



## 2021/22 Revenue and Capital Budgets and Medium Term Financial Plan Update

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### Purpose of the Report

1. The purpose of this report is to seek approval of the proposed budget and council tax for 2021/22. This report is based on the Medium Term Financial Plan (Revenue Budgets for 2021/22 to 2025/26) and also includes additions to the Capital Programme.

### Public Interest

2. This report sets out the proposed budget for South Somerset District Council for 2021/22 and the provisional budgets for the following four years. It also asks Members to approve capital schemes for funding in 2021/22.

### Recommendations

3. That Full Council:
  - a. Approves the Net Revenue Budget for 2021/22 of **£16,743,010** as set out in the Revenue Account Summary (paragraph 38) and in detail in Appendix A for the District Executive and four Area Committees, subject to any amendments;
  - b. Approves the 2021/22 Council Tax increase of 2.91%, increasing the annual Band D rate by £5 to £177.11. Full Council to note this new annual rate comprises £175.26 for SSDC services, raising £10,717,653; and £1.85 on behalf of the Somerset Rivers Authority, raising £113,133;
  - c. Approves the new capital programme as shown in Appendix D, with includes an additional funding request of £7.787m as detailed in paragraph 59.

### 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.



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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 the business rates collected, and also grants from Central Government such as Rural Services Delivery Grant, New Homes Bonus and other non-ring-fenced and specific grants/subsidies.
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 2021/22 budget, Financial Strategy and Medium Term Financial Plan.

### Financial Strategy

8. The Financial Strategy and Medium Term Financial Plan estimates for the period 2021/22 to 2025/25 were originally approved and noted on 6 August 2020 and then updated on 3 December 2020. The principal aim of the Strategy is to enable the Council to set a balanced budget each year without the need to cut services.
9. This has become even more pertinent when setting the 2021/22 budget in light of the ongoing pandemic. We have continued to strive to protect services whilst focusing on our communities including both residents and businesses, despite the significant financial pressures we have been under. Our sound financial position and resilience has enabled us to maintain our services; provide additional support and assistance to our communities; all without jeopardising our financial standing or our ability to provide our core services.
10. The key themes to the Strategy are:
  - 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;



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- h) Reducing 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) Focusing on long term financial resilience through robust financial planning and maintaining appropriate reserves to manage risk and meet future commitments.
11. The Financial Strategy agreed in December 2020 also sets out the approach to resourcing including Government grants, Council Tax and reserves.
12. Through the preparation of the 2021/22 estimates the Executive is able to propose a balanced budget for 2021/22 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.

### The Local Government Finance Settlement 2021/22

13. On 19 December 2020 we received the Provisional Settlement. This was very late in the Budget Setting process but we were able to confirm that our core assumptions had been correct. We were also pleased to see that an additional grant had been added to the core funding, the Lower Tier Services Grant. This new grant for 2021/22 is unringfenced – allocated to councils with responsibilities for services such as homelessness, planning, recycling, refuse collection and leisure.
14. We await the publication of the Final Settlement in the coming weeks but we do not expect it to deviate from the Provisional Settlement allocations, which were as follows:

Funding Source	Provisional Settlement Allocation (£)
Rural Services Delivery Grant	174,496
New Homes Bonus	1,171,010
Lower Tier Services Grant (New Grant)	156,176
	<b>1,501,682</b>

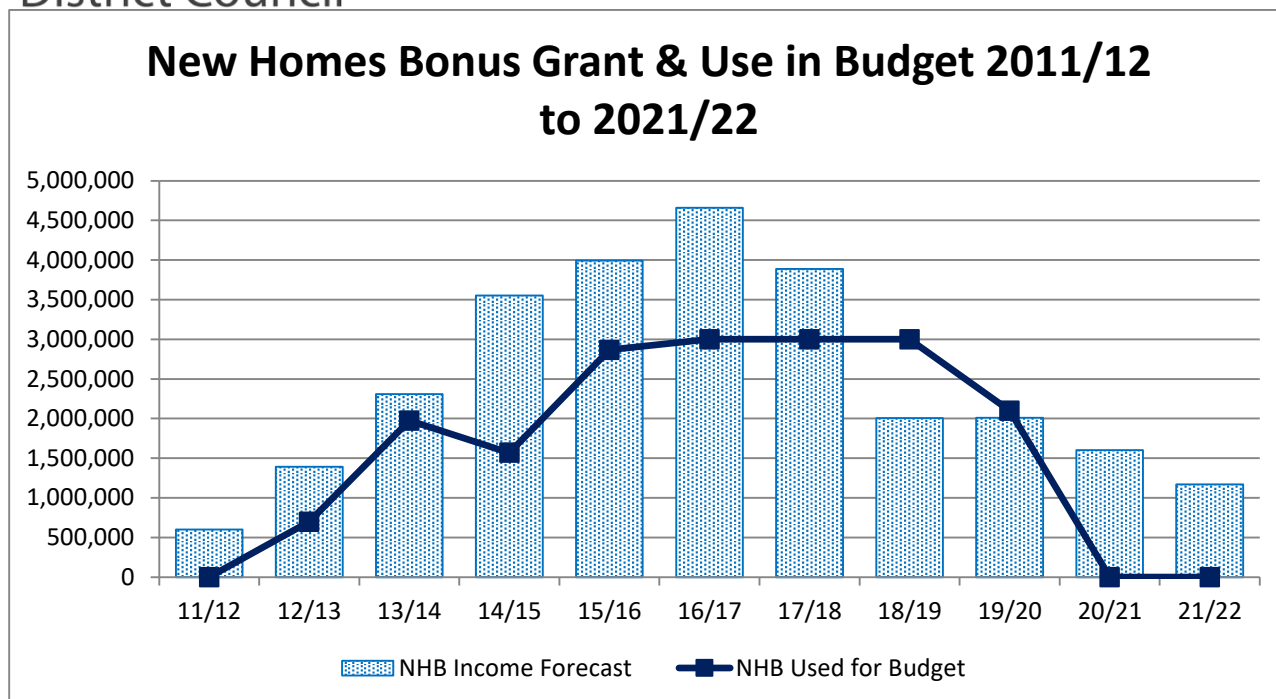
### New Homes Bonus

15. The New Homes Bonus (NHB) is a non-ringfenced grant that was devised to incentivise and reward 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.

16. We have been aware for some time that the Government intends to discontinue the scheme and replace it with another mechanism which is intended to be more successful in incentivising house building growth. The new scheme has not been finalised and for the last two years we have been expecting an announcement about the Government's timetable. In the meantime, we have continued to receive New Homes Bonus payments, albeit on a pared back basis and not the 4 years' legacy payments which we had previously received.
17. Within the Provisional Settlement, the Government stated, *"we will invite views on how we can reform the scheme next year to ensure that it is focused where homes are needed the most and where councils are ambitious to get on and deliver them"*.
18. With the imminent removal of this funding source in its current guise, we have outlined within the Financial Strategy our intention to move away from using the grant as core funding. We are now taking the prudent view that there will be no payment of New Homes Bonus or equivalent in 2022/23 and the following table reflects this.
19. In the Provisional Settlement the NHB grant has been confirmed as £451,073 for 2021/22 award, and £719,937 as legacy payment, making a total expected income for 2021/22 of £1,171,010. The Council's budget approach for 2021/22 is to set aside funds from the grant in a MTFP Support Fund earmarked reserve to mitigate the impact of funding fluctuations.

**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	278.9
2019/20				441.1	441.1	441.1
2020/21					261.8	
2021/22						451.0
	<b>4,658.2</b>	<b>3,887.9</b>	<b>2,007.2</b>	<b>2,008.2</b>	<b>1,602.9</b>	<b>1,171.0</b>



## Council Tax Rate

20. 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 2021/22 without the need for a referendum. A £5 increase equates to a 2.91% increase in 2021/22.
21. The 2020/21 annual basic tax rate towards the cost of South Somerset District Council services, for the average Band D property, was £170.26, and the Council also included £1.85 in respect of the Somerset Rivers Authority (SRA), making the total Band D charge of £172.11.
22. The District Executive is asked to recommend to Full Council the option to increase Council Tax by 2.91% (£5 limit on a Band D property), and this is reflected in the draft budget figures for 2021/22. For the average Band D property this will set the annual tax rate at £177.11 or £3.41p per week.
23. The Somerset Rivers Authority (SRA) is still currently unable to raise its own precept, and there are no indications that this will change in the near future. 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) of interim funding for them.
24. This agreement will continue in 2021/22 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 £113,133 of funding from this Council in 2021/22, which is passed on to the SRA to contribute to the 20-Year Flood Action Plan.

## Council Tax Income

25. The tax base for 2021/22 is 61,152.95 Band D Equivalentents, an increase of 442.17 (0.7%) compared to 2020/21. The draft budget estimate for Council Tax income for SSDC is therefore 61,152.95 x £175.26 = £10,717,653. This represents an increase of £381,036 compared to the previous year. The estimate is calculated as follows:

	£
Council Tax Income Budget 2020/21	10,336,617
Increase due to change in Tax Base (Band D equivalentents)	75,283
Increase due to proposed 2.91% increase in Tax Base	305,753
Estimated Council Tax Income 2021/22	10,717,653

26. As a 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.
27. 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 25 February 2021 for consideration.

### Estimates for Future Years Band D Council Tax

28. 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 2022/23 onwards. For financial planning purposes, finance officers expect the Government to assume local authorities will maximise their council tax opportunities (core funding) when assessing future finance settlements.

### Business Rates Retention (Non-Domestic Rates)

29. 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.
30. We applied to continue in a Business Rates Pool with our district and county partners, and we have ratified that decision in January 2021. We are currently reviewing the terms of the agreement between the various councils and have pledged to look at the sharing of pooling gains in future years.
31. As we are no longer in a Pilot Scheme the distribution of Business Rates reverts to standard shares as follows:

<b>BRR Standard Shares</b>	<b>2021/22 50% system</b>
Districts	40%
County	9%
Fire Authority	1%
Government	50%

32. We are in the fourth 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 would expect to have a more robust position to make an assessment of the appeal provision that we should hold. This assumption has, however, been made exponentially more difficult due to the impact of Covid-19. We have had to take a pragmatic view of how many businesses will appeal their business rates valuation due to a change in their circumstances and with the market as a whole. We have decided that our appeals provision needs increasing to protect us from this risk. We also hold the Business Rates Smoothing Reserve which provides a means of mitigating Business Rates volatility. Together, these mitigations give us a prudent stance.
33. This Budget report includes the 2021/22 business rates budget estimate (NNDR1). However, all the authorities within the Somerset Pool must complete their NNDR1 before an estimated pooling gain can be calculated. We have therefore, not included an estimate of this gain. We are, however, confident that a gain is achievable and likely but with the ongoing pandemic and the uncertainty surrounding the districts’ businesses it is prudent to take a cautious view and treat any gain as a windfall to help fund our ambitious regeneration programmes.
34. The table below shows total business rates income projected for 2021/22 is £5.825m, as summarised.

	<b>2021/22 £'000</b>
40% Standard share of net business rates income	-18,051
100% Renewable energy schemes business rates income	-466
S31 grant compensation for Government-funded reliefs	-2,504
Tariff payment	13,864
Levy cost	1,332
Safety net income	0
Net Retained Business Rates Funding	-5,825
Estimated Pooling Gain	0
<b>Total BRR Funding Estimate</b>	<b>-5,825</b>

## 2021/22 Budget and MTFP Update

35. 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.



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The Plan links the resources required to deliver the Council Plan and the Council's strategies.

36. The table below summarises the Draft Budget for 2021/22 and MTFP projections for subsequent years (*NB. these figures are subject to roundings*):

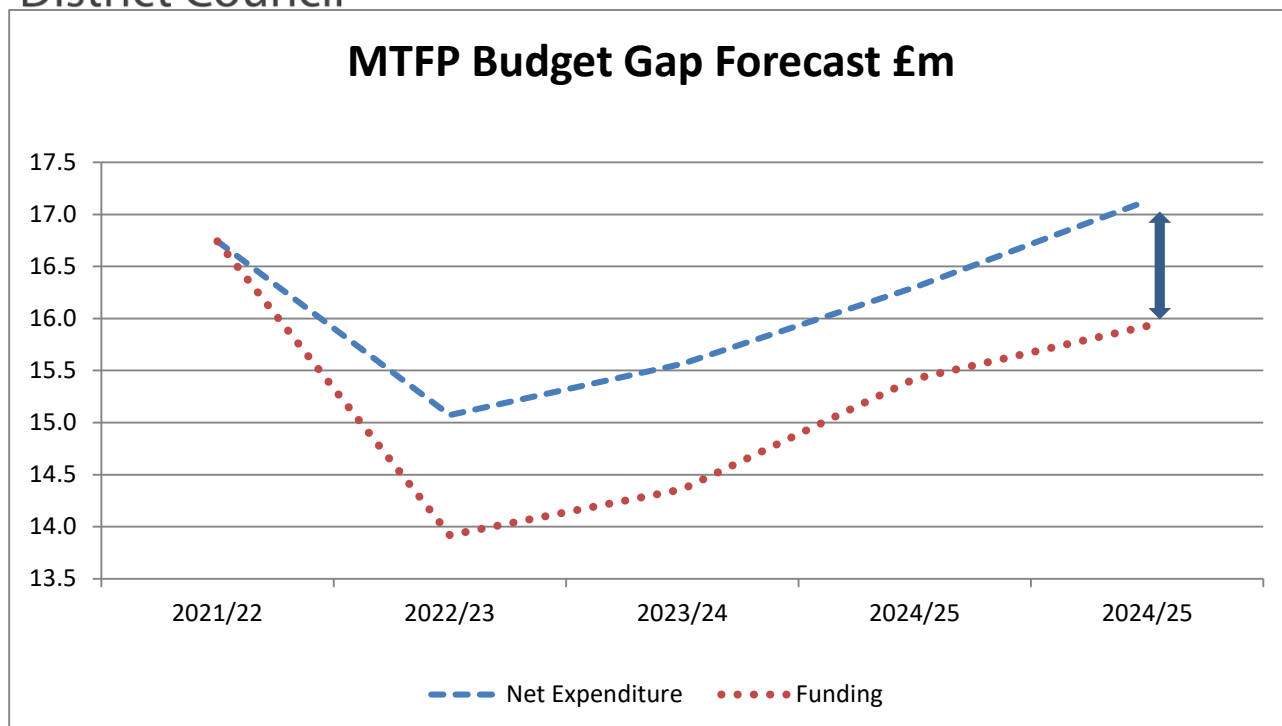
	2021/22 £'000	2022/23 £'000	2023/24 £'000	2024/25 £'000	2025/26 £'000
<b>Base Budget B/F</b>	<b>15,207</b>	<b>16,743</b>	<b>15,071</b>	<b>15,565</b>	<b>16,299</b>
Incremental Changes:					
Employment Cost Inflation	915	336	436	352	394
Inflation allowance on contracts	194	179	180	180	180
Unavoidable budget pressures	355	200	200	200	200
Planned savings	0	-96	-150	-58	-14
Investment Income & Revenue effects of Capital Programme	-990	-1,100	58	59	69
Other	1,063	-1,190	-230	0	0
<b>Total Budget Requirement</b>	<b>16,743</b>	<b>15,071</b>	<b>15,565</b>	<b>16,299</b>	<b>17,128</b>

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

	2021/22 £'000	2022/23 £'000	2023/24 £'000	2024/25 £'000	2025/26 £'000
<b>Total Budget Requirement (per Table above)</b>	<b>16,743</b>	<b>15,071</b>	<b>15,565</b>	<b>16,299</b>	<b>17,128</b>
<b>Funded By:</b>					
Revenue Support Grant	0	327	327	327	327
Rural Services Delivery Grant	-175	-175	-175	-175	-175
Lower Tier Services Grant (new 2021/22)	-156	0	0	0	0
New Homes Bonus Grant	-1,171	0	0	0	0
Business Rates Retention	-5,825	-3,818	-3,902	-3,986	-4,116
Collection Fund Surplus - Business Rates	8,886	546	546	0	0
Council Tax - SSDC	-10,831	-11,275	-11,633	-12,004	-12,385
Less: Council Tax Paid to SRA	113	115	117	118	120
Collection Fund Deficit - Council Tax	112	60	60	0	0
<b>Sub-total: Funding</b>	<b>-9,046</b>	<b>-14,218</b>	<b>-14,659</b>	<b>-15,719</b>	<b>-16,229</b>
<b>Other Reserve Transfers</b>					
MTFP Support Fund Reserve	425	0	0	0	0
BRR Volatility Reserve	-8,886	0	0	0	0
Other Earmarked Reserves	764	300	300	300	300
General Reserves	0	0	0	0	0
<b>Sub-total: Reserves</b>	<b>-7,697</b>	<b>300</b>	<b>300</b>	<b>300</b>	<b>300</b>
<b>Total Funding</b>	<b>-16,743</b>	<b>-13,918</b>	<b>-14,359</b>	<b>-15,419</b>	<b>-15,929</b>
<b>Budget Gap / (-)Surplus</b>	<b>0</b>	<b>1,153</b>	<b>1,207</b>	<b>880</b>	<b>1,200</b>
<b>Budget Gap Increase on Prior Year</b>		<b>1,153</b>	<b>53</b>	<b>-327</b>	<b>320</b>

37. A graph of the Budget Gap is shown below:





38. We continue to address the future budget gaps with a combination of sound management actions and a Commercial Strategy that provides opportunity to invest in purchases which give the Council much needed yield whilst still balancing the need to restrict risk.
39. With the approach we are taking and the cautious estimates we make in our budget forecasts we are confident that the future budget gaps can be addressed without the detriment of our core service provision. This is not however, a time to be complacent as the challenge for 2022/23 is currently a gap of £1.153m which is material.

## Assumptions Made

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

	2021/22	2022/23	2023/24	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	2.91% per Band D	1.99% per Band D	1.99% per Band D	Assumes £5 per Band D in 21/22 (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



	2021/22	2022/23	2023/24	Notes
				business rates funding system from April 2022.
Pensions	17.6% plus £1.411m lump sum	17.6% plus £1.462m lump sum	17.6% plus £1.515m lump sum	Assume employer's contributions increases as per actuarial valuation.
Revenue Support Grant	£0	-£327K	£-327K	Provisional settlement confirmed negative RSG will be offset in 21/22.
New Homes Bonus	-£1.2m grant	£0m grant	£0m grant	Based on provisional figures for 21/22 and no future year NHB or legacy payments going forward.

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

## Revenue Budget 2021/22

41. 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

42. 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.
43. 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. We have made a decision to remove the annual income increase target of £75k for 2021/22 in light of the current pandemic and the difficulties surrounding income generation. This target has been reinstated for 2022/23.
44. We have also delayed the savings targets for the countryside projects at the Yeovil Recreational Ground and Ninesprings. The work has been delayed on these projects and the savings have therefore been pushed back by one year.

## Unavoidable Budget Pressures

45. Unavoidable budget pressures are detailed in Appendix C. The pressures identified for 2021/22 total £354.5k, which includes the removal of the external printing income target of £40k as this is no longer achievable in the current climate.

## Covid related pressures



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46. It is apparent that the impact of the pandemic will not be contained within the 2020/21 budget period. To ensure the budget is on a robust setting the pressures shown below have been added to the 2021/22 pressures in the anticipation that they will be removed in 2022/23.

	<b>£'000</b>
Reduction in carparking income	459.0
Reduction in Octagon net income	456.9
Reduction in Westlands net income	304.0
Tourism	30.0
Yeovil Innovation Centre	30.0
Delayed saving in relation to Transformation	100.0
<b>Total</b>	<b>1,379.9</b>

### Spending Priorities and Other Allocations

47. The 2021/22 budget also includes an allocation of funding of £40k for the provision of a Planning Ecologist in a 12-month post. This is deemed necessary due to the restrictions and challenges regarding the Levels and Moors planning requirements in relation to phosphates.

### Earmarked Reserves

48. 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 be used to fund projects or service costs in subsequent financial year(s). A periodic review of reserves is good practice.

49. The total earmarked reserves balance as at December 2020 was £40.9m. This included £18.2m of capital receipts together with an array of revenue reserves totalling £22.5m as detailed below.

<b>Capital Reserves</b>	<b>Balance as at 31/12/2020 £'000</b>	<b>Anticipated Movement £000</b>	<b>Expected Balance as at 1/04/2021 £'000</b>
Usable Capital Receipts	-18,247	0	-18,247
Internal Borrowing Reserve	-203	0	-203
<b>Total</b>	<b>-18,450</b>	<b>0</b>	<b>-18,450</b>



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Revenue Reserves	Balance as at 31/12/2020 £'000	Anticipated Movement £000	Expected Balance as at 1/04/2021 £'000
Capital Reserve	-1,096	0	-1,096
Cremator Replacement Capital Reserve	-549	0	-549
Internal Borrowing Repayments	-321	0	-321
Election Reserve	-174	0	-174
Sports Facilities Reserve	-41	0	-41
Yeovil Athletic Track Repairs Fund	-179	0	-179
Planning Delivery Reserve	-16	0	-16
Bristol to Weymouth Rail Reserve	-74	0	-74
Yeovil Refresh Reserve	-112	0	-112
IT Replacement Reserve	-10	0	-10
Insurance Fund	-50	0	-50
Transformation Reserve	-92	0	-92
Treasury Management Reserve	-600	-50	-650
Revenue Grants Reserve	-453	0	-453
Medium Term Financial Plan Support Fund	-3,277	-425	-3,702
Council Tax/Housing Benefits Reserve	-842	0	-842
Closed Churchyards Reserve	-15	0	-15
Health Inequalities	-31	0	-31
Deposit Guarantee Claims Reserve	-3	0	-3
Park Homes Replacement Reserve	-256	0	-256
Planning Obligations Admin Reserve	-30	0	-30
Artificial Grass Pitch Reserve	-146	0	-146
Business Support Scheme (Flooding)	-111	0	-111
Regeneration Fund	-3,203	0	-3,203
NNDR Volatility Reserve	-2,696	-100	-2,796
Ticket Levy Reserve	-92	0	-92
Waste Reserve	-100	0	-100
Community Housing Fund	-171	0	-171
Community Safety Reserve	-47	0	-47
Housing & Homelessness Reserve	-457	0	-457
Commercial Investment Risk Reserve	-6,300	-250	-6,550
Spatial Policy Reserve	-254	0	-254
YIC Maintenance Reserve	-40	0	-40
Climate Change Fund	-227	0	-227
Community Initiatives Reserve	-163	0	-163
Local Government Change Reserve	-199	0	-199
Community Resilience Reserve	-50	0	-50
Covid Recovery Reserve (NEW)	0	-464	-464
<b>Total Usable Reserves</b>	<b>-22,479</b>	<b>-1,289</b>	<b>-23,768</b>

(Negative Figures = income, Positive figures = costs)

NB. Contains roundings



## South Somerset District Council General Fund Balances

50. General Fund Balances represent accumulated revenue surpluses. The table below shows the current position on the General Fund Balance from what is known to date. Members will be aware that we have seen significant cost pressures on our budgets and these are reflected in the projected overspend. This is in part offset by some of the Central Government Covid grant funding and the Income Compensation Claim. We are anticipating two future claims from the Compensation Scheme which will further mitigate the pressure.

	<b>£'000</b>
<b>Balance at 1<sup>st</sup> April 2020</b>	<b>-5,099</b>
Area & Economic Development Balances	115
2020/21 Carry Forwards	341
Commitments	252
Current Estimated overspend in 2020/21 (worst case call on reserves)	2,547
Support for 2020/21 Budget	883
COVID Grant Funding Balance	-1,485
<b>Unallocated General Fund Balance at 31<sup>st</sup> December 2020</b>	<b>-2,446</b>
Income Compensation Claim 2 (August to November)	-446
<b>Unallocated General Fund Balance at 31<sup>st</sup> December 2020 (Including claim)</b>	<b>-2,892</b>

### Business Rates Surplus/Deficit and Volatility Reserve

51. Experience shows that Business Rates Retention (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.
52. The current projected balance on the Volatility Reserve is c£2.796m. We seek to maintain this balance at a minimum of £2.5m each year and therefore the current level is sufficient although we are mindful that, as previously detailed, this is a volatile time for business rates receipts.
53. It is notable that for 2021/22 the Collection Fund deficits that relate to 2020/21 must be split over three years to smooth the impact on councils. This is a policy which has been introduced by Central Government in recognition of the impact of the pandemic. Members will therefore see the 2020/21 deficits on Council Tax receipts and Business Rates receipts split over the years 21/22; 22/23 and 23/24.

### Covid Recovery Reserve

54. The 2021/22 Draft Budget includes an allocation of budget to a new COVID Recovery Reserve of £464,140. This allocation of funding will help the Council to implement its Recovery Plan in the aftermath of the pandemic, supporting our communities and re-building our local economy.



## Capital Strategy

55. The Capital Strategy outlines how SSDC will utilise its capital resources to deliver the Council Plan and key strategies. SSDC held £18.2m in capital receipts at the end of the December 2020. However, the Authority has a considerable requirement for capital resources through its Commercial Investment Strategy.
56. Each capital bid received requesting funding in 2021/22 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.
57. The Executive has delegated authority to approve the use of up to 5% of capital receipts in any one year. Approvals beyond this sum must be agreed through full Council.
58. 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 £165m, reflecting plans for commercial investments and regeneration schemes. A request for this to be increased to £205m has been requested as part of the Capital Investment and Treasury Management Strategy report.

## Capital Programme 2021/22 to 2024/25

59. Members are requested to approve capital bids totalling £7.787m for the years 21/22 and beyond. The request relating to 2021/22 is £3.092m. 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 2021/22 - 2022/23

*The table below shows how the 2021/22 Capital Programme will be financed: -*

	2021/22 £'000	2022/23 £'000
Gross Capital Programme Spend	19,728	2,442
Gross Reserve Scheme Spend	7,482	51,364
<b>Total Capital Programme to be Financed</b>	<b>27,210</b>	<b>53,806</b>
Financed by:-		
Capital Grants, Contributions & Loan Repayments as detailed on Programme	4,979	2,662
Grants & Other Contributions in Reserves	38	0
Useable Capital Receipts / Borrowing	22,193	51,144
<b>Total Financing</b>	<b>27,210</b>	<b>53,806</b>

## Robustness of the Budget and Adequacy of Reserves

60. 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 2021/22.
61. Budget estimates for 2021/22 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.
62. 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 2020/2021;
  - 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.



63. 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
64. These examinations of the budgets have led to refinements and provide considerable assurance about the robustness of the estimates.
65. 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 2021/22 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 2021. 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 marginally 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 £23.5m. The Treasury Strategy outlines our continued intention to hold and increase, where possible, strategic investments. As with any investment there is a risk of volatility. There is also a change in accounting regulations in relation 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 2020/21, 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





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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, as a proxy. 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 annum, (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 estimate, slightly below short term economic forecasts but in line the Government's long term target. Inflation at 3% rather than 2% would add around £96k to budgeted costs, and a 1% change in staff pay estimates would cost around £139k. [S151 Officer / Budget Holders]
- f) Housing Benefit Subsidy: is administered on behalf of Central Government by SSDC and a grant reimburses expenditure incurred. Approximately £27m 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 the announcements in the Provisional Settlement for 2021/22. There is significant uncertainty regarding the funding position for 2022/23 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 2022. [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 2021/22. 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



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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 2021/22 does not include an estimate for a pooling gain. This is due to the uncertain economic climate we find ourselves in. We are anticipating a pooling gain but are taking the prudent approach that this should be taken as a “windfall” if it crystallises. It will be set aside to help fund our regeneration programmes. 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) Covid-19: A continued downturn in the economy would impact on our key income streams including business rates. We have mitigated some of the ongoing risks to our income streams by reducing the anticipated income budgets in some of the areas such as car parking where we have seen the biggest impact. We are mindful that the assumptions we have made may still be exceeded if the pandemic continues and the recovery of our local economy is delayed. [S151 Officer]
66. General reserves remain above the required minimum balance, and the proposed budget for 2021/22 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.
67. 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 Covid Recovery Reserve in 2021/22 to support the Council's Recovery Plan which was put forward during 2020/21.

### **S151 Officer Conclusion:**

68. 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 2021/22 including prudently boosting reserves for specific financial risks. The budget maintains services, maximises efficiencies and aims to respond to the current and future financial pressures. This has been particularly apparent in our response to the pandemic whereby we have redeployed staff to support our communities through the administration of business grants; benefits; homelessness provision etc. This has only been possible because of our robust financial standing and our ability to divert funds and staff resource in times of crisis.
69. Despite the excellent progress towards meeting the savings requirement, the medium term outlook remains a concern with a Budget Gap rising from £1.153m



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in 2022/23 to an estimated £1.199m by 2025/26. The Financial Strategy outlines the need to deliver further income generation to address the residual gap. 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. They have issued guidance and reiterated the principles of the Prudential Code in order to discourage reckless commercial activity. There has also been a seismic shift in the availability of Public Works Loans Board (PWLB) borrowing which, for the most part, is now no longer readily available to authorities who have Commercial investments in their future capital programmes. We are fully aware of the ramifications of this shift and understand the concerns which have driven it. We have, however, shown that we have experienced, professional commercial staff and a robust approval process for our commercial investments which reduces our exposure to risk and sets us apart from those authorities who have been less prudent and have found themselves in financial difficulty due to their commercial investments. Although we have not used PWLB as a funding source in the past, we are aware that its removal as an option could increase our funding risk. We are therefore exploring other sources and means of funding to ensure we are maximising our returns whilst mitigating funding risk. It will be important to keep Members apprised of this work.

70. 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.
71. We expected 2020/21 to be an important year for announcements in respect of local authority funding, and the impact of the Spending Review, Fair Funding Review and Business Rates funding reform. This has not happened due to the pressures on Central Government of Brexit and the pandemic. We expect these reviews to take place during 2021/22 and we will review and update our Financial Strategy accordingly when the details are known.

### Financial Implications

72. This report contains financial implications throughout.

### Council Plan Implications

73. The MTFS and MTFP incorporate costs, income and funding implications directly related to the delivery of the Council's aims and priorities. The Council Plan for 2021/22 is due to be presented to Council for approval in February at the same time as the final budget.

### Carbon Emissions and Climate Change Implications

74. Not applicable within this report.

### Equality and Diversity Implications



75. Not applicable within this report.

### **Privacy Impact Assessment**

76. There are no specific privacy impacts in respect of this report. Individual budget changes will be assessed and salient comments included in budget update reports through the budget setting process.

### **Background Papers**

77. The following reports may provide helpful background information in support of this report:

- 2021/22 Draft Budget and Medium Term Financial Plan Update (District Executive February 2021)
  - 2021/22 Draft Budget and Medium Term Financial Plan Update (District Executive January 2021)
  - Financial Strategy 2020/21 (District Executive August 2020 and Dec 2020)
  - 2021/22 Draft Budget and Medium Term Financial Plan Update (District Executive Dec 2020)
  - 2020/21 Treasury Management Mid-Year Performance Report and Strategy Update (District Executive 19 November 2020)
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