

# Somerset West and Taunton

## Shadow Executive – 6 December 2018

### Draft 2019/20 Budget Progress and Initial Budget Options

This matter is the responsibility of the Leader of the Council, Councillor John Williams

Report Author: Andy Stark, Interim Financial Services Manager and Deputy S151 Officer

#### 1 Executive Summary

- 1.1 The purpose of this report is to provide Members with an update on progress with regard to Budget Setting for 2019/20; the latest Medium Term Financial Plan (MTFP) forecasts, and the areas to be finalised.
- 1.2 The Council's current MTFP projects a balanced budgetary position for 2019/20, but with a Budget Gap rising to £343k by 2023/24.
- 1.3 There remain a number of areas where budget forecasts are to be finalised therefore there is potential for the estimated Gap to change, and this will be reported to Members as the budget process progresses.

#### 2 Recommendations

- 2.1 Shadow Executive is recommended to note the latest Medium Term Financial Plan forecasts, and the areas to be finalised.
- 2.2 Shadow Executive is requested to comment and offer any further suggestions for budget review/savings.

#### 3 Risk Assessment

##### Risk Matrix

Description	Likelihood	Impact	Overall
Risk: The Council fails to set a balanced budget and cannot fund its priorities and objectives.	Feasible 3	Major 4	Score 12
<i>Mitigation: The Council is currently projecting a balanced budget for 2019/20, subject to Council decisions in February 2019, which includes Council Tax assumptions and fees and charges increases and having delivered substantial savings through transformation.</i>	<i>Unlikely</i> 2	<i>Major</i> 4	<i>Score</i> 8

### Risk Scoring Matrix

<b>Likelihood</b>	5	Very Likely	Low (5)	Medium (10)	High (15)	Very High (20)	Very High (25)
	4	Likely	Low (4)	Medium (8)	Medium (12)	High (16)	Very High (20)
	3	Feasible	Low (3)	Low (6)	Medium (9)	Medium (12)	High (15)
	2	Slight	Low (2)	Low (4)	Low (6)	Medium (8)	Medium (10)
	1	Very Unlikely	Low (1)	Low (2)	Low (3)	Low (4)	Low (5)
			1	2	3	4	5
			Negligible	Minor	Moderate	Major	Catastrophic

Impact		
Likelihood of risk occurring	Indicator	Chance of occurrence
1. Very Unlikely	May occur in exceptional circumstances	< 10%
2. Slight	Is unlikely to, but could occur at some time	10 – 25%
3. Feasible	Fairly likely to occur at same time	25 – 50%
4. Likely	Likely to occur within the next 1-2 years, or occurs occasionally	50 – 75%
5. Very Likely	Regular occurrence (daily / weekly / monthly)	> 75%

## 4 Overview of 2019/20 Draft Budget Estimates and MTFP

- 4.1 At the Shadow Executive meeting on 26 September 2018 a report provided Members with an initial draft on producing a 2019/20 budget for the new Somerset West and Taunton Council including a Medium Term Financial Plan and overall Financial Strategy. This report was previously shared with and reviewed by the Shadow Scrutiny Committee on 18 September 2018.
- 4.2 Since this report, finance officers have undertaken a thorough review of all existing budgets including reviewing the underspends and overspends identified at outturn for 2017/18 to establish if there are any ongoing savings or spending pressures that needed to be taken into account for the 2019/20. This exercise has identified a number of changes to the base budget that need to be incorporated although the overall impact is not significant. In addition, financial projections have been updated for detailed estimates related to service costs and funding based on information available to date.
- 4.3 The previous MTFP Summary showed that there was a broadly balanced position up to 2021/22 with a predicted budget gap of £407k by 2023/24. In overall terms, the position on the MTFP has not changed significantly since the report in September.

<b>Table 1 – Previous Budget Gap Projections as at September 2018</b>	2019/20 £k	2020/21 £k	2021/22 £k	2022/23 £k	2023/24 £k
Budget Gap Increase	-43	78	16	254	102
Budget Gap Total	-43	35	51	305	407

- 4.4 The table below summarises the changes to the Budget Gap since September, which is currently estimated as a small surplus of 71k, but which contains several unknowns at this stage of the process:

**Table 2 - Summary 2019/20 Budget Gap Reconciliation**

	£k	£k
<b>2019/20 Budget Gap as reported to Shadow Executive September 2018</b>		<b>-43</b>
<b>Service Cost Pressures:</b>		
Additional Inflation	7	
Review of Base Budgets	37	
Additional technology operating costs	62	
<b>Subtotal – Service Cost Pressures</b>		<b>106</b>
<b>Service Cost Savings:</b>		
Reduced Capital Financing Costs	-27	
Review of Fees and Charges	-64	
<b>Subtotal – Service Cost Savings</b>		<b>-91</b>
<b>Higher Council Tax Base (estimate of Band D Equivalents)</b>		<b>-43</b>
<b>2019/20 Latest Budget Gap Estimate November 2018</b>		<b>-71</b>

- 4.5 As a result of the above changes the up to date estimated budget gap for 2019/20 stands at £71k (surplus), with a projected gap of £343k in 2023/24 as shown below.

**Table 3 - Budget Gap Projections as at November 2018**

	2019/20 £k	2020/21 £k	2021/22 £k	2022/23 £k	2023/24 £k
Budget Gap Increase	-71	132	71	57	154
Budget Gap Total	-71	61	132	189	343

- 4.6 The following table sets out a summary of the Medium Term Financial Plan for Somerset West and Taunton. This is based on the current estimate of costs and predicted funding and will continue to be updated.

**Table 4 – MTFP Summary 2018/19 to 2023/24**

	2018/19 £	2019/20 £	2020/21 £	2021/22 £	2022/23 £	2023/24 £
Services Costs	14,842,723	13,916,633	14,382,119	14,972,297	15,774,467	16,490,707
Net Financing Costs	517,030	383,040	342,400	306,760	309,870	312,980
SRA Contribution	96,981	98,524	100,100	101,702	103,329	104,982
Special Expenses	45,534	46,171	46,818	47,473	48,138	48,812
Earmarked Reserves-Growth	3,172,576	2,999,157	3,306,746	3,013,751	2,932,517	2,897,800
Earmarked Reserves-Other	-215,487	1,028,134	380,734	383,334	135,934	138,534

General Reserves	0	0	0	0	0	0
<b>Net Expenditure</b>	<b>18,459,357</b>	<b>18,471,659</b>	<b>18,558,917</b>	<b>18,825,317</b>	<b>19,304,255</b>	<b>19,993,815</b>
Retained Business Rates	-5,556,147	-5,538,970	-4,896,653	-4,999,106	-5,096,442	-5,188,934
Business Rates prior year deficit	541,689	0	0	0	0	0
Revenue Support Grant	-449,981	-6,340	0	0	0	0
Rural Services Delivery Grant	-241,506	-193,801	-193,801	-193,801	-193,801	-193,801
New Homes Bonus	-3,960,977	-3,719,157	-3,906,746	-3,563,751	-3,432,517	-3,397,800
Council Tax	-8,533,943	-8,939,605	-9,354,180	-9,787,916	10,241,447	10,716,043
Council Tax–SRA	-96,981	-98,524	-100,100	-101,702	-103,329	-104,982
Council Tax–Special Expenses	-45,534	-46,171	-46,818	-47,473	-48,138	-48,812
Council Tax prior year surplus	-115,977	0	0	0	0	0
<b>Net Funding</b>	<b>18,459,357</b>	<b>18,542,568</b>	<b>18,498,298</b>	<b>18,693,749</b>	<b>19,115,674</b>	<b>19,650,372</b>
<b>Budget Gap</b>	0	-70,909	60,619	131,568	188,581	343,443
Gap – Change on Previous Year	0	-70,909	131,528	70,949	57,013	154,862

## 5 Fees and Charges for 2019/20

- 5.1 A separate report is included on the agenda for this Committee. This contains proposals in respect of Fees and Charges for 2019/20 that, if approved, would add approximately £64k to General Fund income budget estimates for 2019/20.
- 5.2 Fees and Charges are due to be considered for approval by Shadow Executive on 6th December 2018 and Shadow Council on 17th December 2018, following review by this Committee.

## 6 Council Tax

- 6.1 The assumptions that we used in the previous report have not changed. For financial planning purposes it has been assumed that the initial ‘harmonised’ basic Band D rate for 2019/20 will be £157.88 (the lower TDBC rate of £152.88 increased by £5) plus the Somerset Rivers Authority supplement. Thereafter, the Medium Term Financial Plan reflects a financial planning assumption that Council Tax charges will increase by 2.99% each year from 2020/21.

**Table 5 - Council Tax Increase Example Scenarios for 2019/20**

*Assumes Tax Base of 56,622.8 per Indicative MTFP Estimate*

Council Tax Increase	Band D Tax Per Year £	Band D Increase Per Year £	Basic Council Tax Income £	Additional Income £
0.00%	152.88	0.00	8,656,491	0
1.00%	154.40	1.52	8,742,557	86,066
3.27% (MTFP assumption)	157.88	5.00	8,939,605	283,114

## 7 New Homes Bonus

- 7.1 The forecast of New Homes Bonus Grant has been updated to reflect the recent

October 2018 Council Tax Base return. The net change in housing stock is higher than previously forecast resulting in more funding towards the growth programme. This is reflected in the table below:-

**Table 5 – Forecast of New Homes Bonus Grant Funding**

	2019/20 £	2020/21 £	2021/22 £	2022/23 £	2023/24 £
Annual Budget	720,000	600,000	550,000	500,000	500,000
Growth Programme	2,839,400	3,116,200	2,813,800	2,732,600	2,857,600
Change from previous forecast	159,800	190,500	200,000	199,900	40,200
<b>Total</b>	<b>3,719,200</b>	<b>3,906,700</b>	<b>3,363,800</b>	<b>3,232,600</b>	<b>3,397,800</b>

## 8 Areas Still to be Completed

- 8.1 The **Business Rates Retention** provisional estimates will be completed soon – the deadline for the budget return (NNDR1) to Government is 31 January 2019. This is a complex calculation and subject to change following the Provisional Local Government Finance Settlement. A number of items were included in the Chancellor's Budget Autumn Statement which will impact on business rates calculations for some individual rate payers. Any impact as a result of these government policy changes on the rates collected and therefore the funding received by local authorities, will be compensated through receipt of S31 Grant.
- 8.2 Budget holders have been asked to put forward their **Capital Bids** for 2019/20. These will be presented to Shadow Scrutiny at the next meeting. We are mindful that although Capital in nature many schemes have revenue implications which may add to the budget requirement for 2019/20 and subsequent years.
- 8.3 Budget reorganisation – the finance team are currently leading a major exercise to restructure the draft budgets to reflect the new operating model being implemented through the transformation programme. This will be different to the previous presentations and formats used by TDBC and WSC – which were themselves different to each other.

## 9 Other Factors

- 9.1 **Business Rates 75% Retention Pilot** – The Somerset county area has presented an application to MHCLG to update the Somerset Pool for business rates comprising the County and all four districts (reflecting the new council replacing TDBC and WSC), and apply for 75% Retention Pilot status. We believe we have a robust business case and that by pooling with our district partners and the County Council we can achieve significant increases in

retained business rates. We are one of a number of bids and we expect to hear whether we have been successful when we receive the Provisional Settlement on 6th December. We will revisit our forecasts at this time.

## 10 Risk, Opportunities and Uncertainty

10.1 Ongoing risks and uncertainty for the budget at this stage include:

- a) **Local Government Finance Settlement (LGFS)** – following the Autumn Statement on 29th October, we await the Provisional Settlement in December. Whilst the multi-year settlement has been confirmed there may be other details released with the Provisional LGFS that we will need to reflect in our forecasts. The funding projections within the financial plan are based on the current multi-year Finance Settlement which covers the four year period to 2019/20. There is significant uncertainty beyond then.
- b) **New Homes Bonus (NHB)** – the housing growth baseline (the rate of housing growth that does not attract NHB Grant) is currently 0.4% but is expected to increase in 2019/20. The increase will be set out in the **2019/20 Finance Settlement**. In addition, in respect of 2020 onwards the Government has indicated its intention to “explore how to incentivise housing growth most effectively, for example by using the Housing Delivery Test results to reward delivery or incentivising plans that meet or exceed local housing need.” Government will consult widely on any changes prior to implementation, and it is assumed this will be implemented within the **2020/21 Finance Settlement**.
- c) **Council Tax** – MTFP is based on an assumption of a harmonised tax rate with an increase of £5 on the 2018/19 TDBC band D council tax.
- d) **Fees & Charges** – Currently going through the committee process and therefore not yet been approved. The Report is included alongside this budget report.
- e) **Capital Programme** – options for a Draft Capital Programme are being compiled – any spending proposals could contain further revenue budget implications e.g. RCCO or borrowing costs.
- f) **Transformation and New Council Savings** – The MTFP assumes that all the business case savings will be delivered in full.
- g) **Transformation and transition costs** – these are subject to updated estimates (as per separate report considered on this agenda). This report also highlights the potential of an additional revenue savings target to reduce the budget gap alongside planned use of reserves to meet additional costs of transformation.
- h) **Leisure Services** – contract procurement is underway with new contract commencing August 2019 and may change the base budget requirement
- i) **Waste Services** – contract procurement is underway and may change base budget requirement
- j) - **Future letting of space** in Deane House could raise additional income
- k) - **Cuts to services at SCC** may have knock on effect to demand for our services
- l) - **Commercial agenda** – MTFP does not yet include financial benefits from planned hotel development on Firepool

- m) - **Commercial agenda** – Transformation business case also recognised the ambition to be more commercial, which could lead to further income generation opportunities
- n) - **Business rates pooling** – not relied upon for budget, so gains would provide a windfall for members to prioritise on things that will improve financial position of the council and/or further our growth ambitions
- o) – **Brexit** – there may be unforeseen cost or service pressures
- p) - **Review of minimum reserves** - requirement to be completed

## **11 Housing Revenue Account (HRA)**

- 11.1 The HRA Budget for 2019/20 is currently being developed, and will be shared with Tenant Services Management Board and Tenants Forum for comment.
- 11.2 Details of progress on the HRA Budget estimates will be included in the report to Shadow Scrutiny in January. This will be presented alongside an updated overview of the 30-Year Business Plan.

## **12 Links to Corporate Aims / Priorities**

- 12.1 The Council's MTFP underpins all Corporate Aims.

## **13 Legal Implications**

- 13.1 S.32 of the Local Government Finance Act 1992 sets out in detail how the Council must calculate its budget by estimating gross revenue expenditure, net income, and the council tax needed to balance the budget; s.25 of the Local Government Act 2003 requires the Chief Finance Officer (Interim S151 Officer for this Shadow Council) to report on the robustness of the budget-setting estimates and the adequacy of the proposed financial reserves.

## **14 Environmental Impact Implications**

- 14.1 None for the purpose of this report.

## **15 Equality and Diversity Implications**

- 15.1 Members need to demonstrate they have consciously thought about the three aims of the Public Sector Equality Duty as part of the decision making process. The three aims the authority must have due regard for:
  - Eliminate discrimination, harassment, victimisation
  - Advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it
  - Foster good relations between persons who share a relevant protected characteristic and persons who do not share it
- 15.2 As there are no specific policy or financial changes included in the draft budget estimates no Equalities Impact Assessments are required at this stage. EIAs are included within the Fees and Charges report where appropriate.

## **16 Social Value Implications**

16.1 None for the purpose of this report.

## **17 Partnership Implications**

17.1 The Council's budget includes significant expenditure on services provided by other key partners such as Somerset Waste Partnership, SHAPE Legal Partnership and Somerset Building Control Partnership.

## **18 Health and Wellbeing Implications**

18.1 None for the purposes of this report. Any relevant information and decisions with regard to health and wellbeing will be reported as these emerge through the financial planning process.

## **19 Asset Management Implications**

19.1 None directly for the purposes of this report. The financial implications associated with asset management will be reflected within the Council's corporate and financial planning arrangements.

## **20 Consultation Implications**

20.1 None for the purposes of this report.

## **21 Scrutiny Comments/Recommendations**

21.1 These will be tabled separately at the meeting

### **Democratic Path:**

- **Shadow Scrutiny – Yes**
- **Shadow Executive – Yes**
- **Council – No (final budget to be presented to Council in February 2019)**

**Reporting Frequency: Ad-hoc**

### **Contact Officers**

Name	Paul Fitzgerald	Name	Andy stark
Direct Dial	01823 257557	Direct Dial	01823 219480
Email	<a href="mailto:p.fitzgerald@tauntondeane.gov.uk">p.fitzgerald@tauntondeane.gov.uk</a>	Email	<a href="mailto:a.stark@tauntondeane.gov.uk">a.stark@tauntondeane.gov.uk</a>