

## **2020/21 Draft Budget and Medium Term Financial Plan Update**

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### **Purpose of the Report**

1. The purpose of this report is to provide an update the latest estimates for 2020/21 draft budget and Medium Term Financial Plan estimates for the period 2020/21 to 2024/25, together with an update on the Capital Programme.

### **Forward Plan**

2. This report appeared on the District Executive Forward Plan with an anticipated Committee date of January 2020.

### **Public Interest**

3. This report is an update on setting the Council's budget for the next financial year 2020/21 and the council's longer term financial sustainability.

### **Recommendations**

4. That the District Executive:
  - a. Note the current estimates and next steps in respect of the draft Medium Term Financial Plan and Capital Programme.
  - b. Approve in principle the changes to budget estimates in respect of pressures and savings included within the report (para 17).

### **Background**

5. The Financial Strategy and Medium Term Financial Plan estimates for the period 2020/21 to 2024/25 were originally approved and noted by the District Executive on 5<sup>th</sup> September 2019.
6. On 3<sup>rd</sup> October 2019 the Ministry of Housing Communities & Local Government (MHCLG) issued a Technical Consultation on the 2020/21 Financial Settlement. This provided additional information to inform assumptions within the Council's MTFP, which were outlined in an update of the Financial Strategy 2020/21 report to District Executive on 7<sup>th</sup> November 2019.
7. This report provides members with a progress update on the preparation of draft estimates for 2020/21 and towards achieving a balanced budget over the medium term.

### **The Autumn Statement 2019**

8. On 5<sup>th</sup> November 2019, MHCLG issued a letter confirming that the Autumn Statement would be delayed due to the General Election. However, they anticipate that the provisional Settlement will be a priority for Ministers to consider after the General Election, and all possible steps would be taken to ensure that the final settlement aligns with local authority budget setting timetables. It

advised, in the meantime, local authorities should take account of the proposals the Government has published in the technical consultation in drawing up draft budgets for next year. These proposals were picked up in the update to District Executive in November.

9. At the time of writing this report, the provisional local government finance settlement had not been announced by the Secretary of State for Housing, Communities and Local Government. If the settlement is published before the actual meeting on the 6<sup>th</sup> January 2020 then a verbal update will be presented at the meeting.

## 2020/21 Budget and MTFP Update

10. The report to District Executive in November showed the projected Budget Gap forecasts – the difference between our estimated budget requirement and the estimated funding available – a balanced budget in 2020/21 before rising to a deficit of £2.648m by 2024/25 financial year.

**Table 1 - Medium Term Financial Plan (as previously reported at November 2019)**

	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000	2024/25 £'000
Total Budget Requirement	15,726	15,868	16,683	17,333	18,056
Total Funding	-15,726	-14,757	-15,170	-15,337	-15,408
Budget Gap (Cumulative)	0	1,111	1,513	1,996	2,648
Budget Gap Increase on Prior Year	0	1,579	402	483	652

11. A range of estimates have been updated since the November report was prepared, and are reflected in the up to date MTFP position set out below. It is important to emphasise that the budget estimates and medium term forecasts remain indicative at this stage, and further updates will be included in the final budget information presented for approval in February 2020.

**Table 2a – Medium Term Financial Plan – Net Budget Requirement Estimates**

	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000	2024/25 £'000
<b>Base Budget B/F</b>	<b>16,198</b>	<b>14,887</b>	<b>14,752</b>	<b>14,669</b>	<b>15,333</b>
Incremental Changes:					
Employment Cost Inflation	210	467	454	374	423
Inflation allowance on contracts	169	174	179	180	180
Unavoidable budget pressures	304	200	200	200	200
Planned savings	-355	10	-90	-148	-59
Investment Income & Revenue effects of Capital Programme	-1,645	-764	-826	58	59
Other	6	-222	0	0	0
<b>Total Budget Requirement</b>	<b>14,887</b>	<b>14,752</b>	<b>14,669</b>	<b>15,333</b>	<b>16,136</b>

Note: The Total Budget Requirement is 'carried forward' as the Base Budget at the start of the following year, and adjusted for approved budget changes (e.g. funding for inflation is added to the base budget) to arrive at the Total Budget Requirement for each year.

**Table 2b – Medium Term Financial Plan – Funding and Budget Gap Estimates**

	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000	2024/25 £'000
<b>Total Budget Requirement (per Table above)</b>	14,887	14,752	14,669	15,333	16,136
<b>Funded By:</b>					
Revenue Support Grant	0	327	327	327	327
Rural Services Delivery Grant	-166	-166	-166	-166	-166
New Homes Bonus Grant	-1,820	0	0	0	0
Business Rates Retention	-5,263	-3,734	-3,807	-3,881	-3,954
Collection Fund Surplus - Business Rates	-609	0	0	0	0
Council Tax - SSDC	-10,348	-10,702	-11,041	-11,433	-11,781
Less: Council Tax Paid to SRA	112	114	115	117	118
Collection Fund Deficit - Council Tax	18	0	0	0	0
<b>Sub-total: Funding</b>	<b>-18,076</b>	<b>-14,161</b>	<b>-14,572</b>	<b>-15,036</b>	<b>-15,456</b>
<b>Other Reserve Transfers</b>					
MTFP Support Fund Reserve	1,820	-650	-650	-350	0
BRR Volatility Reserve	555	0	0	0	0
Other Earmarked Reserves	288	300	300	300	300
General Reserves	0	0	0	0	0
<b>Sub-total: Reserves</b>	<b>2,663</b>	<b>-350</b>	<b>-350</b>	<b>-50</b>	<b>300</b>
<b>Total Funding</b>	<b>-15,413</b>	<b>-14,511</b>	<b>-14,922</b>	<b>-15,086</b>	<b>-15,156</b>
<b>Budget Gap / (-)Surplus</b>	<b>-526</b>	<b>241</b>	<b>-253</b>	<b>247</b>	<b>980</b>
<b>Budget Gap Increase on Prior Year</b>		<b>767</b>	<b>-494</b>	<b>500</b>	<b>733</b>

(Negative figures = income / cost reductions, positive figures = cost increases / income reductions)

12. As the updated MTFP estimates show, the progress in delivering the Council's agreed financial strategy continues to make a positive impact on the financial position. Based on the updates incorporated so far – in particular through confidence in meeting the transformation savings target and the effects of the income generation through commercial and treasury investment – good progress has been made towards producing a balanced budget for next year.
13. It is important to note that the above position is not the final position. We are on track to set a balanced budget in 2020/21 and at the same time set aside funds in reserve to manage financial risks. Whilst we have made excellent progress to date we still face a medium term deficit. The ongoing and increased success of the commercial strategy is pivotal in addressing this gap to enable the Council to maintain its ambition of protecting frontline services from the impact of funding reductions.

### **2020/21 Draft Budget Estimates - Main Changes to Date**

14. The main financial planning assumptions underpinning the MTFP forecasts were set out in the report to District Executive in September and November. This includes explanations around costs pressures such as staff pay award, pension costs, etc. The majority of the assumptions are unchanged.
15. The changes included in the forecasts since November in respect of 2020/21 are summarised in the table below. This provides a reconciliation of the change from November to January estimates:

**Table 3 – Budget Changes since November 19**

	<b>2020/21 £'000</b>	<b>2020/21 £'000</b>
<b>Budget Gap Estimate – 7 November 2019</b>		<b>0</b>
Reduce contingency budget allocation (during budget drafting)	-368.0	
Net adjustments to Investments and revenue effects of capital	-86.3	
Update to Pay and Pension	-200.5	
Transformation non pay savings	-150.0	
Net increase in Treasury Management Income	-53.7	
Income from Brympton Way Office Rental	-105.7	
Removal of Standby Allowance Budget	-24.7	
Increase in Unavoidable Budget (shown in table 4)	98.8	
Countryside Income from Business Plan delayed by 1 year	21.0	
Additional one-off increase to the Districtwide grants budget	30.0	
<b>Sub-total: Changes to Budget Requirement</b>		<b>-839.1</b>
Council Tax Provisional Deficit for 2019/20	17.7	
Tax Base Update	94.9	
Business Rates Provisional 19/20 Surplus	-609.4	
Business Rates Provision surplus to Volatility Reserve	609.4	
Transfer to Commercial Investment Risk Reserve	100.0	
Transfer to Treasury Management Risk Reserve	100.0	
<b>Sub-total: Changes to Funding and Reserves</b>		<b>312.6</b>
<b>Budget Gap Estimate – 19 December 2019</b>		<b>-526.5</b>

The changes are explained as follows:

- The Transformation non pay savings, and Treasury Management Income movements shown above are the savings targets agreed by District Executive in September as part of the financial strategy for 2020/21. The original figure for Treasury Management Income was an increase of £100K on the income budget but this has been reduced to £53.7K as there was a need to reset the base budget back to the correct starting position.
- Pay and Pension have been updated following completion of work on the detailed salaries estimates for 2020/21. Figures have been amended in relation to pensions which have seen a reduction in the lump sum contribution, based on the provisional triennial pension fund valuation received in November 2019. The final valuation results are expected to be confirmed in January or February 2020.
- The proposed income from the rental of Brympton Way Offices to the Police has been included for 2020/21. A corresponding loss of income from the closure of Churchfields Offices have been included in the unavoidable section.
- The Standby Allowance budget has been offered as a saving for 2020/21 due to different ways of works meaning this is no longer required.
- 2019/20 budget setting agreed a capital sum for Ninesprings and Yeovil Rec – an increase in revenue was attached to this which was built into the budget. It is proposed to push this increase back one year to allow for delays in achievement of this. For 2020/21 as part of the fees and charges exercise, the budget for Ninesprings has been increased to coincide with an increase in charges.
- A provisional increase to the district wide grants budget, in particular funding for CASS and SPARK, but this is subject to members agreeing the recommendations of the separate report to District Executive on this agenda.

16. It is important to state at this stage that this reflects changes to draft budget estimates to date, and is not the final position. Final budget proposals will be reported to District Executive and Full Council in February 2020.

### Unavoidable Pressures and Savings

17. The following table summarises the pressures and savings that are reflected in the current draft budget estimates. District Executive is requested to approve in principle the retention of these items within the draft budget for 2020/21, subject to approval of final budget in February 2020.

**Table 4 – Unavoidable Pressures for 2020/21**

<b>Unavoidable Pressures</b>	<b>2020/21 £'000</b>	<b>2020/21 £'000</b>
Waste contract allowance for growth in demand (new properties)	21.3	
Waste budget increase linked to SWP Business Plan	5.2	
Removal of 19/20 Members Training & Development once off budget	-30.0	
Somerset Wide Graduate Scheme	33.0	
Touchdown Spaces in Market Towns	14.0	
Reduction in Rental & Service Charge Income Churchfields Offices	29.6	
Reduction in Property Income Budget	40.0	
Reduction of External Printing Income Budget	40.0	
Reduction of Housing Properties Income Budget	40.7	
Reduction in Car Parking Income Budgets	100.0	
Increase in External Audit Fees	10.0	
<b>Total Allowance for Unavoidable Pressures</b>		<b>303.8</b>

**Table 5 – Savings for 2020/21**

<b>Savings</b>	<b>2020/21 £'000</b>	<b>2020/21 £'000</b>
Transformation Savings	-150.0	
Increase in Rental & Service Charge Income Brympton Way Offices	-105.7	
Service Fees and Charges Financial Strategy income target	-75.0	
Standby Allowance Budget	-24.7	
<b>Total Planned Savings</b>		<b>-355.4</b>

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

### Investment Income & Revenue effects of Capital Programme

#### Investment Income - Commercial

19. Members will recall the approval of the Interim Commercial Strategy in September 2019. This report was an update to the Commercial Strategy agreed in August 2017. The original Commercial Strategy detailed plans to generate significant additional income from commercial investment in order to mitigate the cuts to government grant funding and protect the council's delivery of services to the community.
20. The strategy is now two years into its four year programme. Since the introduction of the first Commercial Strategy, SSDC has purchased a number of investment properties, and has grown experience in implementing the Commercial Strategy. The Financial Strategy agreed by Members in September 2019 recognised the Council's funding requirements have grown due to further central government cuts and ambitions in the Council Plan have been formulated in more detail. With both

the success of investments in mind and the Council's funding requirement it was agreed that the annual net revenue target has been increased from £2.2m p.a. to £3.35m p.a. by 2021/22 financial year. The investments made to date are therefore making good progress towards this target.

21. At this stage the MTFP has been updated to reflect completed acquisitions as at November 2019, but also an anticipation of achieving the original target of £2.2m in 2020/21. The budget reflects net income – after deducting capital financing costs (debt repayment and interest).

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

22. As part of the agreed financial strategy, the Council also annually reviews its approach to treasury management. The Treasury Strategy for 2020/21 is currently being updated, and will be reviewed by Audit Committee in January, prior to being considered for approval at Full Council in February. The approach to our treasury investments continues to follow the principles of the Prudential Code and Guidance issued by CIPFA.
23. The 2019/20 budget included an increase of £200,000 in investment income expected for the year, which reflected an expected increase in returns through a diversified range of investments in higher earning financial instruments. Regular monitoring of this budget shows this additional income is on target and expected to exceed the target for the year.
24. In line with the updated financial strategy, the draft budget for investment income in 2020/21 has been increased by a further £100,000. Given the performance in 2019/20, this is expected to be achieved through further updating our mix of investments, and taking a longer term view for investing a proportion of the Council's cash reserves.
25. The Council will continue to use advice from Arlingclose to effectively manage its portfolio of investments. In 2019/20 the Council set aside £150,000 into a Treasury Risk Management Reserve, to provide some resilience to volatility in capital values and/or budget variations on investment income. This budget proposes to transfer a further £150,000 in 2020/21, with the MTFP assuming transfers of £50,000 each year thereafter.

### **Revenue Effects of Capital Programme**

26. The revenue effects of capital comprise the interest cost (interest on loans and loss of interest on investments). The current estimates reflect the assumed loss of interest as reserves are used to support already approved capital schemes, plus a contingency for new schemes to be considered for next year's capital programme.
27. The increase in 2020/21 reflects the financing of the Council's commercial investment property acquisitions to date. This includes a Minimum Revenue Provision (MRP) charge to the revenue budget to set aside funds to repay debt, plus interest costs on capital borrowing. As at November 2019 the Council has no external loans, with the capital financing requirement currently provided through internal borrowing from cash reserves.

### **Funding and Reserves Estimates**

#### **New Homes Bonus (NHB)**

28. As detailed in the November District Executive report, through the Spending Round the Government has confirmed that New Homes Bonus (NHB) funding will be available in 2020/21. There has been no change in this budget report, and all NHB received in 2020/21 is still forecast to be fully set aside

for use in future years. The final allocated NHB Grant for 2020/21 will be confirmed as part of the Provisional Settlement in December 2019 / January 2020.

### **Business Rates**

29. The current draft budget reflects business rates income estimates completed in the summer. Updated estimates will be finalised in early January and reflected in the final budget report.
30. A prudent sum of £609,487 has now been included in the budget as SSDC's gain from being in the pool. This is a volatile funding stream therefore appropriate caution should be applied. With this in mind, the 2020/21 budget includes a transfer of this whole amount to the Business Rates Volatility Reserve.

### **Business Rates Pooling and 75% Retention Pilot**

31. As reported in November, 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. Business Rates on this basis has been built into the budget for 2020/21 with remaining years remaining uncertain at this stage as this is subject to reform of the BRR system and the Fair Funding Review.
32. Final estimates of the potential pooling gain will be confirmed in January and included in the final budget report.

### **Regeneration Programmes Funding**

33. The Council has approved gross and net budgets for the priority regeneration programmes in Yeovil, Chard and Wincanton. The net budget requirement for these programmes is £7.5m however this is not all currently fully funded. As part of this year's proposed budget the Executive is minded to address this funding gap through a combination of a transfer from the surplus revenue budget and business rates pooling / pilot gains.

<b>Regeneration Funding Plan</b>	<b>£000</b>
Existing approvals:	
Consolidation of previous Yeovil capital budgets – funded from existing capital receipts	424
Area South Capital Fund contribution – funded from existing capital receipts	151
Agreed allocation from commercial investment (Marlborough)	500
Agreed allocation from 2018/19 business rates pooling gain	500
Agreed allocation from 2019/20 business rates pooling and pilot gain	1,425
Surplus revenue budget from 2019/20	500
Useable Capital Receipts	2,500
<u>Sub-total</u>	6,000
Proposed first call on future unallocated business rates pooling gains (will need contingency plan if insufficient income received)	1,500
<b>Total Funding for Net Budget Requirement</b>	<b>7,500</b>

### **Council Tax**

34. The S151 Officer approved the 2020/21 Council Tax Base in early December, which is set at 60,710.78 Band D Equivalents. This is lower than previously estimated, mainly due to slower than forecast housing growth in the 12-month period to October 2019.
35. The Council Tax income estimate is therefore calculated as follows:

	<b>2020/21</b>
Council Tax Base – Band D Equivalents	60,710.8
SSDC Council Tax Rate per Band D Estimate (not yet approved)	£170.44
Council Tax Income Estimate (Tax Base x Tax Rate)	£10,347,545

36. The Council Tax Rate includes £168.59 for SSDC services and £1.85 levied on behalf of the Somerset Rivers Authority (SRA). Therefore, of the council tax income figure shown in the table above, £112,315 will be passported to the SRA.

### **Earmarked Reserves**

37. The Interim S151 Officer will finalise a review of earmarked reserves in December/January, and include an updated reserves position with the final budget reports at the end of January.
38. The current draft budget for 2020/21 includes net transfers to/from earmarked reserves of £2.6m. This includes:
- £150,000 to the Treasury Risk Reserve
  - £200,000 to the Commercial Investment Risk Reserve
  - £555,487 to the Business Rates Volatility Reserve
  - £1,820,361 to the Medium Term Financial Plan Support Fund from NHB receipt and
  - £61,700 from Infrastructure Reserve for Regeneration Programme Management costs

### **General Reserves**

39. The current approach to setting the budget for 2020/21 aims to achieve a balanced budget without the need to use funds from general balances. The current estimates indicate we are on track to meet this aim.
40. The adequate minimum General Reserve requirement was reviewed in August 2019, and was approved to be set at £2.6m. The current balance is as follows:

<b>General Fund Balances</b>	<b>£000</b>
Balance at 1 April 2019	-4,593
Area & Economic Development Balances	121
2019/20 Carry Forwards	170
Commitments (including A303)	157
Current Estimated underspend in 2019/20	-6
<b>Unallocated General Fund Balance at 30<sup>th</sup> September 2019</b>	<b>-4,151</b>

### **Capital Programme**

41. The Senior Leadership Team has reviewed the capital bids for 2020/21. A summary of these bids are included within Appendix A. All bids submitted fall largely outside of the new corporate plan. Appendix A divides the bids into those deemed to being essential, and the other bids that fall outside of these categories. Notes have been added to show to some projects where reserves can be used.



## **Summary of Items to be Finalised for the 2020/21 Budget**

42. Unavoidable costs: The draft budget includes a provision for unavoidable costs of £303.8k for 2020/21. Actual pressures identified to date are significantly less than this as shown in the table above.
43. Revenue Effects of Capital: The MTFP has been updated to reflect the revenue implications for commercial property investment, but will need to be updated for the prioritised capital programme bids for 2020/21. A contingency sum is included pending finalising the agreed programme.
44. Business Rates Retention (BRR): The detailed budget estimates for BRR will be completed in January, and will inform final estimates. Details regarding next year's baseline and tariff are due as part of the Provisional Settlement the end of December / beginning of January.
45. Collection Fund: The final estimates for the 2019/20 surplus or deficit for council tax and business rates will be finalised in January, and feed into final budgets for 2020/21.
46. New Homes Bonus: The grant allocations for 2020/21 are expected to be confirmed with the provisional settlement. This will include any change by Government on the continuation of the funding in future years. The figure on the affordable homes element is currently being verified with the Housing Associations.
47. Council tax: The MTFP assumes the tax rate will increase by 1.99% as per guidance issued ahead of the provisional settlement.
48. Business plans: A review of the business plan for Yeovil Crematorium and Elleston against current budget position needs to be undertaken, and to ensure it is built into the MTFP going forward.

## **Public/Stakeholder Consultation**

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

## **Budget Scrutiny**

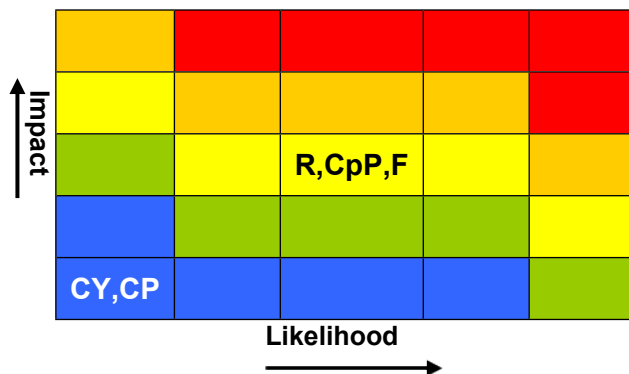
50. This report will be presented to Scrutiny Committee on 7th January 2020, with the final proposed budget presented to Scrutiny on 4<sup>th</sup> February 2020 before being considered for approval by District Executive on 6<sup>th</sup> February 2020 and Full Council on 20<sup>th</sup> February 2020.

## **Financial Implications**

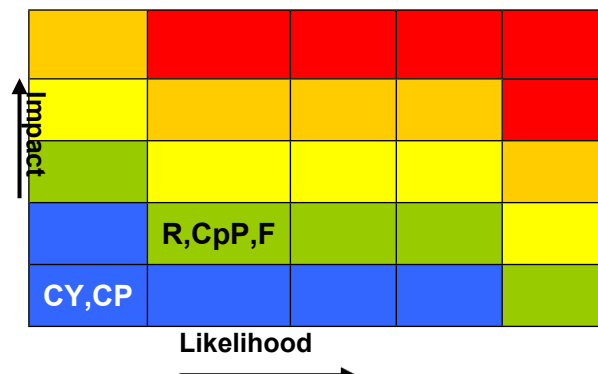
51. This report contains financial implications throughout.

## 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

52. The MTFs and MTFP incorporate costs, income and funding implications directly related to the delivery the Council's aims and priorities. The Council Plan for 2020/21 is due to be presented to Council for approval in February at the same time as the final budget.

## Carbon Emissions and Climate Change Implications

53. Not applicable within this report.

## Equality and Diversity Implications

54. Not applicable within this report.

## Privacy Impact Assessment

55. 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

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

- Financial Strategy 2020/21 (District Executive September 19 and November 19)