2019/20 Revenue and Capital Budgets 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 2019/20. This report is based on the Medium Term Financial Plan (Revenue Budgets for 2019/20 to 2023/24) and also includes proposed additions to the Capital Programme.

Forward Plan

2. This report appeared on the District Executive and Council Forward Plans for February 2019.

Public Interest

3. This report sets out the proposed budget for South Somerset District Council for 2019/20 and the estimated budgets for the following four years. It also asks members to approve capital schemes for funding in 2019/20.

Recommendations

4. That Full Council:

   (a) approves the Net Revenue Budget for 2019/20 of **£16,197,800**, as set out in the Revenue Account Summary (paragraph 46) and in detail in Appendix A for the District Executive and four Area Committees, subject to any final amendments;

   (b) approves the 2019/20 Council tax annual increase of 2.85%, increasing the annual Band D rate by £4.63 to £167.11. Full Council to note this new annual rate comprises £165.26 for SSDC services, raising £9,959,571, and £1.85 on behalf of the Somerset Rivers Authority, raising £111,492.

   (c) approves the reprioritisation of £2.5m from the MTFP support fund to Regeneration as detailed in paragraph 43.

   (d) approves the additions to the Capital Programme for new capital bids of £1.7395m as shown in Appendix D.

Background

5. 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.

6. 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.

7. 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.

8. The District Executive and Scrutiny Committee have received update reports on the draft 2019/20 budget, Financial Strategy and Medium Term Financial Plan. The drafts are subject to final amendments whilst awaiting clarity around Government grants and funding.

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 2018, 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.
    g) Reduce reliance on government grants for the funding of ongoing services.

11. Government funding has been steadily reducing since the end of the last decade and with this trend continuing the Council previously forecast a projected budget shortfall of £5.2m by 2022/23. We have also planned for a risk of further pressure on funding over the medium term and set an annual savings target in 2017 rising to £6m per year by 2022/23, thus mitigating the identified £5.2m and mitigating additional financial risk. The current draft MTFP forecast for 2023/24 shows that income and expenditure in that year are broadly matched therefore at this stage the £6m per year savings target that was set in 2017 remains appropriate, however this will need to be kept under review.

12. Progress in meeting this target within the draft 2019/20 budget and MTFP is shown later in this report.

13. The Financial Strategy agreed in September 2018 also set out the approach to resourcing including government grants, council tax and reserves.

14. Through the preparation of the 2019/20 estimates the Executive is able to propose a balanced budget for 2019/20 whilst maintaining services and making significant contributions to key priorities such as its major regeneration programmes, and build

reserves to mitigate future risks and thus contribute to ongoing financial sustainability. 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 2016. This approved the use of up to £0.5 million in capital receipts received between 2016/17 and 2018/19 to be utilised partially to fund revenue costs of the Transformation project. Progress is reported regularly to Members through capital quarterly monitoring reports. It is pleasing to now report that capital income received in 2018/19 means the Council has met this target and can fully fund the commitment for transformation within the Efficiency Strategy.

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 2019/20 the Government re-confirmed that this flexibility has been extended by a further three years to included receipts between 2016/17 and 2021/22. At this stage there are no proposals to increase the £0.5m target however this will be kept under review and remains an option if required.

The Government Settlement

17. The Provisional Settlement for 2019/20 was received on 13th December 2018 and the implications for the draft budget were reported to the Executive on 10th January 2019. The Final Settlement was received on 29th January 2019. There was only one addition, which was the allocation of £35,000 across two years (£17,500 in 2018/19 and £17,500 in 2019/20) towards preparatory work for Brexit related activities. These changes have been incorporated into the final budget for 2019/20 and MTFP.

Sources of Funding for Budget 2019/20 to 2023/24

Revenue Support Grant

18. SSDC's Efficiency Statement was approved by the DCLG in 2016. The result of this was a negative RSG payment in 19/20 of £327.3K, so effectively SSDC would be paying MCHLG instead of the other way around.

19. Negative RSG affected many other local authorities in 2017/18 and 2018/19. However, following representations from those affected local authorities the government removed negative RSG from the planned settlements in those years. The July 2018 technical consultation proposed also to remove negative RSG from the 2019-20 settlement, by means of a section 31 grant. This was confirmed by the provisional settlement documentation.

New Homes Bonus

20. The New Homes Bonus (NHB) is a non-ringfenced grant that incentivises and rewards housing growth. The Council's budget approach is to use all of its NHB funding towards the cost of day to day services, however it also defers some of this income and holds this in a MTFP Support Fund earmarked reserve to mitigate the impact of grant fluctuations.

21. The grant is calculated by measuring annual housing growth numbers, with each year's growth attracting grant for a 4-year rolling period. Since 2017/18 the Government has applied a growth baseline which acts as a top-slice, with no NHB awarded on the first 0.4% of growth. Following the Government's consultation in 2018 we had anticipated

this baseline would increase to 0.5%, however the Final Settlement has confirmed this is held at 0.4% for 2019/20.

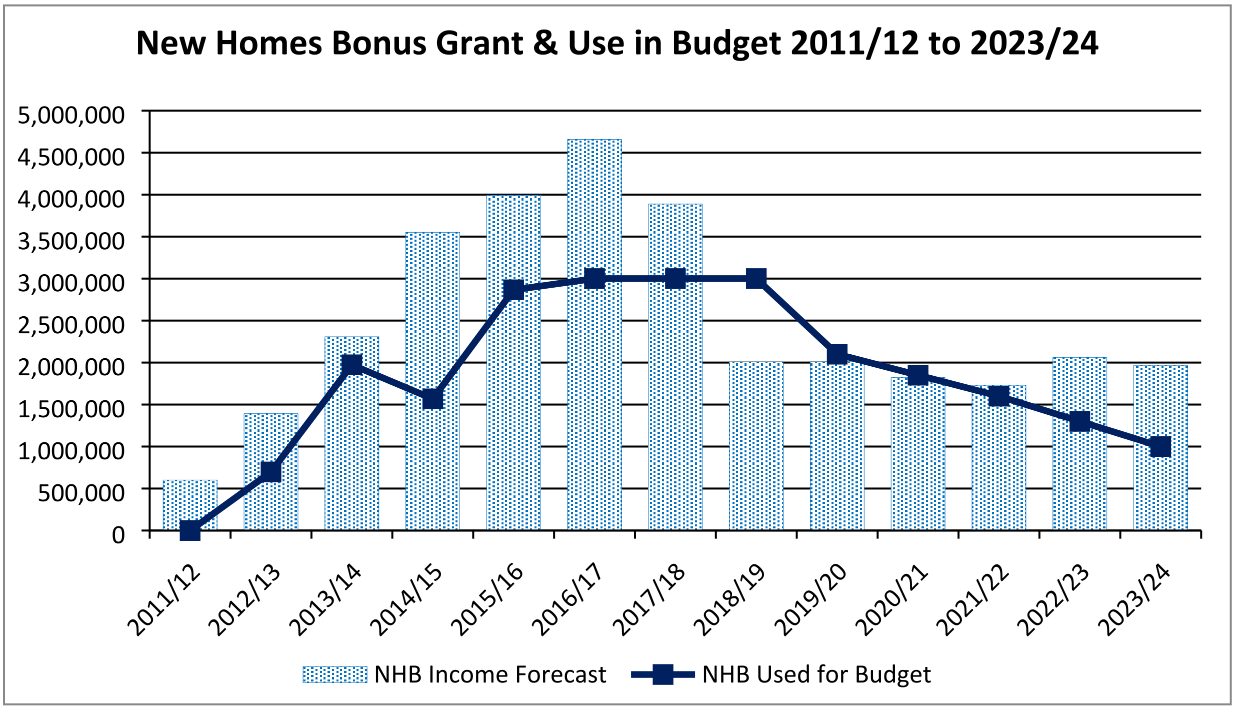
22. The grant amount for 2019/20 has been confirmed as £2.008m. This is virtually the same as the grant received in 2018/19.

23. The draft budget proposes a reduction in the planned use of NHB grant for the core budget, compared to last year's MTFP. Over the medium term this requirement is reduced to £1m per year, which goes some way to meeting the updated financial strategy (see 11g above). This also enables the Council to consider reallocating part of the MTFP Support Fund earmarked reserve as set out later in this report.

24. Government has indicted that it intends to consult during 2019 on possible changes to the NHB arrangements, introducing further risk to our estimates in this area and adding weight to the approach of reducing our reliance on this grant for recurring costs.

Table & graph 1 – Summarises the allocations of NHB and the MTFP forecast from 2016/17 up to 2023/24.

Year	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
2011/12	601.1							
2012/13	790.3							
2013/14	915.9	915.9						
2014/15	1,243.7	1,243.7						
2015/16	440.1	440.1	440.1					
2016/17	667.1	667.1	667.1	667.1				
2017/18		621.1	621.1	621.1	621.1			
2018/19			278.9	278.9	278.9	278.9		
2019/20				441.1	441.1	441.1	441.1	
2020/21					479.3	479.3	479.3	479.3
2021/22						530.7	530.7	530.7
2022/23							607.6	607.6
2023/24								350.0
	4,658.2	**3,887.9**	**2,007.2**	**2,008.2**	**1,820.4**	**1,729.9**	**2,058.7**	**1,967.6**



Council Tax Rate

25. 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 2019/20 without the need for a referendum.

26. The 2018/19 annual basic tax rate towards the cost of South Somerset District Council services, for the average Band D property, was £160.63, and the Council also included £1.85 in respect of the Somerset Rivers Authority (SRA), making the total Band D charge of £162.48.

27. The District Executive is minded to recommend to Full Council the option to increase Council tax by 2.85% in 2019/20 which less that the 2.99% or £5 limit on a Band D property, and this is reflected in the draft budget figures for 2019/20. For the average Band D property this will set the annual tax rate at £167.11 – or £3.21p per week – for SSDC services.

28. 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. This agreement will continue in 2019/20 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 (rounded) of funding from this Council in 2019/20, which is passed on to the SRA to contribute to the 20-Year Flood Action Plan.

Council Tax Income

29. The tax base for 2019/20 is 60,266.07 Band D Equivalents, an increase of 277.79 (0.5%) compared to 2018/19. The draft budget estimate for Council Tax income for SSDC is therefore 60,266.07 x £165.26 = £9,959,571. This represents an increase of £323,653 compared to the previous year. The estimate is calculated as follows:

Table 2 – Calculation of Estimated Council Tax

	£
Council Tax Income Budget 2018/19	9,635,918
Increased due to change in Tax Base (Band D equivalents)	44,621
Increased due to proposed 2.85% increase in Tax Base	279,032
Estimated Council Tax Income 2019/20	9,959,571

30. 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 Authority and any town/parish council. The actual total of Council Tax for South Somerset residents will be calculated once all precepting authorities have notified SSDC of their proposals. Pending this, a provisional estimate is set out in the Council Tax Setting Report that is included on the agenda for this Full Council meeting.

Estimates for Future Years Band D Council Tax

31. The current estimate within the Medium Term Financial Plan is that Council Tax levels will remain in line with expected Government increases of 2.99% for 2020/21 and 2021/22 onwards. For financial planning purposes, finance officers expect the Government to assume local authorities will maximise their council tax opportunities when assessing future finance settlements.

Business Rates Retention (Non-Domestic Rates)

32. Local authorities receive a significant proportion of their funding through the Business Rates Retention (BRR) system. The Council must set its business rates budget estimate by 31 January each year, and the Council has delegated responsibility for this to the S151 Officer because of the considerable time constraints in place. The Draft Budget includes the BRR estimate approved by the S151 Officer in January prior to competing this report. SSDC will continue to operate within the Somerset Business Rates Pool in 2019/20. In addition, the Pool has applied successfully to be a Pilot area for 75% BRR (one of 16 pilots nationally in 2019/20). Being a Pilot area is expected to bring significant financial benefits in 2019/20 for Somerset as a whole with the County and each District council taking a share.

33. The overall BRR position has improved not only through the Pilot scheme, but also through closer alignment in key assumptions between the Pool authorities regarding appeals and refunds. It is evident that the new “Check, Challenge, Appeal” arrangements introduced by the Valuation Office in 2017 have significantly reduced appeal volumes. We are therefore able to reduce our provision for appeals, which in turns means a greater proportion of business rates collected can be distributed to the councils. This is considered an acceptable risk, particularly in view of the level of funds set aside in the Business Rates Volatility Reserve and General Reserves.

34. One of the implications of being in a Pilot is that Revenue Support Grant (£0 in 2019/20) and Rural Services Delivery Grant (£166,284 in 2019/20) are “rolled in” to the BRR system for the year with related adjustment to our Tariff. In addition, the standard shares of business rates have been updated to reflect the distribution agreed by the Somerset councils within the Pilot application to Government.

Table 3 – BRR Standard Shares

	2018/19 50% system	2019/20 75% system
Districts	40%	44%
County	9%	30%
Fire Authority	1%	1%
Government	50%	25%

35. The proposed BRR budget for 2019/20 is summarised below. This shows a large increase in standard share, tariff, S31 Grant and net retained funding under the pilot scheme. An indicative estimate is also included for the pooling gain – this was not included in the 2018/19 budget as it was the first year of pooling:

Table 4 – BRR Funding Estimate for 2018/19 and 2019/20

	2018/19 £k	2019/20 £k
Standard share of rating income (40% / 44%)	-16,640	-19,009
100% of business rates growth in renewable energy schemes	-274	-473
S31 grant compensation for Government-funded reliefs	-1,888	-2,651
Tariff payment (adjusted in 2019/20 for RSDG rolled in and increase in Standard Share to 44%)	13,336	15,200
Levy cost	985	1,273
Safety net income	0	0
Net Retained Business Rates Funding	-4,481	-5,660
Estimated Pooling Gain	Not budgeted	-900
Total BRR Funding Estimate	-4,481	-6,560

36. The Pilot is due to operate for one year only, therefore the estimates of BRR funding for 2020/21 onwards are currently projected under the 50% BRR system pending the anticipated reform of the business rates funding system from April 2020. The Executive proposes to set aside a large proportion (£1.425m) of the pool and pilot gain in 2019/20 towards priority town centre regenerations schemes (covered later in this report).

Regeneration Funding

37. The Council has approved gross and net budgets for the priority regeneration programmes in Yeovil and Chard. The net budget requirement for these programmes is £5.5m however this is not 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 MTFP Support Fund Reserve and business rates pooling / pilot gains.

Table 5 – Regeneration Funding Plan

	£000
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
Sub-total	1,575
Proposed allocation from Revenue Support Fund	2,500
Proposed first call on future unallocated business rates pooling gains (will need contingency plan if insufficient income received)	1,425
Total Funding for Net Budget Requirement	**5,500**

38. The business rates funding proposal is set out above in this report.

39. The MTFP Support Fund includes funds set aside from New Homes Bonus Grant income. The tables below show the current forecast for NHB and the MTFP Support Fund. Future projections are uncertain therefore it would be prudent to assume the reserve balance could be between the range £4.5m and £6m in 2023/24. This balance would be reduced by £2.5m if Council approves the proposal to reprioritise this sum for Regeneration.

Table 6 – NHB and the MTFP Support Fund

Table 6a	**2019/20 £'000**	**2020/21 £'000**	**2021/22 £'000**	**2022/23 £'000**	**2023/24 £'000**
NHB Forecast	2,008	1,820	1,730	2,059	1,968
NHB Requirement for MTFP	2,100	1,850	1,600	1,300	1,000

Table 6b	**2019/20 £'000**	**2020/21 £'000**	**2021/22 £'000**	**2022/23 £'000**	**2023/24 £'000**
MTFP Support Fund Balance Forecast	4,691	4,661	4,791	5,550	6,518

40. The strategy for funding the difference between Gross and Net Budget requirement would then include:
    - Revolving Fund - Receipts generated from ring-fenced assets
    - Other existing and new capital receipts
    - Grants and contributions e.g. Future High Streets Fund
    - Borrowing to invest
    - Direct developer investment

The Medium Term Financial Plan

41. The Medium Term Financial Plan (MTFP) summarises our estimates of costs and funding, and the impact of the Council's plans for the medium to long-term. The MTFP for South Somerset summarised in this report covers a five-year period. The Plan links the resources required to deliver the Council Plan and the Council's strategies.

42. The table below summarises the Draft Budget for 2019/20 and MTFP projections for subsequent years:

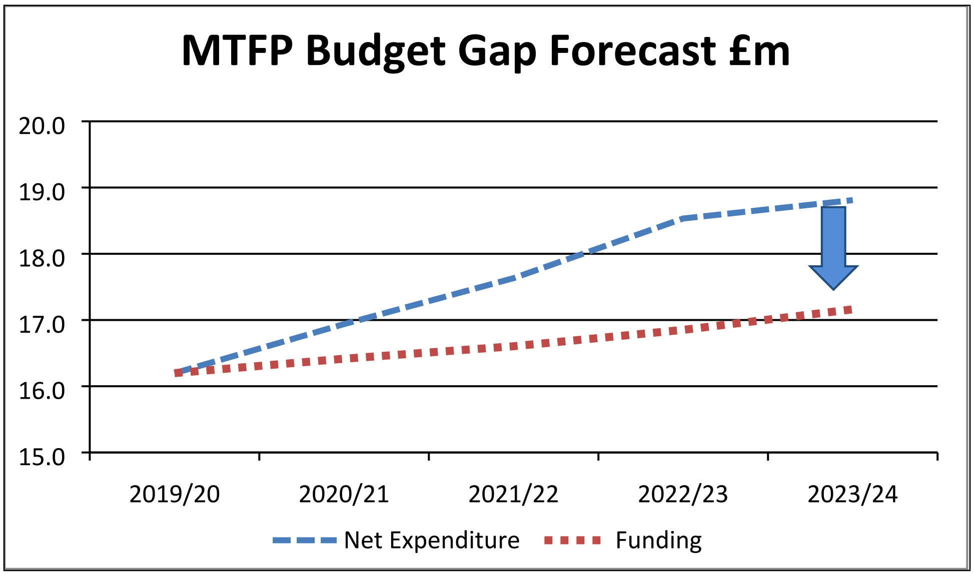
Table 7 – Draft Budget

	2019/20 £'000	**2020/21 £'000**	**2021/22 £'000**	**2022/23 £'000**	**2023/24 £'000**
Base Budget B/F	16,483.5	16,197.8	16,938.5	17,632.3	18,532.5
Incremental Changes:					
Employment Cost Inflation	501.6	410.5	448.2	420.5	378.1
Inflation allowance on contracts	168.1	168.6	173.6	178.6	179.6
Unavoidable budget pressures	477.1	250.0	200.0	200.0	200.0
Planned savings	-1,016.8	-141.0	-90.1	-12.8	-148.6
Investment income	-728.5	63.2	100.8	100.8	-391.9
Revenue effects of capital programme	143.1	113.4	-23.1	13.1	60.1
Other	169.8	-124.0	-115.6	0.0	0.0
Total Budget Requirement	**16,197.8**	**16,938.5**	**17,632.3**	**18,532.5**	**18,809.9**

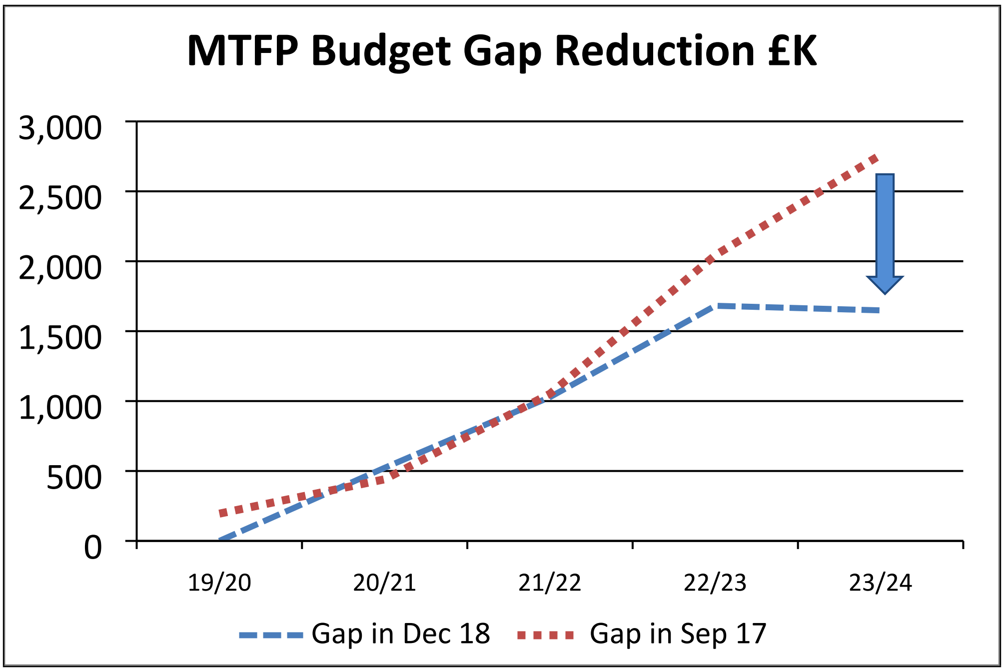
	2019/20 £'000	**2020/21 £'000**	**2021/22 £'000**	**2022/23 £'000**	**2023/24 £'000**
Total Budget Requirement (per Table 7a)	16,197.8	16,938.5	17,632.3	18,532.5	18,809.9
Funded By:					
Revenue Support Grant	0.0	327.3	327.3	327.3	327.3
Rural Services Delivery Grant	0.0	-166.3	-166.3	-166.3	-166.3
New Homes Bonus Grant	-2,008.2	-1,820.4	-1,729.9	-2,058.7	-1,967.6
Business Rates Retention	-6,560.0	-4,285.2	-4,374.6	-4,464.0	-4,553.5
Collection Fund Surplus - Business Rates	-593.7	0	0	0	0
Council Tax - SSDC	-9,959.6	-10,432.5	-10,897.3	-11,355.0	-11,875.8
Council Tax - SRA	-111.5	-113.4	-114.9	-116.3	-118.0
Less: Council Tax Paid to SRA	111.5	113.4	114.9	116.3	118.0
Collection Fund Deficit - Council Tax	35.6	0	0	0	0
Sub-total: Funding	**-19,085.8**	**-16,377.1**	**-16,840.9**	**-17,716.8**	**-18,235.8**
Other Reserve Transfers					
MTFP Support Fund Reserve	-2,591.8	-29.6	129.9	758.7	967.6
BRR Volatility Reserve	559.6	0	0	0	0
Other Earmarked Reserves	4,920.3	45.3	107.0	107.0	107.0
Sub-total: Reserves	**2,888.0**	**15.7**	**236.9**	**865.7**	**1,074.6**
Total Funding	**-16,197.8**	**-16,361.4**	**-16,604.0**	**-16,851.1**	**-17,161.2**
Budget Gap / (-)Surplus	**0.0**	**577.0**	**1,028.4**	**1,681.4**	**1,648.6**
Budget Gap Increase on Prior Year		**577.0**	**451.4**	**653.1**	**-32.8**

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

43. A summary of the budget gap is shown in the graph below:



44. The graph below shows the reduction in the funding gap projected in the current MTFP to that identified in the Financial Strategy & MTFP report presented to Members in September 18.



Assumptions Made

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

Table 8 – Assumptions made within the budget

	2019/20	2020/21	2021/22	Notes
Inflation	contractual obligations	contractual obligations	contractual obligations	Assumes average inflation 2%

	2019/20	2020/21	2021/22	Notes
Pay	2%	2%	2%	Assumes average annual pay award 2%; increments impact neutral.
Council Tax	2.85% per Band D	2.99% per Band D	2.99% per Band D	Assumes an additional 2.85% is added for the first year, and then increases to 2.99% the year after
Business Rates	75% BRR system	50% BRR system	50% BRR system	75% pilot one year only, therefore funding for 2020/21 onwards are currently projected under the 50% BRR system pending anticipated reform of the business rates funding system from April 2020.
Pensions	16.1% plus £1.66m lump sum	16.1% plus £1.69m lump sum	16.1% plus £1.76m lump sum	Assume employers contributions increases as per actuarial valuation
Investment Income	Base 0.75%	Base 0.75%	Base 0.75%	Assume no change to interest rates; increase in treasury investment yield through more strategic investments held for long term
Revenue Support Grant	£0	-£327K	£-327K	Provisional settlement confirmed negative RSG will be offset in 19/20 but no confirmation on future years' position.
New Homes Bonus	-£2.0m grant	-£1.8m grant	-£1.7m grant	Based on provisional figures for 19/20 and projected local housing development

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

Revenue Budget 2019/20

46. 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.

Savings

47. 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.

48. In April 2017 Members agreed the revised business case for Transformation which outlined the savings to be found over the life of the programme, totalling £7.448m. 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.

49. 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 £75k has been included in the 2019/20 draft budget.

Unavoidable Budget Pressures and Spending Priorities

50. Unavoidable budget pressures are detailed in Appendix C. The pressures identified for 2019/20 total £477.1K, which is more than the initial provision of £250k allowed within the early draft of the MTFP. The main difference being the proposal to reduce the income budget for services that have showed an underachievement of the target income for the current year as well as in previous years.

51. The 2019/20 budget also includes the following once off allocations:

Table 9 – Other Budget Movements

	2019/20 £'000	**2020/21 £'000**
Economic Development Strategy Delivery Plan	146	54
Funding for Advice Bureau one-off 19/20	32	
Other additional income	-8.1	
Total	**169.9**	**54**

Earmarked Reserves

52. 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.

53. The total earmarked reserves balance as at December 2018 was £44.1m. This includes £27.7m of capital receipts together with an array of revenue reserves totalling £16.4m as detailed below.

Table 10 – Earmarked Reserves

Reserves	**Balance as at 31/12/2018 £'000**	**Anticipated Movement £000**	**Expected Balance as at 31/3/19 £'000**
Usable Capital Receipts	-25,258	7,886	-17,372
Internal Borrowing Reserve	-606		-606
Internal Borrowing Repayments	-118		-118
Capital Reserve	-1,337		-1,337
Cremator Replacement Capital Reserve	- 549		- 549
Election Reserve	-190		-190
Wincanton Sports Centre Reserve	- 21		- 21
Local Plan Enquiry Reserve	-71		-71
Yeovil Athletic Track Repairs Fund	-169		-169
Planning Delivery Reserve	- 16		- 16
Bristol to Weymouth Rail Reserve	- 26		- 26
Local Authority Business Growth Initiative Reserve	-14		-14
Yeovil Refresh	-112		-112
IT Replacement Reserve	-10		-10
Insurance Fund	- 50		- 50
Transformation Reserve	-2,265	2,265	-0
Treasury Management Reserve	-150		-150

Reserves	Balance as at 31/12/2018 £’000	Anticipated Movement £000	Expected Balance as at 31/3/19 £’000
Local Plan Implementation Fund	-125		-125
Revenue Grants Reserve	- 691		- 691
MTFP Support Fund	- 6,012	992	- 5,020
Council Tax/Housing Benefits Reserve	-782		-782
Closed Churchyards Reserve	- 12		- 12
Health Inequalities	-31		-31
Deposit Guarantee Claims Reserve	- 5		- 5
Park Homes Replacement Reserve	- 165		- 165
Planning Obligations Admin Reserve	- 35	15	- 20
Artificial Grass Pitch Reserve	-123		-123
Business Support Scheme	- 122		- 122
Infrastructure Reserve	-654		-654
NNDR Volatility Reserve	- 3,955		- 3,955
Ticket Levy Reserve	- 96		- 96
Waste Reserve	- 215		- 215
Community Housing Fund	-211		-211
Total Usable Reserves	**- 44,196**	**11,128**	**- 33,068**

(Negative Figures = income, Positive figures = costs)

54. The budget includes the following planned transfers to/from the MTFP support fund and also the earmarked reserves:

Table 11 - MTFP Support Fund

	£
Planned transfer to/from Reserve ref NHB Budget Strategy	-91,809
Reallocate funds to Regeneration Reserve	-2,500,000
Total movement from MTFP Support Fund	**-2,591,809**

Table 12 - Other Earmarked Funds

	£
Transfer to Treasury Management Reserve	150,000
Transfer to Investment Property Risk Reserve	357,000
Allocation to Regeneration Fund	500,000
General contingency reserve	150,000
Allocation to Regeneration Fund – from MTFP Reserve	2,500,000
Allocation to Regeneration Fund – funded by BRR Pooling Gain and Pilot Gain	1,425,000
Transfer from Infrastructure Reserve to fund Regeneration Programme Manager	-61,700
From Revenue Grants Reserve to fund homelessness hostel provision	-100,000
Total movement of Earmarked Reserves	**4,920,300**

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 13 – General Fund Balances

	£'000
Balance at 1 April 2018	-4,361
Area & Economic Development Balances	121
2018/19 Carry Forwards	119
Cocklemoor Bridge	5
Commitments (including A303)	173
Current Estimated overspend in 2018/19	273
Unallocated General Fund Balance at 31st December 2018	**-3,670**

Business Rates Surplus/Deficit and Volatility Reserve

56. Experience shows that BRR Funding can be volatile from one year to the next, and it is prudent to hold adequate funds in the Volatility Reserve to mitigate this risk and avoid a large unplanned reduction in funding for services. In addition, there are accounting timing differences for different parts of the BRR system, which we 'smooth out' through this reserve.

57. The 2019/20 Draft Budget includes an estimated Collection Fund surplus of £593k from 2018/19. It is proposed to set this aside in the Volatility Reserve in 2019/20 to mitigate future income fluctuations and smooth out 2018/19 accounting timing differences which will be reported at the end of 2018/19 financial year. The proposed budget also utilises £200k of business rates surplus funding across 2019/20 and 2020/21 to fund planned spend on Economic Development Strategy initiatives.

58. The current balance on the Volatility Reserve is c£3m, and our financial strategy currently seeks to maintain this balance at or above £2.5m each year. The 2019/20 budget proposals are forecast to enable this strategy to be maintained.

Capital Strategy

59. The Capital Strategy outlines how SSDC will utilise its capital resources to deliver the Council Plan and key strategies. SSDC held £23.339m in capital receipts at the end of the 2017/18 financial year. However, the authority has a considerable requirement for capital resources through its Commercial Investment Strategy.

60. Each capital bid received requesting funding in 2019/20 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.

61. The Executive has delegated authority to approve the use of up to 5% of capital receipts in any one year (approx. £900k). Approvals beyond this sum must be agreed through full Council.

62. 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 £124 million, reflecting plans for commercial investments.

Capital Programme 2019/20 to 2022/23

63. Members are requested to approve capital bids totalling £1.739m. Full details of the revised Capital Programme are shown in Appendix D; new schemes are shown in bold and italics type, with previously approved schemes in ordinary type. A summary of recommended schemes is included at Appendix E. Attached at Appendix F are the Capital Investment Appraisal forms for all new schemes.

Funding the Capital Programme for 2019/20 - 2020/21

64. The table below shows how the 2019/20 Capital Programme will be financed: -

Table 14 – Financing of Capital Programme

	2019/20 £'000	**2020/21 £'000**
Gross Capital Programme Spend	14,470	219
Gross Reserve Scheme Spend	19,304	21,200
Total Capital Programme to be Financed	**33,774**	**24,919**
Financed by:-		
Capital Grants, Contributions & Loan Repayments as detailed on Programme	4,050	2,817
Grants & Other Contributions in Reserves	3,151	41
Useable Capital Receipts / Borrowing	26,573	22,061
Total Financing	**33,774**	**24,919**

Robustness of the Budget and Adequacy of Reserves

65. 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.

66. The Draft Budget for 2019/20 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.

67. 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

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

69. 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 2019/20 incorporates the full financial savings of £2.484m per year. It will be important for the Leadership team to closely monitor and control costs during 2019/20 to ensure these financial benefits continue to be fully delivered in line with expectations. The General Reserves balance incorporates a contingency in respect of transformation, providing some resilience to one-off pressures in this respect if essential and unavoidable costs emerge. [Transformation Board / SLT]

b) Transformation Costs and Funding: The implementation of the transformation programme is progressing well, and it is anticipated that the programme will be delivered within budget of £7.448m. The programme is fully funded with the only funding risk related to capital receipts income to meet the planned capital receipts flexibility. This risk is considered to be low. The General Reserves balance incorporates a contingency in respect of transformation, providing some resilience. [S151 Officer]

c) Service Income: The financial strategy includes targets for increased service income. Proposed budgets for 2019/20 have been increased to reflect updated fees and charges – in line with the financial strategy target assumptions – 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 mid-January 2019. 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 that will expose the General Fund to revaluation risk in the medium term for investments held, after a period of statutory override to 2021/22. 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 £85k 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 £33m 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 in respect of certain Government Grants covering the period up to 2019/20. The current MTFP reflects this as updated for the Provisional Settlement However, there is significant uncertainty regarding the funding position for 2020/21 onwards, with the funding system due to be updated following the Spending Review, Fair Funding Review and Business Rates Retention reform – all due to be implemented 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 and 75% BRR Pilot: The County and four Districts in Somerset form the Somerset Business Rates Pool, which will be a pilot area (for one year only) for 75% Retention in 2019/20. Pooling 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. Being in a pool increases risk with a lower safety net, although the safety is more beneficial under the 75% scheme (95% of baseline as opposed to 92.5%) 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. The proposed budget for 2019/20 includes a reasonable estimate of the pooling and pilot gain, with the funding to be set aside in the Regeneration Fund. The nature of the Regeneration Programmes is such that schemes will take some time to plan and deliver, reducing the risk of needing the funding before it is received. [S151 Officer]

l) 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 £160k per annum. [S151 Officer]

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

71. General reserves remain comfortably above the required minimum balance, and the proposed budget for 2019/20 does not rely on general reserves to cover service costs. The Reserves balance is projected to remain above the recommended minimum, provided the financial strategy income targets are met on a timely basis.

72. Existing earmarked reserves have not been reviewed in detail this year, with resources prioritised towards implementing changes required under transformation. However, the draft budget includes proposed transfers to treasury and commercial risk management reserves to build financial resilience in these areas. We are also growing fund balances to pay for planned investment in Regeneration Programmes. 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.

S151 Officer Conclusion:

73. 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. The Council has made good progress in meeting the savings targets within the Financial Strategy, and I am confident the transformation savings will be delivered in full in 2019/20. We have restructured the Budget cost centres to reflect the new operating model, and I am confident these provide reasonable estimates of costs and income. To further strengthen this confidence, a detailed 'zero-based' budgeting review will be undertaken during 2019/20, and it is anticipated this will identify the further non-staff savings from our transformed ways of working. The Council is able to set a balanced budget for 2019/20 included prudently boosting reserves for specific financial risks.

74. Despite the excellent progress towards meeting the savings requirement, the medium term outlook remains a concern with a Budget Gap rising from £0.5m in 2020/21 to an estimated £1.6m by 2023/24. The Financial Strategy seeks to more than offset this residual Gap deliver through income generation and the base budget review, and it is essential that the Leadership Team and Councillors continue to drive forward this approach in order to secure long-term financial sustainability and avoid the need for other measures such as service cuts. It has been well publicised that CIPFA and the Government are closely monitoring the growth in commercial investment activity by local authorities, and will be releasing further guidance on this matter in the near future. If new controls are introduced that altogether prohibit commercial investment activity – which I believe is unlikely – this would have a significant adverse effect on the financial strategy.

75. 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.

76. 2019 is an important year in respect of local authority funding, and the impact of the Spending Review, Fair Funding Review and Business Rates funding reform will be carefully assessed. Of course, Brexit also brings significant uncertainty at the time of writing this report. It will be necessary to review the Financial Strategy in light of the outcomes of these important changes.

Corporate Priority Implications

77. 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

78. 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 for 2019/20
Appendix B – Savings for 2019/20
Appendix C – Budget Pressures for 2019/20
Appendix D – Revised Capital Programme for 19/20 onwards
Appendix E – Recommended Schemes
Appendix F – Capital Investment Appraisal Forms

Background Papers:

DX Outturn Report July 2018
DX Financial Strategy and Initial MTFP September 2018
DX 2019/20 Draft Budget and Medium Term Financial Plan Update January 2019
DX 2019/20 Draft Budget and Medium Term Financial Plan February 2019