

## Medium Term Financial Plan (MTFP) Refresh 2021/22 – 2023/24

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### Purpose of the Report

1. In February 2021 Council approved the 2021/22 revenue and capital budgets including an indicative financial forecast for future years. This report updates that position taking account of last year's outturn figures, the budget monitoring information for the first quarter of this financial year (2021/22), and other updated information that has an impact on the financial position of the Council.
2. The report is structured as follows:
  - Context within which the MTFP will need to be prepared and agreed
  - 2020/21 Year End Financial Position
  - Current Year's (2021/22) Financial Position
  - MTFP Refresh - 2021/22 to 2023/24 – revenue expenditure, capital expenditure, Reserves, Borrowing Strategy, and Somerset Business Rates Pool
  - Next Steps Timeline

### Forward Plan

3. This report appeared on the District Executive Forward Plan with an anticipated Committee date of July 2021.

### Public Interest

4. Section 30(6) of the Local Government Finance Act 1992 requires the Council to set its budget **before 11 March in the financial year preceding the one** in respect of which the budget is set. This is the first of three reports that will achieve that outcome.

### Recommendations

5. The District Executive recommend that the Chief Executive:
  - a) Note the contents of this report and in particular the issues that will need to be considered as part of budget setting process, the need to get approval from Council for revised estimates for this financial year, and the next steps timeline.

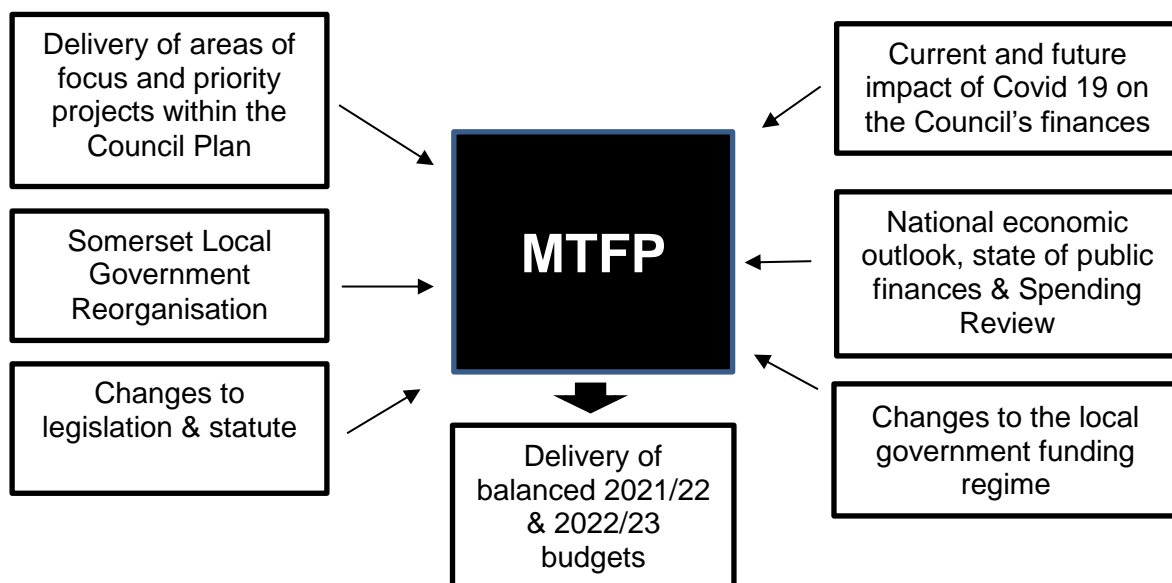


- b) Agree in principle SSSDC's continuing membership of the Somerset Business Rates Pool as discussed in paragraphs 74 and 75 of this report.

## Context within which the MTFP will be prepared and agreed

- 6. The overall context within which the MTFP will be prepared and ultimately approved by Council in February 2022 is very challenging with a number of uncertainties that make robust financial planning difficult.
- 7. The diagram below shows the key issues that District Executive will need to consider when it recommends its final MTFP proposals to Council for approval in February 2022. A short description of each is set out in the paragraphs below.

**Diagram 1: Key issues to be considered in agreeing the MTFP**



## Delivery of the Council Plan and Priority Projects

- 8. South Somerset District Council is an ambitious and forward-thinking council that is committed to transforming, improving, and adapting to be ready for the future. We place our residents and businesses firmly at the centre of everything we do.
- 9. The Council Plan sets out the vision for the Council and how these are going to be delivered through key areas of focus and priority projects. The current Council Plan covers the period 2020 to 2024 and can be found at:  
<https://www.southsomerset.gov.uk/your-council/your-council-plan-and-strategies/council-plan/>

## Our Vision

- 10. A naturally beautiful and sustainable environment, which also allows business to flourish and good homes to be delivered. A place where our communities are safe, vibrant and healthy and have access to exceptional cultural and leisure activities.



## Our Values



**Customers' first** - Designing plans and services around our customers



**Community at heart** - Enabling residents to support our communities and the environment we live in



**Open and transparent** - Actively communicating, engaging and listening to feedback



**Innovative** - Embracing innovation & technology to improve customer service and facilitate access to council services for all who need it



**Getting things done** - Empowering dedicated and flexible employees and elected members focussed on delivery



**Working collaboratively** - Working with partners to enhance outcomes for our communities

## Areas of Focus for 2021/22

- **Protecting Core Services** - to ensure a modern, efficient and effective council that delivers for its communities
- **Economy** - to make South Somerset a great place to do business, with clean inclusive growth and thriving urban and rural businesses
- **Environment** - to keep South Somerset clean, green and attractive and respond to the climate emergency
- **Places where we live** - to enable housing and communities to meet the existing and future needs of residents and employers
- **Healthy, self-reliant Communities** - to enable healthy communities which are cohesive, sustainable and enjoy a high quality of life

### Priority Projects for 2021/22

Lead the recovery and revitalisation of our economy and communities to be stronger, more resilient and more vibrant than before Covid-19

Continue to deliver Regeneration Programmes

To develop proposals to accelerate the delivery of key housing sites and associated infrastructure

Address child poverty, social isolation and low levels of social mobility across the district

To accelerate action to adapt to and mitigate the effects of climate change and extreme weather

11. Given the Government's decision to implement a single unitary council for Somerset (see below) in 2023/24, a "light touch" approach will be taken to update the Corporate Plan for the SSDC's final year. The plan is therefore unlikely to change the areas of focus described above, rather changes will need to be made to the previously agreed priority projects and the annual action plan will be updated. Particular focus will be needed on the following:
- Ensuring key services continue to be delivered to our residents, regardless of the local government reorganisation.
  - Delivering key achievable elements, to be agreed with Members, of the Regeneration Programme by the end of 2022/23.
  - Progressing the Octagon Theatre Project to the Final Business Case stage—whilst understanding that, given the project timeline, the final decision to proceed will be decided by the new unitary authority.
  - Achieving the programme deadlines agreed by all Somerset councils for local government reorganisation.
  - Realistically reviewing all other priority areas and projects to establish if they are capable of being delivered by the end of 2022/23 and asking Members to agree to stop those that cannot be delivered.
12. It will be necessary to produce revised estimates for this financial year, and to include additional costs in the 2022/23 budget, to provide funding for the costs of reorganisation and for ensuring there is capacity to deliver ongoing services to residents whilst senior officers, by necessity, spend a significant proportion of their time on the reorganisation. Senior Leadership Team is currently assessing the costs that maybe involved and will present these to the District Executive at its meeting on 2<sup>nd</sup> December 2021.

### Somerset Local Government Reorganisation

13. On the 21<sup>st</sup> July 2021, the then Secretary of State for Housing, Communities and Local Government, the Right Honourable Robert Jenrick MP, announced that he had decided to implement, subject to Parliamentary approval, the proposal for a single unitary council for the whole of the existing administrative county of Somerset.



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14. The decision, announced in a ministerial statement to Parliament, would mean that a single unitary council for Somerset will be formed on 1<sup>st</sup> April 2023 to replace Somerset County Council, Mendip District Council, Sedgemoor District Council, Somerset West & Taunton Council, and South Somerset District Council.
15. Whilst all the councils concerned are currently discussing the implementation of the necessary changes, some details will not be clear until the Structural Change Order is laid before parliament later this year. The costs of implementation and the share of these costs from SSDC are currently being discussed.
16. **Our current assumptions on this issue are that:**

- a) *SSDC is a sovereign and autonomous organisation in terms of determining and approving its revenue and capital budgets for the financial year 2022/23, and for updating the budget for 2021/22, including its spending priorities, use of reserves, treasury management activities, and any increases to Council Tax.*
- b) *Notwithstanding the above, any significant new spending that has not been contractually committed before the Shadow Authority or Implementation Executive is in place in May 2022 maybe subject to review and a new approval process by that authority and that this will pragmatically be taken into account in considering any new capital or revenue proposals included in the MTFP.*
- c) *The MTFP will provide indicative estimates for the financial year 2023/24 (the first year of the new authority's existence) based on continuing existing district services. This will provide an input into the new authority's medium term financial planning process.*
- d) *No provision has currently been made in the MTFP Refresh for SSDC's potential share of the implementation costs as they are currently under discussion.*

### Impact of Covid 19

17. The COVID-19 pandemic continues to have a profound impact on the council not only on budgets but on service demand and delivery, although the quantum of the financial impact in this year and next is still very uncertain. The pandemic has resulted in three major financial effects on the council's financial position: additional costs, loss of income, and agreed savings not being able to be delivered.
18. Up-to-now, the government has largely funded the additional costs incurred by local government as a result of the pandemic and provided considerable support to make up for income losses.

19. ***Our current assumptions on this issue are that:***

- e) *There is no further government support for the financial impacts of Covid 19 beyond what has been already announced, namely: Government's intention to part-compensate councils for lost income from sales, fees and charges incurred during the first quarter of this financial year (estimated at £42k), Covid-19 LA Support Grant (£838k), and Contain Outbreak Management Fund (£216k).*
- f) *The potential financial impacts of Covid 19 in this financial year can be met by the grant income described above and the agreed reduction approved in the 2021/22 fees and charges budgets (from pre-Covid levels) of £1.279m. However this assumption will be reviewed further as fees & charges income is currently forecast to underachieve by a further £1m in this financial year (as reported in the quarter 1 budget position).*
- g) *Pre-Covid levels of income from fees and charges, Business Rates and Council Tax are attained in 2022/23 onwards. However, again, this assumption will be reviewed given the current adverse forecast position on fees and charges income for this financial year.*
- h) *Savings targets of £196k assumed in this and next financial year arising from increases in fees and charges income and delayed transformation savings will not be met. This assumption will be revisited by the Senior Leadership Team as part of the preparation needed for the December Draft Budget Report to District Executive.*

**National Economic outlook and the state of public finances**

- 20. A deeper consideration of these issues will be included in the Draft Budget report presented to District Executive in December. This will allow Members to have the most up-to-date information as the latest economic reviews and forecasts, from such bodies as the Office for Budget Responsibility, Office for National Statistics, and HM Treasury were published several months ago and are due to be revised this autumn, too late for this report.
- 21. An understanding of the forecast economic outlook along with key indicators regarding employment, inflation, and interest rates is needed to provide robust estimates across the Council's revenue and capital budgets including its treasury management activities.
- 22. At the time of writing this report the key concerns for the S151 Officer are the increase in inflation currently being experienced and any impact this may have on interest rates. The Consumer Price Index (CPI) rose from 0.7% in January 2021 to 3.2% in August with many commentators (for example the Bank Of England on 23/09/21) warning that increasing energy costs will drive inflation up to 4% by the end of this year and will remain at that level until the second quarter of 2022. Inflation is then expected to gradually fall back towards the 2% target rate set by the government. The increase in inflation will mean certain costs for SSSC are



potentially higher in particular for those contracted services which specify an increase per annum in with the CPI and energy costs for running our buildings.

23. Construction inflation is also currently at record high levels (some 3% to 5%) and this has already had an impact on the Council's Regeneration Programme in terms of more capital budget being needed to deliver some of the projects, for example, for the Chard Public Realm works. A review will be undertaken on the overall current approved capital programme to assess whether some of the agreed budgets need increased approvals by Council.
24. Whilst the Bank of England's Monetary Policy Committee (MPC) voted unanimously on 23<sup>rd</sup> September 2021 to keep interest rates at the historic low rate of 0.1%, it did say that recent developments had "strengthened [the] case for a modest increase in the Bank's base rate in the next few years". Any increase in interest rates would have a net adverse effect on SSDC given the size of its borrowing needs in the short to medium term – both in terms of the interest rates needing to be paid out and on the MRP (Minimum Revenue Provision) costs needing to be financed by the revenue budget for the future repayment of the debt.
25. ***Our current assumptions on this issue are that:***

- i) *Inflation on goods and services will be higher than previously assumed in the MTFP – we have estimated 3% in 2022/23 falling back to 2% in 2023/24. Budget monitoring for the quarter 2 position will review whether any budgets are in stress for this financial year arising from increased inflationary cost pressures.*
- j) *Pay inflation – the MTFP currently assumes a pay award of 2% per annum. Local Government Employers proposed a final offer of 2.75% for SCP 1 (Scale Point) employees and 1.75% for SCP2 (and above) employees on 27<sup>th</sup> July 2021. The unions are currently conducting a ballot of their members on the proposal. More information will be known later on in the year.*
- k) *There will be an increase of 1.25% in Employer's National Insurance Contributions in 2023/24 to fund the recently announced Health and Social Care Levy proposed by central government.*
- l) *Using the advice of SSDC's Treasury Management Advisers, Arlingclose, and given the assumptions that (a) interest rate rises will be minor for the next two years and (b) SSDC will continue to service its borrowing needs by internal borrowing and short term local authority to local authority borrowing (see paragraph 71), we have assumed interest rates of 1.5% for our external borrowing (a 0.5% margin has been added to guard against potential volatility) and have used the interest rate for a 50 year PWLB loan (currently 2.13%) to calculate MRP costs.*

## **Spending Review**

26. On the 7<sup>th</sup> September the government confirmed that a full Spending Review will be reported alongside the Budget on 27<sup>th</sup> October. It also published its overall spending



‘envelope’ – the total pot of money to be allocated between government departments including the Department for Levelling Up, Housing & Communities from which local government receives the bulk of its financial support.

27. These new spending plans cover 2022/23 to 2024/25 and represent a welcome return to multi-year budgeting as the last two reviews have only been one year reviews resulting in one year financial settlements to local government. This approach hinders medium term financial planning. However, given that Government has not begun consultation on introducing its reforms arising from the Fair Funding Review (see below) it is likely that another one-year financial settlement will be provided for 2022-23 with longer term funding reforms being introduced in 2023-24 at the earliest.
28. The published figures show that the Chancellor has increased his previous public finance expenditure plans by £14 billion per annum, representing the (gross) amount raised by the new Health and Social Care Levy (to be financed by a 1.25% increase in National Insurance). Overall public service spending will increase at an average real rate of 3.2% per year over the SR period. That will fund a substantial increase in health and social care funding, but will still leave overall public service spending £2 to £3 billion lower each year than what the government was planning to spend pre-pandemic. (Source: *Institute of Fiscal Studies*).
29. After accounting for the additional funding promised to health and social care, pre-existing commitments on schools, defence and overseas aid, and the Barnett formula, these plans still suggest a tight settlement elsewhere – at least in the short-term. The remaining, unallocated budget line – which includes ‘unprotected’ areas like local government, justice and further education, and also any additional virus-related spending – is virtually flat for the first two years.
30. ***Our current assumptions on this issue are that:***  

m) <i>As it is too early to assess we have assumed that the Spending Review will have a neutral impact on SSDC’s budget position – so no increased funding has been anticipated but likewise no decreases have been assumed.</i>
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### **Changes to the local government funding regime**

31. Government’s plans to reform local government finance have been twice delayed and there is growing consensus among local government finance specialists that it will be postponed for a third time to 2023/24 at the earliest. The reforms comprise:
  - **Fair Funding Review** – this review commenced in 2018 with the aim of setting new baseline funding allocations for each local authority based on their relative needs and available resources. The outcome of the review was to inform the funding settlement for Councils for 2020/21 but implementation has been delayed and to-date there has been no announcements or consultation on implementing the review for 2022/23. In the meantime all the data underpinning the allocations are becoming increasing out of date (the current allocations are based on 2012-13) and given that data collection was limited during the





pandemic, the most recent and complete set of data that could be used is from 2018/19.

- **Business Rates Retention and Baseline “Reset”:** The Government had planned to increase the percentage of Business Rates that Councils keep, from 50% to 75%, from 2020/21 and reset the baseline to redistribute funding to councils who are unable to grow Business Rates in their area. Again, this has been postponed and given the impact of Covid-19 on business and HM Treasury’s current fundamental review of the sustainability of business rates as a method of funding local government services (due to be published this autumn) it is not clear whether the Government will continue to pursue this reform.
- **New Homes Bonus:** The then Secretary of State for Housing, Communities and Local Government announced a one-year allocation of New Homes Bonus as part of the Financial Settlement for 2021/22. The Government opened consultation on the future of the New Homes Bonus and possible changes to the grant in February 2021. This consultation is now closed and no announcements have, to-date, been made by government on this. It is expected that the New Homes Bonus funding will be wrapped up within the Fair Funding Review in following years. It is unclear how the Government will incentivise local authorities to deliver additional housing within the new funding regime.

32. ***Our current assumptions on this issue are that:***

- n) *Settlement funding from central government will roll forward and continue into 2022/23 on the same principles that were applied in 2021/22. So:*
  - ✓ *No repayment of negative RSG (Revenue Support Grant) of £327k until 2023/24*
  - ✓ *Receipt of NHB legacy payment of £557k in 2022/23 with that grant no longer being received in 2023/24 and onwards*
  - ✓ *Receipt of Rural Services Delivery Grant in 2022/23 of £175k*
  - ✓ *No receipt of Lower Tier Payments Grant in 2022/23 as this was a new grant for this financial year*
- o) *Changes to the local government finance regime will be made for 2023/24 onwards including the adverse impact of a Business Rates base line reset for SSDC estimated to be some £2.3m.*

**Changes to legislation and statute**

33. On 26<sup>th</sup> November 2020 HM Treasury introduced changes to PWLB (Public Works Loans Board) lending terms which effectively mean that any new “investment purely for yield” commercial activity after that date cannot be financed using PWLB borrowing – the source most used by councils to obtain loan finance. The restriction also applies to other capital expenditure (for example regeneration and leisure projects), if the council has “investment purely for yield” activity in its capital programme in that financial year.

34. In order to get a PWLB loan:



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- Councils must submit a high-level description of their capital spending and financing plans for the following 3 years.
  - The S151 Officer must certify that the borrowing is not to be used to fund investment assets with the primary objective of generating yield.
35. HM Treasury has defined “*investment primarily for yield*” as an investment that has one or more of the following characteristics:
- Buying land or existing buildings to let out at market rate.
  - Buying land or buildings that were previously operating on a commercial basis which is then continued by the Council without any additional investment or modification.
  - Buying land or buildings other than housing that generate income and are intended to be held indefinitely.
36. PWLB will continue to support the following categories of spending as long as there is no “investment purely for yield” activity planned in the budget: service spending, housing, economic regeneration, preventative action, treasury management (e.g. refinancing of existing debt). Recent clarifications from HM Treasury have led to the understanding that debt existing before the 26<sup>th</sup> November 2020 arising from “investment purely for yield” can be refinanced using PWLB loan finance.
37. If the PWLB loan is misused HM Treasury may request the Local Authority to unwind the transaction, to repay the PWLB loan, or block future access to PWLB lending.
38. Changes will also be made later this year to CIPFA’s (Chartered Institute of Public Finance and Accountancy) Prudential Code to come into effect, it is believed, in 2022/23. English and Welsh local authorities are required by regulation to “*have regard to*” the Prudential Code when carrying out their duties under Part 1 of the Local Government Act 2003. Councils can choose not to implement the Code but must state why they are not doing so.
39. The changes aim to define more clearly, with examples, on what borrowing activities, commercial activity, and investment are permitted by local authorities and will prohibit borrowing “to invest for the primary purpose of commercial return”.
40. Other key changes that will be implemented include:
- The inclusion of proportionality as an objective, so that an authority incorporates an assessment of risk against levels of resources.
  - The introduction of the Liability Benchmark as a Treasury Management indicator for local government bodies. This is calculated as the CFR (indebtedness) less reserves and working capital needs and effectively shows the minimum level of external debt that needs to be borrowed. This is to be shown graphically, unlike the tabular format of other indicators, and should extend for at least ten years into the future, which will make it more complex to produce and maybe more difficult to explain.

41. ***Our current proposals on this issue are that:***

- p) Council will be asked as part of the February Budget Report to cease “investment purely for yield” commercial activity from 2022/23 onwards.
- q) That any expenditure from the remaining existing capital budget for “investment purely for yield” (currently £18.3m) will need to be completed by 31 March 2022.

## 2020/21 Outturn Position

### Revenue Expenditure

42. Total net revenue expenditure for 2020/21 was **£15.554m** resulting in a balanced year end outturn position against the approved net budget. Table 1 gives an analysis of the outturn for each Directorate. Gross expenditure was **£80.986m**. Pie Charts 1 and 2 give a summarised analysis of how this money was spent and how it was financed.
43. The figures shown above includes the use of £4.695m of additional funding from government received during the year to support the Council during the Covid 19 pandemic. If it were not for this financial support the Council would have significantly exceeded its approved net revenue budget by £4.330m.

**Table 1: Revenue Budget Net Outturn for 2020/21**

Directorate	Approved Budget £	Actual Net Spend £	COVID Grant Allocation £	Budget Carry Forwards £	2020/21 Outturn £
Chief Executive	429,860	802,551	0	0	802,551
Strategy & Commissioning	3,353,300	3,872,216	-707,559	83,370	3,248,027
Support Services	1,992,460	1,173,206	-310,940	0	862,266
Service Delivery	3,272,940	4,896,664	-752,351	230,310	4,374,623
Commercial Services & Income Generation	6,505,260	9,139,470	-2,924,302	51,180	6,266,348
<b>Total</b>	<b>15,553,820</b>	<b>19,884,107</b>	<b>-4,695,152</b>	<b>364,860</b>	<b>15,553,815</b>

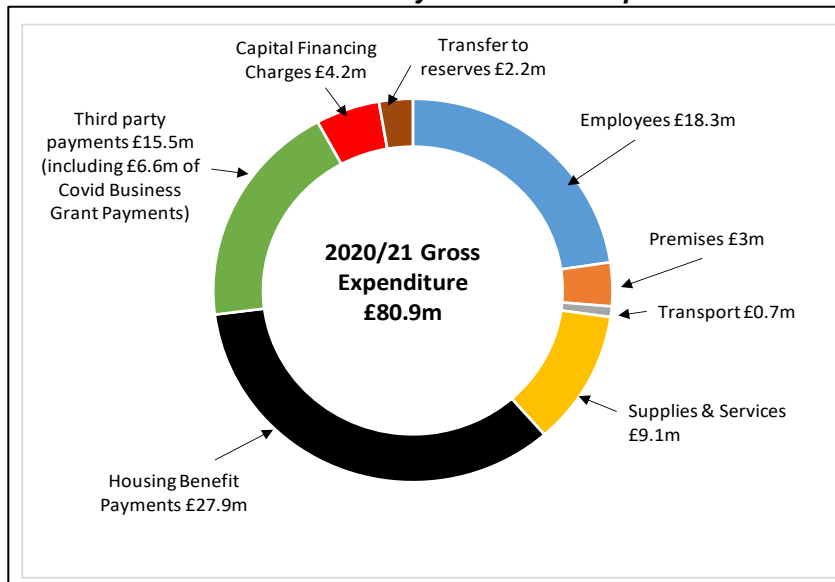
44. Covid 19 had a significant impact on the Council’s finances during 2020/21 including:
- Lost income from the Octagon Theatre and Westlands Entertainment Venue as the venues had to be closed for the majority of the year.
  - Reduced income from fees, charges and rental income in general but from car parking and Building Control in particular.
  - Increase in the Bad Debts provision for Council Tax due to a decision to suspend recovery for most of the year.
  - Providing financial support to the Council’s Leisure Centres’ operator during the lockdowns.



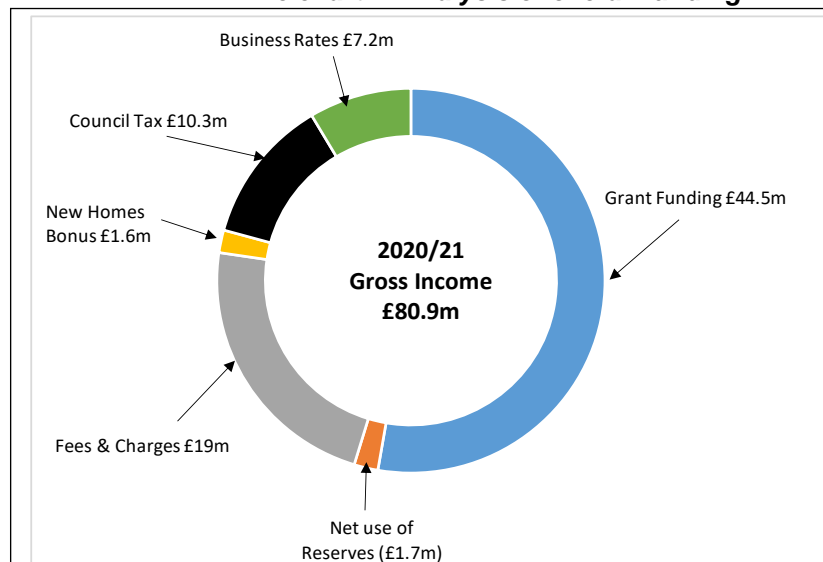
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- Additional costs incurred by Somerset Waste Partnership in respect of kerbside collections and recycling sites.
- Additional payments made under the Discretionary Housing Payments Scheme and Council Tax Support Scheme (CTS).
- Underachievement of the 2020/21 additional income/savings target agreed in the budget.

**Pie chart 1: Analysis of Gross Expenditure**



**Pie chart 2: Analysis of overall funding**



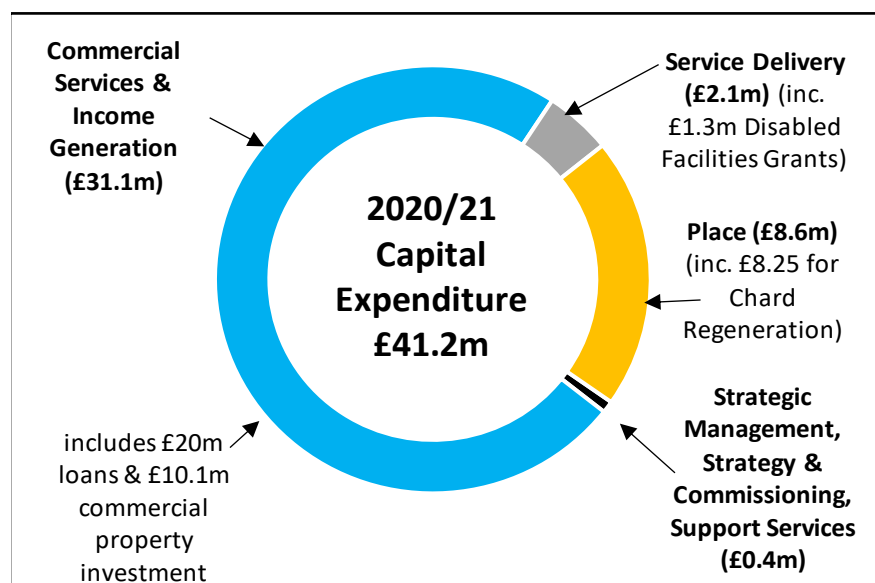
### Collection Fund

45. The Covid-19 pandemic has also significantly impacted Business Rates income collection. The 2020/21 outturn is a deficit position of £10.2m largely arising from central government's decision to grant reliefs to retail, leisure, and hospitality businesses during the year. The Council has received £11.8m of Section 31 grant to compensate for the loss of income arising from this decision. Owing to the complex accounting arrangement for Business Rates this income has to be accounted for in 2021/22 and the subsequent two years and therefore this amount has been transferred to an earmarked reserve.

### Capital Expenditure

46. Total capital spending for 2020/21 was **£42.177m**; this was £22.628m (116%) more than the original £19.549m of planned expenditure agreed by Council in February 2020. (Increases to the February approved budget are agreed by District Executive each quarter when Council-approved "reserved schemes" are ready to be included in the capital budget).

*Pie chart 3: 2020/21 capital expenditure*



### Capital Financing

47. The financing of the 2020/21 capital programme is illustrated in pie chart 4. Prudential borrowing funded 90% of the expenditure incurred. With the amount borrowed, of £38m, being a combination of internal and external borrowing, with the split being 51% / 49% respectively.
48. Internal borrowing is when the Council uses its cash balances to temporarily fund its need to borrow. These cash balances need to be replenished either when overall Council cash reserves are low or when a strategic decision is made to obtain external long-term loan finance, so the borrowing is only temporary. The Council

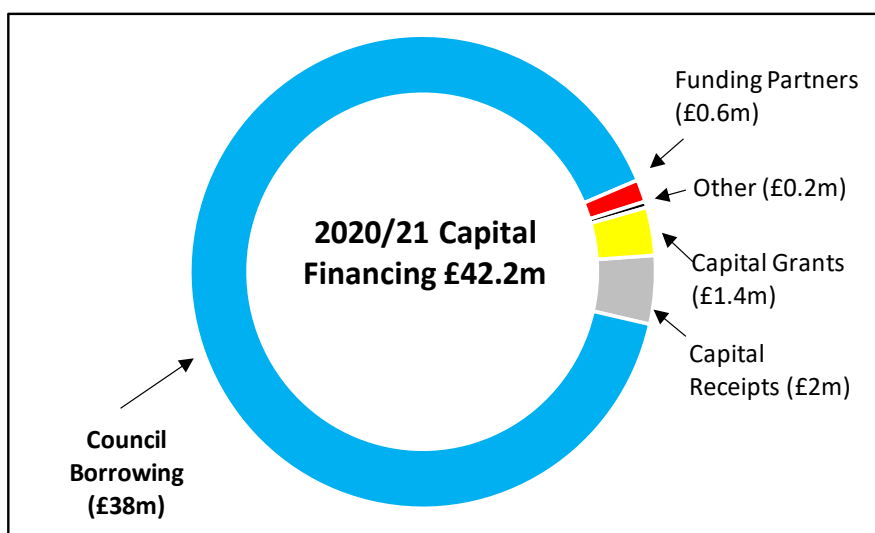


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undertakes weekly forecasting of its cash position in order to ascertain when any borrowing is required.

49. External borrowing is the action of obtaining loan finance from a third party. Currently SSDC meets its external borrowing needs through short-term loans taken out on a rolling basis with other local authorities.

**Pie chart 4: Funding of 2020/21 capital expenditure**



## Current Year's (2021/22) Financial Position

### Revenue Expenditure

**Table 2: Forecast outturn for 2021/22 as at end of Quarter One**

Table A	Year to date - April to July 2021			Forecast Outturn 2021/22		
	Budget	Actual	Variance	Budget	Forecast	Variance
<b>Expenditure</b>						
Employees	£6,118,785	£6,090,876	(£27,908)	£17,889,560	£18,969,710	£1,080,150
Premises	£1,529,592	£1,597,732	£68,141	£3,166,210	£3,159,002	(£7,208)
Transport	£291,816	£178,733	(£113,083)	£979,520	£780,920	(£198,600)
Supplies & Services	£2,586,554	£2,825,392	£238,838	£6,973,410	£6,615,566	(£357,844)
Third Party Payments	£2,662,052	£2,479,991	(£182,060)	£7,902,240	£8,008,613	£106,373
Housing Benefits payments	£8,426,050	£8,010,567	(£415,483)	£26,658,150	£26,658,150	£0
Capital Financing	£80,893	£21,783	(£59,110)	£2,923,000	£2,923,000	£0
Revenue Reserve transfers	(£293,377)	(£134,941)	£158,436	£1,478,050	£1,478,050	£0
	£21,402,365	£21,070,134	(£332,230)	£67,970,140	£68,593,011	£622,871
<b>Income</b>						
Government grants	(£9,357,457)	(£10,158,712)	(£801,254)	(£28,228,600)	(£29,182,100)	(£953,500)
Other grants and contributions	(£180,729)	(£691,765)	(£511,036)	(£1,114,140)	(£1,114,140)	£0
Sales	(£700,732)	(£549,424)	£151,308	(£2,046,660)	(£1,937,442)	£109,218
Fees and charges	(£6,351,285)	(£6,548,605)	(£197,319)	(£17,689,490)	(£16,556,280)	£1,133,210
Investment income	(£214,824)	£1,253,019	£1,467,843	(£2,148,240)	(£2,928,240)	(£780,000)
	(£16,805,027)	(£16,695,487)	£109,541	(£51,227,130)	(£51,718,202)	(£491,072)
<b>Net Budget</b>	<b>£4,597,337</b>	<b>£4,374,648</b>	<b>(£222,689)</b>	<b>£16,743,010</b>	<b>£16,874,809</b>	<b>£131,799</b>

50. The Quarter One budget monitoring report presented to District Executive in September 2021 showed an overall forecasted underspend position of £132k. Whilst this is still early in the financial year significant variances are being estimated



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which may indicate that the budget is not robust and will need realignment via a revised estimate approval by Council.

51. The areas concerned, along with the rest of the agreed budget, will be scrutinised in detail with the budget managers during the Quarter Two budget monitoring process to ensure that the variances remain valid. Any realignment of the 2021/22 budget via a Revised Estimate requirement will seek agreement from District Executive and Council in December of this year.

### Capital Expenditure

52. The next monitoring position regarding this year's capital programme will be given to District Executive in November when the position as at quarter two will be presented.
53. Revised capital estimates for 2021/22 will go to Council for approval in December 2021 in order to incorporate:
  - £29.5m of new projects/expenditure individually agreed by Council since February 2021: Octagon Theatre (£23.1m), Leisure Centres Refurbishment (£3.5m), Yeovil Refresh (£2.6m), and Chard Public Realm Improvements (£0.4m).
  - Spending of up to £18.3m on "investment purely for yield" (to bring total spend up to the £150m total previously agreed by Council in its commercial strategy).
  - Slippage from 2020/21 and rephasing of projects agreed in February 2021 into future years.
  - The inclusion of gross expenditure budgets for all of the Regeneration Projects instead of the net budgets previously shown in the capital programme.
54. Given that the Council's borrowing needs are currently estimated to increase by some 35% (as measured by the Capital Financing Requirement) from £134m as at the end of 2020/21 financial year to £181m as at the end of 2023/24, the section 151 Officer and other Senior Leadership Team members are currently reviewing the extent to which SSDC's capital reserves, along with the use of exiting CIL money (Community Infrastructure Levy), can be utilised to finance the existing Regeneration Programme in order to reduce the Council's (and the new authority's) borrowing needs. The outcomes from this review will be included in the Draft Budget report for District Executive's meeting in December 2021.

## MTFP Refresh 2021/22 – 2023/24

### Revenue Expenditure

55. Table 3 gives a summary of the approved 2021/22 budget, the 2021/22 budget position as at 31<sup>st</sup> July, and the MTFP projections rolled forward from the 2021/22 Original Budget for 2022/23 and 2023/24. At this point in time we have made the assumption that the current estimated movements in the budget for this financial year will not continue into the 2022/23 financial year. Tables four and five includes more detail of the figures summarised below.

56. It should be noted that the current MTFP model uses the 2021/22 Original Approved Net Budget as the “base budget” with forecast changes being added or detracted from that starting point. This is called incremental budgeting and is widely used in local government. It is the intention however of the interim S151 Officer to renew the model used so that it produces forecasts on a subjective cost and income basis – so for example, the model would forecast the total costs for employees salary, National Insurance costs, and Pension Fund contributions as separate lines in the model. This type of modelling will give SSDC Members enhanced understanding and transparency of the figures and will also make it easier to share our budget plans with other Somerset Councils as part of the local government reorganisation requirements.

**Table 3: 2021/22 budget and MTFP projections 2022/23 and 2023/24**

	Original Approved 2021/22	Estimated Movement	2021/22 Position as at 31 July 2021	2022/23 Estimate	2023/24 Estimate
	£	£	£	£	£
<b>Total Net Budget Requirement</b>	<b>16,743,010</b>	<b>1,352,210</b>	<b>18,095,220</b>	<b>17,537,000</b>	<b>18,371,310</b>
<b>Funding</b>					
Grants	-1,501,690	0	-1,501,690	-731,500	327,285
Business Rates Retention	-5,824,873	0	-5,824,873	-6,025,994	-3,902,282
Council Tax	-10,717,653	0	-10,717,653	-11,069,694	-11,424,663
Collection Fund Deficit	8,997,942	1,725,028	10,722,970	757,002	606,562
<b>Sub-total: Funding</b>	<b>-9,046,274</b>	<b>1,725,028</b>	<b>-7,321,246</b>	<b>-17,070,186</b>	<b>-14,393,098</b>
Other Reserve Transfers	-7,696,736	-3,077,238	-10,773,974	310,678	-246,322
<b>Total Funding</b>	<b>-16,743,010</b>	<b>-1,352,210</b>	<b>-18,095,220</b>	<b>-16,759,508</b>	<b>-14,639,420</b>
<b>Budget Gap (Cumulative)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>777,492</b>	<b>3,731,890</b>
<b>Budget Gap Increase on Prior Year</b>				<b>777,492</b>	<b>2,954,398</b>

57. The roll forward position shows an indicative budget gap position of some £0.8m for 2022/23 with a further increase of £3m in 2023/24 (the latter increase largely being the result of the estimated adverse impact any Business Rates baseline reset will have on the council’s finances). The figures reported to Council in February 2021 were £1.2m and £0.05m respectively.
58. However these figures are at a very preliminary stage in the budget setting process. As mentioned in the previous section of the report, there are significant forecast variances being reported for this financial year that need further review and may impact on 2022/23 onwards. These include:
- A forecast overspend of £1.1m in the employee’s budget arising primarily from the need to use interim staff in Development & Building control.
  - £1.1m of the Fees & Charges income budget is estimated as not being achievable. The 2021/22 income budget already incorporates an assumed loss of income of £1.3m arising from the impact of Covid 19.



- Investment Income is forecast to achieve more than the agreed budget by £780k.

**Table 4: Net Budget Requirement 2021/22 to 2023/24**

	Original Approved 2021/22	Estimated Movement	2021/22 Position as at 31 July 2021	2022/23 Estimate	2023/24 Estimate
	£	£	£	£	£
<b>Base Net Budget</b>	<b>15,207,150</b>		<b>15,207,150</b>	<b>16,743,010</b>	<b>17,537,000</b>
Employment cost inflation	914,670	1,041,000	1,955,670	335,700	435,940
Inflation allowance on contracts	193,730	0	193,730	198,290	198,370
Unavoidable budget pressures	354,520	0	354,520	300,000	200,000
Planned savings	100,000	0	100,000	0	0
Investment Income - Treasury Management	-100,000	-780,000	-880,000	0	0
Investment Income - Property Portfolio	-1,919,870	0	-1,919,870	0	0
Investment Income - Third Party Loans	-452,440	0	-452,440	0	0
Revenue effects of Capital Programme	1,482,550	0	1,482,550	0	0
Other adjustments from base	-317,200	0	-317,200	-40,000	0
Forecast loss fees & charges income	1,279,900	1,091,210	2,371,110	0	0
<b>Total Net Budget Requirement</b>	<b>16,743,010</b>	<b>1,352,210</b>	<b>18,095,220</b>	<b>17,537,000</b>	<b>18,371,310</b>

59. Work is currently being undertaken to assess the financing charges budget given that the borrowing needs of the council have increased significantly in recent months (arising largely from the deep dive reviews undertaken of the Regeneration Programme's funding arrangements by the Director of Place and Recovery and the interim S151 Officer). The income that can be anticipated from our loan arrangements to SSDC Opium Limited along with any dividend income that may be received is also "work in progress" at this stage although the likelihood is that significant additional income from these sources will be included in the budget for next year onwards.
60. As mentioned at paragraph 16 above, the MTFP Refresh figures do not yet include the costs required to implement local government reorganisation, provisions to offset the effects of diverting SSDC capacity (which might otherwise impact on service delivery) and other potential consequential costs to this Council. Formal provision at this stage is considered premature with the scope and scale of the expenditure needed still being reviewed. It is intended that these budget provisions will be made in the December Draft Budget report to District Executive and Council.
61. In addition the assumptions made about the timing and impact of the local government funding reforms, discussed in paragraphs 31 and 32 above, could change in the next iteration of the MTFP. There is no clarity on whether these reforms will be implemented in 2023/24 and there is no consensus about this issue in the current MTFP positions being reported across Somerset's councils. A consistent pan-Somerset approach to this and other financial issues in the forward 2023/24 indicative budget estimates would be helpful in drawing up the consolidated budget for the first year of the new unitary council: the Section 151 Officer will



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collaborate with other S151 Officers on this as part of the local government reorganisation programme.

**Table 5: Funding 2021/22 to 2023/24**

	Original Approved 2021/22	Estimated Movement	2021/22 Position as at 31 July 2021	2022/23 Estimate	2023/24 Estimate
	£	£	£	£	£
<b>Funding</b>					
Revenue Support Grant	0	0	0	0	327,285
Rural Services Delivery Grant	-174,500	0	-174,500	-174,500	0
Lower Tier Services Grant (new 2021/22)	-156,180	0	-156,180	0	0
New Homes Bonus Grant	-1,171,010	0	-1,171,010	-557,000	0
Business Rates Retention	-5,824,873	0	-5,824,873	-6,025,994	-3,902,282
Collection Fund Deficit - Business Rates	8,885,872	1,725,028	10,610,900	546,322	546,322
Council Tax	-10,830,786	0	-10,830,786	-11,184,239	-11,540,552
Less: Council Tax Paid to SRA	113,133	0	113,133	114,545	115,889
Collection Fund Deficit - Council Tax	112,070	0	112,070	210,680	60,240
<b>Sub-total: Funding</b>	<b>-9,046,274</b>	<b>1,725,028</b>	<b>-7,321,246</b>	<b>-17,070,186</b>	<b>-14,393,098</b>
<b>Other Reserve Transfers</b>					
MTFP Support Fund Reserve	162,497	-757,210	-594,714	557,000	0
BRR Volatility Reserve	-8,885,872	-1,725,028	-10,610,900	-546,322	-546,322
Other Earmarked Reserves	1,026,640	-595,000	431,640	300,000	300,000
General Fund Balance	0	0	0	0	0
<b>Sub-total: Net Reserve Transfers</b>	<b>-7,696,736</b>	<b>-3,077,238</b>	<b>-10,773,974</b>	<b>310,678</b>	<b>-246,322</b>
<b>Total Funding</b>	<b>-16,743,010</b>	<b>-1,352,210</b>	<b>-18,095,220</b>	<b>-16,759,508</b>	<b>-14,639,420</b>
<b>Budget Gap (Cumulative)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>777,492</b>	<b>3,731,890</b>
<b>Budget Gap Increase on Prior Year</b>				<b>777,492</b>	<b>2,954,398</b>

## Capital Expenditure

62. The MTFP Refresh does not include any new capital expenditure plans. Senior Leadership Team will be asked to confirm whether there are any urgent and essential capital proposals, which can largely be delivered by the end of March 2023 that will need Council approval to include in the current capital programme.

## Reserves

63. **Revenue Reserves:** The General Fund Balance was £4.314m as at the end of the year (previous year's position was £5.1m). £1.86m was transferred out of the Balance in 2020/21 to fund the overall revenue budget. The MTFP Refresh assumes that this balance is not used over the planning period.
64. Revenue earmarked reserves total £38.465m as at end of March 2021 (they were £21.877m as at the end of March 2020). The increase in earmarked reserves includes £11.84m of Section 31 grant income from central government as described



## South Somerset District Council

in paragraph 45. The largest earmarked reserves, excluding the “one-off” Section 31 Grant reserve, are:

- Commercial Risk Reserve - £6.606m
- MTFP Support Fund - £4.880m
- NNDR Volatility Reserve - £4.592m
- Regeneration Fund - £2.997m
- CT/Housing Benefits – £1.291m
- Capital Reserve - £1.164m

65. Senior Leadership Team has recently agreed to undertake enhanced corporate monitoring of the use of earmarked reserves (the use of which, under the Financial Procedure Rules, are delegated to Directors as long as they are used for the purpose for which they were originally established). It is intended to fully incorporate the planned use of earmarked reserves into the budget position in the 2021/22 revised estimates and 2022/23 budget estimates in order to provide fuller clarity on their use and the expenditure which they are financing.
66. **Capital reserves:** largely comprise of unused capital receipts (that is the sales proceeds from selling assets). The reserves were £18.222m as at the end of last financial year). At this point in time some £8.1m of this total would be needed to fund the agreed capital programme.
67. SSDC therefore has a healthy reserves position which it has proactively built up over the last few financial years. A desktop exercise was recently undertaken by the Section 151 Officer to compare SSDC’s reserves with the other Councils in Somerset to further assess the financial robustness of the council. The exercise was undertaken using unaudited published Statement of Accounts and omits, for all authorities, the significant “one-off” Section 31 Grant reserves mentioned in paragraph 45 above.

**Table 6: Reserves held by the Somerset Councils as at end of 2020/21**

	South Somerset	Mendip	Sedgemoor	Somerset West & Taunton	Somerset County Council
General Fund Revenue Reserves	£31.1m	£13.4m	£23.4m	£27.0m	£122.0m
Net Revenue Expenditure Budget	£15.6m	£19.6m	£29.9m	£21.1m	£340.7m
% of Reserves compared to Net Revenue Expenditure Budget	<b>199%</b>	<b>68%</b>	<b>78%</b>	<b>128%</b>	<b>36%</b>
Capital Reserves	£18.2m	£2.3m	£0.5m	£33.3m*	£13.6m

NB: Some of Somerset West & Taunton’s capital reserves will belong to their Housing Revenue Account, rather than the General Fund – but the amount cannot be determined from their accounts

68. Whilst the figures are not yet finalised, it is anticipated that SSDC will need to use a significant amount of its reserves over the next two years for the following:
- Financing the costs of local government reorganisation.
  - Financing increased capacity to enable the ongoing delivery of council services.



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- Funding any budget gap for this and next financial year.
- Using capital reserves to fund SSDC's existing capital budget so as to reduce the level of borrowing required to the benefit the revenue budget of this council and that of the new unitary council.

69. The draft budget report to be considered by District Executive on 2<sup>nd</sup> December 2021 will contain fuller information on these issues.

### **Borrowing Strategy**

70. Given the changes to PWLB lending terms and the intended changes to CIPFA's Prudential Code described in paragraphs 33 to 41 above, Arlingclose, the Council's Treasury Management adviser, was asked earlier this year by the S151 Officer to review the Council's potential borrowing options given that SSDC is, at least for this financial year, actively seeking to undertake further "investment purely for yield" commercial activity.
71. Arlingclose analysed a range of potential borrowing options including the use of: PWLB (Public Works Loans Board), local authority to local authority short term lending, borrowing from Financial Institutions (e.g. Pension Funds, banks), a Bonds issue (either separately or using the Municipal Bonds Agency), Forward Starting Loans, Interest Rates swaps, and income strip deals (wrapper leases).
72. The Section 151 Officer will be proposing to February 2022 Council (in the Treasury Management Strategy) that we keep to our current approach to borrowing namely: to (a) only borrow externally when cash flow requires this and to (b) only borrow short term from other councils. Obviously we will continue to review this approach with Arlingclose in light of any changes in market/economic conditions but the intention is that for the next two years SSDC will not enter into any long term borrowing arrangements.
73. The rationale for proposing this approach can be given as follows:
- Short term borrowing from other councils is currently by far the cheapest option and is readily available and quick to administer.
  - Whilst there is a risk to SSDC if interest rates rise, this is assessed as a low risk by Arlingclose and other economic forecasters.
  - Other options, e.g. bond issues, interest rate swaps, will take officer time and cost to implement.
  - Income strip deals (wrapper leases) are intrinsically risky.
  - HM Treasury have recently clarified their new PWLB lending terms and have confirmed that PWLB lending is available to finance existing debt arising from past "investment purely for yield" commercial activity and to finance the council's capital programme the year after it ceases such commercial activity, if the Council so wishes.
  - The S151 Officer advises that it would be wrong to fetter the future flexibility of the successor unitary authority in this matter if there is no immediate need for SSDC to enter into long term borrowing arrangements.

### Business Rates Pool for 2022/23

74. A Somerset Business Rates Pool (comprising the County Council and the Districts within the County Council area) has provided a positive impact on retained funding from Business Rates since 2018/19, retaining more funding locally rather than redistributed to central government. The pooling arrangement remains in place for 2021/22. The Council's financial plans include an actual gain of £811k in 2021/22 and an estimated gain of £1m for 2021/22 as a contribution towards funding SSDC's Regeneration Programme. Actual gains are not confirmed (and received) until the end of each financial year.
75. An "in principal " decision to continue being a member of the Somerset Business Rates Pool is required by 8<sup>th</sup> October 2021 with confirmation of this required within a week of receiving the final finance settlement from central government (in January 2022). It is the understanding of the interim S151 Officer, that colleagues across the Somerset Councils will be recommending that the Pool continues in 2022/23 with the same membership and same sharing arrangements in place. Further information on this will be given in the Draft Budget report to District Executive in December 2021.

### Next Steps Timeline

76. The next steps are shown in the table below.

**Table 7: Next Steps Timeline**

<b>Quarter Two revenue and capital budget monitoring reports</b>	District Executive – 4 <sup>th</sup> November 2021
<b>Draft Budget Report</b>  Revised estimates for 2021/22 and draft proposals for 2022/23 revenue and capital budgets to include: <ul style="list-style-type: none"> <li>• Revenue Budget Growth proposals</li> <li>• Revenue Budget Savings/new income proposals</li> <li>• New and revised capital project proposals</li> <li>• Any information gained on the Local Government 2022/23 Finance Settlement</li> <li>• Information on the costs of Local Government Reorganisation and capacity needs to deliver council services</li> <li>• Proposed Council Tax increase</li> <li>• Latest estimates for Collection Fund</li> <li>• Proposed use of Reserves</li> </ul>	District Executive - 2 <sup>nd</sup> December 2021  Council - 16 <sup>th</sup> December 2021 (to agree 2021/22 Revised Estimates)



<p><b>Final Budget Report</b></p> <p>Final proposals for 2022/23 revenue and capital budgets to include:</p> <ul style="list-style-type: none"> <li>• Revenue Budget</li> <li>• Capital Strategy &amp; Budget</li> <li>• Treasury Management Strategy (i.e. borrowing and investments)</li> <li>• Council Tax increase</li> <li>• Parish Precepts</li> <li>• Use of Reserves</li> </ul>	<p>Audit Committee - January 2022 (tbc) - to review Treasury Management Strategy</p> <p>Scrutiny Committee 1<sup>st</sup> February 2022</p> <p>District Executive 3<sup>rd</sup> February 2022</p> <p>Council 24<sup>th</sup> February 2022</p>
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### Legal implications (if any) and details of Statutory Powers

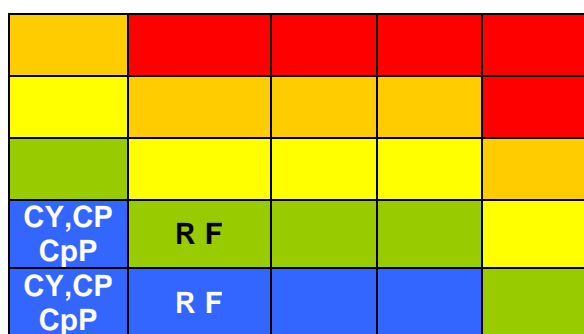
Section 30(6) of the Local Government Finance Act 1992 requires the Council to set its budget **before 11 March in the financial year preceding the one** in respect of which the budget is set. This is the first of three reports that will achieve that outcome.

### Risk Matrix

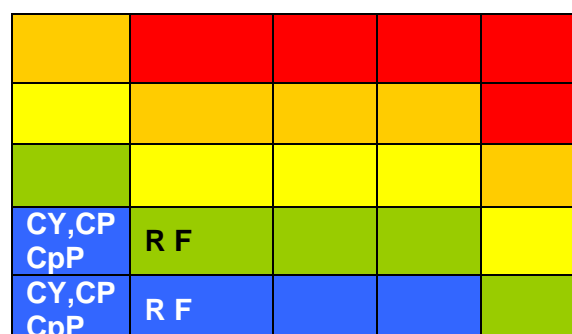
The risk matrix below represents the risk assessment of the financial health of the Council based on performance during 2020/21 and the end of year balances position.

**Risk Profile before officer recommendations**

**Risk Profile after officer recommendations**



Likelihood  
→



Likelihood  
→

### Key

<b>Categories</b>	<b>Colours</b> (for further detail please refer to Risk management strategy)
R - Reputation	High impact and high probability
CpP - Corporate Plan Priorities	Major impact and major probability
CP - Community Priorities	Moderate impact and moderate probability
CY - Capacity	Minor impact and minor probability
F - Financial	Insignificant impact and insignificant probability



## **Council Plan Implications**

The MTFP incorporate costs, income and funding implications directly related to the delivery of the Council's aims and priorities. The Council Plan for 2022/23 is due to be presented to Council for approval in February 2022 at the same time as the final budget.

## **Carbon Emissions and Climate Change Implications**

Not applicable within this report.

## **Equality and Diversity Implications**

Not applicable within this report.

## **Privacy Impact Assessment**

Not applicable within this report.

## **Background Papers**

Budget Setting reports to Full Council in February 2020, February 2021