

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 (MTFP) estimates for the period 2021/22 to 2025/26.

Forward Plan

2. This report appeared on the District Executive Forward Plan with an anticipated Committee date of December 2020.

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. Note the current estimates and next steps in respect of the Draft Budget for 2021/22 and the Medium Term Financial Plan.
 - b. Approve in principle the changes to budget estimates in respect of the initial pressures and savings included within the report (para 13).

Background

5. The Financial Strategy and Medium Term Financial Plan estimates for the period 2021/22 to 2025/26 were originally approved and noted by the District Executive on 6 August 2020.
6. This report provides Members with a progress update on the preparation of draft estimates for 2021/22 and towards achieving a balanced budget over the medium term.
7. We have been providing updates through the Financial Strategy with the associated MTFP during the last few months. These have been at a very high level

as there has been a great deal of uncertainty over funding and the ongoing impact of Covid-19. We are now at the stage where some of the assumptions for the coming year will begin to crystallise and we can understand the support we will receive from Central Government regarding our in-year Covid-19 pressures. What we still do not have is the Provisional Settlement which is needed to confirm our assumptions regarding a number of our funding streams including Rural Services Delivery Grant; New Homes Bonus and Business Rates.

2021/22 Budget and MTFP Update

8. The last update presented to Members was at District Executive in August 2020, with the adoption of the updated Financial Strategy with supporting MTFP for 2020/21 to 2024/25. We have made some progress on updating the draft budget estimates for 2021/22, as set out below. There are some key areas of the budget where work is 'in progress' or not yet due, therefore this is very much a progress update and a significant amount of work needs to be finalised before we will have a final budget position.
9. Table 1 below shows the projected budget gap forecast in August 2020 against the original budget forecast in February 2020. This included the current year and projections to 2024/25. The differences were outlined in the report to District Executive in August, but all related to the impact of the Covid-19 pandemic on our income streams - mainly Council Tax and Business Rates as well as Fees and Charges income.

Table 1 - August forecast position 2020/21 to 2024/25:

	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000	2024/25 £'000
Net Expenditure Estimates	15,207	15,991	14,583	15,247	16,050
General Government Grants	-166	161	161	161	161
New Homes Bonus Grant	-1,603	0	0	0	0
Funded By:					
Business Rates	-7,210	-3,341	-3,698	-3,776	-3,854
Council Tax	-10,302	-9,813	-10,597	-10,918	-11,274
Earmarked Reserves	4,074	-350	-100	-50	300
General Reserves	0	0	0	0	0
Total Funding August	-15,207	-13,343	-14,234	-14,583	-14,667
Budget Gap – February 2020	0	284	15	334	1,047
Net Changes Since February	0	2,363	335	331	336
Budget Gap - August 2020	0	2,647	350	665	1,383

Note: In the table above, funding is shown as a negative figure therefore 'minus' adjustments are in effect increasing the estimated funding available to the Council, and positive figures are reducing the funding available.

10. The following table now focuses on the coming year 2021/22 and our MTFP forecast to date.

Table 2 - Latest MTFP Forecast (Nov 2020)

	2021/22 £'000	2022/23 £'000	2023/24 £'000	2024/25 £'000	2025/26 £'000
Base Budget B/F	16,365	15,991	14,584	15,018	15,821
Incremental Changes:					
Employment Cost Inflation	467	454	374	423	TBC
Inflation allowance on contracts	174	179	180	180	180
Unavoidable budget pressures	200	200	200	200	200
Planned savings	10	-90	-148	-59	0
Investment Income & Revenue effects of Capital Programme	-2,148	-1,100	58	59	TBC
Other	923	-1,050	-230	0	0
Total Budget Requirement	15,991	14,584	15,018	15,821	16,200

	2021/22 £'000	2022/23 £'000	2023/24 £'000	2024/25 £'000	2025/26 £'000
Total Budget Requirement (per Table above)	15,991	14,584	15,018	15,821	16,200
Funded By:					
Revenue Support Grant	327	327	327	327	327
Rural Services Delivery Grant	-166	-166	-166	-166	-166
New Homes Bonus Grant	-900	-621	0	0	0
Business Rates Retention	-5,692	-3,696	-3,774	-3,852	-3,977
Collection Fund Deficit - Business Rates	575	0	0	0	0
Council Tax - SSDC	-10,499	-10,708	-11,029	-11,387	-11,755
Less: Council Tax Paid to SRA	111	111	112	113	114
Collection Fund Deficit - Council Tax	278	0	0	0	0
Sub-total: Funding	-15,966	-14,753	-14,531	-14,965	-15,456
Other Reserve Transfers					
MTFP Support Fund Reserve	250	221	-350	0	0
BRR Volatility Reserve	0	0	0	0	0
Other Earmarked Reserves	300	300	300	300	300
General Reserves	0	0	0	0	0
Sub-total: Reserves	550	521	-50	300	300
Total Funding	-15,416	-14,232	-14,581	-14,665	-15,156
Budget Gap / (-) Surplus	575	352	437	1,155	1,045
Budget Gap Increase on Prior Year		-223	85	718	-111

Note: In the table above, funding is shown as a negative figure therefore 'minus' adjustments are in effect increasing the estimated funding available to the Council, and positive figures are reducing the funding available.

11. As tables 1 and 2 show, the budget gap for 2021/22, based on updates included to date, has gone from being a substantial deficit to what looks, at first sight, to be much more manageable. The primary change has been the removal of the business rates reset pressure and this is discussed later in the report.

12. It is important to emphasise that there are also, however, a number of estimates to finalise which are discussed later in the report. These could radically change the complexion of the forecast and may result in a much larger pressure to fund. This funding would need to come from reserves; service provision savings or from enhanced Commercial Investment income streams. We are also mindful that the General Fund Reserve will need to be reinstated to at least its minimum balance level, this is discussed in sections 26 and 27.

13. The main changes included in the forecasts since the 6 August District Executive report in respect of 2021/22 are summarised as follows:

Table 3 – Changes to Budget August to October

	2021/22 £'000	2021/22 £'000
Budget Gap Estimate – August 2020		2,647
Change in the Business Rates multiplier – early estimate	89	
Removal of the Business Rates Reset pressure for 21/22	-2,161	
Budget Gap Estimate (Deficit) – 20 October 2020		575

Unavoidable Pressures and Savings

14. We continue to assess the new pressures and savings which we will need to factor into the 2021/22 estimates. The items currently included within the unavoidable pressures and savings within the MTFP are:

Table 4 – Pressures and Savings

	2021/22 £'000	2021/22 £'000
Unavoidable Pressures:		
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	4.6	
Unachieved Letting Room Income at Lace Mills	3.5	
Sub-Total		169.9
Provision for new pressures – not yet identified		30.1
Total Allowance for Unavoidable Pressures		200.00
Savings:		
Fees and Charges Income Target	-75	
Countryside - Ninesprings Centre - Sales increase per capital investment	-5	

	2021/22 £'000	2021/22 £'000
Countryside - Yeovil Rec - Sales increase per capital investment	-16	
Total Planned Savings		-96.0
Removal of Rental income for Brympton Way	105.7	
Total Pressures less Savings		209.7

- The kennelling contract has increased and was covered in 2020-21 by a carry forward but now needs to be factored into the ongoing budget.
- Rights of way income is down and the income budget should be amended accordingly if mitigation is not possible.
- There is an ongoing increase to the sales income target for Ninesprings and Yeovil Rec following the 2019/20 agreed capital spend.
- The income from the rental of Brympton Way Offices to the Police has currently been removed for 2021/22 onwards (this was formerly one-off income).

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

Significant Changes to Assumptions

16. There have been some significant movements since the last update and these are highlighted below.

17. **Negative Revenue Support Grant (RSG):** We have not heard if this has been mitigated by Central Government for the 2021/22 budget. Central Government has funded this for the last three financial years but we have had no indication this will happen again for 2021/22 hence, currently, the cost of £327k is still in our forecast.

18. **Business Rates Retention and Baseline Reset:** Following several delays to the Fair Funding Review which has now been delayed once more and will impact 2022/23 rather than 2021/22 as previously anticipated, the status of the Business Rates reset was left unclear. We understand that there will be a reformed Business Rates Retention Scheme and that the baseline, on which we calculate our retained business rates, will be reset. We have been prudent and due to the narrative that was coming from Central Government we were anticipating that although the mechanics of the Business Rates scheme would be delayed, there may still be a reduction in the baseline whereby the Government removes some or all of our growth in recent years.

19. Due to the lack of consultation timing etc we believe it is now safe to assume that this reset will not happen for 2021/22 and in line with our Somerset district colleagues, we will “push back” the pressure of this ongoing impact from 2021/22 to 2022/23. This is a significant saving for us, albeit simply a delay. Nevertheless, we have been able to remove the £2.2m impact from our budget gap in 2021/22, which is a real/cashable budget saving. We anticipate that the reset will now happen in 2022/23 and have left this in our forecasts.

20. **Business Rates Deficit** - we are aware that there will be an increase in Empty Property Relief, a direct cost to the Council; a reduction in valuations (material changes in circumstances) and; an increased element of default. We have assumed a 4.7% negative impact. Again, this will impact us in 2021/22 but is an early estimate. All the councils in the Pool arrangement have similar experience and as such the shared result will be fairly consistent.
21. **New Homes Bonus (NHB)**: In previous iterations of the MTFP we have assumed that payments of NHB would cease in 2020/21. We now believe that as a new scheme has not yet been proposed, we anticipate the receipt of legacy payments of £899,981 in 2021/22 and £621,124 in 2022/23. These will be a two-year payment and a one-year payment respectively. By adding this income to the MTFP, £250k can be added to the MTFP Support Reserve instead of deducting £650k as originally proposed.
22. **Council Tax Referendum Limits**: As detailed below, we generally assume within our MTFP forecasts that Council Tax will be increased by the statutory maximum (1.99%) before a referendum is required. In recent years, Central Government has given dispensation to increase this limit to either £5 or 1.99% whichever is higher. Due to the current pandemic pressures we anticipate that this will be the case again for 2021/22. To incorporate a £5 increase would initially need a steer from District Executive.

Table 5 – Council Tax Budgets

SSDC's 2020/21 Council Tax	£	£ Increase
No increase in % or £	10,183,254	
Increase of 1.99% (currently build into MTFP)	10,388,103	204,849
Increase of £5	10,482,305	+94,202

23. **Council Tax Deficit** - Following the increase in applications for Council Tax Support (CTS) and allowing for an increase in default, we have revised our estimates for council tax collection in 2020/21. Due to the mechanics of the Collection Fund, this impacts us and the upper tier authority in the following year (2021/22). We have assumed a 5.5% negative impact (default and CTS eligibility). Members should note this is an early estimate.
24. It is important to note that the Collection Fund (Business Rates and Council Tax) deficits which we believe will crystallise may be spread over the coming 3 years, as per recent Government guidance. This change in treatment is aimed at mitigating the impact of Covid-19 on our Collection Fund accounts. Currently our Draft Budget shows this pressure in one year only. This is likely to be updated when we receive the Provisional Settlement and the required treatment is confirmed.
25. NB. The parish precept is unaffected.

Earmarked Reserves

26. The S151 Officer will finalise a review of earmarked reserves in December/January, and include an updated reserves position with the final budget reports at the end of January 2021.

General Reserves

27. 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 in the table below must be caveated. We would use specific reserves to cover some of the forecast 20/21 overspend e.g., Commercial Risk Reserve and MTFP Reserve. We are also aware that there will be further opportunities to make claims through the Income Compensation Scheme in 2020/21 as this is done quarterly.
28. The adequate minimum General Reserve requirement was reviewed in August 2020, and was approved to continue at £2.6m. The current forecast balance is as follows:

Table 6 – General Fund Balances

General Fund Balances	£000
Balance at 1 April 2020	-5,099
Area & Economic Development Balances	121
2020/201 Carry Forwards	341
Commitments	252
Current Estimated overspend (worse case call in reserves)	4,206
Support for 2020/21 Budget	944
COVID Grant Funding Balance	-1,511
Income Compensation Claim to date	-471
Unallocated General Fund Balance at 30th September 2019	-1,217

Capital Programme

29. The Senior Leadership Team will review the Capital Bids for 2021/22 and the supported bids will form part of the January 2021 updated draft Budget papers.

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

- 30. Salaries:** Detailed salaries estimates for 2021/22 are currently being updated, particularly in relation to the new pay award. Previous iterations of the MTFP have assumed a 2% pay increase, so the implementation of a 2.75% increase in 2020/21 as decreed by the National Pay award will mean a significant additional pressure will need to be added to the budget gap. This will of course, also have a “knock-on” effect for future years.



- 31. Unavoidable costs:** The draft budget includes a provision for unavoidable costs of £200k for 2021/22. We have identified a number of new pressures which will fall within this budget such as an increase in the kennelling contract (£25k) and reduced rights of way income (£16.5k). We also have pressures which have already been approved such as a pragmatic annual increase in waste costs due to increased properties (£21.3k) and an increase in the Careline contract of £99k. We currently have just £30k unallocated within this budget and as we are still at an early stage in the budget setting process, we may find that we have additional “unavoidable” pressures which cannot be mitigated within this budget envelope.
- 32. Revenue Effects of Capital:** With new commercial investments having been agreed in-year this area will need to be updated, and additionally, the forecasts will need to be updated for the prioritised capital programme bids for 2021/22. A contingency sum is included pending finalising the agreed programme.
- 33. Business Rates Retention (BRR):** The detailed budget estimates for BRR will be completed in January, and will inform final estimates. Details regarding next year’s baseline and tariff are due as part of the Provisional Settlement expected in December or early January 2021.
- 34. Collection Fund:** The final estimates for the 2020/21 surplus or deficit for council tax and business rates will be finalised in January, and fed into final budgets for 2021/22. As mentioned above, we are predicting a deficit for both CT and Business Rates and would normally account for this impact in the coming year (2021/22). As referred to previously in this report, **the treatment of this deficit has been changed for 2021/22 by Central Government and councils are now expected to spread this deficit over 3 years.** This will help on an accounting basis and as far as the budget gap is concerned, but it does not help with cashflow when the “pain” will be felt in-year and we will not recover the other preceptors share of this deficit until the following two years.
- 35. New Homes Bonus:** The grant allocations for 2021/22 are expected to be confirmed with the provisional settlement. This will include any update from Government on the continuation of the funding in future years. Please note the change in assumptions detailed in section 20 of this report.
- 36. Council Tax:** The Council Tax Base – estimate of Band D Equivalents – will be finalised by mid-December. This will include the estimate of council tax support costs. The MTFP assumes the tax rate will increase by 1.99% as per guidance issued ahead of the provisional settlement.
- 37. Fees and Charges:** We are currently working on the detail behind our fees and charges assumptions. Members will be aware that we build in an annual increase based on inflation (price and yield) as a generic value (£75k) but, particularly in the current climate, we will need to look at these assumptions in more detail to ensure they are appropriate and achievable.

Covid-19

38. We provide regular updates to MHCLG regarding the extent of our pressures in-year relating to Covid-19. Whilst looking at these in-year pressures we have one eye on the future and how these pressures may affect future years' forecasts. We have been working with our budgetholders to try to estimate this impact and build this into future projections. Of course, without a definite end to restrictions in sight, it is difficult to predict with any certainty how income streams such as car parking; theatre income; planning etc. will recover.
39. We have factored some of these assumptions into the MTFP and they have primarily impacted 2021/22 with some pressures continuing into future years, e.g. car parking income. We will continue to update these assumptions as trends develop and as we become more aware of how these income streams may recover.
40. Our budget monitoring reports which were presented at District Executive on 5 November gave an insight into the in-year position and how we are mitigating this with management actions; grant support from Central Government and redeployment of staff. We also have earmarked reserves, specifically set aside to mitigate against fluctuations in the market, such as the Commercial Investment Risk Reserve and we also hold a Business Rates Smoothing reserve to offset the volatility of Business Rates income. Although the use of reserves to "plug" a budget gap is not a sustainable strategy, we have adequate reserves to take us through these short-term pressures. We will utilise the Commercial Income Risk Reserve in 2020/21 and with over £6m in this reserve it will prove a useful buffer for any prolonged impact on this important income stream. We have, however, thanks to the Commercial Team, seen very good results so far in our commercial income collection and we are hopeful that as we have leased to commercially strong companies, we will not see the level of losses in this area that other councils have seen.

Next Steps

41. We await the Provisional Settlement from the Treasury to inform our funding assumptions. We expect this to arrive in December or early January. We will then be able to finalise various estimates in order to complete a draft budget position.
42. An updated Draft Budget will be presented to District Executive for consideration in January 2021.

Public/Stakeholder Consultation

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

Budget Scrutiny

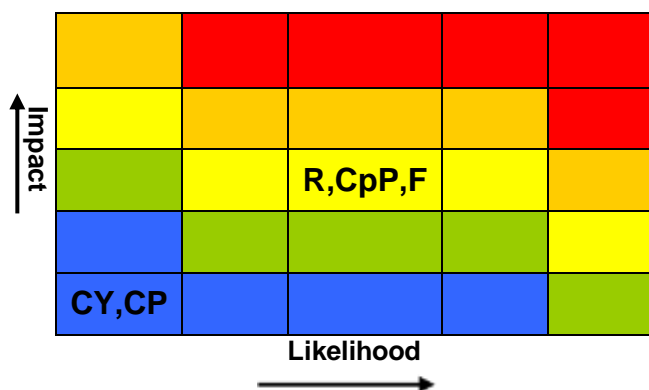
44. This report will be presented to Scrutiny Committee on 5 January 2021, with the final proposed budget presented to Scrutiny on 2 February 2021 before being considered for approval by District Executive on 4 February 2021 and Full Council on 18 February 2021.

Financial Implications

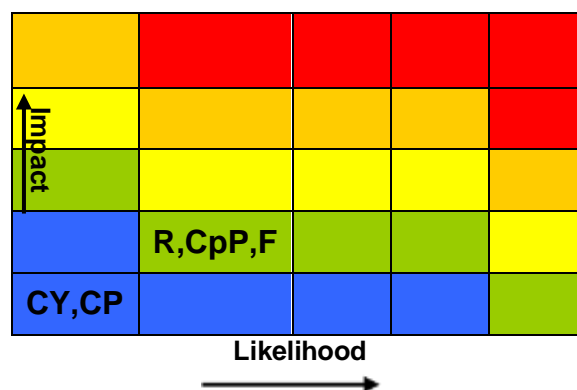
45. This report contains financial implications throughout.

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

46. The MTFS and MTFP incorporate costs, income and funding implications directly related to the delivery 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

47. Not applicable within this report.



South Somerset District Council Equality and Diversity Implications

48. Not applicable within this report.

Privacy Impact Assessment

49. 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

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

- Financial Strategy 2020/21 (District Executive August 2020)