
Total Funding	-15,726	-14,757	-15,170	-15,337	-15,408
Budget Gap	0	1,111	1,513	1,996	2,648
Budget Gap Increase on Prior Year	0	1,579	402	483	652

10. The changes in the MTFP since the September report can be summarised as follows.

Table 2 – MTFP Funding Changes Since September 2019

	2020/21 £k	2021/22 £k	2022/23 £k	2023/24 £k	2024/25 £k
Net Expenditure – September	15,258	15,868	16,683	17,333	18,056
Contingency	468				
Net Expenditure – November	15,726	15,868	16,683	17,333	18,056
Total Funding – September	-15,270	-15,341	-15,523	-15,817	-16,025
Negative RSG Mitigation	-327				
New Homes Bonus Grant set to nil		720	441		
Adjust Transfer to MTFP Reserve		-720	-441		
Lower Use of NHB for Annual Budget	1,350	350			
Business Rates Reset Deferred	-1,603				
Business Rates Inflation 1.7% not 2%	22	22	22	22	22
Council Tax reduced to 1.99%	102	212	331	459	595
Total Funding – November	-15,726	-14,757	-15,170	-15,336	-15,408
Budget Gap – September	-12	527	1,160	1,516	2,031
Net Changes Since September	12	584	353	480	617
Budget Gap – November	0	1,111	1,513	1,996	2,648

Note: In Table 2 above, funding is shown as a negative figure therefore ‘minus’ adjustments are in effect increasing the estimated funding available to the Council, and positive figures are reducing the funding available.

Contingency

11. The revisions to the funding estimates following the SR has changed the forecast budget gap for 2020/21. It is also prudent to note that the detailed budget estimates work is ‘work in progress’ and final details of funding will not be confirmed until the Settlement is announced in December/January. A one-off contingency of £468k has therefore been included within this report at this stage in order to show a balanced budget for 2020/21, pending completion of detailed estimates and further consideration by the Executive of budget priorities for next year. As a guide, options for allocating contingent resources may include areas such as recycling income volatility reserve (linked to new

Waste contract assumptions), Regeneration, Climate Change, Accelerating Housing Delivery and potentially a related set of social issues which impact on demand for services from SSDC and other service providers. Proposals will be presented to Members for prioritisation in future reports as the budget is prepared.

Savings Targets

12. In September the Executive agreed 3-Year Savings Targets rising to £2m per year by 2022/23. At this stage it is proposed to keep the Targets the same, however this will be kept under review in the event the Budget Gap materially changes.

Table 3 – Savings Targets 2020/21 to 2022/23

	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	675	1,350	1,350
Sub-Total: Financial Strategy Savings	1,000	1,850	2,025

General Grant Funding

13. The forecast for 2020/21 has been updated to incorporate the expected mitigation of Negative RSG in 2020/21. This improves the general grant funding forecast by £327k for one year, with the delayed loss of funding now anticipated to apply from 2021/22 onwards.

Table 4 – 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	0	-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

Business Rates Retention (BRR)

14. The Business Rates Income Target and Baseline were due to be “Reset” in 2020/21, however this has been deferred until 2021/22. This adds back an estimated £1.6m of business rates funding in 2020/21 for one year only.
15. In addition the Business Rates Income Target and Baseline figures have been revised to reflect the September CPI inflation of 1.7%, compared to the previous assumption of 2%. The lower inflation figure reduces expected income base budget in 2020/21, and this reduction is compounded in subsequent years.
16. The following table summarises the updated Business Rates Retention funding estimates included within the updated MTFP.

Table 5 – Business Rates Retention Funding Estimates

	2019/20 £k	2020/21 £k	2021/22 £k	2022/23 £k	2023/24 £k	2024/25 £k
BRR Estimates	7,154	5,263	3,734	3,807	3,881	3,954

Business Rates Pooling

17. 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.
18. Through the Spending Round the Government confirmed that the Pilot will definitely be for one year only, with the Pool reverting to the 50% BRR system for 2020/21. The arrangements for subsequent years remain uncertain at this stage as this is subject reform of the BRR system and the Fair Funding Review.
19. Provisional 2020/21 estimates for the Somerset Pool have been prepared during October. These are indicative at this stage with the formal business rates estimates due to be finalised in January 2020. However this early analysis produces a forecast Pooling Gain in the region of £6.3m in 2020/21, with SSDC's share estimated to be approximately £1m. This is a volatile funding stream therefore appropriate caution should be applied. It is prudent to assume the SSDC Gain could be within the range £500k to £1m. The Executive will need to consider and recommend its proposals for this funding through the budget process, therefore the Pooling Gain has not been included in the MTFP at this stage.

New Homes Bonus

20. Through the Spending Round the Government has confirmed that New Homes Bonus (NHB) funding will be available in 2020/21. However it also stated this area of funding is being considered by Ministers. Within the Financial Strategy we have prudently allowed for this funding to reduce, and this has now been strengthened to assume no NHB income from 2021/22 onwards. It is feasible that Government will continue the legacy payments from the 2018/19 and 2019/20 Settlements, which would add back £1.16m of grant income over two years, but this is not certain and cannot be relied upon at this stage.
21. The updated MTFP estimates for New Homes Bonus are shown in the table 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.
22. As the deferral of the Business Rates Reset has improved estimated funding in 2020/21, it is proposed to fully set aside the 2020/21 NHB grant for future years. It is also proposed to reduce the use of NHB reserve funding used for the Annual Budget in 2021/22 from £1m to £0.65m, building added resilience into the MTFP Support Fund earmarked reserve. This assumption may need to be reviewed as budgets are finalised. As shown in Table 7 below the indicative projected balance in the reserve is approximately £2.5m – this will be updated when the Finance Settlement is confirmed.

Table 6 – NHB Grant Income Indicative Projection

	2019/20 £k	2020/21 £k	2021/22 £k	2022/23 £k	2023/24 £k	2024/25 £k
2016/17	667					
2017/18	621	621				
2018/19	279	279	279			
2019/20	441	441	441	441		
2020/21		479				
Total Annual Grant Estimates	2,007	1,820	0	0	0	0

Table 7 – MTFP Support Fund Reserve (Deferred NHB Income) Indicative Projection

	2019/20 £k	2020/21 £k	2021/22 £k	2022/23 £k	2023/24 £k	2024/25 £k
Balance brought forward	5,019	2,427	4,247	3,597	2,947	2,597
Allocations to(-)/from Revenue Budget	-92	1,820	-650	-650	-350	0
Reallocated to Regen Reserve (agreed September 2019)	-2,500					
Balance carried forward	2,427	4,247	3,597	2,947	2,597	2,597

Council Tax

23. In September the Council Tax income forecasts within the MTFP assumed that Council Tax will increase by 2.99% per year. Following the Spending Round this assumption has been revised to 1.99% per year on the basis the Government has indicated the core referendum threshold will be 2% for 2020/21.
24. Through the Finance Settlement Technical Consultation the Government has sought views on whether shire districts should be able to increase council tax by the greater of 2% or £5. This suggests the Secretary of State is considering this option, and is likely to confirm the position within the Provisional Settlement in December. Coincidentally a £5 increase equates to a 2.99% increase in 2020/21 i.e. the previous MTFP assumption.
25. The Council Tax Base estimates will be completed in early December and could further impact on the forecasts.
26. The table below is updated to show the revised estimates now included in the MTFP.

Table 8 – Council Tax Income Forecast

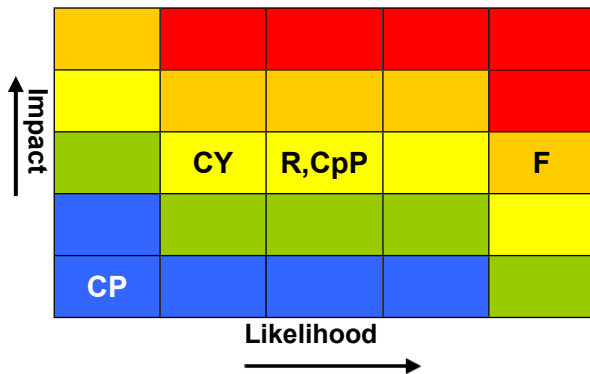
	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
Council Tax Base					
Increase %	1.7%	1.4%	1.1%	1.5%	1.0%
Increase in Band D Equivalentents	1,009.3	852.2	710.8	954.8	651.6
Tax Base	61,275.4	62,127.6	62,838.4	63,793.2	64,444.8
Council Tax Rate					
Increase % (MTFP assumption)	1.99%	1.99%	1.99%	1.99%	1.99%
Increase £	3.33	3.39	3.46	3.53	3.60
Band D Rate £	170.44	173.83	177.29	180.81	184.41
Council Tax Income					
Increase due to Tax Base £k	-169	-145	-124	-169	-118
Increase due to Tax Rate £k	-204	-211	-217	-225	-232
MTFP: Total Council Tax Income £k	10,444	10,799	11,140	11,535	11,884
Council Tax Income indicative scenarios £k:					
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

Next Steps

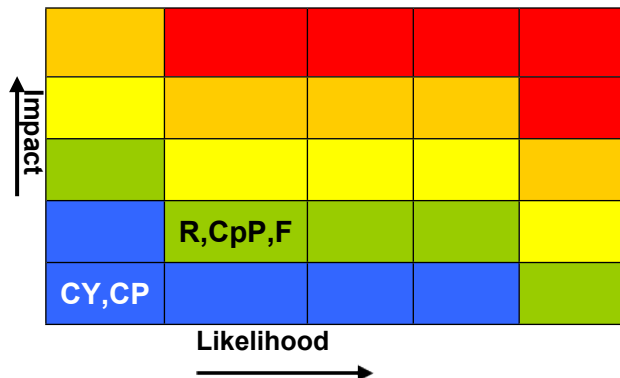
27. A further budget update report is due to come forward to the District Executive in December, with final draft budgets to then be considered by the District Executive in February for recommendation to Full Council.

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

28. 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

29. Not applicable within this report.

Equality and Diversity Implications

30. Not applicable within this report.

Privacy Impact Assessment

31. Not applicable within this report.

Background Papers

32. The following report(s) may provide helpful background information in support of this report:

- Financial Strategy 2020/21 (District Executive 5 September 2019)