



2021/22 Draft Budget and Medium Term Financial Plan Update

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Purpose of the Report

1. The purpose of this report is to provide an update for the 2021/22 Draft Budget and Medium Term Financial Plan estimates for the period 2021/22 to 2025/26, together with an update on the Capital Programme.

Forward Plan

2. This report appeared on the District Executive Forward Plan with an anticipated Committee date of February 2021, this January 2021 report is therefore a supplementary update following the announcements in the Provisional Settlement.

Public Interest

3. This report is an update on progress towards setting the Council's budget for the next financial year 2021/22 and the Council's longer term financial sustainability.

Recommendations

4. That the District Executive:
 - a. Notes the current estimates and next steps in respect of the Draft Budget for 2021/22 and the Medium Term Financial Plan.
 - b. Notes the current the Capital bids in Appendix A to be finalised for the February District Executive report.
 - c. Notes the changes to the budget estimates in respect of the initial pressures and savings included within the report (para 17). These will also be finalised in the February report.
 - d. Recommends that Full Council approves an increase in Council Tax by £5 in 2021/22 for a Band D property.

Background

5. The Financial Strategy and Medium Term Financial Plan estimates for the period 2021/22 to 2025/25 were originally approved and noted on 6 August 2020 and then updated on 3 December 2020.
6. Last year, the Ministry of Housing Communities & Local Government (MHCLG) issued a Technical Consultation on the 2020/21 Financial Settlement in October 2020 which provided additional information to inform assumptions within the Council's MTFP. This year, the Consultation paper has been produced alongside the Provisional Settlement. This means we were unsighted to the prospective contents of the Provisional Settlement before it arrived.
7. This report provides Members with a progress update on the preparation of draft estimates for 2021/22 and progress towards achieving a balanced budget over the medium term.

The Provisional Local Government Finance Settlement 2021/22

8. On 19 December 2020 we received the Provisional Settlement. This is very late in the Budget Setting process but we can confirm that our core assumptions had been correct. We were also pleased to see that an additional grant had been added to the core funding, the Lower Tier Services Grant. This new grant for 2021/22 is unringfenced – allocated to councils with responsibilities for services such as homelessness, planning, recycling, refuse collection and leisure.
9. Table 1 below shows the changes from the earlier assumptions we had for 2021/22 and those proposed in the Provisional Settlement.

Table 1 – Provisional Settlement updated estimates:

Funding Source	Pre-Settlement Assumption (£)	Provisional Settlement Allocation (£)	Difference (£)
Rural Services Delivery Grant	166,284	174,496	8,212
New Homes Bonus	899,981	1,171,010	271,029
Lower Tier Services Grant (New Grant)	0	156,176	156,176
	1,066,265	1,501,682	435,417

2021/22 Budget and MTFP Update

10. The last update presented to Members was at District Executive in December 2020 and we presented the following Budget position.

Table 2 - Medium Term Financial Plan (as previously reported at December 2020)

	2021/22 £'000	2022/23 £'000	2023/24 £'000	2024/25 £'000	2025/26 £'000
Total Budget Requirement	15,991	14,584	15,018	15,821	16,200
Total Funding	-15,416	-14,232	-14,581	-14,665	-15,156
Budget Gap (Cumulative)	575	352	437	1,155	1,045
Budget Gap Increase/Decrease(-) on Prior Year		-223	85	718	-111

11. A range of estimates have been updated since the December report was prepared, and are reflected in the up to date MTFP position set out below. It is important to emphasise that the budget estimates and medium term forecasts remain indicative at this stage, and further updates will be included in the final budget information presented for approval in February 2020.

Table 3a – Medium Term Financial Plan – Net Budget Requirement Estimates

	2021/22 £'000	2022/23 £'000	2023/24 £'000	2024/25 £'000	2025/26 £'000
Base Budget B/F	15,207	16,466	14,901	15,397	16,129
Incremental Changes:					
Employment Cost Inflation	819	336	436	352	TBC
Inflation allowance on contracts	174	179	180	180	180
Unavoidable budget pressures	315	200	200	200	200
Planned savings	-21	-90	-148	-59	0
Investment Income & Revenue effects of Capital Programme	-990	-1,100	58	59	TBC
Other	963	-1,090	-230	0	0
Total Budget Requirement	16,466	14,901	15,397	16,129	16,509

NB: The Total Budget Requirement is 'carried forward' as the Base Budget at the start of the following year, and adjusted for approved budget changes (e.g. funding for inflation is added to the base budget) to arrive at the Total Budget Requirement for each year.

Table 3b – Medium Term Financial Plan – Funding and Budget Gap Estimates

	2021/22 £'000	2022/23 £'000	2023/24 £'000	2024/25 £'000	2025/26 £'000
Total Budget Requirement (per Table above)	16,466	14,901	15,397	16,129	16,509
Funded By:					
Revenue Support Grant	0	327	327	327	327
Rural Services Delivery Grant	-175	-175	-175	-175	-175
New Homes Bonus Grant	-1,171	-441	0	0	0
Business Rates Retention	-5,654	-3,695	-3,773	-3,851	-3,976
Collection Fund Deficit - Business Rates	8,994	319	319	0	0



Council Tax - SSDC	-10,831	-11,275	-11,633	-12,004	-12,385
Less: Council Tax Paid to Somerset Rivers Authority (SRA)	113	115	117	118	120
Collection Fund Deficit - Council Tax	122	70	70	0	0
Sub-total: Funding	-8,601	-14,754	-14,748	-15,584	-16,088
Other Reserve Transfers					
MTFP Support Fund Reserve	521	41	-350	0	0
BRR Volatility Reserve	-8,994	0	0	0	0
Other Earmarked Reserves	608	300	300	300	300
General Reserves	0	0	0	0	0
Sub-total: Reserves	-7,865	341	-50	300	300
Total Funding	-16,466	-14,413	-14,798	-15,284	-15,788
Budget Gap / (-)Surplus	0	488	599	845	721
Budget Gap Increase on Prior Year		488	111	246	-124

12. As the updated MTFP estimates show, the progress in delivering the Council's agreed financial strategy continues to make a positive impact on the financial position. The estimates provided illustrate a balanced budget position for 2021/22 based on a number of assumptions.
13. It is important to note that the above position is not the final position. We are on track to set a balanced budget in 2021/22 and at the same time set aside funds in reserve to manage financial risks. Whilst we have made excellent progress to date, we still face a medium term deficit. The ongoing and increased success of the commercial strategy is pivotal in addressing this gap to enable the Council to maintain its ambition of protecting frontline services from the impact of funding reductions.
14. We are also mindful of the ongoing impact of the Covid-19 pandemic and our need to support our communities in the longer term. We propose to set aside funds to support our response and there will be some significant calls on our reserves as part of the ongoing recovery.

2021/22 Draft Budget Estimates - Main Changes to Date

15. The main financial planning assumptions underpinning the MTFP forecasts were set out in the report to District Executive in August and December. This includes explanations around costs pressures such as staff pay award, pension costs, etc. The majority of the assumptions are unchanged.
16. The changes included in the forecasts since December in respect of 2021/22 are summarised in the table below. This provides a reconciliation of the change from December to January estimates:

Table 4 – Budget Changes since December 2020

	2021/22 £'000	2021/22 £'000
Budget Gap Estimate – 3 December 2020		574.7
Pay adjustments including in year adjustments and incremental movement. Salary estimates based on 2%	391.8	
Removal of Fees and Charges fee increase target (1 year only)	75.0	
Removal of small contingency in “unavoidables” budget	8.8	
Sub-total: Changes to Budget Requirement		475.6
Removal of negative Revenue Support Grant (RSG) 21/22	-327.3	
Provisional CT estimates 4 Dec 2020	-233.2	
CT assumption £5	-96.3	
Remove change in BR Multiplier (will be compensated by *S31)	38.2	
BR Deficit spread from 21/22	8,419.4	
CT Fund Deficit	-156.7	
Transfer from BR Smoothing (S31 monies from 20/21)	-8,994.2	
Increase in Rural Services Delivery Grant	-8.2	
Lower Tier Services Grant (New in 2021/22)	-156.2	
New Covid Recovery Reserve	464.1	
Sub-total: Changes to Funding and Reserves		-1,050.4
Budget Gap Estimate – 18 December 2020		0

*S31 Grant compensates local authorities where Central Government have brought in temporary reliefs under section 47 of the Local Government Finance Act 1988.

The main changes are explained as follows:

- Pay and Pensions have been updated following completion of work on the detailed salaries estimates for 2021/22. Figures have been amended in relation to pensions which have seen an increase in the lump sum contribution, based on the triennial pension fund valuation confirmed in February 2020.
- It is proposed to remove the Fees and Charges annual increase target of £75k due to the impact of the pandemic. We will still increase charges in some areas in line with inflation but further increases will be suspended for one year.
- As anticipated, the Provisional Settlement confirmed that the negative (clawback) of Revenue Support Grant (RSG) would be funded centrally as with the previous years. We expect the ongoing negative RSG situation to be clarified in the Fair Funding Review.
- We have provided the preceptors estimates of our Council Tax taxbase and this has shown an unexpected growth bringing an additional £233k to the Council. These figures are provisional and based on November data so will be updated in the final iteration of the budget.
- The Provisional Settlement confirmed that shire districts are able to increase their Band D Council Tax by £5. This has been assumed in this budget forecast. The £5 increase is used in the Government’s Core Funding calculations.

- The business rates position for 2020/21 which impacts on 2021/22 is complex. This is described in more detail in sections 29 and 30.
 - The Lower Tier Services Grant is detailed in section 9. It is new for this year and seeks to mitigate some of the pressures we have funded this year. At this stage we are assuming this is for one year only.
 - As referenced in section 13, we are very aware that the effects of the pandemic, though primarily impacting 2020/21, will have long term consequences for the local economy and the need for the Council to support our community. With this in mind we are seeking to set aside sums, to ensure we can support our recovery plans and direct the funds to the most pressurised areas. We propose therefore to set up a Covid Recovery Reserve.
17. It is important to state at this stage that this reflects changes to draft budget estimates to date, and is not the final position. Final budget proposals will be reported to District Executive and Full Council in February 2021.

Unavoidable Pressures and Savings

18. The following table summarises the pressures and savings that are reflected in the current draft budget estimates. District Executive is requested to approve in principle the retention of these items within the draft budget for 2021/22, subject to approval of the final budget in February 2020.

Table 5 – Unavoidable Pressures for 2021/22

Unavoidable Pressures	2021/22 £'000	2021/22 £'000
Waste contract allowance for growth in demand (new properties)	21.3	
Increase in Careline contract	99.0	
Increase in Kennelling Contract	25.0	
Reduced Rights of Way Income	16.5	
Reduction in Churchfield Income due to Disposal (Rent and Service charge)	4.6	
Unachieved Letting Room Income at Lace Mills	3.5	
8x8 Omni-channel Cloud Based Telephony	39.0	
Removal of Rental Income Brympton Way Offices	66.7	
Removal of Service Charge Income Brympton Way Offices	39.0	
Total Allowance for Unavoidable Pressures		314.6

Table 6 – Savings for 2021/22

Savings	2021/22 £'000	2021/22 £'000
Countryside - Ninesprings Centre - Sales increase per capital investment	-5.0	
Countryside - Yeovil Rec - Sales increase per capital investment	-16.0	
Total Planned Savings		-21.0



19. It is likely that further changes will be included in final budget proposals, however the above reflects changes identified to date.

Investment Income & Revenue effects of Capital Programme

Investment Income - Commercial

20. Members will recall the approval of the Interim Commercial Strategy in September 2019. This report was an update to the Commercial Strategy agreed in August 2017. The original Commercial Strategy detailed plans to generate significant additional income from commercial investment in order to mitigate the cuts to Government grant funding and protect the Council's delivery of services to the community.
21. The strategy is now three years into its four-year programme. Since the introduction of the first Commercial Strategy, SSDC has continued to purchase a number of investment properties, with a significant degree of success in its objectives. The Financial Strategy agreed by Members in August 2020 focused on the impact of Covid-19 on the Council's finances. It also reiterated the importance of our Commercial investment programme which has been instrumental in mitigating the effect of the Central Government cuts to core funding and has performed extremely well during the year despite the difficult economic climate. The investments made to date are making good progress towards the revised £3.35m per annum net income target for 2021/22.
22. We are continuing to update the MTFP in relation to our latest Commercial investment acquisitions and the finalised position will be presented in February. NB. The budget reflects net income – after deducting capital financing costs (debt repayment and interest).

Investment Income – Treasury Management

23. As part of the agreed Financial Strategy, the Council also annually reviews its approach to treasury management. The updated Treasury Strategy for 2020/21 was presented to District Executive on 19 November 2020. The approach to our treasury investments continues to follow the principles of the Prudential Code and Guidance issued by CIPFA.
24. The 2020/21 budget included an increase of £100,000 in investment income expected for the year, which reflected an expected increase in returns through a diversified range of investments in higher earning financial instruments. This expectation has been impacted by the effect of the pandemic and our pooled funds have seen a marked reduction in returns. It is important to stress that these funds are of a long term nature and as such, it is not viable to relinquish them in the short term. We are pleased to note that they have started to show signs of recovery which will have a positive impact on the returns for the remaining quarter of the



year. We are therefore confident that a further increase of £100,000 for 2021/22 is achievable and this is included in our estimates.

25. The Council will continue to use advice from Arlingclose to manage its portfolio of investments effectively. In 2020/21 the Council set aside £150,000 into a Treasury Risk Management Reserve, to provide some resilience to volatility in capital values and/or budget variations on investment income. The MTFP assumes transfers to the reserve of £50,000 for 2021/22 and each year thereafter. This will be regularly reviewed to ensure it reflects the level of risk.

Revenue Effects of Capital Programme

26. The revenue effects of capital comprise the interest cost (interest on loans) and loss of interest on investments. The current estimates reflect the assumed loss of interest as reserves are used to support already approved capital schemes, plus a contingency for new schemes to be considered for next year's capital programme.
27. The increase in 2021/22 reflects the financing of the Council's commercial investment property acquisitions to date. This includes a Minimum Revenue Provision (MRP) charge to the revenue budget to set aside funds to repay debt, plus interest costs on capital borrowing. As at December 2020 the Council uses both its own cash reserves (internal borrowing) and loans from other local authorities (external borrowing) to fund its Capital Financing Requirement. We have no borrowing with the Public Works Loan Board (PWLb).

Funding and Reserves Estimates

New Homes Bonus (NHB)

28. We are aware that as part of the Fair Funding Review the Government intends to replace the New Homes Bonus Grant system with a new incentivising grant regime. No details are yet known on how this will operate. We are pleased to see that we have been awarded another £1.171m this year which we set aside in the MTFP Support Fund for use in future years and to mitigate the potential loss of this funding stream.

Business Rates

29. The current draft budget reflects business rates income estimates completed in December 2020. Updated estimates will be finalised in early January 2021 and reflected in the final budget report.
30. It is important to highlight the effect that the Government's approach to supporting businesses has had on our retention levels in-year. Members will be aware that many businesses have received a 100% reduction in their 2020/21 business rates bill. This is good news but causes cashflow issues to us as the collector of the funds and also an accounting anomaly whereby the deficit in business rates collection is reimbursed (in relation to business rates relief) by Central Government

by way of S31 Grant. This significant deficit is accounted for in the following 3 years with the bulk being shown in year 1. The S31 grant is payable in 2020/21 from Central Government. This means that at the end of the current year (2020/21) we will set aside this large sum which we anticipate to be in excess of £9m and we will draw this down in the following year (2021/22) to offset the deficit. This treatment is reflected in the MTFP tables.

Business Rates Pooling

31. The Business Rates Pool reverted to the 50% BRR system for 2020/21. Business Rates on this basis has been built into the budget for 2021/22. Although we have applied to continue in a Business Rates Pool with our district and county partners, we are currently reviewing the latest forecasts to ensure this is the right course of action. This will be finalised in January and a decision made promptly before the deadline for withdrawal.
32. It is prudent therefore not to include an estimated pooling gain in our figures for 2021/22 but will be considered again during January and finalised in the February budget report.

Council Tax

33. The S151 Officer approved the provisional 2021/22 Council Tax Base in early December, which is set at 61,152.95 Band D Equivalents. This is higher than previously estimated as we had anticipated a greater level of Council Tax Support applicants and higher default.
34. The Council Tax income estimate is therefore calculated as follows:

	2021/22
Council Tax Base – Band D Equivalents	61,152.9
SSDC Council Tax Rate per Band D Estimate (not yet approved)	£177.11
Council Tax Income Estimate (Tax Base x Tax Rate)	£10,830,786

35. The Council Tax Rate includes £175.26 for SSDC services and £1.85 levied on behalf of the Somerset Rivers Authority (SRA). Therefore, of the council tax income figure shown in the table above, £113,133 will be passported to the Somerset Rivers Authority.

Earmarked Reserves

36. The S151 Officer will finalise a review of earmarked reserves in January, and include an updated reserves position with the final budget reports in February. We expect the Covid-19 pressures to impact on our reserves and we will be assessing this in-year alongside our Quarter 3 budget monitoring.

37. The current draft budget for 2021/22 includes net transfers from earmarked reserves of £7.709m. This includes:

Reserve	To (£)	From (£)	Net (£)
Treasury Risk Reserve	50,000		
Commercial Investment Risk Reserve	250,000		
Business Volatility Risk Reserve*		8,994,120	
MTFP Support Fund	521,010		
Covid Response Reserve	464,136		
			7,708,974

*See paragraph 30

General Reserves

38. The current approach to setting the budget for 2021/22 aims to achieve a balanced budget without the need to use funds from general balances. The current estimates indicate we are on track to meet this aim.
39. The adequate minimum General Reserve requirement was reviewed in August 2020, and was approved to be £2.8m. The balance reported in September is as follows:

	£'000
Balance at 1 st April 2020	-5,099
Area & Economic Development Balances	121
2020/21 Carry Forwards	341
Commitments	252
Current Estimated overspend in 2020/21 (worse case call on reserves)	4,206
Support for 2020/21 Budget	944
COVID Grant Funding Balance	-1,511
Unallocated General Fund Balance at 30th September 2020	-746
Income Compensation Claim to date	-471
Unallocated General Fund Balance at 30th September 2020 (Including claim)	-1,217

40. The position will be reviewed as part of the Quarter 3 Budget monitoring. We expect the position to show an improvement with a further tranche of grant funding being released by Central Government and the next instalment of the Income Compensation Claim due in January. An updated position will be brought to District Executive in February but we anticipate returning to above the minimum required level.

Capital Programme

41. The Senior Leadership Team has reviewed the capital bids for 2021/22. A summary of these bids is included within Appendix A. Appendix A divides the bids into those deemed to be essential, and the other bids that fall outside of these



categories. Notes have been added to show where reserves can be used to fund some of the projects.

Summary of Items to be Finalised for the 2021/22 Budget

42. Unavoidable costs: We are aware that new pressures may emerge before we finalise the budget setting process as we evaluate the ongoing effects of the pandemic and our response to it. We are also aware of various resourcing pressures due to the high level of activity in certain areas such as housing and homelessness. We will finalise the estimates in January.
43. Revenue Effects of Capital: The MTFP has been updated to reflect the revenue implications for commercial property investment, but will need to be updated for the capital programme bids for 2021/22. A contingency sum is included pending finalisation of the agreed programme.
44. Business Rates Retention (BRR): The detailed budget estimates for BRR will be completed in January, and will inform final estimates.
45. Collection Fund: The final estimates for the 2020/21 deficit for council tax and business rates will be finalised in January, and feed into final budgets for 2021/22.
46. Council Tax: The MTFP assumes the tax rate will increase by £5 and this will need to be approved by Full Council.
47. The Council Taxbase will also be finalised in January 2021.

Public/Stakeholder Consultation

48. It is recommended that individual savings and additional income plans that are approved in principle are consulted upon where there is partnership, economic or equalities issues to consider.

Budget Scrutiny

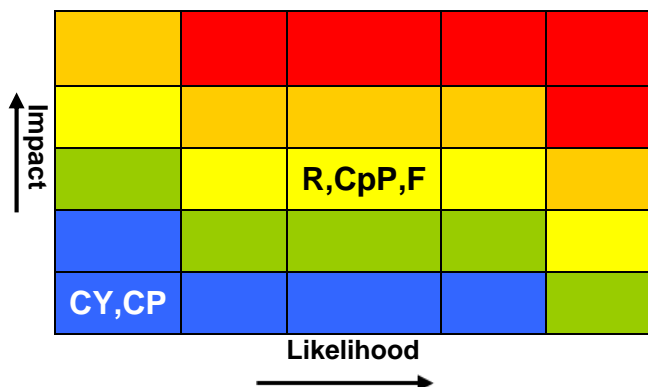
49. This report will be presented to Scrutiny Committee on 5 January 2021, with the final proposed budget presented to Scrutiny on 2 February 2021 before being considered for approval by District Executive on 4 February 2021 and Full Council on 18 February 2021.

Financial Implications

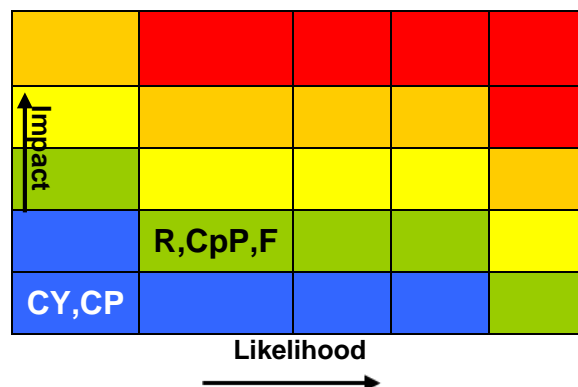
50. This report contains financial implications throughout.

Risk Matrix

Risk Profile before officer recommendations



Risk Profile after officer recommendations



Key

Categories			Colours (for further detail please refer to Risk management strategy)	
R	=	Reputation	Red	= High impact and high probability
CpP	=	Corporate Plan	Orange	= Major impact and major probability
Priorities			Yellow	= Moderate impact and moderate probability
CP	=	Community Priorities	Green	= Minor impact and minor probability
CY	=	Capacity	Blue	= Insignificant impact and insignificant probability
F	=	Financial		

Council Plan Implications

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

Carbon Emissions and Climate Change Implications

52. Not applicable within this report.

Equality and Diversity Implications

53. Not applicable within this report.

Privacy Impact Assessment

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



Background Papers

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

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