

PAPER A

Forward Plan Reference: FP /20/10/13

Decision Date: 08/02/21



Medium Term Financial Plan - 2021/22 Budget and Council Tax Setting

Cabinet Member(s): Cllr Mandy Chilcott - Cabinet Member for Resources

Local Member(s) and Division: All

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1. Key Points of the Budget Report and Summary

1.1 This budget report sets out spending plans for the next three years and highlights areas of priority to support residents across Somerset as follows:

- £10.174m increased spending in adults social care services
- £8.976m increased spending in children's services
- Increased spending in infrastructure projects
- Reduced spending in back office services
- A new £10.8m Emergency Fund for activities to combat Covid-19 and its impacts
- Council tax rise of 1.99% with a further 3% adults social care precept

The budget also contains detail of the significant investment in schools, roads and other infrastructure across the county as follows:

- £129.861m allocated to major schemes in 2021/22 (SCC schemes)
- £73.913m of new projects approved
- Increased spending by £6.5m to address the Climate Change Emergency from both revenue and capital resources

Further detail is provided throughout this report and appendices. The papers also provide evidence of strong financial performance with Council reserves of £91.164m (£19.690m General Reserves and £71.474 Earmarked Reserves)

This report follows the update to Cabinet on the 20th January and previously the 16th December and details the Revenue and Capital Budgets for 2021/22 for approval together with Medium Term Financial Plan (MTFP) projections for 2022/23 and 2023/24. The report lays out a balanced budget for the coming year 2021/22.

1.2 Preparation of the budget has constantly required review of the impacts of Covid-19 moving forward. During the pandemic there have been additional costs and pressures that have been presented in the budget monitoring reports throughout the year. In establishing the new 'normal' a base level of funding has needed to be set.

1.3 Looking into the future, medium term financial planning has been challenging given the lack of information regarding longer term Government funding. Both the Fair Funding and Business Rates Retention reviews have been delayed until 2022/23. The Business Rates reset has also been delayed. The provisional Local Government Finance Settlement was announced on the 17 December 2020 and figures have been updated to include the outcome of this. The final Finance Settlement is expected at the end of January/ early February 2021.

1.4 The detailed 2021/22 budget proposals and MTFP for future years were reviewed by Adult and Public Health Scrutiny Committee, Children and Families Scrutiny, and the Policies & Place Scrutiny in January/February 2021. The final budget proposals will be considered by Council on 17 February.

2. Recommendations

That the Cabinet recommends Council approves

The General Fund net revenue budget for 2021/22 of **£356,072,100** and the individual service budgets for 2021/22 as outlined in **Appendix 1** including,

- a) The transformation, savings and income generation plans outlined in **Appendix 2(i)**, in conjunction with the Equalities Impact Assessments where required in **Appendix 2 (ii)**.
- b) The additional funding requirements set out in **Appendix 3**
- c) An increase in Council Tax of **1.99%** in 2021/22 (an increase of **£25.66** per Band D property).
- d) An increase of **3.00%** to Council Tax for the Adult Social Care Precept is approved in recognition of the current demands and financial pressures on this service. This is equivalent to an increase of **£38.67** on a Band D property.
- e) Agree to continue the Council Tax precept of **£12.84** within the base budget for the shadow Somerset Rivers Authority (representing no increase). This results in a Council Tax Requirement of **£2,560,700**,
- f) Agree the precept requirement of **£269,934,700** and set the County Council precept for Band D council tax charge at **£1,353.53** for 2021/22.
- g) The use of reserves for once-off spend and the overall estimated position of Earmarked Reserves outlined in **Appendix 4**.
- h) Note the adequacy of General Reserves at **£19.690m** within a risk assessed range requirement of **£18.70m - £20.67m**
- i) The Capital & Investment Strategy attached at **Appendix 6**
- j) The Capital Programme for 2021/22 of **£152.138m** including new capital bids of **£73.913m** outlined in **Appendix 7**, planned sources of funding, and notes the overall programme of **£231.711m** for 2022/23 to 2023/24 as outlined in **Appendix 8**.
- k) The MRP Policy attached at **Appendix 9**.

- l) The Capital Prudential Indicators outlined in **tables 12-18**.
- m) Delegate any amendments within the final Government Financial Settlement and the final Business Rates amendments to the Director of Finance in consultation with the Leader of the Council

3. Reasons for recommendations

- 3.1** To recommend to full Council the Revenue and Capital Budgets, levels of Council Tax and other supporting documents as part of the statutory requirements to set a balanced budget for 2021/22.

4. Other options considered

- 4.1** The Council has a legal duty to set a balance budget each year and these proposals fulfil that requirement.

5. Links to County Vision, Business Plan and Medium-Term Financial Strategy

- 5.1** The budget will link additional funding requirements (both revenue and capital), transformation, savings, and income generation to the delivery of the Council's key priorities within the Council's vision to create:

- A thriving and productive County that is ambitious, confident and focussed on improving people's lives;
- A county of resilient, well-connected and compassionate communities working to reduce inequalities;
- A county where all partners actively work together for the benefit of residents, communities and businesses and the environment, and;
- A county that provides the right information, advice and guidance to enable residents to help themselves and targets support to those who need it most.

6. Consultations and co-production

- 6.1.** The budget proposals have been developed by the Senior Leadership Team (SLT) working with the Cabinet. Where a detailed consultation is required this will be arranged as the agreed proposals for change are developed and implemented by the relevant directors.
- 6.2** The three Scrutiny Committees have also been consulted upon the detailed budget proposals in January and February 2021 and their comments will be provided to Cabinet.

7. Financial and Risk Implications

- 7.1** The financial implications are set out in the report.
- 7.2** The Corporate Risk Register has been updated to include a new Strategic Risks ORG0057 – Sustainable MTFP with a current risk score of 4x4=16. This risk reflects the future uncertainty surround Government funding for Councils that will reviewed during the next financial year.

An assessment of the risks to general and earmarked reserves within the budget as set has taken place and the conclusion has been set out under the Director of Finance’s robustness assessment within this report.

Key risks have been outlined in **Table 18** of this report and these will continue to be monitored and reported as part of the budget monitoring process.

8. Legal and HR Implications

- 8.1** The legal implications will be assessed as part of the overall budget process that will conclude in February 2021.
- 8.2** Any HR implications will be reviewed as part of the budget process.

9. Other Implications

9.1 Equalities Implications

The Equalities Officer has reviewed the Transformation, savings, and Income Generation Proposals and indicated which plans require a full Equalities Impact Assessment (EIA). This is shown in **Appendix 2(i)** with completed EIAs shown in **Appendix 2(ii)** for consideration when approving the budget for 2021/22.

9.2 Community Safety Implications

There are no community safety implications arising from this report.

9.3 Sustainability Implications

There are no sustainability implications arising from this report.

9.4 Health and Safety Implications

There are no health and safety implications arising from this report.

9.5 Health and Wellbeing Implications

There are currently no implications

9.6 Social Value

There are currently no implications

10. Scrutiny comments / recommendations:

The 2021/22 budget proposals were considered by the Polices Place Scrutiny Committee on 3 February 2021 and their feedback will be reported to the 8 February Cabinet meeting. The specific budgets for Adult Services and Public Health will be reviewed by Scrutiny Adults and Health and Children's Services by the Children's Family Scrutiny both to be held on the on the 27th January 2020. Draft comments will follow as soon as they are available.

11. Background

11.1 Preparations for the 2021/22 budget were reported to Cabinet in January 2021 and in December 2020 and highlighted the unique difficulty with producing the 2021/22 budget against the backdrop of the Covid-19 pandemic and the significant uncertainty that it brings.

On the 17th December the Government announced the final Local Government Finance Settlement which provided details of the funding for 2021/22 including referendum levels for Council Tax and the Adult Social Care precept. The final settlement is due at the end of January beginning of February but there is only a small chance of any changes being made. The outstanding area for the 2021/22 is the details of the Business Rates funding which the Districts will be compiling during January 2021 when they will also finalise the figures for the Collection Fund deficit/surpluses for Business Rates. Any surpluses will impact upon 2021/22 and any deficits will impact upon 2021/22, 2022/23 and 2023/24 as these will be spread over three financial years.

The Finance Settlement outlined significant changes in future Council funding through the Governments review of Fairer Funding and changes to the Business Rates retention scheme. There is also the on-going issue of longer-term funding of Adult Social Care and the Business Rates reset. These major changes provide greater uncertainty around the future years funding levels and make longer term financial planning more difficult to predict.

12. 2021/22 Budget and Forecast for 2022/23 and 2023/24

The completion of the 2021/22 budget has now been finalised despite the significant uncertainty brought about by the Covid-19 pandemic. The budget proposals have been built up based upon the latest information and forecasting, but it has to be acknowledged that there are still some areas of uncertainty. As a result of this uncertainty the budget proposals include a Contingency of £6m. In addition to this tranche 5 Covid-19 grant has been transferred into a Covid-19 Emergency Fund to meet with additional Covid-19 pressures that will occur in 2021/22.

The overall financial environment continues to be challenging but despite this there is continued investment in key front-line services and an ambitious capital programme. This has been achieved by shifting resources to priority areas, the

continued transformation of services and driving out efficiencies. The draft proposals have been subject to review by SLT through various challenge processes. The latest estimates in preparing the 2021/22 budget are shown below in **Table 1** on a Service by Service basis.

Table 1 - 2021/22 Proposed Budget for Approval and Indicative Budgets for 2022/23 and 2023/24

Original Budget 2020/21		Proposed Budget 2021/22	Indicative Budget 2022/23	Indicative Budget 2023/24
£m	Services	£m	£m	£m
126.290	Adult Services	141.592	150.573	159.305
86.600	Children's Services	96.005	97.275	101.229
2.097	Public Health	1.411	1.421	1.429
73.100	Economic & Community Infrastructure Services	73.107	72.066	74.870
14.006	Corporate Affairs	13.297	14.734	15.106
7.762	HR&OD and Community Governance/Legal Services	8.566	7.872	8.176
2.965	Finance	3.057	3.166	3.330
	Non-Service			
6.000	Corporate Contingency	6.000	6.000	6.000
	Covid-19 Emergency Fund	10.800	0.000	0.000
2.421	Accountable Bodies	7.433	3.205	3.230
30.528	Corporate Areas	32.623	31.979	33.323
(19.964)	Special Grants	(37.819)	(22.140)	(21.573)
331.804	Net Budget Requirement	356.072	366.151	384.425
	Financed by			
(6.100)	Revenue Support Grant	(6.209)	(6.240)	(6.271)
(74.000)	Business Rates	(70.042)	(69.900)	(71.300)
(3.324)	Collection Fund (Surplus) / Deficit	13.700	0.000	0.000
(254.730)	Council Tax	(267.374)	(276.822)	(288.028)
(2.562)	Council Tax Somerset Rivers Authority	(2.561)	(2.574)	(2.599)
0.000	General Reserves	0.000	0.000	0.000
8.912	Earmarked Reserves	(23.587)	1.785	1.800
(331.804)	Total Funding	(356.072)	(353.751)	(366.398)
	Adjustment for prior years' budget gap	0.000	0.000	(12.400)
0.000	MTFP Forecast Budget Gap	0.000	12.400	5.627

Appendix 1 sets out the service details of the budgets shown above and will form the basis of the level of budget monitoring in 2021/22. **Appendix 5** outlines the Detailed Directorate Summaries.

Budget Assumptions

The budget for 2021/22 and forecast for 2022/23 and 2023/24 are based on the following assumptions:

- **Inflation** – Pay inflation has been allocated at 1% for 2021/22 in line with Government guidance but will be subject to the national agreement. Pay inflation has been included at 1.5% for 2022/23 and 2.0% for 2023/24. General and contractual inflation has been assessed by services.
- **Pension Costs** – Have been revised in line with the most recent revaluation
- **Interest Rates** – Estimated average interest of 0.1% per annum for treasury management cash investments. The Council will maintain a minimum cash policy;
- **Capital Spending** – an allowance has been made to fund borrowing costs for new schemes each year of the plan;
- **Borrowing** – the strategy continues to factor in longer term borrowing costs into the MTFs while continuing to optimise the use of cash balances subject to market conditions and the overriding need to meet cash outflows;
- **Finance Settlement** – The budget is based on the provisional financial settlement figures released on the 17th December. The MTFP assumes that the Business Rates reset occurs in 2022/23.
- **Funding Review** – Future years assume a neutral impact of the review of business rates (other than the reset) and Fairer Funding
- **Social Care Grant** – assumes that this grant continues at 2021/22 levels of £17.959m
- **Council Tax** - increases in tax base of 0.5% in 2022/23 and 1% 2023/24 with a 2.99% increase in the Band D charge
- **Adult Social Care Precept** – no further increases have been factored in beyond 2021/22

Transformation, Savings, and Income Generation Plans

Transformation, savings and income generation proposals are attached in **Appendix 2(i)** with Equalities Impact Assessments (EIA) where required and completed in **Appendix 2(ii)**. **Appendix 2(i)** outlines where plans still require a full EIA and the proposal will not be delivered until these have been completed and reviewed.

Additional Funding Requirements

Additional Funding Requirements are shown in **Appendix 3**. The requirements include pay, contractual, general inflation, demographic and demand pressures, and growth.

Action to Meet Future Year's Gaps

The continued transformation of services will provide improvements to services, better efficiencies, and reduce cost pressures in the MTFP. There are a number of areas where work is progressing, and the full financial implications will need to be reflected in the MTFP.

In addition to this, other areas that will contribute to reducing the forecast budget gap in the MTFP, such as the work on joint commissioning and a review of fees and charges. Part of the work over the next few months will be to quantify the financial impact of all of these and build them into the updated MTFP position.

Climate Change Emergency

Somerset Councils' Climate Emergency Declarations set out shared ambitions to deliver a Carbon Neutral Somerset by 2030 and to build our resilience for, or adapt to, the impacts of a changing climate. We have developed a shared Strategy for Somerset with our District partners and have added £0.254m in additional revenue funding. In addition to this £0.250m has been added to deal with ash dieback and £0.123m for additional tree maintenance.

In considering the proposed capital programme, new bids that support the response to climate change total £5.9m. Examples include:

- Investment in energy investment projects – £3.1m
- Energy efficient schemes - £1.3m
- Walking and cycling initiatives - £1.5m

Local Government Reorganisation

SCC at Council on the 29 July approved the submission of the One Somerset Business Case to the Secretary of State, MHCLG. This was followed by an invitation for Yorkshire, Cumbria, and Somerset to submit bids for reorganisation in these areas.

The One Somerset Business Case outlined that a new single-tier unitary council would deliver £18.5m savings per year, with a one-off investment of £16.5m. Most of this one-off investment will be needed to set up the new authority and its operating structure with the savings mainly being delivered in its first full year of operation. As the decision is likely to be made within the next financial year it is prudent to set aside a proportion of the £16.5m transitional costs to enable that work to start as soon as a decision is made. Therefore, the budget

within Corporate Services includes £3.2m towards those transitional costs that will fall in 2021/22 to implement the One Somerset proposal. This will be funded from the Budget Equalisation Reserve.

13. Funding for Councils

The one-year Comprehensive Spending Review (CSR) for 2021/22 announced on the 25 November outlined that the Fairer Funding Review, review of business rates, and the business rates reset would be consulted on in 2021. The Provisional Settlement on the 17 December outlined the following grants:

Table 2 – Government Grants Announced as Part of Financial Settlement

Grant	Description	Estimated In 2021/22 £'m	Increase/ (Decrease) from Previous Year £'m	Indicative Budget 2022/23 £'m	Indicative Budget 2023/24 £'m
Revenue Support Grant	Government Grant Distributed based on need.	6.209	0.109	6.240	6.271
Rural Services Delivery Grant	Government Grant which supports the increased costs of delivering services in rural areas	2.521	0.121	2.521	2.521
New Homes Bonus	New Homes Bonus is an incentive-based grant to increase the number of new homes built and reduce the number of empty properties. This is currently being phased out. The Government has moved some of this funding to the Social Care Grant.	1.246	(0.795)	0.567	-
Social Care Grant	A Government Grant to support the cost pressures in both Adult and	17.959	3.259	17.959	17.959

	Children's social care.				
Once-Off Covid-19 Support					
Local Council Tax Scheme Grant	This Government Grant recognises the impact of Covid-19 on the Council Tax Support Scheme and is based on the number of claimants. The LCTS has an impact on the tax base and therefore the income from Council Tax to the authority.	4.2	4.2	-	-
Covid-19 Funding	Tranche 5 of Covid-19 support for the impact of Covid-19 in 2021/22. This is being held in a separate Emergency Fund to support services through the continued impact of Covid-19 in 2021/22	10.8	10.8	-	-
Covid-19 Sales, Fees and Charges Support	Government support for losses in sales, fees and charges. Claims will be submitted once losses have been calculated	TBA	-	--	

The final settlement has not been announced at the time of preparing this report.

It is expected at the end of January early February 2021.

In addition to the grants listed above the following are included within the Adults or Public Health Services budgets:

Table 3 – Other Major Grants Embedded in Service Budgets

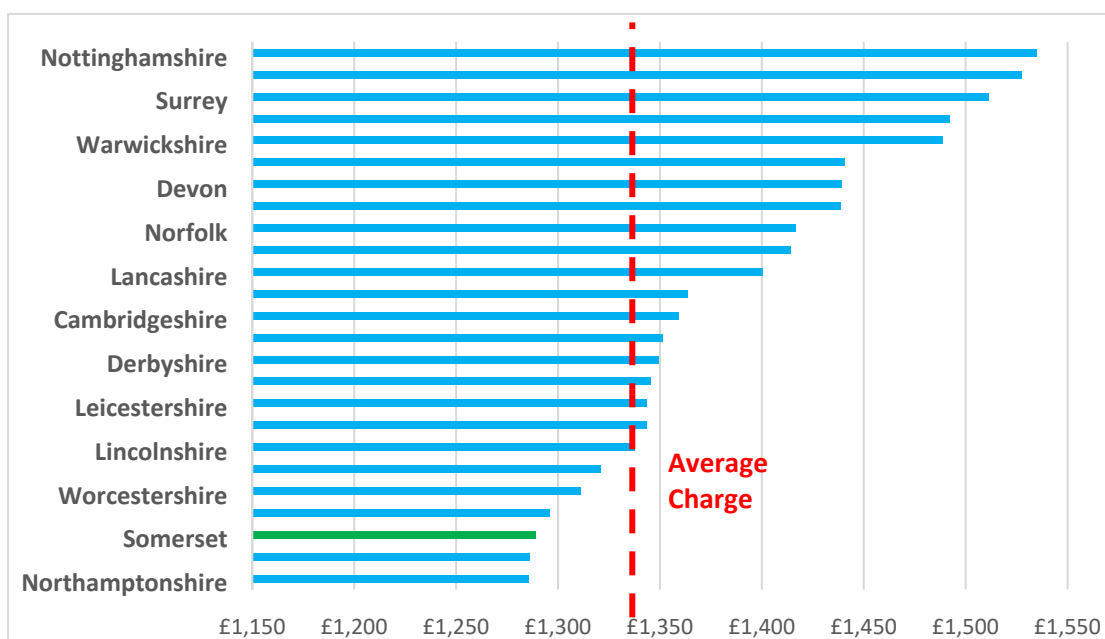
Grant	Description	Estimated In 2021/22 £'m	Increase/ (Decrease) from Previous Year £'m	Indicative Budget 2022/23 £'m	Indicative Budget 2023/24 £'m
Better Care Fund	Grant from the CCG for the integration of health and social care. Increase is not yet known but £13.191m received in 2021/22	13.191	-	13.191	13.191
Improved Better Care Fund	Government Grant to support local authorities to meet adult social care costs, reduce pressures on the NHS and support the social care market	22.685	-	22.685	22.685
Public Health Grant	Ringfenced Government funding to improve health in the local population	21.048	-	21.048	21.048

Council Tax

Over the last few years there has been a national shift away from government funding to locally generated funding through Council Tax. The income from Council Tax is a product of the Tax Base multiplied by the Band D Council Tax charge.

Table 4 shows the Council Tax charge for the current year of £1,289 for a Band D property which is the third lowest of all Shire County Councils with the average charge being £1,387.

Table 4: Council Tax Band D Comparisons



The Government controls council tax increases through the referendum limits and has set these for 2021/22 at 1.99% for Council Tax and 3% for Adult Social Care precept. Also, as part of Finance Settlement the government has taken these increases into account when allocating funding as part of the Core Spending Power (CSP) calculation for each council.

Tax Base

The MTFP in February estimated an increase of 1.23% for 2021/22 but Covid-19 has had an impact upon unemployment, house building and council tax collection resulting in a reduction of 0.07%. The Tax bases has now been set by the District Councils and **Table 5** shows the figures for 2019/20 to 2021/22 and increase or decrease in 2021/22 compared to 2020/21. This has reduced the expected income for 2021/22 by £3.352m.

Table 5: Changes to the Tax Base by District

TAX BASE	2019/20	2020/21	2021/22	% Increase/ (Decrease)
Mendip DC	40,496.05	40,978.57	41,337.76	0.88
Sedgemoor DC	41,008.90	41,435.78	40,991.35	(1.07)
South Somerset DC	60,266.07	60,710.78	61,152.95	0.73
Somerset West and Taunton Council	56,622.78	56,449.87	55,947.87	(0.89)
Total	198,393.80	199,575.00	199,429.93	(0.07)

Council Tax

Cabinet is requested to recommend an increase of 1.99%, £25.66 per annum (49p per week) in general Council Tax to Council, and a further 3.0%, £38.67 per annum (74p per week) increase in Adult Social Care Precept in line with those referendum limits and government expectations. This would add £64.33 per annum (£1.23 per week) to a Band D property. The overall Council Tax for 2021/22 including £12.84 towards the Somerset Rivers Authority would be £1,353.53 which is still below the current year's average charge for County Councils.

The overall Council Tax charge is broken down in accordance with the proportion set out in section 5(i) of the Local Government Act 1992 as follows:

	Band A £	Band B £	Band C £	Band D £	Band E £	Band F £	Band G £	Band H £
General	792.75	924.88	1,057.00	1,189.13	1,453.38	1,717.63	1,981.88	2,378.26
ASC Precept	101.04	117.88	134.73	151.56	185.24	218.92	252.60	303.12
SRA	8.56	9.99	11.41	12.84	15.69	18.55	21.40	25.68
Total	902.35	1,052.75	1,203.14	1,353.53	1,654.31	1,955.10	2,255.88	2,707.06

Adult Social Care Precept

The Government in recognising the continued pressures facing Adult Social Care (ASC) authorities, has allowed for a further 3.00% increase in 2021/22. The Council's plans include this for 2021/22 (this would increase the Adult Social Care Precept by £30.227m an increase of £7.697m from 2020/21). This will support the increase of £10.174m in the Adult Services budget in 2021/22. The Medium-Term Financial Plan assumes that this only applies to 2021/22 as the Provisional Settlement does not outline any further funding through this source.

Collection Fund Surpluses/Deficit

In-year collection of Council Tax by the Districts has also been impacted by the Covid-19 pandemic. The Government has set out legislation for authorities to spread any deficit for 2020/21 over a three-year period. The government has also set aside funding for any irrecoverable losses but the criteria for accessing this is not yet clear and the amount won't be known until the District Councils have closed down their accounts and completed the claims.

The impact for SCC is £4.636m over the next three years as shown below:

Table 6- Collection Fund Surpluses and Deficits (Council Tax)

Authority	2021/22	2022/23	2023/24	Total Deficit/ (Surplus)
	£'m	£'m	£'m	£'m
Mendip D C	0.273	0.229	0.229	0.730
Sedgemoor D C	1.293	0.448	0.448	2.190
Somerset West and Taunton Council	(0.048)	0.326	0.326	0.604
South Somerset D C	0.536	0.288	0.288	1.112
Total	2.054	1.291	1.291	4.636

This deficit will be funded from funding asset aside for this purpose in the Covid-19 Reserve.

Estimates for Future Years Band D Council Tax

The current Medium-Term Financial Plan has factored in an annual increase of 2.99% per annum over the period of the plan.

Business Rates

The review of Business Rates has been delayed and it has been announced as part of provisional Finance Settlement that the business rate reset that was due to take place in 2021/22 will also be delayed. This benefits the authority in 2021/22 but impacts the budget for 2022/23.

The provisional Finance Settlement set the Tariff & Top Up for 2021/22 at £53.1m, the Safety Net at £63.2m and Baseline at £68.3m. The draft budget proposals assume a Business Rates income of £70.3m. All of the Councils in Somerset participate in a Business Rates pool that will continue in 2021/22. An assessment of the risks and rewards of continuing with the pool has been completed with amendments reducing risks of losses to SCC being agreed. No pool gains or losses have been factored into the budget currently and the position will be monitored during the year.

The Districts will also be providing the surplus / deficit position of the Business Rates Collection Fund in the current year. Similar to Council Tax, any deficits from 2020/21 will be spread over the next 3 financial years. The position on Business Rates is made more complex with there being differences between cash and accounting positions which are more distorted due to section 31 payments from government in supporting the business sector as a result of Covid-19.

Overall, £9.5m has been set aside within the Covid-19 Reserve plus £4.2m from the Budget Equalisation Reserve to support Collection Fund deficits within Council Tax and Business Rates that have resulted from the Covid-19 pandemic.

Schools and Dedicated Schools Grant (DSG)

Schools are funded by the Dedicated Schools Grant (DSG) which is initially allocated to the Council by the Department for Education (DfE). The DSG supports all expenditure in schools (who set their own budgets) and the activities that the Council carries out directly for schools. It does not cover the statutory responsibilities the Council has towards parents. These responsibilities are funded through the Councils main revenue funding and included as part of the proposed Budget.

In July 2020, the DfE published provisional allocations for the schools, high needs and central services blocks. Final allocations based on pupil numbers from the October 2020 school census have now been made. The allocations were approved by Cabinet on the 20th January 2021.

The allocation for Somerset Schools is an increase of £12.7m¹. The Schools Forum supported the approach to delegation of the Schools Block in line with the National Funding Formula (NFF) at their meeting on the 25th November 2020 and approved the final Individual Schools Budget (ISB) proposal at their meeting on the 13th January 2021. The proposals were then approved by Cabinet on the 20th January 2021.

High needs funding to support children with Special Education Needs and Disabilities (SEND) is increasing by £730m nationally, with an increase in High Needs Block allocation for Somerset of £7.5m². Nationally central schools services funding has increased for ongoing responsibilities but will decrease by 20% for historic commitments.

The Early Years hourly rate for 3-4-year-old entitlement has increased by 6p and by 8p for the 2-year-old entitlement. The total 2021-22 Early Years Block allocation has increased by £0.4m.

With the introduction of the National Funding Formula (NFF) the DSG was ring-fenced for schools from 2018/19 making the LA responsible for the demographic pressures being observed in the SEND / High Needs element of the DSG (although schools can contribute up to 0.5% of the ringfenced sum if agreed by the Schools Forum). However, local authorities cannot contribute to any deficit. The DSG deficit at the end of 2019/20 was £11.1m and this is expected to increase to £16.6m by the end of 2020/21. The Somerset Deficit Management Plan is being updated following the systems response to the

¹ Excluding Teachers' Pay and Pensions which is now included in the DSG (previously via separate grant allocation)

² Including Teachers' Pay and Pensions and before recoupment and deductions for direct funding of high needs places by the ESFA

COVID-19 emergency and in light of the Written Statement of Action in response to the joint Ofsted and CQC inspection.

At the end of 2019/20 the level of reserves of maintained schools was £15.3m.

14. Contingency, General Reserves, and Earmarked Reserves

The proposed budget includes two contingency sums £6.0m in Corporate Contingency and £10.8m Covid-19 Emergency Fund. The former will be held for unforeseen non Covid-19 related budget issues with the latter being held for specific Covid-19 related additional demands on services during the year. These will be allocated as part of the budget monitoring reports in 2021/22

Reserves are either General Reserves which are held to manage general financial risks or Earmarked Reserves to be used for specific purposes. The Council also holds Earmarked Reserves on behalf of other organisations in its role as accountable body. As the council does not control these they should not be included when assessing the Council's level of reserves.

The current level of the General Reserves of £19.690m will be maintained within a range of £18.7m to £20.67m in 21/22. This is 5.7% of the net revenue budget. Although there is no guidance on the appropriate level of General Reserves to hold, 5% is widely been seen as general good practice. In addition to this an overall review of contingency and reserves has been undertaken as part of the robustness review by the Directors and Director of Finance. Given the Covid-19 pandemic, major uncertainty and changes to future council funding having General Reserves at this level seems appropriate and robust.

Earmarked Reserves are expected to total £71.474m at the start of 2021/22 and will be increased by the Covid-19 related grant for Council Tax Support (LCTS) £4.2m which will be used as intended to support the reduction in Council Tax income within the Collection Fund and tax base.

The Use and position of Earmarked Reserves in 2021/22 is attached at **Appendix 4**.

Table 7 – Summary of Contingency, General Reserves, Earmarked Reserves Position

	Estimated Opening position at start of 2021/22 £'m	Estimated Opening position at start of 2022/23 £'m	Estimated Opening position at start of 2023/24 £'m	Estimated Opening position at start of 2024/25 £'m
General	6.000	6.000	6.000	6.000

Contingency				
Covid-19 Emergency Fund	10.800	-	-	-
General Reserves	19.690	19.690	19.690	19.690
Earmarked Reserves	71.474	52.734	53.519	54.319
Total	107.964	78.424	79.209	80.009

Table 8 – Summary of Funds Held on Behalf of Other Bodies

	Estimated Opening position at start of 2021/22 £'m	Estimated Opening position at start of 2022/23 £'m	Estimated Opening position at start of 2023/24 £'m	Estimated Opening position at start of 2024/25 £'m
Earmarked Reserves	11.201	16.291	16.291	16.291
Total	11.201	16.291	16.291	16.291

15. Robustness of and Risks within the Proposed Budget for 2021/22 Statutory Chief Finance Officer (CFO) Report and Advice on the Robustness of the Budget and Adequacy of Reserves and Balances

Introduction

The Local Government Act 2003 states that when a local authority is preparing its budget, "the Chief Finance Officer of the authority must report to it on the following matters:

- (a) the robustness of the estimates made for the purposes of the calculations; and;
- (b) the adequacy of the proposed financial reserves."

And goes on to state that the authority "shall have regard to the report when making decisions about the calculations in connection with which it is made."

This report has been prepared by the Director of Finance to fulfil his duty and gives the required advice relating to the 2021/22 financial year including a consideration of the budget proposals and the financial risks facing the Council within this budget. Also, it identifies the Council's approach to budget risk management and assesses the particular risks associated with the 2021/22 budget to inform the advice.

CIPFA's Financial Resilience Index

CIPFA has published its Financial Resilience Indicators for each authority. These measure different aspects of financial indicators such as levels of reserves across each tier of local authority. The latest data available is based on 2018/19 which showed high financial stress in earmarked reserves and social care ratio (i.e. the level of spend on Adults and Children's services compared to overall net spend) within the CIPFA family group of County Authorities. However, the data also shows that these areas had improved compared to 2017/18.

The overall level of reserves has improved remarkably since 2017/18 when total reserves were £23.749m – the level of reserves (general and earmarked) expected at the end of this financial year is £91.184m. Levels of reserves are expected to remain at £74.009m by the end of 2023/24 to retain this resilience.

Executive Summary of the Director of Finance (CFO) on the budget position

For 2021/22 the total gap before transformation, savings, and income generation is £5.655m after the inclusion of council tax increases. The assessment of the plans to close the gap do not require funds from Reserves to finance ongoing expenditure. The Covid-19 pandemic continues to be of high risk to the Council both in terms of continuation and short and long-term effects on service provision. A Covid-19 Emergency Fund of £10.8m has been set up to provide ongoing support to services in the new financial year as well as the setting of a Revenue Budget Contingency sum of £6.0m to reflect the level of risk associated with delivery of the budget in 2021/22. There is an expectation however, that services will be managed within the budget envelope approved by Council and additional support will be allocated only when additional need can be robustly demonstrated.

Consequences of Failing to Deliver a Budget

If the Council is unable to produce a budget or a plan for reducing the budget requirement for future years or finds it cannot deliver the budget in year, the CFO (under s151 of the Local Government Act) would be required to produce a Section 114 report.

Section 114 of the Local Government Finance Act 1988 requires a report to all the authority's members to be made by the CFO, in consultation with the Council's Monitoring Officer and Head of Paid Service, if "the expenditure of the authority incurred (including expenditure it proposes to incur) in a financial year is likely to exceed the resources (including sums borrowed) available to it to meet that expenditure" (i.e. there is likely to be an unbalanced budget). In this event the Council must consider the report within 21 days and decide whether

it agrees or disagrees with the views in the report and what action it proposes to take to bring the budget into balance. The publication of such a report starts an immediate 'prohibition period'. This means that everyone who has delegated authority to spend the Council money immediately has those powers suspended during the prohibition period, and only the CFO can authorise new commitments.

Report of the Director of Finance (CFO) in Respect of Statutory Duties

The Budget Report sets out the Council's financial position and budget. This is the formal report and is part of a continuum of professional advice and is the culmination of a budget process in which substantial detailed work has already been carried out with Directors, Senior Managers and their teams and Members. This section provides a summary of the conclusions which are considered in more detail within this report and its appendices.

In respect of the robustness of estimates, estimates have been prepared by Directors and their staff supported by appropriate finance staff reviewing additional financing requirements including demand and inflation, transformation, savings, and income generation. Each Director has completed a Robustness Statement outlining confidence levels in the budget and also the delivery of the Transformation, savings, and income generation proposals that have been incorporated into a corporate wide assessment. A Corporate contingency budget of £6.0m has been included to mitigate unforeseen risks, as well as a Covid-19 Emergency Fund of £10.8m to meet further Covid-19 pressures on services in 2021/22.

Considerable funding of an additional £19.150m has been added to the Adults and Children's Services budgets. Monitoring of the budget especially around the demand pressures in these services will be critical to identifying any emerging issues as quickly as possible.

A shortfall of £12.400m has been identified for 2022/23 and plans will need to be put in place as soon as possible to fund this gap.

In the context of the overall budget the financial position continues to be challenging, but the **CFO concludes that the estimates are robust**, in that they have been robustly constructed.

With regard to the adequacy of General Reserves, the level of £19.690m (within the required range of £18.7m to £20.67m) in addition to £71.474m of Earmarked Reserves and levels of budget Contingency

The conclusion of the CFO is that the estimates for 2021/22 are robust and the budget is lawful, levels of general and earmarked reserves are adequate and reasonable in meeting the Council's risks.

16. The Capital Strategy and Programme

Capital & Investment Strategy

Production of a Capital and Investment Strategy was a new Government requirement for 2019/20 and is the overarching document which sets the policy framework for the development, management and monitoring of capital investment as well as lending to other organisations and commercial investments. The strategy focuses on core principles that underpin the council's capital programme, investment property, financing and the risks that will impact on the delivery of the programme; and the governance framework required for decision making and delivery. The Capital and Investment Strategy is attached at **Appendix 6**.

New Capital Projects and the Overall Capital Programme

The Prudential Code for Capital Finance in Local Authorities was updated in December 2017. The objectives of the Prudential Code are to ensure that the capital expenditure plans of local authorities are affordable, prudent and sustainable and that treasury management decisions are taken in accordance with good professional practice and in full understanding of the risks involved.

It required authorities to look at capital expenditure and investment plans in the light of overall organisational strategy and resources and ensure that decisions are made with sufficient regard to the long-term financial implications and potential risks to the authority.

The Covid-19 pandemic has had an impact on the delivery of schemes this year. The budget position has been reprofiled and reflects the revised spend profile.

Bids from services for new capital schemes due to start in 2021/22 have been received and are summarised in the table below (a summary of each scheme is attached at **Appendix 7**):

Table 9 – Summary of New Capital Schemes

Directorate	2021/22 £m	2022/23 £m	2023/24 £m	Total £m
Adult Services	2.116	1.000	-	3.116
Children's Services	11.088	6.900	3.322	21.310
Economic & Community Infrastructure Services	36.329	9.681	-	46.010

Corporate Affairs	2.885	0.592	-	3.477
SCC Total	52.418	18.173	3.322	73.913

This is funded as follows:

Financed By	2021/22 £m	2022/23 £m	2023/24 £m	Total £m
Borrowing	19.431	13.364	3.152	45.947
Capital fund reserve	1.000	1.000		2.000
Capital Receipts	2.733	1.181	-	3.914
Revenue	1.500	-	-	1.500
Third Party Contributions	0.174	0.419	0.170	0.763
Grants	27.580	2.209	-	29.789
SCC Total	52.418	18.173	3.322	73.913

The following tables present the capital programme in its entirety. This has taken into consideration a review of current approved programme and includes the additional new starts for 2021/22:

Table 10 – Overall Capital Programme 2021/22 to 2024/25 Onwards

SCC Service Area	2021/22 £m	2023/23 £m	2023/24 £m	2024/25 onwards £m	Total £m
Adult Services	2.177	1.054	-	-	3.231
Children's Services	40.900	27.844	7.727	1.850	78.321
Economic & Community Infrastructure Services	83.899	30.224	8.189	2.093	124.405
Corporate Affairs	2.885	0.593	-	-	3.478
SCC Total	129.861	59.714	15.916	3.943	209.434
Financing					
Borrowing	50.529	34.745	5.634	0.435	91.343
Capital fund reserve	1.000	1.000			2.000
Capital Receipts	3.035	2.516	-	-	7.551
Revenue	1.500	-	-	-	1.500
Third Party Contributions	3.138	5.672	2.972	1.407	13.189
Grants	70.659	15.781	7.310	2.101	95.851
SCC Total	129.861	59.714	15.916	3.943	209.434

Plus:

Accountable Body Service Area	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 onwards £m	Total £m
Local Enterprise Partnership	22.277	-	-	-	22.277
Somerset Rivers Authority	-	-	-	-	-
Accountable Body Total	22.277	-	-	-	22.277
Overall Programme Spend Total	152.138	59.714	15.916	3.943	231.711

This proposed programme is funded through the following resources:

Financed By	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 onwards £m	Total £m
Borrowing	50.529	34.745	5.634	0.435	91.343
Capital fund reserve	1.000	1.000			2.000
Capital Receipts	3.035	2.516	-	-	5.551
Revenue	1.500	-	-	-	1.500
Third Party Contributions	3.138	5.672	2.972	1.407	13.189
Grants	92.936	15.781	7.310	2.101	118.128
SCC TOTAL	152.138	59.714	15.916	3.943	231.711

The full Capital Programme is attached at **Appendix 8** for approval.

Minimum Revenue Provision (MRP) Statement

The Council is required to make revenue provision to repay capital spend that is financed by borrowing (either supported or unsupported). This is called the Minimum Revenue Provision (MRP). The Department of Communities & Local Government has issued regulations that require full Council to approve an MRP Policy in advance each year, or if revisions are proposed during the year they should be put to the Council at that time. The policy is attached at **Appendix 9**.

Prudential Indicators

The key objectives of the Prudential Code are to ensure that capital investment plans of local authorities are affordable, prudent, and sustainable. The Capital Prudential Indicators and one additional voluntary indicator are set out within

the capital strategy and the Treasury Management Strategy and are shown below and following a brief narrative of their purpose:

Table 11 - Prudential Indicator 1: Estimates of Capital Financing Requirement:

	31.03.2020 actual £m	31.03.2021 forecast £m	31.03.2022 budget £m	31.03.2023 budget £m	31.03.2024 budget £m
TOTAL CFR	422.144	471.144	517.808	548.585	545.871

Table 12 - Prudential Indicator 2: Gross External Debt and the Capital Financing Requirement

	31.3.2020 actual £m	31.3.2021 forecast £m	31.3.2022 budget £m	31.3.2023 budget £m	31.3.2024 budget £m
Short term debt	7.395	10.000	10.000	10.000	10.000
Long term debt *	332.176	330.270	328.967	323.796	311.794
Assumed debt not yet taken	0.000	0.000	90.370	125.370	145.370
PFI & leases	41.972	42.533	39.872	38.676	37.364
Total external borrowing	381.543	382.803	469.209	497.842	504.529
Capital Financing Requirement	422.144	471.228	517.808	548.585	545.871

Table 13 - Prudential Indicator 3 & 4: Authorised limit and operational boundary for external debt

	2019/20 limit £m	2020/21 limit £m	2021/22 limit £m	2022/23 limit £m	2023/24 limit £m
Authorised limit – borrowing	401.747	402.419	508.051	541.875	556.455
Authorised limit – PFI and leases	53.972	55.533	52.872	51.301	49.989
Authorised limit – total external debt	455.719	457.952	560.923	593.176	606.444
Operational boundary – borrowing	371.747	372.419	463.051	496.875	511.455
Operational boundary – PFI and leases	46.972	47.533	44.872	43.301	41.989
Operational boundary – total external debt	418.719	419.952	507.923	540.176	553.444

Table 14 - Prudential Indicator 5: Proportion of financing costs to net revenue stream

	2019/20 actual	2020/21 forecast	2021/22 budget	2022/23 budget	2023/24 budget
Financing costs (£m)	22.985	22.286	22.832	25.216	27.541
Proportion of net revenue stream	6.73%	6.18%	6.17%	6.75%	7.19%

Table 15 - Prudential Indicator 6: Maturity Structure of Borrowing

	Upper Limit	Lower Limit
Under 12 months	50%	15%
>12 months and within 24 months	25%	0%
>24 months and within 5 years	25%	0%
>5 years and within 10 years	20%	0%
>10 years and within 20 years	20%	5%
>20 years and within 30 years	20%	0%
>30 years and within 40 years	45%	15%
>40 years and within 50 years	15%	0%
>50 years	5%	0%

Table 16 - Prudential Indicator 7: Principal sums invested for periods longer than a year

	2021-22	2022-23	2023-24
	£m	£m	£m
Prudential Limit for principal sums invested for periods longer than 1 year	75	75	75

Table 17 - Voluntary Indicator: Credit Risk Indicator

Credit risk indicator	Target
Portfolio average credit rating (score)	A (6.0)

Gross Debt and the Capital Financing Requirement

In order to ensure that over the medium-term debt will only be for a capital purpose, the Council should ensure that external debt does not, except in the short term, exceed the total of the capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years.

After reviewing the capital programme and borrowing proposals, the Section 151 officer reports that the Council will continue to meet the demands of this indicator.

Borrowing limits

The Authorised limits for external debt include current commitments and proposals in the budget report for capital expenditure, plus additional headroom over and above the operational limit for unusual cash movements.

The Operational boundary for external debt (or planned borrowing level) is based on the same estimates as the authorised limit, but including an allowance for cash flow funding of specific capital schemes and without the additional headroom for unusual cash movements

There is increased funding to the current programme through confirmed external funding and a minimal requirement for new SCC resource. All cost of debt is factored into the revenue financial plans.

The CSR also announced that following consultation that PWLB rates would be reinstated to levels set before the 1% increase made in October 2019. However, under new rules Councils seeking to borrow from the PWLB will have to provide a three-year capital plan, confirming that it does not intend to borrow primarily for yield at any point over the period or from any source. The aim of this is to curb local authority borrowing to purchase investment properties. This will not impact on the Council's overarching strategy for borrowing and financing of the capital programme. In the current economic circumstances, we will continue to reduce financing costs by borrowing internally as detailed in the Treasury Management Strategy.

Maturity structure of borrowing, principal sums investment limits and credit risk

These are indicators specific to treasury management activity to manage a balance portfolio of debt and control the Council's exposure to the risk of losses of its investments.

16. Financial Risk and Management

A risk assessment has taken place including Directors assessing the key risks to their budget areas and an overall review by the Director of Finance as part of assessing the robustness of the budget estimates and levels of contingency, general reserves, and earmarked reserves. These are currently assessed as:

Table 18 – Key Risks to the 2021/22 Budget

Risk	Rag Rating (R/A/G)	Risk Owner	Management and Mitigations
Continuation and/or	R	Strategic	A £10.8m Emergency Fund

consequences/ long term impact of Covid-19 pandemic adds further demands on services to escalate beyond current estimates and contingencies		Leadership Team	has been set up for 2021/22 in addition to a £6m Contingency Budget. The impacts will be closely monitored within the monthly budget monitoring process
Interest rates turn negative	A	Director of Finance	Interest rates already predicted at 0.1% next year. The current strategy of internal borrowing would continue to benefit SCC in these circumstances
Impact on business rates is greater than currently estimated	A	Director of Finance	Although SCC has continued to participate in the business rates pool. Any pooling gain will not be recognised until the outcome for the year is known. The Collection Fund Deficit will be either partly or fully met by the £13.x m set to one side to meet this.
Pay awards will be higher than estimated	A	Director of HR and OD	Each 1% costs approximately £2.5m. A 1% increase has been factored into the budget. Any further allocations would need to be found from the £6m contingency budget.
Anticipated transformation, savings and income generation not delivered	A	Relevant Director	Directors have reviewed their proposals as part of the robustness review of the budget. Red risk proposals have not been taken forward within the budget so all remaining proposals are either amber or green. These will be monitored as part of budget monitoring.
Changes to Government Policy that affects future	A	SLT	There are several reviews underway including the

funding			future of social care, business rates, and fairer funding. However, it is not expected that these will impact on 2021/22
Economic downturn impacts on income	A	Relevant Director	Losses on fees and charges will continue to be partly compensated in the first quarter of 2021/22.
Brexit risks	A	SLT	The UK exited the EU on the 31 December 2020. It is therefore too early to assess either positive or negative impacts on local government or the local economy
Unforeseen events outside SCC's control	A	Relevant Director	Events such as extreme weather, increases in fuel and utility costs and changes in recycling material values are outside our direct control.

These key risks will continue to be monitored and reported through regular budget monitoring to Cabinet.

Report Sign-Off

		Signed-off
Legal Implications	Honor Clarke	26/01/21
Governance	Scott Woodridge	26/01/21
Corporate Finance	Jason Vaughan	26/01/21
Human Resources	Chris Squire	26/01/21
Property	Paula Hewitt / Oliver Woodhams	26/01/21
Procurement / ICT	Simon Clifford	26/01/21
Senior Manager	Jason Vaughan	26/01/21
Commissioning Development	Vikki Hearn	26/01/21
Local Member	All	Click or tap to enter a date.
Cabinet Member	Cllr Mandy Chilcott - Cabinet Member for Resources	26/01/21
Opposition Spokesperson	Cllr Liz Leyshon	26/01/21
Scrutiny Chair	Cllr Anna Groskop - Place Scrutiny	26/01/21