

2020/21 Revenue and Capital Budgets and Medium Term Financial Plan

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Purpose of the Report

1. The purpose of this report is to set out the Draft Budget and proposed council tax for 2020/21 to enable Executive to recommend proposals to Full Council for approval. This report is based on the Medium Term Financial Plan (Revenue Budgets for 2020/21 to 2024/25) and also includes proposed additions to the Capital Programme.

Public Interest

2. This report sets out the proposed budget for South Somerset District Council for 2020/21 and the estimated budgets for the following four years. It also asks members to approve capital schemes for funding in 2020/21.

Recommendations

3. That Full Council:
 - (a) approves the Net Revenue Budget for 2020/21 of **£15,207,150**, as set out in the Revenue Account Summary (paragraph 40) and in detail in Appendix A for the District Executive and four Area Committees, subject to any final amendments;
 - (b) approves a 2020/21 Council tax annual increase of 2.99%, increasing the annual Band D rate by £5.00 to £172.11. Full Council to note this new annual rate comprises £170.26 for SSDC services, raising £10,448,932, and £1.85 on behalf of the Somerset Rivers Authority, raising £112,315;
 - (c) approves the prioritisation of Business Rates pooling gain to Regeneration as detailed in paragraph 38;
 - (d) approves the new capital programme as shown in Appendix D, with includes an additional funding request of £1.887m as detailed in paragraph 62;

Background

4. The General Fund Revenue Account is the Council's main fund and shows the income and expenditure relating to the provision of services which residents, visitors, and businesses all have access to including planning, environmental services, car parks, certain housing functions, community services and corporate services.
5. The Council directly charges individual consumers for some of its services through fees and charges, with the expenditure that remains mainly funded through a combination of sources including: local taxation, a proportion of business rates, and also grants from Central Government such as Revenue Sport Grant, New Homes Bonus and other non-ring-fenced and specific grants/subsidy.

6. Each year the Council sets an annual budget which details the resources needed to meet its operational requirements. The annual budget is prepared within the context of priorities identified by Members as part of the Council's current corporate plan.
7. The District Executive and Scrutiny Committee have received update reports on the draft 2020/21 budget, Financial Strategy and Medium Term Financial Plan. The drafts are subject to final amendments whilst awaiting clarity around Government grants and funding.

Financial Strategy

8. The Executive approved the current Financial Strategy in September 2019. The principal aim of the strategy is to enable the Council to set a balanced budget each year without the need to cut services, and the key themes agreed in September remain the same. The financial strategy sets out to provide Members with options to respond to the ongoing and increasing financial challenges within the local government sector.
9. Members agreed a revised Financial Strategy which built onto the success of the previous strategy, but looked ahead for the next three years, and sets new financial targets at the same time. The direction in the Financial Strategy agreed in 2017 remained relevant and sets out to provide Members with options to respond to the ongoing financial challenges. The new strategy extended this to increase income needed to pay for services and deliver ongoing financial resilience.
10. The Financial Strategy and Medium Term Financial Plan report approved by Executive in September 2019, summarised the key themes to the strategy as:
 - a) Ensuring clear service priorities that clearly align with corporate strategy and plans
 - b) Maximising operational efficiency and value for money through optimising benefits of the future operating model and exploring how new technologies can further improve efficiency
 - c) Adopting robust financial control and reporting arrangements
 - d) Developing approaches to manage and reduce demand on services in partnership with Somerset councils and other service delivery organisations
 - e) Investing further in property, energy and new services to generate additional income that can be reinvested to maintain and improve services to our community
 - f) Increasing the income yield from financial investments as part of a prudent treasury management approach
 - g) Taking a more commercial approach and increasing income yield by 5% per year
 - h) Reduce reliance on government grants such as New Homes Bonus for the funding of ongoing services
 - i) Supporting and enabling economic and housing growth and regeneration to protect and enhance funding through local taxation and grant funding
 - j) Focus on long term financial resilience through robust financial planning and maintaining appropriate reserves to manage risk and meet future commitments
11. The Council, as part of their 2019/20 budget setting report previously forecast a projected budget shortfall of £5.2m by 2022/23. By following the key themes in the Financial Strategy progress has been made in finding this shortfall, and the current draft MTFP forecast for 2022/23 has now reduced and estimated to be £333k. By adding another year, to make it a 5 year forecast, the current estimated budget shortfall is £1.046m by 2023/24.

12. The Financial Strategy agreed in September 2019 also set out the approach to resourcing including government grants, council tax and reserves.
13. Through the preparation of the 2020/21 estimates the Executive is able to propose a balanced budget for 2020/21 whilst maintaining services and making significant contributions to key priorities such as its major regeneration programmes. The updated MTFP shows a projected budget gap in subsequent years of the plan. The figures include all estimates for pay awards, pension costs, council tax, business rates, Government grant, and inflation.

Efficiency Strategy

14. Members previously approved an Efficiency Strategy in 2016 which successfully funded part of the revenue costs of transformation. Full Council may approve a new Efficiency Strategy at any time, and it is worth noting that through the Finance Settlement for 2019/20 the Government re-confirmed that this flexibility has been extended by a further three years to include receipts between 2016/17 and 2021/22.
15. Although at this stage there are no firm proposals to propose an Efficiency Strategy to fund suggested costs linked to the Digital Strategy, this may be something that is taken forward during the year.

The Government Settlement

16. The Provisional Settlement for 2020/21 was received on 20th December 2019 but has not yet been finalised. The Final Settlement is due to be issued by the Government by the end of January.

Sources of Funding for Budget 2020/21 to 2024/25

Revenue Support Grant

17. SSDC's Efficiency Statement was approved by the DCLG in 2016. The result of this was a negative RSG payment in 2020/21 of £327.3K, so effectively SSDC would be paying MCHLG instead of the other way around. For the third year in a row, government has removed the negative RSG from the 2020/21 planned settlements, as confirmed in the Provisional Settlement.

Rural Services Delivery Grant

18. The Provisional Settlement confirmed an allocation of £166,284 for 2020/21 which is the same allocation as received in 2019/20.

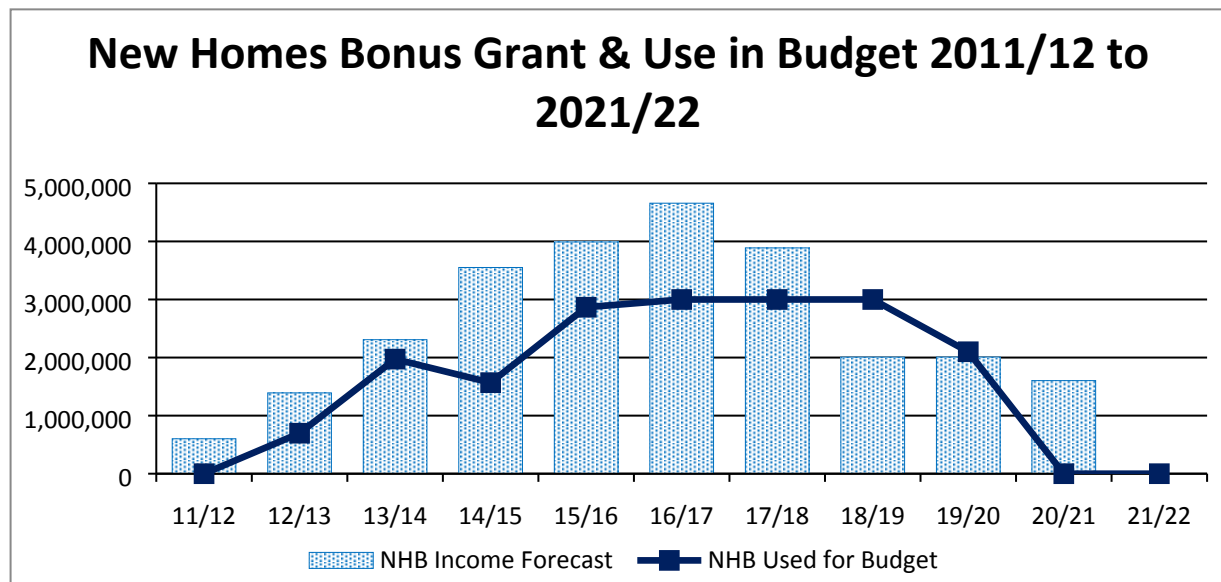
New Homes Bonus

19. The New Homes Bonus (NHB) is a non-ringfenced grant that incentivises and rewards housing growth. The grant is calculated by measuring annual housing growth numbers, with each year's growth previously attracting grant for a 4-year rolling period. Since 2017/18 the Government has applied a growth baseline which acts as a top-slice, with no NHB awarded on the first 0.4% of growth.
20. As part of the Spending Round in September 2019 the Government confirmed that NHB would be available in 2020/21, however this was an area of funding being considered by Ministers. With this in mind the Financial Strategy which originally allowed for this funding to reduce was strengthened to assume no NHB income from 2021/22 onwards.

21. In the Provisional Settlement the NHB grant has been confirmed as £261,779 for 2020/21 award, and £1,341,061 as legacy payment, making a total expected income for 2020/21 of £1,602,840. The Council's budget approach for 2020/21 is to fully set aside this receipt in a MTFP Support Fund earmarked reserve to mitigate the impact of grant fluctuations.
22. Within the Provisional Settlement, the Government confirmed they will consult on the future of the housing incentive in the Spring. The Written Ministerial Statement says this will include moving to a new, more targeted approach which is aligned with other measures around planning performance.

Table & graph 1 – Summarises allocations of NHB and MTFP forecast from 2016/17 up to 2021/22.

Year	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
2011/12	601.1					
2012/13	790.3					
2013/14	915.9	915.9				
2014/15	1,243.7	1,243.7				
2015/16	440.1	440.1	440.1			
2016/17	667.1	667.1	667.1	667.1		
2017/18		621.1	621.1	621.1	621.1	
2018/19			278.9	278.9	278.9	
2019/20				441.1	441.1	
2020/21					261.8	
2021/22						
	4,658.2	3,887.9	2,007.2	2,008.2	1,602.8	0



Council Tax Rate

23. The Secretary of State has confirmed within the Provisional Settlement that Shire Districts are able to increase Council Tax by the greater of 2% or £5 (on a Band D) in 2020/21 without the need for a referendum. Coincidentally a £5 increase equates to a 2.99% increase in 2020/21.
24. The 2019/20 annual basic tax rate towards the cost of South Somerset District Council services, for the average Band D property, was £165.26, and the Council also included £1.85 in respect of the Somerset Rivers Authority (SRA), making the total Band D charge of £167.11.

25. The District Executive is minded to recommend to Full Council the option to increase Council tax by 2.99% (£5 limit on a Band D property), and this is reflected in the draft budget figures for 2020/21. For the average Band D property this will set the annual tax rate at £172.11 or £3.31p per week.
26. The Somerset Rivers Authority (SRA) is still currently unable to raise its own precept, and this is likely to remain the case next year at least. In 2016/17 the government amended Somerset Council Tax levels to a notional amount to allow each of the Somerset authorities to raise 1.25% (£1.85 per band D for SSDC) interim funding for them.
27. This agreement will continue in 2020/21 with no uplift other than tax base growth and therefore the precept per Band D property will continue to be £1.85. This will raise £112,315 of funding from this Council in 2020/21, which is passed on to the SRA to contribute to the 20-Year Flood Action Plan.

Council Tax Income

28. The tax base for 2020/21 is 60,710.78 Band D Equivalents, an increase of 444.71 (0.7%) compared to 2019/20. The draft budget estimate for Council Tax income for SSDC is therefore $60,710.78 \times £170.26 = £10,336,617$. This represents an increase of £377,046 compared to the previous year. The estimate is calculated as follows:

	£
Council Tax Income Budget 2019/20	9,959,571
Increased due to change in Tax Base (Band D equivalents)	73,492
Increased due to proposed 2.99% increase in Tax Base	303,554
Estimated Council Tax Income 2020/21	10,336,617

29. As billing authority, SSDC has to calculate a basic level of tax based on its own spending plans, to which is added the precepts from Somerset County Council, Devon and Somerset Fire Authority, Avon and Somerset Police Authority and any town/parish council.
30. The actual total of Council Tax for South Somerset residents will be calculated once all precepting authorities have notified SSDC of their proposals. The recommended total Council Tax will be submitted to Full Council on 19th February 2020 for consideration.

Estimates for Future Years Band D Council Tax

31. The current estimate within the Medium Term Financial Plan is that Council Tax levels will remain in line with expected Government increases of 1.99% for 2021/22 onwards. For financial planning purposes, finance officers expect the Government to assume local authorities will maximise their council tax opportunities when assessing future finance settlements.

Business Rates Retention (Non-Domestic Rates)

32. Local authorities receive a significant proportion of their funding through the Business Rates Retention (BRR) system. The Council must set its business rates budget estimate by 31 January each year, and the Council has delegated responsibility for this to the S151 Officer because of the considerable time constraints in place. The Draft Budget includes the BRR estimate approved by the S151 Officer in January prior to competing this report.

33. SSDC will continue to operate within the Somerset Business Rates Pool in 2020/21, but will cease being in a Pilot area for 75% BRR. The Provisional Settlement confirmed there was no business rates Pilots for 2020/21 only the continuation of business rates pilots for areas with ratified devolution deals which started in 2017/18. This means for SSDC we are going back to the standard share:

BRR Standard Shares	2020/21 50% system
Districts	40%
County	9%
Fire Authority	1%
Government	50%

34. Now we are at the third year of the 2017 rating list and have more data to support the “Check, Challenge, Appeal” arrangements introduced by the Valuation Office in 2017, we are able to make a better assessment of the appeal provision that we should hold. With this in mind, we are able to reduce our provision for appeals, which in turns means a greater proportion of business rates collected can be distributed to the councils. This is considered an acceptable risk, particularly in view of the level of funds set aside in the Business Rates Volatility Reserve and General Reserves.
35. Due to the timing of this report, the Budget has been updated reflect the approved 2020/21 business rates budget estimate (NNDR1), which must be done before 31st January. However, all the authorities within the Somerset Pool must complete their NNDR1 before an estimated pooling gain can be calculated.
36. The table below shows total business rates income projected for 2020/21 is just over £5.498m, as summarised. **The TBC figure for estimated pooling gain will be completed before the final budget is presented to Full Council.**

	2020/21 £'000
40% Standard share of net business rates income	-18,284
100% Renewable energy schemes business rates income	-505
S31 grant compensation for Government-funded reliefs	-2,455
Tariff payment	13,864
Levy cost	1,882
Safety net income	0
Net Retained Business Rates Funding	5,498
Estimated Pooling Gain	TBC
Total BRR Funding Estimate	TBC

37. The Executive proposes to set aside a large proportion of the pool and pilot gain in 2020/21 towards priority town centre regenerations schemes at this stage. At this stage it is anticipated to be around £1m. This will be confirmed once this figure has been received from the administering body of the Somerset Pool.

Regeneration Programmes Funding

38. The Council has approved gross and net budgets for the priority regeneration programmes in Yeovil, Chard and Wincanton. The net budget requirement for these programmes is £7.5m however this is not currently fully funded. As part of this year’s proposed budget the Executive is minded to address this funding gap through a combination of a transfer from surplus revenue budget and business rates pooling / pilot gains.

Regeneration Funding Plan	£000
Existing approvals:	
Consolidation of previous Yeovil capital budgets – funded from existing capital receipts	424
Area South Capital Fund contribution – funded from existing capital receipts	151
Agreed allocation from commercial investment (Marlborough)	500
Agreed allocation from 2018/19 business rates pooling gain	500
Agreed allocation from 2019/20 business rates pooling and pilot gain	1,425
Surplus revenue budget from 2019/20	500
Useable Capital Receipts	2,500
Sub-total	6,000
Proposed first call on future unallocated business rates pooling gains (will need contingency plan if insufficient income received)	1,500
Total Funding for Net Budget Requirement	7,500

The Medium Term Financial Plan

39. The Medium Term Financial Plan (MTFP) summarises our estimates of costs and funding, and the impact of the Council's plans for the medium to long-term. The MTFP for South Somerset summarised in this report covers a five-year period. The Plan links the resources required to deliver the Council Plan and the Council's strategies.

40. The table below summarises the Draft Budget for 2020/21 and MTFP projections for subsequent years:

Table 2 – Draft Budget

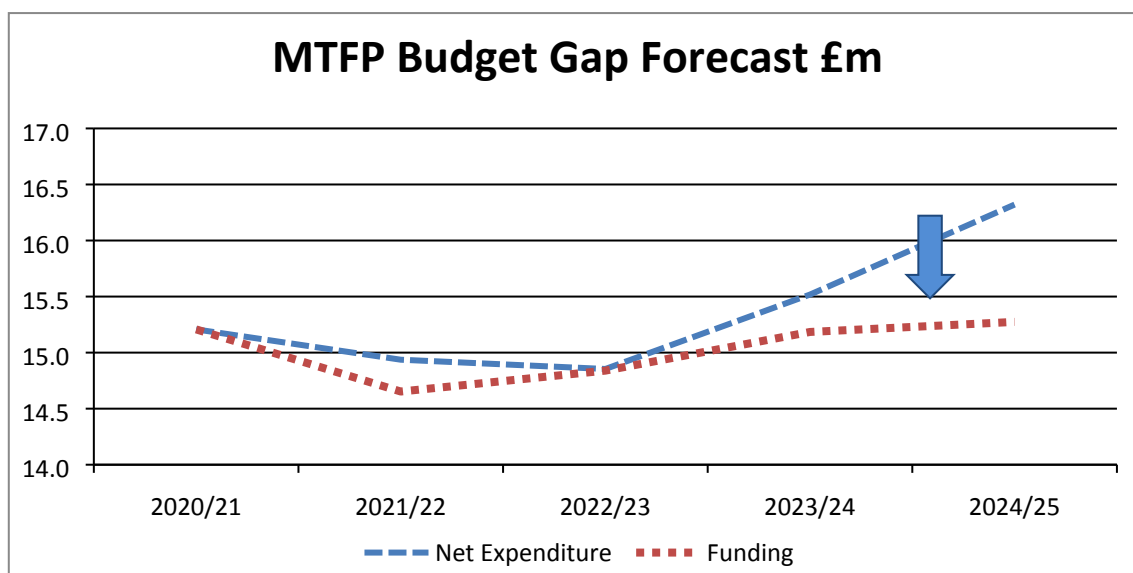
	2020/21	2021/22	2022/23	2023/24	2024/25
	£'000	£'000	£'000	£'000	£'000
Base Budget B/F	16,197.8	15,207.1	14,936.6	14,853.9	15,517.7
Incremental Changes:					
Employment Cost Inflation	210.0	467.1	454.2	374.0	422.7
Inflation allowance on contracts	168.7	173.7	178.7	179.7	179.7
Unavoidable budget pressures	348.7	200.0	200.0	200.0	200.0
Planned savings	-355.5	9.7	-90.1	-147.8	-58.6
Investment Income & Revenue effects of Capital Programme	-1,690.8	-763.8	-825.6	57.8	59.1
Other	328.1	-357.2	0.0	0.0	0.0
Total Budget Requirement	15,207.1	14,936.6	14,853.9	15,517.7	16,320.6

	2020/21	2021/22	2022/23	2023/24	2024/25
	£'000	£'000	£'000	£'000	£'000
Total Budget Requirement (per Table above)	15,207.1	14,936.6	14,853.9	15,517.7	16,320.6
Funded By:					
Revenue Support Grant	0.0	327.3	327.3	327.3	327.3

Rural Services Delivery Grant	-166.3	-166.3	-166.3	-166.3	-166.3
New Homes Bonus Grant	-1,602.8	0.0	0.0	0.0	0.0
Business Rates Retention	-5,498.1	-3,733.5	-3,807.0	-3,880.5	-3,954.0
Collection Fund Surplus - Business Rates	-1,712.1	0.0	0.0	0.0	0.0
Council Tax - SSDC	-10,448.9	-10,844.6	-11,209.0	-11,531.6	-11,899.3
Less: Council Tax Paid to SRA	112.3	114.3	115.8	116.8	118.2
Collection Fund Deficit - Council Tax	35.1	0.0	0.0	0.0	0.0
Sub-total: Funding	-19,280.8	-14,302.8	-14,739.2	-15,134.3	-15,574.1
Other Reserve Transfers					
MTFP Support Fund Reserve	1,602.8	-650.0	-400.0	-350.0	0.0
BRR Volatility Reserve	1,658.1	0.0	0.0	0.0	0.0
Other Earmarked Reserves	812.8	300.0	300.0	300.0	300.0
General Reserves	0.0	0.0	0.0	0.0	0.0
Sub-total: Reserves	4,073.7	-350.0	-100.0	-50.0	300.0
Total Funding	-15,207.1	-14,652.8	-14,839.2	-15,184.3	-15,274.1
Budget Gap / (-)Surplus	0.0	283.8	14.7	333.4	1,046.5
Budget Gap Increase on Prior Year		283.8	-269.1	318.7	713.1

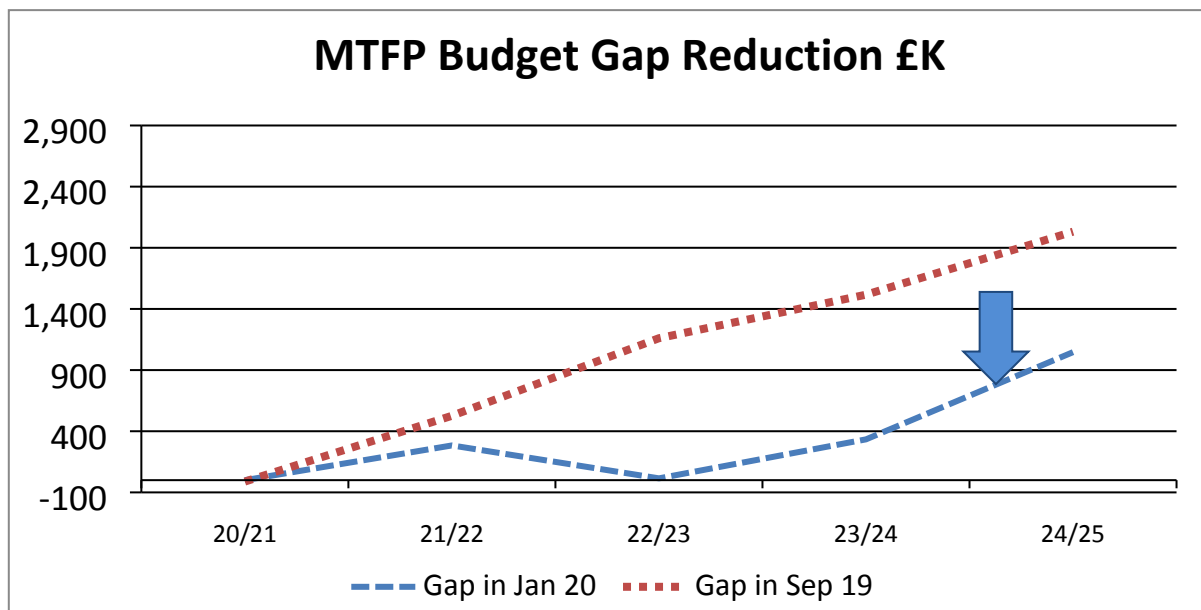
(Negative figures = income / cost reductions, positive figures = cost increases / income reductions)

41. A summary of the budget gap is shown in the graph below:



42. The forecast of income in 2021/22 onwards currently includes the new targets of income to be achieved from the updated Commercial Strategy agreed by Full Council in September 2019. These forecast figures show the positive effect the Commercial Strategy could have on reducing the budget gap in future years, but is a forecast and will continue to be updated throughout 2020/21 in line with actual investment purchases made.

43. The graph below shows the reduction in the funding gap projected in the current MTFP to that identified in the Financial Strategy & MTFP report presented to Members in September 2019.



Assumptions Made

44. Expenditure, income and funding estimates are based on a range of assumptions including:

	2020/21	2021/22	2022/23	Notes
Inflation	contractual obligations	contractual obligations	contractual obligations	Assumes average inflation 2%
Pay	2%	2%	2%	Assumes average annual pay award 2%; increments impact neutral.
Council Tax	2.99% per Band D	1.99% per Band D	1.99% per Band D	Assumes £5 per Band D in 20/21 (2.99%), then annual rises of less than 2%
Business Rates	50% BRR system	50% BRR system	50% BRR system	50% BRR system pending anticipated reform of the business rates funding system from April 2021.
Pensions	17.6% plus £1.361m lump sum	17.6% plus £1.411m lump sum	17.6% plus £1.462m lump sum	Assume employers contributions increases as per actuarial valuation.
Investment Income	Base 0.75%	Base 0.75%	Base 0.75%	Assume no change to interest rates; increase in treasury investment yield through more strategic investments held for long term.
Revenue Support Grant	£0	-£327K	£-327K	Provisional settlement confirmed negative RSG will be offset in 20/21.
New Homes Bonus	-£1.6m grant	-£0m grant	-£0m grant	Based on provisional figures for 20/21 and no future year NHB or legacy payments going forward.

(Negative figures = income increases / cost reductions, positive figures = increased costs / income reductions)

Revenue Budget 2020/21

45. Appendix A provides the detailed budgets for the four Area Committees and the District Executive. Once approved by Full Council, these represent the financial plans that the Executive will manage under their delegated authority and monitor in accordance with the Financial Procedure Rules.

Savings

46. Savings plans are outlined in Appendix B. It is proposed that significant variations between planned and achieved savings are reported as part of the budget monitoring process.
47. A review of fees and charges has been undertaken to ensure that they are keeping pace with inflation and generate additional revenue to meet income generation targets. Additional income totalling £75k has been included in the 2020/21 draft budget.

Unavoidable Budget Pressures

48. Unavoidable budget pressures are detailed in Appendix C. The pressures identified for 2020/21 total £348.8, which is more than the initial provision of £205k allowed within the early draft of the MTFP. The main difference being the proposal to reduce the income budget for services that have showed an underachievement of the target income for the current year as well as in previous years.

Spending Priorities and Other Allocations

49. The 2020/21 budget also includes the following allocations of funding:

	£'000
CASS and SPARK Funding	23.4
Additional increase to the Districtwide grants budget (one year only)	6.6
Digital Strategy provisional permanent funding	187.1
Digital Strategy implementation funding (one year only)	235.0
Total	452.1

50. As the table above shows, the 2020/21 budget includes a proposed budget allocation of £422,120 towards the implementation of the Digital Strategy. £235,000 is funding for one year only with the remaining £187,120 as permanent funding towards the overall IT budget.

Earmarked Reserves

51. Earmarked Reserves are funds that have been approved for specific costs and contingencies but not yet spent. Examples can include things such as government grants received in one year that will go towards projects or service costs in subsequent financial year(s). A periodic review of reserves is good practice.
52. The total earmarked reserves balance as at December 2019 was £41.3m. This included £22.8m of capital receipts together with an array of revenue reserves totalling £18.5m as detailed below.

Capital Reserves	Balance as at 31/12/2019 £'000	Anticipated Movement £000	Expected Balance as at 31/3/2020 £'000
Usable Capital Receipts	-22,304	8,196	-14,108
Internal Borrowing Reserve	-554	0	-554
Total	-22,858	0	-14,662

Revenue Reserves	Balance as at 31/12/2019 £'000	Anticipated Movement £000	Expected Balance as at 31/3/2020 £'000
Internal Borrowing Repayments	-209	0	-209
Capital Reserve	-1,331	0	-1,331
Cremator Replacement Capital Reserve	-549	0	-549
Election Reserve	-178	0	-178
Sports Facilities Reserve	-41	0	-41
Yeovil Athletic Track Repairs Fund	-160	-18	-178
Planning Delivery Reserve	-16	0	-16
Bristol to Weymouth Rail Reserve	-28	28	0
Yeovil Refresh Reserve	-112	0	-112
IT Replacement Reserve	-10	0	-10
Insurance Fund	-50	0	-50
Transformation Reserve	-166	30	-136
Treasury Management Reserve	-600	0	-600
Revenue Grants Reserve	-466	0	-466
Medium Term Financial Plan Support Fund	-2,277	0	-2,277
Council Tax/Housing Benefits Reserve	-766	50	-716
Closed Churchyards Reserve	-16	0	-16
Health Inequalities	-31	0	-31
Deposit Guarantee Claims Reserve	-5	0	-5
Park Homes Replacement Reserve	-226	0	-226
Planning Obligations Admin Reserve	-30	0	-30
Artificial Grass Pitch Reserve	-124	0	-124
Business Support Scheme (Flooding)	-121	0	-121
Regeneration Fund	-1,382	-1,925	-3,307
NNDR Volatility Reserve	-1,455	-2,271	-3,726
Ticket Levy Reserve	-163	-10	-173
Waste Reserve	-294	0	-294
Community Housing Fund	-211	0	-211
Community Safety Reserve	-70	0	-70
Housing & Homelessness Reserve	-385	0	-385
Commercial Investment Risk Reserve	-6,243	-57	-6,300
Spatial Policy Reserve	-362	0	-362
YIC Maintenance Reserve	-40	0	-40
Climate Change Fund	-350	10	-340
Total Usable Reserves	-18,469	-4,163	-22,632

(Negative Figures = income, Positive figures = costs)

General Fund Balances

53. General Fund Balances represent accumulated revenue surpluses. Within the total, however, are amounts that have been earmarked by the District Executive for specific purposes. The table below shows the current position on the General Fund Balance compared to that previously reported:

	£'000
Balance at 1 April 2019	-4,593
Area & Economic Development Balances	121
2019/20 Carry Forwards	170
Financial Strategy agreed reserve transfers (September 19 District Executive)	811
Support for 2019/20 budget	-253
Commitments (including A303)	157
Current Estimated underspend in 2019/20	-286
Unallocated General Fund Balance at 31st December 2019	-3,873

Business Rates Surplus/Deficit and Volatility Reserve

54. Experience shows that BRR Funding can be volatile from one year to the next, and it is prudent to hold adequate funds in the Volatility Reserve to mitigate this risk and avoid a large unplanned reduction in funding for services. In addition, there are accounting timing differences for different parts of the BRR system, which we 'smooth out' through this reserve.
55. The current balance on the Volatility Reserve is c£1.455m. The Financial Strategy included some movements to top this up by another £559K before the end of the financial year, in line with our financial strategy, which currently seeks to maintain this balance at a minimum of £2.5m each year.
56. The 2020/21 Draft Budget includes an estimated Collection Fund surplus of £1.712m from 2019/20. It is proposed to set this aside in full to the Volatility Reserve in 2020/21 to mitigate future income fluctuations and smooth out 2019/20 accounting timing differences which will be reported at the end of 2019/20 financial year.

Community Initiatives Reserve

57. The 2020/21 Draft Budget includes a once year only allocation of budget to a new Community Initiatives Reserve of £524,451. This allowance of funding will allow Members to decide on a rationale for its allocation to priorities projects during the year.

Capital Strategy

58. The Capital Strategy outlines how SSDC will utilise its capital resources to deliver the Council Plan and key strategies. SSDC held £22.2m in capital receipts at the end of the 2018/19 financial year. However, the authority has a considerable requirement for capital resources through its Commercial Investment Strategy.
59. Each capital bid received requesting funding in 2020/21 was reviewed to assess the source of funding that may be appropriate, such as:
 - The service paying for the asset - through internal loans, building up a replacement fund from revenue budgets, or similar;
 - Use of the New Homes Bonus – can we reduce reliance for the revenue budget, and direct funding towards infrastructure and regeneration investment;
 - Use capital reserves - for schemes that are true community benefit / social value schemes where there is no prospect of self-funding;

- Investment properties – application of the commercial strategy as already agreed.
60. The Executive has delegated authority to approve the use of up to 5% of capital receipts in any one year (approx. £900k). Approvals beyond this sum must be agreed through full Council.
61. SSDC will utilise its own internal cash wherever possible to maximise its treasury management efficiency and minimise costs in the short to medium term. However, the Treasury Management Strategy currently allows borrowing of up to £124m, reflecting plans for commercial investments. A request for this to be increased to £165m has been requested as part of the Capital Investment and Treasury Management Strategy report.

Capital Programme 2020/21 to 2023/24

62. Members are requested to approve capital bids totalling £2,031,840. Of this total sum, £1,886,840 is a new allocation of funding, with £70,000 being moved from the reserve section of the capital programme, and the remaining £75,000 being reallocated from existing projects within the programme.
63. Full details of the revised Capital Programme are shown in Appendix D; new schemes are shown in bold and italics type, with previously approved schemes in ordinary type. A summary of recommended schemes is included at Appendix E. Attached at Appendix F are the Capital Investment Appraisal forms for all new schemes.

Funding the Capital Programme for 2020/21 - 2021/22

The table below shows how the 2020/21 Capital Programme will be financed: -

	2020/21 £'000	2021/22 £'000
Gross Capital Programme Spend	11,638	3,234
Gross Reserve Scheme Spend	40,828	45,000
Total Capital Programme to be Financed	53,019	49,434
Financed by:-		
Capital Grants, Contributions & Loan Repayments as detailed on Programme	2,295	2,174
Grants & Other Contributions in Reserves	821	0
Useable Capital Receipts / Borrowing	49,903	47,260
Total Financing	53,019	49,434

Robustness of the Budget and Adequacy of Reserves

64. The Local Government Act 2003 Section 25 includes a specific duty on the Chief Finance Officer (Section 151 Officer) to make a report to the authority when it is considering its annual budget and council tax levels. The report must deal with the robustness of the estimates and the adequacy of the reserves included within the budget. (For the purpose of the Act 'reserves' includes 'general fund balances'.) The Act requires the Council to have regard to the report in making its decisions at the Council's budget and council tax setting meeting in respect of 2019/20.
65. Budget estimates for 2020/21 are assessments of spending and income made at a point in time, based on service needs and known expenditure patterns. The statement about the robustness of estimates cannot give a guaranteed assurance about the budget, but gives members reasonable

assurances that the budget has been based on the best available information and assumptions. It reflects commitments necessary to maintain service levels, and with demand-led budgets this inevitably entails a degree of judgement.

66. In order to meet the requirement of assessing the robustness of estimates the Section 151 Officer will consider and rely upon the key processes that have been put in place:
- peer review by finance staff involved in preparing the standstill base-budget, i.e. the existing budget plus contractual inflation;
 - the use of in-year budget monitoring to re-align budgets in line with projected changes during 2019/2020;
 - a medium term planning process that highlights priority services;
 - a review of the corporate risk register;
 - a service review by the Cabinet, Senior Leadership Team and Budget Managers of detailed budget and proposed savings and their achievability; and
 - Finance staff providing advice throughout the process on robustness, including vacancy factors, increments, current demand, and income levels.
67. There has been a significant degree of scrutiny of the proposed budgets and savings by:
- The finance team – with several staff holding professional accountancy qualifications
 - Senior Leadership Team and Leadership group
 - Portfolio Holders
 - Scrutiny Committee
68. These examinations of the budgets have led to refinements and provide considerable assurance about the robustness of the estimates.
69. There remain some key risks within the budget and medium term forecasts that will be managed by officers and/or portfolio holders as summarised below:
- a) Service Income: The financial strategy includes targets for increased service income. Proposed budgets for 2020/21 have been increased to reflect updated fees and charges – in line with the financial strategy target assumptions – and estimates of demand for services. Whilst the assumptions result in prudent income forecasts there is a risk of income volatility. The General Reserves balance provides some contingency in case of in year reductions in income. [Director – Commercial Services and Income Generation]
 - b) Commercial Investment: The budget and medium term financial plan has been updated to reflect property acquisitions completed up to mid-January 2020. Future acquisitions when completed, in line with the agreed Commercial Strategy, will provide additional net income which will be added to budget estimates incrementally upon completion. As with any investment there is a risk of volatility, and the reserves strategy seeks to ensure adequate funds are held to mitigate this risk. [Director – Commercial Services and Income Generation]
 - c) Treasury Investments: In line with the treasury strategy we have increased the proportion of cash reserves held in strategic investments that we intend to hold for the long term and increase the total investment income received each year. The balance of these investments now stands at £23.25m. As with any investment there is a risk of volatility. There is also a prospective change in accounting regulations in 2019/20 that will expose the General Fund to revaluation risk in the medium term for investments held, after a period of statutory override to

2021/22. It is proposed to set aside a proportion of increased yield into a Treasury Investment Volatility contingency reserve each year to provide resilience for such impacts. [S151 Officer]

- d) Borrowing: The capital programme for services and commercial investment exceeded capital reserves during 2019/20, and thus required borrowing to support the priorities and ambitions of the council's plans. Currently the capital borrowing requirement is being supported through short term loans from other Local Authorities. As capital expenditure increases the council will need to raise increased funds through loans, and budget estimates incorporate the costs of borrowing based on projected PWLB interest rates. Financing will be managed in line with our treasury and capital strategies which follow the Prudential Code and good practice. [S151 Officer]
- e) Inflation: Cost estimates within the MTFP include assumptions for increases in pay, utilities, contracts and general prices for goods and service. The three largest elements are: (i) salaries, projected to increase by 2% per year (although a request of up to 10% has been made), (ii) pension deficit contributions as set by the actuary with fixed annual contributions, (iii) the waste services contract. Volatility in inflation costs could impact on service costs, and will require careful monitoring to inform future budget setting and in-year monitoring. The MTFP assumes an average 2% inflation increase year on year which is considered a reasonable long term estimates, slightly below short term economic forecasts but in line the Government's long term target. Inflation at 3% rather than 2% would add around £85k to budgeted costs, and a 1% change in staff pay estimates would cost around £131k. [S151 Officer / Budget Holders]
- f) Housing Benefit Subsidy: is administered on behalf of Central Government by SSDC and a grant reimburses expenditure incurred. Approximately £33m in benefit is paid out and the grant normally accounts for 100% of this, however adjustments reducing the grant are made for local authority errors. A contingency for unfunded errors is included within earmarked reserves. [S151 Officer]
- g) Finance Settlement Funding: The current MTFP reflects this as updated for the Provisional Settlement. However, there is significant uncertainty regarding the funding position for 2021/22 onwards, with the funding system due to be updated following the Spending Review, Fair Funding Review and Business Rates Retention reform – all due to be implemented from April 2021. [S151 Officer]
- h) Business Rates Retention (BRR): BRR Funding is based on the estimates complete in January each year. Estimates reflect anticipated growth, mandatory and discretionary discounts/reliefs and collection rates. Financial provisions are made for potential losses for appeals and other reductions, however experience shows that business rates funding can be volatile despite prudent estimates. There are also timing differences between financial years inherent in the required accounting arrangements. The Council seeks to mitigate the budget risk of reductions in funding by holding funds in a Business Rates Volatility Reserve. [S151 Officer]
- i) Business Rates Pooling: The County and four Districts in Somerset form the Somerset Business Rates Pool which commenced in 2018/19 and will continue in 2020/21. Pooling seeks to reduce the levy paid to Government on growth in business rates income above the funding baseline. The pool will distribute gains from levy savings in the form of a 'dividend' at the end of each financial year. Being in a pool increases risk with a lower safety net. In mitigation the Pool plans to cover individual authority safety net costs from pooling gains before any dividend is issued however there is no guarantee the gains will be sufficient to cover large scale losses. The risk is considered to be low in this respect, but will be carefully monitored. The proposed budget for 2020/21 includes a reasonable estimate of the pooling gain, with the funding to be set aside in the Regeneration Fund. The nature of the Regeneration Programmes

is such that schemes will take some time to plan and deliver, reducing the risk of needing the funding before it is received. [S151 Officer]

- j) Brexit: A downturn in the economy for example through Brexit would impact on our key income streams including business rates. A 5% reduction in development control, car parking, and building control alone would result in a loss in excess of £190k per annum. [S151 Officer]

- 70. The Council holds resources in both revenue and capital reserves.
- 71. General reserves remain comfortably above the required minimum balance, and the proposed budget for 2020/21 does not rely on general reserves to cover service costs. The Reserves balance is projected to remain above the recommended minimum, provided the financial strategy income targets are met on a timely basis.
- 72. Existing earmarked reserves have not been reviewed in detail this year. However, the draft budget includes proposed transfers to treasury and commercial risk management reserves to build financial resilience in these areas. There is also a transfer to a new Community Initiatives Reserve for priorities put forward during 2020/21.

S151 Officer Conclusion:

- 73. Overall, the process for the formulation of budgets, together with the level of challenge and sensitivity analysis undertaken provides a reasonable assurance of the robustness of the budget as presented. The Council has made good progress in meeting the savings targets within the Financial Strategy, largely as a result of the Commercial Strategy. The Council is able to set a balanced budget for 2020/21 included prudently boosting reserves for specific financial risks. The budget is a sound response to continuing challenging financial circumstances, which maintains services, maximises efficiencies and responds to anticipated future financial challenges.
- 74. Despite the excellent progress towards meeting the savings requirement, the medium term outlook remains a concern with a Budget Gap rising from £0.284m in 2020/21 to an estimated £1.047m by 2024/25. The Financial Strategy seeks to more than offset this residual Gap deliver through income generation and the base budget review, and it is essential that the Senior Leadership Team and Councillors continue to drive forward this approach in order to secure long-term financial sustainability and avoid the need for other measures such as service cuts. It has been well publicised that CIPFA and the Government are closely monitoring the growth in commercial investment activity by local authorities, and have released further guidance on this matter this month which will need to be considered carefully going forward. At this stage it is guidance rather than legislation, but should new controls be introduced that altogether prohibit commercial investment activity this would have a significant adverse effect on the financial strategy.
- 75. The level of reserves and balances have been reviewed in light of the risks outlined in this report and are currently predicted to remain at the required level.
- 76. 2020 is an important year in respect of local authority funding, and the impact of the Spending Review, Fair Funding Review and Business Rates funding reform will be carefully assessed. Of course, Brexit also brings significant uncertainty at the time of writing this report. It will be necessary to review the Financial Strategy in light of the outcomes of these important changes.

Corporate Priority Implications

- 77. The budget is aligned to the current Council Plan. There needs to be a clearer focus on priorities as the Council moves forward and radical reduction in dependency on central Government funding as it moves forward.

Carbon Emissions & Climate Change Implications

78. The budget is aligned to the Carbon Reduction Strategy and new capital projects to deliver the strategy will be included in the Capital programme once approved.

Appendices

Appendix A – Draft Detailed Budgets for 2020/21

Appendix B – Savings for 2020/21

Appendix C - Budget Pressures for 2020/21

Appendix D – Revised Capital Programme for 20/21 onwards

Appendix E – Recommended Schemes

Appendix F – Capital Investment Appraisal Forms

Background Papers:

District Executive Outturn Report July 2019

District Executive Financial Strategy and Initial MTFP September 2019

District Executive Financial Strategy Update November 2019

District Executive 2019/20 Draft Budget and Medium Term Financial Plan Update January 2019