Somerset West and Taunton Council

Scrutiny Committee – 30 September 2020

Financial Strategy 2020/21 to 2022/23 – Review and Update

This matter is the responsibility of Executive Councillor Ross Henley

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1 Executive Summary / Purpose of the Report

1.1 The Executive approved the 3 year Financial Strategy for the Council in September 2019. The Strategy outlines the Council's proposed approach to managing its financial position over the medium term, underpinned by the projected 5-year Medium Term Financial Plan.

1.2 It is a legal requirement that the Council sets a balanced budget each year, and it is in the public interest that priority local services are both affordable and sustainable with the Council remaining financially resilient.

1.3 It is appropriate to undertake an annual review of the strategy, reflecting the up to date financial position and context for the Council. It is clear that the COVID-19 pandemic was not a known situation or risk when the strategy was approved last year, with significant impact on national and local financial environment as well as on service demands for the public sector. Equally, the organisation has continued to evolve during the past year with the agreement of a new Corporate Strategy, the appointment of a new Senior Management Team (SMT) and move to a new directorate organisational structure completed in April/May this year.

1.4 There continues to be a high degree of uncertainty regarding future funding, compounded with uncertainty regarding future service demands as the country and local area adapts to COVID-19 impacts. It is clear that local authority finances are under increasing pressure within this environment, with the challenge of meeting local need and at the same time preserving adequate financial resilience of the Council.

1.5 This report therefore sets out an updated forecast of medium term funding, service costs and income, and updated proposals for the financial strategy in responding to the challenges ahead. The strategy includes judicious allocations from reserves to provide funding towards council priorities – notably towards the climate change strategy – and to underpin some service costs for the next two years as the Council's modernisation and efficiency plans are progressed.

1.6 At the time of preparing this strategy the debate around the future structure of local government in Somerset has brought an added dynamic. The County Council has submitted a business to the Secretary of State setting out SCC's preferred proposal to create a single unitary council for Somerset – replacing the County and four Districts. The Districts have also prepared an alternative business case proposing two smaller unitary authorities. Any decision by the Secretary of State on a preferred future for

Somerset is not likely to be made before January 2021. At this stage the core forecasts within the medium term financial plan in terms of net expenditure and funding are based on the continuation of Somerset West and Taunton as a district authority. This will need to be reviewed if and when any decision for change is confirmed. The strategy as currently set out shows the Council is financially resilient with strong reserves to withstand short term pressures, but with a challenging budget gap in the longer term albeit with a high degree of uncertainty in the longer term forecasts. It is expected that structural change for local government will require significant up-front funding, and the business cases will included projections for financial benefits, both of which would affect the MTFP if approved and delivered to plan.

2 Recommendations

That Scrutiny reviews and support this report and the following proposed recommendations to the Executive and Full Council:

2.1 The Executive approves the updated Financial Strategy for 2020/21 to 2022/23, including agreement of the principle of using general reserves to reduce the Budget Gap in 2021/22 and 2022/23.

2.2 The Executive recommends that Full Council approves the amended CIL Allocation Principles as set out in paragraph 21.15 of this report.

2.3 The Executive recommends that Full Council approves the reallocation of reserves to provide increased resilience and flexibility to mitigate COVID related financial pressures, and to support the Revenue Budget in the medium term, as follows:

(a) To transfer £3.949m of New Homes Bonus reserve to General Reserves, noting alternative financing for relevant capital schemes through Community Infrastructure Levy and borrowing as set out in para 21.7.
(b) To transfer £1.0m from the Business Rates Volatility Reserve to General Reserves as set out in para 14.6.

3 Risk Assessment

3.1 The Financial Strategy takes into account a wide range of financial risks, and these are explained within the detail of this report.

4 Background

4.1 Financial planning continues to be particularly challenging at this point, with a high degree of risk and uncertainty in particular regarding the Council's funding forecasts. A summary of the key factors affecting this (and expanded on later in this report) include:

- COVID-19 financial implications and additional funding from Government – impact on service costs and income, reserves, and future funding requirements could be significant, adding to financial pressures now and in future.
- National context – COVID-19 and exit from the EU are two key factors creating uncertainty and instability in the national and local economy, with recession affecting the economy, employment and demand for local services.
- Financial stress in the local government sector, which will be tested further as a result of COVID.
- Funding – the Government announced a one-year Spending Round in 2019 with the expectation full Spending Review deferred until 2020. The impact of COVID may

mean a further one-year only Review this year and a 1-year Finance Settlement for 2021/22, creating added risk and uncertainty in any longer term financial planning.

- Funding – the Fair Funding Review and Business Rates Retention have again been deferred, and the future timing of these remains uncertain.
- Funding – Business Rates Baseline Reset was deferred until 2021/22 – the Government has indicated Ministers are still considering whether this can be progressed but there is a possibility this will be deferred again.
- Funding – New Homes Bonus is due to be reviewed by ministers this year, however it is unknown whether this will progress or be delayed due to COVID.
- Cost inflation – some items of cost are running ahead of overall inflation including wage growth and there are demands from the unions for significant increases in pay and other entitlements.

4.2 All of the above means the Council will need to maintain prudent assumptions for financial planning, balanced by the need to support the local community and in particular the need to support local economic recovery. It is likely that reserves will be reduced to meet these needs in the shorter term.

4.3 It was clearly reported in last year's strategy and previously that general grant funding for local government, more so for shire districts, has been significantly reduced through this decade. The 'real terms' reduction equates to £8.5m (-66%) between 2010 and 2020. The Council is more reliant on local council tax and business rates revenues as its main source of funding, with increased reliance on investment income, and fees and charges, to pay for local services. Equally, this maintains the pressure to ensure services are efficient and lean, keeping costs within affordable limits.

4.4 The Council has been in a strong financial position with significant levels of revenue reserves. There is also a strong track record of operating within approved budgets each year.

4.5 In the Council's first year of being in 2019/20, a significant underspend was reported in the General Fund. This included a range of underspends and overspends on operating budgets, some significant income surpluses, and one-off credits as accounting provisions related to transformation were not required in full. The 2019/20 was largely based on adding together the base budgets of the two predecessor councils – adjusted for known pressures and savings. Additionally, the Council experienced significant changes at inception and throughout the year. Reflecting on this and the outturn position emphasises the case for a fundamental base budget review to inform future budget setting.

4.6 Additionally, experience shows that financial plans need to be realistic in terms of the timing of financial savings being achieved. The updated financial strategy in this report reflects this with planned use of reserves to provide a 'soft landing' whilst savings and income growth are fully delivered.

5 Links to Corporate Strategy

5.1 The financial strategy seeks to set out how the Council will respond to its financial challenges and how its resources are allocated to meet the Council's strategic priorities and objectives. Directly within theme 4 of the strategy, the aim is to maintain a financially self-sufficient Council which has expanded its commercial activity and generated more income in order to support service provision.

6 Financial Strategy Overview

6.1 The current budget for 2020/21 is balanced. However a budget gap is currently projected to rise over the medium term.

<u>Principles under which the Council has set the MTFS for General Revenue Budget</u>

a) The budget that the authority needs to set each year for General Revenue must balance. The Council approved a balanced budget for 2020/21, and needs to agree plans to manage the budget gap over the medium term.
b) There are levers in each of the Expenditure, Income and Funding pots – the control of which falls to the Senior Management Team and the Executive to ensure the end position is balanced.
c) The following levers are the focus of balancing the current budget and describe the plans to continue that balance going forwards.

<u>Income – this pot will be grown in the following ways</u>

- Investment Property – this is made up of legacy investments and new investments acquired and managed through the Commercial Strategy. Long term annual income growth of £2.9m is reflected in the MTFP estimates.
- Fees and charges will be reviewed to ensure we are charging full cost recovery for discretionary services. The forecast reflected in the MTFP is that we will grow the annual Fees and Charges income by at least £200k by 2022/23.
- Regeneration – capital investments delivering regeneration where the market has failed will be delivered applying sound, viable business cases that will also in principle

deliver income for reinvestment in services thus reducing the budget gap. Budget estimates can be updated as and when regeneration business cases are agreed by the Executive / Council.

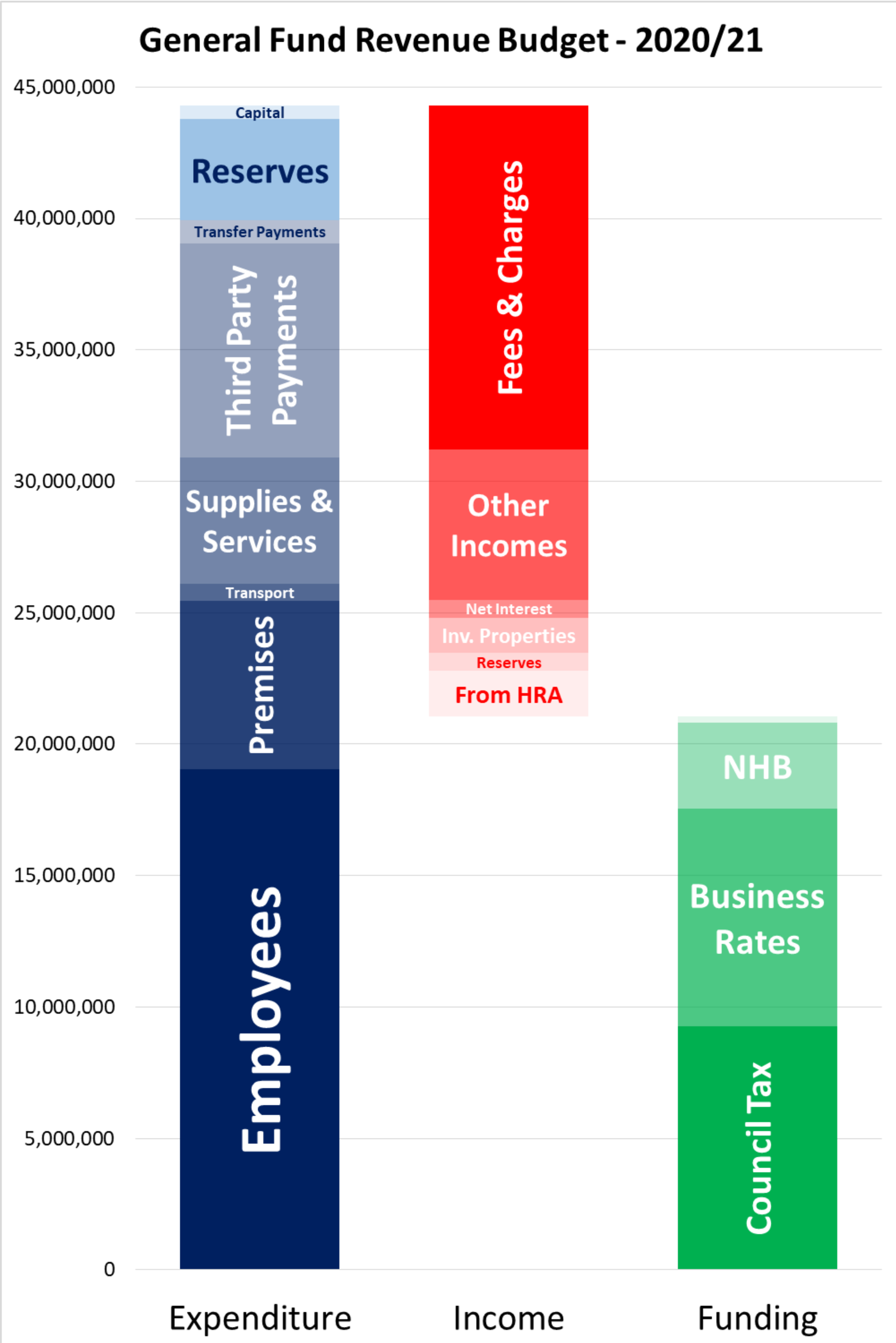
Funding – this pot will shrink in the following ways

- Council tax will grow over the medium term by a projected £1.1m over the next 5 years. This assumes a short term reduction in the tax base due to the economic impact of COVID before recovering to growth, and an average 1.99% annual increase in the tax rate.
- Business rates will reduce to the safety net in 2023/24, when business rates income from Hinkley B nuclear power station – which accounts for almost 20% of rates collected in the district – is projected to end, significantly reducing the total tax base in the district until Hinkley C becomes operational. Projected funding through this income stream reduces from £6.2m in 2020/21 to £3.9m in 2023/24.
- New Homes Bonus is due to be reviewed, and is assumed to be reducing to nil in the MTFP once the final legacy payments from previous Finance Settlements are made. This is reducing funding from £3.2m in 2020/21 to £nil by 2023/24.

Expenditure – this pot will shrink in the following ways

- Reserves – this is a transfer from our reserves to smooth the transition until other savings and income are fully achieved. We expect to stop using reserves to balance the budget by 2023/24 with sustainable ongoing net expenditure reduction being delivered.
- Service costs - Our Modernisation programme's goal is of enabling an operating model for the Council which focuses on fostering a commercial approach, selecting the most efficient delivery models for each service. Digital and process redesigns will also be key to delivering efficiency and value driven services. Shifting access to self-serve where possible (internally and externally) allows resources to be reprioritised for face-to-face or phone support for those residents who truly need them. Use of data generated by systems helps to predict future service needs and demands so we can maximise efficiencies.

6.2 The following graph provides a summary picture of the 2020/21 base budget.



General Fund Revenue Budget - 2020/21
45,000,000
40,000,000
35,000,000
30,000,000
25,000,000
20,000,000
15,000,000
10,000,000
5,000,000
0
Capital
Reserves
Transfer Payments
Third Party Payments
Supplies & Services
Transport
Premises
Employees
Fees & Charges
Other Incomes
Net Interest
Inv. Properties
Reserves
From HRA
NHB
Business Rates
Council Tax
Expenditure
Income
Funding

7 Medium Term Financial Plan Estimates

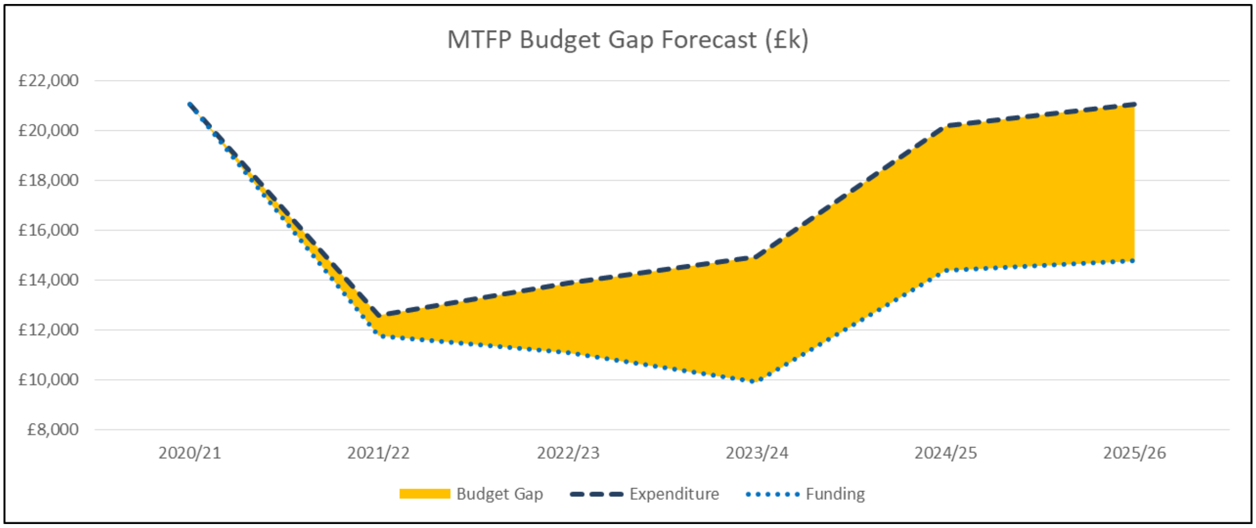
7.1 The Council approved the current Budget and Medium Term Financial Plan in February 2020. In recent weeks, key estimates have been reviewed where appropriate, reflecting as much as possible what is "known", and providing "best estimates" on areas of uncertainty, with a significant reduction in funding now expected from 2021/22 onwards. As highlighted throughout this report, it has been important to also consider the immediate and ongoing impact of COVID on the Council's costs and income.

7.2 The Senior Management Team has completed the realignment of staff and management structures into the new Directorates during March/April 2020, with budgets also realigned to reflect this. The MTFP has been updated to reflect the establishment in place at this stage, with a total of 632 posts included (General Fund + HRA). The previous savings targets established through the transformation business case and included in previous MTFP forecasts have been removed, with new savings and income targets to be developed to meet the updated projected budget gap and in line with the Council's new Corporate Strategy and related strategies and plans.

7.3 The following chart and table sets out a summary of the council's latest forecasts of Net Expenditure and Funding, and shows a provisional budget gap rising to £2.8m by 2022/23. As noted above, there is a high degree of uncertainty regarding funding estimates therefore these figures will be reviewed and updates reported to Members as further information becomes available. The figures are also somewhat skewed for 2021/22 to 2023/24 by the impact of the 2020/21 Business Rates Holiday on the Collection Fund Deficit and use of earmarked reserves (see para 15 below).

Table 1 – General Fund Medium Term Financial Plan Initial Estimates

	2020/21 (Original Budget) £k	2021/22 £k	2022/23 £k	2023/24 £k	2024/25 £k	2025/26 £k
Services Costs	17,516	17,772	18,175	18,214	18,975	19,876
SRA Funding	99	98	98	99	100	101
Net Financing Costs	-141	461	847	630	623	616
Unparished Area Expenses	29	29	29	29	30	30
Earmarked Reserves	3,248	-3,557	-4,066	-4,066	420	420
General Reserves	300	-2,250	-1,250		0	0
Net Expenditure	**21,051**	**12,553**	**13,833**	**14,906**	**20,148**	**21,043**
Business Rates Retention (BRR)	-6,221	-4,534	-4,517	-3,898	-3,958	-4,031
Business Rates Pooling Gain	0	0	0	0	0	0
BRR prior year surplus/deficit	-2,071	4,066	4,066	4,066	0	0
Revenue Support Grant	-6	0	0	0	0	0
Rural Services Delivery Grant	-242	-242	-242	-242	-242	-242
New Homes Bonus	-3,253	-1,709	-851	0	0	0
Council Tax (CT)	-9,293	-9,384	-9,570	-9,859	-10,156	-10,461
CT Special Expenses	-29	-29	-29	-29	-30	-30
CT prior year surplus/deficit	64	63	63	63	0	0
Net Funding	**-21,051**	**-11,769**	**-11,080**	**-9,899**	**-14,386**	**-14,764**
Budget Gap	0	784	2,753	5,007	5,762	6,279
Gap – Change on Previous Year	0	784	1,969	2,254	755	517



7.4 The projections above reflect current estimates and prudent financial planning proposals incorporated within the Plan. The main assumptions include:

Service Costs and Income:

- Staff pay awards are estimated at 2.75% in 2021/22 (plus rebasing for ongoing impact of 2.75% award in 2020/21 as original budget based on 2% only), then 2% per year from 2022/23.
- Inflation increases incorporated for main contractual arrangements: Somerset Waste Partnership, CCTV monitoring, street cleaning plus utilities and insurances.
- Demographic growth reflected in demand for waste and street cleaning services. No funding is provided in core assumptions for demand growth in other services.
- Employers pension contributions and Pension Fund deficit recovery lump sum costs based on the 2019 actuarial valuation.
- Savings in the leisure and waste contracts are fully delivered, albeit with a slight delay in the waste savings through Recycle More due to COVID.
- General reserves are used on a tapered basis for the next 2 years to smooth the transition as savings and income growth are realised.
- Commercial investment income is delivered prudently and 'at pace' with the build of the planned investments completed by the end of 2021/22.

Funding:

- Business Rates Retention (BRR) will be subject to a Full Reset in 2021/22 and reduce to the Baseline, but with S31 continuing to be received for business rates discounts applied in line with government-prescribed policies. Funding also expected to reduce due to COVID and a significant reduction in Hinkley B power station rateable value (see paras 15.1-15.3 below).
- 'Negative' Revenue Support Grant applies from 2021/22 and Rural Services Delivery Grant continues at the current level (see 17 below).
- New Homes Bonus grant is phased out by 2023/24 (see 18 below).
- Council tax is forecast based on officer assumption of a 1.99% increase each year (see 19 below).

7.5 Further information regarding these estimates and assumptions, and related elements of the financial strategy are covered in more detail later in this report.

8 Savings Targets

8.1 As set out in this report, the proposed financial strategy includes the planned use of reserves to mitigate part of the estimated underlying budget gap over the next 2-3 years. Using reserves only presents a short term solution, but is regarded as prudent as it provides sufficient time to both understand the full implications of future funding changes and deliver efficiency savings and income growth to provide a sustainable longer term solution.

8.2 Given the level of uncertainty in financial planning, it is proposed to set formal targets for the next two years at this stage. However, the Council's leadership team will also continue to focus on longer term plans that require a longer lead in time to fully deliver ongoing financial benefits in later years.

Table 2a – Savings Targets Already Included In MTFP Projections

	2021/22 £k	2022/23 £k
Commercial Investment Income	2,653	2,900
Procurement (leisure/waste services)	273	532
Service Income	100	200
Planned Use of Reserves	2,250	1,250
Sub-total Already Included in MTFP	**5,276**	**4,882**

Table 2b – The Plan to Close the Budget Gap

	2021/22 £k	2022/23 £k
Savings Already Included in the MTFP Forecasts (Table 2a)	5,276	4,882
Remaining Budget Gap per MTFP (Table 1)	**784**	**2,753**
Further Savings / Income Targets to Address Budget Gap:		
Base budget review for 2019/20 outturn major variances	300	300
Modernisation Programme and Service Redesign	500	2,500
Total Further Savings / Income Target	**800**	**2,800**

Regeneration

8.3 The Council has strategic plans to drive forward with regeneration within the district. For example, the Coal Orchard development is under construction, with further significant progress in the redevelopment of Firepool expected. These regeneration schemes are addressing market failure and improving the place, and are also expected to provide a net income towards related services through robust viability planning and cost management. As these developments take time to deliver it is not proposed to rely on additional income in the near term however there is the potential to see financial benefits that can be reflected in future MTFP projections and budget plans. The net cost/income for regeneration schemes will be driven by quality and cost of the schemes, the delivery and financing arrangements, and nature of income. Future budgets will be updated to reflect expected delivery against approved business cases on a prudent basis.

9 Service Prioritisation and Costs

9.1 The overarching aim of the financial strategy is to protect services in the face of reductions in government funding. Service costs have largely stabilised (pre-COVID) and the establishment has been updated to reflect the directorate structures that are operating within the overall staff budget levels set for 2020/21. As well as delivering income growth as part of the financial strategy, there is a need to deliver service efficiencies. It remains important that prioritisation of spending and investment in services reflects current and future Council priorities. Such prioritisation is secured thorough ensuring budget decisions are clearly linked to the Corporate Strategy and Operational Plans.

9.2 Currently the estimates for service costs and income are based on using the current base budget, adjusted incrementally for:

- Inflationary pressures on employment and contract costs
- Cost efficiency through transformation and new Council implementation
- Revenue implications of capital investment
- Planned use of earmarked reserves and external funding

9.3 It is proposed to undertake a fundamental review of service budgets to inform the 2021/22 budget plans, using an outcomes based approach. This seeks to ensure resources are aligned to priorities and to meet the outcomes and objectives agreed by Members through the Corporate Strategy.

10 Commercial Investment Strategy

10.1 The Council approved a new Commercial Investment Strategy in December 2019. The timing of the development and implementation strategy has been affected by the country's exit from the EU, the General Election in 2019, and more recently COVID. However, very robust governance and process arrangements are now operating with investment being actively pursued with a high degree of confidence that good progress will be made this summer to complete some acquisitions.

10.2 This commercial approach is essential in responding to the major cuts in central government funding and replace this with other income to maintain and enhance local services and investment in our communities, and reduce pressure to cut services. Adding this to the Council's income sources is also prudent as it diversifies the risk of placing sole reliance on business rates, council tax and fees and charges to fund services.

10.3 The Assistant Director – Finance (S151 Officer) has worked with the investment and treasury teams to update the estimates for investment income and financing costs. The current low interest rates are expected to remain low for the medium to long term. In addition, the Council has front-loaded the investment reserve providing significant resilience to income volatility and sinking fund costs in the short to medium term. It is therefore considered prudent to provide a holiday from topping up the reserve until 2024/25. These measures enable the estimated net income from commercial investment to the General Fund Budget to be increased, even after estimates being dampened for "optimism bias" in the next 2 years, helping to reduce the budget gap. These assumptions will be kept under review to ensure the budget estimates are reasonable and adequate reserve balances are maintained.

Table 3 – Commercial Investment Estimates (August 2020)

	2020/21 £k	2021/22 £k	2022/23 £k	2023/24 £k	2024/25 £k	2025/26 £k
Net income	440*	2,653	2,900	3,320	2,900	2,900

*Net income in 2020/21 is based on the original budget assumption that (up to) £800k will be top-sliced from gross income and set aside in the investment reserve. This transfer may be reduced to enable more income to benefit the General Fund in-year and mitigate the impact of COVID on costs and other income.

10.4 As part of the Budget report in February 2020, the Council approved the establishment of an Investment Risk Reserve, as part of the strategy for management investment income risk following the approval of the commercial investment strategy by Council in December 2019. The investment team undertake significant and robust due diligence when assessing opportunities for recommendation to the Board. However, no investment is 'risk-free' and it is prudent to maintain adequate reserves to protect services from the impact of investment income performance. The S151 Officer and the Leadership Team have considered a prudent reserve balance – with the objective of striking the right balance of mitigating income volatility and not holding excessive funds in reserve when other corporate objectives and priorities require funding.

10.5 The Investment Risk Reserve has been 'front loaded' with £3.5m as agreed by Council in February. In addition, a further up to £800k is budgeted to be transferred to the reserve in 2020/21 if gross income targets are reached. There is an option to consider reducing this (up to) £800k if funds are needed to meet other financial pressures. The aim is to keep the reserve within the range £3.0m to £4.0m over the medium term, and subject to excessive volatility in future the MTFP has been updated with no further payments to the reserve planned until 2024. This balance will be regularly reviewed as the portfolio grows and weighted risks are managed.

Table 4 – Investment Risk Reserve

	Allocations to Reserve £k	Volatility Mitigation £k	Forecast Balance £k
2019/20 Transfer from BRR Reserve	3,500	0	3,500
2020/21 Set aside from investment income	(up to) 800	This will depend on future income performance and asset management costs	4,300
2021/22 Set aside from investment income	0		4,300
2022/23 Set aside from investment income	0		4,300
2023/24 Set aside from investment income	0		4,300
2024/25 Set aside from investment income	420		4,720

11 Other Income Generation

11.1 A key theme of the Council's corporate priorities is to operate in a business-like way, seeking to maximise efficiency and provide value for money services. As part of the wider development of the Commercial Strategy, the Council will also explore further opportunities for the commercialisation of services with a view to increasing productivity and growing income returns.

11.2 Part of this strategy is to ensure that the full costs of services are identified, and discretionary fees and charges are set to fully recover costs from customers.

11.3 Equally, there may be opportunities to trade services and generate increased income in order to provide alternative income to mitigate the major cuts in funding received from Government. The primary purpose of this approach is to provide income that helps to ensure local services remain affordable and cuts to services can be avoided / minimised.

11.4 Modest targets for income generation are currently included within the MTFP for the next two years. Targets for later years will be considered as the budget is developed.

Table 5 – Service Income Growth Projection

	2021/22 £k	2022/23 £k	2023/24 £k	2024/25 £k	2025/26 £k
Services income inflation and growth targets	100	100	TBC	TBC	TBC

12 Treasury Management and Capital Financing

12.1 The Council updates its Treasury Management Strategy annually, with the current TMS approved by Full Council in February 2020 alongside the Budget. It is important to recognise that the financial strategies for revenue and capital resources and treasury management are intrinsically linked (as well as the proposed commercial strategy). The strategies reflect the ongoing challenging and uncertain economic times. Of course, there remains uncertainty regarding the future implications of the country's exit from the EU, and now COVID, not just on treasury performance but on wider service implications too. The current economic outlook has several key treasury management implications:

- Short term investment returns are likely to remain relatively low
- Borrowing interest rates are currently attractive and are likely to remain low for some time
- Approaches to financing capital investment plans should consider the economic outlook e.g. any potential advantages of taking more long term borrowing to increase cost certainty and reduce interest rate risk.

12.2 This Strategy looks to manage exposure to risk and volatility at this time of significant economic uncertainty by:

- Considering security, liquidity and yield, in that order
- Considering alternative assessments of credit strength
- Spreading investments over a range of approved counterparties
- Only investing for longer periods to gain higher rates of return where there are acceptable levels of counterparty risk.

12.3 The Council has a good record of treasury performance and managing treasury risk. The Treasury Strategy will continue to be reviewed, seeking to optimise income whilst continuing to implement an appropriately prudent balance between security, liquidity and yield.

12.4 The Council has benefited from increased treasury income through further use of strategic investments. However, it is not immune to the impact of COVID on the investment markets, and the MTFP has been adjusted to allow for the reduction in investment income as returns have fallen.

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

12.6 The Treasury Strategy will continue to be reviewed and updated with the full strategy for 2021/22 scheduled to come to Full Council in March 2021 for approval.

13 Reserves

13.1 The Council maintains General Reserves and Earmarked Reserves, for both the General

Fund and the Housing Revenue Account. General Reserves are retained to provide a contingency to mitigate financial risks arising from unexpected events or emergencies and as a general working balance to help cushion the impact of uneven cash-flows. Earmarked Reserves are funds that have been set aside for specific purposes to be spent in future years and to provide contingencies for specific risks.

13.2 The approach to General Reserves includes a regular review to ensure the level of reserves held are adequate in the context of the financial risks faced and other mitigations in place (e.g. provisions, earmarked reserves, insurances). We will maintain reserves at or above the assessed minimum requirement, and generally any planned use of reserves above the minimum will support one-off expenditure or "bridge" a gap for timing differences on planned delivery of savings / commercial income. Holding adequate reserves remains a key pillar of the Council's financial resilience.

13.3 The underlying aim is to balance the budget each year without the need to use General Reserves within the medium term.

13.4 The Council sets aside funds into Earmarked Reserves through the Budget process where there is a longer term spending plan, for example planned use of revenue funds towards financing the capital programme, and Business Rates which mitigates financial risks and smooths out accounting timing differences.

13.5 The strategy for reserves has been reviewed in view of COVID implications. A robust review of earmarked reserves has been undertaken to enable funds to be returned to general balances, and a review of the planned financing of the capital programme has also been undertaken with the objective of releasing NHB reserve funds to general balances. These measures are designed to increase reserves:

a) To provide mitigation to financial consequences of COVID
b) To provide prudent funding flexibility to support the revenue budget as savings and income growth are realised over time.

13.6 Specific proposals include:

a) Releasing £1.2m of reprioritised earmarked reserve to general reserves (recommendation included within the 2019/20 financial outturn report).
b) Releasing £3.9m of New Homes Bonus reserve to general reserves, with alternative financing for relevant capital schemes through Community Infrastructure Levy and borrowing.
c) Releasing £1.0m from the Business Rates Volatility Reserve to general reserves.

13.7 A further option may be available if commercial investment income in 2020/21 meets forecast, to reduce the planned transfer of (up to) £0.8m investment income to the Investment Risk Reserve to mitigate COVID pressures in 2020/21. At present COVID pressures risk is mitigated through general reserves (see below).

13.8 The following table summarises the projected General Reserves position and the current assessed adequate minimum balance. Balances are measured against an operational target as well as a minimum adequate balance for financial resilience. This recognises that reserves can provide resources during the year to address emerging costs and priorities not identified through the annual budget planning process, whilst maintaining core resilience to financial risks.

13.9 The financial impact of COVID is difficult to forecast with certainty, as the effect on costs and income will evolve over time including the totality of financial support from central government. It is estimated the net loss to the General Fund in 20/21 could be in the range £1m to £3m. A request to approve £657k allocation to the Revenue Budget is included in the 2020/21 Month 4 Budget Monitoring report. It is therefore proposed to forecast on the basis of retaining a further contingency within reserves of £1.3m to mitigate further cost and income volatility in the remainder of the financial year based on the approximate mid-point in this range.

13.10 Provisionally it is proposed to also apply reserves over the next 2 years to smooth the transition as other financial benefits are realised, as summarised in the following table and in Table 1. The planned use of reserves within the annual budget will be kept under review as the budget setting process progresses and full details of the finance settlement and cost pressures emerge.

Table 6 – General Reserves

	General Fund £k	HRA £k
General Reserves Transferred from Taunton Deane	1,876	2,718
General Reserves Transferred from West Somerset	981	N/A
SWT Opening Balance 1 April 2019	**2,857**	**2,718**
Budgeted Transfers to/from Revenue in Year	-171	-25
2019/20 Underspend transferred to Reserves (subject to audit)	1,836	8
Balance 31 March 2020	**4,522**	**2,701**
2020/21 Original Budget Transfer to Reserve	300	
Proposed transfers from earmarked reserves review	1,218	
Proposed transfer from NHB Reserve	3,949	
Proposed transfer from BR Volatility Reserve	1,000	
Proposed allocation to Economic Growth and Prosperity Fund (Executive 16/9/2020)*	-500	
Proposed allocation to Unitary Programme Delivery Funds (Executive 23/9/2020)*	-249	
2020/21 Budget for Projected Net Costs of COVID (Executive 28 October 2020)*	-657	
Proposed allocation to Climate Strategy (Executive 20/10/2020)*	-500	
Projected Balance October 2020	**9,083**	**2,701**
Contingency for further COVID financial pressures	-1,300	
MTFP Use of Reserves to Reduce Budget Gap in 2021/22	-2,250	
MTFP Use of Reserves to Reduce Budget Gap in 2022/23	-1,250	
Indicative Balance	**4,283**	**2,701**
Adequate Minimum Reserves Balance	2,400	1,800

*The above table takes into account proposed allocations from reserves to be considered by the Executive in September/October 2020, which at the time of writing is therefore included as indicative subject to formal approvals.

13.11 The indicative general reserves balances for both the General Fund and HRA are above the recommended adequate minimum balance. This is prudent as it provides flexibility to mitigate further financial pressures and potential funding options towards the cost of implementing future local government restructuring.

13.12 The current and projected earmarked reserves balances for the current year are as follows.

Table 7 – Earmarked Reserves Projections

	General Fund £k	HRA £k
Earmarked Reserves Transferred from Taunton Deane	14,194	2,719
Earmarked Reserves Transferred from West Somerset	4,048	N/A
Opening Balance 1 April 2019	**18,242**	**2,719**
2019/20 Transfers to/from reserves	2,344	-1,071
Balance 31 March 2020	**20,586**	**1,648**
2020/21 Original Budget – Transfers to/from reserves	3,248	-183
2020 Review – Release to General Reserves	-1,218	0
Proposed release from BRR Reserve to General Reserves	-1,000	0
Reallocation from NHB Reserve to General Reserves	-3,949	0
COVID Emergency Funding reallocation from NHB Reserve	-1,000	0
Reduce planned transfer to Investment Risk Reserve (up to)	-800	0
Projected Balance*	**15,867**	**1,465**

*further changes will be made during 2020/21 as funds are drawn down to offset costs for expenditure deferred from previous years.

14 Business Rates Retention

14.1 The current Business Rates Retention (BRR) system was introduced from April 2013. It seeks to incentivise business growth by enabling local authorities to keep a share of growth in business rates above funding baseline set by Government. The Business Rates Income Target and Baseline are due to be “Reset” in April 2021 (deferred from April 2020 in the 2019 Spending Round). This will mean the current business rates income levels will be built into the future Target/Baseline. In other words, the Council will no longer benefit from historic growth, and will need to see new growth in future to benefit from the system. The true impact of the Reset is not yet known, with detailed information required from Government, and whilst the Government has indicated it continues to explore the basis for a Reset in April 2021 it is conceivable this may be deferred until 2022 due to COVID.

14.2 In the absence of certainty and clarity, there is a significant margin for error in the forecast funding through BRR, therefore the most prudent budget approach is to set the budget and MTFP estimates in line with the current baseline for 2021/22 onwards with the risk of volatility underwritten through the BRR Volatility Reserve. The medium term forecasts for BRR also include material assumptions about business rates for Hinkley Point power station, assuming rates from Hinkley B are no longer collectable from 2023 and new rates for Hinkley C do not become due until 2026 at the earliest. This gap in business rates income is projected to reduce the Council’s BRR funding to the Safety Net in the medium term, until rates income growth from Hinkley C starts to benefit.

14.3 There is a very high probability that BRR funding will be reduced in the current year. The Valuation Office Agency has informed the S151 Officer that a claim for a reduction in the Hinkley B rateable value has been submitted due to a Material Change in Circumstances. The impact is not known at this point and whilst the VOA will not issue any details or estimates prior to the valuation being completed, it has indicated the change on value could be “significant”. The S151 Officer has included a ‘best guess’ at this stage in the MTFP assuming the rateable value for Hinkley B reduces by 30%. In addition, it is expected COVID impact on the local economy will result in a deficit in the Collection Fund in 2020/21, the repayment of which needs to be built into the 2021/22 budget estimates. The Council's deficit share is currently estimated at c£1.36m.

14.4 Other material risks that could affect BRR funding include the claim for 80% mandatory relief by NHS Foundation Trusts (where the legal process is ongoing) and revised valuations for GP surgeries. This risk is currently underwritten through the BRR Volatility Reserve.

14.5 The MTFP forecasts for BRR have also been updated to reflect reasonable estimates of the lower business rates income due to the effects of COVID on the local economy – with a contraction estimated at 1.5% in 21/22 and 1% in 22/23 before levelling off in 23/24.

Table 8 - Business Rates Retention Funding Estimates (August 2020)

	2020/21 £k	2021/22 £k	2022/23 £k	2023/24 £k	2024/25 £k	2025/26 £k
Estimated Baseline	3,911	3,860	3,936	4,012	4,088	4,164
Estimated BRR retained funding	6,221	4,534	4,517	3,898	3,958	4,031
Difference	2,310	674	581	-114	-130	-133

Business Rates Pooling

14.6 A Somerset Business Rates Pool (comprising the County Council and the Districts within the County Council area) has provided a positive impact on funding since 2018/19, with increased financial benefit from being a 75% BRR Pilot in 2019/20. The Pool has reverted to the 50% BRR system in 2020/21.

14.7 Prudently, the 2020/21 budget for BRR does not include any gain from the Business Rates Pool. If the position in the Pool remains above baseline across Somerset there is the potential for additional funding to be reported at the end of the financial year. It is estimated the 'best case' (pre-COVID) could be in the region of £900k, however it is more likely this will be in the region of £250k-£500k for the reasons set out in 14.3 above. No potential benefits from pooling are included in later years due to the uncertainty of future BRR system design and the assumption that the reward for pooling will be significantly reduced following a reset. The risks and rewards of pooling are kept under review by the Business Rates Pool Board, comprising the S151 Officers of the Somerset councils.

15 Business Rates Holiday 2020/21 and Collection Fund Deficit

15.1 One of the measures introduced in response to COVID and to support businesses is to give a one-year business rates holiday to eligible businesses in the retail, hospitality and leisure sector plus Early Years nursery providers. This has resulted in an estimated £28.1m reduction of business rates due from rate payers, compared to c£1m of retail discount that was included in the 2020/21 original budget estimates. As businesses are paying less this results in an estimated deficit in the collection fund of £27.1m, and SWTC will be is liable for 40% of this amount at c£10.84m. This is in addition to the estimated deficit of £1.36m set out in 14.3 above.

15.2 The Government is providing S31 grant to compensate local authorities for the loss of tax revenues through the business rates holiday. There is a timing difference in the prescribed accounting arrangements in that the General Fund will be credited with the

S31 grant in 2020/21 but the Collection Fund deficit is charged to the General Fund in the following financial year. This means the budget estimates and reserve balances will be significant skewed. It is therefore proposed to set aside the S31 grant in the Business Rates Volatility Reserve in 20/21 and then withdraw it later to offset the deficit when this hits the General Fund.

15.3 The Government announced in July it is planning to allow local authorities to spread the cost of collection fund deficits (for council tax and business rates) over the next 3 years. The following table summarises the scenario currently included in the MTFP – the figures will be updated as required to reflect final estimates for when the 2021/22 budget is approved in February 2021.

Table 9 – Spreading the Collection Deficit Over 3 Years

General Fund Budget Estimates	Estimate 2020/21 £k	Estimate 2021/22 £k	Estimate 2022/23 £k	Estimate 2023/24 £k
S31 Grant projected income	-10,840			
Transfer To BR Volatility Reserve	10,840			
Repay Collection Fund Deficit (BR Holiday £10.84m over 3 years)		3,613	3,613	3,613
Repay Collection Fund Deficit (COVID/Hinkley £1.36m over 3 years)		453	453	453
Total Collection Fund Deficit Estimates		**4,066**	**4,066**	**4,066**
Transfer from BR Volatility Reserve		-3,613	-3,613	-3,613
Transfer from BR Volatility Reserve		-453	-453	-453
Total from BR Volatility Reserve		**-4,066**	**-4,066**	**-4,066**

16 General Government Grants

16.1 Budgeting for General Grant funding is uncertain as explained at the beginning of this report. The current MTFP assumes the Council will face a ‘negative RSG’ estimated at £129k in 2021/22 – with this being rolled in and included as an increase in the Business Rates Tariff. Therefore the only general grant funding identified separately in the MTFP is the Rural Services Delivery Grant which is assumed to continue at the current amount for 2020/21.

Table 10 – General Government Grant Funding Estimates

	2020/21 £k	2021/22 £k	2022/23 £k	2023/24 £k	2024/25 £k	2025/26 £k
Revenue Support Grant	6	0	0	0	0	0
Rural Services Delivery Grant	242	242	242	242	242	242
Total General Grant Estimate	**248**	**242**	**242**	**242**	**242**	**242**

17 New Homes Bonus

17.1 The New Homes Bonus funding regime has been in place since 2011/12, with various adjustments since that time on the method of calculate the level of grant provided to ‘reward’ net housing growth delivered in the area. The Government has clearly stated its intention to review the scheme, and through the Finance Settlement for 2020/21 had indicated that ministers intend to review the scheme during 2020. This indication was given pre-COVID, and it is unclear at this stage whether a review will be completed in advance of the 2021/22 finance settlement.

17.2 Within the finance settlement for 2020/21 it was clearly stated that the growth increment for 2020/21 would be for one year only. The NHB grant received also included legacy payments for the previous three years' growth increments. The continuation of the relevant legacy payments into 2021/22 and 2022/23 is assumed, but this is subject to confirmation through future respective finance settlements for those years.

17.3 For 2021/22 it is planned to use £1.2m of NHB funding towards day to day services, with the projected balance of £509k transferred to the NHB earmarked reserve which is used to fund growth and infrastructure priorities. The updated strategy this year also recommends using the projected legacy payment of £851k in 2022/23 towards day to day services rather than setting this funding aside for capital purposes. This helps to retain revenue funding for revenue costs, and is reflected in the revised capital programme projections and funding plans – see below.

17.4 In the event the level of NHB funding is higher than projected, it is proposed through the financial strategy to prioritise using the extra funding towards protecting and maintaining day to day services and reducing the projected revenue budget gap. If funding is lower than projected, this will require mitigation either through increased savings, additional income or potentially managed use of reserves in the short term.

Table 11 – NHB Grant Income Projections

Annual settlement:	Actual 2020/21 £k	Estimate 2021/22 £k	Estimate 2022/23 £k	Estimate 2023/24 £k
2017/18 (paid for 4 years to 20/21)	1,259			
2018/19 (paid for 4 years to 21/22)	858	858		
2019/20 (paid for 4 years to 22/23)	851	851	851	
2020/21 (one-year only)	285	0	0	0
2021/22 – unknown, assume nil		0	0	0
2022/23 – unknown, assume nil			0	0
2023/24 – unknown, assume nil				0
Total Annual Grant Estimates	**3,253**	**1,709**	**851**	**0**
Used for general fund services in Revenue Budget	*1,850*	*1,200*	*851*	*0*
Allocated to NHB earmarked reserve	*1,403*	*509*	*0*	*0*

17.5 The expected reduction in availability of New Homes Bonus has led to a review of the affordability and funding of the Growth Capital Programme – see para 21.9 below.

18 Council Tax

18.1 The setting of Council Tax is determined by Members each year at Full Council. For 2020/21 the Council set the basic annual Band D council tax rate for Somerset West and Taunton Council at £164.63 (including £1.75 which is passed on to the Somerset Rivers Authority). The Tax Base – the measurement of properties chargeable for tax expressed as 'Band D Equivalents' is 56,450 in 2020/21.

18.2 This produces council tax income of £9.29m for SWTC, which represents 44% of Net Funding within the 2020/21 revenue budget.

18.3 The council tax income projections within the MTFP are based on the financial planning assumption of a 1.99% annual increase in council tax rate. This is subject to consideration by the Executive through the budget process, which will formally recommend its Council Tax proposals to Council each February as part of the annual Budget report.

18.4 In view of COVID potential ongoing impact on service costs and income and the resulting pressure on local government finances, the Government may consider relaxing the thresholds for tax increase limitations, however no announcements have been made at this stage.

18.5 The table below provides a summary of the assumptions and estimates included the MTFP projections. The table and graph also show, for indicative purposes only, a range of scenarios based on different tax increase rates. This shows for example that a council tax freeze would result in estimated council tax income of £9.5m in 2025/26 versus an estimated £11.0m based on a 3% increase – a difference of £1.5m per year in 2025/26.

Table 12 – Council Tax Income Forecast

	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
Council Tax Base					
Estimated Increase %	-1%	0%	1%	1%	1%
Increase in Band D Equivalents	-565	0	559	565	570
Tax Base	55,885	55,885	56,444	57,009	57,579
Council Tax Rate					
Increase % (MTFP core assumption)	1.99%	1.99%	1.99%	1.99%	1.99%
Increase £	3.28	3.34	3.41	3.48	3.54
Band D Rate £	168.43	171.77	175.18	178.66	182.20
Council Tax Income Estimates £k	**9,384**	**9,570**	**9,859**	**10,156**	**10,461**
Council Tax Income scenarios £k:					
3% annual increase	9,476	9,761	10,154	10,564	10,989
1% annual increase	9,293	9,385	9,574	9,767	9,963
0% annual increase	9,200	9,200	9,292	9,385	9,479

18.6 The impact of COVID on the local economy and employment is expected to have an adverse effect on council tax income, with the probability that there will be a deficit in the Collection Fund for Council Tax in 2020/21. There has been a significant increase in council tax support caseload in the first few months of 2020/21, and the slowdown in construction and housing market means the tax base for the year is almost certainly overestimated. The 2020/21 Collection Fund budget assumes £102.385m of council tax income will be collected for the year, however it is estimated that collection will be reduced by c1.6% resulting in a deficit of £1.652m. SWTC will be liable for 11.5% of the deficit therefore c£190k. The position will be carefully monitored during 2020/21 with final estimates prepared in January 2021 for the 2021/22 approved budget.

18.7 The Government announced in July it is planning to allow local authorities to spread the cost of collection fund deficits (for council tax and business rates) over the next 3 years. The following table summarises the scenario currently included in the MTFP.

Table 13 – Spreading the Collection Fund Deficit over 3 Years

General Fund Budget Estimates	Estimate 2020/21 £k	Estimate 2021/22 £k	Estimate 2022/23 £k	Estimate 2023/24 £k
Repay Collection Fund Deficit (est. £190k over 3 years)		63	63	63

18.8 Included in the above Band D tax rate is £1.75 per year, which is collected by SWT on behalf of the Somerset Rivers Authority (SRA). This equates to an estimated £98k in 2021/22, providing funding towards the 20 Year Flood Action Plan that was developed following the severe flooding experienced in Somerset in early 2014. Total contributions from the County and District Councils in Somerset provide an annual budget for the SRA of c£2.8m per year. There are five key workstreams within Somerset's 20 Year Flood Action Plan:

- dredging and river management
- land management (including natural flood management)
- urban water management
- resilient infrastructure
- building local resilience

18.9 The Government has previously committed to implementing the necessary legislation to allow the SRA to precept in its own right. The MTFP assumes the current arrangements remain in place, and will be updated if and when this power is set in legislation.

19 Housing Revenue Account

19.1 The Housing Revenue Account (HRA) is a ring-fenced, self-financing account where income from tenants and sale of assets funds the homes and related services provided to tenants, and investment in the provision and quality of council owned housing stock.

19.2 The Council has a long term business planning approach to managing the stock and the finances within the HRA. The financial strategy for the HRA focusses on ensuring that spending and capital investment plans are affordable and contained within the projected resources available.

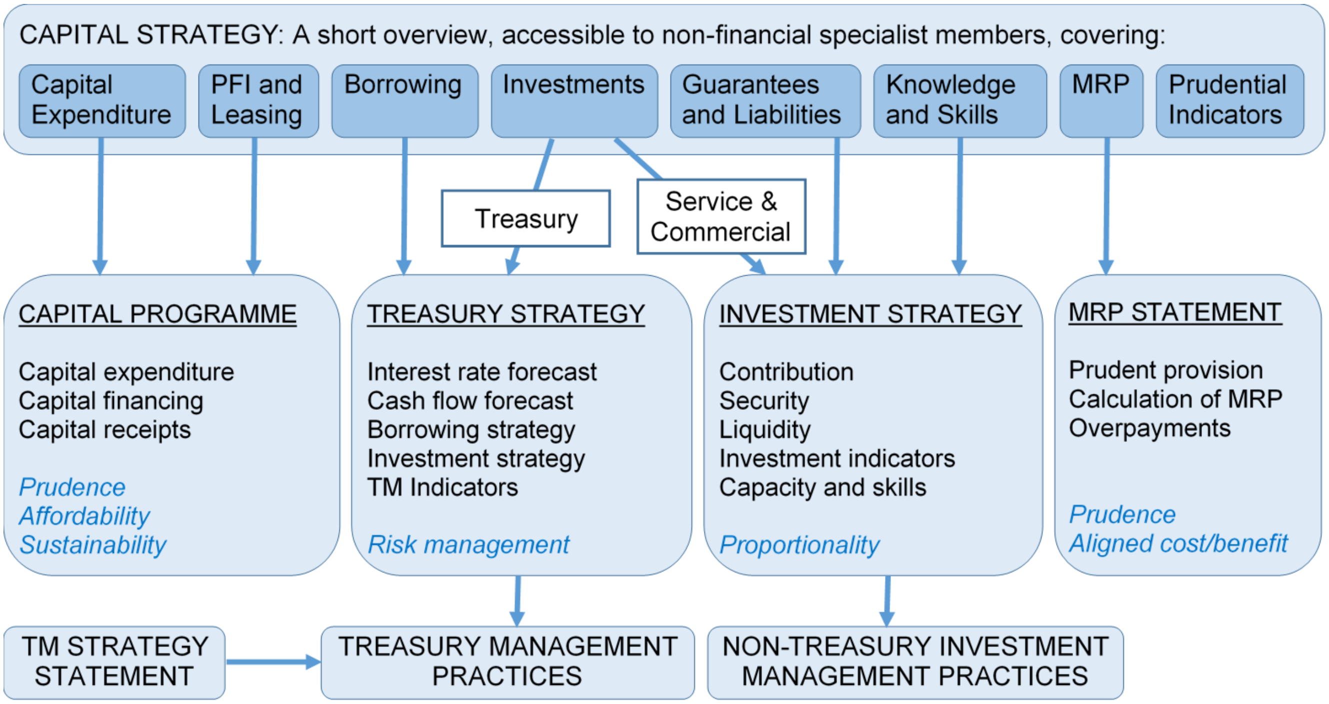
19.3 The Council maintains separate reserves – general and earmarked – for the HRA representing balances and contingencies to manage financial risks and timing of spending commitments.

19.4 As part of the budget setting process for 2020/21 it is proposed to review the allocation of apportioned costs, informed by the updated base budget position and directorate structure finalised in 2020/21.

20 Capital Strategy

20.1 The Council approved new Capital, Investment and Treasury Strategies in February 2020. These draw together the approaches to meeting the Council's capital investment priorities, and managing its investment, borrowing and cash flow needs and risks.

20.2 The strategy follows the principles of the Prudential Code and Treasury Management Code, both issued by CIPFA. The following diagram represents the Capital Strategy framework and how the capital, investment, treasury and MRP approaches interlink.



20.3 The key objective of the Capital Strategy is to deliver a capital programme that:

- Ensures the Council's capital assets are used to support the delivery of priorities within the Corporate Plan and the Council's vision
- Links with the Council's Asset Management Plan
- Is affordable, financially prudent and sustainable
- Ensures the most cost effective use is made of existing assets and new capital investment
- Supports other service specific plans and strategies

20.4 For the General Fund, the majority of direct service investment is supported through use of New Homes Bonus funding and Community Infrastructure Levy; with further investment supported through planning obligations (S106/Hinkley funds), capital grants, capital receipts, and revenue contributions. For the HRA the funding is provided through the Major Repairs Reserve, capital receipts and revenue contributions. A contribution to the Social Housing Development Fund is included in the HRA Revenue Budget each year to contribute towards the cost of additions to the housing stock.

20.5 For both the General Fund and HRA, future capital spending will require support through borrowing. Prudent borrowing limits will be set within the Capital and Treasury strategies, together with prudent plans to cover the cost of capital debt through Minimum Revenue Provision (MRP) and use of capital receipts. The revenue implications of capital will be measured for affordability within the overall revenue budgets for the General Fund and HRA.

20.6 The specific resources to deliver the capital strategy will be identified through the annual budget setting process. The Council will use a rigorous capital prioritisation process before individual capital schemes are approved including development of a full business case for large individual capital schemes.

Growth Programme and New Homes Bonus

20.7 The Growth Programme was last updated as part of the budget approval for 2020/21 financial year, approved by Council in February 2020. The programme to date has set out the planned use a proportion of New Homes Bonus income to finance capital projects that deliver or support growth and regeneration. This has historically provided the ability to apply revenue resources to finance capital spend immediately rather than spread the cost through use of borrowing. In view of COVID, an emergency allocation of £1m from NHB reserves was made in March 2020 to mitigate related financial pressures in 2020/21. In view of this immediate pressure, and plans to redirect NHB funds to provide greater flexibility to meet revenue costs, SMT has reviewed the previous plans and proposes to:

a) Realign priority spend to reflect the affordable balance after the planned reallocation of NHB income to support revenue costs. See recommendations for a net reduction of £1.37m included in 2020/21 Budget Monitoring Month 4 Forecast report).
b) Finance £2.08m planned capital contributions to SCC transport schemes through borrowing instead of through NHB income.
c) Finance £2.762m approved spend on Surface Water and Flood Risk Mitigation through Community Infrastructure Levy instead of NHB income (see para 21.13 and Table 15 below).

20.8 The outcome of these measures enables the proposed transfer of £3.949m of current NHB reserve balances to General Reserves, and keeping the expected NHB grant instalment of £851k in 2022/23 as mainstream funding within the revenue budget.

20.9 The revised allocations for the Growth Capital Programme to be funded by NHB during the period 2019/20 to 2021/22 is as summarised in Table 14 below (formal approval for these revised totals is included in the Budget Monitoring Month 4 Forecast report).

Table 14 – Growth Programme Funded by NHB

	Actual 2019/20 £k	Estimate 2020/21 £k	Estimate 2021/22 £k	**Totals 2022/23 £k**
Major Transport Schemes	98	60	0	**158**
Town Centre Regeneration	724	1,124	985	**2,883**
Employment Site Enabling and Innovation	0	505	0	**505**
Flood Alleviation	14	0	0	**14**
TOTALS	**836**	**1,689**	**1,035**	**3,560**

Infrastructure Programme and Community Infrastructure Levy

20.10 One of SWTC's predecessors, Taunton Deane Borough Council, introduced a Community Infrastructure Levy (CIL) on 1 April 2014. CIL is a tariff charged in the Taunton Deane area on residential development (excluding Taunton town centre and Wellington) and retail development outside Taunton and Wellington town centres. The principle behind CIL is that most development has some impact on infrastructure and the developer should contribute to the cost of providing or improving it. CIL applies to new floor space and charges are based on the size, type and location of the new development.

20.11 The Policy is approved by Council and implemented by Officers. Council determines the allocation of CIL income to investment themes as part of the annual capital programme approval process. The Executive Committee or Portfolio Holder for Asset Management and Economic Development may agree specific scheme allocations for projects >£250k, or the Development and Place Director for projects <£250k, within the limits allocated by Council to each theme. Expenditure to be funded by CIL is only contractually committed once CIL income has actually been received.

20.12 The original capital programme for 2019/20 included £6m for CIL-funded capital spend, however in practice no spending was incurred, and this budgeted was superseded by the 2020/21 budget plan. Recently, due to the anticipated slowdown in development due to COVID-19, the CIL income projections have been reviewed.

20.13 Additionally, SMT has reviewed the overall quantum of capital expenditure proposed to be funded by CIL, which is proposed to increase from £15.5m to £16.262m. This updated also includes a recommendation to use CIL to replace £2.762m of New Homes Bonus resourcing towards the £6m capital budget approved for flood mitigation and alleviation schemes. Formal recommendation for the over increase in CIL investment is included in the 2020/21 Budget Monitoring Month 4 Forecast report.

20.14 This is part of the wider strategy to reflect the overall projected reduction in NHB funding and provide greater flexibility to increase use NHB to meet revenue budget costs and reduce the amount allocated to capital schemes. In this context it is recommended the CIL Principles previously agreed are updated as set out below (changes to previous principles are shaded for ease of reference):

20.15 CIL Allocation Principles:

1) A business case for infrastructure project funding should be provided to the Director for External Operations ~~Head of Strategy~~ and ~~relevant~~ Portfolio Holder for Asset Management and Economic Development outlining the required CIL funds for a specific infrastructure project (within the limits approved by Council ~~outlined in Table X above~~)
2) The overall CIL allocation for each infrastructure project, includes the value of any land required for the project and taken as payment in lieu of CIL cash. For example if land for a new school is provided by a developer this is netted off against their CIL liability. In this instance the value will be netted off against or included in the proposed CIL allocations for education outlined in Table 16.
3) No more than 50% of the total cost of an infrastructure project, to a maximum allocation of £3.5m, will be allocated for any one project.
4) The only exceptions to the 50% of cost and £3.5m threshold, is the strategic flood alleviation scheme and new school builds. ~~This project serves a much wider infrastructure function for the benefit of all Taunton residents and businesses and therefore at present the overall CIL cap for this project is proposed to be set at £10m.~~
5) To ensure project delivery, strategic CIL funding will only be committed to infrastructure projects where the balance of the funding has been identified.
6) Indicative CIL allocations can be made for years 2-5 on a rolling programme to provide infrastructure delivery partners some certainty and to assist external infrastructure funding applications. CIL funding will only be committed to infrastructure projects when the CIL funding has been received and subject to Director of External Operations and, where required, ~~Head of Strategy and relevant~~ portfolio holder approval.
7) Committed CIL funds will remain available for a period of 2 years and then will be subject to review.

8) The profile of spending shown is indicative and with the approval of the Director of External Operations ~~Head of Strategy~~ and ~~relevant~~ Portfolio Holder for Asset Management and Economic Development (in consultation with the S151 officer), spend may fall outside of the indicative years shown, but within the overall sum allocated by infrastructure type and subject to sufficient CIL funding being available.
9) Any committed CIL funds will be published ~~in the Weekly Bulletin~~ and be subject to the usual 'call in' process.

Table 15 – Community Infrastructure Levy and Infrastructure Proposed Revised Budget

	2020/21 £	2021/22 £	2022/23 £	2023/24 £	2024/25 £	2025/26 Onwards £	Totals £
Funding Available							
Balance 1 April 2020	5,034,532						5,034,532
Projected Net CIL Income	1,861,240	1,711,240	1,711,240	1,461,240	1,461,240		8,206,200
Additional CIL requirement to meet expenditure plans					21,368	3,000,000	3,021,368
Total Income Projection	**6,895,772**	**1,711,240**	**1,711,240**	**1,461,240**	**1,482,608**	**3,000,000**	**16,262,100**
Capital Expenditure:							
Cycle and Pedestrian Improvements	500,000			1,000,000			1,500,000
Education Provision	1,000,000		1,000,000	1,000,000	1,000,000	3,000,000	7,000,000
Public Transport Improvement							0
Taunton Town Centre Regeneration	500,000	1,000,000					1,500,000
Surface Water and Flood Risk Mitigation*	2,262,100	2,500,000		1,000,000			5,762,100
Community Development				500,000			500,000
Total Expenditure	**4,262,100**	**3,500,000**	**1,000,000**	**3,500,000**	**1,000,000**	**3,000,000**	**16,262,100**
Projected Funding Balance	**2,633,672**	**844,912**	**1,556,152**	**-482,608**	**0**	**0**	**0**

*The total budget approved by Council for Surface Water and Flood Risk Mitigation schemes is £6m, with the balance of funding allocated from S106 income.

21 Financial Planning Risks and Uncertainty

21.1 As outlined in this report, there are number of factors making accurate financial forecasting particularly difficult at this stage. The risk of 'error' in forecasting assumptions is high, particularly for 2021/22 onwards. The financial strategy seeks to mitigate this risk by:

- Prudent assumptions used for future funding forecasts
- Maintenance of sufficient balances and reserves

21.2 Other main areas of risk and uncertainty within the financial plan are:

- Inflation – rising inflation could place additional pressure on pay settlements and prices for purchases of goods and services
- Demand volatility – fluctuation in costs and income as a result of changes in demand led services and usage (e.g. homelessness, planning, building control, parking, garden waste)

- Delivery of savings – planned savings to mitigate the projected budget gap may take longer to be delivered and may not be delivered in full, in which case plans will need to be reviewed and updated.
- Business Rates Retention – forecasts under BRR are notoriously difficult to predict with accuracy and can therefore change from year to year (e.g. for appeals, reliefs, etc.), and the system is currently under review with uncertainty of the distribution of risks and rewards of income decline and growth
- Economic slowdown and recession – COVID and exit from the EU may exaggerate the impact on demand for services thus increasing costs, and is expected to have an adverse effect on core funding through business rates and council tax as well as income from fees and charges.
- Local government – Somerset County Council has submitted its case to Government proposing the creation of a single unitary authority for Somerset. Any change is likely to have a significant demand on resources to manage a transition to a new authority, leading to increased costs and reductions in reserves.

22 Legal Implications

22.1 The Council is required by law to set a balanced budget and failure to do so would result in serious financial and service implications and lead to Government intervention.

23 Climate and Sustainability Implications

23.1 No direct carbon/environmental impacts arising from the recommendations.

24 Equality and Diversity Implications

24.1 No direct equality or diversity impacts arising from the recommendations. Officers and members will need to consider whether there are any impacts for detailed policy updates and proposals within the detailed budget plans as these are developed and presented for decision.

25 Asset Management Implications

25.1 Effective Asset Management remains an important element of the financial strategy. Asset Management Strategies were previously prepared for both West Somerset and Taunton Deane Councils (September 2017 and November 2017). These identify and categorise the land and property holdings in each Council and establish core objectives for holding and/or investing in the existing asset base. Financial plans will be reviewed and budgets updated in line with these and future asset management plans.

25.2 Future asset efficiency and delivery of the plans should contribute to the Savings Targets within this Financial Strategy, however no specific asset implications are identified within this report.

26 Scrutiny/Executive Comments / Recommendations

26.1 The report will be presented to the Scrutiny Committee on 30 September. Any recommendations and comments will be added to the report for the Executive and Full Council to consider.

Democratic Path:

- **Scrutiny Committee – 30 September 2020**
- **Executive – 28 October 2020**

- **Full Council – 15 December 2020**

Reporting Frequency: Annually

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