

Somerset West and Taunton Council

Full Council – 19 February 2020

General Fund Revenue Budget and Capital Estimates 2020/21

This matter is the responsibility of Executive Councillor Henley, Corporate Resources

Report Author: Emily Collacott, Finance Business Partner and Deputy S151 Officer

1 Executive Summary/Purpose of the Report

- 1.1 The purpose of this report is to provide Members with information required for Full Council to approve the proposed revenue budget estimates and capital programme for 2020/21, and to approve its proposed Council Tax rate for 2020/21.
- 1.2 The Final Finance Settlement was issued by Government on 7 February, and included details regarding general revenue grant funding, New Homes Bonus, and business rates retention baseline and tariff. The information arising is broadly in line with our previous expectations. This is subject to debate and vote in the House of Commons on 12 February.
- 1.3 Executive proposes a council tax increase of 3.17% (£5 on a Band D) in 2020/21, making the annual Band D charge £164.63. The increase in the tax rate provides an additional £282,249 income, however a reduction in the tax base equating to £27,299, results in a net additional council tax income of £254,950 compared to 2019/20.
- 1.4 Executive proposes precept £29,240 in special expenses for the Unparished Area of Taunton. This results in an annual council tax rate at £1.91 for a Band D for the Unparished Area of Taunton.
- 1.5 The 2020/21 draft budget also includes a prior year net Collection Fund surplus of £2,006,862 (£63,877 council tax deficit and £2,070,739 business rates surplus).
- 1.6 On the advice of the S151 Officer, the Executive proposes to reallocate £3.5m from the Business Rates Retention Smoothing Reserve to a new Investment Risk Reserve to reflect a change in risk profiles across the two different funding streams.

2 Recommendations

- 2.1 It is recommended that Full Council approves the General Fund Revenue Budget and Capital Programme for 2020/21.
- 2.2 Full Council notes the forecast Medium Term Financial Plan (MTFP) and Reserves position and notes the S151 Officers Statement on the robustness of the budget and adequacy of reserves as set out in section 21.
- 2.3 Full Council approve the setting of a basic band D council tax of £164.63, comprising £162.88 for services and £1.75 on behalf of the Somerset Rivers Authority.
- 2.4 Full Council approve the Special Expenses Precept of £1.91 for a basic band D council tax in respect of the unparished area of Taunton.
- 2.5 Full Council approve the additions to the General Fund Capital Programme Budget of £12.015m for 2020/21, as set out in Appendix A and Table 10.
- 2.6 Full Council approves the reallocation of £3.5m from the BRR Smoothing Reserve to the Investment Risk Reserve.

3 Risk Assessment

Risk Matrix

Description	Likelihood	Impact	Overall
Risk: The Council is unable to set a balanced budget	Slight (2)	Major (4)	Medium (8)
<i>Mitigation: Members approve options to balance the budget</i>	<i>Very Unlikely</i> (1)	<i>Major</i> (4)	<i>Low</i> (4)

Risk Scoring Matrix

Likelihood	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

Likelihood of risk occurring	Impact	
	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 Background Information

- 4.1 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.
- 4.2 The Council directly charges individual consumers for some of its services through fees and charges. The expenditure that remains is mainly funded through a combination of local taxation (including council tax and a proportion of business rates) and through grant funding from Central Government (including Revenue Support Grant, New Homes Bonus and other non-ring-fenced and specific grants/subsidy).
- 4.3 Each year the Council has to set an annual budget which details the resources needed to meet operational requirements. The annual budget should be prepared within the context of priorities and objectives identified by Members which are embedded in the Council's current Corporate Plan.
- 4.4 The Draft Budget included in this report sets out a proposed balanced budget position for 2020/21. This includes additional expenditure to meet identified cost pressures and bids to support new spending, as well significant savings plans and short term support to the budget using New Homes Bonus reserves. Funding through business rates and New Homes Bonus is expected to reduce significantly over the next two years. The agreed Financial Strategy, and the draft budget and MTFP in this report set out plans to meet this challenge.
- 4.5 Members have previously considered a range of important reports that provide background on the Council's financial position and the financial strategy for 2020/21.

5 Final Finance Settlement 2020/21

- 5.1 The **Final Finance Settlement**, which provides the level of funding set by Government through business rates retention and general grants, was received on 7 February 2020, and is subject to debate and vote in the House of Commons on

12 February. The information has not changed from the provisional settlement, with the main headlines being:

- (a) **Council Tax** – Government has confirmed district councils may increase council tax by up to the greater of £5 or 1.99% a year.
- (b) **Revenue Support Grant** – Confirmed as £6,444. Government has again mitigated the potential “negative RSG” which would have reduced our funding by £128,000.
- (c) **Rural Services Delivery Grant** – Confirmed as £241,506, no change to our previous estimates and the same amount as last year.
- (d) **New Homes Bonus** – provisional grant for 2020/21 confirmed as £3,253,289, which is £38,529 higher than previous estimates but a reduction of £555,861 compared to 2019/20. Information included with the Settlement confirms the 2020/21 ‘increment’ within the NHB calculation will be for one year only – not four years as per previous years. It also indicates (but subject to future Finance Settlements) that the legacy payment from the 2018/19 and 2019/20 allocations will apply for four years and thus included in the MTFP forecasts for 2021/22 and 2022/23, totalling £2.5m over the two years.
- (e) **Business Rates Retention** – Baseline and Tariff allocations in line with our previous estimates. Local estimates for total business rates income were completed at the end of January 2020.

5.2 These changes have been reflected in the MTFP and explanations are provided in the body of this report.

6 General Grant Funding

6.1 The Revenue Support Grant (RSG) in 2020/21 is £6,444 and there is no change to the previous estimates for the Rural Services Delivery Grant which remains at the 2019/20 settlement level. Government has confirmed that ‘Negative’ Revenue Support Grant will be offset in 2020/21. Overall there is a less than 0.1% increase in general revenue grant funding from 2019/20:

Table 1 – General Government Grant

	2019/20 £	2020/21 £	Change £	
Revenue Support Grant	6,340	6,444	104	1.6%
Rural Services Delivery Grant	241,506	241,506	-	-
Total General Revenue Grant	247,846	247,950	104	0.05%

6.2 The following table summarises how overall settlement funding has changed since 2015/16 (for comparison purposes the years 2015/16 to 2018/19 incorporate the combined funding assessments for Taunton Deane and West Somerset Councils). During this period the Settlement reduces by 34% in cash terms.

Table 2 – Settlement Funding (General Grants and Business Rates)

	15/16 £k	16/17 £k	17/18 £k	18/19 £k	19/20 £k	20/21 £k
RSG	2,751	1,785	962	450	6	6
RSDG	46	240	194	242	242	242
Transition Grant	0	17	17	0	0	0
BR Baseline	3,550	3,579	3,652	3,762	4,096	3,911
Government Settlement	6,347	5,621	4,825	4,454	4,344	4,159

7 Business Rates Retention

- 7.1 Local authorities receive a significant proportion of their funding through the Business Rates Retention (BRR) system. SWT operates within the Somerset Business Rates Pool. In 2019/20 the Pool applied successfully to be a Pilot area for 75% BRR (one of 16 pilots nationally in 2019/20) which is for one year only and therefore reverts to a 50% BRR Pool in 2020/21.
- 7.2 The Finance Settlement confirmed that Baseline and Tariff allocations are in line with our previous estimates. The NNDR1 has now been completed and this has improved the estimated total net business rate income retained by SWT by £310k compared to previous estimates. This increase in income has been transferred to the Business Rates Smoothing Reserve to mitigate volatility risk.
- 7.3 The calculation for the distribution of Business Rates includes an estimate for the potential costs of refunds following appeals. Whilst completing the final estimates the provision for the costs relating to refunds was reviewed resulting in a large reduction of c£4m in the provision needed for estimated potential refunds, based on current data. This reduction results in an estimated Surplus in the Collection Fund which is shared between Government, SWTC, SCC and the Fire Authority in the 2020/21 budget.
- 7.4 Following this review SWT's share of the collection fund surplus has increased from £314k to £2,071k. It is proposed that the increase of £1,757k be transferred to the BRR Smoothing Reserve. The risk remains that any business rates payer could lodge a claim against their 2017 Valuation at any time up to 31 March 2021. It is important therefore to hold an adequate balance in the BRR Smoothing Reserve as a contingency for this risk, as well as any underestimation within the provision and other income volatility.
- 7.5 A summary of the 2020/21 Retained Funding estimate is shown in the table below.

Table 3 – Business Rates Retention Estimates

	2020/21 Estimates £
Business Rates Retention Provisional Funding Estimates	
Share of Business Rates Yield	23,003,518
Rates yield from renewable energy	206,288
Tariff to Government	-18,394,766
Levy Payment	-1,555,263
S31 Grant funding for Reliefs	2,960,820
Net Retained Business Rates Funding	6,220,597
Net Retained Rates Funding as % of yield	10.8%

- 7.6 The budget estimate does not include an anticipated business rates pooling gain, which could be in the region of £1m, which will be subject to confirmation at the end of 2020/21 financial year. It is assumed any pooling gain will initially be allocated to the Business Rates Smoothing Reserve, pending recommendations to be considered on how to allocate the funding for agreed priorities. The primary objective for pooling is to increase resources to support financial sustainability and local economic growth.

8 New Homes Bonus

- 8.1 The New Homes Bonus (NHB) Grant system has been in place since 2011/12. It is funding allocated by Government, separate to Revenue Support Grant and Business Rates, which incentivises and rewards housing growth. The NHB grant is non-ring-fenced which means that the Council is free to decide how to use it. The Council only intends to use part of its NHB allocation each year towards the revenue budget for services. The remaining grant will be allocated to the Growth Earmarked Reserve to fund project resources and schemes within the Capital Programme.
- 8.2 The confirmed NHB Grant for 2020/21 is £3,253,289 which is £555,861 or 15% less than comparable amount for 2019/20. Whilst this is a reduction, it is slightly above our initial budget estimates included in previous reports.

Table 4 – New Homes Bonus 2020/21

	2019/20 £	2020/21 £
New Homes Bonus Grant	3,809,150	3,253,289
Amount for core revenue budget	720,000	400,000
Initial Transfer to growth reserve	3,089,150	2,853,289
Planned transfers in 2020/21 from the Reserve:		
Project resources	513,000	513,000
Contribution to operational staff costs		1,450,000
Contribution from NHB reserve to General Reserves	0	300,000

- 8.3 The growth baseline remains at 0.4%, which sees a “top-slice” for growth which does not attract any NHB grant. Each year’s growth used to attract grant for 4 years but this is not expected to continue. The annual growth ‘increment’ in 2020/21 is for one year only. Table 5 below shows the current forecast within the current MTFP. We have assumed that the legacy payments will continue for the financial years 2021/22 and 2022/23 though it should be noted that these payment are not guaranteed and could be removed in future funding settlements.

Table 5 – New Homes Bonus Grant Forecast

	2019/20 £k	2020/21 £k	2021/22 £k	2022/23 £k	2023/24 £k	2024/25 £k
2016/17	841					
2017/18	1,258	1,258				
2018/19	858	858	858			
2019/20	851	851	851	851		
2020/21		286	0	0	0	
Total	3,808	3,253	1,709	851	0	0

- 8.4 The Government has confirmed its intent to consult on the future of the housing incentive in the Spring 2020. This will include moving to a new, more targeted approach that rewards local authorities where they are ambitious in delivering the homes needed.

9 Council Tax

- 9.1 The Finance Settlement confirmed that Shire Districts are able to increase council tax by the greater of 1.99% or £5 (on a Band D) in 2020/21 without the need for a referendum.
- 9.2 Executive has recommended the option to increase Band D Council Tax to £162.88 which equates to the £5 annual increase on the current SWT rate of £157.88, and this is reflected in the proposed budget for 2020/21. The SWT total Band D tax rate including £1.75 for Somerset Rivers Authority will be £164.63 per year or £3.16 per week. This represents an increase of 3.17%.

- 9.3 The approved Tax Base for 2020/21 is 56,449.87 Band D Equivalents, a decrease of 172.9 (0.31%) compared to the 2019/20 tax base. The main reasons the tax base has reduced is that housing growth in the previous year was over-estimated and eligible claims for Council Tax Support discounts has increased. The budget estimates for Council Tax income for SWT is therefore $56,449.87 \times \text{£}162.88 = \text{£}9,194,555$. This represents a total increase of $\text{£}254,950$ compared to the previous year. The budget estimates are calculated as follows.

	£
Council Tax Income Budget 2019/20	8,939,605
Decrease due to change in Tax Base (Band D equivalents)	-27,299
Increase due to proposed increase in Tax Rate	282,249
Council Tax Income Estimate 2020/21	<u>9,194,555</u>
Amount raised for Somerset Rivers Authority (see below)	98,787
Overall Total SWTC Council Tax Precept	<u>9,293,342</u>

10 Somerset Rivers Authority

- 10.1 The Somerset Rivers Authority (SRA) remains unable to raise their own precept and it is therefore proposed to follow the same arrangements as previous years. For 2020/21 it is proposed that the Band D amount will remain at $\text{£}1.75$ and this will raise $\text{£}98,787$ in funding for the SRA from the Council in 2020/21.

11 Special Expenses/Unparished Area Budget

- 11.1 From 2020/21 the Charter Trustees are required to precept directly for mayoralty and related civic costs plus their own governance/admin costs. The Executive also wishes to maintain an element of special expenses for the unparished area related to local service costs that a town/parish might provide if in existence but is beyond the scope of the Charter Trustees.
- 11.2 The Council's tax rate baseline has been adjusted for mayoralty costs that were funded through the special expenses raised by SWT in 2019/20 – this has been confirmed in the Final Settlement.
- 11.3 The adjustment impacts on the calculation of tax increases and any potential referendum if the overall tax rate for SWT increases by more than $\text{£}5$. It is therefore proposed to set the Band D special expenses rate at the adjusted value. There is no such restriction on any increase or decrease in the tax rate set by the Charter Trustees, but they may only precept for costs specific to the Mayoralty, related civic functions and their own governance and administration.
- 11.4 For 2020/21, the Tax Base for the unparished are is 15,308.18 Band D equivalents.
- 11.5 The Chartered Trustees set their budget for 2020/21 on 23rd January 2020. For information, their proposed budget is $\text{£}51,140$ which works out as a precept of $\text{£}3.34$ per band D equivalent in the unparished area.

- 11.6 The total Special Expenses proposed to be raised by SWT for the unparished area, but not related to the Charter Trustees, is £29,240. This results in a Band D rate of £1.91 i.e. no increase on the adjusted rate following the transfer of mayoralty costs.
- 11.7 The total proposed charges per Band D equivalent to unparished households, for special expenses raised by the Council and the separate Charter Trustees precept, is therefore £5.25:

SWT Special expenses	£1.91
Chartered Trustees Precept	<u>£3.34</u>
Total	<u>£5.25</u>

- 11.8 This is an increase of £2.23 (74%) compared to the 2019/20 SWT special expenses charge of £3.02 per band D equivalent.

12 2020/21 Draft Budget Summary

- 12.1 The following tables provides a summary of the Budget position for 2020/21.

Table 6 – General Fund Draft Budget Summary

	2019/20 £	2020/21 £
Total Spending on Services	14,752,279	17,229,828
Somerset Rivers Authority Contribution	99,090	98,787
Revenue Contribution to Capital	375,000	15,000
Capital Debt Repayment Provision (MRP)	455,010	505,010
Interest Costs	168,530	214,640
Interest Income	-642,000	-875,750
Special Expenses	46,399	29,240
Transfers to Earmarked Reserves	5,923,781	3,534,525
Transfer to Economic Growth and Prosperity Fund	1,200,000	0
Transfer to General Reserves	0	300,000
SWTC Net Expenditure	22,378,089	21,051,280
Parish Precepts	2,072,282	2,446,428
Total Expenditure Including Town/Parish Precepts	24,450,371	23,497,708
Retained Business Rates (including pool and pilot 2019/20)	-6,528,746	-6,220,597
Somerset BRR Pilot	-1,200,000	0
Share of Levy Surplus	-59,037	0
Revenue Support Grant	-6,340	-6,444
Rural Services Delivery Grant	-241,506	-241,506
New Homes Bonus	-3,809,150	-3,253,289
Surplus(-)/Deficit on Collection Fund – Council Tax	-116,311	63,877
Surplus(-)/Deficit on Collection Fund – Business Rates	-1,331,905	-2,070,739
Demand on Collection Fund – Parishes and SER	-2,118,681	-2,475,668
Total Council Tax Raised by Council	9,038,695	9,293,342
Divided by Council Tax Base	56,622.8	56,449.87
Council Tax Band D – SWTC Services	157.88	162.88
Council Tax Band D – Somerset Rivers Authority	1.75	1.75
Council Tax Band D – SWTC including SRA	159.63	164.63
Cost per week per Band D equivalent	3.05	3.16

12.2 The table below shows the movement in spending and funding between 2019/20 and 2020/21:-

Table 7 – Summary of Budget Changes in 2020/21

	£k	£k
Net Expenditure Base Budget 2019/20		24,450
Inflation costs	614	
Pension contributions increase	45	
Remove one-off items from 2019/20 Budget	-884	
Leisure Contract savings	-302	
Other Service Changes	691	
Homelessness	155	
Staffing Costs	2,450	
Asset Management	200	
Park and Ride	230	
Environment Strategy Development	75	
Local Plan	82	
Additional one-off Contribution to Citizens Advice	33	
Harbour Dredging	43	
Clean Sweep	40	
Increased IT Costs	148	
Change Programme	408	
Contingency	50	
Commercial Investment Income	-840	
Fees and Charges – Car Parks	-500	
Commercialism and Services Income	-60	
Procurement Savings	-200	
Reduction in Revenue Contribution to Capital	-360	
Financing Costs (net income and repayment of debt)	-138	
Reduction in Unparished Area Precept	-17	
Increase in Parish Precepts	374	
Subtotal costs		2,337
Remove One-off Contribution to Economic Growth and Prosperity Fund (75% Pilot gain)	-1,200	
Transfer to Business Rates Smoothing Reserve	2,034	
Reduction in NHB contribution to reserves	-1,986	
Remove previous year transfers to reserves	-2,834	
Contribution to Investment Risk Reserve	400	
Contribution to General Reserves	300	
Other Reserve Adjustments	-3	
Subtotal Reserve movement		-3,289
Net Expenditure Base Budget 2019/20		23,498

	£'000	£'000
Total Funding 2019/20		-24,450
Increase in RSG	0	
Decreased Retained Business Rates	308	
Reduction in Somerset Rates Pooling Gain	1,200	
Reduction in Levy Surplus	59	
Reduction in NHB	556	
Increased funding from Council Tax	-255	
Reduction in Unparished Area Precept	17	
Increase in Parish Precepts	-374	
Collection Fund	-559	
Subtotal - change in funding		952
Total Funding 2020/21		-23,498

12.3 Below is a short description for each bid:

- a) **Inflation Costs:** This includes inflation for staffing costs, major contract and utilities.
- b) **Pension Contributions:** The last tri-annual review of the pension fund includes an increase to the contribution towards the pension deficit. This will be reviewed when the results of the current review are published – expected imminently.
- c) **Remove one-off items from 2019/20 Budget:** The 2019/20 included one-off items which need to be removed for 2020/21.
- d) **Leisure Contract:** Saving from the new leisure services contract which commenced during 2019/20.
- e) **Other Services Changes:** Various changes to service budget following a review of 2019/20 budgets versus spend.
- f) **Homelessness:** The cost of Bed and Breakfast expenditure is forecast to exceed the budget in 2019/20. Currently this is expected to continue and therefore the increase needs to be built into future budgets. Officers are investigating options to mitigate the increase in the budget and a more detailed explanation is included within the Financial Monitoring report presented to Executive on 22 January 2020.
- g) **Staffing Budget:** As reported to Full Council on the 3 December 2019, the Council's leadership team identified ongoing financial pressures in order to protect service standards and maintain capacity whilst completing the safe delivery of expected service process efficiencies and greater customer access to self-service. The Council is requested to support a continuation of additional staff capacity for a longer period (12-18 months) to ensure services continue

and standards are maintained during a longer transition period. A cost reduction is required in future years as the Change Programme drives forward to deliver the service process efficiencies and demand management benefits anticipated.

- h) **Asset Management:** Following a review of assets additional funding is required, for reactive work needed, to maintain the Council's assets.
- i) **Park and Ride:** Proposed funding to maintain the Park and Ride (a separate report was considered by the Executive on 18 December 2019). The MTFP includes a forecast for this cost continuing on an ongoing basis for financial planning purposes, however formal approval is sought at this stage for 2020/21 budget only.
- j) **Environment Strategy Development:** To enable the Council to progress its climate and environmental commitments whilst the strategy is being progressed, this budget allocation provides additional capacity to deliver early progress on strategy development and development of plans and business cases for further consideration. This stand-alone allocation does not represent the entirety of the Council's investment in services and projects that seek to further the Council's environmental objectives.
- k) **Local Plan:** To enable the Local Plan work to be undertaken (a separate report was considered by the Executive on 20 November 2019).
- l) **Citizens Advice Bureau (CAB) - further contribution:** A one-off additional contribution for 2020/21 only (a separate report with more detail was presented to the Executive on 28 January 2020).
- m) **Dredging – outer harbour at Watchet:** The current budget is £7k per annum based on the legacy budget position for West Somerset Council. The increase to £50k would allow for two dredges next year and then one dredge per annum thereafter, when the base budget is proposed to reduce to £25k. In future the ambition is to increase the ongoing budget to £50k if affordable.
- n) **Clean Sweep:** To enable a regular “spring clean” of the larger towns within the district.
- o) **Increased IT Costs:** This includes increased costs for telephony and essential network support required.
- p) **Change Programme:** £85k relates to the ongoing support and maintenance for Microsoft 365 licences and £323k one-off costs for the projects to upgrade and improvement of the finance system and to implement Microsoft 365.
- q) **Contingency:** A small contingency of £50k is included, pending finalisation of

the budget plan for 2020/21 and for in-year unforeseen costs.

- r) **Commercial Investment Income:** The Council approved a new commercial investment strategy after considering the **confidential** report to the Full Council meeting on 17 December 2019.
- s) **Fees and Charges – Car Parking:** A separate report detailing the changes was presented to Executive on 10 February 2020.
- t) **Commercialism and Services Income:** A target set for increase income from other fees and charges and/or other service income.
- u) **Procurement Savings:** The agreed financial strategy set a target for procurement savings and within 2020/21 the majority of this will be met from the recent procurement of a new Insurance contract for the Council.
- v) **Reduction in Revenue Contribution to Capital:** The revenue budget includes a contribution to the Capital Programme for recurring capital spend. This has been reduced for 2020/21 and 2021/22 and other sources of financing (capital receipts and borrowing) sought for the relevant capital spend.
- w) **Financing Costs (net income and repayment of debt):** This is the net change in treasury investment income the cost of repayment of debt.
- x) **Reduction in Unparished Area Precept:** See section 11 of this report.
- y) **Reserve Movements:** These include contributions to and from both earmarked and general reserves.

13 Medium Term Financial Plan (MTFP) Summary

- 13.1 The current MTFP forecast is summarised below, reflecting the proposed budget for 2020/21 and the updates described in this report.

Table 8 - Draft MTFP Summary 2019/20 to 2024/25

	2019/20 £	2020/21 £	2021/22 £	2022/23 £	2023/24 £	2024/25 £
Services Costs	14,752,279	17,229,828	15,416,966	14,951,256	15,521,686	16,218,479
Net Financing Costs	356,540	-141,100	11,260	508,370	291,480	284,590
SRA Contribution	99,090	98,787	99,775	100,773	101,780	102,798
Special Expenses	46,399	29,240	0	0	0	0
Earmarked Reserves-Growth	3,089,150	2,853,289	1,509,342	851,411	0	0
Earmarked Reserves-Other	2,834,631	681,236	-1,000,000	0	0	0
Economic Growth and Prosperity	1,200,000	0	0	0	0	0
General Reserves	0	300,000	0	0	0	0
Net Expenditure	22,378,089	21,051,280	16,037,343	16,411,810	15,914,946	16,605,867
Retained Business Rates	-6,528,746	-6,220,597	-3,989,206	-4,067,579	-4,145,952	-4,224,325
Business Rates prior year surplus/deficit	-1,331,905	-2,070,739	0	0	0	0
Somerset BRR Pilot	-1,200,000	0	0	0	0	0
BRR Levy Account Surplus	-59,037	0	0	0	0	0
Revenue Support Grant	-6,340	-6,444	0	0	0	0
Rural Services Delivery Grant	-241,506	-241,506	-241,506	-241,506	-241,506	-241,506
New Homes Bonus	-3,809,150	-3,253,289	-1,709,342	-851,411	0	0
Council Tax	-8,939,605	-9,194,555	-9,472,938	-9,759,992	-10,055,329	-10,359,716
Council Tax–SRA	-99,090	-98,787	-99,775	-100,773	-101,780	-102,798
Council Tax–Special Expenses	-46,399	-29,240	0	0	0	0
Council Tax prior year surplus/deficit	-116,311	63,877	0	0	0	0
Net Funding	-22,378,089	-21,051,280	-15,512,767	-15,021,261	-14,544,567	-14,928,345
Budget Gap	0	0	524,576	1,390,549	1,370,379	1,677,522
Gap – Change on Previous Year	0	0	524,576	865,973	-20,170	307,143

Note: The 2019/20 figures in this table relate to the Original Budget approved in February 2019 and do not reflect in-year approved budget changes.

14 Fees and Charges

14.1 The Council's Constitution delegates the approval of Fees and Charges (with the exception of Car Parks) to the S151 Officer. The S151 Officer plans to approve delegated fees and charges before this Full Council meeting, in line with the agreed strategy and in consultation with the Corporate Resources Portfolio Holder. Fees and charges are set on the principles of full cost recovery where appropriate or an inflationary increase as expected within the financial strategy approved by the Executive. An estimate of the impact on income, an increase of £60,000 overall, is included in the proposed budget.

- 14.2 A separate report on the proposed changes to Car Parking Fees is on the agenda and the proposals include an increase in income of £500k.

15 General Reserves

- 15.1 The current reserves position is shown below. Recent forecast outturn projections for the 2019/20 budget predict an overspend of £36,000. In addition it has been approved that £65,000 of General Reserves is used to fund climate change costs (£15k) and Economic Development (£50k) in 2019/20. The table below therefore gives a provisional forecast of the reserves position at the start of the next financial year at £2.756m.
- 15.2 The level of reserves are projected to be below the recommended Operational minimum level. Given the future funding risks it is strongly advised to maintain reserves above the minimum and therefore it is recommended to transfer £300k from the NHB reserve into General Reserves during 2020/21.

Table 9 – General Reserves Balance

	£k
Balance Brought Forward 1 April 2019	2,857
2019/20 Projected Outturn Overspend	-36
2019/20 Approved transfer to date	-65
Projected Balance 31 March 2019	2,756
Budgeted transfer in 2020/21	300
Project Balance after transfer in 2020/21	3,056
Recommended Operational Minimum Balance	3,000
Projected Balance after transfer above recommended minimum	56
Recommended Financial Resilience Minimum Balance	2,400
Projected Balance above recommended minimum	656

16 Investment Risk Reserve

- 16.1 It is proposed to realign some earmarked reserve balances to reflect up to date financial risks.
- 16.2 Commercial Investment – The Council approved a new commercial investment strategy after considering the **confidential** report to the Full Council meeting on 17 December 2019. This will result in an increasing reliance on investment income to fund services in future. As with any investment this strategy is not risk-free, for example rental income may be susceptible to voids. It is proposed to build up financial resilience to mitigate this risk through a new Investment Risk Reserve, through a combination of reallocating existing reserves and setting aside a proportion of future investment income. The S151 Officer considers the risk in respect of business rates funding volatility is reducing (see below), which provides an opportunity to reallocate £3.5m from the BRR Smoothing Reserve to the Investment Risk Reserve in 2019/20. The MTFP includes plans to then allocate an

amount each year to this reserve, with the aim of accumulating a balance of £6m-£7m in the medium term.

Table 10 – Investment Risk Reserve

	Allocations to Reserve £k	Forecast Balance £k
2019/20 – Transfer from BRR Reserve	3,500	3,500
2020/21 – Budgeted set aside from investment income	400	3,900
2021/22 – Budgeted set aside from investment income	520	4,420
2022/23 – Budgeted set aside from investment income	420	4,840
2023/24 – Budgeted set aside from investment income	420	5,260
2024/25 – Budgeted set aside from investment income	420	5,680

- 16.3 Business Rates Smoothing Reserve – This Reserve currently holds a balance of £6.4m (April 2019). The reserve provides funding to mitigate risk of fluctuations in funding levels and offset accounting timing differences. With the Business Rates Retention budget estimates reducing to the Baseline in 2021/22 within the MTFP the assessment of the S151 Officer is that the impact of potential volatility on the budget is reduced. The risk is also considered to have reduced following the Court judgement finding against NHS Foundation Trusts claim for mandatory 80% charitable relief on their business rates (although the claimant may still appeal). On this basis it is considered prudent to reallocate £3.5m from this reserve to the Investment Risk Reserve, whilst leaving a prudent balance to be reviewed once the future business rates retention funding arrangements have been clarified for 2021/22 onwards.

17 Earmarked Reserves

- 17.1 The table below shows the budgeted transfers to/from Earmarked Reserves.

Table 11 – Earmarked Reserve

	£k
Contribution to NHB Reserve from Current Year Allocation	2,853
Contribution from NHB Reserve	-1,750
Contribution to Investment Risk Reserve	400
Net Contribution to Business Rates Smoothing Reserve	2,034
Contribution to Other Earmarked Reserves	-3
	3,534

18 2020/21 General Fund Capital Programme

- 18.1 The current General Fund Capital Programme in 2019/20 includes approved projects totalling £56.7m and is shown in Appendix A.
- 18.2 Within the 2019/20 capital programme it is recommended that the £100k for M365

and £674k for Transformation already within the Capital Programme are transferred to fund the capital costs relating to the current change programme of £774k. At the time of writing a supplementary approval of £200k will be requested at Full Council on 27th January 2020 for the East Quay Wall.

- 18.3 The recommended General Fund Capital Programme for 2020/21 totals £12.02m. Table 12 table summarises the General Fund bids that have been presented by services for consideration.

Table 12 – 2020/21 Capital Bids

Scheme	2019/20 Cost £k	2020/21 Cost £k	Proposed Funding				
			RCCO £k	Grants/ CIL/S106 £k	Growth Reserve £k	Capital Receipts £k	Borrowing £k
Leisure Grants to Clubs and Parishes		15	15				
Vehicle Replacement		152				152	
Plant and Equipment		23				23	
New/Replacement Waste Containers		100				100	
Lifeline Equipment		25					25
Refresh of End User Devices		30					30
Members IT Equipment Replacement		4					4
Replacement Play Equipment		64					64
Wellington Sports Centre Air handling Units		253					253
East Quay Wall*	200	540					740
Change Programme: Microsoft 365 Migration/Finance Upgrade	774	0				327	447
Resources for Change Programme		360				360	
Disabled Facilities Grants(DFGs)		1,274		1,274			
Sub-Total	974	2,840	15	1,274	0	962	1,563
Major Transport Schemes		875			875		
Employment Site Enabling & Growth		300			300		
Taunton Flood Alleviation		2,500			2,500		
Growth Sub-Total	0	3,675	0	0	3,675	0	0
Cycle and Pedestrian Improvements		500		500			
Education Provision		3,500		3,500			
Public Transport Improvements		1,000		1,000			
Taunton Town Centre Regeneration		500		500			
CIL Sub-Total	0	5,500	0	5,500	0	0	0
Total	974	12,015	15	6,774	3,675	962	1,563

*Approval for this scheme sought Executive 22 January 2020 and Full Council 27 January 2020

- 18.4 Below is a short description for each scheme:

- a) **Leisure Grants to Clubs and Parishes:** These grant schemes allow us to award funds towards projects they are facilitating within their local communities. Voluntary Village Halls and Community Centre and Sports Clubs are awarded up to 33% of the project costs and Parish Councils are awarded up to 50% of the project costs.
- b) **Vehicle Replacement:** The cost of a rolling programme to replace vehicles

used by the locality champions.

- c) **Plant and Equipment:** To replace plant and equipment items of small capital value used by the locality champions.
- d) **New/Replacement Waste Containers:** To purchase new and replacement waste and recycling containers (bins and boxes) as part of the ongoing costs of the Somerset Waste Partnership.
- e) **Lifeline Equipment:** Lifeline units have a useful life of approximately 7 years, this is the cost to replacement the equipment on a rolling basis with approximately 1/7th of stock replaced per annum.
- f) **Refresh of End User Devices:** Annual refresh budget which plans for laptops and tablets to be replaced on a rolling five year basis and smart devices every three years.
- g) **Members IT Equipment Replacement:** An annual budget for replacement of IT equipment for members.
- h) **Replacement Play Equipment:** To maintain the Council owned playgrounds within the Somerset West and Taunton Council area.
- i) **Wellington Sports Centre Air Handling Units:** Responsibility of plant remains with SWT. The current plant is more than 40 years old and as part of the recent procurement for a new leisure operator SWT committed to replacing the equipment following a condition survey recommendation.
- j) **East Quay Wall:** Overall cost estimates are £740k, and approval is sought to allocate £200k in the 2019/20 budget as work is planned to commence before April 2020. A detailed report was presented to the Executive on 22 January 2020.
- k) **Change Programme Microsoft 365 Migration / Finance Upgrade:** Capital costs for the projects to upgrade and improve the finance system and to implement Microsoft 365.
- l) **Resources for Change Programme:** It is recommended to fund the project resources required for the Change Programme from flexible capital receipts.
- m) **Disabled Facilities Grants (DFGs):** Enabling people to remain in their own homes by having access to facilities in and around the home. The Council has a statutory duty to deliver the grants under the Housing Grants, Construction and Regeneration Act 1996. The Regulatory Reform (Housing Assistance) Order 2002, and the Housing Act 2004. Funding is passed through to SWTC by SCC from the Better Care Funding provided by Government.

n) **Growth Funded Projects:** See section 19 below

o) **CIL Funded Projects:** See section 20 below.

19 Funding the General Fund Capital Programme

19.1 Funding of capital investment by the Council can come from a variety of sources:

- Capital Receipts
- Grant Funding
- Capital Contributions (e.g. from another Local Authority / s.106 Funding, CIL)
- Revenue budgets/reserves (often referred as RCCO – Revenue Contributions to Capital Outlay)
- Borrowing

19.2 Table 12 above summarises the proposed funding of the Capital Programme for 2020/21.

Funding Sources Explained

19.3 Capital Receipts General: These come from the sale of the Council's assets. The Council also receives regular receipts from the sale of Council Houses (Right to Buys), and a proportion is retained by the General Fund.

19.4 Capital Receipts Housing (non-HRA): These are capital receipts received which are ring-fenced to be spent on affordable housing initiatives. The principle has been supported by Full Council that any future external funding received for affordable housing should be allocated to affordable housing projects and automatically added to the Capital Programme.

19.5 Grant Funding: The Council receives capital grant for Disabled Facilities Grant. This funding is now rolled into the Better Care Fund (BCF) and it is the responsibility of the commissioners of the fund – the Clinical Commissioning Group (CCG) and Somerset County Council – to decide how the money is allocated. The Council has representation on various groups to try and ensure our interests are protected.

19.6 Capital Contributions: This could take the form of capital contributions from other authorities or developers in the form of s.106 funding or Community Infrastructure Levy (CIL).

19.7 Revenue Funding (RCCO): The Council's draft budget includes an annual sum of to fund capital expenditure from General Fund revenue budgets which for 2020/21 this is £15k, if supported through the approval of the 2020/21 Capital Programme, would be affordable.

- 19.8 Borrowing: This would be in the form of taking out a loan either from the markets or through the PWLB which would incur interest costs chargeable to the revenue budget. The revenue implications of the proposed borrowing of £1.563m included in Table 11 above is included with the current MTFP estimates. There is also “internal borrowing” which is treated the same as external borrowing for funding purposes, but uses cash balances rather than taking out a physical loan.
- 19.9 Capital Reserve: The Council has an earmarked Capital Reserve holding revenue resources previously set aside to fund capital spending. We currently hold no unallocated capital reserves.

20 Capital Programme for Growth and Regeneration 2020/21

- 20.1 SWTC (and formerly TDBC) has previously approved the allocation of £16.6m of New Homes Bonus (NHB) funding over the five year period 2016/17 to 2020/21, to support its priorities relating to growth and regeneration. A number of spend categories were approved, as follows:
- Taunton Strategic Flood Alleviation
 - Major Transport Schemes
 - Town Centre Regeneration
 - Employment site enabling and promoting enterprise and innovation
 - Marketing, promotion and inward investment
 - Supporting urban extension delivery
 - Preparation of Local Development Orders
- 20.2 Given the uncertainty of future New Homes Bonus receipts the spend allocated to NHB has been reviewed and remains within the principles of spending in the report to the Executive dated 3 December 2015. This highlighted the fact that the profile of spending over the five year period was indicative and would be refreshed annually, to ensure that spending plans remained aligned with an evolving picture of external funding secured, opportunities for new funding and new growth priorities.
- 20.3 The period of the report has been extended to 2021/22 to show indicative spend and NHB grant receipts in that financial year.

Table 13 - Indicative Growth and Regeneration Spend Profile – Per NHB Forecast as at January 2020

	2016/17 Actual £k	2017/18 Actual £k	2018/19 Actual £k	2019/20 Forecast £k	2020/21 Indicative £k	2021/22 Indicative £k	Totals £k
Major transport schemes	0	0	857	0	2,375	925	4,157
Taunton Town Centre regeneration	14	161	1,888	2,487	288	0	4,838
Employment site enabling and innovation to promote Growth	0	16	48	625	100	0	789
Taunton Strategic Flood Alleviation	0	152	93	77	2,500	500	3,322
New Garden Communities	0	0	0	0	0	0	0
Marketing Promotion and Inward Investment	102	110	-14	0	0	0	198
Preparation of LDO's	59	0	0	0	0	0	59
Total expected investment	175	439	2,872	3,189	5,263	1,425	13,363

20.4 Within the revised £13.4m allocation, members will note that changes to the prior year profile are now proposed in some categories, namely:

- **Major Transport Schemes** – remains £4.1m due to the planned £1.5m contribution to the J25 improvement scheme in 2020/21 in line with the anticipated delivery of this project, Toneway Corridor Phase 1 (£1m), Rapid Bus Link (£500k) and indicative provision of £300k for other potential schemes).
- **Taunton Town Centre Regeneration** - overall allocation increased due to Firepool Infrastructure and Master planning costs (£1.1m)
- **Employment sites, enterprise and innovation** – Significant reduction (£3m) due to Nexus 25 Site enabling being removed from the spend profile. Retains £300k for Innovation Centres.
- **Taunton Strategic Flood Alleviation** - The allocation towards the Flood Alleviation project has been reduced by reallocation of £2m for this scheme to be funded by CIL.

20.5 The affordability of the above capital investment relies on future NHB receipts as forecast in this report (section 8.3, Table 5 above). Further funding pressure will be placed on this programme if NHB is not forthcoming in 2021/22 and 2022/23, resulting in the need to reduce commitments or fund through other capital resources.

21 Community Infrastructure Levy (CIL)

21.1 The former TDBC introduced a Community Infrastructure Levy (CIL) on 1 April 2014. CIL is a tariff charged 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.

- 21.2 SWTC Shadow Council approved future CIL allocations for 2019/20 to 2022/23 on 21 February 2019. The report detailed proposed CIL allocations of £15.5m for the period 2019/20-2022/23 for member approval. The CIL allocations are to support current funding bids (HIF and High Street Fund) to deliver key infrastructure projects for the Taunton Garden Town and are in addition to the £16.6m (£13.4m indicative based on available resources to 2021/22) New Homes Bonus already planned towards delivering the Council's growth agenda. The CIL allocations have been rolled forward from 2019/20 to ensure these remain available to support current funding bids and the overall total forecast CIL allocations remain as £15.5m.
- 21.3 As at 22nd January 2020 the CIL strategic pot holds approximately £4.84m in CIL receipts. The proposed CIL allocations for the period 2020/21 to 2024/25 are set out in the table below, including amounts to be rolled forward from the 2019/20 approval.

Table 14: CIL allocations for the period 2020/21-2024/25

Taunton Garden Town CIL projects	2020/21 £k	2021/22 £k	2022/23 £k	2023/24 £k	2024/25 £k	Proposed Total CIL allocations for 2020-2025 £k
Cycle and pedestrian improvements	500	0	0	1,000	0	1,500
Education provision	3,500	1,000	2,500	0	0	7,000
Public transport improvements	0	1,000	1,000	0	0	2,000
Taunton Town Centre Regeneration	0	1,000	500	0	0	1,500
Surface Water and Flood Risk Mitigation	0	2,000	0	1,000	0	3,000
Community Development	0	0	0	500	0	500
Total allocations	4,000	5,000	4,000	2,500	0	15,500

22 Robustness of Budget Estimates and Adequacy of Reserves

- 22.1 Under Section 25 of the Local Government Act 2003 the S151 officer is required to report to Council on the robustness of the estimates made for the purpose of calculations of the budget and the adequacy of the proposed financial reserves.
- 22.2 The Draft Budget for 2020/21 has been prepared on the basis of continuing the current year budget levels where appropriate, and has allowed for best estimates of expenditure and income including assumptions for increases and decreases due to trends and future influences such as inflation. It reflects commitments necessary to maintain service levels, and with demand-led budgets this inevitably entails a degree of judgement.

- 22.3 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
- 22.4 These examinations of the budgets have led to refinements and provide considerable assurance about the robustness of the estimates.
- 22.5 It is recognised that the formation of the single new council from April 2019, the “knitting together” of service budgets from the two predecessor councils, and changes to the organisation and staffing during the last 12-18 months, has meant frequent and dynamic changes to the Council’s financial information and cost estimates. The changes has led to new budget holders and finance officers learning and building knowledge across new / different areas of the Council’s business. Responsibilities for budgets has changed more frequently than would be seen in a mature and stable business and workforce, which brings a degree of additional financial risk.
- 22.6 During 2019/20 a lot of focus has been on delivering stability and improvement following a significant period of disruption, and rebuilding knowledge of managers’ understanding of their costs and income. It has been evident during this phase that some budgets and costs need to be more closely aligned in some areas. In addition, with the formation of the Council’s new leadership team, finance officers are in the process of reorganising budgets into the new directorates. This is an important step, with resources focussed on implementing these changes ready for the start of the new financial year to enable strong and efficient financial control to operate from the outset.
- 22.7 The budget estimates and Medium Term Financial Plan include significant pressures and requests to increase spending in some areas. The proposed budget includes the continuation of transitional staffing costs for the next 12-15 months as process efficiencies, increased customer self-service, channel shift and reduced failure demand are fully delivered. It also reflects the direction of the financial strategy which, as well as reducing costs through operational efficiencies, seeks to grow the Council’s income through commercial investment, treasury investment, and increased commercialisation of services. This is necessary to replace the major reduction in grant funding from central Government and avoid the need for major cuts to local services. Placing increasing reliance on income through investment and directly paid-for services results in a shift in the financial risks of the Council.
- 22.8 From my perspective as your S151 Officer, the budget proposal shared by Executive is based on the most accurate information available and therefore

presents an accurate reflection of the Council's financial position. I am also reassured by the relatively healthy reserves position of the Council, which provides a good level financial resilience in the medium term. Given the financial risks and uncertainties faced it is very important that contingencies and reserve levels are maintained.

- 22.9 It is vitally important that the Council's leadership ensures cost efficiencies and income strategies are prioritised and delivered to ensure the Council remains financially resilient and service objectives remain affordable. A further priority for the S151 Officer and the finance function during 2020/21 will be improving financial control, monitoring and reporting arrangements at both a strategic and operational level. The remodelling of the budgets to the new directorate structure will see greater granularity being introduced to our financial information, which will enable more targeted financial information, and better understanding and control of costs and income.

Risk and Uncertainty

- 22.10 There are key areas of uncertainty beyond 2020/21, and other potential risks in the shorter term that I have considered in commenting on the proposed budget. These are explained in further detail below and include:

- The budget and MTFP assumes relative stability in business rates funding, which is known to be volatile – a large cost of appeals or other reductions could conceivably reduce funding to the Baseline or Safety Net. This applies at the county-wide Business Rates Pool level such that volatility in either district could impact on funding available.
- The budget relies on significant cost reductions being fully achieved within the next 12-18 months, and investment income growth to be delivered at pace whilst managing risk through the quality of investment undertaken.
- There is significant future uncertainty in terms of Government funding beyond 2020/21 with the unknown impacts of the 2020 Spending Review, the Fair Funding Review, business rates baseline and tariff resets, redesign of the business rates retention system and roll out of 75% Retention, and the review of New Homes Bonus.

- 22.11 Other key risks to be aware of are:

- **Business Rates:** The Council is exposed to financial risk in its business rates funding estimates. Business Rates Retention (BRR) funding is based on the estimates completed 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 Smoothing Reserve.

- **Business Rates Pooling and 75% BRR Pilot:** The County and four Districts in Somerset form the Somerset Business Rates Pool, which is a pilot area for 75% Retention in 2019/20 for one year only. The Pool will return to operating under the 50% Retention system in 2020/21. Pooling seeks to reduce the levy paid to Government on growth in business rates income above the funding baseline, and 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, although the safety is more beneficial under the 75% scheme (95% of baseline as opposed to 92.5%). In mitigation the Pool plans to cover individual authority safety net costs from pooling gains before any dividend is issued however there is no guarantee the gains will be sufficient to cover large scale losses. The risk is considered to be low in this respect, but will be carefully monitored. The proposed budget for 2020/21 includes a reasonable estimate of the pooling gain, which is proposed to initially be set aside in the Smoothing Reserve but may be available to support future financial sustainability measures.
- **Reserves:** The assessment of minimum level of reserves was updated when the current financial strategy was approved in September 2019. The Council now measures reserves against two benchmarks: a financial resilience minimum balance of £2.4m and an operating minimum balance of £3m. General Reserves are forecast to be £2.7m by the end of 2019/20, and provision is included in the 2020/21 budget to increase this by £300k with a view to starting next financial year in line with the operating target.
- **Economy and Brexit:** A downturn in the economy for example through Brexit would impact on our key income streams including business rates. A 5% reduction in development control, car parking, and building control alone would result in a loss in excess of £300k per annum.
- **Council Tax Reduction Scheme:** Members have approved the scheme for 2020/21 with no changes. There has been a significant increase in caseload and awarded eligible discounts during 2019/20, which is reflected in the 2020/21 council tax base. We will continue to monitor the financial impact on the Council. The key risk on this item is further growth impacting on total council tax income available to fund other services.
- **Housing Benefits / Subsidy:** Subsidy budgets are very difficult to estimate due to the fluctuating volume of claims received and the different levels of subsidy payable. Adjustments reducing the grant subsidy can also be made for local authority error. The total benefit subsidy budget is approximately £40m – and relatively small percentage fluctuations in this budget can have a big impact

on the budget of the Council. Systems are in place to ensure this is monitored on a monthly basis. In addition, assumptions on the level of subsidy payable on local authority overpayments are at a prudent level.

- **New Homes Bonus (NHB):** The slowdown in housing growth in the year to October 2019 has led to a reduction in total NHB grant awarded in 2020/21. The Government has confirmed the 2020/21 grant awarded includes a continuation of legacy payments from the previous 3 years. Ministers have confirmed their intention to review the NHB scheme during 2020, and it is prudent to plan for this grant disappearing and funds being redistributed in future. Within the grant calculation, the increment for 2020/21 will be for one year only and the forecast legacy payments in 2021/22 and 2022/23 are subject to confirmation in future Finance Settlements.

Government Funding

22.12 The grant funding from Government in 2020/21 is effectively a one year roll-forward of the 2019/20 position, with RSG maintained at £6k and RSDG maintained at £241k (subject to confirmation in the final Finance Settlement).

22.13 The Government continue to develop their policy on local government finance. 2020 should be a pivotal year in providing some clarity on the medium term funding position for local government and district councils' share of available core funding. The implementation of 75% Business Rates Retention has been deferred to 2021/22, and it is currently assumed the impact will be neutral at the point of implementation. The timing of any future move to 100% retention of business rates is unknown. As stated above the distribution of funding from 2021/22 onwards will be determined by a number of factors: the 2020 Spending Review, Fair Funding Review and Business Rates Retention reform, and review of New Homes Bonus.

Council Tax

22.14 On council tax, the Government have once again set the upper limit at a £5 annual increase for district councils on a Band D property, and have not imposed an upper limit on town/parish council precept increases. The S151 officer's assumption is that 2020/21 will be final year that the flexibility of applying a £5 increase, with new principles likely to establish following the reset of 'core spending power' following the changes to government funding identified in 21.13 above. Council tax is a relatively stable and predictable funding source, and provides over 50% of the Councils core funding towards general services.

Capital Programme Funding

22.15 The Executive's draft budget proposals for the General Fund capital programme are included in this report. Capital expenditure estimates on council housing provision is included separately within the Housing Revenue Account budget report. To support the spending plans, councils are required to publish and monitor

a set of Prudential Indicators. These are listed in full in the Capital, Investment and Treasury Strategies report which is also shared separately for approval.

22.16 The Executive's draft capital programmes for the General Fund and HRA follow the principles of the Prudential Code, and I am satisfied that the treasury implications are clear and within affordable limits.

22.17 The Capital Strategy and programmes demonstrate an increase in capital spending in the short to medium term in the General Fund to meet both service priorities and increased investment in assets for income generation purposes; and long term in the HRA to meet in particular the social housing regeneration and delivery objectives in the updated HRA 30-Year Business Plan. The programmes will rely on long term investment supported by borrowing, and an important feature of financial planning is that the costs of servicing this debt remain affordable. The increase in general fund borrowing is largely related to regeneration and investment schemes that will more than cover the costs of borrowing through income generated, and HRA investment remains affordable based on forecast housing rent income.

Inflation and Other Key Budget Assumptions

22.18 I have reviewed the budget proposals and assumptions and comment as follows:

Inflation: inflation assumptions appear reasonable with general inflation projected at 2% in line with longer term government targets. An appropriate level of inflation allowance has also been reflected in the budget estimates for pay, pensions and core service contracts. Services will be required to absorb variations in costs compared to budget, with any emerging significant issues to be highlighted through budget monitoring reports.

Service Income: income projections are based on realistic assumptions on usage, and the most recent Government guidance on fee levels when appropriate. They also take into account historic trends and current year projections.

Growth in service requirements: the MTFP identifies service growth areas such as waste collection and recycling. Detailed estimates are firmed up by discussions with managers during the budget process.

Revenue Implications of Capital: the MTFP identifies and incorporates changes to the base budget as a result of the capital programme.

Economic assumptions: investment interest assumptions are based on independent economic forecasts and include the impact of treasury management decisions made in earlier years, as well as projected benefits from recent changes in the range of investments used for cash balances.

Council Tax: growth assumptions in the council tax base have been forecast at 1% in 2020/21 and for each year thereafter on a prudent estimate of the net effect of

local growth, council tax support and other discounts. Council tax collection rates remain strong, providing confidence the income will be received as planned.

Sustainability: the proposed budget takes into account the future financial uncertainty faced by the Council. The Council can set a balanced budget for 2020/21 and has healthy reserves. Not all costs are fixed, providing management with some flexibility to control spending in year if needed.

Delivery of Savings

- 22.19 The MTFP has built in significant savings targets which carries some risk, in particular on timing of sustainable efficiency savings and achieving growth in commercial investment income at pace. I am comfortable that appropriate mitigations are in place through reserves and flexibility in financing arrangements / costs.
- 22.20 Delivery of savings will be closely monitored by the S151 Officer and Directors, and reported regularly to the Senior Management Team. Any significant variations will be reported to Members with mitigating actions / options.

23 Adequacy of Reserves

- 23.1 With the existing statutory and regulatory framework, it is my responsibility as S151 Officer to advise the Council about the adequacy of the Council's reserves position.
- 23.2 All reserves are reviewed at least annually and my formal opinion updated during the budget setting process each year. For the General Fund, the minimum level of reserves for prudent resilience to financial risks has been set at £2.4m, with an operating target for reserves set at £3m to provide some operating flexibility if needed. For the HRA these are set at £1.8m and £2.4m respectively.
- 23.3 A detailed review of earmarked reserves will be undertaken with Directors as part of the financial year end process. I am currently satisfied that reserves are appropriate however some balances are now long-standing and will be reviewed to ensure they are still required for their original purpose.
- 23.4 My opinion is given in the knowledge that known risks (strategic, operational and financial) are managed and mitigated appropriately in line with the Council's policies and strategies.

General Fund Reserve

- 23.5 The forecast General Reserves balance at the end of 2019/20 is £2.7m, and therefore remains above the acceptable level and is therefore adequate. Whilst this is above the minimum balance required, the Executive's draft budget for 2020/21 includes a contribution to General Reserves of £0.3m, with the aim of returning the balance at least to the operating target level. This is prudent in view of financial risks in the next 1-2 years.

- 23.6 There are no further planned allocations to or from general reserves within the MTFP, in line with the principle that the Council plans to balance the budget each year from annual income. This will be reviewed annually as part of the budget planning process.

Housing Revenue Account Reserve

- 23.7 The HRA working balance reserve is forecast to be £3.1m at the beginning of 2020/21. The HRA MTFP and Business Plan are built on the principle that reserves will remain and the operating minimum each year, with opportunity to apply in year surpluses to reducing capital borrowing costs. The balance is forecast to remain in line with these financial strategy and business plan expectations.

Earmarked Reserves

- 23.8 The current (at December 2019) balance of General Fund earmarked reserves is £23m, and for the HRA the balance is £2.5m. These balances provide a healthy financial resilience, and contain funds to meet future planned expenditure and contingencies for some specific financial risks.
- 23.9 With reduced reliance on business rates growth in the MTFP and the prudent assumption that retained business rates funding will fall to the Baseline following the Reset in 2021/22, there is an opportunity to reduce the balance held in the BRR Smoothing Reserve. Alongside this, the planned increase in investment for income generation purposes brings increasing reliance on this potentially volatile source of funding. The planned reallocation of £3.5m to a new Investment Risk Reserve provides immediate resilience to income volatility and/or delay in achieving the income targets.
- 23.10 The proposed budget over the next two years relies on an allocation of £2.75m from the New Homes Bonus reserve. This is a temporary injection of funding aligned to temporary costs, and is therefore a sustainable strategy. However, this does result in less cash funding for the Council's capital programme, which means capital costs will need to either be reduced or be funded from other sources such as future capital receipts or borrowing.

24 Conclusions – Statement of the S151 Officer

- 24.1 Based on the evidence I have reviewed I am able to confirm that I believe the Council's draft budget proposals for 2020/21 to be sufficiently robust, and the Council's reserves to be adequate.
- 24.2 Whilst the forecast funding position beyond 2020/21 is uncertain, estimates are considered to be prudent based on current information. Key influences will be the Government's Spending Review in 2020 and future funding settlements, the Fair Funding Review, the reset of the business rates baseline and tariff, the redesign of the business rates retention system and the future of New Homes Bonus. The financial strategy and MTFP will need to be reviewed and updated as new

information emerges over the next 12 months.

- 24.3 The budget for 2020/21 is balanced without the need to draw on general reserves, and with earmarked reserves used to fund temporary costs. Looking ahead, the MTFP relies on the full delivery of savings and income targets to close the funding gap, but still projects a funding shortfall / budget gap of £0.5m in 2021/22 rising to £1.7m by 2024/25. The Executive and Leadership team will need to drive forward the planned changes necessary to meet current financial plans, and also maintain a longer-term focus to ensure future objectives are affordable and the Council remains financially resilient.
- 24.4 Finally of course, Brexit also brings significant uncertainty at the time of writing this report. We will need to carefully monitor the impact of the exit from the EU on the national and local economy, and respond to any unplanned impact on local services and council finances.

25 Links to Corporate Aims / Priorities

- 25.1 It is important that Councillors recognise the financial position, challenges and risks faced by the Council and fully engage in the corporate and financial planning processes in order to determine an affordable and sustainable set of corporate aims and priorities. This should lead to the Council approving a sustainable final budget and MTFP in February 2020.

26 Legal Implications

- 26.1 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.

27 Environmental Impact Implications

- 27.1 None directly for the purposes of this report. The delivery of the Council's environmental objectives is embedded in many of the Council's revenue and capital budget proposals for both General Fund and Housing Revenue Account services. The General Fund budget included a proposed allocation of £75k which will provide some enabling funding to progress the Environment Strategy and potentially initiate some projects under the strategy.

28 Safeguarding and/or Community Safety Implications

- 28.1 None for the purposes of this report.

29 Equality and Diversity Implications

- 29.1 None for the purposes of this report.

30 Social Value Implications

30.1 None for the purposes of this report.

31 Partnership Implications

31.1 None for the purposes of this report. The Council budget incorporates costs and income related to the various partnership arrangements, and any changes in relevant forecasts and proposals will be reported for consideration as these emerge.

32 Health and Wellbeing Implications

32.1 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.

33 Asset Management Implications

33.1 The proposed budget includes an increase in the general assets maintenance budget to provide for planned and reactive maintenance across the asset base. Priorities will be determined in line with the Asset Management Plans in place.

34 Data Protection Implications

34.1 None for the purposes of this report.

35 Consultation Implications

35.1 None for the purposes of this report.

36 Scrutiny Comments / Recommendation(s)

36.1 Scrutiny supported the recommendations as written in the Scrutiny report.

36.2 The report was debated and the main areas of discussions were:

- Concerns on the spend within regards to Climate Change and suggested that more detail is required from the whole budget as to what the Council is spending in relation to this. Could the £75k be increased.
- The inequality between the level of precept between special expenses and other parished areas.
- Discussion over New Homes Bonus funding from previous years was considered
- Income through sales of assets was discussed, this had been less than forecasted

Democratic Path:
Scrutiny – 5 February 2020
Executive – 10 February 2020
Council – 19 February 2020

Reporting Frequency: Annually

List of Appendices

Appendix A	General Fund Capital Programme
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