Report Number: SWT 70/19

Somerset West and Taunton

Executive Committee – 18 September 2019

Financial Strategy 2020/21 to 2022/23

This matter is the responsibility of Executive Councillor Henley

Report Author: Paul Fitzgerald, Strategic Finance Advisor and S151 Officer

1 Executive Summary

1.1 Following the creation of Somerset West and Taunton Council (SWT) in April 2019, this reports seeks Executive support to set the first formal Financial Strategy for the new Council.

1.2 The Strategy outlines the Council's proposed approach to managing its financial position over the medium term (three to five years). It also provides an up to date set of estimates and assumptions regarding service costs and income, the funding available and the planned approach to 'balancing the books' over the same period. It is a legal requirement that the Council sets a balanced budget, and it is in the public interest that priority local services are both affordable and sustainable with the Council remaining financially resilient.

1.3 The Council (and its predecessors) have delivered significant savings in recent years, responding to financial challenges in the sector locally and nationally. There is currently a high degree of uncertainty regarding future funding and our prudent approach to financial planning reflects this. There are continued financial pressures in future, as well as ambitious plans for delivering improved local services, therefore challenging savings targets are included in the Strategy. Having significantly reduced costs in the past, the focus moving forward is weighted towards income generation – providing essential additional resources to meet the ambitions for the Council and district.

2 Recommendations

2.1 The Executive approves the Financial Strategy for 2020/21 to 2022/23.

3 Risk Assessment

3.1 The Financial Strategy takes into account a wide range of financial risks, and these are explained within the detail of this report.

4 Background

4.1 The Shadow Executive for Somerset West and Taunton set the previous Financial Strategy in September 2018. This reflected the consolidated position resulting from the previous approaches agreed by the two predecessor Councils (Taunton Deane and West Somerset), and was largely influenced by the savings being delivered through the joint transformation programme and the creation of the single, new council. This was followed with the Shadow Council approving the new Council's 2019/20 Budget in February 2019.

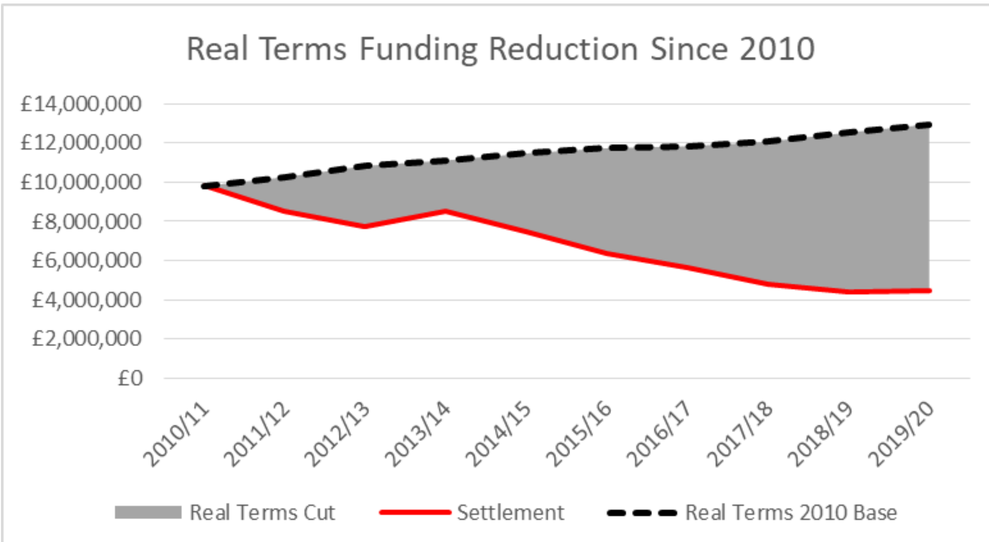
4.2 Following the creation of the new Council, and the elections in May 2019, the new administration and leadership team are developing a new Corporate Strategy and Plans which will set the ambitions and directions for the medium term. The Financial Strategy will evolve alongside these and reflect the plans in more detail as the financial planning process progresses. However, it is appropriate to set the direction at this stage in terms of understanding the current financial estimates, allowing for future ambitions, and ensuring the Council has a clear strategy in place to remain financially resilient for the foreseeable future in the face of ongoing funding uncertainty.

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

- National context – Brexit uncertainty and potential for instability in the national economy
- Financial stress in the local government sector – with particular emphasis on the NHS, social care, public health and homelessness
- Funding – the Government announced a one-year Spending Round on 4 September, with the full Spending Review deferred until 2020. We can expect only a 1-year Finance Settlement for 2020/21.
- Funding – the Fair Funding Review and Business Rates Retention reform have been deferred with implementation now anticipated in 2021/22.
- Funding – Business Rates Baseline Reset has also been deferred until 2021/22. However this is expected to be a "Full Reset" with funding expected to reduce to the Baseline.
- Funding – New Homes Bonus is being reviewed by ministers, and it is anticipated any changes will significantly reduce funding. However the Government have indicated the total funding nationally for NHB will continue 2020/21.
- Cost inflation – some items of cost are running ahead of overall inflation including wage growth and there are demands from the unions for significant increases in pay and other entitlements.

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

4.5 General grant funding for local government, more so for shire districts, has been significantly reduced through this decade. This has seen a major reduction in funding, forcing councils to consider a range of measures to balance budgets. The following graph shows reduction in general grant funding since 2010 for SWT and its predecessors, which emphasises the scale of the challenge. The grant funding received through the Finance Settlement in 2010/11 was £9.8m. In 2019/20, this had reduced to £4.4m – a cash reduction of £5.4m (-54%) (further information is shown later in this report, with significant majority of residual funding received through business rates). When factoring in the impact of inflation the **'real terms' reduction equates to £8.5m (-66%) per year since 2010**. In response, the Council(s) has significantly reduced costs to ensure ongoing services are affordable and the Council is financially resilient.



4.6 This graph reflects changes to general funding income alone. The impact of this funding reduction is in addition to the added financial pressure arising from costs of annual inflation and demand growth.

5 New Financial Strategy 2020/21 to 2022/23

5.1 Building on the success of the previous strategies, it is proposed that the Council sets a new Financial Strategy for the next three years including new financial targets. The Strategy needs to reflect future priorities, opportunities and risks, focussing on delivering services efficiently, stabilising services as transformation changes bed in, improving services to our community. An important area of focus in the new strategy will be to increase essential resources through income generation to ensure priority services remain affordable and avoiding cuts, and providing resources needed to meet the ambitions for local services both in the shorter and longer term. It is also vital the Council remains financially stable and resilient for the long term.

5.2 The proposed Financial Strategy is therefore summarised as:

Develop and implement a Commercial Investment Strategy including **investing in property and other commercial assets to generate income**, that can be reinvested to maintain and improve services to our community and to support priority areas for capital and revenue investment	**Maximising operational efficiency and value for money** through optimising benefits of the new operating model, including digitalisation of services, channel shift and self-service, reduced failure demand, and exploring how new technologies can further improve efficiency
Progress **commercialisation of services** to drive financial performance and deliver increased income to fund relevant priority services	**Developing approaches to manage demand on services and costs** in partnership with other councils and organisations
Ensuring **clear service priorities** that demonstrably align with corporate strategy and plans	Optimising **income generation through full cost recovery charging for relevant services**
Supporting and enabling economic and housing growth and regeneration improving the place and generating income to fund investment in local infrastructure and community facilities	**Managing assets effectively**, ensuring assets clearly align with priorities and service needs, **and generate capital receipts through disposing of surplus assets**
Reduce reliance on government grants such as New Homes Bonus for the funding of ongoing services	Increasing the **income yield from treasury investments** as part of a prudent treasury management approach
Progress opportunities to **reprioritise and grow resources to enable Climate Change and other Environmental priorities to be delivered**	**Focus on long term financial resilience** through maintaining strong financial control, robust financial planning and maintaining prudent reserves to manage risk and meet future commitments

6 Medium Term Financial Plan Estimates

6.1 The (Shadow) Council approved the current Budget and Medium Term Financial Plan in February 2019. This reflects the consolidated budgets of the two predecessor councils, financial planning assumptions and savings delivered to set the balanced budget for the year.

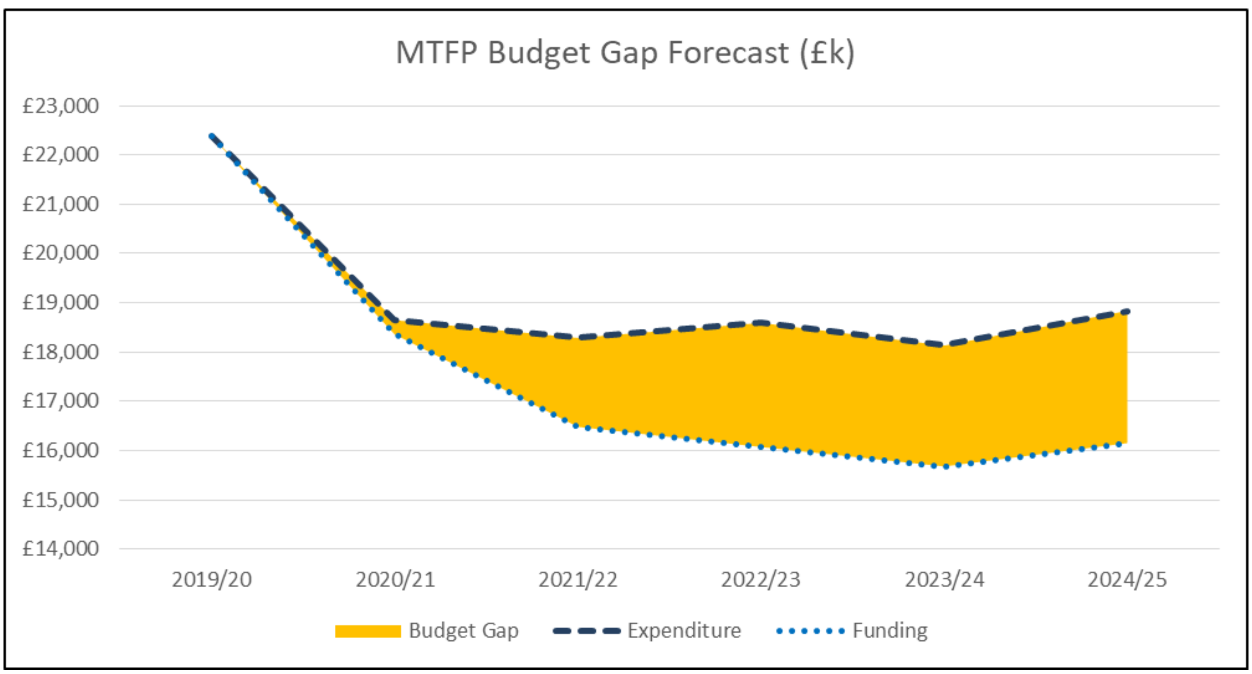
6.2 In recent weeks, key estimates have been reviewed where appropriate, reflecting as much as possible what is “known”, and providing “best estimates” on areas of uncertainty, with a significant reduction in funding now expected from 2021/22 onwards.

6.3 The following chart and table sets out a summary of the council’s latest forecasts of Net Expenditure and Funding, and shows a provisional budget gap rising to £2.5m by

2022/23 (13% of Net Expenditure). As noted above, there is a high degree of uncertainty regarding funding estimates therefore these figures will be reviewed and updates reported to Members as further information becomes available.

Table 1 – General Fund Medium Term Financial Plan Initial Estimates

	2019/20 £k	2020/21 £k	2021/22 £k	2022/23 £k	2023/24 £k	2024/25 £k
Services Costs	14,752,279	14,656,828	15,381,146	16,161,436	16,751,866	17,443,659
Net Financing Costs	356,540	485,900	470,260	633,370	416,480	409,590
SRA Funding	99,090	100,675	102,286	103,923	105,586	107,275
Unparished Area Expenses	46,399	0	0	0	0	0
Earmarked Reserves	7,123,781	3,405,247	2,334,957	1,693,701	859,329	876,617
General Reserves	0	0	0	0	0	0
Net Expenditure	**22,378,089**	**18,648,650**	**18,288,649**	**18,592,430**	**18,133,261**	**18,837,141**
Business Rates Retention (BRR)	-7,787,783	-4,928,427	-4,004,880	-4,083,253	-4,161,626	-4,239,999
BRR prior year surplus/deficit	-1,331,905	0	0	0	0	0
Revenue Support Grant	-6,340	0	0	0	0	0
Rural Services Delivery Grant	-241,506	-241,506	-241,506	-241,506	-241,506	-241,506
New Homes Bonus	-3,809,150	-3,823,053	-2,534,763	-1,693,507	-859,135	-876,423
Council Tax (CT)	-9,038,695	-9,365,685	-9,704,334	-10,055,574	-10,419,196	-10,796,170
CT Special Expenses	-46,399	0	0	0	0	0
CT prior year surplus/deficit	-116,311	0	0	0	0	0
Net Funding	**-22,378,089**	**-18,358,671**	**-16,485,483**	**-16,073,840**	**-15,681,463**	**-16,154,098**
Budget Gap	0	289,979	1,803,166	2,518,590	2,451,798	2,683,043
Gap – Change on Previous Year	0	289,979	1,513,187	715,424	-66,792	231,245



6.4 The projections above reflect current estimates and prudent financial planning proposals incorporated within the Plan. The main assumptions include:

Service Costs and Income:

- Staff pay awards are estimated at 2% annually. Unions are currently proposing much larger pay increases, which if agreed could significantly increase pay costs above current estimates.
- Inflation increases incorporated for main contractual arrangements: Somerset Waste Partnership, CCTV monitoring, Street Cleaning plus utilities and insurances.
- Demographic growth reflected in demand for waste and street cleaning services. No funding is provided in core assumptions for demand growth in other services.
- Employers pension contributions and Pension Fund deficit recovery lump sum costs based on the latest 2016 actuarial valuation. The next valuation is expected in Spring 2020.
- Transformation savings remain sustainable and temporary transitional costs cease as planned.

Funding:

- Business Rates Retention (BRR) will be subject to a Full Reset in 2021/22 and reduce to the Baseline. This significantly reduces funding compared to previous estimates.
- No ‘guess’ included for the impact of future implementation of 75% Business Rates Retention.
- General Government Grant projected based on a ‘Negative’ Revenue Support Grant applying from 2021/22 and continuation of current Rural Services Delivery Grant level.
- New Homes Bonus grant is at risk and expected to reduce significantly, and it is proposed to phase out use of NHB for general service funding by 2022/23. The majority of the grant is earmarked to fund capital projects.
- Council tax is forecast based on officer assumption of a 1.99% increase each year, following the Core Referendum Principle announcement in the 2019 Spending Round.

6.5 Further information regarding these estimates and assumptions, and related elements of the financial strategy are covered in more detail later in this report.

7 Savings Targets

7.1 Given the scale of the projected Budget Gap, and including an allowance for further potential cost pressures and new service investment not currently factored into estimates, it is proposed to set challenging savings targets for the next three years. Given the level of uncertainty in financial planning, it is not proposed to set targets beyond this timeframe at this stage – but this will be kept under review as corporate plans and greater funding certainty emerge.

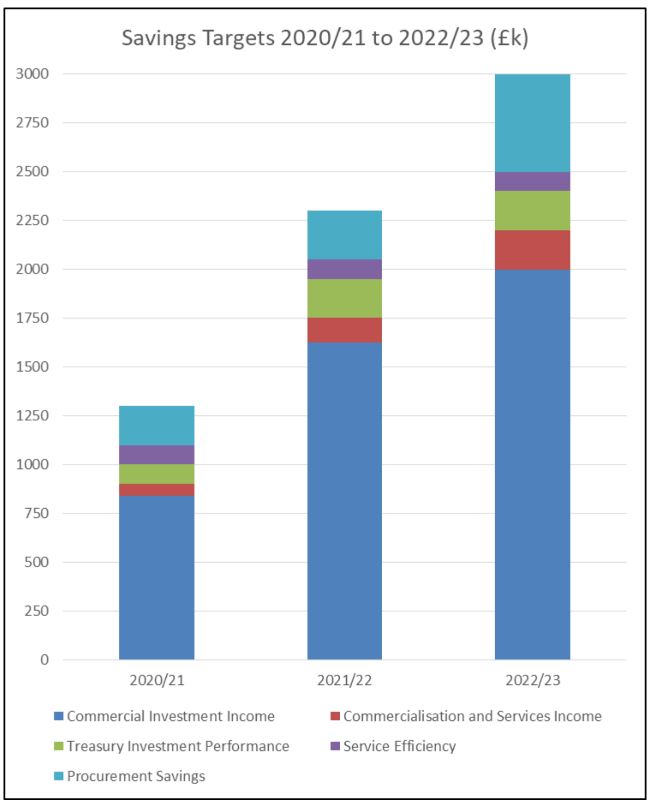
Table 2 - Assessing Need for Savings Targets

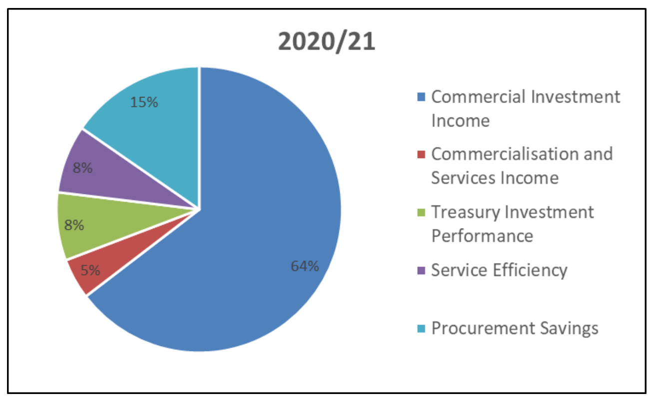
	2020/21 £k	2021/22 £k	2022/23 £k
Projected Budget Gap (Table 1 - nearest hundred)	300	1,800	2,500
Provision for New Cost Pressures and New Priorities	1,000	500	500
Proposed Savings Targets	1,300	2,300	3,000

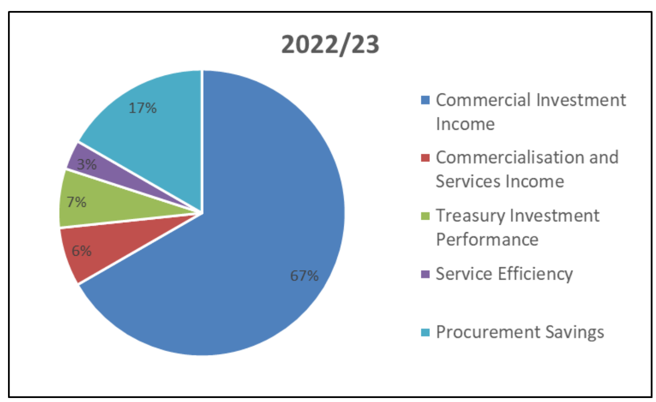
7.2 The following table summarises how the above Targets may be segmented into categories. The figures in the columns are cumulative i.e. the savings in 2021/22 include the continuation of the savings identified in 2020/21.

Table 3 – Savings Targets

	2020/21 £k	2021/22 £k	2022/23 £k
Commercial Investment Income	840	1,625	2,000
Commercialisation and Services Income	60	125	200
Treasury Investment Performance	100	200	200
Service Efficiency	100	100	100
Procurement Savings	200	250	500
Total Savings Targets	1,300	2,300	3,000







7.3 Further info related to savings targets is explained below.

8 Service Prioritisation and Costs

8.1 The overarching aim of the financial strategy is to protect services in the face of reductions in government funding. Transformation seeks to ensure the cost of delivering services is more efficient and customer focussed. It remains important that prioritisation of spending and investment in services reflects current and future Council priorities. Such prioritisation is secured thorough ensuring budget decisions are clearly linked to the Corporate Strategy and Operational Plans.

8.2 Currently the estimates for service costs and income are based on using the current base budget, adjusted incrementally for:

- Inflationary pressures on employment and contract costs
- Cost efficiency through transformation and new Council implementation
- Revenue implications of capital investment
- Planned use of earmarked reserves and external funding

8.3 Currently no savings target is identified for services, with the assumption that overall activity will be contained within the capacity available in the core establishment, and additional and project resources covered through income, reserves and external funding. A key principle for the 'design authority' for the Council's operating model is that resources will be agile and refocussed / reprioritised in line with priorities as these evolve.

8.4 Savings of £100k are included in the Savings Targets in Table 3 on the assumption that further efficiency can be delivered in core operating costs, particularly (but not exclusively) in relation to non-staff costs as the full benefits of becoming a single new Council are realised.

9 Commercial Investment Strategy

9.1 The Council through previous transformation business plans and corporate plans has reflected the long standing commitment to exploring options for income generation. The focus in recent years has been the delivery of efficiency and improvements thorough transformation. Despite the delivery of significant savings enabling budgets to balance to date, the MTFP clearly shows the financial challenge remains in future. This reflects in particular the expected reduction in business rates and new homes bonus funding.

9.2 Officers are currently developing a Commercial Strategy which will present proposals for large-scale investment to generate significant additional income. This commercial approach is essential in responding to the major cuts in central government funding and replace this with other income to maintain and enhance local services and investment in our communities, and reduce pressure to cut services.

9.3 This Commercial Investment approach is considered essential to meet the £2m segment of the savings target set out above (Table 3), as a key component of the options to address the budget gap. Clearly this approach will present an update in the risk profile to be managed, however there is no risk-free option. This element of the Financial Strategy will be covered in depth when the Commercial Investment Strategy is presented to the Executive and Full Council for consideration.

10 Commercialisation of Services and Income Generation

10.1 A key theme of the Council's corporate priorities is to operate in a business-like way, seeking to maximise efficiency and provide value for money services. As part of the wider development of the Commercial Strategy, the Council will also explore further opportunities for the commercialisation of services with a view to increasing productivity and growing income returns.

10.2 Part of this strategy is to ensure that the full costs of services are identified, and discretionary fees and charges are set to fully recover costs from customers.

10.3 Equally, there may be opportunities to trade services and generate increased income in order to provide alternative income to mitigate the major cuts in funding received from Government. The primary purpose of this approach is to provide income that helps to ensure local services remain affordable and cuts to services can be avoided / minimised.

10.4 A relatively modest savings target is included in Table 3 above, seeking to grow income by £200k per year over the next three years. The Leadership Team will consider ambitious stretch targets as plans and opportunities are developed.

11 Treasury Management and Capital Financing

11.1 The Council updates its Treasury Management Strategy annually, with the current TMS approved at Shadow Full Council in February 2019 alongside the Budget. It is important to recognise that the financial strategies for revenue and capital resources and treasury management are intrinsically linked (as well as the proposed commercial strategy). The strategies reflect the ongoing challenging and uncertain economic times. Of course, there remains uncertainty regarding the future implications of Brexit, not just on treasury performance but on wider service implications too. The current economic outlook has several key treasury management implications:

- Short term investment returns are likely to remain relatively low
- Borrowing interest rates are currently attractive and are likely to remain low for some time, despite some anticipated increases in base rate
- Approaches to financing capital investment plans should consider the economic outlook e.g. any potential advantages in borrowing “in advance of need” (i.e. before planned capital spending is actually incurred) to secure lower long-term borrowing costs.

11.2 This Strategy looks to manage exposure to risk and volatility at this time of significant economic uncertainty by:

- Considering security, liquidity and yield, in that order
- Considering alternative assessments of credit strength
- Spreading investments over a range of approved counterparties
- Only investing for longer periods to gain higher rates of return where there are acceptable levels of counterparty risk.

11.3 The predecessor Councils had a good record of treasury performance relative to the respective financial positions and prudent approaches to managing risk. There are opportunities to change the mix of treasury investments as a new single council with consolidated resources. The Treasury Strategy will be reviewed during 2019, seeking to improve overall treasury investment performance whilst continuing to implement an appropriately prudent balance between security, liquidity and yield.

11.4 The S151 Officer continues to monitor the overall treasury requirements for the Council, and considers there are opportunities to secure and grow the Council's income through further use of strategic investments. This is a risk-managed approach that aims to increase annual investment income whilst accepting more risk of volatility (up and down) on capital values, as reflected in the treasury performance Savings Target of £200k per year (Table 3).

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

12 Unparished Area Costs

12.1 The Council currently raises Special Expenses through Council Tax within the unparished area of Taunton, to fund an Unparished Area budget. The Council agreed in August 2019 to transfer the 2019/20 budget to the Charter Trustees.

12.2 It is anticipated the Charter Trustees will set their own precept for 2020/21, in line with their tax raising powers (similar to town and parish councils), and consequently SWT will cease to raise Special Expenses from next year.

13 Reserves

13.1 The Council maintains General Reserves and Earmarked Reserves, for both the General Fund and the Housing Revenue Account. General Reserves are retained to provide a contingency to mitigate financial risks arising from unexpected events or emergencies and as a general working balance to help cushion the impact of uneven cash-flows. Earmarked Reserves are funds that have been set aside for specific purposes to be spent in future years and to provide contingencies for specific risks.

13.2 The approach to General Reserves includes a regular review to ensure the level of reserves held are adequate in the context of the financial risks faced and other mitigations in place (e.g. provisions, earmarked reserves, insurances). We will maintain reserves at or above the assessed minimum requirement, and generally any planned use of reserves above the minimum will support one-off expenditure or "bridge" a gap for timing differences on planned delivery of savings / commercial income. Holding adequate reserves remains a key pillar of the Council's financial resilience.

13.3 The Council will aim to balance the budget each year without the need to use General Reserves, and will prioritise allocating any significant surplus balance to fund one-off costs rather than support day to day running costs of the Council's services thus minimising financial resilience risk.

13.4 The Council sets aside funds into Earmarked Reserves through the Budget process where there is a longer term spending plan, for example with New Homes Bonus that supports projects, and Business Rates which mitigates financial risks and smooths out accounting timing differences.

13.5 The following table summarises the General Reserves position and the current assessed adequate minimum balance. It is proposed within the strategy to introduce a new measure which is to provide an operational target as well as a minimum contingency balance. This recognises that reserves can provide resources during the year to address emerging costs and priorities not identified through the annual budget planning process.

Table 4 – General Reserves

	General Fund £k	HRA £k
General Reserves Transferred from Taunton Deane	2,223	2,718
General Reserves Transferred from West Somerset	981	N/A
SWT Opening Balance 1 April 2019	**3,204**	**2,718**
Less: 2019/20 Original Budget Planned Use of Reserves	0	1
Less: 2019/20 Supplementary Budget Allocations	-65	-26
Current Balance 1 September 2019	**3,139**	**2,693**
Adequate Minimum Reserves Balance (Financial Resilience Assessment)	2,400	1,800
Operational Target for Reserves (Financial Planning Assessment)	3,000	2,400

13.6 The next table summarises the Earmarked Reserves position.

Table 5 – Earmarked Reserves

	General Fund £k	HRA £k
Earmarked Reserves Transferred from Taunton Deane	14,194	2,719
Earmarked Reserves Transferred from West Somerset	4,048	N/A
SWT Opening Balance 1 April 2019	**18,242**	**2,719**
2019/20 Original Budget Reserve Transfers	5,924	0
2019/20 In Year Reserve Transfers including Carry Forwards (April to August)	-1,338	-186
Current Balance 1 September 2019	**22,828**	**2,533**

14 Business Rates Retention

14.1 The current Business Rates Retention system was introduced from April 2013. It seeks to incentivise business growth by enabling local authorities to keep a share of growth in business rates above funding baseline set by Government. The Business Rates Income Target and Baseline are due to be “Reset” in April 2021 (deferred from April 2020 in the 2019 Spending Round). This will mean the current business rates income levels will be built into the future Target/Baseline. In other words, the Council will no longer benefit from historic growth, and will need to see new growth in future to benefit from the system. The true impact of the Reset is not yet known, with detailed information required from Government.

14.2 In the absence of certainty and clarity, the most prudent budget approach is to set the budget and MTFP estimates in line with the current Baseline for initial MTFP estimates for 2021/22 onwards. This results in a significant reduction in projected funding, with the financial planning assumption updated since February to assume the Reset will fully remove historic growth benefit. The Budget Gap within the MTFP has increased as a result, requiring costs to be reduced and/or alternative income sources found. Estimates for this source of funding will be carefully reviewed and updated through the budget process as more information becomes available.

Table 6 – Business Rates Retention Funding Estimates

	2019/20 £k	2020/21 £k	2021/22 £k	2022/23 £k	2023/24 £k	2024/25 £k
BRR Estimates Feb 2019	*9,061	4,798	4,872	4,945	5,019	5,100
Revised estimates Sept 2019	9,061	4,928	4,005	4,083	4,162	4,240
Difference	N/A	**120	-867	-862	-857	-860

* includes one-off 75% Pilot and Pooling gain in 2019/20

** reflects continuation of negative RSG mitigation in 2020/21

14.3 The Council maintains a BRR Volatility Reserve to help “smooth” any impact on the budget of reductions in net funding as well as manage accounting timing differences within the BRR system. The balance in this reserve as at 1 April 2019, including transfers included in the 2019/20 Original Budget, was £6.5m. The current strategy seeks to hold a significant balance in this reserve, particularly in recognising the risk of volatility in business rates income forecasts related to Hinkley Point nuclear power station. Reducing the net income estimates down to the Baseline in 2021/22 reduces the risk of volatility hitting the Budget during the year. However, given the level of uncertainty over the likely funding position and the future design of the BRR system it is prudent to hold existing balances pending further information. The assessment of the prudent minimum balance to hold in this reserve will be reviewed when the future operation and risks of the BRR system are confirmed.

Business Rates Pooling

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

14.5 Government confirmed in the 2019 Spending Round that the 75% BRR Pilot will not continue in 2020/21, with the Somerset Pool reverting to operate under 50% Retention. Due to the uncertainty of future BRR system design and financial implications for each authority and the Pool, no pooling financial benefit is included in the current MTFP forecasts for 2020/21 onwards. The potential benefits of Pooling will need to be re-assessed when further information is available. The risks and rewards of pooling are kept under review by the Business Rates Pool Board, comprising the S151 Officers of the Somerset councils.

75% Business Rates Retention

14.6 The Government has previously indicated its intent to implement changes to the Business Rates Retention system so that local government directly retains 75% of income across the sector. The reform has been deferred until 2021/22. Estimates will be reviewed when further information is issued by Government.

15 General Government Grants

15.1 Budgeting for General Grant funding is uncertain as explained at the beginning of this report. The current MTFP assumes the Council will face a 'negative RSG' in 2021/22, with the 2020/21 negative RSG being funded by Government, and this is included as a cost adjustment to the Business Rates Retention Tariff. It also assumes Rural Services Delivery Grant will continue based on 2019/20 figures.

Table 7 – General Government Grant Funding Estimates

	2019/20 £k	2020/21 £k	2021/22 £k	2022/23 £k	2023/24 £k	2024/25 £k
Revenue Support Grant	6*	0	0	0	0	0
Rural Services Delivery Grant	166*	166	166	166	166	166
Total General Grant Estimate	**172***	**166**	**166**	**166**	**166**	**166**
Less: BRR Tariff Adjustment for Negative RSG	0	0	-127	-129	-131	-134
Net Grant Funding after Negative RSG	**172***	**166**	**39**	**37**	**35**	**32**

*RSG and RSDG were rolled into the BRR tariff calculations in 2019/20 under the 75% BRR Pilot arrangements.

16 New Homes Bonus

16.1 New Homes Bonus (NHB) is a non-ring-fenced grant designed to incentivise housing growth. SWT receives the equivalent of 80% of the national average annual council tax (currently £1,671 for a Band D) for every new home (or long-term empty home brought back into use) once occupied. An additional £280 (80% of £350) is granted for every affordable home occupied. Annual growth is currently rewarded for 4 years.

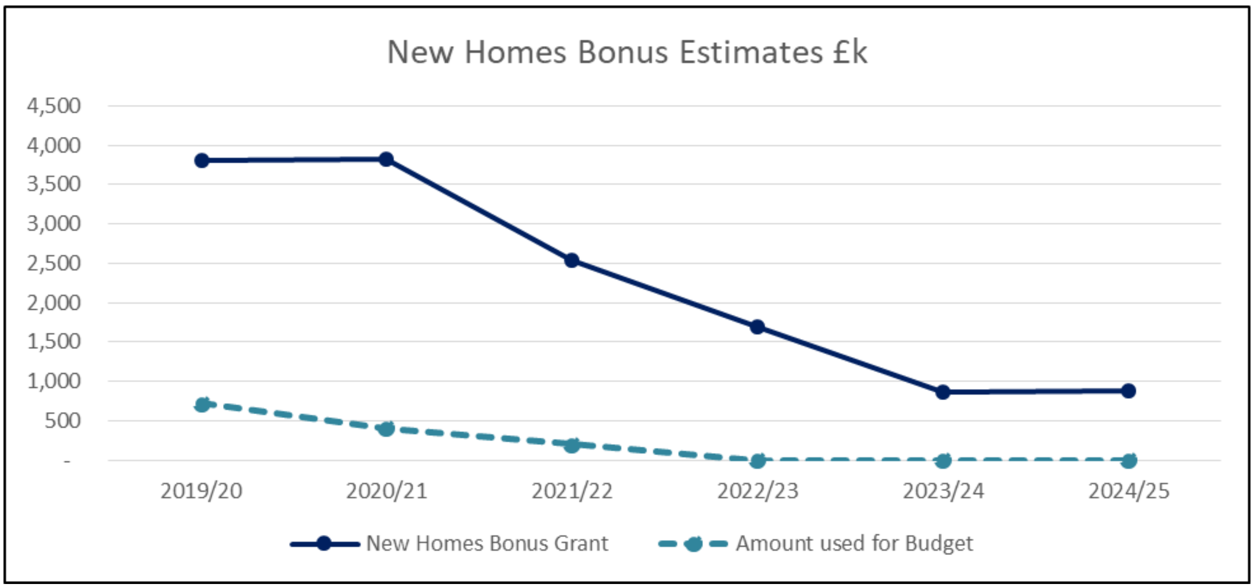
16.2 Grant is only provided for annual housing growth above a minimum baseline set by Government, which in 2019/20 was 0.4% equating to approximately 270 Band D Equivalents. Government have previously indicated this baseline may increase, and our estimates assume it will increase to 0.5% in 2021/22 assuming the grant continues in its current form.

16.3 The Government has indicated in the 2019 Spending Round that Ministers continue to consider the future of New Homes Bonus, therefore we can expect consultation on future proposals in due course. Given the uncertainty and the risk of this grant diminishing, the S151 Officer has assumed that legacy payments for growth included in the 2019/20 Settlement will be honoured, but annual growth will only be rewarded for one year thereafter. In this context it is prudent to reduce reliance on this income to fund ongoing service costs. This is reflected in this new Financial Strategy with a phased reduction in use of NHB to fund day to day services, with no grant required for the Annual Budget by 2022/23.

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

Table 8 – NHB Grant Income Indicative Projection

Annual settlement:	Actual 2019/20 £k	Estimate 2020/21 £k	Estimate 2021/22 £k	Estimate 2022/23 £k	Estimate 2023/24 £k	Estimate 2024/25 £k
2016/17	841					
2017/18	1,259	1,259				
2018/19	858	858	858			
2019/20	851	851	851	851		
2020/21		855	0	0	0	
2021/22			826	0	0	0
2022/23				842	0	0
2023/24					859	0
2024/25						876
Total Annual Grant Estimates	**3,809**	**3,823**	**2,535**	**1,694**	**859**	**876**
Planned use for service costs per 2019/20 MTFP (as at Feb 2019)	*720*	*600*	*550*	*500*	*500*	*500*
Accelerated reduction – this Financial Strategy		*-200*	*-350*	*-500*	*-500*	*-500*
Planned use for service costs per 2020/21 MTFP (new Strategy)		400	200	0	0	0
Estimate (at risk) of NHB available for Growth / Other Priority Projects	3,089	3,423	2,335	1,694	859	876



16.5 The Shadow Council previously agreed the continuation of the Taunton Deane strategy of allocating the majority of NHB funding towards Growth projects, predominantly through the approved Capital Programme. Given the uncertainty surrounding this source of funding and the development of a new Corporate Strategy, it is appropriate for the Executive to consider review of the priorities to be funded from the resources available. The range of the possible level of available resources is very wide, meaning care must be taken not to over-commit funds and only do so when the grant funding is actually received by the Council.

16.6 The following table and scenarios summarise the current funding requirement for the approved Growth programme and related project staff resources included in the core establishment, and the potential range of funding available. This range presents the risk to the affordability of current plans, which will need to be carefully managed as explained above.

Table 9 – NHB Funding Allocation Estimates for Growth Programme

	Previous Years £k	2019/20 £k	2020/21 £k	2021/22 £k	2022/23 £k	2023/24 £k	Total £k
Growth Programme allocated in previous years	9,169						9,169
Allocations in line with estimated NHB resources to meet £16.6m Growth Programme		3,089	3,423	919			7,431
Existing Capital Programme funding requirement	**9,169**	**3,089**	**3,423**	**919**	**0**	**0**	**16,600**
Scenario: Estimated NHB available (forecast at risk)	-9,169	-3,089	-3,423	-2,335	-1,694	-859	-20,569
Less: Capital Programme commitment	9,169	3,089	3,423	919	0	0	16,600
Less: Continuation of Project Resources in establishment budget	Included above	Included above	Included above	513	513	513	1,539
Potential Balance Available (at risk) (- = income)	**0**	**0**	**0**	**-903**	**-1,181**	**-346**	**-2,430**

16.7 The scenario indicates the potential to cover existing commitments, however this remains at risk and the Strategy must ensure action is taken to minimise risk and only commitment funds once actually received.

17 Council Tax

17.1 The setting of Council Tax is determined by Members each year at Full Council. For 2019/20 the Shadow Council set harmonised Council Tax rate for the whole of the new district. The basic annual Band D council tax rate for 2019/20 is £159.63 (including £1.75 which is passed on to the Somerset Rivers Authority). The Tax Base – the measurement of properties chargeable for tax expressed as ‘Band D Equivalents’ is 56,623 in 2019/20.

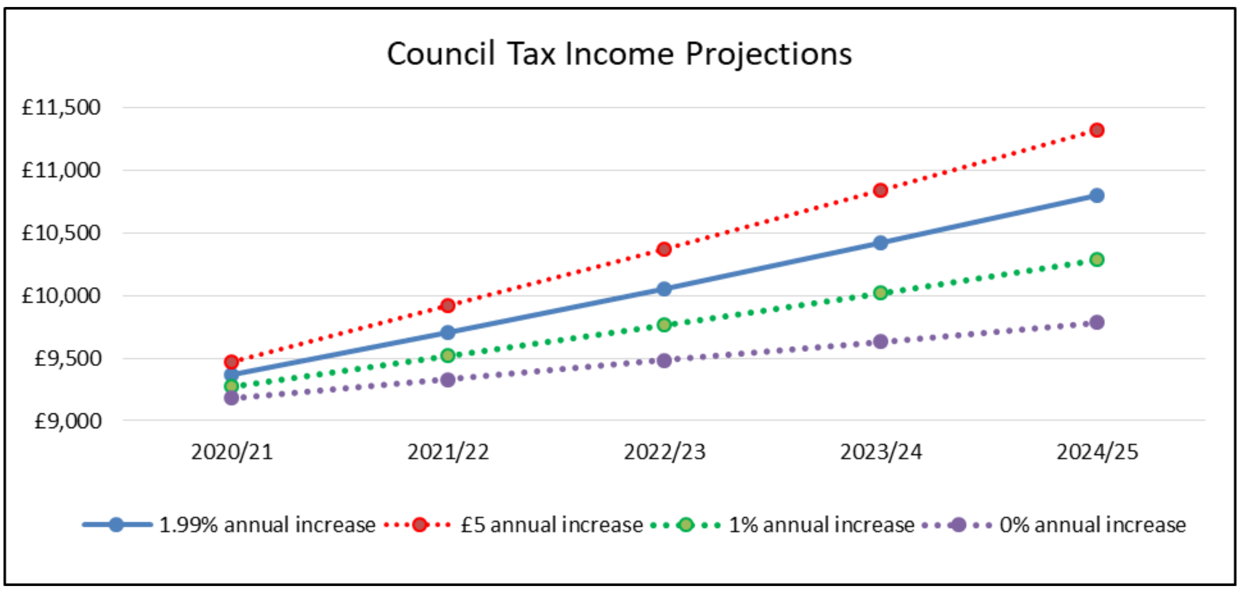
17.2 Council tax income due in 2019/20 for Somerset West and Taunton Council totals £9.04m, which represents 40% of the funding of the Council’s Net Budget.

17.3 Following the 2019 Spending Round the S151 Officer has revised the Financial Strategy and MTFP estimates with the financial planning assumption based on a 1.99% annual increase in council tax – a reduction on the previous assumption of 2.99% per year). This is subject to consideration by the Executive through the budget process, which will formally recommend its Council Tax proposals to Council each February as part of the Budget report. It is not known at this stage whether the Secretary of State will continue the option for the ‘threshold for excessive council tax increases’ for shire districts to increase tax by up to £5 (on a Band D charge). This is subject to confirmation annually through the Finance Settlement.

17.4 The table below provides a summary of the assumptions and estimates included the MTFP projections. The table and graph also show, for indicative purposes only, a range of scenarios based on different tax increase rates. This shows for example that a council tax freeze would result in estimated council tax income of £9.8m in 2024/25 versus an estimated £11.3m based on a 2.99% increase – a difference of £1.5m per year in 2024/25.

Table 10 – Council Tax Income Forecast

	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
Council Tax Base					
Increase %	1.60%	1.60%	1.60%	1.60%	1.60%
Increase in Band D Equivalents	906	920	935	951	965
Tax Base	57,529	58,449	59,384	60,335	61,300
Council Tax Rate					
Increase % (MTFP assumption)	1.99%	1.99%	1.99%	1.99%	1.99%
Increase £	3.17	3.23	3.30	3.36	3.43
Band D Rate £	162.80	166.03	169.33	172.69	176.12
Council Tax Income					
Increase due to Tax Base £k	145	150	155	161	167
Increase due to Tax Rate £k	182	189	196	203	210
MTFP: Total Council Tax Income £k	**9,366**	**9,704**	**10,056**	**10,419**	**10,796**
Council Tax Income scenarios £k:					
£5 annual increase	9,471	9,915	10,370	10,838	11,318
1% annual increase	9,275	9,517	9,766	10,021	10,283
0% annual increase	9,183	9,330	9,480	9,631	9,785



17.5 Included in the above Band D tax rate is £1.75 per year, which is collected by SWT on behalf of the Somerset Rivers Authority (SRA). This equates to £100k in 2020/21, providing funding towards the 20 Year Flood Action Plan that was developed following the severe flooding experienced in Somerset in early 2014. Total contributions from the County and District Councils in Somerset provide an annual budget for the SRA of c£2.8m per year. There are five key workstreams within Somerset's 20 Year Flood

Action Plan:

- dredging and river management
- land management (including natural flood management)
- urban water management
- resilient infrastructure
- building local resilience

17.6 The Government has previously committed to implementing the necessary legislation to allow the SRA to precept in its own right. The MTFP assumes the current arrangements remain in place, and will be updated if and when this power is set in legislation.

18 Housing Revenue Account

18.1 The Housing Revenue Account (HRA) is a ring-fenced, self-financing account where income from tenants and sale of assets funds the homes and related services provided to tenants, and investment in the provision and quality of council owned housing stock.

18.2 The Council has a long term business planning approach to managing the stock and the finances within the HRA. The financial strategy for the HRA focusses on ensuring that spending and capital investment plans are affordable and contained within the projected resources available.

18.3 The Council maintains separate reserves – general and earmarked – for the HRA representing balances and contingencies to manage financial risks and timing of spending commitments.

19 Capital Strategy

19.1 A full review of the Capital Strategy will be completed during the autumn 2019, in preparation for a new Strategy being presented with the Budget in February 2020.

19.2 The Strategy will follow the principles and scope contained in the statutory code of practice ‘The Treasury Management Code’, issued by CIPFA. It is intended to give a high level overview of how capital expenditure, capital financing and treasury management and other investment activity contribute to the provision of services along with an overview of how associated risks are managed and the implications for future financial sustainability.

19.3 The key objective of the Capital Strategy is to deliver a capital programme that:

- Ensures the Council’s capital assets are used to support the delivery of priorities within the Corporate Plan and the Council’s vision
- Links with the Council’s Asset Management Plan
- Is affordable, financially prudent and sustainable
- Ensures the most cost effective use is made of existing assets and new capital investment
- Supports other service specific plans and strategies

19.4 In outline, the Council has limited capital reserves within the General Fund and Housing

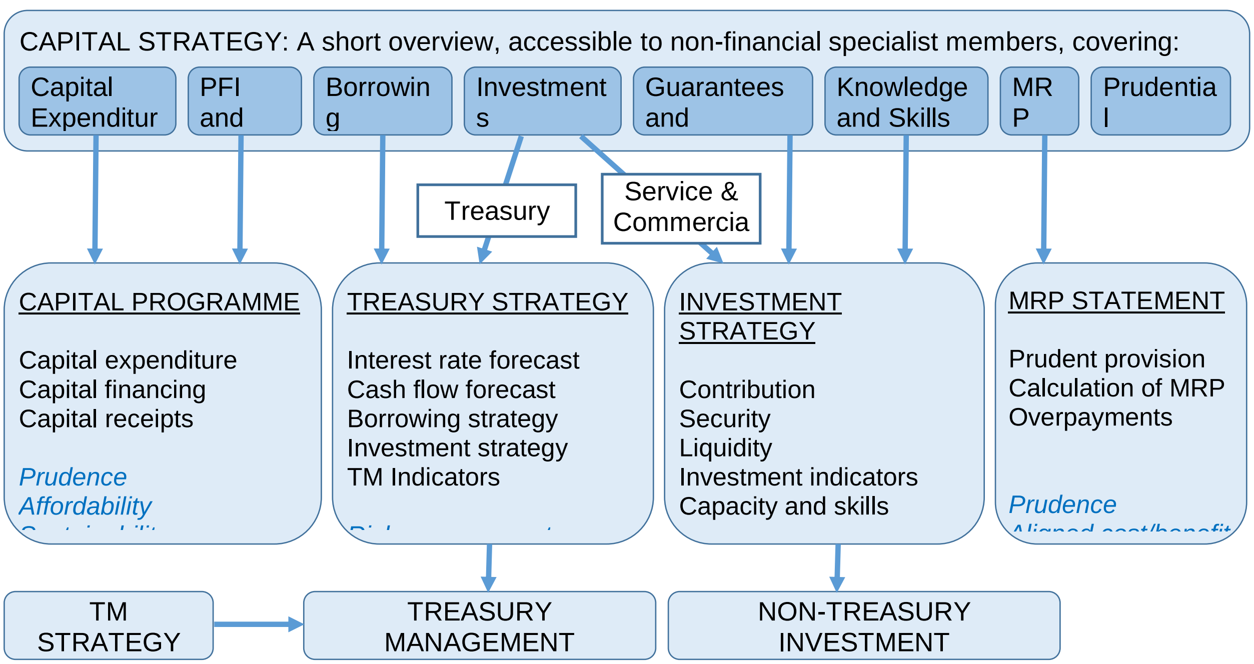
Revenue Account.

19.5 For the General Fund, the majority of direct investment is supported through use of New Homes Bonus funding and Community Infrastructure Levy; with further investment supported through planning obligations (S106/Hinkley funds), capital grants, capital receipts, and revenue contributions. For the HRA the funding is provided through the Major Repairs Reserve, capital receipts and revenue contributions. A contribution to the Social Housing Development Fund is included in the HRA Revenue Budget each year to contribute towards the cost of additions to the housing stock.

19.6 For both the General Fund and HRA, future capital spending is likely to require support through borrowing. The borrowing requirement will be identified as the Capital Programmes and Commercial Strategy are developed. Prudent borrowing limits will be set within the Capital and Treasury strategies, together with prudent plans to cover the cost of capital debt through Minimum Revenue Provision (MRP) and use of capital receipts. The revenue implications of capital will be measured for affordability within the overall revenue budgets for the General Fund and HRA.

19.7 The specific resources to deliver the capital strategy will be identified through the annual budget setting process. The Council will use a rigorous capital prioritisation process before individual capital schemes are approved including development of a full business case for large individual capital schemes.

19.8 The following chart provides a useful illustration of how the various strategies link together.



20 Financial Planning Risks and Uncertainty

20.1 As outlined in section 4 of this report, there are number of factors making accurate financial particularly difficult at this stage. The risk of 'error' in forecasting assumptions is high, particularly for 2021/22 onwards. The financial strategy seeks to mitigate this risk by:

- Prudent assumptions used for future funding forecasts
- Maintenance of sufficient balances and reserves

20.2 Other main areas of risk and uncertainty within the financial plan are:

- Inflation – rising inflation could place additional pressure on pay settlements and prices for purchases of goods and services
- Demand volatility – fluctuation in costs and income as a result of changes in demand led services and usage (e.g. homelessness, planning, building control, parking, garden waste)
- Delivery of savings – the base budget relies on full realisation and ongoing delivery of the benefits of transformation and creating the new Council.
- Business Rates Retention – forecasts under BRR are notoriously difficult to predict with accuracy and can therefore change from year to year (e.g. for appeals, reliefs, etc.), and the system is currently under review with uncertainty of the distribution of risks and rewards of income decline and growth
- Economic slowdown – impact on business rates and NHB as well as income from fees and charges, and wider impact on the community and local services
- Local government – impact of spending reductions by the County Council on the local community with potential 'ripple effect' on district services
- Brexit – impact on services, investment performance, funding, etc.

20.3 The development of commercial investment activity brings an added degree of risk in terms of reliance on commercial income to fund local services (instead of government funding). This will need to be considered through the preparation of prudent budget and adequate reserves estimates.

21 Links to Corporate Strategy

21.1 A robust financial strategy and medium term financial plan are essential parts of the Council's budget and policy framework, and underpin the planning of resources needed to meet the priorities and objectives within the Corporate Strategy and related plans.

22 Finance / Resource Implications

22.1 The Council's Constitution allocates the responsibility to the Executive to approve the Financial Strategy each year. The Strategy provides an overview of the scale of the financial challenge and the approach to balancing the books in future – specific financial and resources implications will follow within subsequent budget reports as the detailed plans are developed and agreed.

23 Legal Implications

23.1 The Council is required by law to set a balanced budget and failure to do so would result in serious financial and service implications and lead to Government intervention.

24 Equality and Diversity Implications

24.1 No direct equality or diversity impacts arising from the recommendations. Officers and members will need to consider whether there are any impacts for detailed policy updates and proposals within the detailed budget plans as these are developed and presented for decision.

25 Partnership Implications

25.1 The Strategy recognises that there may be further opportunities to work in partnership with other local authorities and other relevant organisations for the delivery of services. However, there are no specific implications within this report.

26 Asset Management Implications

26.1 Effective Asset Management remains an important element of the financial strategy. Asset Management Strategies were previously prepared for both West Somerset and Taunton Deane Councils (September 2017 and November 2017). These identify and categorise the land and property holdings in each Council and establish core objectives for holding and/or investing in the existing asset base. Financial plans will be reviewed and budgets updated in line with these and future asset management plans.

27 Future asset efficiency and delivery of the plans should contribute to the Savings Targets within this Financial Strategy, however no specific asset implications are identified within this report.

28 Consultation Implications

28.1 The Strategy has been prepared by the Council's Strategic Finance Advisor and S151 Officer in consultation with the Leadership Team and Executive Councillors. An informal Members Briefing was held on 9 September 2019, providing an opportunity to share and discuss the proposed Strategy with all Councillors.

Democratic Path:

- **Scrutiny Committee – No**
- **Executive Committee – Yes – 18 September 2019**
- **Full Council – No**

Reporting Frequency: Annual

Contact Officers

Name	Paul Fitzgerald
Direct Dial	01823 217557
Email	p.fitzgerald@somersetwestandtaunton.gov.uk

Name	Emily Collacott
Direct Dial	01823 218742
Email	e.collacott@somersetwestandtaunton.gov.uk