2018/19 Revenue and Capital Budget and Medium Term Financial Plan

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Purpose of the Report

1. The purpose of this report is to seek approval of the proposed Budget and Council Tax for 2018/19. This report is based on the Medium Term Financial Plan (Revenue Budgets for 2018/19 to 2022/23) and also includes proposed additions to the Capital Programme.

Public Interest

2. This report sets out the proposed budget for South Somerset District Council for 2018/19 and the estimated budgets for the following four years. It also asks members to approve capital schemes for funding in 2018/19.

Recommendations

3. That Full Council:

   (a) approves the Net Revenue Budget for 2018/19 of **£16.483m**, as set out in the Budget Requirement Estimates (paragraph 22, Table 3a) and detailed in Appendix A for the District Executive and four Area Committees;

   (b) approves the 2018/19 Council tax increase of £5, increasing the annual Band D basic rate by 3.18% to £162.48; and notes this total basic rate comprises £160.63 for SSDC services and £1.85 for the Somerset Rivers Authority;

   (c) approve the transfer of £468k from earmarked reserve balances to assist with the shortfall on the Transformation budget, as detailed in Table 10, paragraphs 52 and 53, and note the remaining balances;

   (d) approves the additions to the Capital Programme for new capital bids of £1.987m as shown in Appendix E;

   (e) note the Minimum Revenue Provision (MRP) Statement and Capital Prudential Indicators as attached at Appendix H.

Background

4. The General Fund Revenue Account is the Council's main fund and shows the income and expenditure relating to the provision of services which residents, visitors, and businesses all have access to including planning, environmental services, car parks, certain housing functions, community services and corporate services.

5. The Council directly charges individual consumers for some of its services through fees and charges, with the expenditure that remains mainly funded through a combination of sources including: local taxation, a proportion of business rates, and also grants from Central Government such as Revenue Sport Grant, New Homes Bonus and other non-ring-fenced and specific grants/subsidy.

6. Each year the Council sets an annual budget which details the resources needed to meet its operational requirements. The annual budget is prepared within the context of priorities identified by Members as part of the Council's current corporate plan.

7. The District Executive and Scrutiny Committee have received update reports on the draft 2018/19 budget, Financial Strategy and Medium Term Financial Plan. The drafts are subject to final amendments whilst awaiting clarity around Government grants and funding.

The Council Plan

8. The Council approved a Council Plan in March 2016. The Plan is set over 5 years but the Action Plan is approved annually alongside budget setting to ensure it is affordable.

Financial Strategy

9. The financial strategy sets out to provide Members with options to respond to the ongoing and increasing financial challenges within the local government sector. This strategy builds on previous approaches agreed including the Efficiency Strategy agreed in 2016.

10. The Financial Strategy and Medium Term Financial Plan report approved by Executive in September 2017, summarised the key themes to the strategy as:

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

11. Government funding has been steadily reducing since the end of the last decade and with this trend continuing the Council faces a projected budget shortfall of £5.2m by 2022/23. The Council judges that there remains a risk of further pressure on funding and plans to deliver savings of up to £6m per year. Its Financial Strategy therefore includes targets of £2.5m of savings from Transformation, £2.7m of further savings to close the remaining budget gap and a further £0.8m by 2022/23 to ensure that services can be maintained.

Table 1 – Savings Target

Savings Target:	£m
To meet projected Budget Gap	2.7
Flexibility to respond to new pressures (not yet identified)	0.8
Savings Target for MTFP 2018/19 to 2022/23	**3.5**
Transformation Savings already included in the MTFP	*2.5*
Total Savings requirement including Transformation by 2022/23	*6.0*

12. The Financial Strategy agreed in September 2017 also set out the approach to resourcing including government grants, council tax and reserves.

Medium Term Financial Plan

13. The Medium Term Financial Plan (MTFP) summarises estimates of costs and funding, and the impact of the Council's plans for the medium to long-term. The MTFP at South Somerset spans three years with a further two years added to show the likely longer-term picture. The Plan links the resources required to deliver the Council Plan and the Council's strategies.

14. Through the preparation of the 2018/19 estimates the Executive is able to propose a balanced budget for 2018/19. The updated MTFP shows a projected budget gap in subsequent years of the plan. The figures include all estimates for pay awards, pension costs, council tax, business rates, Government grant, and inflation.

Efficiency Strategy

15. Members approved an Efficiency Strategy in September 2016. This approved the use of up to £0.5 million in capital receipts to be utilised partially to fund revenue costs of the Transformation project. Progress is reported regularly to Members through capital quarterly monitoring reports. To date £0.1 million from the sale of properties has been allocated towards this three year target.

16. Full Council may approve an update to the Efficiency Strategy at any time, and it is worth noting that through the Finance Settlement for 2018/19 Government have confirmed that flexible use of capital receipts has been extended by a further three years to 2021/22.

New Homes Bonus

17. The New Homes Bonus has been in place since 2011/12, and in October 2012 members agreed that New Homes Bonus would be mainstreamed as part of the overall funding package for SSDC services. This is because in effect it is top-sliced from Revenue Support Grant and then reissued as New Homes Bonus.

18. Members were previously advised that the government has confirmed it does not plan to make any further changes to the grant calculations than those introduced in 2017/18, which were:

    - The introduction of national baseline for housing growth of 0.4% and NHB will only be paid for new homes built and occupied above this (so SSDC will not receive NHB for around the first c285 Band D equivalent new homes built each year).

    - The government is not currently minded to implement further reductions in NHB grant based on planning appeals. This may be subject to further reviews in future.

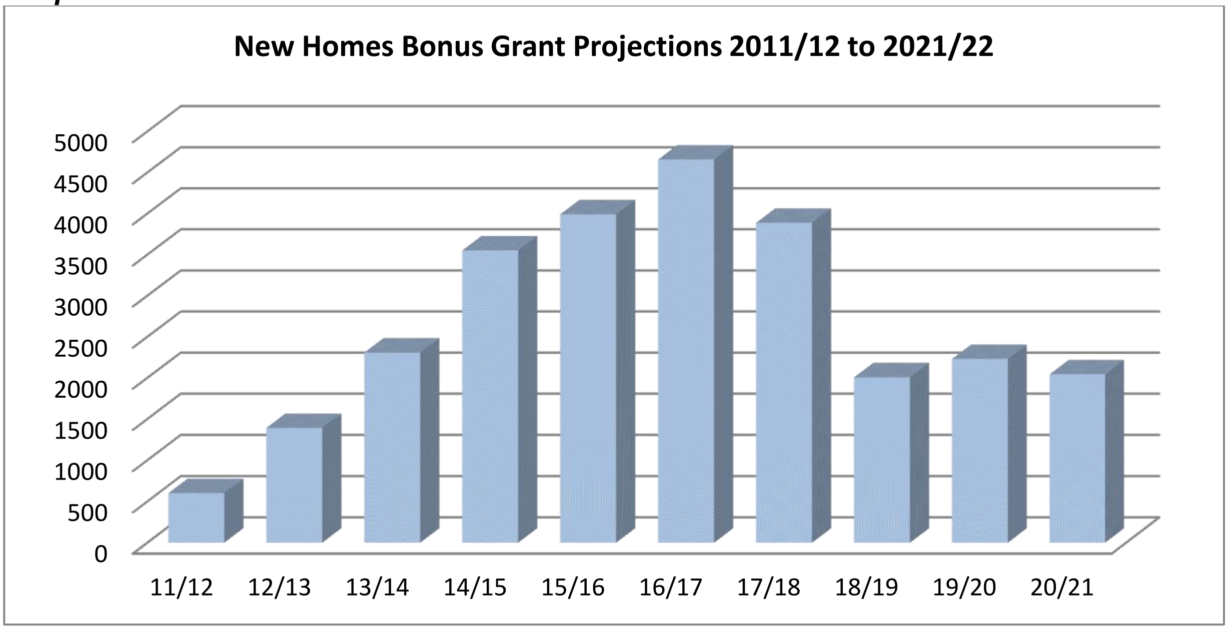
    - A reduction in 'legacy payments' from 6 years to 5 years in 2017/18, and to 4 years from 2018/19.

19. The grant amount for 2018/19 has been confirmed as £2.007m in the Provisional Settlement. This is a significant reduction compared to 2017/18 due to the changes in methodology. The following table and graph summarise the historic allocations of NHB and the MTFP forecast up to 2021/22.

Table 2 – New Homes Bonus Grant Income Per Year

Year	11/12	12/13	13/14	14/15	15/16	16/17	17/18	18/19	19/20	20/21
	£k	£k	£k	£k	£k	£k	£k	£k	£k	£k
2011/12	601.1	601.1	601.1	601.1	601.1	601.1				
2012/13		790.3	790.3	790.3	790.3	790.3				
2013/14			915.9	915.9	915.9	915.9	915.9			
2014/15				1243.7	1243.7	1243.7	1243.7			
2015/16					440.1	440.1	440.1	440.1		
2016/17						667.1	667.1	667.1	667.1	
2017/18							621.1	621.1	621.1	621.1
2018/19								278.9	278.9	278.9
2019/20									663.3	663.3
2020/21										479.3
Total	601.1	1391.4	2307.3	3551	3991.1	4658.2	3887.9	2007.2	2230.4	2042.6

Graph 1 – New Homes Bonus



20. SSDC previously set a limit of a maximum £3 million per annum to support the budget each year. However, with the reductions outlined above the strategy has been amended to reduce the Council's dependency by £250k per annum from 2019/20, to £2m per year by 2022/23.

The Government Settlement

21. The Provisional Settlement for 2018/19 was received on 19 December 2017 and the implications for the draft budget were reported to the Executive on 4 January 2018. The Final Settlement was received on 6 February 2018. It contained a small increase in the rural services delivery grant and confirmed the positon of the Business Rates Tariff. These changes have been incorporated into the final budget for 2018/19 and MTFP.

The Medium Term Financial Plan

22. The tables below summarise the Draft Budget for 2018/19 and MTFP projections for subsequent years. They show that the 2018/19 proposed budget and the indicative 2019/20 figures produce a balanced budget, with the total funding matching the budget requirement. This is a positive position and reflects the progress made to date in delivering the Council's financial strategy. It is clear there is more to do with the Budget Gap rising to an estimated £1.7m by 2022/23, but there is a strategy in place to achieve this.

Table 3a – Medium Term Financial Plan – Net Budget Requirement Estimates

General Fund Revenue Budget	**2018/19 £k**	**2019/20 £k**	**2020/21 £k**	**2021/22 £k**	**2022/23 £k**
Base Budget	**17,379.2**	**16,483.5**	**16,547.7**	**17,492.2**	**18,263.0**
Employment cost inflation	702.9	363.0	384.0	392.4	399.0
Inflation allowance on contracts	128.6	162.0	166.6	171.6	176.6
Unavoidable budget pressures	277.2	250.0	300.0	300.0	300.0
Planned savings	-1521.3	-712.4	-20.2	-20.2	0.0
Investment Income	-726.0	0	-1.0	0.0	-1.0
Revenue effects of Capital Programme	404.8	1.5	115.1	-11.3	24.9
Other	-161.9	0.1	0.0	-61.7	0.0
Total Budget Requirement	**16,483.5**	**16,547.7**	**17,492.2**	**18,263.0**	**19,162.5**

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.

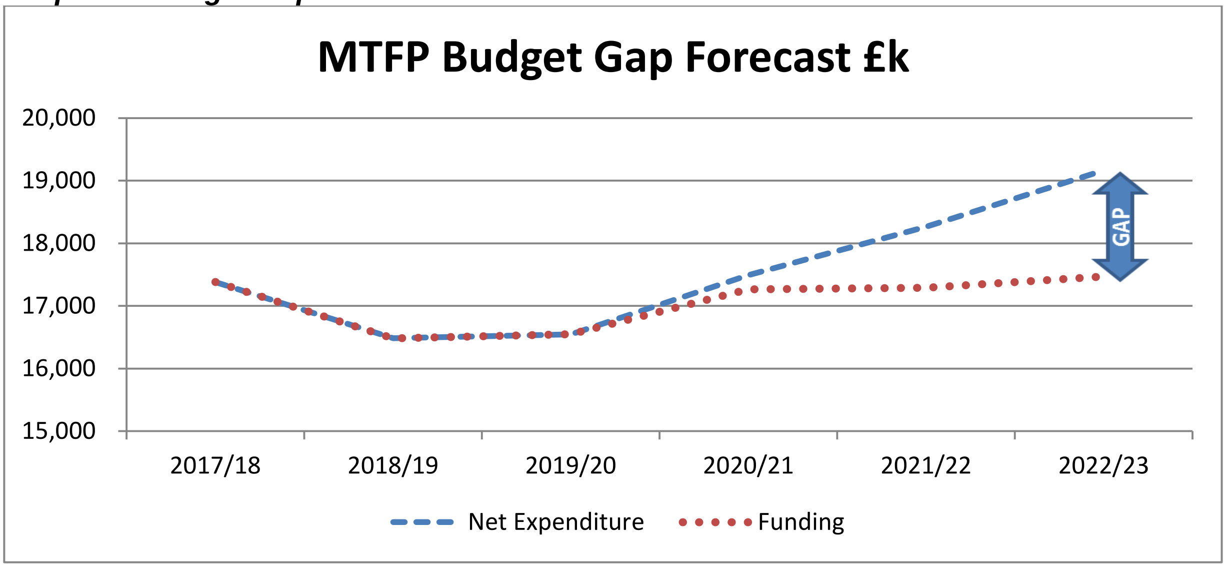
Table 3b – Medium Term Financial Plan – Funding and Budget Gap Estimates

General Fund Revenue Budget	**2018/19 £k**	**2019/20 £k**	**2020/21 £k**	**2021/22 £k**	**2022/23 £k**
Total Budget Requirement (per Table 3a)	**16,483.5**	**16,547.7**	**17,492.2**	**18,263.0**	**19,162.5**
Funded By:					
Revenue Support Grant	-268.9	327.3	327.3	327.3	327.3
Less: CTRS Grant to Town/Parish	34.9	0	0	0	0
Rural Services Delivery Grant	-166.2	-133.4	-133.4	-133.4	-133.4
New Homes Bonus Grant	-2,007.2	-2,230.4	-2,042.6	-1,952.2	-2,280.9
Revenue Support Fund Transfer	-992.8	-519.6	-457.4	-297.8	280.9
Business Rates Retention	-4,481.0	-4,726.2	-4,816.2	-4,916.2	-5,016.2
Collection Surplus – Business Rates	958.8	0.0	0.0	0.0	0.0
BRR Volatility Reserve Transfer	0.0	307.4	300.0	400.0	400.0
Council Tax – SSDC	-9,635.9	-10,091.8	-10,435.1	-10,775.3	-11,106.6
Council Tax – SRA	-111.0	-112.7	-114.3	-115.7	-116.9
Less: Council Tax Paid to SRA	111.0	112.7	114.3	115.7	116.9
Collection Surplus - Council Tax	-63.4	0.0	0.0	0.0	0.0
Sub-total: Funding	**-16,621.7**	**-17,066.7**	**-17,257.4**	**-17,347.6**	**-17,528.9**
Other Reserve Transfers					
Other Earmarked Reserves	138.2	388.3	-11.7	50.0	50.0
General Reserves	0.0	130.7	0.0	0.0	0.0
Sub-total: Net Reserve Transfers	**138.2**	**519.0**	**-11.7**	**50.0**	**50.0**
Total Funding	**-16,483.5**	**-16,547.7**	**-17,269.1**	**-17,297.6**	**-17,478.9**
Budget Gap	**0.0**	**0.0**	**223.1**	**965.4**	**1,683.6**
Budget Gap Increase on Prior Year		**0.0**	**223.1**	**742.3**	**718.2**

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

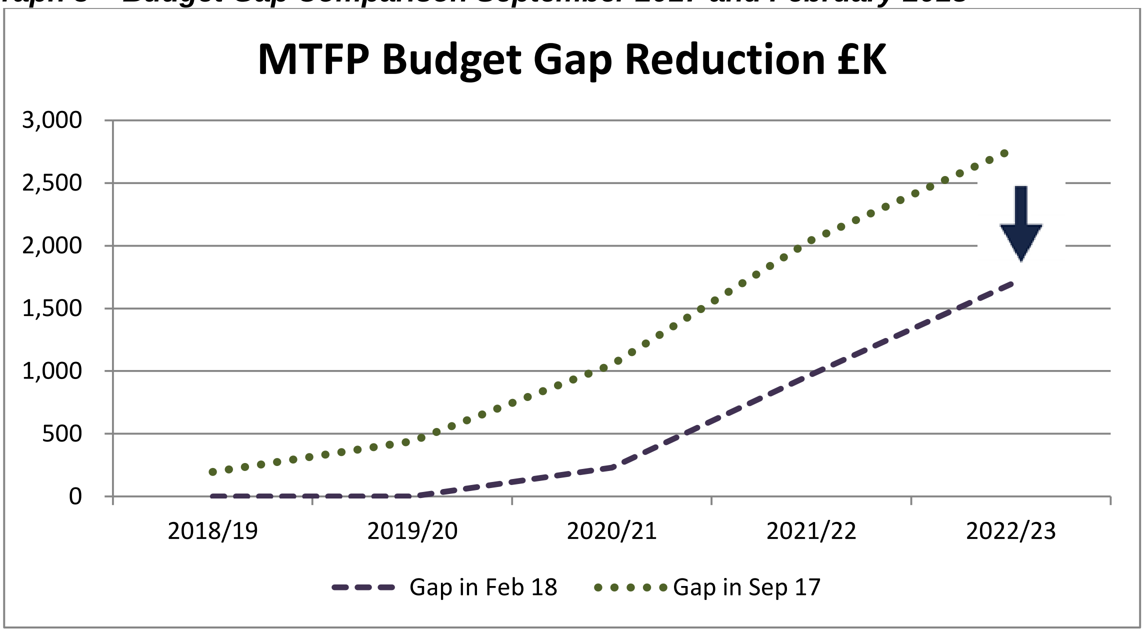
23. The following graph presents the net expenditure (budget requirement) and the projected total funding over the period of the MTFP, and shows the Budget Gap as closed up to 2019/20 and then increasing each year.

Graph 2 – Budget Gap Forecast



24. The next graph below shows the reduction in the Budget Gap reported within the MTFP since the Financial Strategy was agreed by Members in September 17. This demonstrates that the forecast Gap within the MTFP has reduced from £2.7m to £1.7m by 2022/23. (Note: the Gap of £2.7m had already included the expected savings from Transformation; and the Strategy also plans for a risk of £0.8m of further cost / funding pressures not reflected in the MTFP – see report in September 2017.)

Graph 3 – Budget Gap Comparison September 2017 and February 2018



Assumptions Made

25. Expenditure, income and funding estimates are based on a range of assumptions including:

Table 4 – Main Budget Assumptions

	2018/19	2019/20	2020/21	Notes
Inflation	contractual obligations	contractual obligations	contractual obligations	Assumes average inflation 2%
Council Tax	£5.00 per Band D	£5.00 per Band D	2% per Band D	Assumes that an additional £5 is added for the next two years
Pay	2%	2%	2%	Assumes average annual pay award 2%; increments impact neutral
Pensions	16.1% plus £1.62m lump sum	16.1% plus £1.65m lump sum	16.1% plus £1.69m lump sum	Assume employers contributions increases as per actuarial valuation
Investment Income	Base 0.50%	Base 0.50%	Base 0.50%	Assume no change to interest rates; increase in treasury investment yield through more strategic investments held for long term
Revenue Support Grant	-66% £0.53m	-222% £0.59m	0	Reductions based on the accepted government multi-year settlement
New Homes Bonus	-£2.0m grant	-£2.2m grant	-£2.0m grant	Based on Government figures for 2018/19 and projected local housing development

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

Progress towards Financial Strategy Targets

26. The Financial Strategy agreed in September set a medium term savings target of £6m per year (see para 12 above). The progress towards achieving the target is summarised in the table below. Delivering the target by 2022/23 will exceed the current projected budget gap, which supports the intentions of the strategy. Other factors not shown in the table below have helped to reduce the Budget Gap within the MTFP e.g. business rates retention income.

Table 5 – Progress In Achieving Savings Targets

	Financial Strategy Target 2022/23 £k	Included in MTFP 2022/23 £k	Balance to be delivered £k
Financial Strategy Targets:			
Transformation – Staffing / Technology	2,500	2,484	16
Transformation – non-staff efficiency savings	200	0	200
Commercial Property Income (net of approved delivery capacity costs)	2,250	107	2,143
Services Income (Fees and Charges)	300	255	45
Treasury investment income	750	250	500
Sub-Total: Financial Strategy Savings	**6,000**	**3,096**	**2,904**

(savings shown as positive figures in this table)

Revenue Budget 2018/19

27. Appendix A provides the detailed budgets for the four Area Committees and the District Executive. Once approved by Full Council, these represent the financial plans that the

Executive will manage under their delegated authority and monitor in accordance with the Financial Procedure Rules.

28. Appendix A reflects the current budget structure. However, budgets will be updated to better reflect the new operating structure for support services following transformation. Once the budget is approved by Full Council, and the work on restructuring the finance system has taken place, a reorganised budget will be provided to Executive and be used for subsequent monitoring and reporting.

Revenue Support Grant

29. SSDC's Efficiency Statement was approved by the DCLG in 2016. The revenue support grant remains in line with the information available at that point in time. Through the 2018/19 final settlement the rural services delivery grant has increased from £102.6k to £166.3k. The funding for the next two years is as follows:-

Table 6 – General Revenue Support Grants

Financial Year	Revenue Support Grant (RSG) £k	Rural Services Delivery Grant (RSDG) £k
2018/19	-268.9	-166.3
2019/20	327.3	-133.4

(minus figures = income, positive figures = cost)

The 4-Year Settlement and 100% Business Rates Retention

30. The four year settlement agreed in 2016/17 included year on year reductions to Revenue Support Grant, and for many authorities – including SSDC – led to a "negative RSG" through the methodology set by Government. For SSDC this leads to a negative grant – i.e. payment to Government – of £327.3k in 2019/20. It was expected when the four year settlement was agreed that this position would be addressed through the implementation of 100% business rates retention, however this is unlikely to be in place by April 2019, and consequently the Government has committed to consult with local authorities in 2018 on this matter.

Savings

31. Savings plans are outlined in Appendix B. It is proposed that significant variations between planned and achieved savings are reported as part of the budget monitoring process.

32. In April 2017 Members agreed the revised business case for Transformation which outlined the total annual savings target of £2.483m once fully implemented. As the programme is implemented in phases, part of this savings target was included in 2017/18, with further savings of £1,222.7k in 2018/19 and £696.2k in 2019/20 to be delivered as the programme of change is completed.

33. A review of fees and charges has been undertaken to ensure that they are keeping pace with inflation and generate additional revenue to meet income generation targets. Additional income totalling £255.1k has been included in the 2018/19 draft budget.

Unavoidable Budget Pressures

34. Unavoidable budget pressures are detailed in Appendix C. The pressures identified for 2018/19 total £277.2k, which is less than the initial provision of £300k allowed within the early draft of the MTFP.

Council Tax Rate

35. The Secretary of State has confirmed within the Provisional Settlement that Shire Districts are able to increase Council Tax by the greater of 2.99% or £5 (on a Band D) in 2018/19 without the need for a referendum. This is a 1% rise on the threshold set for 17/18.

36. The 2017/18 annual basic tax rate towards the cost of South Somerset District Council services, for the average Band D property, is £155.63, and the Council also included £1.85 in respect of the Somerset Rivers Authority (SRA), making the total Band D charge of £157.48.

37. The District Executive is minded to recommend to Full Council the option to increase Council tax by 3.18% which equates to the £5 limit on a Band D property, and this is reflected in the draft budget figures for 2018/19. For the average Band D property this will set the annual tax rate at £162.48 – or £3.12p per week – for Council services.

38. The Somerset Rivers Authority (SRA) is currently unable to raise its own precept, and this is likely to remain the case in the next two years at least. In 2016/17 the government amended Somerset Council Tax levels to a notional amount to allow each of the Somerset authorities to raise 1.25% (£1.85 per band D for SSDC) interim funding for them.

39. This agreement will continue in 2018/19 with no uplift other than tax base growth and therefore the precept per Band D property will continue to be £1.85. This will raise £111k of funding from this Council in 2018/19, which is passed on to the SRA to contribute to the 20-Year Flood Action Plan.

Council Tax Income

40. The tax base for 2018/19 is 59,988.28 Band D Equivalents, an increase of 675.24 (1.14%) compared to 2017/18. The draft budget estimate for Council Tax income for SSDC is therefore 59,988.28 x £162.48 = £9,746,896. This represents an increase of £406,278 compared to the previous year. The estimate is calculated as follows:

Table 7 – Council Tax Income Estimates

	£
Council Tax Income Budget 2017/18	9,340,618
Increased due to change in Tax Base (Band D equivalents)	106,337
Increased due to proposed 3.18% increase in Tax Base	299,941
Estimated Council Tax Income 2018/19	9,746,896

41. As billing authority, SSDC has to calculate a basic level of tax based on its own spending plans, to which is added the precepts from Somerset County Council, Devon and Somerset Fire Authority, Avon and Somerset Police and Crime Commissioner and any town/parish council.

42. The actual total of Council Tax for South Somerset residents will be calculated once all precepting authorities have notified SSDC of their proposals. The total Council Tax will be approved at Full Council on 22 February 2018.

Estimates for Future Years Band D Council Tax

43. The current estimate within the Medium Term Financial Plan is that Council Tax levels will remain in line with expected Government increases of £5.00 for 2019/20 with 2% built in for 2020/21 onwards.

Business Rates Retention (Non-Domestic Rates)

44. In 2013 the Government introduced the Business Rates Retention (BRR) funding system that passed some of the risks and rewards from business rates growth to local authorities. Each local authority must set a budget for the net business rates income it expects to retain and in South Somerset this has been delegated to the S151 Officer because of the considerable time constraints in place. Central Government requires the budget to be set by the 31st January 2018.

45. The Draft Budget has been updated since the update report to District Executive in January 2018 to reflect the approved 2018/19 NNDR1. The total business rates income projected for 2018/19 is just under £4.5m, as summarised below:

Table 8 – Business Rates Retention Estimates

	2018/19 £k
40% Standard share of net business rates income	-16,640.3
100% Renewable energy schemes business rates income	-273.8
S31 grant compensation for Government-funded reliefs	-1,888.3
Tariff payment	13, 336.1
Levy cost	985.3
Safety net income	0.0
Net Retained Business Rates Funding	-4,481.0

(Negative figures = income, positive figures = costs)

Business Rates Surplus/Deficit and Volatility Reserve

46. Despite this positive position on business rates income in future, we are projecting a deficit within the Business Rates Collection Fund in 2017/18, and SSDC's share of 40% of this deficit – £959k – will be charged to the budget in 2018/19. The main differences within the collection fund budget are due to: mandatory reliefs awarded to rate payers higher than estimated (e.g. small business rate reliefs), net reductions in rateable values and higher than estimated refunds for appeals, increase in reliefs in line with government policy (e.g. additional transitional support for the 2017 Revaluation), and increased allowance for bad debts.

47. Although there is a deficit in the Collection Fund which, due to statutory arrangements, will 'hit' the budget in 2018/19, in practice the Council see a surplus in its Business Rates Retention (BRR) budget in 2017/18. This is because there are timing differences between financial years for certain elements of the Retention system (it's complicated!). This is because we will receive a grant from Government to compensate for reliefs awarded in line with policy (e.g. additional transitional support for the 2017 Revaluation, increase in Small Business Rates Relief, etc.); and with net business rates due being lower than budgeted we will pay a lower levy on growth. This will be reported clearly for Members at the end of the financial year.

48. The Business Rates Volatility Reserve is currently approximately £1.3m, and is projected to increase to between £1.8m and £2m by March 2018. As part of the financial strategy it is proposed to hold a minimum balance of approximately £2.5m in the Volatility Reserve, which would provide two years of protection to the budget in the event our business rates retention funding reduces to the Safety Net. In order to build up to this balance, a sum of £300k has been added into the MTFP for two years from 2019/20. From 2021/22 it is proposed to

increase this sum to £400k per year, to provide a prudent contingency for possible impact on the business rates funding “Reset” and potential impact on the Fair Funding Review

Business Rates Pooling

49. As previously reported the Government has approved the formation of a new Business Rates Pool in 2018/19, comprising the County Council and five district councils in Somerset. The budget above does not incorporate any proposed ‘dividend’ for additional retained funding in 2018/19, and the performance of the Pool will be monitored and reported during the year ahead.

Review of Earmarked Reserves

50. Earmarked Reserves are funds that have been approved for specific costs and contingencies but not yet spent. Examples can include things such as government grants received in one year that will go towards projects or service costs in subsequent financial year(s). A periodic review of reserves is good practice. In addition, one of the recommendations from the Corporate Peer Challenge and Review, undertaken in March 2017, was to review earmarked reserves in order to identify possible “quick wins” in support of the Council’s financial sustainability.

51. The total earmarked reserves balance as at December 2017 was £44m. This includes £29m of capital receipts together with an array of revenue reserves totalling £15m as detailed below.

Table 9 - Reserves

Reserves	Balance as at 31/12/17	Anticipated Movement	Expected Balance as at 31/3/18
	£k	£k	£k
Usable Capital Receipts	-29,081	8,641	-20,440
Internal Borrowing Reserve	-799		-799
Capital Reserve	-1,254		-1,254
Cremator Replacement Capital Reserve	-651		-651
Internal Borrowing Repayments	-57		-57
Election Reserve	-149		-149
Risk Management Reserve	-11	11	0
Wincanton Sports Centre Reserve	-21		-21
Local Plan Enquiry Reserve	-71		-71
Yeovil Athletic Track Repairs Fund	-137		-137
Planning Delivery Reserve	-26	10	-16
Bristol to Weymouth Rail Reserve	-11		-11
Local Authority Business Growth Initiative Reserve	-14		-14
Yeovil Vision	-120		-120
IT Replacement Reserve	-17	7	-10
Insurance Fund	-53		-53
Transformation Reserve	-635	635	0
Treasury Management Reserve	-100		-100
Local Plan Implementation Fund	-125		-125
Revenue Grants Reserve	-844	135	-709
MTFP Support Fund	-6,624		-6,624
Council Tax/Housing Benefits Reserve	-776	301	-475

Reserves	Balance as at 31/12/17	Anticipated Movement	Expected Balance as at 31/3/18
	£k	£k	£k
Closed Churchyards Reserve	-11		-11
Health Inequalities	-31		-31
Deposit Guarantee Claims Reserve	-6	3	-3
Park Homes Replacement Reserve	-165		-165
Planning Obligations Admin Reserve	-35		-35
LSP	-24		-24
Artificial Grass Pitch Reserve	-95		-95
Business Support Scheme	-149		-149
Infrastructure Reserve	-863		-863
NNDR Volatility Reserve	-1,309		-1,309
Ticket Levy Reserve	-80		-80
Waste Reserve	-230		-230
Community Housing Fund	-221		-221
Total Usable Reserves	**-44,795**	**9,743**	**-35,052**

(Minus = balance in hand, transfers to reserve; Positive figures = transfers from reserve)

52. A review of the reserves has been carried out and involved requesting clarification from relevant budget holders of the planned use of the reserved funds and when this is likely to be needed. Understandably, the majority of responses from budget holders indicated that the reserves are still needed, however in some areas budget holders have indicated there is scope for funding to be reallocated as summarised in the following table:

Table 10 – Balances Released from Earmarked Reserves

Name of Reserve	**What the Reserve is for**	**Balance to Release £**	**Reason for release of Reserve**
Risk Management Reserve	For service risks	11,153	Services will aim to manage risks within overall budgets. General reserves mitigate general budget risks. This reserve will reduce to nil and be deleted.
Planning Delivery Reserve	For the delivery of planning services	10,000	Costs should be provided within revenue budgets, but £16K is retained as a contingency.
IT Replacement Reserve	To provide for unexpected IT replacement costs	7,160	Costs should be provided within existing revenue budgets, but £10K is retained as a contingency for urgent in-year one-off costs.
CTax/Housing Benefits Reserve	To cater for unexpected high number of claims, for previous grant income not yet required, subsidy variations, funding for additional resources to manage service demand	301,036	A recent review of a fair amount to hold has indicated that a reduction is justified. A residual balance of £450,000 will remain in this reserve.
Deposit Guarantee Claims Reserve	To minimise the risk of high claim rates against paper deposits issued	3,000	A recent review has suggested the Reserve can be reduced. A residual balance of >£3,000 will remain in this reserve as a contingency sum.

Name of Reserve	What the Reserve is for	Balance to Release £	Reason for release of Reserve
	Housing & Welfare		
Personal Search Settlement	To provide for legal fees for a land charge settlement case	135,495	This case has been settled and so the provision is no longer required.
Total		**467,844**	

53. As previously reported there is currently a funding shortfall £956,000 for the existing approved transformation budget. It is recommended that the balance of £468k released from reserves shown in table above, is used to reduce this shortfall, and therefore transferred into the Transformation Reserve. In addition the proposed budget for 2018/19 allocates £150k towards the funding shortfall. Together this would leave a residual balance of £338k. It is anticipated this will be addressed from underspends in 2017/18 and further allocations from reserves in 2018/19.

Table 11 – Transformation Funding Gap Reduction

	£'000
Transformation funding shortfall	956.0
Reallocated from other reserves – February 2018	-468.0
2018/19 Proposed Budget	-149.8
Residual Transformation funding shortfall	338.2

(Negative figures = income, positive figures = costs)

54. In addition to the funds available for the Revenue Budget, the Council has certain balances and reserves. The Financial Strategy is to retain sufficient general balances to meet its major financial risks. Risks were reviewed in January 2018 once the budget figures had been completed, and it is recommended that general balances should be retained at or above a minimum of £3.1 million at the start of the new financial year. The current estimate of revenue balances by the year-end is £3.4 million. The remaining sum is within the range to cover key risks in 2018/19. The key risks that have been taken into consideration are:

a. Sustainability of base budget
b. Reduced income
c. Civil emergencies
d. Litigation
e. Accuracy of budget estimates
f. Assets and property
g. Bad debts
h. Additional use of capital funds
i. Bank failure/ bail-in
j. Redundancies
k. National increases to pay
l. Increased demand on the Council Tax Support Scheme
m. Delivery of savings

General Fund Balances

55. General Fund Balances represent accumulated revenue surpluses. Within the total, however, are amounts that have been earmarked by the District Executive for specific purposes. The table below shows the current position on the General Fund Balance compared to that previously reported:

Table 12 – General Reserves Balance Estimates

General Fund Balances	**£k**
Balance 1/4/17	-5,078
Allocations from balances 2017/18	1,638
Estimated underspend on revenue budget 2017/18 (Q3 forecast)	-170
Estimated unallocated General Fund Balance at 31 March 2018	**3,610**
Use of balances for 2018/19 budget	0
Estimated unallocated General Fund Balance at 1st April 2018	**3,610**

Capital Strategy

56. The Capital Strategy outlines how SSDC will utilise its capital resources to deliver the Council Plan and key strategies. SSDC held £29.053m in capital receipts at the end of the 2016/17 financial year. However, the authority has a considerable requirement for capital resources through its Commercial Investment Strategy and Transformation Agenda.

57. Each capital bid received requesting funding in 2018/19 was reviewed to assess the source of funding that may be appropriate, such as:

    - The service paying for the asset - through internal loans, building up a replacement fund from revenue budgets, or similar;
    - Use of the New Homes Bonus – can we reduce reliance for the revenue budget, and direct funding towards infrastructure and regeneration investment;
    - Use capital reserves - for schemes that are true community benefit / social value schemes where there is no prospect of self-funding;
    - Investment properties – application of the commercial strategy as already agreed.

58. The Executive has delegated authority to approve the use of up to 5% of capital receipts reserves balance in any one year (approx. £750k). Approvals beyond this sum must be agreed through full Council.

59. SSDC will utilise its own internal cash wherever possible to maximise its treasury management efficiency and minimise costs in the short to medium term. However, the Treasury Management Strategy currently allows borrowing of up to £84 million, reflecting plans for commercial investments.

Capital Programme 2018/19 to 2021/22

60. Members are requested to approve capital bids totalling £1.987m. Full details of the revised Capital Programme are shown in Appendix D; new schemes are shown in bold type, with previously approved schemes in ordinary type. A summary of recommended schemes is included at Appendix E and the scoring of all bids at Appendix F. Attached at Appendix G are the Capital Investment Appraisal forms for all new schemes.

Funding the Capital Programme for 2018/19- 2020/21

61. The table below shows how the 2018/19 Capital Programme will be financed:-

Table 13 – Capital Programme Totals and Funding

	2018/19 £k	**2019/20 £k**
Gross Capital Programme Spend	9,035	2,646
Gross Reserve Scheme Spend	24,544	21,200
Total Capital Programme to be Financed	**33,579**	**23,846**
Financed by:-		
Capital Grants, Contributions & Loan Repayments as detailed on Programme	1,146	341
Grants & Other Contributions in Reserves	1,836	0
Useable Capital Receipts / Borrowing	30,597	23,500
Total Financing	**33,597**	**23,846**

Robustness of the Budget and Adequacy of Reserves

62. Under Section 25 of the Local Government Act 2003 the S151 officer is required to report to Council on the robustness of the estimates made for the purpose of calculations of the budget and the adequacy of the proposed financial reserves.

63. The Draft Budget for 2018/19 has allowed for best estimates of expenditure and income including assumptions for increases and decreases due to trends and future influences such as inflation. It reflects commitments necessary to maintain service levels, and with demand-led budgets this inevitably entails a degree of judgement.

64. There has been a significant degree of scrutiny of the proposed budgets and savings by:
    - The finance team – with several staff holding professional accountancy qualifications
    - Senior Leadership Team and Leadership group
    - Portfolio Holders
    - Scrutiny Committee

65. These examinations of the budgets have led to refinements and provide considerable assurance about the robustness of the estimates.

66. There remain some key risks within the budget and medium term forecasts that will be managed by officers and/or portfolio holders as summarised below:

    a) Transformation Savings: The proposed budget for 2018/19 incorporates cumulative annual savings (compared to the 2016/17 base used for the business case) of £1.788m in 2018/19, rising to the full annual savings target of £2.484m per year by 2019/20. The actual phasing of savings from the implementation of the new operating model on its own is unlikely to reach £1.788m in 2018/19 however the financial plan assumes any shortfall is adequately covered by existing vacancies being held pending the new model being fully implemented. The General Reserves balance incorporates a contingency in respect of transformation. [Transformation Board / SLT]

    b) Transformation Costs and Funding: The updated transformation business case approved in April 2017 identified total potential costs of implementation of £7.448m. At that stage there was a shortfall in funding of £1.1m to be found from future underspends and budget savings. Subsequent decisions and proposals within this report reduce the funding shortfall for the existing budget to £338,200. It is proposed to address this residual balance first using underspends in 2017/18, with any final requirement to be met from reserves. The General Reserves balance incorporates a contingency in respect of transformation. [S151 Officer]

c) Service Income: The financial strategy includes targets for increased service income. Proposed budgets for 2018/19 have been increased to reflect updated fees and charges and estimates of demand for services. Whilst the assumptions result in prudent income forecasts there is a risk of income volatility. The General Reserves balance provides some contingency in case of in year reductions in income. [Director – Commercial Services and Income Generation]

d) Commercial Investment: The budget and medium term financial plan has been updated to reflect property acquisitions completed up to December 2017. Future acquisitions when completed, in line with the agreed Commercial Strategy, will provide additional net income which will be added to budget estimates incrementally upon completion. As with any investment there is a risk of volatility, and the reserves strategy seeks to ensure adequate funds are held to mitigate this risk. [Director – Commercial Services and Income Generation]

e) Treasury Investments: In line with the treasury strategy we are increasing the proportion of cash reserves held in strategic investments that we intend to hold for the long term and increase the total investment income received each year. As with any investment there is a risk of volatility. There is also a prospective change in accounting regulations in 2019/20 which will expose the General Fund to revaluation risk for investments held. It is proposed to set aside a proportion of increased yield into a Treasury Investment Volatility contingency reserve each year to provide resilience for such impacts. [S151 Officer]

f) Borrowing: The capital programme for services and commercial investment will exceed capital reserves in the medium term, and thus require borrowing to support the priorities and ambitions of the council's plans. Currently the capital borrowing requirement is being supported through cash reserves without the need to take out any physical loans. As capital expenditure increases the council will need to raise funds through loans, and budget estimates incorporate the costs of borrowing based on projected PWLB interest rates. Financing will be managed in line with our treasury and capital strategies which follow the Prudential Code and good practice. [S151 Officer]

g) Inflation: Cost estimates within the MTFP include assumptions for increases in pay, utilities, contracts and general prices for goods and service. The three largest elements are: (i) salaries, projected to increase by 2% per year, (ii) pension deficit contributions as set by the actuary with fixed annual contributions, (iii) the waste services contract. Volatility in inflation costs could impact on service costs, and will require careful monitoring to inform future budget setting and in-year monitoring. The MTFP assumes an average 2% inflation increase year on year which is considered a reasonable long term estimates, slightly below short term economic forecasts but in line the Government's long term target. Inflation at 3% rather than 2% would add around £60k to budgeted costs, and a 1% change in staff pay estimates would cost around £125k. [S151 Officer / Budget Holders]

h) Housing Benefit Subsidy: is administered on behalf of Central Government by SSDC and a grant reimburses expenditure incurred. Approximately £43m in benefit is paid out and the grant normally accounts for 100% of this, however adjustments reducing the grant are made for local authority errors. A contingency for unfunded errors is included within earmarked reserves. [S151 Officer]

i) Finance Settlement Funding: The Council agreed a four year settlement for certain Government Grants covering the period up to 2019/20. The current MTFP reflects the four year settlement information however there is no certainty of funding beyond this. Funding can be affected by government policy, with future settlements likely to be affected by the Fair Funding Review from April 2020. [S151 Officer]

j) Business Rates Retention (BRR): BRR Funding is based on the estimates complete in January each year. Estimates reflect anticipated growth, mandatory and discretionary discounts/reliefs and collection rates. Financial provisions are made for potential losses for appeals and other reductions, however experience shows that business rates funding can be volatile despite prudent estimates. There are also timing differences between financial years inherent in the required accounting arrangements. The Council seeks to mitigate the budget risk of reductions in funding by holding funds in a Business Rates Volatility Reserve. [S151 Officer]

k) Business Rates Pooling: As noted above the County and five districts in Somerset have formed a business rates pool from April 2018. This seeks to reduce the levy paid to Government on growth in business rates income above the funding baseline. The pool will distribute gains from levy savings in the form of a 'dividend' at the end of each financial year. At this stage no dividend is included in the 2018/19 Budget and MTFP. As well as potentially increasing the 'reward' for growth with lower levy costs, being in a pool also increases risk with a lower safety net for the Pool. In mitigation the Pool plans to cover individual authority safety net costs from pooling gains before any dividend is issued however there is no guarantee the gains will be sufficient to cover large scale losses. The risk is considered to be low in this respect, but will be carefully monitored. [S151 Officer]

l) Westlands: District Executive approved an updated business plan for Westlands in December 2017. The plan and related budget estimates for 2018/19 onwards are considered prudent however the financial performance will be closely monitored to ensure financial targets are met. [Director – Commercial Services and Income Generation]

m) Brexit: A downturn in the economy for example through Brexit would impact on our key income streams including business rates. A 5% reduction in development control, car parking, and building control alone would result in a loss in excess of £150k per annum. [S151 Officer]

67. The Council holds resources in both revenue and capital reserves.

68. General reserves have reduced in the last two years as the Council has funded significant investment in transformation and provided short term protection for service budgets. For 2018/19 the Council has set a balanced budget, and is provisionally projecting a balanced budget for 2019/20 albeit recognising uncertainty and risk within financial forecasts. The Reserves balance is projected to remain above the recommended minimum.

69. Earmarked reserves have been reviewed, with a proportion reallocated to fund transformation. Capital reserves are sufficient to fund the general capital programme, with acquisition of investment properties likely to be fully funded from borrowing. The approach of using investment yield to cover borrowing provides means the revenue impact of capital acquisitions is affordable.

Section 151 Officer Conclusion:

70. In conclusion the process for the formulation of budgets, together with the level of challenge and sensitivity analysis undertaken provides a reasonable assurance of the robustness of the budget as presented. There remains a need to focus on the outstanding financial requirement of £0.35m to fund the current business case for transformation as well as the need to deliver the key savings of £2.5 million by 2019/20. Good initial progress has been

made in delivering the financial strategy, however further action is required to fully balance the budget over the medium term and provide ongoing financial resilience.

71. The level of reserves and balances have been reviewed in light of the risks outlined in this report and are currently predicted to remain at the required level.

Corporate Priority Implications

72. The budget is aligned to the current Council Plan. There needs to be a clearer focus on priorities as the Council moves forward and radical reduction in dependency on central Government funding as it moves forward.

Carbon Emissions and Climate Change Implications

73. The budget is aligned to the Carbon Reduction Strategy and new capital projects to deliver the strategy will be included in the Capital programme once approved.

Appendices:

Appendix A – Draft Detailed Budgets 2018/19
Appendix B – Savings for 2018/19
Appendix C – Budget Pressures for 2018/19
Appendix D – Revised Capital Programme
Appendix E – Recommended Schemes
Appendix F – Scoring of Capital Bids
Appendix G – Capital Investment Appraisal Forms
Appendix H – Prudential Indicators & MRP

Background Papers:

District Executive Outturn Report July 2017
District Executive Financial Strategy and Initial MTFP - District Executive September 2017
District Executive 2018/19 Draft Budget and Medium Term Financial Plan Update January 2018