

SWT Scrutiny Committee - 6 November 2019

Present: Councillor Gwil Wren (Chair)

Councillors Libby Lisgo, Sue Buller, Norman Cavill, Dixie Darch, John Hassall, Dave Mansell, Andy Milne, Hazel Prior-Sankey, Phil Stone, Danny Wedderkopp, Keith Wheatley, Caroline Ellis and Janet Lloyd

Officers: Paul Fitzgerald (Strategic Finance Advisor and Section 151 Officer), Andrew Randell (Democracy and Governance Case Manager).

Also Present: Councillors Marcus Kravis and Federica Smith-Roberts

(The meeting commenced at 6.15 pm)

39. Apologies

Apologies were received from Councillors Hunt, Lees and Thwaites

Councillor Ellis substituted for Councillor Lees
Councillor Lloyd substituted for Councillor Hunt

40. Minutes of the previous meeting of the Scrutiny Committee

(Minutes of the meeting of the Scrutiny Committee held on 9 October circulated with the agenda)

Resolved that the minutes of the Scrutiny Committee held on 9 October be confirmed as a correct record.

41. 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 N Cavill	All Items	West Monkton	Personal	Spoke and Voted
Cllr C Ellis	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

SWT Scrutiny Committee, 6 11 2019

Cllr A Milne	All Items	Porlock	Personal	Spoke and Voted
Cllr H Prior-Sankey	All Items	SCC & Taunton Charter Trustee	Personal	Spoke and Voted
Cllr D Wedderkopp	All Items	Taunton Charter Trustee	Personal	Spoke and Voted
Cllr G Wren	All Items	Clerk to Milverton PC	Personal	Spoke and Voted

42. **Public Participation**

The following members of the public made statements:-

Karuna on behalf of Extinction Rebellion:-

The Council were commended in declaring a Climate Change Emergency and the work undertaken to date. Further emphasis was encouraged to align all services to the Climate Change Strategy to deliver the zero carbon target before 2030. The Council were requested to positively engage with members of the public and outside organisations to co-write the policy design. Work to focus on carbon reduction was requested to be at the forefront of the Councils priorities to avert a climate, financial and ecological disaster.

Karuna was thanked for his input with widespread agreement of the issues and acknowledgement of the importance of Extinction Rebellion work in keeping the awareness of the climate change emergency, to gain support to make the changes needed and to engage further both locally and centrally.

Phil Cookson:-

The Committee were requested to formally request that Councillor Mike Rigby, The Chief Executive and the Director responsible for Planning Policy ensure that allocations of land and buildings across the District (in the Local Plan 2040 review) include the outcomes of Town and Parish Councils and other settlementbased groups, concluded discussions with land and building owners regarding changes of use for low carbon developments; and thereafter include such land and buildings in the site allocation and Development plans for each settlement, therefore the formal request was made to ensure inclusion of changes of land use for the local carbon future in the Site Allocations and Development Plan maps.

The committee thanked both members of the public for their statements and informed them that the Strategy Specialist for Climate Change would be in contact to arrange a meeting to discuss their areas of concern.

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

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.

The Strategy outlined the Council's proposed approach to managing its financial position over the medium term (three to five years). It also set out estimates and assumptions regarding service costs and income, the funding available and the planned approach to 'balancing the books' over the same period.

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

The report provided 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.

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.

Following the creation of the new Council, and the elections in May 2019, the new administration and leadership team developed a new Corporate Strategy which was approved by Full Council on 8 October 2019. The Corporate Strategy set the ambitions and directions for the medium term, incorporating priorities outcomes and objectives for 2020 to 2024. The Financial Strategy would evolve alongside this and reflect the plans in more detail as the financial planning process progressed. 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 had a clear strategy in place to remain financially resilient for the foreseeable future in the face of ongoing funding uncertainty.

Financial Planning was 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 included:

- 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. A 1year Finance Settlement was expected for 2020/21.
- Funding – the Fair Funding Review and Business Rates Retention reform had been deferred with implementation now anticipated in 2021/22.
- Funding – Business Rates Baseline Reset had also been deferred until 2021/22. However a “Full Reset” was expected with funding expected to reduce to the Baseline.
- Funding – New Homes Bonus was being reviewed by ministers, and it was anticipated any changes would significantly reduce funding. However the Government had indicated the total funding nationally for NHB would continue 2020/21.
- Cost inflation – some items of cost were running ahead of overall inflation including wage growth and there were demands from the unions for significant increases in pay and other entitlements. Treasury costs could also be higher following the surprise increase to PWLB borrowing rates from 9 October 2019.

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

General grant funding for local government, more so for shire districts, had been significantly reduced through the decade. This had seen a major reduction in funding, forcing councils to consider a range of measures to balance budgets. There had been a reduction in general grant funding since 2010 for SWT and its predecessors, which emphasised 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%). When factoring in the impact of inflation the **‘real terms’ reduction equated to £8.5m (-66%) per year since 2010**. In response, the Council(s) had significantly reduced costs to ensure ongoing services were affordable and the Council was financially resilient.

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

In recent weeks, key estimates had 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.

The council’s latest forecasts of Net Expenditure and Funding, set out a provisional budget gap rising to £2.5m by 2022/23 (15% of Net Expenditure). There was a high degree of uncertainty regarding funding estimates, therefore these figures would be reviewed and updates reported to Members as further information becomes available. Notably, the assumptions related to New Homes Bonus had been updated to reflect the annual Council Tax Base return completed in early October, and a more cautious assumption that the grant would not continue in its current form beyond 2020/21.

	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

The projected Net Expenditure across the 5-year period had reduced since the Strategy was approved in September, reflecting the reduction in costs supported by New Homes Bonus. The main assumptions included:

Service Costs and Income:

- Staff pay awards were estimated at 2% annually. Unions were 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 was 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 was expected in Spring 2020.
- Transformation savings remained sustainable and temporary transitional costs ceased as planned.

Funding:

- Business Rates Retention (BRR) would be subject to a Full Reset in 2021/22 and reduce to the Baseline. This significantly reduced 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 was at risk and the MTFP had been reduced to assume no NHB funding is available beyond 2020/21. This impacted on the affordability of the Capital Programme which would be reviewed as a result.
- Council tax was forecast based on an officer assumption of a 1.99% increase each year, following the Core Referendum Principle announcement in the 2019 Spending Round.

Further information regarding these estimates and assumptions, and related elements of the financial strategy were set out in more detail in the report.

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 was proposed to set challenging savings targets for the next three years. Given the level of uncertainty in financial planning, it was not proposed to set targets beyond this timeframe at this stage – but this would be kept under review as corporate plans and greater funding certainty emerged.

These targets would be kept under review and finalised alongside the final budget proposals presented to Council in February. Given the future funding uncertainty the targets needed to be carefully assessed each year.

The overarching aim of the financial strategy was to protect services in the face of reductions in government funding. Transformation sought to ensure the cost of delivering services is more efficient and customer focussed. It remained important that prioritisation of spending and investment in services reflected current and future Council priorities. Such prioritisation was secured through ensuring budget decisions were clearly linked to the Corporate Strategy and Operational Plans.

The estimates for service costs and income were 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

There were currently no savings targets identified for services, with the assumption that overall activity would 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 was that resources would be agile and refocussed / reprioritised in line with priorities as these evolve.

The Leadership Team continued to drive forward process improvements and other measures focussed on channel shift and reducing failure demand. There was a risk that efficiencies and demand reduction would not be fully delivered as quickly as previously anticipated and that staff resources would need to be maintained for a period to provide essential transitional capacity and service resilience. This was being assessed and any additional budget requirement would be incorporated in future reports together with funding proposals.

Savings of £100k were currently included in the Savings Targets in Table 3 on the assumption that further efficiency could 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 were realised. This target would need to be revised given the ongoing challenges.

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

The Executive supported a new Commercial Strategy, presented as a confidential report on 23 October. This Strategy was recommended to be approved by Full Council on 12 November, and proposed large-scale investment to generate significant additional income. This commercial approach was 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 communities, and reduce pressure to cut services.

This Commercial Investment approach is considered essential to meet the £2m segment of the savings target, as a key component of the options to address the budget gap. This approach would present an update in the risk profile to be managed, however there was no risk-free option.

A key theme of the Council's corporate priorities was 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 would also explore further opportunities for the commercialisation of services with a view to increasing productivity and growing income returns. Part of this strategy was to ensure that the full costs of services were identified, and discretionary fees and charges set to fully recover costs from customers.

Equally, there could be opportunities for trade services to 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 was to provide income that helped ensure local services remained affordable and cuts to services can be avoided / minimised.

The Council updated its Treasury Management Strategy annually, with the current TMS approved at Shadow Full Council in February 2019 alongside the Budget. It was important to recognise that the financial strategies for revenue and capital resources and treasury management were intrinsically linked (as well as the proposed commercial strategy). The strategies reflected 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.

This Strategy looked 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.

The predecessor Councils had a good record of treasury performance relative to the respective financial positions and prudent approaches to managing risk. There were opportunities to change the mix of treasury investments as a new single council with

consolidated resources. The Treasury Strategy would be reviewed during 2019, which sought to improve overall treasury investment performance whilst continuing to implement an appropriately prudent balance between security, liquidity and yield.

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

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

The Council currently raised 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.

It was anticipated the Charter Trustees would 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.

The Council maintained General Reserves and Earmarked Reserves, for both the General Fund and the Housing Revenue Account. General Reserves were 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 were set aside for specific purposes to be spent in future years and to provide contingencies for specific risks.

The approach to General Reserves included a regular review to ensure the levels of reserves held were adequate in the context of the financial risks faced and other mitigations in place (e.g. provisions, earmarked reserves, insurances). Reserves were maintained at or above the assessed minimum requirement, with any planned use of reserves above the minimum supporting one-off expenditure or "bridge" a gap for timing differences on planned delivery of savings / commercial income. Holding adequate reserves remained a key pillar of the Council's financial resilience.

The Council aimed to balance the budget each year without the need to use General Reserves, and prioritised 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.

The Council set aside funds into Earmarked Reserves through the Budget process where there was a longer term spending plan, for example with New Homes Bonus that supported projects, and Business Rates which mitigated financial risks and smoothed out accounting timing differences.

The following table summarised the General Reserves position and the current assessed adequate minimum balance. It was proposed within the strategy to introduce a new measure to provide operational targets as well as a minimum contingency balance. This recognised that reserves could provide resources during the year to address emerging costs and priorities not identified through the annual budget planning process.

	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

The General Fund Reserves balance brought forward had 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.

The current Business Rates Retention system was introduced from April 2013. It sought to incentivise business growth by enabling local authorities to keep a share of growth in business rates above the funding baseline set by Government. The Business Rates Income Target and Baseline were due to be "Reset" in April 2021 (deferred from April 2020 in the 2019 Spending Round). This would mean the current business rates income levels would be built into the future Target/Baseline. The Council would no longer benefit from historic growth, and would 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.

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

Debate

- It was considered that the budget deficit was similar to previous years.
- There remained a degree of uncertainty in achieving a balanced budget for 2020/21 but there was a commitment to working towards this target.
- There were still election pledges to be anticipated along with the delay in budget setting and setting fees and charges.
- There was not any anticipation of business rate policy changes or any large changes in rateable charges.
- An increased of a 1.99% increase of Council tax was budgeted for, although it was acknowledged that this was ultimately a Councillor decision.
- It was considered that 12th February would be the last date to receive the funding settlement before budget setting on 11th March.

- There was the potential to set the budget without the final settlement in this scenario.
- The investment and treasury management strategy would provide consideration to the levels of risk from the investment portfolio.
- There were reasonable levels of confidence for the next financial year depending on Government and Council priorities. There continued to be uncertainty around the assumptions of year two onwards.
- The committee requested for the climate change priorities to be reflective of the climate change priorities; in particular the difference in the income and cost of implementing the strategy
- The committee requested the potential of developing tools and calculators for public engagement along with the increase of investment in services.
- It was confirmed that an item of the Council Tax discretionary rate relief would be considered as a separate item next year.
- The New Homes Bonus reserve was financially linked to the Capital Programme.
- The minimum general reserves balance could place additional funds in General Reserves.
- There had been commercialisation of services and service efficiencies generated through large contracts such as the waste contract and through insurance cover.
- The ambition for funding in growth areas would be considered once new directors commence employment. They would be provided financial targets to improve financial performance.
- High level assumptions would be built into the base budget, the impact of transformation was still impacting on the base budget.
- Fees and Charges would be set to achieve full cost recovery.
- The Committee requested that South Somerset District Council's investment in battery storage at Bishops Hull would be investigated.
- The committee requested regular updates on the budget forecasts with Councillors and shared through Scrutiny, to be published on the public domain to ensure transparency and protecting public interest.

Resolved that:-

The Council noted the approved Financial Strategy and updated Medium Term Financial Plan position.

44. **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.

- Further information was requested in relation to South Somerset District Council's investment in battery storage at Bishops Hull.
- An item relating to the Local Plan was requested to be added to the forward plan.
- Consideration of the Commercial Investment Strategy was requested after the election.

Resolved that the Scrutiny Committee Forward Plan be noted.

(The Meeting ended at 8.03 pm)