

SWT Scrutiny Committee

Wednesday, 6th November, 2019,
6.15 pm



Somerset West
and Taunton

The John Meikle Room - The Deane
House

Members: Gwil Wren (Chair), Libby Lisgo (Vice-Chair), Ian Aldridge, Sue Buller, Norman Cavill, Dixie Darch, John Hassall, John Hunt, Sue Lees, Dave Mansell, Hazel Prior-Sankey, Phil Stone, Nick Thwaites, Danny Wedderkopp and Keith Wheatley

Agenda

1. Apologies

To receive any apologies for absence.

2. Minutes of the previous meeting of the Scrutiny Committee

To approve the minutes of the previous meeting of the Committee held on 9 October 2019.

(Pages 5 - 12)

3. Declarations of Interest

To receive and note any declarations of disclosable pecuniary or prejudicial or personal interests in respect of any matters included on the agenda for consideration at this meeting.

(The personal interests of Councillors and Clerks of Somerset County Council, Town or Parish Councils and other Local Authorities will automatically be recorded in the minutes.)

4. Public Participation

The Chair to advise the Committee of any items on which members of the public have requested to speak and advise those members of the public present of the details of the Council's public participation scheme.

For those members of the public who have submitted any questions or statements, please note, a three minute time limit applies to each speaker and you will be asked to speak

before Councillors debate the issue.

5. Financial Strategy and Budget Approach. Report of the Section 151 Officer (attached).

(Pages 13 - 34)

6. Scrutiny Committee Forward Plan

(Pages 35 - 36)

To receive items and review the Forward Plan.

A handwritten signature in cursive script, appearing to read 'James Hassett', written in black ink.

**JAMES HASSETT
CHIEF EXECUTIVE**

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If an item on the agenda is contentious, with a large number of people attending the meeting, a representative should be nominated to present the views of a group. These arrangements do not apply to exempt (confidential) items on the agenda where any members of the press or public present will be asked to leave the Committee Room. Full Council, Executive, and Committee agendas, reports and minutes are available on our website: www.somersetwestandtaunton.gov.uk

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SWT Scrutiny Committee - 9 October 2019

Present: Councillor Gwil Wren (Chair)

Councillors Libby Lisgo, Ian Aldridge, Sue Buller, Dixie Darch, John Hassall, John Hunt, Sue Lees, Dave Mansell, Hazel Prior-Sankey, Nick Thwaites, Danny Wedderkopp, Simon Coles, Caroline Ellis and Vivienne Stock-Williams

Officers:

Also Present: Councillors Marcus Kravis, Janet Lloyd, Federica Smith-Roberts, Ray Tully, Brenda Weston, Loretta Whetlor and Peter Pilkington

(The meeting commenced at Time Not Specified)

33. **Apologies**

Apologies were received from Councillors Cavill, Stone and Wheatley.

The following attended as a substitutes:- Stock-Williams, Ellis and Coles.

34. **Minutes of the previous meeting of the Scrutiny Committee**

(Minutes of the meeting of the Scrutiny Committee held on 4 September circulated with the agenda)

Resolved that the minutes of the Scrutiny Committee held on 4 September be confirmed as a correct record.

35. **Declarations of Interest**

Members present at the meeting declared the following personal interests in their capacity as a Councillor or Clerk of a County, Town or Parish Council or any other Local Authority:-

Name	Minute No.	Description of Interest	Reason	Action Taken
Cllr L Baker	All Items	Cheddon Fitzpaine & Taunton Charter Trustee	Personal	Spoke and Voted
Cllr M Barr	All Items	Wellington	Personal	Spoke and Voted
Cllr M Blaker	All Items	Wiveliscombe	Personal	Spoke and Voted
Cllr P Bolton	All Items	Minehead	Personal	Spoke and Voted
Cllr C Booth	All Items	Wellington and Taunton Charter Trustee	Personal	Spoke and Voted
Cllr N Cavill	All Items	West Monkton	Personal	Spoke and Voted

Cllr S Coles	All Items	SCC & Taunton Charter Trustee	Personal	Spoke and Voted
Cllr H Davies	All Items	SCC	Personal	Spoke and Voted
Cllr C Ellis	All Items	Taunton Charter Trustee	Personal	Spoke and Voted
Cllr A Govier	All Items	SCC & Wellington	Personal	Spoke and Voted
Cllr C Herbert	All Items	Taunton Charter Trustee	Personal	Spoke and Voted
Cllr Mrs Hill	All Items	Taunton Charter Trustee	Personal	Spoke and Voted
Cllr J Hunt	All Items	SCC	Personal	Spoke and Voted
Cllr R Lees	All Items	Taunton Charter Trustee	Personal	Spoke and Voted
Cllr S Lees	All Items	Taunton Charter Trustee	Personal	Spoke and Voted
Cllr L Lisgo	All Items	Taunton Charter Trustee	Personal	Spoke and Voted
Cllr M Lithgow	All Items	Wellington	Personal	Spoke and Voted
Cllr J Lloyd	All Items	Wellington & Sampford Arundel	Personal	Spoke and Voted
Cllr D Mansell	All Items	Wiveliscombe	Personal	Spoke and Voted
Cllr A Milne	All Items	Porlock	Personal	Spoke and Voted
Cllr C Morgan	All Items	Stogursey	Personal	Spoke and Voted
Cllr S Nicholls	All Items	Comeytrove	Personal	Spoke and Voted
Cllr C Palmer	All Items	Minehead	Personal	Spoke and Voted
Cllr M Peters	All Items	Taunton Charter Trustee	Personal	Spoke and Voted
Cllr P Pilkington	All Items	Timberscombe	Personal	Spoke and Voted
Cllr H Prior-Sankey	All Items	SCC & Taunton Charter Trustee	Personal	Spoke and Voted
Cllr M Rigby	All Items	SCC & Bishops Lydeard	Personal	Spoke and Voted
Cllr F Smith	All Items	Taunton Charter Trustee	Personal	Spoke and Voted
Cllr F Smith-Roberts	All Items	Taunton Charter Trustee	Personal	Spoke and Voted
Cllr V Stock-Williams	All Items	Wellington	Personal	Spoke and Voted
Cllr R Tully	All Items	West Monkton	Personal	Spoke and Voted
Cllr T Venner	All Items	Minehead	Personal	Spoke and Voted
Cllr A Wedderkopp	All Items	SCC & Taunton Charter Trustee	Personal	Spoke and Voted
Cllr D Wedderkopp	All Items	Taunton Charter Trustee	Personal	Spoke and Voted
Cllr B Weston	All Items	Taunton Charter	Personal	Spoke and Voted

		Trustee		
Cllr L Whetlor	All Items	Watchet	Personal	Spoke and Voted
Cllr G Wren	All Items	Clerk to Milverton PC	Personal	Spoke and Voted

36. **Public Participation**

Alan Debenham invited all Councillors to an all-day seminar at Somerset Cooperative Services (10 East Reach) setting up green energy cooperatives on 5th November between 10am and 4pm.

Roger House provided a statement to the Committee summarised below:-

- The Council should enable all Somerset young people from 16 to 21 years a big discount card for travel in our local area for travel to work, college and courting. To help social mobility and combat the high cost of cars for younger people. Similar to Cardiff and the campaign by Citizens UK for 16 to 25 year olds.
- Support private coaches and meet the Confederation of Passenger Transport to achieve coach friendly status for towns within the district.

37. **Somerset Climate Emergency Framework and SWT Carbon Neutrality and Climate Resilience Plan. Report of the Strategy Specialist (attached).**

In 2019 the five Somerset Local Authorities recognised a climate emergency and agreed to collaborate in producing a joint Climate Emergency Strategy. Whilst each declaration was slightly different, all aspired to achieving carbon neutrality in their own operations and to work towards achieving this across the geography of their administrative area.

At the same time, SWT committed to producing a Carbon Neutrality and Climate Resilience Plan. The report to Scrutiny Committee in July this year explained the relationship between the county-wide and SWT-specific work and the Governance arrangements being set up.

Draft Somerset Climate Emergency Framework

A group of officers representing Somerset County Council, the four district authorities, Exmoor National Park Authority were guiding and shaping the development of the County-wide framework within which the detailed investigation needed will be undertaken. This group – the Strategic Management Group - would have a critical overseeing role in shaping the desired outcomes emanating from that work.

Feeding into the Strategic Management Group would be the detailed work undertaken by operational experts and stakeholders within nine work streams:

- Built Environment
- Natural Environment
- Energy
- Farming and Food
- Industry, Business and Supply Chain
- Transport
- Waste and Resource Management
- Flood water and adaptation
- Communications and Engagement

Each work stream was working to a detailed brief and had a nominated lead. They would be researching and prioritising key issues, identifying possible actions to mitigate and understanding the full life cycle of decisions to implement these actions.

SWT had representation on all of these work streams and were able to support with appropriate subject-matter expertise and ensure two-way dialogue between workstream development across the county and in relation to the Carbon Neutrality and Climate Resilience Plan.

The work of officers was overseen by a group of portfolio holders from across the districts, which included Cllr Peter Pilkington, and by the Leaders and CEOs, with Brendan Cleere and Michele Cusack (SCC) acting as the conduit between these groups. The work of all groups was scrutinised by a Joint Task and Finish Group; SWT's representation on that group was through Cllrs Dave Mansell and Loretta Whetlor.

Members noted the proposed timings for delivery of the Climate Emergency Strategy, which included provision for consultation during November and December 2019.

Consultation activities were in the early stages of development, but were expected to include an online consultation aimed at secondary school-aged children 11-18 years, preceded by school visits to encourage participation. They included an online consultation aimed at all residents, communities and businesses in Somerset and a series of Summits, which would take the form of a full day, face-to-face consultation event, open to all. A provisional date for the SWT Summit was 16th November but remained still to be confirmed.

Draft SWT Framework Carbon Neutrality and Climate Resilience Plan

A Draft of SWT's own Framework Carbon Neutrality and Climate Resilience Plan had been produced alongside the Draft Somerset Climate Emergency Framework. Its purpose was to spark a conversation about how the community could look to develop and ultimately deliver the district's action plan.

The Framework set a level of ambition but did not commit the Council to deliver on any specific task or to any specific actions at present. It provided an idea of where things needed to head and some ideas about early tasks that might be necessary to get things started. Some of these tasks would be for the Council to take forward, some might be for others. Importantly, the Framework made it clear that success in delivering on carbon neutrality and climate resilience targets were dependent on garnering wider public and partner support and ownership of the Plan and actions/projects arising.

Once the Framework had been endorsed by Executive Committee, there would be a period of engagement and consultation centred on the Framework document. This included business and community roadshow events across the district as well as school and college events and direct stakeholder engagement to ensure that the Draft Plan was well informed by the views and experiences of our communities and to raise awareness of the need for action and how we are working to co-ordinate this. Officers were working on arrangements for these events and wider consultation on the Framework.

The Draft and Final Carbon Neutrality and Climate Resilience Plans were proposed to be developed alongside and to the same timetable as the Draft and Final Somerset Climate Emergency Strategies. Whilst the Strategy produced for adoption in Summer 2020 would

be badged as “final”, the SWT Plan would be an iterative, “live” document that would need to evolve as actions and projects develop and understanding of issues and risks improves.

The Framework documents would be taken to Executive Committee later in October, amended in response to / accompanied by the comments of the Working Group and Scrutiny Committee. The report to Executive, accompanying the Framework documents will request that authority to endorse the future Draft County-wide Strategy and SWT Plan is delegated to Cllr Peter Pilkington (as Portfolio Holder) in consultation with the Climate Change Member Working Group. However, the final Strategy and Plan will come back to Scrutiny ahead of consideration by Executive and Council. Assuming Executive endorsement of the Framework documents and this approach to delegation, we will then begin consultation and engagement as well as working on some of the identified key early tasks.

The intention is to have a Draft Strategy and Plan completed by February 2020, ready for consideration by the Member Working Group and Portfolio Holder to endorse for further consultation in the New Year. Following the second period of consultation, the “final” Strategy and Plan will be brought back to Scrutiny Committee and Executive Committee before being taken to Council for adoption.

Debate

SWT Framework - discussion took place around the following areas, with some points applying to both SWT and Somerset Frameworks:-

- It was requested for a greater focus was given to Methane and Nitrous Oxide emissions, including in relation to the food and farming section.
- Additional mention of Fracking should be added and the further lobbying of County Council on this point was requested.
- Reduction of meat be a priority rather than solely an emphasis environmentally friendly food.
- More details around divesting from fossil fuels, and stipulating around the licensing if possible around all new taxis.
- Growing food with allotments and urban farms on waste land to be a priority.
- Definitions for carbon neutrality to be clear on the objectives of reducing and mitigating emissions being the focus.
- The IPCC was cautious in its predictions/projections, which was another reason for a 2030 target.
- The section around offsetting was potentially confused and we should be very careful in supporting offsetting elsewhere, as the whole world needed to decarbonise.
- Consumption should be included too, although more difficult to measure, as moving production abroad for products consumed in the UK displaced, rather than reduced, emissions.
- Early tasks around the Built Environment should be more explicit about energy efficiency standards and renewable energy on new development.
- Work around renewable energy generation and storage should be undertaken with utilities and others as well as with community energy groups.
- The strategy should be more explicit about installing Renewable Energies on assets and land owned by the Council.
- Aviation, as a major polluter was missing as part of the transport section.

- Waste section is good and we are strong already in this area, but reducing carbon emissions should be added from operations in waste (collection, haulage, processing, and energy recovery - Avonmouth).
- Further input from Councillors and how they could be a part of the Climate agenda was encouraged.
- Public engagement was key to the strategy but conversations were needed, to ensure they didn't lose sight of rural poverty - domestic and transport.
- The committee encouraged Lobbying with GWR/Network Rail over electrification of the network.
- Monitoring of performance of the strategy and targets were needed along with and funding for delivery of projects.
- Lobbying government on national policy was essential.
- There was a need to apply pressure in relation to changing taxation and costs of different fuels. As an example Gas should be taxed more to tackle emissions.
- Hinkley would need to be mentioned and a major CO2 source
- Holistic thoughts on planning policy to include further options to tackle climate change - not just about PV on roofs.
- Introducing more efficient and better flues for wood burners to minimise issues and tackle rural poverty.
- Working and engaging with farmers needed to be done to work with communities and organisations to improve their supply chain pressure.
- Electric bike hire between transport hubs was requested.
- Lobbying Government on national policy and guidance was considered important. A parking review would be required to tackle emissions in the town.
- The consultation would need to be different to normal consultations. These would need to include further details on proposed activities; with a communications plan and Executive report.
- As part of the framework Councils should lead by example on EV charge points at Deane House and in council car parks included in a more committed revised task.
- Members needed to ensure the framework should be on the agenda for electioneering and how to inform the public.
- Elements such as the Town centre pedestrianisation and e buses should be included in the framework.
- The front section of the report should set out commitments to areas that can be addressed immediately.
- Greater emphasis on Technology and R&D was requested to maximise the input into a global emergency.
- All Councils needed to make better use of existing building stocks.
- Better communication was required for the public on the carbon impact of food.
- The committee were of the view that the framework needed to be the priority document dictating all other policy documents.
- Cross-party support was required to ensure document is not undermined by elections and any change of ruling group going forward.
- The framework would need to outline best practice and what might be possible for others.
- There was a requirement to ramp up the communications message about the debates going on and the actions being taken.

Somerset Framework - discussion took place around the following areas:-

- Concern was expressed that the county-wide Task and Finish group had not met to discuss this document and whether future work timetables allowed for this .

- Clearer communications was requested with all Members and not just the working group
- There were levels of confusion about CO2 and carbon emission rates in the framework documents at 3.4a not comparing correctly.
- Consumption emissions needed to be added.
- Monitoring with targets and measuring performance and progress towards these would be needed.
- The Committee on Climate Change Net Zero reports provide a national guide on action required.
- Sections 6 and 7 were too negative in places. Good assessment was important, but building an extensive evidence base and undertaking optimal cost benefit analysis risked delay and inaction. We also need to start doing and learning.
- The committee requested clarity in relation to how levels of emissions from the M5 were included where the Councils had very little control.
- Electrification as the main method for decarbonisation of heating, alongside much higher insulation standards, needed to be included.
- Aviation needed to be included in the transport section and this was too weak on encouraging walking, cycling and public transport. In particular, it should add making these more convenient options over car use.
- The same comments as for the SWT document needed to be included on reducing carbon emissions from waste operations and investing in renewable energy and storage.
- Taunton not being parished as an area was requested to be reflected in the consultation.

All members of the committee were encouraged to provide any further specific additional comments following the meeting for consideration.

38. **Scrutiny Committee Forward Plan**

(Copy of the Scrutiny Committee Forward Plan, circulated with the agenda).

Councillors were reminded that if they had an item they wanted to add to the agenda, that they should send their requests to the Governance Team.

Resolved that the Scrutiny Committee Forward Plan be noted.

(The Meeting ended at 20:24).

Somerset West and Taunton

Executive Committee – 6 November 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 The Financial Strategy for Somerset West and Taunton Council (SWT) was approved by the Executive in September 2019. Prior to the Strategy being approved an informal briefing, open to all Members, was provided by the S151 Officer on 9 September.
- 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 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.
- 1.4 This report provides the Scrutiny Committee with a re-cap on the Financial Strategy, an update on any significant changes to the Medium Term Financial Plan, and an outline of the next steps in the budget process.

2 Recommendations

- 2.1 The Scrutiny Committee scrutinises the approved Financial Strategy and updated Medium Term Financial Plan position, notes the next steps, and provides comments for consideration by the Executive and Leadership Team through the ongoing budget process.

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

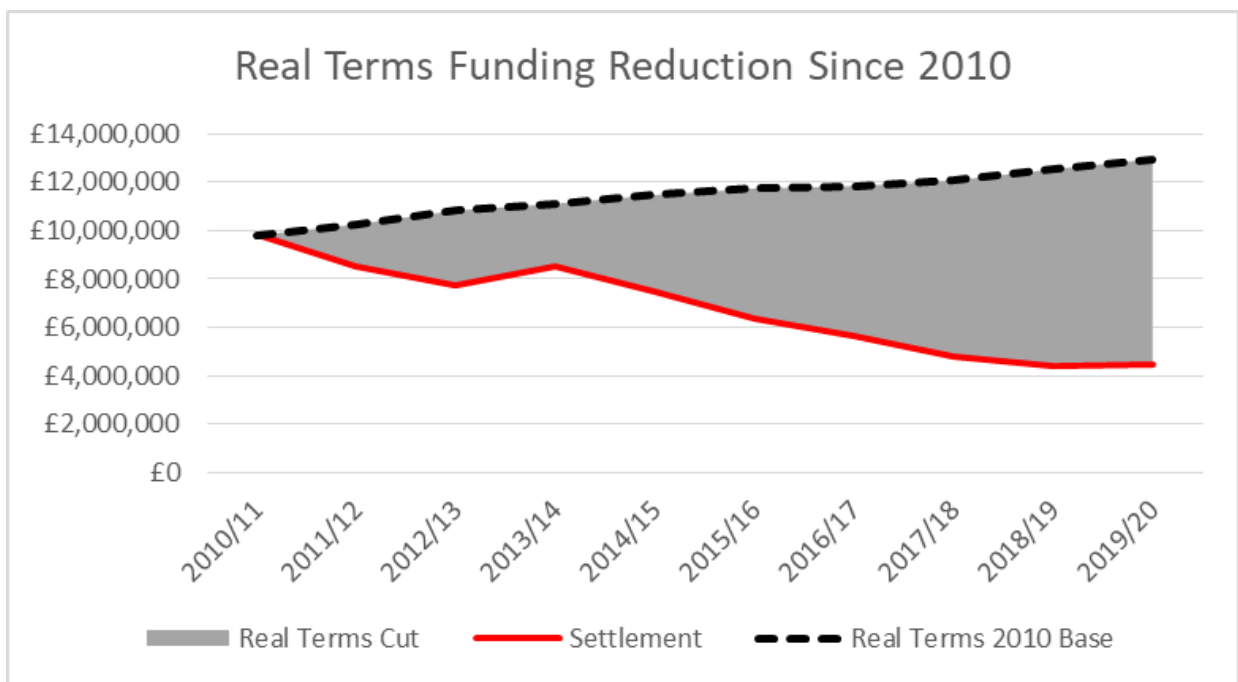
4.1 The Shadow Executive for Somerset West and Taunton set the previous Financial Strategy in September 2018. This reflected the consolidated position resulting from the previous approaches agreed by the two predecessor Councils (Taunton Deane and West Somerset), and was largely influenced by the savings 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 have developed a new Corporate Strategy which was approved by Full Council on 8 October 2019. The Corporate Strategy sets the ambitions and directions for the medium term, incorporating priorities outcomes and objectives for 2020 to 2024. The Financial Strategy will evolve alongside this and reflect the plans in more detail as the financial planning process progresses. However, the Financial Strategy agreed in September set the direction 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. The Chancellor had announced his intention to present a Budget to Parliament on 6 November, however this has been cancelled amid ongoing political uncertainty.
- 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 we expected there 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. Treasury costs may also be higher following the surprise increase to PWLB borrowing rates from 9 October 2019.

- 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 works to the 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

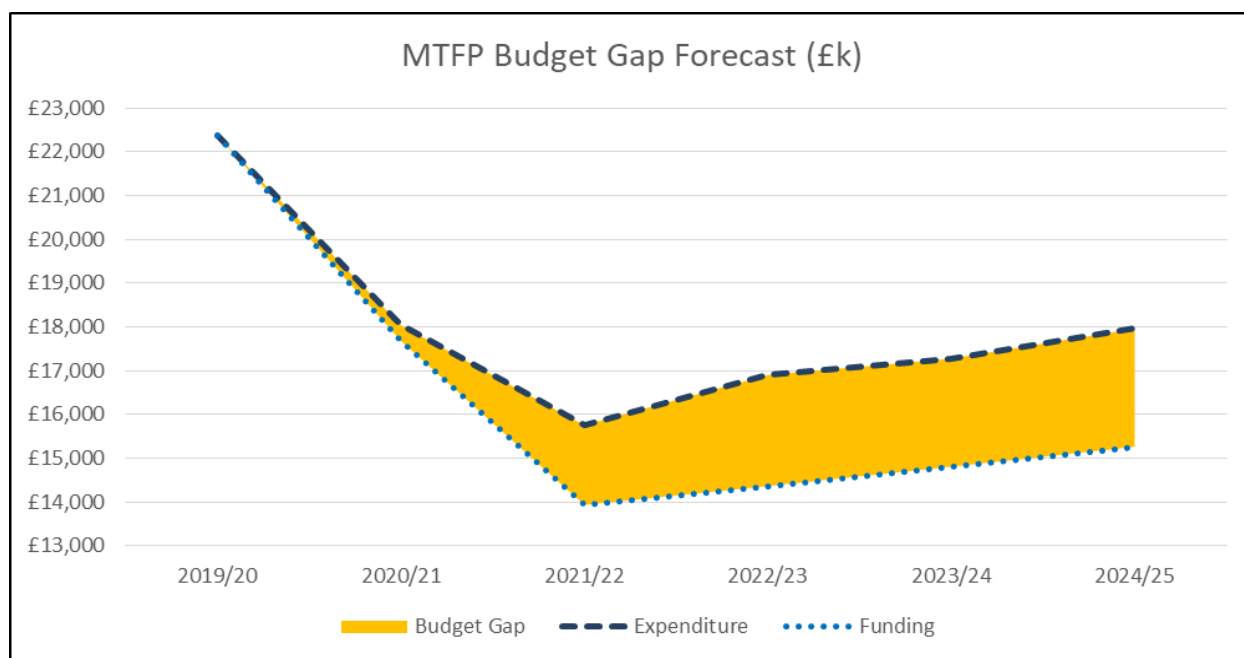
6 Medium Term Financial Plan Estimates

- 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 (15% 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. Notably, the assumptions related to New Homes Bonus have been updated to reflect the annual Council Tax Base return completed in early October, and a more cautious assumption that the grant will not continue in its current form beyond 2020/21.

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	2,796,954	-200,000	0	0	0
General Reserves	0	0	0	0	0	0
Net Expenditure	22,378,089	18,040,357	15,753,692	16,898,729	17,273,932	17,960,524
Business Rates Retention (BRR)	-7,787,783	-4,910,158	-3,989,206	-4,067,579	-4,145,952	-4,224,325
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	-3,214,760	0	0	0
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	50,000	0	0	0	0
Net Funding	-22,378,089	17,682,109	13,935,046	14,364,659	14,806,654	15,262,001
Budget Gap	0	358,248	1,818,646	2,534,070	2,467,278	2,698,523
Gap – Change on Previous Year	0	358,248	1,460,398	715,424	-66,792	231,245



6.4 The projected Net Expenditure across the 5-year period has reduced since the Strategy

was approved in September, reflecting the reduction in costs supported by New Homes Bonus. 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 the MTFP has now been reduced to assume no NHB funding is available beyond 2020/21. This impacts on the affordability of the Capital Programme which will need to be reviewed as a result.
- 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.

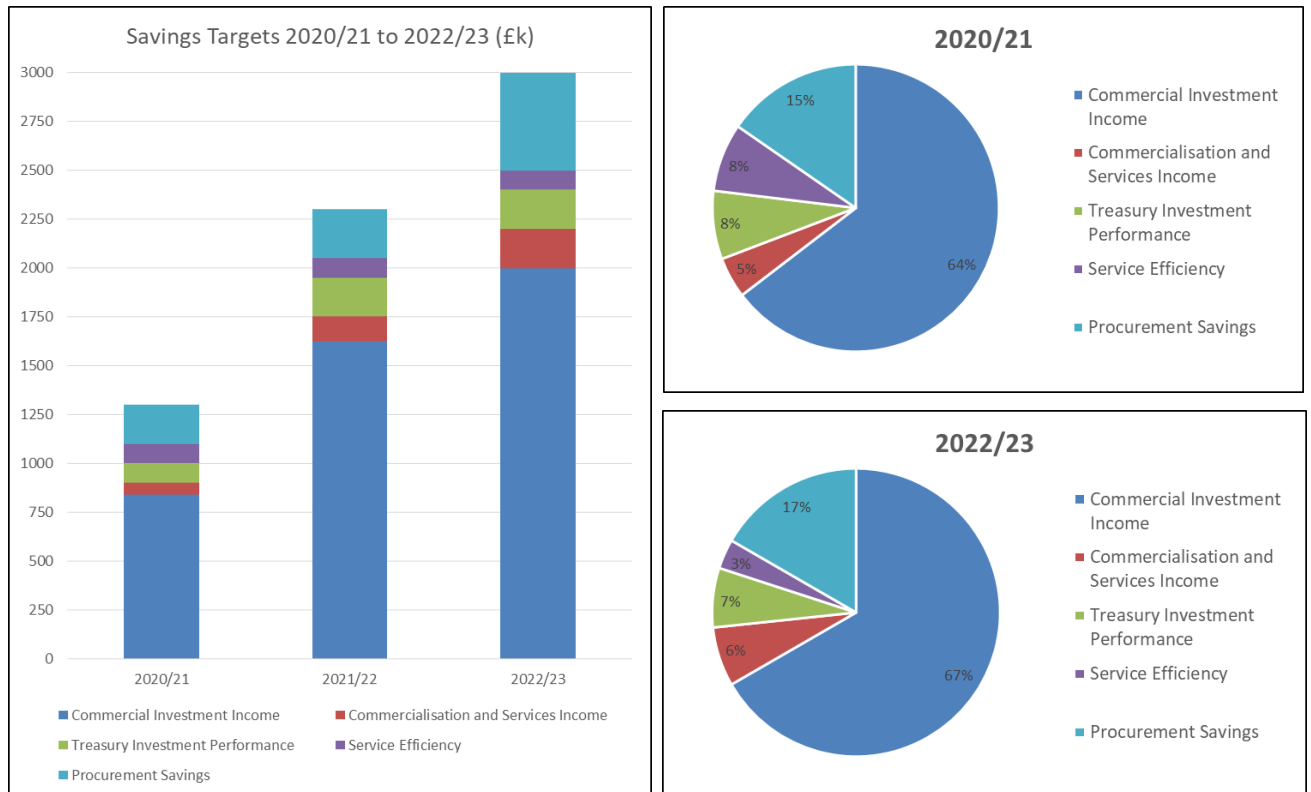
Table 2 - Assessing Need for Savings Targets

	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 These targets will be kept under review and finalised alongside the final budget proposals presented to Council in February. Given the future funding uncertainty the targets will need to be carefully assessed each year. 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 through 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 refocused / reprioritised in line with priorities as these evolve.
- 8.4 The Leadership Team continue to drive forward process improvements and other measures focussed on channel shift and reducing failure demand. There is a risk that efficiencies and demand reduction will not be fully delivered as quickly as previously anticipated and that staff resources will need to be maintained for a period to provide essential transitional capacity and service resilience. This is currently being assessed and any additional budget requirement will be incorporated in future reports together with funding proposals.
- 8.5 Savings of £100k are currently 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. This target may need to be revised given the ongoing challenges indicated in 8.4 above.

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 and commercial activity. The focus in recent years has been the delivery of efficiency and improvements through 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 The Executive supported a new Commercial Strategy, presented as a confidential report on 23 October. This Strategy is recommended to be approved by Full Council on 12

November, and proposes 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.

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 relatively attractive and are likely to remain low for some time, despite some anticipated increases in base rate and the recent increase by the Treasury to PWLB rates
 - 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	1,875	2,718
General Reserves Transferred from West Somerset	981	N/A
SWT Opening Balance 1 April 2019	2,856	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	2,791	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 General Fund Reserves brought forward balance has been updated following an adjustment to correct an accounting error in last year’s TDBC accounts. This means the balance is below the Operational Target, and it is recommended by the S151 Officer that plans to increase general reserves are incorporated into the MTFP as budget plans are finalised.
- 13.7 The next table summarises the Earmarked Reserves position at the start of the current financial year.

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. The MTFP forecasts have been updated with a slight reduction in BRR income in 2020/21 as the inflationary uplift should be based on September CPI of 1.7%, as compared to previous assumption of 2% uplift.

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 Oct 2019	9,061	4,910	3,989	4,068	4,146	4,224
Difference	N/A	**112	-883	-877	-873	-876

* 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 fully 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. Provisionally, if NNDR income continues broadly in line with 2019/20 levels across Somerset, then SWT's pooling gain under the 50% scheme in 2020/21 could be in the range £1m to £1.4m, adding additional one-off income into the budget. The actual gain will only be confirmed at the end of each financial year.

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

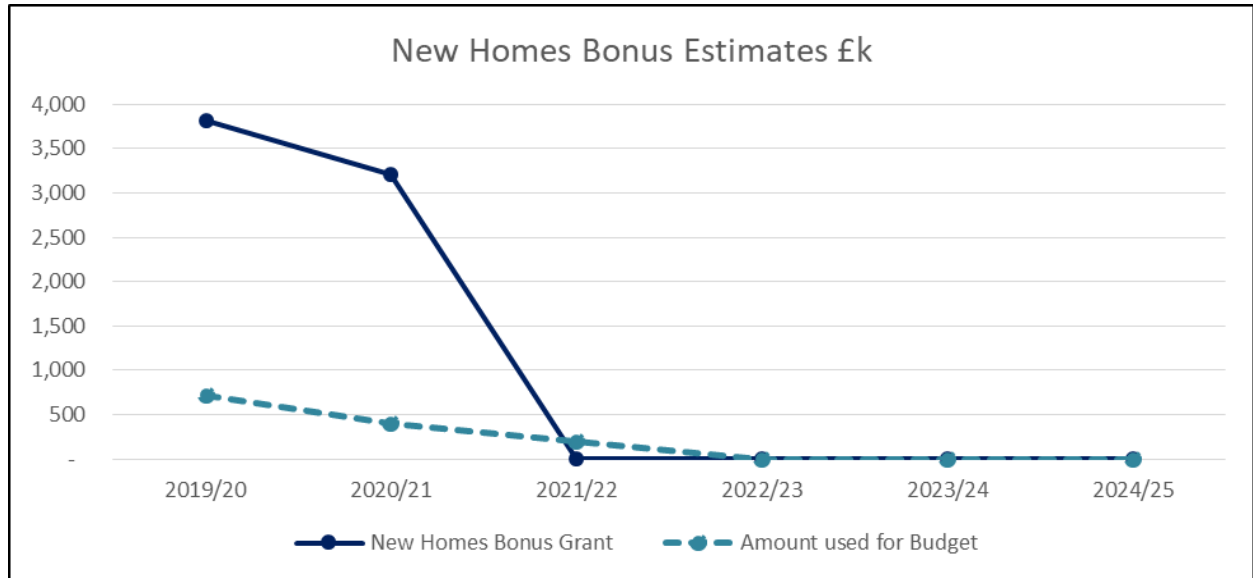
16 New Homes Bonus

- 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, and further indications that this funding is at risk, the S151 Officer has applied a more cautious assumption that the 2020/21 allocation will be for one-year only and there will be no grant due thereafter. The Government may honour the legacy payments in respect of 2018/19 and 2019/20 totalling £2.5m but this is not certain. In this context it is prudent to reduce and ultimately remove reliance on this income to fund ongoing service and capital investment costs.
- 16.4 The NHB estimates have been updated since September based on the Council Tax Base return completed in October. This shows that housing growth in the past year was significantly below the previous assumption in the MTFP, reducing the 2020/21 increment by £0.6m. The table bellows shows the updated forecast and revised estimates of funding available to support Growth or other priorities.

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		247	0	0	0	
2021/22			0	0	0	0
2022/23				0	0	0
2023/24					0	0
2024/25						0
Total Annual Grant Estimates	3,809	3,215	0	0	0	0
<i>Planned use for service costs per 2019/20 MTFP (as at Feb 2019)</i>	720	600	550	500	500	500

<i>Accelerated reduction – this Financial Strategy</i>		-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	2,815	-200	0	0	0



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 recent change in forecast assumptions the Leadership Team will work with the Executive to review the affordability of the programme and explore alternative sources of funding.

16.6 The following table and scenario summarises 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. It is clear the current funding requirement exceeds the new projection of NHB resources available, meaning spending will need to be reduced and/or alternative funding identified.

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 (at Sept 2019)		3,089	3,423	919			7,431
Existing Capital Programme funding requirement	9,169	3,089	3,423	919	0	0	16,600

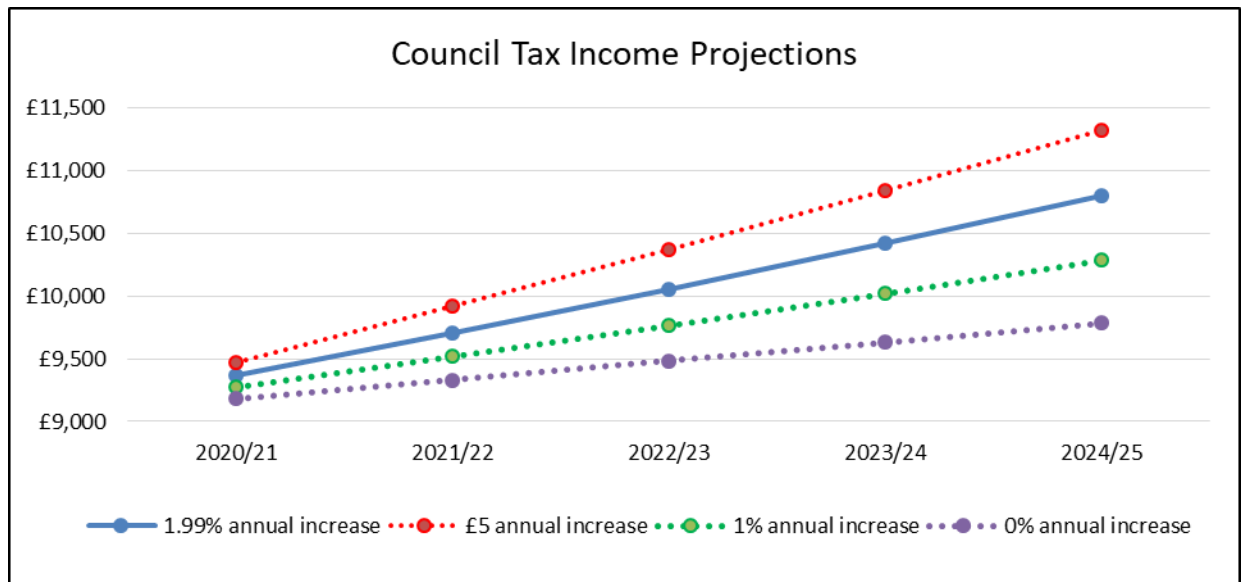
Scenario: Capital Programme commitment	9,169	3,089	3,423	919	0	0	16,600
Estimated NHB available (forecast at risk)	-9,169	-3,089	-2,815	200	0	0	-14,873
Less: Continuation of Project Resources in establishment budget	Included above	Included above	Included above	513	513	513	1,539
Less: Funding for transitional costs and service resilience		?	?	?	?	?	?
Projected Shortfall	0	0	608	1,632	513	513	3,266

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 % (MFTP 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
MFTP: 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.

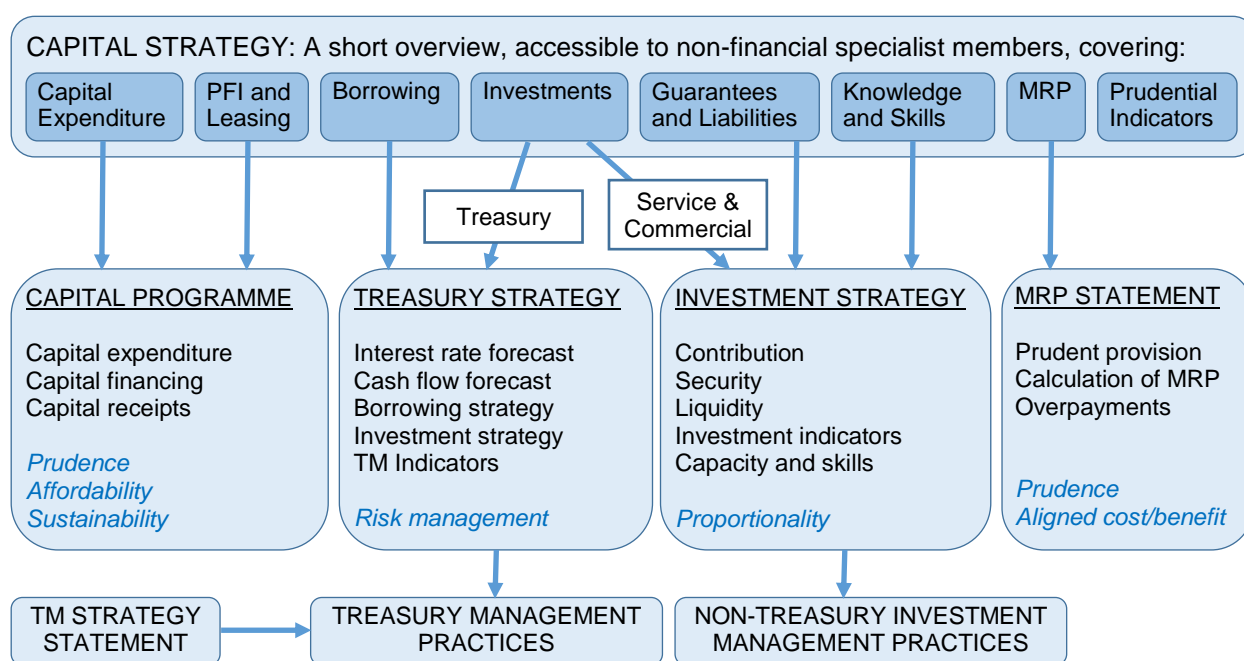
19.5 For the General Fund, the majority of direct investment is supported through use of New Homes Bonus funding and Community Infrastructure Levy; with further investment supported through planning obligations (S106/Hinkley funds), capital grants, capital receipts, and revenue contributions. For the 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 (or any successor arrangement) 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 Next Steps

21.1 Officers are continuing to work through detailed budget estimates for next year. The Leadership Team and Executive Councillors will bring forward budget options for consultation with Members via Scrutiny Committee in December and to the Executive Committee in late December. The Government is also due to publish the Provisional Settlement in early December. Final budget proposals will be presented to Scrutiny, Executive and Full Council in February 2020. A summary of key dates is set out below:

Dates	Where	What
October		
21	Members Briefing	Commercial Investment Strategy
23	Executive	Commercial Investment Strategy
November		
6	Scrutiny	Financial Strategy and Budget Approach
12	Full Council	Commercial Investment Strategy approval
20	Executive	Mid-Year Budget Monitoring Report
December		
4	Scrutiny	Budget Progress and Outline MTFP 2020/21
18	Executive	Budget Update and Outline MTFP 2020/21 Review of New Homes Bonus Allocations Earmarked Reserves Review
January		
6-23	Political Groups	Political Group briefings offered on provisional settlement and draft budget position
23	Charter Trustees	Budget and Precept 2020/21
February		

Dates	Where	What
3 (tbc)	Scrutiny (Budget)	Fees and Charges 2020/21 General Fund Revenue Budget and Capital Programme 2020/21 HRA Revenue Budget and Capital Programme 2020/21 Capital, Treasury and Investment Strategies 2020/21
10 (tbc)	Executive (Budget)	Fees and Charges 2020/21 General Fund Revenue Budget and Capital Programme 2020/21 HRA Revenue Budget and Capital Programme 2020/21 Capital, Treasury and Investment Strategies 2020/21
19	Full Council (Budget)	Fees and Charges 2020/21 General Fund Revenue Budget and Capital Programme 2020/21 Council Tax Resolution 2020/21 HRA Revenue Budget and Capital Programme 2020/21 Capital, Treasury and Investment Strategies 2020/21
March		
31 March	Full Council	Pay Policy Statement

22 Links to Corporate Strategy

- 22.1 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.

23 Finance / Resource Implications

- 23.1 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.

24 Legal Implications

- 24.1 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.

25 Equality and Diversity Implications

- 25.1 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.

26 Partnership Implications

- 26.1 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.

27 Asset Management Implications

- 27.1 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.
- 28 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.

29 Consultation Implications

- 29.1 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 – 6 November 2019**
- **Executive Committee – 18 September 2019**
- **Full Council – No (Annual Budget report to Full Council in February)**

Reporting Frequency: Annual

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Scrutiny Committee – Work Programme 2019/20

6 th November (DH)	4 th December (WSH)	8 th January (DH)	5 th February (DH)	March (WSH)	April (DH)	TBC
Budget Update – P Fitzgerald	Voluntary and Community Sector Grants Annual Fund Review – C. Gale	Travellers Policy Update – Ann Rhodes	HRA Budget 2020/21 – P Fitz/E Collacott			Leisure Operator Performance Update
Page 35	Infrastructure planning, Governance arrangements and CIL Funding Update – N Bryant	Housing Strategy Action Plan for SWT – M Leeman January 2020	General Fund Revenue Budget and Capital Estimates 2020/21 – P Fitz/E Collacott			
	Citizens Advice service delivery and transformation proposals – M. Leeman	Empty Homes Update Report – S Perry	Treasury Management Strategy Statement 2020/21 P Fitz/E Collacott			
	Hinkley Phase 3 Housing Funding Strategy – M Leeman	HRA Business Plan – S Boland	Investment Strategy 2020/21 P Fitz/E Collacott			Business Planning for 2020
	Homelessness and Rough Sleeper Strategy – H Bryant/ M Leeman	Performance Update – M Riches (For Information Report)	Capital Strategy 2020/21 - P Fitz/E Collacott			East Quay Wall Repairs – C Hall

		Social Value – M. Leeman.				
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