Members of the Cabinet
(Councillors A H Trollope-Bellew (Leader), M J Chilcott (Deputy Leader), M O A Dewdney, A Hadley, C Morgan, S J Pugsley, K H Turner and D J Westcott)

Our Ref DS/KK
Your Ref

Contact Krystyna Kowalewska kkowalewska@westsomerset.gov.uk
Extension 01984 635307
Date 30 January 2018

THE PRESS AND PUBLIC ARE WELCOME TO ATTEND THE MEETING
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Dear Councillor

I hereby give you notice to attend the following meeting:

CABINET

Date: **Wednesday 7 February 2018**

Time: **4.30 pm**

Venue: **Council Chamber, Council Offices, Williton**

Please note that this meeting may be recorded. At the start of the meeting the Chairman will confirm if all or part of the meeting is being recorded.

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Therefore unless you advise otherwise, by entering the Council Chamber and speaking during Public Participation you are consenting to being recorded and to the possible use of the sound recording for access via the website or for training purposes. If you have any queries regarding this please contact Committee Services on 01984 635307.

Yours sincerely

BRUCE LANG
Proper Officer

CABINET

Meeting to be held on Wednesday 7 February 2018 at 4.30 pm

Council Chamber, Williton

AGENDA

1. Apologies for Absence

2. Minutes

Minutes of the Meeting of Cabinet held on 1 November 2017 and Minutes of Special Cabinet held on 30 November 2017 to be approved and signed as correct records – **SEE ATTACHED.**

3. Declarations of Interest

To receive and record declarations of interest in respect of any matters included on the agenda for consideration at this meeting.

4. Public Participation

The Leader to advise the Cabinet of any items on which members of the public have requested to speak and advise those members of the public present of the details of the Council's public participation scheme.

For those members of the public wishing to speak at this meeting there are a few points you might like to note.

A three-minute time limit applies to each speaker and you will be asked to speak before Councillors debate the issue. There will be no further opportunity for comment at a later stage. Your comments should be addressed to the Chairman and any ruling made by the Chair is not open to discussion. If a response is needed it will be given either orally at the meeting or a written reply made within five working days of the meeting.

5. Forward Plan

To approve the latest Forward Plan for the month of March 2018 – **SEE ATTACHED.**

6. Quarter 2 2017/18 Performance Report

To consider Report No. WSC 1/18, to be presented by Councillor A Trollope-Bellew, Leader of the Council – **SEE ATTACHED**.

The purpose of the report is to provide Members with key performance management data up to the end of quarter 2 2017/18, to assist in monitoring the Council's performance.

7. Draft Annual Budget and Council Tax 2018/19

To consider Report No. WSC 5/18, to be presented by Councillor M Chilcott, Lead Member for Resources and Central Support – **SEE ATTACHED**.

The purpose of the report is to set out the Draft Budget and proposed Council Tax for 2018/19 to enable Cabinet to recommend proposals to Full Council for approval.

8. Capital Programme Draft Budget Estimates 2018/19

To consider Report No. WSC 6/18, to be presented by Councillor M Chilcott, Lead Member for Resources and Central Support – **SEE ATTACHED**.

The purpose of the report is to provide Members with the detail of the Capital bids for the 2018/19 Capital Programme to enable Cabinet to recommend proposals to Full Council for approval.

9. Draft Treasury Management Strategy, Annual Investment Strategy and MRP Policy 2018/19

To consider Report No. WSC 4/18, to be presented by Councillor M Chilcott, Lead Member for Resources and Central Support – **SEE ATTACHED**.

The purpose of the report is to inform Members of the recommended strategy for managing the Council's cash resources including the approach to borrowing and investments. It also seeks the formal approval of the Treasury Management Strategy Statement, Annual Investment Strategy and MRP Policy which must be approved by Full Council by 31 March each year in line with regulations.

COUNCILLORS ARE REMINDED TO CHECK THEIR POST TRAYS

CABINET

MINUTES OF THE MEETING HELD ON 1 NOVEMBER 2017

AT 4.30 PM

IN THE COUNCIL CHAMBER, WILLITON

Present:

Councillor A Trollope-Bellew …………………………………….. Leader

Councillor M Chilcott
Councillor A Hadley
Councillor S Pugsley
Councillor D J Westcott
Councillor M Dewdney
Councillor C Morgan
Councillor K Turner

Members in Attendance:

Councillor I Aldridge
Councillor B Heywood
Councillor P Pilkington
Councillor S Goss
Councillor R Lillis

Officers in Attendance:

Assistant Chief Executive (B Lang)
Assistant Director – Place and Energy Infrastructure (A Goodchild)
Assistant Director – Corporate Services (P Carter)
Community and Housing Lead – Energy Infrastructure (L Redston)
Meeting Administrator (C Rendell)

CAB32 **Apologies for Absence**

No apologies for absence were received.

CAB33 **Minutes**

(Minutes of the Meeting of Cabinet held on 6 September 2017 - circulated with the Agenda.)

RESOLVED that the Minutes of the Meeting of Cabinet held on 6 September 2017 be confirmed as a correct record.

CAB34 **Declarations of Interest**

Members present at the meeting declared the following personal interests in their capacity as a Member of a County, Parish or Town Council:

Name	Minute No.	Member of	Action Taken
Cllr M Chilcott	All	SCC	Spoke and voted

Cllr C Morgan	All	Stogursey	Spoke and voted
Cllr A Trollope-Bellew	All	Crowcombe	Spoke and voted
Cllr K Turner	All	Brompton Ralph	Spoke and voted
Cllr D Westcott	All	Watchet	Spoke and voted
Cllr I Aldridge	All	Williton	Spoke
Cllr S Goss	All	Stogursey	Spoke
Cllr P Pilkington	All	Timberscombe	Spoke

Councillor Trollope-Bellew further declared a prejudicial interest on agenda item 7, Hinkley Point C Planning Obligations - Allocation of Ecology Contribution and left the chamber during the discussion of this item.
Councillor Morgan further declared a personal interest on agenda item 6, Hinkley Point C Planning Obligations Board – Allocation of CIM Funding, as he was Vice-Chairman of the Board.

CAB35 **Public Participation**

Item 8 Hinkley Point C – Non-Material Change Response

Richard Cuttell spoke in support of the recommendations in relation to the non-material change response to the Planning Inspectorate. The use of the phrase ‘non-material’ was misleading. Concern was raised that the changes to the Development Consent Order (DCO) would not be taken seriously due to the title ‘non-material change’. This was the third application to amend the DCO and should not be viewed as non-material. The increase of 49% in the cubic capacity of the spent fuel store and the conversion from wet to dry storage was a material change. This would have a greater impact on the local community. The store would be in existence long after the power station was closed down and the proximity to the coastal path had not been assessed. The credibility of the process had been eroded and an impression that the planning process had been circumnavigated was given, due to three applications being submitted that amended the DCO so early in the construction program. Should this application be approved, he urged that a condition be placed that only spent fuel from Hinkley Point be stored on site. The store should not be expanded and the planning conditions needed to be examined with due diligence. He hoped that West Somerset Council continued to safeguard the interests of the community.

Peter Farmery spoke in support of the recommendations in relation to the non-material change response to the Planning Inspectorate. His main concern was that he did not want the site to be used for all the spent fuel for the whole of the United Kingdom. There were superior locations available for both geological and geographical reasons. He requested the percentage of the total amount of spent fuel from Hinkley Point that would be contained in the store so that officers could identify what was required for the life of the station. The Government should be pressurised to reprocess the fuel.

CAB36 **Forward Plan**

(Copy of the Forward Plan for the month of January 2018 – circulated with the Agenda.)

The purpose of this item was to approve the Forward Plan.

RESOLVED that the Forward Plan for the month of January 2018 be approved.

CAB37 **HPC Planning Obligations Board – Allocation of CIM Funding**

(Report No. WSC 113/17 – circulated with the Agenda.)

The purpose of the report was to present the recommendations of the Hinkley Point C (HPC) Planning Obligations Board for the allocation of monies from the Community Impact Mitigation (CIM) Fund secured through the Section 106 legal agreement for the Site Preparation Works at Hinkley Point.

The Lead Member for Resources and Central Support presented the item and provided information on the bids submitted to the Planning Obligations Board (POB).

The first application was a substantial bid submitted by the Somerset Education Business Partnership (SEBP). The total project cost for the project was £443,849, with an amount of £393,849 applied for under the CIM fund. The focus of the SEBP would be to forge links between business and young people via education in Sedgemoor and West Somerset. The SEBP would also take a strategic role and analyse gaps and help to standardise quality and provision across Somerset. It was a very well thought out application which proposed an effective way to deliver the service in the local context in terms of impact mitigation and maximised opportunities available as a result of the HPC project.

The second application was from North Petherton Rugby Football Club for a total amount of £300,000 for additional changing rooms. Although it was clear that the club was committed to improving its community and sporting facilities, the application missed essential details that provided assurance that an investment of this size to develop new changing rooms would be appropriate and would mitigate impacts of the HPC project for a significant number of the local community.

The third application was from Holford and District Village Hall Committee for a total amount of £125,000 to refurbish and extend the Village Hall. The project would enable educational, recreational, sporting and social activities for all age groups in the surrounding areas and offered improved quality of life for residents of communities nearest the HPC site. This was a very well presented, detailed and thought out project and application to the CIM fund and successfully met all nine criteria.

The fourth application was from Fiddington Village Hall for a total amount of £35,000 to renovate the kitchen and toilet in the Village Hall. It was clear that the hall required improvement to ensure that users who were impacted by the HPC development and the increased number of workers in the village were attracted to use the hall. However, the application did not focus on what services or activities residents required in the hall, the activities that would be provided, who would access the services and how they would mitigate the impacts of HPC on the community.

The fifth application was from Citizens Advice Sedgemoor for a total amount of £165,837 for Hinkley advice needs. The project aimed to deliver advice services needed across Sedgemoor that was a result of the HPC development. Although it was recognised that there was likely to be an increased need in demand for advice services for the resident community, new workers and families in Sedgemoor due to the HPC development, the application did not provide sufficient detail or evidence in relation to several of the criteria.

The Lead Member proposed the recommendation of the report which was duly seconded by Councillor A Hadley.

Members praised the applications that had been put forward to the POB. They were especially pleased to support the bids for Holford Village and District Hall Committee and the SEBP and were glad that they had resubmitted a more detailed business case.

Members acknowledged and understood the reasons why the North Petherton Rugby Football Club bid had not succeeded in obtaining funds and were encouraged to see that the Fiddington Village Hall and the Citizens Advice Sedgemoor had been requested to submit more detailed applications to obtain funds for their projects.

RESOLVED that it be recommended to Council to endorse the recommendations of the Hinkley Point C Planning Obligations Board, as follows:

(1) To award Somerset County Council £393,849 from the 1st Annual CIM fund payment for the Somerset Education Business Partnership project.

(2) To not award £300,000 of CIM funding to North Petherton Rugby Club for the New Changing Rooms project on the basis that the project did not sufficiently meet the criteria to mitigate community impacts of the HPC development.

(3) To award Holford and District Village Hall £125,000 from the CIM Fund ring-fenced for West Somerset for the Holford Village Hall - Fit for Future project with the following conditions:
That no funding will be released until

- Planning permission has been granted for the proposed project.
- Match funding has been secured to cover the total project costs as set out in the application.

- Following the tender process and selection of a preferred contractor the CIM Fund Manager is satisfied that the project remains affordable.

(4) To not award £35,000 of CIM funding to Fiddington Village Hall for the Kitchen and Toilet Renovation project and to advise the applicants to return with a revised application.

(5) To note that the HPC Planning Obligations Board have deferred a decision on the application from Citizens Advice Sedgemoor for £165,837 towards the Supporting Hinkley Advice Needs project pending the submission of additional information by the applicant to support their application.

CAB38 **<u>Hinkley Point C Planning Obligations – Allocation of Ecology Contribution</u>**

(Report No. WSC 111/17 – circulated with the Agenda.)

The purpose of the report was to request that Cabinet recommends to Full Council that £250,000 be allocated to the East Quantoxhead Estate for the purpose of providing landscaping and other works to enhance the foraging habitat for bats as a result of the loss of habitat on the main Hinkley Point C site.

The Lead Member for Energy Infrastructure presented the report and provided background information.

As part of the Site Preparation Works at HPC an obligation was placed on EDF Energy to undertake radio tracking of bats to determine where bats had foraged and therefore where appropriate locations could be provided for landscaping to replace the habitat lost on the main HPC site.

The results of the radio tracking revealed that the bats had foraged in locations east of the HPC site which included East Wood, Hodder's Coombe, Waltham's Brake and Honibere Lane.

The areas to be enhanced needed to be maintained over a period of fifteen years which would allow time for the final landscape restoration scheme to have been planted after construction was completed on the main HPC site.

The East Quantoxhead Estate emerged as the preferred option and they were willing to take on the planting in association with tenant farmers and provide assurances for the long term maintenance.

The Lead Member proposed the recommendation which was duly seconded by Councillor M Dewdney.

Members praised the support that had been given to an ecological project. They fully endorsed the recommendations to allocate funds to enhance the bats habitat. And hoped that the bats would not face the same fate that the badgers had.

RESOLVED that it be recommended to Council that £250,000 be allocated to the East Quantoxhead Estate for the purpose of providing landscaping and other works.

CAB39 **Hinkley Point C – Non-Material Change Response**

(Report No. WSC 112/17 – circulated with the Agenda.)

The purpose of the report was to bring to Members' attention EDF Energy's proposed changes to the DCO 'plot plan' (essentially the detailed plans of the buildings on site during operation) and to formulate West Somerset Council's response to those changes.

The Lead Member for Energy Infrastructure presented the item.

On the 28 September 2017, EDF Energy had submitted a third non-material amendment which related to changes on the main HPC Site. EDF Energy's Application Statement set out the principal factors that drove the proposed changes.

Of the 71 buildings and structures on site that were part of the operational power station, 4 were new, 12 were larger, 4 were moved and 1 building had been removed. In addition, the proposal included the erection of additional pipework along the underside of the temporary jetty to discharge pumped groundwater that arose from dewatering activities undertaken that supported the excavation and the construction of the power station. This included discharged water produced by the tunnelling works required to construct the heat sink and treated sewage effluent generated from the welfare facilities on site.

The most significant and noticeable changes were to the interim spent fuel store, the sea wall and the temporary jetty. The spent fuel store had caused the most concern amongst Members.

EDF Energy had proposed to change the way in which spent fuel was stored at HPC. The original proposal was to store spent fuel waste in a wet store in pools. The proposal was now, after an initial period of storage and cooling in a pool close to the reactor building, to store the spent fuel securely in concrete and steel canisters. This was known as dry storage. The change resulted in a significantly larger interim spent fuel store to accommodate the concrete and steel canisters and the change away form a spent fuel pool. The size of the building required to accommodate the spent fuel was significantly larger than the previously approved building under the DCO, it was proposed to be 79m longer, 8m wider and 5m taller. The amended size would make it one of the most predominant buildings within the power station site.

The application for the non-material amendment included an assessment of the landscape and visual impact but it was noted that it was in the context of the operational power station even though the spent fuel store would be in situ long after the operational power station had come to an end of its life and had been decommissioned. The store would only be removed once all of the fuel had been moved to a Geological Disposal Facility.

The Lead Member proposed the recommendation which was duly seconded by Councillor M Dewdney.

Concern was raised on the increased size of the building and its location and proximity to the coastal path.

Members were minded that the increased size of the building was due to the way the spent fuel had to be stored and officers supported their concerns and those raised by the community.

Members queried when did a non-material change become a material change and were concerned about spent fuel from other locations being stored at the site.

Members endorsed the comments made by the public speakers and supported the recommendations.

RESOLVED that the Assistant Director for Place and Energy Infrastructure be authorised to raise objections with the Planning Inspectorate on behalf of West Somerset Council as to the

- view that this change is being considered as a non-material change;
- lack of information regarding the environmental impacts of the change in Spent Fuel storage method; and
- visual impacts of the increased size and prominence of the waste store close to West Somerset Coastal Path and within the wider landscape in the long term.

With the agreement of the Chairman, this item was brought forward on the agenda.

CAB40 **Planning Obligations Allocation**

(Report No. WSC 117/17 – circulated prior to the Meeting.)

The purpose of the report was to make proposals for the allocation of monies secured through planning obligations to individual schemes.

The Lead Member for Resources and Central Support presented the report.

This was a proposal from Dunster Parish Council and Dunster Marsh Junior Playing Field Committee. They had worked closely together and with the community to ascertain their needs. The Playing Field was well used and it had also been identified in the Dunster Parish Community Plan and prioritised for improvement.

The proposal had been awarded £12,240 in July 2016 and had now sought the balance of funding from the Section 106 contribution. The additional funds would go towards the installation of the multi-use play area (MUGA) in the children's playing field. The funding would be used to prepare the area, lay an area of tarmac, add fences, goal mouths, basketball nets and line marking for different sports. The total cost of the project was £61,700.

The proposal was considered by the POB, who supported the application because it would help a long held community aspiration be achieved.

The Lead Member proposed the recommendation which was duly seconded by Councillor K Turner.

Members supported the bid which promoted health and wellbeing within the community.

Members acknowledged a concern that once the MUGA was built, money would need to be allocated for the maintenance of the site.

RESOLVED that the allocation of £13,488 to Dunster Parish Council for a Multi-Use Games Area (MUGA) at Dunster Marsh Junior Playing Field be agreed.

With the agreement of the Chairman, this item was brought forward on the agenda.

The meeting closed at 5.57pm.

SPECIAL CABINET

MINUTES OF THE MEETING HELD ON 30 NOVEMBER 2017

AT 4.30 PM

IN THE COUNCIL CHAMBER, WILLITON

Present:

Councillor A Trollope-Bellew ………………………………….. Leader

Councillor M Chilcott
Councillor A Hadley
Councillor S Pugsley
Councillor D J Westcott
Councillor M Dewdney
Councillor C Morgan
Councillor K Turner

Members in Attendance:

Councillor I Aldridge
Councillor P Pilkington
Councillor P Murphy
Councillor R Woods

Officers in Attendance:

Democratic Services Manager (R Bryant)
Assistant Director – Corporate Services (P Carter)
Assistant Director – Operational Delivery (C Hall)
Economic Regeneration Manager (C Matthews)
Senior Tourism Officer (R Downes)
Meeting Administrator (K Kowalewska)
Media and Communications Officer (D Rundle)

Also in Attendance:

Mickey Green, Managing Director, Somerset Waste Partnership

At the beginning of the meeting the Leader announced it was an auspicious day for the Council as the Secretary of State for Communities and Local Government had announced he was minded to approve WSC's and TDBC's submission to create a single new Council. The final decision would be made in January 2018, however, he advised the implementation of a new Council could now be progressed.

CAB41 Apologies for Absence

No apologies for absence were received.

CAB42 Declarations of Interest

Members present at the meeting declared the following personal interests in their capacity as a Member of a County, Parish or Town Council:

Name	Minute No.	Member of	Action Taken
Cllr M Chilcott	All	SCC	Spoke and voted
Cllr C Morgan	All	Stogursey	Spoke and voted
Cllr A Trollope-Bellew	All	Crowcombe	Spoke and voted
Cllr K Turner	All	Brompton Ralph	Spoke and voted
Cllr D Westcott	All	Watchet	Spoke and voted
Cllr I Aldridge	All	Williton	Spoke
Cllr P Murphy	All	Watchet	Spoke
Cllr P Pilkington	All	Timberscombe	Spoke

Councillor P Murphy declared a personal interest in respect of CAB45 Hinkley Tourism Strategy Phase 3 Delivery Plan 2018-2019 as Chair of the Watchet Coastal Community Team.

Councillor A Trollope-Bellew declared a prejudicial interest in respect of CAB47 Fees and Charges 2018-2019 as the owner of a private water supply and advised that if the matter were to be specifically discussed he would leave the Chamber during this item but would otherwise stay and participate fully in the item; he also declared a prejudicial interest in respect of CAB44 SWP Draft Business Plan 2018-2023 and he left the Chamber during the discussion on the Cannington Anaerobic Digestion Plant.

Councillor A Hadley declared a prejudicial interest in respect of CAB47 Fees and Charges 2018-2019 as a premises licence holder and advised that if the matter were to be specifically discussed he would leave the Chamber during this item but would otherwise stay and participate fully in the item.

CAB43 **<u>Public Participation</u>**

Item 7 Fees and Charges 2018/19

Sally de Renzy-Martin, Chair of the Watchet Harbour Advisory Committee, spoke of concerns at the proposed slipway fee charges imposed on the Watchet Sea Scout Group for the use of Watchet Harbour. It was felt the levy would be an unfortunate additional financial burden on a local, voluntary-run organisation which benefited the local community and believed the group should receive special consideration. With reference to the non-standard shared use of the harbour proposed charge, it was requested that charitable events be excluded from being required to pay any fees.

Chris Mitchell, Chairman of the 1st Watchet Sea Scout Group, spoke further on the proposal for future slipway charges at Watchet and how this would impact on the Scout Group financially. He stated the Group was grateful for the help received from the Council in the past, and made reference to a 1948 agreement between the Scout Group and the Council (and supporting letter dated 1994) which granted free use of the harbour to the Watchet Sea Scouts for 100 years.

CAB44 **Somerset Waste Partnership Draft Business Plan 2018-2023**

(Report No. WSC 127/17 – circulated with the Agenda. Scrutiny Committee comments were circulated prior to the Meeting.)

The purpose of the report was to seek approval of the Somerset Waste Partnership's (SWP) Draft Business Plan 2018-2023.

The Leader introduced Mickey Green, the new Managing Director of SWP, to the meeting.

The Lead Member for Environment presented the item and drew attention to the delay in the implementation of Recycle More. SWP had agreed to bring forward the expiry date of the current collection contract in order to secure a new collection contractor to facilitate the delivery of enhanced recycling collections, reduce landfill and develop an energy-from-waste plant at Avonmouth. He drew attention to the budget implications for the Council and advised the 2018/2019 cost increase would be £70,000.

The Lead Member proposed the recommendations of the report which were duly seconded by Councillor C Morgan.

A discussion was held following concerns raised relating to why the anaerobic digester facility at Cannington was not being used to recycle food waste. It was felt that by using this local facility both time and money could be saved, as well as reducing CO2 emissions. It was confirmed that SWP were contracted to use the anaerobic digester plant at Walpole near Bridgwater, however, the SWP Managing Director agreed to pass on the comments raised to Somerset County Council who were responsible for waste planning policy.

It was noted that the SWP was a fantastic example of great partnership working and the forward thinking business plan was well received. The importance of encouraging residents to recycle all their food waste properly in the bins provided was highlighted. Leaflets were proposed to be distributed with next year's Council Tax bills to inform people on existing waste and recycling collection processes.

Clarification was provided that the early expiry of the contract was by mutual agreement, therefore there was no additional cost to the Council as a result.

RESOLVED (1) that the Somerset Waste Partnership's Draft Business Plan 2018-2023 be approved, in particular the proposed approach to the procurement of a new collection contract.

RESOLVED (2) that, in line with their delegated authority and in order to implement Recycle More as requested by partners, it be noted that the Somerset Waste Board had agreed with Kier to bring forward the expiry date of the current collection contract from September 2021 to 27 March 2020.

RESOLVED (3) the projected budget for 2018/2019, subject to the finalisation of the figures, be approved.

CAB45 **Hinkley Tourism Strategy Phase 3 Delivery Plan 2018-2019**

(Report No. WSC 128/17 – circulated with the Agenda.)

The purpose of the report was to inform the Council on what had been achieved in the first three years of delivering the Hinkley Tourism Strategy 2015-2020 under Phase 1 and 2 Action Plans; to consult with Council on the details of a refreshed Strategy and proposals for a new Phase 3 Action Plan for 2018 and 2019; and to request the drawdown of £258,000 from Hinkley Point C (HPC) Section 106 allocations available for tourism, to deliver the Phase 3 Action Plan.

The Lead Member for Regeneration and Economic Development presented the report and provided background information. He proposed the recommendations which were duly seconded by Councillor D Westcott.

The Strategy demonstrated how the HPC funding provided WSC with greater opportunities to promote and protect the tourism industry in the district.

The Leader responded to concerns regarding the detrimental impact of the development on the Stogursey Parish and its tourism and assured Members that the Council was doing everything it could to mitigate the effects.

The monitoring of visitor activity was considered very important and the fact that tourism website hits for West Somerset were on the increase was good news. It was felt that generating positive perceptions, which was one of the key themes within the Strategy, would be a challenge and the emphasis on promoting a positive image was essential. The full impact of the Hinkley development was now being experienced by the local communities and it was underlined how important and valuable it was to sustain industries such as tourism during this time.

A specific question was asked in regard to how much support would be provided to the three local Coastal Community Teams. The benefits to West Somerset of the refresh of the Visit Somerset website were not immediately apparent and it was felt that locally based teams could achieve a lot more in terms of promoting their own area. It was hoped that the Strategy would also support an initiative to look at a new marketing strategy for the coastal strip which was currently being explored by the Coastal Community Teams.

The Senior Tourism Officer advised there were a lot of different types of activity being undertaken within the current funding allocations. Hedrew attention to the spend against activity during the Phase 3 Action Plan, in particular working with local community groups and information centres to improve and enhance the visitor experience. He confirmed that a lot of communities affected by the HPC development had already received financial support during Phase 2, as well as receiving help and advice provided by officers. He stated that the Hinkley Tourism Action Partnership (HTAP) had agreed to look at the key coastal areas in a more general way; and opportunities for projects to receive match funding were also available through the Strategy. He further advised that by developing visitor experience tools, local community initiatives and marketing strategies to establish a new brand could be supported.

The Senior Tourism Officer recognised the concerns raised regarding the Visit Somerset website and informed Members that by closer partnership working, the promotion of West Somerset and Exmoor would improve. Targets and outputs would also be closely monitored.

In response to points raised in respect of how tourism would be managed in the future and the benefits of using local volunteers, it was reported that HTAP provided support to the two main industry bodies, Visit Exmoor and Visit Somerset, to make improvements in order for them to take the lead in a more efficient way going forward. The Partnership also worked with local groups to identify key issues to help improve the visitor experience and to ensure they became self-sufficient and not be reliant on further funding.

RESOLVED (1) that it be recommended to Council to approve the refreshed Hinkley Tourism Strategy 2015-2020 and Phase 3 Action Plan for delivery between January 2018 and September 2019.

RESOLVED (2) that it be recommended to Council to approve the request for drawing down £258,000 of Hinkley Point C Section 106 allocations available for tourism to deliver the Phase 3 plan.

CAB46 Budget Setting Process 2018/2019

(Report No. WSC 129/17 – circulated with the Agenda. Scrutiny Committee comments were circulated prior to the Meeting.)

The purpose of the report was to provide Cabinet with an update on budget estimates for 2018/2019 and Medium Term Financial Plan (MTFP) forecasts.

The Lead Member for Resources and Central Support presented the report. It was noted that the Budget Gap, detailed in Table 1 of the report, had been updated and the figure was now £215,000. Ongoing risks and volatility were still present and in view of the Government's 'minded to' decision, the Lead Member advised that the Council would have to become more cost efficient. However, the overall progress in addressing the budget gap had been positive and the Lead Member emphasised that the Council was doing its best to protect its services and staff resources.

The Lead Member proposed the recommendation which was duly seconded by Councillor D Westcott.

RESOLVED that the latest budget estimates be noted.

CAB47 Fees and Charges 2018/2019

(Report No. WSC 130/17 – circulated prior to the Meeting. Scrutiny Committee comments were circulated prior to the Meeting.)

The purpose of the report was to set out the proposed fees and charges for next financial year, 2018/2019.

The Lead Member for Resources and Central Support presented the report and read out the Scrutiny Committee's recommendations, which included a suggested proposal for Cabinet to consider recommending to Council that the proposed charge to the Sea Scouts Group be waived for the next 12 months whilst the legal position regarding a 1948 document between the Sea Scouts Group and the Council's predecessor body was established and clarified.

The Lead Member proposed the recommendation which was duly seconded by Councillor M Dewdney.

The Lead Member for Environment advised that the Council was required to keep and review documentation, e.g. checking method statements, risk assessments and insurance, from both charities and commercial organisations that used the Harbour and its facilities for the purpose of ensuring protection and safety when operating amongst other users of the Harbour, and it was felt the £100 levy was a reasonable administration charge. He advised the table within Appendix F of the report would be amended for the Full Council meeting so that reference to the Sea Scouts group permit would be listed within the 'Non-standard shared use of the harbour' section, rather than under 'Slipway Fees'.

There were differing views from Members as to whether an administrative charge should be imposed, with some feeling that charges should be waived for charitable and social groups and others agreeing that the Council had a responsibility to cover its costs and should seek to charge and treat all organisations fairly.

The main area of concern was not being able to locate a copy of the Watchet Urban District Council 1948 agreement and until the document could be found and the legal position resolved, it was suggested by the Chairman of Scrutiny to not impose the fee to the Watchet Sea Scout Group for 12 months.

The Assistant Director for Operational Delivery provided further clarification on how the level of fee was identified for charging the Sea Scout organisation for the administration of the process.

RESOLVED that it be recommended to Council to approve the Fees and Charges proposals to be added to the 2018/2019 budget, with the new charges for Environmental Health to come into effect from 1 January 2018.

CAB48 Earmarked Reserves Review

(Report No. WSC 131/17 – circulated prior to the Meeting. Scrutiny Committee comments were circulated prior to the Meeting.)

The purpose of the report was to provide information on the Earmarked Reserves Review for 2017-2018.

The Leader of Council presented the report and drew Member’s attention to the fact that earmarked reserves should only be held where there was a clear purpose and commitment to use the funds within a planned timeframe. Surplus earmarked balances would therefore be released to the general reserves when practicable. He proposed the recommendation which was duly seconded by Councillor C Morgan.

It was noted that an explanation on the Planning Policy Reserve would be provided following the meeting.

In response to a question regarding what would be the balance of the general reserves account following the transfer of earmarked reserves, it was confirmed to be £969,000.

The Assistant Director for Corporate Services updated Members on the annual review of the minimum level of general reserves which would shortly be taking place to look at any potential new risks the Authority might face.

RESOLVED that it be recommended to Council to approve the proposals contained within the report.

CAB49 **Business Rates Pool and 100% Business Rates Retention Pilot**

(Report No. WSC 132/17 – circulated prior to the Meeting.)

Following a recent meeting with Group Leaders, the Council had submitted a bid to the Department of Communities and Local Government to become a pilot for 100% Business Rates Retention in 2018/2019 with its county-wide district and County neighbours. The purpose of the report was to provide Councillors with the rationale and detail behind the bid.

The Leader of Council presented the report, drawing on the following points:

- The financial implications were based on indicative estimates of future Business Rates income and the financial benefits could be considerable, however this was not without risk. If these were considered to be no longer favourable the pool application could be withdrawn with no pool in place for 2018/2019.
- The Authority should be no worse off than if it were to remain outside the Business Rates Pool and would be exposed to the risk of volatility in its Business Rates income.
- There would be no detriment clause within the funding agreement for new 100% Business Rates Retention pilots for 2018/2019.

The Leader proposed the recommendations which were duly seconded by Councillor M Chilcott.

Members were fully supportive of the bid.

RESOLVED **(1)** that it be recommended to Council to endorse the urgent decision made by the Leader of the Council and the S151 Officer that the Council participated in the pooling arrangement together with other Somerset authorities (Somerset County Council, Mendip District Council, Sedgemoor District Council, South Somerset District Council, West Somerset Council) under the 50% Business Rates Retention scheme for 2018/2019.

RESOLVED **(2)** that it be recommended to Council to endorse the urgent decision to apply to the Government for the Somerset Business Rates Pool comprising the County and five districts to become a pilot area for 100% Business Rates Retention in the 2018/2019 financial year.

RESOLVED **(3)** that it be recommended to Council to approve delegated authority to the S151 Officer, in consultation with the Leader, to decide whether to remain in the Pool and, if approved by Government, the 100% Business Rates Retention Pilot scheme when the Government's Provisional Settlement details were announced in December 2017.

The meeting closed at 6.43 pm.

Cabinet Forward Plan - March 2018

Forward Plan Ref / Date proposed decision published in Forward Plan	Date when decision due to be taken and by whom	Details of the proposed decision	Does the decision contain any exempt information requiring a resolution for it to be considered in private and what are the reasons for this?	Contact Officer for any representations to be made ahead of the proposed decision
FP/18/3/01 19/04/2017	7 March 2018 By Lead Member Resources & Central Support	Title: **Allocation of Section 106 funds held** Purpose: to make proposals for the allocation of monies secured through planning obligations to individual schemes, and to update members with the current funding position	No exempt / confidential information anticipated	Tim Burton, Assistant Director Planning and Environment 01823 358403
FP/18/3/02 19/04/2017	7 March 2018 By Lead Member for Energy Infrastructure	Title: Hinkley Point Purpose: to consider any key issues that arise relating to Hinkley Point	No exempt / confidential information anticipated	Andrew Goodchild, Assistant Director Energy Infrastructure 01984 635245
FP/18/3/03 19/04/2017	7 March 2018 By Lead Member Resources & Central Support	Title: Allocation of Hinkley Point C Community Impact Mitigation Funding Purpose: to present the recommendations of the HPC Planning Obligations Board for the allocation of monies from the CIM Fund	No exempt / confidential information anticipated	Lisa Redston, CIM Fund Manager 01984 635218
FP/18/3/04 08/12/2017	7 March 2018 By Lead Member Community and Customer	Title: Discretionary Housing Payment Policy Purpose: to present the Discretionary Housing Payment Policy for recommendation to Council	No exempt / confidential information anticipated	Heather Tiso, Head of Revenues and Benefits 01823 356541
FP/18/3/05 19/01/2017	7 March 2018 By Lead Member Resources & Central Support	Title: **Budget Monitoring Report Quarter 3** Purpose: to provide Members with details of the Council's expected financial outturn position in 2017/18 for both revenue and capital budgets, together with information relating to predicted end of year reserve balances	No exempt / confidential information anticipated	Jo Nacey, Financial Services Manager / Deputy S151 01823 356537

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WSC 1/18

West Somerset District Council

Cabinet – 7 February 2018

Quarter 2 2017/18 Performance Report

This matter is the responsibility of The Leader of the Council, Cllr Anthony Trollope-Bellew

Report Author: Richard Doyle, Corporate Strategy & Performance Officer

1 Purpose of the Report

1.1 This report provides Members with key performance management data up to the end of Quarter 2 2017/18, to assist in monitoring the Council's performance.

2 Recommendations

2.1 It is recommended that:-

- Cabinet review the Council's performance and highlight any areas of particular concern;

3 Risk Assessment

Risk Matrix

Description	Likelihood	Impact	Overall
The key risk is that the Council fails to manage its performance and use the subsequent information to inform decisions and produce improved services for customers.	Likely (4)	Major (4)	High (16)
The mitigation for this will be the continued strong leadership from Lead Members and JMT to ensure that performance management remains a priority.	Unlikely (2)	Major (4)	Medium (8)

4 Background and Full details of the Report

4.1 Regularly monitoring our performance is a key element of the Council's Performance Management Framework.

4.2 There are **29** individual measures which are reported within the Corporate Scorecard.

4.3 The WSC Corporate Scorecard at Appendix A contains details of the Quarter 2 2017/18 position against the Council's key corporate indicators. It should be stressed that this information is at **30th September 2017**.

4.4 Each action/measure is given a coloured status to provide the reader with a quick visual way of identifying whether it is on track or whether there might be some issues with performance or delivery or an action.

4.5 The key used is provided below:

KEY:

☺	Planned actions are on course or achieved	😐	Some uncertainty in meeting planned actions	☹	Planned actions are significantly off course
	Performance Indicators are on target		Some concern that performance indicators may not achieve target. <15% variance		Significant concern that Performance indicators may not achieve target. > 15% variance

4.6 The table below provides an overview of the reported indicators within the Corporate Scorecard.

GREEN ☺	AMBER 😐	RED ☹	NOT AVAILABLE	NOT DUE	TOTAL
16	**3**	**1**	**1**	**8**	**29**

Please refer to **Appendix A** for full details of each of the reported measures.

4.7 Further detail is provided concerning the 1 red measure below:

Reference	Description	Measure	Comments
KPI 123	Customer Complaints	95% of complaints responded to with 20 working days	Q1 = 100% . Q2 = 80% 5 Complaints received in Q2. 4 Complaints responded to within 20 working days. .

5 Links to Corporate Aims / Priorities

5.1 This KPIs within this report support progress against the Council's key priorities in relation to place, people and an being an efficient and modern Council.

6 Finance / Resource Implications

6.1 The scorecard references some financial performance measures, a separate more detailed financial performance report for the quarter is listed as a separate item on this agenda.

7 Legal Implications

7.1 There are no legal implications associated with this report.

8 Environmental Impact Implications

8.1 There are no direct environmental impact implications associated with this report although the scorecard includes measures relating to fly-tipping.

9 Safeguarding and/or Community Safety Implications

9.1 There are no safeguarding and /or community safety implications associated with this report.

10 Equality and Diversity Implications

10.1 There are no equality and diversity implications associated with this report.

11 Social Value Implications

11.1 There are no Social Value implications associated with this report.

12 Partnership Implications

12.1 A number of corporate aims and objectives reported within the corporate scorecard are delivered in partnership with other organisations, in particular through shared services arrangements with Taunton Deane Borough Council. .

13 Health and Wellbeing Implications

13.1 There are no direct health and wellbeing implications associated with this report although the corporate scorecard includes measures relating to disabled facilities grants which enable residents to live independently, for example.

14 Asset Management Implications

14.1 There are no direct asset management implications associated with this report.

15 Consultation Implications

15.1 The performance scorecard has been sent to JMT for information. This performance report will be published on the Council's website for public scrutiny and information.

Democratic Path:

- **Scrutiny - Yes**
- **Cabinet – Yes**
- **Full Council – No**

Reporting Frequency: 6 Monthly.

List of Appendices (delete if not applicable)

Appendix A	WSC Scorecard
Appendix B	Minor Planning Applications

Contact Officers

Name	Richard Doyle
Direct Dial	01823 218743
Email	r.doyle@tauntondeane.gov.uk

Reference	Council	Is this a Corp Scorecard Measure?	Description	Measure	Q1 (RAG)	Q2 (RAG)	Comments
HC4.13	WSC	Yes	Number of Households making a homeless application (lower is better and reflects improved prevention) and percent accepted where we have a duty. KPI 45	Target = 65 or fewer for the year	AMBER	AMBER	Q1 - homeless applications 18 homeless acceptances 8 (30%) Q2 - Homeless applications 7 Homeless acceptences 3 (43%)
HC4.5	WSC	Yes	Disabled facilities grants - Average time to complete DFG process once allocated by SWPSHP Measures the time from allocating the case until the work has been completed. KPI 52	Target - 24 Weeks (as per the Home Improvement Agency's target)	GREEN	GREEN	Q1 9 weeks. 16 cases. 3 complex DFG's and 13 a combination of prevention DFG's and ramp installations. 88% of the cases (14) were well within the target weeks. Q2 No major DFG were completed during Q2. 6 DFG's were approved for the same quarter. 4 ramps were fitted and 2 prevention grants. The prevention grants were provided to fit a shower unit and handrails. Just taking into consideration the ramps and prevention grants, the overall time for Q2 was 4 weeks. 100% within target. Overall for the year, the average time is down to 6.5 weeks as a result of Q2 halving the overall average time.
KPI 90A	WSC	Yes	% major planning applications determined within 13 weeks (or within agreed extension of time)	60%	GREEN	GREEN	Q1 - 100% Q2 – 100%
KPI 90B	WSC	Yes	% minor planning applications determined within 8 weeks or an agreed extension of time.	65%	GREEN	AMBER	Q1 - 81% Q2 – 55.5%
KPI 90C	WSC	Yes	% of other planning applications determined within 8 weeks or an agreed extension of time.	80%	GREEN	GREEN	Q1 - 90% Q2 – 95.3%
KPI 160	WSC	Yes	Number of days sickness per FTE	Average of 8.5 days or lower per FTE	GREEN	GREEN	Q1 results 1.77 days per FTE, 7.07 days per annum predicted Q2 results 3.65 days per FTE, 7.29 days per annum predicted
KPI 5	WSC	Yes	Average processing times for new HB claims only	28 days or lower	GREEN	GREEN	Q1 = 24.49 days Q2 = 21.8 days
KPI 6	WSC	Yes	Average processing times for HB only changes in circumstances (lower is better).	9 days or lower	AMBER	AMBER	Q1 = 10.16 days Q2 = 10.47 days
KPI 10	WSC	Yes	% Council Tax collected	97.5% by 31st March	GREEN	GREEN	End of Q1 = 35.09% End of Q2 = 62.49%
KPI 12	WSC	Yes	% Business Rates collected	98% or more by 31st March	GREEN	GREEN	End of Q1 = 33.08% End of Q2 = 57.44%
KPI 103	WSC	Yes	Street Cleansing % service requests actioned within 5 working days	85% target	GREEN	GREEN	Q1 = 100% Q2 = 100%
KPI 88	WSC	Yes	Waste & Recycling Fly-tipping: % removed within 48 hrs	75%	GREEN	GREEN	Q1 = 94% Q2 = 97%
KPI 25	WSC	Yes	Customer Access Abandoned in queue call rate %	Target - <8%	AMBER	GREEN	Q1 = 8.06% Q2 = 7.81%

KPI 123	WSC	Yes	Customer Complaints	95% of complaints responded to with 20 working days	GREEN	RED	8 complaints received in Q1 8 complaints responded to within 20 days Q1 = 100% 5 complaints received in Q2 4 complaints responded to within 20 days Q2 = 80%
KPI 124	WSC	Yes	FOI requests provided with substantive response within 20 days.	Measure: - Number of FOI enquiries received. Target 75% answered witin 20 working days.	GREEN	GREEN	127 requests received in Q1 107 requests responded to within 20 days Q1 = 84.25% 91 requests received in Q2 82 requests responded to within 20 days Q2 = 90.11%
KPI 56a	WSC	Yes	Environmental Health % of requests completed within stated service standard (60 days)	75% or higher	AMBER	Not Available	Q1 2017/18 is 70% - officers responsible for closure of own workload on system. Improvement since last score
KPI 59	WSC	Yes	Licensing % of licenses issued on time.	90%	GREEN	GREEN	Achieved 99%
HC4.7	WSC	Yes	Average overall waiting time for high priority DFGs (once recommendation made by OT) KPI 52a (The priority is determined by the Occupational Therapist and the assessment is determined on the combined risk and functional independence score. The score puts them into High, Medium or Low. Low = 0 - 8 points, Medium = 9 - 14, High = 15+ points).	Measure Only - no target	GREEN	GREEN	Q1 -18 weeks. Applicant required a wet room with major alterations. Q2 No major adaptations completed. 3 'High Priority' DFG's approved in Q2. Not able to determine if the Prevention grants or ramps are High Priority as they are not required to have a risk score.
TH9	WSC	Yes	Number of NDR hereditaments and rateable value	New Measure	GREEN	GREEN	Total Rateable Value as at 27/09/2017 = £45,058,920 Total Hereditaments = 2,009
HC4.17	WSC	Yes	Facilitate the delivery of the affordable housing pipeline to achieve 34 new affordable homes in 2017/18	Target = 34 affordable homes (102 homes over 3 years) (Based on 35% of the emerging Local Housing Plan annualised new build housing figure of minus 30% to take account of small sites.)	GREEN	GREEN	Q1 - First Phase (4 units) of the SHAL Affordable Rent provision at Doniford Road in Watchet and the final 3 Low Cost Home Ownership sales at Dunster Marsh (Site now complete) Q2 - Final MYHOME property at Doniford Road, Watchet sold by Summerfield. LCHO element of this scheme now complete. Second Phase (3 units) of the SHAL Rent provision at Doniford Road in Watchet now completed and occupied
TH12	WSC	Yes	Number of Complaints investigated by the Ombudsman requiring a remedy (excludes minor injustices)	0	GREEN	GREEN	Q1 = 0 Q2 = 0

Appendix B

Minor Planning Applications

With regards to the query as to why performance for Minor Planning Applications was dropping from 81% down to 55%.

This is down to our resilience combined with the absence of some our planning officers over the period.

You will see from the previous year's figures that quarterly performance can fluctuate quire significantly but it balances out over the year.

With the recent and upcoming loss of some of our key members of staff through resignation or being appointed into the Hinkley Point Team, I expect our performance to continue to be at level that is very close to 65%. I have been able to bring in some agency support to cover the recent resignations which should address matters – subject to no new issues arising.

At a national level, where we are monitored over a 2 year rolling period and the minor applications are combined with 'other' applications, we were running at 84.8% (Q2 being at 78.3% for that specific quarter). The national level for designation is 70%.

Report Number: WSC 5/18

West Somerset Council

Cabinet – 7 February 2018

Draft Annual Budget and Council Tax 2018/19

This matter is the responsibility of Councillor Chilcott, Lead Member Resources and Central Services

Report Author: Andrew Stark, Interim Financial Services Manager

1 Executive Summary

1.1 The purpose of this report is to set out the Draft Budget and proposed Council Tax for 2018/19 to enable Cabinet to recommend proposals to Full Council for approval. This report includes the revenue implications of the 2018/19 Draft Capital Programme which is included in a separate report to this meeting.

1.2 The Final Grant Settlement is due to be issued by Government imminently. The provisional funding settlement was issued by Government late December, and included details regarding general revenue grant funding, New Homes Bonus, and business rates retention baseline and tariff. Overall the general grant funding available to deliver services has again reduced significantly in 2018/19:

a) General funding, Revenue Support Grant has reduced by £146,692 (46%) whilst Rural Services Delivery Grant was kept at the same level of £171,530.
b) New Home Bonus funding has reduced by £148,994 (27%)

1.3 The business rates position is skewed by the 2017 Revaluation of rateable values (RV) and adjustments to the Tariff payment the Council is required to make as a result. The Council approved a revised budget and MTFP estimates in August 2017. This reflected an expected increase in retained business rates in 2018/19 due mainly to the uplift in the RV for Hinkley B power station – **therefore this increase is already reflected in our financial forecasts**. Consequently, the net 2018/19 business rates income forecast was revised to £2,647,765. This was an increase of £1,502,650 compared to previous year and included a retrospective one-off credit adjustment (due to timing differenced) of an estimated £1,466,010 to the Tariff. Following the Provisional Settlement the net 2018/19 business rates income forecast has been updated to £1,963,602 – so lower than previously estimated but still a large increase compared to 2017/18.

1.4 Due to the timing differences in the adjustment to the Tariff for the 2017 Revaluation, the net business rates income retained for 2019/20 will level out in broad terms, to an estimated £1.9m approximately – which is approximately £800,000 higher than the 2017/18 funding level.

1.5 Cabinet is minded to recommend to Full Council a council tax increase of 3.32% (£5 on a Band D) which provides an additional £70,440 income. Together with the higher Tax Base, total council tax funding will increase by £104,694 in 2018/19.

1.6 The 2018/19 draft budget also includes a prior year net Collection Fund surplus of £460,415 (£395,751 business rates surplus, £64,664 council tax surplus).

1.7 Following the completion of the NNDR1 in January the forecasts are now showing a reduction in the 2017/18 predicted Business Rate Collection Fund Surplus to £395,751 (£58,285 less than reported at Scrutiny Jan 2018) and the Retained Business Rates funding is now forecast to be £496,896 less than was previously predicted following the review of business rates income. In order to partially offset this additional pressure, Cabinet is minded to transfer £491,397 from the Business Rates Smoothing Reserve. Cabinet is also minded to transfer £160k to the Sustainability Reserve to provide further invest to save funds.

1.8 The updated Medium Term Financial Plan indicates that, despite forecasting a balanced budget for 2018/19, the ongoing Budget Gap remains challenging considering the savings already assumed within the MTFP and the limited number of areas available to find further savings.

1.9 It is also important to emphasise that there remains significant uncertainty in financial forecasts beyond 2019/20. The current four year settlement sets proposed government grant funding up to 2019/20. The outcome of the Fair Funding Review is expected to be implemented in April 2020. Business rates baseline and tariff are due to be reset in 2020, and the proposed move to 100% continues to be developed, perhaps for implementation in April 2020. Notwithstanding these factors which will influence future funding, a major proportion of our retained business rates funding relies on Hinkley. There is a significant risk of funding reduction if Hinkley B is decommissioned earlier than currently forecast or has unplanned outages. There is a high probability that there will be several years between Hinkley B being decommissioned and Hinkley C generating, which would lead to a significant ‘trough’ in our business rates income. Councillors are strongly advised to plan prudently for this longer term risk when considering budget plans.

2 Recommendations

2.1 Cabinet notes the forecast Medium Term Financial Plan and Reserves position, and notes the S151 Officer’s Robustness Statement as set out in Appendix A of this report.

2.2 Cabinet recommends the 2018/19 Draft Budget to Full Council for approval, subject to any amendments required as a result of the Final Funding Settlement.

2.3 Cabinet recommends to Full Council a 2018/19 Council Tax increase of 3.32%, increasing the Band D basic tax rate by £5 to £157.32, comprising £155.56 for services and £1.76 on behalf of the Somerset Rivers Authority.

2.4 Cabinet recommends Full Council approves the minimum reserves level at £700,000 (see Section 17.2).

3 Risk Assessment

Risk Matrix

Description	Likelihood	Impact	Overall
Risk - West Somerset Council is unable to balance the budget	Feasible (3)	Catastrophic (5)	High (15)
Mitigation - Members approve options to balance the budget	*Very Unlikely (1)*	*Catastrophic (5)*	*Low (5)*

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
			Impact				

Likelihood of risk occurring	Indicator	Description (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 some 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-ringfenced and specific grants/subsidy).

4.3 Each year the Council sets an annual budget which details the resources needed to meet operational requirements. The annual budget is prepared within the context of priorities identified by Members which are embedded in the Council's current Corporate Plan.

4.4 It has been well reported that the Council faces significant and ongoing financial challenges, with a continuation of the annual reductions in Government funding for local council services as the Government seeks to reduce the national deficit. In addition volatility in other funding sources, such as business rates adds to the financial pressure faced by the Authority.

4.5 As such, Members have previously considered a range of important reports that provide background on the Council's financial position and the budget strategy for 2018/19.

5 Provisional Finance Settlement 2018/19

5.1 The Government's Provisional Finance Settlement for 2018/19 was issued on 19 December 2017. The Final Settlement is expected to be confirmed in early February 2018.

6 Fair Funding Review

6.1 Alongside the local government finance settlement, the Government confirmed that it is looking to implement the Fair Funding Review in April 2020 and published the consultation: Fair funding review: a review of relative needs and resources.

6.2 This consultation focuses specifically on potential approaches that have been identified to measure the relative needs of local authorities.

6.3 In particular, it:

- presents the idea of using a simple foundation formula to measure the relative needs of local authorities, based on a small number of common cost drivers;
- considers a number of service areas where in addition, a more sophisticated approach to measuring relative needs may potentially be required; and
- outlines the statistical techniques that could be used to construct relative needs.

6.4 The consultation does not cover the relative resources adjustment, transition or other technical matters but these will be the subject of a later series of discussion papers.

7 General Grant Funding

7.1 The grant funding from Government is in line with the confirmed multi-year settlement (2016/17 to 2019/20), with the expected reduction in 2018/19 of RSG but a levelling of RSDG which we had expected to reduce in 2018/19, overall a 30% reduction in general revenue grant funding:

Table 1 – General Government Grant

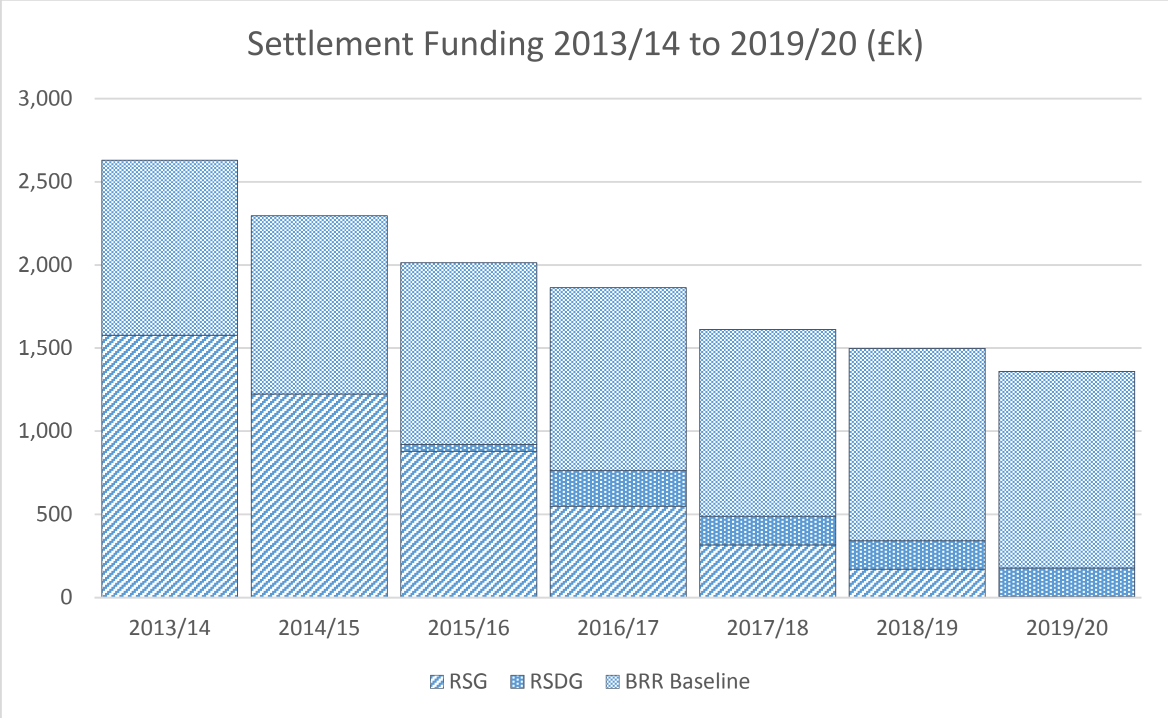
	2017/18 £	2018/19 £	Change £	
Revenue Support Grant (RSG)	316,885	170,193	-146,692	-46%
Rural Services Delivery Grant (RSDG)	171,530	171,530	0	0%
Total General Revenue Grant Funding	**488,415**	**341,723**	**-146,692**	**-30%**

7.2 The multi-year settlement includes further reductions in subsequent years. The following table summarises how these grants are projected to reduce since 2013/14, followed by a graph that clearly demonstrates the downward trend in the Council's Settlement Funding Assessment. During this period, the Settlement will have reduced by 51% in cash terms (estimated 56% in real terms).

Table 2 – Settlement Funding

	13/14 £k	14/15 £k	15/16 £k	16/17 £k	17/18 £k	18/19 £k	19/20 £k
RSG	1,579	1,225	880	550	317	170	6
RSDG*	0	0	41	212	172	172	172
BR Baseline	1,051	1,071	1,092	1,101	1,123	1,157	1,183
Govt Settlement	2,630	2,296	2,013	1,863	1,612	1,499	1,361

**Incorporated within RSG prior to 2015/16, with amount not separately identified within Settlement information.*



8 Business Rates Retention and 100% Business Rates Pilot Bid

8.1 Following an invitation from Central Government on 1 September for local authorities to bid to become a 100% Business Rates Retention Pilot, we submitted a bid alongside the County Council and our other Somerset district partners. We explained to Members that this was not the same proposal as the original 100% Business Rates Retention Scheme that the Government had been promoting to be implemented by the end of Parliament. This revised scheme referred solely to the retention of the whole of the growth element of Business Rates, 50% of which historically has gone to Government.

8.2 The “back-up” position was that if we were not successful in our bid that we would still like to have approval to form a Pool and enjoy the benefits which accrue from the mixture of tariff and top-up authorities from the lower and upper tiers.

8.3 There was significant interest in becoming a pilot with Government receiving 27 bids overall. Unfortunately we were not successful despite putting forward a strong bid, with only 10 new pilot areas being agreed. We were however given approval to form a Pool under the existing 50% Retention system and we are currently looking at our Business Rates forecasts alongside our partners to establish how much this could deliver in terms of additional funds. From our initial computations this was forecast to be in the region of up to £600k but there will need to be detailed work undertaken by all Pool members to shore up the most recent projections. We are confident that the potential gains far outweigh the risk of being in a pool, but prudently we have not factored any gain into budget at this stage as it remains uncertain.

8.4 The Provisional Settlement announcement by Government on 19 December incorporated adjustments to both the baseline and tariff methodology which led to a reduction of £218k in the Business Rates retained by the Council (see

Table 8) compared to previous estimates.

8.5 Provisional estimates have now been completed for Business Rates Collection Fund Net Rates Income and these have been summarised in the table below.

Table 3a Collection Fund Rating Income Estimate 2018/19

	£k
Net Rates Payable (after reliefs)	17,000
Transitional Protection Payments	1,463
Less: Allowance for bad debts	-85
Less: Allowance for appeals	-1,615
Collectible Rates	**16,763**
Less: Costs of Collection	-77
Less: Disregarded amounts: Renewable Energy	-30
Non-Domestic Rating Income	**16,656**
WSC 40% Share of NDR Income	**6,662**

8.6 A summary of the new Retained Funding figure is shown in the table below:

Table 3b – Business Rates Retention Estimates

Business Rates Retention Funding Estimates	**2016/17 Budget £**	**2017/18 Budget £**	**2018/19 Estimate £**	**2019/20 Estimate £**
40% Standard Share of Business Rates Yield	4,365,929	6,620,078	6,662,395	6,814,760
Rates yield from renewable energy schemes	50,000	50,000	29,650	30,328
Tariff to Government	-3,061,669	-6,058,369	-4,913,471	-5,025,837
Levy Payment	-250,479	0	-544,510	-556,963
Safety Net Income	0	118,676	0	0
S31 Grant	317,156	414,730	729,538	679,931
Net Retained Business Rates Funding	**1,420,937**	**1,145,115**	**1,963,602**	**1,942,219**
Net Retained B Rates Funding as % of yield	13.0%	6.9%	11.8%	11.4%

8.7 As the table shows, although our projected 40% share of business rates income has increased by approximately £2.5m between 2016/17 and 2019/20, our Tariff has also increased by approximately £2m.

8.8 There has also been a one-off adjustment to the 2017/18 Tariff. We have received clarification over the accounting treatment of this adjustment and understand that it will have a favourable effect on the 2017/18 outturn position. This forecast surplus is proposed to be transferred to the Smoothing Reserve (Table 10a)

8.9 The Council's estimated retained business rates funding has increased by £818,487 in 2018/19 compared to 2017/18. **The projected business rates income was increased as part of the 2017/18 revised budget (formally approved by Council in August 2017) to reflect the increase in Hinkley B rateable values following the 2017 Revaluation.** Although this is a welcome increase in funding it brings with it additional risk and an increased levy to Government which is reflected in the table above. The estimated funding for 2019/20 shows the ongoing impact of the 2017 Revaluation (subject to future settlements, the impacts of baseline and tariff resets, possible changes following the Fair Funding Review and implementation of 100% Retention).

9 New Homes Bonus

9.1 The New Homes Bonus (NHB) Grant 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-ringfenced which means the Council is free to decide how to use it. The previous scheme design sets out that each year's Grant allocation would be payable for six years. Historically, all NHB Grant has been used to support ongoing spending of the Council.

9.2 The provisional NHB Grant for 2018/19 is £396,417, which is £148,994 or 27% less than 2017/18, and £27,765 more than our November estimate which is welcome but continues the trend of a falling allocation.

Table 4 – New Homes Bonus 2018/19

	2017/18 £	2018/19 £	Change £	
New Homes Bonus Grant	545,411	396,417	-148,994	-27%

9.3 The Government has not changed the New Homes Bonus methodology this year and we continue to see a "top-slice" of 0.4% of growth which is a significant reduction to our limited growth figures each year due to our rurality and other external factors. In addition to the top-slice the Government has confirmed that the rolling up of grants has reduced to 4 years from 2018/19. Our previous MTFP forecasts had been prepared on this basis.

9.4 The impact of this new growth baseline is significant, particularly in a predominantly rural area like West Somerset. The actual growth in Band D equivalents in 2017 was 115 or 0.65%. The impact is summarised within the following breakdown of the grant allocation related to 2018/19:

Table 5 – New Homes Bonus 2018/19 Calculation

Net Additions (October 2016 to October 2017)	132
Net increase in empty homes	-17
Absolute net housing growth	115
Net housing growth weighted as Band D equivalents (=0.65%)	110.0
0.4% of October 2016 stock base – Band D equivalents	-68.2
Rewarded units = 0.25% growth – Band D equivalents (rounded)	41.8
NHB Grant for growth (£1,590.55* x 80%** x 41.8)	£53,226
Affordable housing units growth (April 2016 to March 2017)	20
NHB Grant for affordable housing growth (£350 x 80%** x 20)	£5,600
Total NHB Grant allocation related to 2018/19	**£58,826**

*£1,590.55 = the national average Band D council tax for 2017/18
**growth is rewarded 80% to lower tier (District), 20% to upper tier (County)

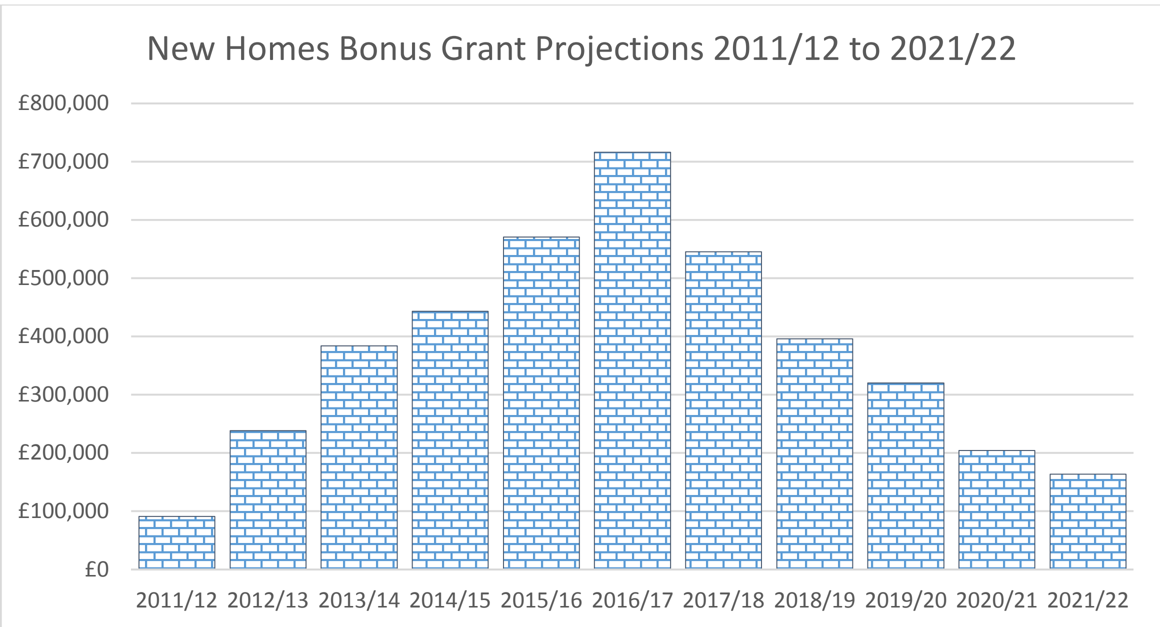
9.5 As this shows, housing growth (net of new housing, demolitions and increase in empty homes) of 68.2 Band D equivalents has not been rewarded in 2017/18.

This has resulted in a loss of funding of approximately **£86,780** as a result of the new top-slice for 0.4% growth.

9.6 The following table and graph summarises the historic allocations of NHB and the MTFP forecast up to 2021/22. The indicative trend indicates this grant source peaked in 2016/17 and further reductions in funding are expected in future years which inevitably adds further financial pressure for the Council's services.

Table 6 – New Homes Bonus Grant Forecast

	11/12 £k	12/13 £k	13/14 £k	14/15 £k	15/16 £k	16/17 £k	17/18 £k	18/19 £k	19/20 £k	20/21 £k	21/22 £k	Totals £k
2011/12	91	91	91	91	91	91						546
2012/13		147	147	147	147	147						735
2013/14			145	145	145	145	145					725
2014/15				60	60	60	60					240
2015/16					128	128	128	128				512
2016/17						145	142	142	142			571
2017/18							70	68	68	68		274
2018/19								59	59	59	59	236
2019/20									51	51	51	153
2020/21										27	27	54
2021/22											27	27
Total	**91**	**238**	**383**	**443**	**571**	**716**	**545**	**397**	**320**	**205**	**164**	**4,073**



10 Council Tax

10.1 The Secretary of State has confirmed within the Provisional Settlement that Shire Districts are able to increase council tax by the greater of 2.99% or £5 (on a Band D) in 2018/19 without the need for a referendum.

10.2 The 2017/18 annual basic tax rate towards the cost of West Somerset Council services, for the average Band D property, is £150.56, and the Council also included £1.76 in respect of the Somerset Rivers Authority (SRA), making the total Band D charge £152.32 on the face of Band D tax bills in 2017/18.

10.3 Cabinet are minded to recommend to Full Council the option to increase Council Tax by 3.32% which equates to the £5 limit on a Band D property, and this is reflected in the draft budget estimates for 2018/19. For an average Band D property this will set the tax rate at £157.32 or £3.02 per week (comprising £155.56 for West Somerset services and £1.76 for the SRA). Any increase above this amount would require a referendum of local tax payers.

10.4 The approved Tax Base for 2018/19 is 14,087.92 Band D Equivalents, an increase of 227.5 (1.6%) compared to 2017/18. The draft budget estimates for Council Tax income for WSC is therefore 14,087.92 x £155.56 = £2,191,517. This represents a total increase of £104,694 compared to the previous year. The budget estimates are calculated as follows.

	£
Council Tax Income Budget 2017/18	2,086,823
Increase due to change in Tax Base (Band D equivalents)	18,775
Increase due to proposed 3.32% increase in Tax Rate	85,919
Estimated Total 2018/19	2,191,517

11 Somerset Rivers Authority

11.1 Members will be aware that the Somerset Rivers Authority are still unable as yet to raise their own precept and it is therefore proposed and supported by the Board members to follow the same arrangements as 2016/17 and 2017/18 and raise a precept for the same Band D value, i.e. £1.76 per year, which is currently included in our base. This will raise £25k funding from WSC in 2018/19. Keeping the precept at this level will make it easier to “unravel it” from our Council Tax computations when the Rivers Authority has precepting power.

12 Updated Budget Gap 2018/19 and Plans to Balance the Budget

12.1 The 2018/19 Budget Gap as presented to Scrutiny Committee on 23 Nov 2017 was £15k. This table is reproduced in full below:

Table 7 – Draft Budget Gap 2018/19 Reconciliation November 2017

	£k	**Budget Gap £k**
Budget Gap as reported to Scrutiny 15th June 2017		131
Revised calculation of BRR Tariff Adjustments based on final 16/17 NNNDR3	48	
Council Tax Collection - Additional Court Fees	-30	
Building control contract saving	-23	
Waste Partnership budget pressure	18	
Additional income from Roughmoor Enterprise Centre	-3	
HR budgets unused under joint mgt arrangements	-6	
PSAA audit fees reduction	-21	
Telephones - reduction re WSC - Old Minehead Office link	-10	

	£k	Budget Gap £k
Parking - additional income	-20	
Reduction in SHAPE contract fee	-41	
Council Tax £5 increase	-28	
BRR baseline adjustment for Sept RPI at 3.9%	-79	
Transfer to Business Rates Smoothing Res re initial Estimate (CPI)	79	
Council tax base		
Finalising detailed service cost estimates		
Fees and charges	?	
Delay in Transformation Savings?	?	
Business Rates Volatility?	?	
Asset Management – cost pressure?	?	
Provisional Settlement Impact?	?	
Budget Gap Estimate as at 23rd November 2017		**15**

12.2 The Provisional Settlement and some other material changes to budget estimates have significantly changed the Budget Gap for next year, from £15k in November to a surplus of £224k which is proposed to be transferred to the Business Rates Smoothing Reserve (£64k) to address future risk and £160k to the Sustainability Reserve.

12.3 We have now finalised our NNDR1 Business Rates estimates for 2018/19 and they have indicated a reduction in the predicted BR Surplus for 2017/18 and also a reduction in the forecast Business Rates Retained funds. In order to mitigate this new pressure, a transfer from the Smoothing Reserve is proposed.

Table 8 – Budget Gap Following Provisional Finance Settlement and Updated Business Rates forecast

	£k	Budget Gap £k
Budget Gap as reported to Scrutiny 23rd Nov 2017		**15**
Council Tax Provisional Estimates - Tax Base Growth	-16	-1
Salary Estimates 2018/19	7	6
Fees and Charges - Environmental Health New Charge	-1	5
Fees and Charges - Harbours	-2	3
Fees and Charges - Parking	3	6
Effect of 2% Pay proposal	3	9
Estimated Council Tax Surplus 2017/18	-65	-56
Estimated BR Surplus 2017/18	-454	-510
BR Retention - Provisional Settlement Tariff and Baseline Adjs	218	-292
Provisional Settlement - Additional RSDG	-40	-332
Provisional Settlement - Additional NHB	-28	-360
Provision for potential delay in 2018/19 Transformation Savings (one-off timing difference)	136	-224
Transfer to Business Rates Smoothing Reserve	64	-160

	£k	Budget Gap £k
Transfer to Sustainability Reserve	160	0
Business Rates NNDR1 adjustment	497	497
Transfer from Business Rates Smoothing	-497	0
BR Surplus 17/18 NNDR1 Adjustment	58	58
Transfer from Business Rates Smoothing Reserve	-58	0

Council Tax Collection Surplus

13.1 This surplus has resulted as we have recovered more Council Tax than we had previously budgeted. This is as a result of a number of factors including better collection rates, growth and discounts.

Business Rates Collection Fund Surplus

13.2 Where the total amount of business rates collected during the year varies from the budget estimates this results in a surplus or deficit balance in the Collection Fund. WSC is entitled to 40% of any surplus balance, with the final projected surplus in 2017/18 forecast at £989,377. This reflects an update in the methodology used to estimate the potential cost of appeals and other refunds. Our 40% share of this is £395,751, will be paid into the Collection Fund in 2018/19.

Business Rates Retention

13.3 As stated earlier in this report (see para 8.4) the business rates retention estimates have reduced by around £218,000 following changes detailed in the Provisional Settlement. Our NNDR1 estimates for 2018/19 have also shown a reduction to our funding which is proposed to be mitigated by a transfer from the Smoothing Reserve (see para 1.7)

New Homes Bonus

13.4 As stated earlier in this report (see section 7) the NHB grant funding is more than previously estimated.

Sustainability Fund

13.5 Cabinet are minded to transfer £160,000 to the Sustainability Fund, which will provide additional one-off funds to support invest to save initiatives such as key asset management projects that will seek to improve the ongoing revenue budget position.

13 Business Rates Smoothing Reserve

14.1 As previously reported, the Council's share of business rates funding can be volatile. Financial provisions are maintained in respect of appeals and bad debts, however there remains a risk that rating income can fall below our budget estimates. The Council maintains a Business Rates Smoothing Reserve which provides a contingency for volatility in the Council's retained funding. The reserve was depleted by the previous Hinkley B appeal in 2015 and since that time the Council has prudently replenished the Reserve with a view to providing some resilience against further appeals and Business Rates losses.

14.2 The resulting balance in the reserve would be as follows:

Table 10a – Provisional Business Rates Smoothing Reserve Balance

	£
Opening Balance 1 April 2017	**305,144**
2017/18 Budget – 2016/17 Surplus	480,635
2017/18 Transfer to Balance 2017/18 Budget	-264,917
2017/18 Projected Outturn position (provisional)	571,996
Projected Closing Balance March 2018	**1,092,858**
2018/19 Budget – Transfer re Multiplier change to CPI	78,932
2018/19 Budget – Contingency for higher risk above safety net	861,600
2018/19 Budget - Proposed transfer from Reserve re NNDR1 forecast	-491,397
Projected Closing Balance March 2019	**1,541,993**

14.3 The current financial strategy aims to hold a minimum smoothing reserve balance of c£1.6m. This level of reserve is adequate to cover the current Business Rates risk however we are mindful that there will undoubtedly be a significant dip in Business Rates income when Hinkley B is decommissioned and before Hinkley C comes on stream. This is a significant risk for the West Somerset Council finances and we should take prudent steps to mitigate this significant fall in revenue.

14.4 The quantum of this risk is the difference between the level of Business Rates income we have in the budget and the safety net. The table below shows the current estimated budget in relation to the safety net, highlighting the level of funds at risk i.e. if business rates funding falls we would need to cover the "funding at risk" from our own reserves before the safety net is triggered. The safety net is also potentially lower under as part of the business rates pool.

Table 10b - Funding at Risk

	2018/19	**2019/20**	**2020/21**	**2021/22**	**2022/23**
Budgeted Business Rates Funding	1,963,602	1,942,219	1,979,857	2,015,917	2,050,429
Safety Net	-1,070,141	-1,094,546	-1,116,793	-1,139,040	-1,161,288
Funding at risk	**893,461**	**847,673**	**863,064**	**876,877**	**889,141**

13.5 The timing of the decommissioning of Hinkley B and Hinkley C delivering full output is currently fluid. It is not unreasonable to assume that there could be 3 to 4 years between the two Plants being operational. It is anticipated that funding would fall to the safety net during this period therefore it would be prudent to consider increasing the funds set aside within the Smoothing Reserve over the medium term to increase resilience to cover losses of up to £850k per year for 3 to 4 years to avoid disruption in funding for services.

15 2018/19 Draft Budget Summary

15.1 The following table provides a summary of the latest Draft Budget position for 2018/19.

Table 11 – Draft Revenue Budget 2018/19

	Revised Budget 2017/18 £	**Draft Estimates 2018/19 £**
Total Spending on WSC Services	4,590,636	4,585,439
Somerset Rivers Authority Contribution	24,394	24,795
Revenue Contribution to Capital	0	39,000
Capital Debt Repayment Provision (MRP)	0	143,100
Interest Costs	5,000	5,000
Interest Income	-31,875	-28,000
Transfers to/from Earmarked Reserves	215,718	609,135
Transfer to/from General Reserves	30,700	0
AUTHORITY EXPENDITURE	**4,834,573**	**5,378,469**
Retained Business Rates	-1,145,115	-1,963,602
Revenue Support Grant	-316,885	-170,193
Rural Services Delivery Grant	-171,530	-171,530
New Homes Bonus	-545,411	-396,417
Surplus(-)/Deficit on Collection Fund – Council Tax	-63,780	-64,664
Surplus(-)/Deficit on Collection Fund – Business Rates	-480,635	-395,751
Expenditure to be financed by District Council Tax	***2,086,823***	***2,191,517***
Council Tax raised to fund SRA Contribution	***24,394***	***24,795***
Total Council Tax Raised by WSC	**2,111,217**	**2,216,312**
Divided by Council Tax Base	13,860.4	14,087.9
Council Tax @ Band D – West Somerset Services	**150.56**	**155.56**
Council Tax @ Band D – Somerset Rivers Authority	**1.76**	**1.76**
Council Tax @ Band D – WSC including SRA	**152.32**	**157.32**
Cost per week per Band D equivalent	**2.92**	**3.02**

Note: this table does not include town/parish precepts.

16 Revised MTFP Position

16.1 The updated MTFP forecast is summarised below, reflecting the updates described in this report.

Table 12 – Revised MTFP Summary as at 7 February 2018

	2017/18 £	2018/19 £	2019/20 £	2020/21 £	2021/22 £	2022/23 £
Services Costs	4,590,636	4,585,439	4,432,373	4,585,308	4,682,706	4,827,739
Net Financing Costs	-26,875	-23,000	-23,000	-39,875	-54,250	-49,250
Repayment of Borrowing	0	143,100	143,100	143,100	143,100	143,100
Revenue contribution to Capital	0	39,000	39,000	39,000	39,000	39,000

	2017/18 £	2018/19 £	2019/20 £	2020/21 £	2021/22 £	2022/23 £
SRA Contribution	24,394	24,795	0	0	0	0
Earmarked Reserves – Other	215,718	609,135	0	0	0	0
General Reserves	30,700	0	0	0	0	0
Net Expenditure	**4,834,573**	**5,378,469**	**4,591,473**	**4,727,533**	**4,810,556**	**4,960,589**
Retained Business Rates	-1,145,115	-1,963,602	-1,942,219	-1,979,857	-2,015,917	-2,050,429
Business Rates prior year surplus/deficit	-480,635	-395,751	0	0	0	0
Revenue Support Grant	-316,885	-170,193	-6,340	0	0	0
Rural Services Delivery Grant	-171,530	-171,530	-171,530	-171,530	-171,530	-171,530
New Homes Bonus	-545,411	-396,417	-320,406	-204,664	-163,701	-131,572
Council Tax–WSC	-2,086,823	-2,191,517	-2,248,596	-2,307,136	-2,367,156	-2,428,693
Council Tax–SRA	-24,394	-24,795	0	0	0	0
Council Tax prior year surplus/deficit	-63,780	-64,664	0	0	0	0
Net Funding	**-4,834,573**	**-5,378,469**	**-4,689,091**	**-4,663,187**	**-4,718,304**	**-4,782,224**
Budget Gap	**0**	**0**	-97,618	64,346	92,252	178,365
Budget Gap Increase	0	0	-97,618	161,964	27,906	86,113

Transformation of Services

16.2 The MTFP position above already includes the projected savings arising through the implementation of the Transformation Business Case, as summarised below. Without these savings the forecast budget gap would be even greater i.e. **£620k per year** by 2022/23. The savings from transformation included in the MTFP above are:

Table 13 – Transformation Savings

	2017/18	2018/19	2019/20	2020/21	2021/22
	£	£	£	£	£
Incremental Savings	48,000	181,000	203,000	4,500	4,500
Total annual savings	48,000	229,000	432,000	436,500	441,000

15.3 We have identified in Section 10 that the Transformation savings relating to 2017/18 and 2018/19 are expected to be delayed and we have added a pressure into the Budget Gap of £136k. We anticipate that the savings will be back on track in 2019/20 and will be delivered in full.

16.4 These figures do not include the further savings that are identified in the Business Case that would be delivered through creating a new Council (Option 2).

Medium Term Forecast

16.5 The forecasts for the medium term reflect the position for West Somerset

Council on its own. Although it appears, at first glance, with a balanced budget for 2018/19 and 2019/20 that good progress has been made, the budget gap continues to grow and by 2022/23 it is currently projected to be £178k which is 3% of the Net Budget. The underlying financial sustainability challenge remains. **The medium term financial plan does not reflect an increase in future contributions to the business rates smoothing reserve to mitigate risks highlighted in 13.4 and 13.5 above, which will need to be addressed through the financial strategy and plan for 2019/20 onwards. Prudently we will need to plan to increase reserves by at least £2m over the medium term to mitigate this risk and protect services, which would increase the annual gap from 2019/20 by between £400,000 and £850,000.**

16.6 As we outlined in the MTFP Strategy reported to Scrutiny in June 2017, we have sought to close the Budget Gap in 2018/19 by challenging existing budgets and underspends and have avoided having to ask Budget Holders to put forward service savings proposals. This was considered the most appropriate course of action in the short-term pending Transformation and with consideration to the substantial cuts the Council has been forced to make in previous years.

17 General Reserves

17.1 The current reserves position is shown below. The forecast Outturn for the 2017/18 budget is currently being reviewed but recent projections suggest an underspend of c£200k. This is reflected in the table below. Any final projected under/overspend will be adjusted through General Reserves.

Table 14 – General Reserves Balance 31 March 2018

	£
Balance Brought Forward 1 April 2017	858,776
2017/18 Budget: Reverse one-off transfers	30,700
2017/18 Earmarked Reserves Returned	79,086
Current Budgeted Balance	**968,562**
2017/18 Projected Outturn Variance	200,000
Projected Balance 31 March 2018	**1,168,562**
Recommended Minimum Balance	700,000
Projected Balance above recommended minimum	468,562

17.2 A review of the level of General Reserves has recently been undertaken as per the attached Appendix B. Following this review it is recommended that the minimum balance of general reserves is increased from £600k to £700k. Given the future funding risks it is strongly advised to maintain reserves above the minimum, and to increase over the medium term due to business rates funding risk.

18 Capital Programme

18.1 This is covered in a separate report.

19 Risks

19.1 **The Fair Funding Review** is proposed to be implemented in April 2020 and we are mindful that this will bring a change in funding methodology which could cause further funding shortfalls. At this stage the impact is unknown but we must highlight this as a future risk.

19.2 **The Business Rates Baseline** is due to be "reset" in 2020 whereby Central Government will assess our Baseline funding need. This is of concern as our Baseline could fall leaving us with higher levy payments and thus retaining less of our Business Rates income.

19.3 **Ongoing cost pressures** will have a further negative effect on the Council's budget in particular rising inflation coupled with a limited ability to reduce costs further. Whilst the MTFP tries to anticipate some of these pressures there will be undoubtedly other cost increases which we are not currently aware of.

19.4 The **Business Rates receivable from Hinkley C** is an unknown quantity and our budget forecasts currently assume on ongoing income stream from one or other of the Hinkley plants but in practice we expect there to be a gap between Hinkley B and Hinkley C – hence recognising the need to mitigate a 'trough' in funding in the middle of the next decade. This is a significant risk.

20 Robustness of the Budget Process

20.1 The Local Government Act 2003 requires a report on the adequacy of the - Council's financial reserves and for the S151 Officer to report on the robustness of the budget plans.

Conclusion of the Robustness of the Budget and Adequacy of Reserves

19.2 This statement is given in only respect of 2018/19 budget for West Somerset Council.

19.3 As in previous years a number of factors have been considered in this assessment, the details of which are in Appendix A to this report.

19.4 The 2018/19 budget is balanced – reflecting largely the expected increase in business rates funding. This has enabled the Council to offset the funding reduction of £296k from revenue grants in the short term. A review of base budgets has also enabled a prudent reduction in budget requirement, subject to volatility in future service demand and income trends.

19.5 In conclusion, I am comfortable that the budget estimates for 2018/19 are sufficiently robust. I cannot at this stage provide assurance in the medium to long term for West Somerset as a separate entity due to the scale of risk and uncertainty in funding forecasts beyond the next two years, and will need to review the going concern status again as part of the closedown of the financial year and 2019/20 budget preparation. This is also reflective of the substantial savings the Council has already had to deliver in previous years to remain viable, thus leaving little potential for further service cuts. The creation of a new council will increase resilience to the risks identified.

Adequacy of Reserves – Conclusion

19.6 Having reviewed the level of general and earmarked reserves I am satisfied they are adequate at this stage, and recommend reserves are increased over the medium term to mitigate future disruption to funding between Hinkley B closing and Hinkley C productivity commencing. There is very little scope for future years' budgets to be supported using reserves, with short term protection of only 1-2 years of budget risks in respect of business rates

21 Links to Corporate Aims / Priorities

21.1 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 2018.

22 Finance / Resource Implications

22.1 The Council's financial position is set out above within the body of this report. Whilst the draft budget estimates present a balanced draft budget for 2018/19 there is a significant uncertainty in the MTFP forecasts in respect of Hinkley B business rates, which brings significant risk to financial forecasts. Having clarity and confidence about the Hinkley B rateable value and its relationship with the Council's ongoing funding will make financial and service planning much more robust. Although we have an "agreed" valuation between EDF and the Valuation Office, this can still be appealed for various reasons including outage.

22.2 It is important that Councillors have a good understanding of the financial position and forecasts over the medium term.

22.3 The MTFP reflects the projected savings from transformation of council services. It does not include the potential further savings projected through the creation of a new single council to replace Taunton Deane and West Somerset Councils.

23 Legal Implications

23.1 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.

24 Environmental Impact Implications

24.1 None for the purposes of this report.

25 Safeguarding and/or Community Safety Implications

25.1 None for the purposes of this report.

26 Equality and Diversity Implications

26.1 None for the purposes of this report.

27 Social Value Implications

27.1 None for the purposes of this report.

28 Partnership Implications

28.1 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.

29 Health and Wellbeing Implications

29.1 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.

30 Asset Management Implications

30.1 None directly for the purposes of this report. The financial implications associated with asset management will be reflected in due course.

31 Consultation Implications

31.1 None for the purposes of this report.

32 Scrutiny Comments / Recommendation(s)

32.1 Scrutiny Committee received a report on 18 January 2018 setting out the latest financial estimates and summarising the Cabinet proposals for balancing the budget. Salient comments arising included:

a) Concern was raised that the Government spent a majority of its time involved in Brexit negotiations, which meant it could not focus on ‘business as usual’.

b) Members queried whether there were any ‘invest to save’ schemes available for the Sustainability Reserve.
There were schemes available and both Members and Officers were keen to undertake the work, however, capacity to undertake such work would need to be checked.

c) Members suggested that the Business Rates Smoothing Reserve should be kept at a minimal level of £1,500,000.

d) Members queried why there was still a potential delay in the Transformation Project. The delay had caused a strain of £136,000 on the budget. Concern was raised on the delay in the production of the staff structure.
When the figures were given, Officers had expected a 'minded to' decision in June 2017 and it had not been received until December 2017. Until the decision to form a New Council was given, the formation of a staff structure would be delayed. There was a requirement to ensure that the staff structure had been properly consulted on and the documents had not been released to staff yet, which meant that staff still had to go through the recruitment process.

e) Members queried if the decision was received in February 2018 or later, would the Boundary Commission have enough time to carry out the necessary work prior to the 2019 election.
Yes. The Local Boundary Commission and the Department for Communities and Local Government comments stated that everything was in place to achieve the deadlines for the 2019 election.

f) Members were confused because we currently operated with 'One Team', so this meant we only had 'One Team' to transform. Members requested clarification on why Transformation could not have started before the decision was received.
There was 'One Team' which served both Councils. The Transformation Team had been able to work on the staff structure for the New Council whilst they waited for the decision from Government, but could not make any major changes to staffing until they knew if one new Council would be created or remain as two Councils.

g) Members were pleased that the predicted deficit for next year had not occurred. However, concern was raised on what would have happened if it had and would the Transformation Project been able to carry on.
Due to the hypothetical nature of the query, Members and Officers could not give a definitive answer. Both services and jobs would have been impacted and officers would have done their best to set a budget and close the accounts.

h) Members queried whether the Council had to set a balanced budget or could a negative one be set.
No. Councils had to set a balanced budget, they were not allowed to set a negative one. Another Council had proposed a negative budget which caused the Government to intervene.

Democratic Path:

- **Scrutiny Committee – Yes**
- **Cabinet – Yes**
- **Full Council – Yes**

Reporting Frequency: Annual

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APPENDIX A

Robustness of Budget Estimates and Adequacy of Reserves 2018/19

Statement by the S151 Officer (Chief Finance Officer) – Paul Fitzgerald, Assistant Director Strategic Finance

1 Introduction

1.1 The purpose of this appendix is to outline and meet the statutory requirements contained in the Local Government Finance Act 2003 which requires the Council's Section 151 Officer to report to Members on:

- The robustness of budget estimates; and
- The adequacy of proposed reserves.

1.2 This appendix provides evidence to support my assessment. The conclusion of my review, and formal statement, is set out in the main body of the report and repeated at the end of this appendix.

2 Background

2.1 The financial history of the Council has been well documented and is widely understood. In September 2016 Full Council supported the Leaders' recommendation to progress the creation of a new transformed Council for the combined communities of West Somerset and Taunton Deane, and this led to the Submission to the Secretary of State at the end of March 2018.

2.2 Transforming the way council services are delivered and forming a new, single council will deliver significant savings to the combined community. Savings through joint transformation have been built into the Medium Term Financial Plan (MTFP), and potential further savings through forming the new Council are identified within the Business Case.

2.3 The 2017 Revaluation of Rateable Values for businesses, effective from April 2017, has seen an increase in the estimated retained funding for West Somerset. The impact of this change was identified in March 2017 and notified to all councillors. It was also reflected in the Submission to the Secretary of State. The Council formally incorporated the changes into its budget plans and MTFP when Full Council approved a Revised Budget in August 2017.

2.4 The revised MTFP approved in August 2017 shows a reduction in the scale of the financial challenge in the shorter term. However, Members need to be aware of the scale of risk and uncertainty of business rates funding when considering budget and resource decisions.

WSC MTFP Forecasts

	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m
Budget Gap Estimates Feb 2017	0.785	0.881	1.068	1,196	1.293
Budget Gap Estimates March 2017	0.131	0.082	0.254	0.367	0.449

2.5 The above figures are based on the continuation of the joint transformation programme and incorporate transformation savings of:

	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m
WSC Transformation Savings	0.229	0.432	0.437	0.441	0.441

2.6 The Council has accepted the four year settlement which sets out Revenue Support Grant and Rural Services Delivery Grant up to 2019/20. This has been reflected in budget plans since 2016/17.

2.7 From my perspective as your S151 Officer, the budget proposal shared by Cabinet is based on the most accurate information available therefore presents an accurate reflection of the Council's financial position.

2.8 There are key areas of uncertainty beyond 2019/20, 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 are known to be volatile – a large appeal or other reduction would swiftly increase the viability challenge
- The budget relies on significant savings through transformation being delivered
- There is significant future uncertainty in terms of Government funding beyond 2018/19 with the unknown impacts of the Fair Funding Review, business rates baseline and tariff resets, New Homes Bonus changes

2.9 Other key issues to be aware of are:

- The revenue, capital, and treasury forecasts are aligned and transparent
- The 2018/19 budget proposal does not rely on using reserves to support spending on services
- The Council is exposed to significant financial risk in its business rates funding estimates before any Safety Net income is due, and the proposed budget seeks to increase short term resilience by increasing the Business Rates Smoothing Reserve balance
- A further review of viability and going concern will be completed at the end of the current financial year
- The minimum level of reserves has been reviewed and it is recommended that the minimum level be increased from £600k to £700k. Should the budget be approved, the General Fund Reserves will be marginally above this, leaving very little room for unforeseen events during the coming financial year.

3 Robustness of Budget Estimates

3.1 The proposed budget for 2018/19 (and the forecast position for future years) is the financial interpretation of the Council's priorities and, as such, has implications for every citizen of West Somerset together with all other stakeholders. A range of factors have been considered in assessing the robustness of estimates as explained in the remainder of this document.

4 Government Funding

4.1 The Council, along with the majority of authorities in the country, accepted the four year settlement plan from Government. This provides confidence in our estimates of revenue support funding up to 2019/20. As explained in the main report, RSG is as expected and RSDG included an unexpected slight increase. The final settlement confirmation is due in February 2018.

4.2 The Government continue to develop their policy on local government finance. In this year's settlement the Secretary of State indicated he plans for local government (as a whole) to retain 75% of business rates by 2020, and the move to 100% retention of business rates continues to be explored with further pilots agreed during 2018/19. The detail on how the new scheme will work, and what funding levels will be like for councils is not yet available and leaves significant uncertainty for all moving forward.

4.3 The Fair Funding Review also remains on the Government's agenda, which could see the settlement funding change due to updated assessments of "need". The timing and impact remain uncertain and at present the MTFP assumes a neutral impact.

4.4 New Homes Bonus has significantly reduced following the changes to the grant methodology introduced in 2017/18 and 2018/19.

5 Council Tax

5.1 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 Council is proposing a tax increase at the maximum level of £5 – a sound financial policy in light of the financial challenges ahead. The charge introduced in 2016/17 to support the Somerset Rivers Authority will continue at the same level in 2018/19.

6 Capital Programme Funding

6.1 The Cabinet's draft budget proposals for the capital programme are set out in a separate report alongside the revenue budget. To support the spending plans, councils are required to publish and monitor a set of Prudential Indicators. These are listed in full in the Treasury Management Strategy Statement which is also shared separately for approval.

6.2 The Cabinet's draft capital programme follows the principles of the Prudential Code, and I am satisfied that the treasury implications are clear and within affordable limits.

6.3 The Council embraced the new Government policy introduced in 2016/17 which allows authorities the flexibility to use capital receipts received during a fixed time period to fund revenue spending that is transformational (i.e. brings revenue savings!). This flexibility has been extended from three years to six, up to 2021/22. In September 2016, Full Council agreed to direct future capital receipts of £217,000 to part fund the programme of transformation.

7 Inflation and Other Key Budget Assumptions

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

a) 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, and significant issues highlighted through budget monitoring reports.

b) Staff Costs: The estimates reflect an appropriate cost of each post within the One Team shared management and staff structure, in line with the JMASS cost sharing agreement.

c) Service Income: Income projections are based on <u>realistic</u> assumptions on usage, and the most recent Government guidance on fee levels when appropriate. They also take into account historic trends and current year variations against budget.

d) 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.

e) Savings: The Council has a strong track record of delivering savings plans, and where initiatives are sufficiently well developed and approved by Council they are included in budget plans.

f) Volatility in budget estimates: The high risk / high value budgets are rigorously examined and only prudent increases incorporated. Forecasts take into account past and current trends as well as effective management control plans.

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

h) 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.

i) Council Tax: growth assumptions in the council tax base have been forecast at 1.6% in 2018/19 then 0.6% per 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.

j) Member engagement in budget development: The budget approach has been reviewed by Scrutiny and agreed by the Cabinet. Scrutiny has been updated on the MTFP position during the budget setting process. All councillors have had the opportunity to be briefed on the proposals during their Group Meetings in January 2018.

k) Changes in legislation: Legislative changes are analysed by officers and their effect built into the MTFP and budget.

l) Sustainability: The proposed budget takes into account the future financial pressures faced by the Council. The Council can set a balanced budget for 2018/19. However, beyond this, the longer term viability remains an issue, as the Council has very limited resilience to reductions in funding and forecasts are subject to a high degree of uncertainty. The MTFP does not currently provide for an expected drop in business rates funding when Hinkley B ceases to operate – projected in 2023 – and the budget report indicates it would be prudent for the Council to plan to set aside **at least** **£2m** over the next 4-5 years to mitigate a funding ‘trough’ before Hinkley C power station starts to generate. This is not currently included in the financial plan, and will need to be addressed during the 2019/20 financial planning process.

m) Sensitivity analysis: The financial planning model allows the Council to predict the likely outcomes of changes to key data i.e. inflation, council tax, Government funding etc. This is helpful in sharing “what if…” scenarios with management, members and partners. Committee budget reports also provide data on tax choices – showing the impact on the Council of this important decision.

8 Delivery of Savings

8.1 The budget approach for 2018/19 has sought to avoid the need for service savings plans. The key savings in the MTFP will be delivered through transformation. The proposed budget includes a prudent allowance for the timing of savings being later than previously assumed in the Business Case, but I am confident that the programme remains on track to achieve the financial benefits in full by 2019/20. Should there be any risk to the delivery of identified savings this will be reported to Members via the budget monitoring regime.

8.2 The MTFP for West Somerset does not incorporate any notional share of savings from the creation of a new council, but the Business Case identifies that at least £550,000 of savings would be delivered if this goes ahead as proposed. This would make a positive contribution to the viability of services in the longer term.

9 Partnership Risks & Opportunities

9.1 The Council has agreed to progress the creation of a new transformed council. The Secretary of State issued his “minded to” decision in December 2017, with a period of representation closing on 19 January 2018. At the time of writing this report we await the final decision, which is clearly a fundamental consideration in assessing the longer term financial viability and resilience of West Somerset.

9.2 The Council has several other key partnership arrangements in place to support ambitions and deliver key services, supported by contractual arrangements. The most significant is our Somerset Waste Partnership (SWP) which is monitored via the Somerset Waste Board and supporting officer monitoring groups.

9.3 The Waste Partnership has recently reported that the existing contractor arrangement will end in March 2020, and the Partnership is embarking on a procurement process for a new delivery partner from April 2020. It is unknown whether the new contract price will be within budget, however it is assumed this will be achievable and will deliver some budget savings by 2021.

10 Financial Standing of the Council

10.1 The Council fully complies with the Prudential Code, has an up to date Treasury Management Policy and Strategy in place, and is operating within the agreed parameters. The Council’s Treasury Management Practices are prudent and robust, ensuring the Council is not exposed to unnecessary risk in terms of its investment policies. We continue to work with our treasury advisors (Arlingclose) to optimise investment return whilst preserving capital.

10.2 The Council currently has no outstanding external debt. It is feasible that a proportion of the “business as usual” capital financing requirement will need to be externalised during 2018/19, however the revenue budget makes prudent allowance for such a scenario. The capital programme will also require loan finance for a new employment development site in Minehead, and in future is likely to require external borrowing towards the £3.5m loan to the Waste Partnership.

10.3 The Council currently has £5.2m of outstanding internal debt for which prudent repayment plans are in place.

10.4 The Council currently has £9.9m of cash flow investments, and £9.569m in relation to Hinkley. All treasury activity is placed in the markets in accordance with our policies. The levels of investment will fluctuate during the year and we continue to monitor our cash-flows carefully.

11 Track Record in Budget Management

11.1 The Council has a good track record in budget management. The most recent years have resulted in the following end of year positions:

Year	Variance of Approved Net Budget	
2013/14	-£0.102m	-1.90%
2014/15	£0.228m	4.20%
2015/16	-£0.132m	-2.7%
2016/17	-£0.271m	-5.9%
2017/18 Forecast	-£0.200m	-4.4%

11.2 In the context of gross expenditure of over £22.9m, the above variances are reasonable.

11.3 Members are currently provided with regular in-year updates on key budget variances (Scrutiny and Cabinet). There has been a one-off deferral from Q2 to Q3 in 2017/18 as resources were prioritised to focus on system and reporting changes.

12 Virement & Control Procedures

12.1 The Financial Regulations contain formal rules governing financial processes and approvals (virements are simply transfers of budget between departments). The Financial Regulations and Financial Procedure Notes will be reviewed during the next period to align to the ambitions set out in the transformation business case.

13 Risk Management

13.1 I am satisfied that the Council has adequate insurance arrangements in place, and that the cover is structured appropriately to protect the Council.

13.2 The Council has a Risk Management Policy in place which defines how risk is managed at different levels in the organisation. It defines roles, responsibilities, processes and procedures to ensure we are managing risk effectively.

13.3 Equalities Impact Assessments (EIA) Reviews – where appropriate – are included for Members to review.

13.4 Financial risks are managed through budget setting and by our level of reserves. We mitigate as many risks as possible by following good practice, and by monitoring key financial risks on a regular basis.

14 Key Risk Issues In 2018/19 Budget

14.1 The figures in the proposed budget for 2018/19 are based on our best estimates. These will require careful monitoring throughout the year, and swift corrective action taken should they vary from budget. The issues I need to bring to Members' attention where there is financial risk are:

14.2 Business Rates Retention: I am satisfied that the Council has put in place sound arrangements to monitor the flow of business rates income and valuation changes throughout the year. The information coming from our Revenues team is robust and forecasts are regularly reviewed to ensure they are as accurate as possible. We will continue to engage services across the Council to ensure all chargeable premises are notified and billed. The key risks associated with Business Rates Retention for West Somerset Council include the impact of:

a) Appeals and refunds
b) Collection rates and bad debts
c) Entitlement to Mandatory and Discretionary Reliefs (e.g. for charities)
d) Levy costs for growth in rates income above the Baseline
e) Accounting arrangements – with balances skewed between financial years
f) Maintaining an adequate balance in the Smoothing Reserve

14.3 The biggest risk relates to exposure to appeals, and the financial strategy includes a sensible approach to providing resilience through provisions and the Smoothing Reserve.

14.4 Business Rates Pool: A new Business Rates Pool has been formed from April 2018, with West Somerset included for the first time. Risks and opportunities through pooling have been reported to Council in 2017. From a budget perspective, no potential gain from pooling has been included, and the pool performance will be monitored carefully during the year.

14.5 Council Tax Reduction Scheme: Members have recently approved the scheme for 2018/19. We will continue to monitor the financial impact on the Council. The key risk on this item remain as last year – on the level of take-up. To date we are managing this within approved budgets, but it is something that we monitor closely.

14.6 Housing Benefits / Subsidy: The administration funding has once again reduced in 2018/19. It is possible the responsibility for this funding could shift to local authorities in future years (linked to the 100% retention of business rates), and we will monitor any consultations on this closely.

14.7 Subsidy budgets are very difficult to estimate due to the fluctuating volume of claims received and the different levels of subsidy payable of types of claimant error. The total benefit subsidy budget is approximately £12.9m – and therefore small 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.

14.8 The impact of the introduction of the Universal Credit (UC) full service for new claimants has led to a reduction in HB caseload. Resources will still be required to maintain assessment work that informs the Council Tax Rebate scheme, and to provide local support for personal budgeting advice and assistance to claimants with more complex claims that exceed the support provided by the DWP. Whilst not yet known, we anticipate the migration of all existing HB cases to UC will take place within the next 1-3 years.

14.9 Impact of Economic Changes: the Council's budgets reflect our best estimates of the impact of current economic conditions. This is an issue we need to monitor continually through the budget monitoring process – particularly on income streams from car parking, land charges, building control and development control, and expenditure on issues such as homelessness.

14.10 Hinkley Point C: the Council continues to work alongside Government and EDF on the development of Hinkley Point C. Arrangements are in place to govern and monitor all key financial decisions.

14.11 Asset Management: the Council has agreed a new Asset Strategy, which has provided greater intelligence regarding the assets estate to inform investment, disposal and maintenance decisions. If all existing assets are retained, maintenance works completed over the next five years will add pressure to existing budgets. The strategy provides a framework to enable the Council to consider plans for each asset, with the potential to avoid costs and mitigate this potential budget pressure. The size of the potential financial liability is £1.2m over the next five years and Members should bear this in mind when allocating resources and levels of reserves. Capital reserves will provide some resilience to spending requirement if costs are able to be capitalised.

14.12 New Homes Bonus (NHB) Forecasts: The Council has historically used 100% of New Homes Bonus funding to support the revenue budget. The ambition to reduce reliance on this source of funding has simply not been possible. The impact of the Government's policy change (re reduction of number of years and new growth top-slice) has been built into the financial projections.

14.13 Transformation: The budget has been prepared based on the financial implications of the transformation business case approved in 2016. Prudent provision has been included in 2018/19 to reflect the latest timetable for implementation of the new operating model.

14.14 Overall Funding and Capacity Risk: Government funding has continued to reduce year on year and this will continue to at least 2019/20. The Council has reduced in size considerably over the last 5-6 years, and this brings risk in terms of capacity (to deliver new savings ideas and to deliver significant service change). Delivering increased efficiency through transformation, and the potential for further efficiency through the creation of a new council, will be key to helping mitigate this risk. However, it is important the Council continues to prioritise resources to meet agreed priorities and objectives – particularly to activities that will support the ongoing viability of service provision.

14.15 Finally, the Council must continue to monitor the continuing impact of the Welfare Reform agenda on our community and the resultant demand for service and support, particularly now Universal Credit is live in our area.

15 Adequacy of Reserves

15.1 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.

15.2 All reserves are reviewed at least annually and my formal opinion updated during the budget setting process each year. Following the review the minimum level of General Reserves is proposed to be increased to £700k from its current level of £600k.

15.3 A review of earmarked reserves was carried out during the budget setting process and I am satisfied that all remaining reserves are there for a specific purpose and are needed. This will be reviewed again at the closedown of the current financial year.

15.4 The Cabinet's draft budget for 2018/19 does not rely on the use reserves to support ongoing spending – which is a positive position.

15.5 As referred above, the Council is exposed to both short term and long term risks, with a key risk on an anticipated reduction in retained business rates funding between 2023 and 2026+. It will be prudent to increase reserves over the medium term to mitigate a sharp reduction in service provision during this anticipated 'trough' in core funding.

15.6 My opinion is given in the knowledge that known short term risks (strategic, operational and financial) are managed and mitigated appropriately in line with the Council's policies and strategies, except for the longer term business rates risk.

16 General Fund Reserve

16.1 The predicted General Fund Reserve position is set out in the main report, and remains above the minimum acceptable level. As the Council progresses through significant organisational change it is appropriate to operationally plan to maintain reserves above this minimum to provide flexibility and resilience. The Council continues to face several significant financial risks as highlighted.

16.2 The level of reserve is adequate however the Council is carrying a very significant risk in terms of the need to reduce expenditure. It is essential that planned cost reductions are delivered and the transformation plans deliver to timetable and target.

17 Earmarked Reserves

17.1 At the end of 2017/18, the Council expects to have in the region of £2.8m in specific earmarked reserves, and the MTFP reflects plans to increase the Business Rates Smoothing Reserve in 2018/19 to reflect the increased budget risk following the 2017 Revaluation. The largest earmarked reserve balances are:

- Business Rates Smoothing Reserve £0.5m, with plans to increase to at least £1.5m by the end of 2018/19.
- Transformation Reserve £0.7m
- Affordable Housing Funding £0.6m

18 Conclusions – Statement of the S151 Officer

Robustness of Budget

18.1 This statement is given only in respect of 2018/19 budget for West Somerset Council. As in previous years a number of factors have been considered in this assessment as outlined above.

18.2 The 2018/19 budget is balanced – reflecting largely the expected increase in business rates funding. This has enabled the Council to offset the funding reduction of £296k from revenue grants in the short term. A review of base budgets has also enabled a prudent reduction in budget requirement, subject to volatility in future service demand and income trends.

18.3 The impact of the 2017 Business Rates revaluation has been significant, with the overall rates to be collected increasing significantly from Hinkley and generally across the business rates base. Equally the tariff payment has increased significantly in line with the Government’s aim to mitigate changes to individual authority funding levels as a result of the Revaluation.

18.4 The 2018/19 budget and MTFP reflect the increased estimates of retained business rates funding, however the continuation of funding at this level beyond 2019/20 is uncertain and the risk of further reductions in funding is high. Key influences will be: the Government’s next Spending Review and future funding settlements, the Fair Funding Review, the reset of the business rates baseline and tariff, stability in Hinkley B operations and related business rates through to 2023, the impact of moves to 75% / 100% Retention and additional responsibilities that generally follow funding changes.

18.5 The financial viability challenge facing West Somerset Council is not new. The Bill Roots review of 2015, and the transformation business case of 2016 clarified that West Somerset Council is not considered viable going forward unless special measures are implemented. The change in business rates provides short term improvement but does not in my opinion resolve the ongoing viability challenge. The decision taken by both West Somerset and Taunton Deane councils over the summer of 2016 to progress the creation of a new transformed council, and the “minded to” statement from the Secretary of State regarding the proposal to create a new council are key to my statement regarding the 2018/19 budget.

18.6 Even after transformation and the change in business rates the Council faces a budget gap rising to at least £273,000 with, as yet, no current plans in place to address this; and a significant risk to funding in the medium and long term.

The importance of delivering the forecast savings from transformation and optimising the additional benefits from creating a new council are critical in addressing the ongoing viability of services. It is also important to develop plans within the next 6-12 months to mitigate the risk of a major reduction in funding from 2023.

18.7 In conclusion, I am comfortable that the budget estimates for 2018/19 are sufficiently robust. I cannot at this stage provide assurance in the medium to long term for West Somerset as a separate entity due to the scale of risk and uncertainty in funding forecasts beyond the next two years, and will need to review the going concern status again as part of the closedown of the financial year and 2019/20 budget preparation. This is also reflective of the substantial savings the Council has already had to deliver in previous years to remain viable, thus leaving little potential for further service cuts. The creation of a new council will increase resilience to the risks identified.

Adequacy of Reserves – Conclusion

18.8 Having reviewed the level of general and earmarked reserves I am satisfied they are adequate at this stage, and recommend reserves are increased over the medium term to mitigate future disruption to funding between Hinkley B closing and Hinkley C productivity commencing. There is very little scope for future years' budgets to be supported using reserves, with short term protection of only 1-2 years of budget risks in respect of business rates.

Paul Fitzgerald
Assistant Director Strategic Finance and S151 Officer
30 January 2018

Appendix B

Minimum Level of General Reserves

1. BACKGROUND INFORMATION

1.1 It is particularly pertinent when there are significant challenges to councils' budgets and when Central Government funding is falling at an exceptional rate, to consider how this risk is being mitigated and how exposed the Council is to unforeseen events, risks and pressures.

1.2 With this in mind, the s151 Officer requested a review of reserves and for the minimum acceptable level of General Reserves to be challenged to establish whether it is appropriate and to benchmark against other councils to see how we compare and whether we are over exposed to risk.

2. APPROACH AND METHODOLOGY

2.1 Reserves are reviewed by this Council on an annual basis to give assurance that they are appropriate and adequate. Due to the constraints on the Council's budget it is not possible to mitigate against every eventuality and it would be imprudent to set aside funds simply as a percentage of net expenditure or "just in case". With the challenges associated with setting a balanced budget for West Somerset, earmarking reserves is an important exercise and each year a review is done to challenge the levels and intended use of these reserves. In some cases, earmarked reserves are deemed to be no longer required/too high and are returned to general reserves.

2.2 In order to arrive at an appropriate level, various publications were reviewed and the Council was benchmarked against its nearest neighbours in terms of size, demography, NDR value per head etc*:

- LAAP Bulletin 99 Local Authority Reserves and Balances
- CIPFA Stats Nearest Neighbours Model*
- Audit Commission "Striking a Balance" Questionnaire
- CIPFA Delivering Good Governance in Local Government

3. MITIGATING RISK – GENERAL RESERVES

3.1 The CIPFA LAAP Bulletin says "When reviewing their medium term financial plans and preparing their annual budgets, local authorities should consider the establishment and maintenance of reserves. These can be held for three main purposes":

- A working balance to help cushion the impact of uneven cashflows and avoid unnecessary temporary borrowing – this forms part of general reserves

- A contingency to cushion the impact of unexpected events or emergencies – this forms part of general reserves
- A means of building up funds to meet known or predicted requirements – via earmarked reserves (legally part of the General Fund)

3.2 As part of the review of the adequacy of the general reserves balance it is prudent to consider the particular risks that the Council faces and how these are mitigated by earmarked reserves and other mechanisms.

3.3 There are a number of general risks which are relevant to all or most councils and for the most part are mitigated with a robust approach to budget setting in the MTFP. These include inflation and interest rates; the timing of capital receipts; demand led pressures; the delivery of efficiency savings; the availability of Government grants and general funding; and the general financial climate. These risks are considered at every stage of the budget setting process and the experience of the s151 and senior finance officers will be fundamental in identifying and addressing the pressures relating to these risks.

3.4 An indicator of the risks particular to the Council is the Risk Register. This captures those risks which need to managed and monitored as they can potentially have a very detrimental effect on the financial or reputational standing of the Council. We have therefore used the Council's risk register as the starting point for the risk matrix.

4. QUANTIFYING THE FINANCIAL RISK

4.1 The risk-based assessment gave a range of appropriate "minimum" general reserves levels as £537k to £775k. With consideration to the ongoing challenges facing the Council it is prudent to recommend that the minimum reserve level be set at £700k.

5. STRIKING A BALANCE QUESTIONNAIRE

5.1 The Audit Commission's questionnaire is a good aide memoire to highlight the areas a Council should consider when assessing the minimum level of reserves. It also draws on benchmarking to establish how other councils mitigate their risks.

6. NEAREST NEIGHBOUR COMPARISON

6.1 A benchmarking exercise with 15 other councils with similar attributes has been undertaken. The nearest neighbour comparison (based upon financial information as at 31 March 2017) indicates that West Somerset's general reserve was £859k which is equivalent to 23.0% of its net revenue expenditure of £3.742m. By comparison, the nearest neighbour average is £2.766m (37.0%) on net revenue expenditure of £7.485m.

7. CONCLUSION AND NEXT STEPS

7.1 The risk assessment and Audit Commission questionnaire are useful tools in establishing West Somerset's minimum level of general reserves. This must be caveated with the assertion that if the Council relies on reserves to address a budget gap, and in particular for ongoing costs it will be immediately exposed to a heightened risk if it does not remain above the minimum level.

7.2 **With reference to the analysis that has been undertaken and with attention to the risks that the Council faces and its limited ability to mitigate risk, a recommendation is made to increase the minimum level of reserves to £700k.**

Report Number: WSC 6/18

West Somerset Council

Cabinet – 7th February 2018

Capital Programme Draft Budget Estimates 2018/19

This matter is the responsibility of Cabinet Member Mrs Mandy Chilcott

Report Author: Andrew Stark, Interim Financial Services Manager

1 Executive Summary

1.1 The purpose of this report is to provide Members with the detail of the Capital bids for the 2018/19 Capital Programme to enable Cabinet to recommend proposals to Full Council for approval.

1.2 The Draft Capital Programme only includes essential investment in core IT systems of £26,000 and £350,000 for Disabled Facilities Grants which are funded via contributions from the Better Care Fund.

1.3 The total Draft 2018/19 Capital Programme is £376,000.

2 Recommendations

2.1 Cabinet recommends to Full Council the approval of the 2018/19 Capital Programme Budget totalling £376,000, funded through a combination of revenue resources and external grant funding.

2.2 Cabinet recommends to Full Council that authority be delegated to the S151 Officer to approve adjustments to the 2018/19 Disabled Facilities Grant Capital Budget to reflect the final grant funding received from the Better Care Fund.

3 Risk Assessment (if appropriate)

Risk Matrix

Description	Likelihood	Impact	Overall
Assumptions regarding the availability of capital resources are inaccurate, affecting the affordability of the capital programme.	2	4	8
The delivery of asset disposals is actively managed, capital receipts are monitored closely, and expenditure plans are controlled to reflect the actual timing and amount of receipts.	2	4	8
Asset management information is incomplete or inaccurate, resulting in ineffective asset management prioritisation.	3	4	12

The Asset Management Group carefully controls and monitors planned and unplanned works. The council is the process of updating asset condition information to better inform plans in future.	3	4	12

Risk Scoring Matrix

Likelihood	5	Almost Certain	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	Possible	Low (3)	Low (6)	Medium (9)	Medium (12)	High (15)
	2	Unlikely	Low (2)	Low (4)	Low (6)	Medium (8)	Medium (10)
	1	Rare	Low (1)	Low (2)	Low (3)	Low (4)	Low (5)
			1	2	3	4	5
			Negligible	Minor	Moderate	Major	Catastrophic
			Impact				

Likelihood of risk occurring	Indicator	Description (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 some 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 and Full details of the Report

4.1 The current capital programme approach was approved by Full Council on 26th March 2014. A key part of the strategy concerns the approach to funding the capital programme and states that it will be through:

a) the disposal of land and buildings;
b) by maximising third party contributions from grant funding or private sector investment; and
c) borrowing, as a last resort, in accordance with the Prudential Code and with full regard of the impact on the revenue budget.

4.2 It is proposed to continue to prioritise only essential spend in the short term. In line with the current year strategy it is proposed that the prioritisation of capital bids continues to be based on the following criteria:

1) Business Continuity (corporate / organisational)
2) Statutory Service Investment (to get to statutory minimum / contractual / continuity)
3) Transformation
4) Invest to Save
5) Other

4.3 Members are also reminded of the additional flexibility that allows authorities to use new capital receipts arising in 2016/17, 2017/18, 2018/19 and 2019/20 to fund up-front revenue costs of initiatives that will deliver ongoing revenue savings or efficiencies.

4.4 The current Capital Programme in 2017/18 includes approved projects (including schemes funded by Hinkley S106 monies) totalling £7.276m plus carry forwards from the previous years' schemes of £3.911m. This gives a total programme of £11.187m. A copy of the current years' programme is included in Appendix A for background information.

4.5 In view of the limited capital resources and future commitments regarding transformation, only bid only bids for essential spend have been sought from services to be included in the Draft 2018/19 Capital Programme. The table below sets out the proposed capital schemes for 2018/19 and suggested funding for these schemes.

Table 1 – Draft Capital Programme 2018/19

			Funding			
Scheme	**Priority**	**Cost £**	**RCCO £**	**Capital Grants £**	**Borrowing £**	**Total £**
PC Refresh	1	6,000	6,000			6,000
Server Refresh	1	20,000	20,000			20,000
DFGs	2	350,000		350,000		350,000
		376,000	**26,000**	**350,000**	**0**	**376,000**

Capital Schemes Explained

4.6 **PC Refresh £6,000:** This is a standing annual bid for the replacement of computers and laptops in line with the current refresh programme.

4.7 **Server Refresh £20,000:** The current fleet of servers was refreshed over 6 years ago and is now reaching end of life - latest version of VMWARE virtualisation platform will not run on servers of this age, and the Council will be unable to get support for our current version beyond 2018/19.

4.8 **Disabled Facilities Grants (Private Sector) £350,000:** The Council has a statutory duty to provide grants to enable the adaptation of homes to help meet the needs of disabled residents. The grants are means-tested and subject to confirmation of the grant to be received from Somerset County Council's Better Care Fund, it is anticipated the Council will receive £350,000, providing the necessary funding to make this scheme affordable.

5 Funding of the Capital Programme

5.1 Funding for 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)
- Revenue budgets/reserves (often referred as RCCO – Revenue Contributions to Capital Outlay)
- Borrowing

5.2 Table 1 above summarises the proposed funding of the Capital Programme for 2018/19 through capital receipts plus grant funding provided via SCC.

Funding Sources Explained

5.3 **Capital Receipts:** These come from the sale of the Council's assets. The following table summarises the current and forecast Capital Receipts Reserve balance, including the commitment to fund the repayment of previous capital borrowing in lieu of Minimum Revenue provision in 2017/18.

Table 2 – Capital Receipts Reserve

	Actual £
Balance Brought Forward 1 April 2016	2,229,638
Capital Receipts income in 2016/17	154,688
Capital Receipts Used in 2016/17 to support capital spend	-21,912
Capital Receipts used in 2016/17 to repay capital debt	-143,100
Balance Carried Forward 31 March 2017	**2,219,314**
Capital Receipts income in 2017/18 (To Date)	1,240
Sub-Total: Available Resources	**2,220,554**
Funding of Carry Forwards from 2016/17	-1,007,215
2017/18 Approved Capital Programme	-12,500
Use of Capital Receipts for debt repayment in 2017/18	-143,100
Uncommitted Balance	**1,057,739**

5.4 **Grant Funding:** The Council receives capital grant for Disabled Facilities Grant. The confirmed grant for 2018/19 is expected to be £350,000. This funding is allocated via 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. WSC has representation on various groups to try and ensure our interests are protected.

5.5 **Capital Contributions:** This could take the form of capital contributions from other authorities or developers in the form of s.106 funding.

5.6 **Revenue Funding (RCCO):** The Draft Budget for 2018/19 includes a figure of £26,000 in respect of revenue funding towards the capital programme.

5.7 **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.

There is also “internal borrowing” which is treated the same as external borrowing for funding purposes, but uses cash flow timing balances rather than taking out a physical loan.

5.8 Supporting new capital expenditure through borrowing (internal or external), adds to the Council’s underlying Capital Financing Requirement (CFR). The current 2017/18 capital budget includes £3,500,000 in respect of a proposed loan to the Somerset Waste Partnership and £2,982,000 in respect of the mixed development proposal at Seaward Way, although these have not yet been reflected in the CFR figures below due to anticipated timing of the expenditure.

5.9 The current and estimated CFR balance for 2017/18 and 2018/19 are summarised in the table below. The Council has used uncommitted capital receipts to fund the repayment of capital borrowing in lieu of MRP, up to 2017/18. This means of funding MRP was not considered necessary for 2018/19 onwards but could be revisited.

Table 3 – Capital Financing Requirement (CFR)

	2016/17 £k	**2017/18 £k**	**2018/19 £k**
Opening CFR	**5,490**	**5,347**	**5,204**
MRP From Capital Receipts	-143	-143	0
MRP From Revenue Budget	0	0	-143
Proposed Capital Expenditure Funded By Borrowing	0	0	2,982
Closing CFR	**5,347**	**5,204**	**8,043**

6 Links to Corporate Aims / Priorities

6.1 The development of an affordable and deliverable Capital Programme is a key element of the financial strategy encompassing revenue requirements, capital requirements and treasury management plans. Setting an affordable programme and having robust capital resource plans are important steps in delivering financial sustainability of the Council and the valuable services it delivers to the community of West Somerset.

7 Finance / Resource Implications

7.1 The financial and resource implications are set out in the main body of this report.

8 Legal Implications

8.1 Managers have considered legal implications in arriving at the recommended draft budget for 2018/19.

9 Environmental Impact Implications

9.1 None for the purposes of this report.

10 Safeguarding and/or Community Safety Implications

10.1 None for the purposes of this report.

11 Equality and Diversity Implications

11.1 Equalities impacts have been considered. No Equality Impact Assessment (EIA) has been included for Disabled Facilities Grants for 2018/19 as there are no proposed changes. For information Members should refer to the EIA for DFGs provided in the Full Council Report in February 2016.

12 Social Value Implications

12.1 None for the purposes of this report.

13 Partnership Implications

13.1 Disabled Facilities Grants are administered on behalf of West Somerset Council by the Somerset West Private Sector Housing Partnership.

14 Health and Wellbeing Implications

14.1 Disabled Facilities Grants support the health and wellbeing of residents that need additional aids and adaptations in their own homes.

15 Asset Management Implications

15.1 None for the purposes of this report.

16 Consultation Implications

16.1 None for the purposes of this report.

17 Scrutiny Comments / Recommendation(s)

17.1 During discussion, the following points were raised:-

a) Members requested clarification on the server situation. Concern was raised that there was £20,000 that would be used to purchase a new server when there was spare capacity on the existing server that could be used or a cheaper alternative could be found.
The Members' questions had been passed onto the IT Manager, who understood their concern and if she could find an alternative, she would do so. However, because the funds had already been granted by the Revenue Contributions to Capital Outlay, the money had been secured for the server work and could be used for a capital or revenue solution. The IT Manager would send a response to the questions posed by Members.

b) Members queried whether there was any old IT stock that could be refurbished to last until the new systems had been procured, which should be once Transformation had been achieved. They also requested confirmation on when the server support was due to end, the report stated either 2018 or 2019.
The IT Manager would send a response to the questions posed by Members.

c) Members requested clarification on the ICT Infrastructure Project and Annual Hardware Replacement items on the list.
Items that had been approved in the Capital Programme had to be listed, whether they were ongoing or had not yet started.

d) Members requested an update on the Clanville Grange Housing Project.
Officers did not have information on the project but would send a response to Members after the meeting.

e) Members requested an update on the CASA Project.
There had been a change to the fundamental requirements by the Police. Councillor Chilcott gave an update.

Democratic Path:

- **Scrutiny – Yes**
- **Cabinet – Yes**
- **Full Council – Yes**

Reporting Frequency: Annually

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FOR INFORMATION – APPROVED CAPITAL PROGRAMME 2017/18

Capital Scheme	Approved Carry Forward 2016/17 £	Proposed Funding Capital Receipts £	Proposed Funding Grants / S106 £	Proposed Funding Revenue Funding / Borrowing £
General Funded Schemes				
ICT Infrastructure Projects	20,270	11,367		8,903
Annual Hardware Replacement	357	357		
Disabled Facilities Grants	267,090		267,090	
Steam Coast Trail Project	209,277		209,277	
Offsite Backup Facility	15,000	15,000		
Wheddon Cross Public Conveniences	12,000			12,000
Superfast Broadband	240,000	240,000		
JMASS ICT Transformation	274,580	274,580		
Decent Homes Grants	15,910		15,910	
Stair Lift Recycling Grants	760		760	
7 The Esplanade, Watchet	15,000			15,000
East Wharf Contingent Disposal Costs	66,611	66,611		
Cuckoo Meadow Play Equipment	3,460		3,460	
Seaward Way Housing Land	13,800	13,800		
Transformation	196,000	110,000		86,000
CASA Project	83,000	83,000		
Capital Sustainability Fund	64,500	64,500		
Clanville Grange Low Cost Housing Scheme	128,000	128,000		
General S106 Funded Schemes	162,449		162,449	
Hinkley S106 Funded Schemes	2,123,121		2,123,121	
Sub Total 2016/17 Carry Forward Requests	**3,911,185**	**1,007,215**	**2,782,067**	**121,903**
Capital Scheme	**Approved 2017/18 £**	**Proposed Funding Capital Receipts £**	**Proposed Funding Grants £**	**Proposed Funding Revenue Funding / Borrowing £**
ICT Infrastructure Projects	10,000	10,000		
Annual Hardware Replacement	2,500	2,500		
Disabled Facilities Grants	360,00		360,000	
Somerset Waste Partnership - Loan	3,500,000			3,500,000
Sub Total 2017/18 Original Budget	**3,872,500**	**12,500**	**360,000**	**3,500,000**
Capital Scheme	**Supplementary Estimates 2017/18 £**	**Proposed Funding Capital Receipts £**	**Proposed Funding Grants £**	**Proposed Funding Revenue Funding / Borrowing £**
Disabled Facilities Grants	23,380		23,380	
Seaward Way – Mixed Development Proposal	2,982,000			2,982,000
Hinkley S106 Funded Schemes	397,977		397,977	
Sub Total 2017/18 Supplementary Estimates	**3,403,357**	**0**	**421,357**	**2,982,000**
Current Approved Capital Programme 2017/18	**11,187,042**	**1,019,715**	**3,563,424**	**6,603,903**

WSC 4/18

West Somerset Council

Cabinet – 7 February 2018

Draft Treasury Management Strategy Statement, Annual Investment Strategy and MRP Policy 2018/19

This matter is the responsibility of Councillor Mandy Chilcott, Lead Member for Resources and Central Support

Report Author: Jo Nacey, Financial Services Manager

1. Executive Summary

1.1 The purpose of this report is to inform Members of the recommended strategy for managing the Council's cash resources including the approach to borrowing and investments. It also seeks the formal approval of the Treasury Management Strategy Statement, Annual Investment Strategy and MRP Policy which must be approved by Full Council by 31 March each year in line with regulations.

1.2 The Draft Strategy has been prepared taking into account professional advice and information from the Council's treasury management advisor Arlingclose.

1.3 The strategy continues to prioritise security and liquidity of cash over investment returns.

1.4 The Council currently has no external borrowing.

1.5 The Council's investment balances have ranged between £10.068m and £22.160m during the last 12 months of which an average of £9.860m was Section 106 monies received from EDF in respect of the proposed Hinkley Point C development.

1.6 The Bank Base Rate increased to 0.50% on 2nd November 2017 and the Council's treasury management advisor, Arlingclose, has advised that their central case is for the UK Bank Rate to remain at 0.50% during 2018/19.

2. Recommendations

2.1 That Cabinet reviews the draft Treasury Management Strategy Statement (TMSS), Annual Investment Strategy and MRP Policy as included with this report and provides any comments it wishes to make for Full Council to consider in approving the strategies and policy.

2.2 That Cabinet notes the Prudential Indicators included within the TMSS which include limits for borrowing and investment.

2.3 That Cabinet notes the Council's Minimum Revenue Provision (MRP) policy and provides any comments it wishes to make for Full Council to consider in approving the revised MRP policy.

3. RISK ASSESSMENT

Risk Matrix

Description	Likelihood	Impact	Overall
The Treasury Management Strategy and associated policies are not approved by Full Council in advance of the new financial year and become outdated.	Possible (2)	Major (4)	Medium (8)
Mitigation - The Treasury Management Strategy is approved by Full Council in March 2017 at the latest.	Rare (1)	Minor (2)	Low (2)

The scoring of the risks identified in the above table has been based on the scoring matrix. Each risk has been assessed and scored both before the mitigation measures have been actioned and after they have.

4. Background Information

4.1 The full Draft Treasury Management Strategy Statement (TMSS), Annual Investment Strategy (AIS) and Minimum Revenue Provision (MRP) Policy are attached to this report. Due to the nature of the subject, and also in order to comply with both legislative and policy requirements, the documents contain a significant amount of technical detail and data.

4.2 The TMSS and related policies have been prepared taking into account the 2011 revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectorial Guidance Notes ("the Code") and CLG Guidance on Local Government Investments ("the Guidance").

4.3 CIPFA has also published its new 2017 editions of the *Treasury Management Code* and the *Prudential Code.* Here they list the changes since the 2011 editions, and offer guidance on producing the 2018/19 Treasury Management Strategy.

4.4 The key principles of the Code are as follows:

- Ensuring that public bodies put in place the necessary framework to ensure the effective management and control of treasury management activities;

- That the framework clearly states that responsibility for treasury management lies within the organisation and that the Strategy states the appetite for risk;

- That value for money and suitable performance measures should be reflected in the framework.

4.5 The Code also identifies four clauses to be adopted and these are as follows:

- The creation and maintenance of a policy statement and suitable treasury management practices which set out the means of achieving the policies and ensuring management and control;

- The minimum reports (to the body that approves the budget) should be an annual strategy and plan prior to the start of the financial year, a mid-year review and an annual report after its close. A local council should ensure that its' reporting enables those responsible for treasury management to effectively discharge their duties;

- Details of delegated responsibility for implementation and monitoring of policies and for the execution and administration of treasury management decisions. For this Council the delegated person is the Section 151 Officer;

- Details of the body responsible for the scrutiny of treasury management strategy and policies. For this Council the delegated body is the Audit Committee.

4.6 The Council's finance officers have worked closely with Arlingclose, our treasury advisor, to consider the requirements of the Code and Guidance and determine the proposed TMSS, AIS and MRP Policy that ensure compliance and provide a set of 'rules' for the Council to follow in dealing with investments, borrowing and cash flow management.

4.7 The current core principles remain in place within the proposed TMSS for 2018/19, which is to prioritise security (avoiding loss of council funds) and liquidity (quick access to cash) over return (interest costs and income).

4.8 However the TMSS for 2018/19 continues to recognise the increasing risks due to the new regulations in respect of 'bail in' for banks. In response to this risk and the wider ongoing risks in the financial sector the treasury strategy continues to build in greater "diversification" – so that we will hold surplus funds in a wider range of investments/accounts i.e. we are spreading the risk. Table 2 within the TMSS sets this out in a useful summary.

5. Treasury Management Strategy Statement

5.1 Council approves the strategy in advance of the new financial year and receives annual and mid-year reports, in accordance with the Code.

5.2 This Strategy is written in continuing challenging and uncertain economic times. The current economic outlook has several key treasury management implications:

- Investment returns are likely to remain relatively low during 2018/19
- With short-term borrowing interest rates currently much lower than long-term rates, it is likely to be more cost effective in the short-term to either use internal resources, or to borrow short-term

5.3 This Strategy looks to reduce exposure to risk and volatility at this time of significant economic uncertainty by

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

5.4 The historically low interest rate situation has led to significant reductions in investment income in the past years which impacts directly on the Council's budget.

5.5 The Council's general fund capital financing requirement (CFR) for 2018/19 is £5.1m which is proposed to be funded through internal borrowing.

5.6 Attached to this report is the draft recommended full Treasury Management Strategy Statement, Annual Investment Strategy and MRP Policy.

5 Minimum Revenue Provision

5.1 The proposed Minimum Revenue Provision Policy continues the policy approved for 2017/18. This is included in Appendix E.

6 Links to Corporate Aims / Priorities

6.1 The Council must approve and maintain appropriate treasury management arrangements to ensure good governance and stewardship of public resources, and to comply with relevant regulations and guidance.

7 Finance / Resource Implications

7.1 The estimated costs and income of projected investment and borrowing requirements have been reflected in the Council's MTFP forecasts. The Council procures specialist treasury management advice to assist finance officers with advice and support to ensure robust treasury management arrangements are delivered. Additionally, appropriate training is undertaken by staff. These costs are incorporated within existing budgets.

8 Legal Implications

8.1 This report fulfils the Council's legal obligation under the *Local Government Act 2003* to have regard to both the CIPFA Code and the CLG Guidance.

8.2 In March 2012 the Council adopted the Chartered Institute of Public Finance and

Accountancy's Treasury Management in the Public Services: Code of Practice 2011 Edition (the CIPFA Code) which requires the Council to approve a treasury management strategy before the start of each financial year.

8.3 In addition, the Department for Communities and Local Government (CLG) issued revised *Guidance on Local Authority Investments* in March 2010 that requires the Council to approve an investment strategy before the start of each financial year.

9 Environmental Impact Implications

9.1 None.

10 Safeguarding and/or Community Safety Implications

10.1 None.

11 Equalities and Diversity Implications

11.1 None.

12 Social Value Implications

12.1 None.

13 Partnership Implications

13.1 None.

14 Health & Wellbeing Implications

14.1 None.

15 Asset Management Implications

15.1 None.

16 Consultation Implications

16.1 None.

Democratic Path:

- **Corporate Policy Advisory Group (PAG)**
- **Cabinet**
- **Full Council**

Reporting Frequency: Annual

List of Appendices

Appendix A	Treasury Management Strategy Statement and Annual Investment Strategy 2018/19
Appendix B	Arlingclose Economic and Interest Rate Forecast – November 2017
Appendix C	Existing Investment and Debt Portfolio Position
Appendix D	Prudential Indicators 2018/19
Appendix E	Annual Minimum Revenue Provision Statement 2018/19

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Appendix A

West Somerset Council

Treasury Management Strategy Statement 2018/19

Introduction

In March 2012 the Council adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2011 Edition* (the CIPFA Code) which requires the Council to approve a treasury management strategy before the start of each financial year. CIPFA consulted on changes to the Code in 2017, but has yet to publish a revised Code.

In addition, the Department for Communities and Local Government (CLG) issued revised *Guidance on Local Authority Investments* in March 2010 that requires the Council to approve an investment strategy before the start of each financial year.

This report fulfils the Council's legal obligation under the *Local Government Act 2003* to have regard to both the CIPFA Code and the CLG Guidance.

The Council has invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk are therefore central to the Council's treasury management strategy.

Revised strategy: In accordance with the CLG Guidance, the Council will be asked to approve a revised Treasury Management Strategy Statement should the assumptions on which this report is based change significantly. Such circumstances would include, for example, a large unexpected change in interest rates, in the Council's capital programme or in the level of its investment balance.

External Context

Economic background: The major external influence on the Council's treasury management strategy for 2018/19 will be the UK's progress in negotiating its exit from the European Union and agreeing future trading arrangements. The domestic economy has remained relatively robust since the surprise outcome of the 2016 referendum, but there are indications that uncertainty over the future is now weighing on growth. Transitional arrangements may prevent a cliff-edge, but will also extend the period of uncertainty for several years. Economic growth is therefore forecast to remain sluggish throughout 2018/19.

Consumer price inflation reached 3.0% in September 2017 as the post-referendum devaluation of sterling continued to feed through to imports. Unemployment continued to fall and the Bank of England's Monetary Policy Committee judged that the extent of spare capacity in the economy seemed limited and the pace at which the economy can grow without generating inflationary pressure had fallen over recent years. With its inflation-control mandate in mind, the Bank of England's Monetary Policy Committee raised official interest rates to 0.5% in November 2017.

In contrast, the US economy is performing well and the Federal Reserve is raising interest rates in regular steps to remove some of the emergency monetary stimulus it has provided for the past decade. The European Central Bank is yet to raise rates, but has started to taper its quantitative easing programme, signalling some confidence in the Eurozone economy.

Credit outlook: High profile bank failures in Italy and Portugal have reinforced concerns over the health of the European banking sector. Sluggish economies and fines for pre-crisis behaviour continue to weigh on bank profits, and any future economic slowdown will exacerbate concerns in this regard.

Bail-in legislation, which ensures that large investors including local authorities will rescue failing banks instead of taxpayers in the future, has now been fully implemented in the European Union, Switzerland and USA, while Australia and Canada are progressing with their own plans. In addition, the largest UK banks will ring-fence their retail banking functions into separate legal entities during 2018. There remains some uncertainty over how these changes will impact upon the credit strength of the residual legal entities.

The credit risk associated with making unsecured bank deposits has therefore increased relative to the risk of other investment options available to the Council; returns from cash deposits however remain very low.

Interest rate forecast: The Council's treasury adviser Arlingclose's central case is for UK Bank Rate to remain at 0.50% during 2018/19, following the rise from the historic low of 0.25%. The Monetary Policy Committee re-emphasised that any prospective increases in Bank Rate would be expected to be at a gradual pace and to a limited extent.

Future expectations for higher short term interest rates are subdued and on-going decisions remain data dependant and negotiations on exiting the EU cast a shadow over monetary policy decisions. The risks to Arlingclose's forecast are broadly balanced on both sides. The Arlingclose central case is for gilt yields to remain broadly stable across the medium term. Upward movement will be limited, although the UK government's seemingly deteriorating fiscal stance is an upside risk.

A more detailed economic and interest rate forecast provided by Arlingclose is attached at ***Appendix B***.

Local Context

On 31 December 2017, the Council had no external borrowing and £20.284m of investments. This is set out in further detail at ***Appendix C***. Forecast changes in these sums are shown in the balance sheet analysis in table 1 below.

Table 1: Balance sheet summary and forecast

	31.3.17 Actual £000	**31.3.18 Estimate £000**	**31.3.19 Forecast £000**	**31.3.20 Forecast £000**	**31.3.21 Forecast £000**
General Fund CFR	5,347	5,204	5,061	7,757	7,538
Less: External borrowing	0	0	0	(2,839)	(2,720)
Internal borrowing	**5,347**	**5,204**	**5,061**	**4,918**	**4,818**
Less: Usable reserves	(6,840)	(5,551)	(6,492)	(6,492)	(6,492)
(Investments) or New Borrowing	**(1,493)**	**(347)**	**(1,431)**	**(1,574)**	**(1,674)**

Note: Table 1 shows the movement of the Capital Financing Requirement (CFR) each year based on the planned capital expenditure and funding decisions approved. A supplementary estimate was approved in year in respect of the mixed development proposal at Seaward Way amounting to £2.839m, proposed to be funded from external borrowing. From 2018/19 onwards the MRP charge will revert back to being a charge to the revenue account as opposed to being funded from the capital receipts reserve, which it has been for the 3 preceding financial years.

The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. The Council's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing.

CIPFA's *Prudential Code for Capital Finance in Local Authorities* recommends that the Council's total debt should be lower than its highest forecast CFR over the next three years. Table 1 shows that the Council expects to comply with this recommendation during 2018/19.

The Assistant Director – Strategic Finance and S151 Officer reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in the budget report.

Borrowing Strategy

The Council currently holds no external loans, and it forecasts the borrowing requirement is fully covered by internal borrowing, however as part of its strategy for funding previous years' capital programmes the Council may need to borrow externally in the future and in addition may choose to borrow to pre-fund future years' requirements, providing this does not exceed the authorised limit of £24 million.

Objectives: The Council's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required. The flexibility to renegotiate loans should the Council's long-term plans change is a secondary objective.

Strategy: Given the significant cuts to public expenditure and in particular to local government funding, the Council's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. With short-term interest rates currently much lower than long-term rates, it is likely to be more cost effective in the short-term to either use internal resources, or to borrow short-term loans instead.

By doing so, the Council is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. The benefits of internal / short-term borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise modestly. Arlingclose will assist the Council with this 'cost of carry' and breakeven analysis. Its output may determine whether the Council borrows additional sums at long-term fixed rates in 2018/19 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

Alternatively, the Council may arrange forward starting loans during 2018/19, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period.

In addition, the Council may borrow short-term loans to cover unplanned cash flow shortages.

Sources of borrowing: The approved sources of long-term and short-term borrowing are:

- Public Works Loan Board (PWLB) and any successor body
- any institution approved for investments (see below)
- any other bank or building society authorised to operate in the UK
- UK public and private sector pension funds (except Somerset Pension Fund)
- capital market bond investors

- UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues
- UK Local Authorities

In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:

- operating and finance leases
- hire purchase
- Private Finance Initiative
- sale and leaseback

The Council has previously raised the majority of its long-term borrowing from the PWLB but it continues to investigate other sources of finance, such as local authority loans and bank loans that may be available at more favourable rates.

Municipal Bonds Agency: UK Municipal Bonds Agency plc was established in 2014 by the Local Government Association as an alternative to the PWLB. It plans to issue bonds on the capital markets and lend the proceeds to local authorities. This will be a more complicated source of finance than the PWLB for two reasons: borrowing authorities will be required to provide bond investors with a joint and several guarantee to refund their investment in the event that the agency is unable to for any reason; and there will be a lead time of several months between committing to borrow and knowing the interest rate payable. Any decision to borrow from the Agency will therefore be the subject of a separate report to Cabinet.

Short-term and Variable Rate Loans: These loans leave the Council exposed to the risk of short-term interest rate rises and are therefore subject to the limit on the net exposure to variable interest rates in the treasury management indicators below.

Debt rescheduling: The PWLB allows Councils to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. Other lenders may also be prepared to negotiate premature redemption terms. The Council may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall cost saving or a reduction in risk.

Investment Strategy

The Council holds invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the Council's investment balance has ranged between £10.068m and £22.160m, of which an average of £9.860m is Section 106 monies received from EDF in respect of the proposed

Hinkley Point C development. Similar levels are expected to be maintained in the forthcoming year.

Objectives: Both the CIPFA Code and the CLG Guidance require the Council to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. Where balances are expected to be invested for more than one year, the Council will aim to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested.

Strategy: Given the increasing risk and very low returns from short-term unsecured bank investments, the Council aims to continue to diversify into more secure and/or higher yielding asset classes during 2018/19. The majority of the Council's core surplus cash currently remains invested in short-term unsecured bank deposits and money market funds. This will represent a continuation of the strategy adopted in 2017/18. Monies held in respect of the Hinkley S106 agreement will continue to be placed in the Debt Management Office as well as in Government Sterling Money Market Funds and Treasury Bills, aimed at removing investment risk but accepting lower rates of return.

Approved counterparties: The Council may invest its surplus funds with any of the counterparty types in Table 2 below, subject to the cash limits (per counterparty) and the time limits shown.

<u>Table 2: Approved investment counterparties and limits</u>

Credit rating	Banks unsecured	Banks secured	Government	Corporates	Registered Providers
UK Govt	n/a	n/a	£ Unlimited 50 years	n/a	n/a
AAA	£1m 5 years	£2m 20 years	£2m 50 years	£1m 20 years	£1m 20 years
AA+	£1m 5 years	£2m 10 years	£2m 25 years	£1m 10 years	£1m 10 years
AA	£1m 4 years	£2m 5 years	£2m 15 years	£1m 5 years	£1m 10 years
AA-	£1m 3 years	£2m 4 years	£2m 10 years	£1m 4 years	£1m 10 years
A+	£1m 2 years	£2m 3 years	£1m 5 years	£1m 3 years	£1m 5 years
A	£1m 13 months	£2m 2 years	£1m 5 years	£1m 2 years	£1m 5 years
A-	£1m	£2m	£1m	£1m	£1m

	6 months	13 months	5 years	13 months	5 years
BBB+	£500k 100 Days	£1m 6 months	£500k 2 years	£500k 6 months	£500k 2 years
Unrated	£500k 6 months	n/a	£2m 25 years	£50k 5 years	£1m 5 years
Pooled funds	Up to 50% of total investments limited to £2m in each fund				

This table must be read in conjunction with the notes below

Credit rating: Investment limits are set by reference to the lowest published long-term credit rating from Fitch, Moody's or Standard & Poor's. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account.

Banks unsecured: Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. See below for arrangements relating to operational bank accounts.

Banks secured: Covered bonds, reverse repurchase agreements and other collateralised arrangements with banks and building societies. These investments are secured on the bank's assets, which limits the potential losses in the unlikely event of insolvency, and means that they are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used to determine cash and time limits. The combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments.

Government: Loans, bonds and bills issued or guaranteed by national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is an insignificant risk of insolvency. Investments with the UK Central Government may be made in unlimited amounts for up to 50 years.

Corporates: Loans, bonds and commercial paper issued by companies other than banks and registered providers. These investments are not subject to bail-in, but are exposed to the risk of the company going insolvent. Loans to unrated companies will only be made either following an external credit assessment as part of a diversified pool in order to spread the risk widely.

Registered providers: Loans and bonds issued by, guaranteed by or secured on the assets of registered providers of social housing, formerly known as housing associations. These bodies are tightly regulated by the Homes and Communities

Agency and, as providers of public services, they retain the likelihood of receiving government support if needed.

Pooled funds: Shares in diversified investment vehicles consisting of the any of the above investment types, plus equity shares and property. These funds have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a fee. Short-term Money Market Funds that offer same-day liquidity and very low or no volatility will be used as an alternative to instant access bank accounts, while pooled funds whose value changes with market prices and/or have a notice period will be used for longer investment periods.

Bond, equity and property funds offer enhanced returns over the longer term, but are more volatile in the short term. These allow the Council to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Council's investment objectives will be monitored regularly.

Operational bank accounts: The Council may incur operational exposures, for example though current accounts and collection accounts, to any UK bank with credit ratings no lower than BBB- and with assets greater than £25 billion. These are not classed as investments, but are still subject to the risk of a bank bail-in. The Council uses Natwest as its operational bank, which has a current rating of BBB+. With this in mind balances held overnight will therefore not exceed £500k.The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of the Council maintaining operational continuity.

Risk assessment and credit ratings: Credit ratings are obtained and monitored by the Council's treasury advisers, who will notify changes in ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- no new investments will be made,
- any existing investments that can be recalled or sold at no cost will be, and
- full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as "rating watch negative" or "credit watch negative") so that it may fall below the approved rating criteria, then only investments that can be withdrawn on the next working day will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

Other information on the security of investments: The Council understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support and reports in the quality financial press. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may meet the credit rating criteria.

When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2011, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Council will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Council's cash balances, then the surplus will be deposited with the UK Government, via the Debt Management Office or invested in government treasury bills for example, or with other local authorities. This will cause a reduction in the level of investment income earned, but will protect the principal sum invested.

Specified investments: The CLG Guidance defines specified investments as those:

- denominated in pound sterling,
- due to be repaid within 12 months of arrangement,
- not defined as capital expenditure by legislation, and
- invested with one of:
    - the UK Government,
    - a UK local authority, parish council or community council, or
    - a body or investment scheme of "high credit quality".

The Council defines "high credit quality" organisations and securities as those having a credit rating of A- or higher that are domiciled in the UK or a foreign country with a sovereign rating of AA+ or higher. For money market funds and other pooled funds "high credit quality" is defined as those having a credit rating of A- or higher.

Non-specified investments: Any investment not meeting the definition of a specified investment is classed as non-specified. The Council does not intend to make any investments denominated in foreign currencies, nor any that are defined as capital expenditure by legislation, such as company shares. Non-specified investments will therefore be limited to long-term investments, i.e. those that are due to mature 12 months or longer from the date of arrangement, and investments with bodies and schemes not meeting the definition on high credit quality. Limits on non-specified investments are shown in table 3 below.

Table 3: Non-specified investment limits

	Cash limit
Total long-term investments	£10m
Total investments without credit ratings or rated below BBB+	£4m
Total non-specified investments	£14m

Investment limits: The Council's revenue reserves available to cover investment losses are forecast to be £5.551m on 31st March 2018. In order that no more than £2m of available reserves will be put at risk in the case of a single default, the maximum that will be lent to any one organisation (other than the UK Government) will be £2m. A group of banks under the same ownership will be treated as a single organisation for limit purposes. Limits will also be placed on fund managers, investments in brokers' nominee accounts, foreign countries and industry sectors as below. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries.

Table 4: Investment limits

	Cash limit
Any single organisation, except the UK Central Government	£2m
UK Central Government	Unlimited
Any group of organisations under the same ownership	£2m per group
Any group of pooled funds under the same management	£2m per manager
Negotiable instruments held in a broker's nominee account	£5m per broker
Foreign countries	£2m per country
Registered providers	£5m in total
Loans to unrated corporates	£2m in total
Money Market Funds	£10m in total

Liquidity management: The Council uses a spreadsheet which details the Council's cash flow on a daily basis to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a prudent basis to minimise the risk of the Council being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the Council's medium term financial plan and cash flow forecast.

Non-Treasury Investments

Although not classed as treasury management activities and therefore not covered by the CIPFA Code or the CLG Guidance, the Council may also purchase property for investment purposes and may also make loans and investments for service purposes, for example in shared ownership housing, as loans to local businesses and landlords, or as equity investments and loans to the Council's subsidiaries.

Such loans and investments will be subject to the Council's normal approval processes for revenue and capital expenditure and need not comply with this treasury management strategy.

Currently the Council has no existing non-treasury investments.

Treasury Management Indicators

The Council measures and manages its exposures to treasury management risks using the following indicators.

Security: The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

	Target
Portfolio average credit rating	A-

Liquidity: The Council has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling three month period, without additional borrowing.

	Target
Total cash available within 3 months	£15m

Interest rate exposures: This indicator is set to control the Council's exposure to interest rate risk. The upper limits on fixed and variable rate interest rate exposures, expressed as the proportion of net principal borrowed will be:

	2018/19	**2019/20**	**2020/21**
Upper limit on fixed interest rate exposure	100%	100%	100%
Upper limit on variable interest rate exposure	100%	100%	100%

Fixed rate investments and borrowings are those where the rate of interest is fixed for at least 12 months, measured from the start of the financial year or the transaction date if later. All other instruments are classed as variable rate.

Maturity structure of borrowing: This indicator is set to control the Council's exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing will be:

	Upper	**Lower**
Under 12 months	100%	0%
12 months and within 24 months	100%	0%
24 months and within 5 years	100%	0%
5 years and within 10 years	100%	0%
10 years and above	100%	0%

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment

Principal sums invested for periods longer than 364 days: The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end will be:

	2018/19	**2019/20**	**2020/21**
Limit on principal invested beyond year end	£10m	£6m	£6m

<u>Other Items</u>

There are a number of additional items that the Council is obliged by CIPFA or CLG to include in its Treasury Management Strategy.

Policy on the use of financial derivatives: Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans and callable deposits). The general power of competence in Section 1 of the *Localism Act 2011* removes much of the uncertainty over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment).

The Council will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Council is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives, including those present in pooled funds and forward starting transactions, will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.

Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria. The current value of any amount due from a derivative counterparty will count against the counterparty credit limit and the relevant foreign country limit.

Investment training: The needs of the Council's treasury management staff for training in investment management are assessed as part of the staff appraisal process, and additionally when the responsibilities of individual members of staff change.

Staff regularly attend training courses, seminars and conferences provided by Arlingclose and CIPFA.

Investment advisers: The Council has appointed Arlingclose Limited as treasury management advisers and receives specific advice on investment, debt and capital finance issues. The quality of this service is controlled by holding quarterly meetings and tendering periodically. The last tender was completed in March 2014.

Investment of money borrowed in advance of need: The Council may, from time to time, borrow in advance of need, where this is expected to provide the best long-term value for money. Since amounts borrowed will be invested until spent, the Council is aware that it will be exposed to the risk of loss of the borrowed sums, and the risk that investment and borrowing interest rates may change in the intervening period. These risks will be managed as part of the Council's overall management of its treasury risks.

The total amount borrowed will not exceed the authorised borrowing limit of £24m. The maximum period between borrowing and expenditure is expected to be two years, although the Council is not required to link particular loans with particular items of expenditure.

Financial Implications

The budget for investment income in 2018/19 is £0.028m. The budget for debt interest paid in 2018/19 is £0.005m. If actual levels of investments and borrowing, and actual interest rates differ from those forecast, performance against budget will be correspondingly different.

Other Options Considered

The CLG Guidance and the CIPFA Code do not prescribe any particular treasury management strategy for local authorities to adopt. The Assistant Director – Strategic Finance and S151 Officer, believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed below.

Alternative	Impact on income and expenditure	Impact on risk management
Invest in a narrower range of counterparties and/or for shorter times	Interest income will be lower	Lower chance of losses from credit related defaults, but any such losses may be greater
Invest in a wider range of counterparties and/or for longer times	Interest income will be higher	Increased risk of losses from credit related defaults, but any such losses may be smaller
Borrow additional sums at long-term fixed interest rates	Debt interest costs will rise; this is unlikely to be offset by higher investment income	Higher investment balance leading to a higher impact in the event of a default; however long-term interest costs may be more certain
Borrow short-term or variable loans instead of long-term fixed rates	Debt interest costs will initially be lower	Increases in debt interest costs will be broadly offset by rising investment income in the medium term, but long-term costs may be less certain
Reduce level of borrowing	Saving on debt interest is likely to exceed lost investment income	Reduced investment balance leading to a lower impact in the event of a default; however long-term interest costs may be less certain

Appendix B

Arlingclose Economic & Interest Rate Forecast November 2017

Underlying assumptions:

- In a 7-2 vote, the Monetary Policy Committee (MPC) increased Bank Rate in line with market expectations to 0.5%. Dovish accompanying rhetoric prompted investors to lower the expected future path for interest rates. The minutes re-emphasised that any prospective increases in Bank Rate would be expected to be at a gradual pace and to a limited extent.

- Further potential movement in Bank Rate is reliant on economic data and the likely outcome of the EU negotiations. Policymakers have downwardly assessed the supply capacity of the UK economy, suggesting inflationary growth is more likely. However, the MPC will be wary of raising rates much further amid low business and household confidence.

- The UK economy faces a challenging outlook as the minority government continues to negotiate the country's exit from the European Union. While recent economic data has improved, it has done so from a low base: UK Q3 2017 GDP growth was 0.4%, after a 0.3% expansion in Q2.

- Household consumption growth, the driver of recent UK GDP growth, has softened following a contraction in real wages, despite both saving rates and consumer credit volumes indicating that some households continue to spend in the absence of wage growth. Policymakers have expressed concern about the continued expansion of consumer credit; any action taken will further dampen household spending.

- Some data has held up better than expected, with unemployment continuing to decline and house prices remaining relatively resilient. However, both of these factors can also be seen in a negative light, displaying the structural lack of investment in the UK economy post financial crisis. Weaker long term growth may prompt deterioration in the UK's fiscal position.

- The depreciation in sterling may assist the economy to rebalance away from spending. Export volumes will increase, helped by a stronger Eurozone economic expansion.

- Near-term global growth prospects have continued to improve and broaden, and expectations of inflation are subdued. Central banks are moving to reduce the level of monetary stimulus.

- Geo-political risks remains elevated and helps to anchor safe-haven flows into the UK government bond (gilt) market.

Forecast:

- The MPC has increased Bank Rate, largely to meet expectations they themselves created. Future expectations for higher short term interest rates are subdued. On-going decisions remain data dependant and negotiations on exiting the EU cast a shadow over monetary policy decisions.
- Our central case for Bank Rate is 0.5% over the medium term. The risks to the forecast are broadly balanced on both sides.
- The Arlingclose central case is for gilt yields to remain broadly stable across the medium term. Upward movement will be limited, although the UK government's seemingly deteriorating fiscal stance is an upside risk.

	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Average
Official Bank Rate														
Upside risk	0.00	0.00	0.00	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	**0.19**
Arlingclose Central Case	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**
Downside risk	0.00	0.00	0.00	0.00	0.00	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	**-0.15**
3-month LIBID rate														
Upside risk	0.10	0.10	0.10	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	**0.22**
Arlingclose Central Case	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**
Downside risk	-0.10	-0.10	-0.15	-0.15	-0.15	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	**-0.20**
1-yr LIBID rate														
Upside risk	0.15	0.15	0.20	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	**0.27**
Arlingclose Central Case	**0.70**	**0.70**	**0.70**	**0.70**	**0.80**	**0.80**	**0.80**	**0.80**	**0.80**	**0.80**	**0.80**	**0.80**	**0.80**	**0.77**
Downside risk	-0.15	-0.20	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.15	-0.15	**-0.26**
5-yr gilt yield														
Upside risk	0.20	0.25	0.25	0.25	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.40	**0.32**
Arlingclose Central Case	**0.75**	**0.75**	**0.80**	**0.80**	**0.80**	**0.85**	**0.90**	**0.90**	**0.95**	**0.95**	**1.00**	**1.05**	**1.10**	**0.89**
Downside risk	-0.20	-0.20	-0.25	-0.25	-0.25	-0.35	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	**-0.33**
10-yr gilt yield														
Upside risk	0.20	0.25	0.25	0.25	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.40	**0.32**
Arlingclose Central Case	**1.25**	**1.25**	**1.25**	**1.25**	**1.25**	**1.30**	**1.30**	**1.35**	**1.40**	**1.45**	**1.50**	**1.55**	**1.55**	**1.36**
Downside risk	-0.20	-0.25	-0.25	-0.25	-0.25	-0.30	-0.35	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	**-0.33**
20-yr gilt yield														
Upside risk	0.20	0.25	0.25	0.25	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.40	**0.32**
Arlingclose Central Case	**1.85**	**1.85**	**1.85**	**1.85**	**1.85**	**1.90**	**1.90**	**1.95**	**1.95**	**2.00**	**2.05**	**2.05**	**2.05**	**1.93**
Downside risk	-0.20	-0.30	-0.25	-0.25	-0.30	-0.35	-0.40	-0.45	-0.50	-0.50	-0.50	-0.50	-0.50	**-0.38**
50-yr gilt yield														
Upside risk	0.20	0.25	0.25	0.25	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.40	**0.32**
Arlingclose Central Case	**1.70**	**1.70**	**1.70**	**1.70**	**1.70**	**1.75**	**1.80**	**1.85**	**1.90**	**1.95**	**1.95**	**1.95**	**1.95**	**1.82**
Downside risk	-0.30	-0.30	-0.25	-0.25	-0.30	-0.35	-0.40	-0.45	-0.50	-0.50	-0.50	-0.50	-0.50	**-0.39**

Appendix C

Existing Investment & Debt Portfolio Position

	31/12/2017 **Actual Portfolio £m**	31/12/2017 **Average Rate %**
Total External Borrowing	**0**	**0.00**
Investments:		
Long Term	0	0.00
Short Term	20.284	0.33
Total Investments	20.284	0.33
Net investments	**20.284**	**0.33**

Appendix D

Prudential Indicators 2018/19

The Local Government Act 2003 requires the Council to have regard to the Chartered Institute of Public Finance and Accountancy's *Prudential Code for Capital Finance in Local Authorities* (the Prudential Code) when determining how much money it can afford to borrow. The objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable, and that treasury management decisions are taken in accordance with good professional practice. To demonstrate that the Council has fulfilled these objectives, the Prudential Code sets out the following indicators that must be set and monitored each year.

Estimates of Capital Expenditure: The Council's planned capital expenditure and financing may be summarised as follows:

Capital Expenditure and Financing	**2017/18 Predicted £000**	**2018/19 Estimate £000**
General Fund Schemes	1,407	376
S106 Funded - General Schemes	54	
S106 Funded – Hinkley Schemes	81	
Total Capital Expenditure	**1,542**	**376**
Capital Receipts	(794)	(26)
Government Grants	(491)	(350)
Earmarked Reserves	(86)	
Revenue	(36)	
S106 Funded - General Schemes	(54)	
S106 Funded – Hinkley Schemes	(81)	
Total Capital Financing	**(1,542)**	**(376)**

Estimates of Capital Financing Requirement: The Capital Financing Requirement (CFR) measures the Council's underlying need to borrow for a capital purpose. The calculation of the CFR is taken from the amounts held in the Balance Sheet relating to capital expenditure and financing.

Capital Financing Requirement	31.03.18 Revised £000	31.03.19 Estimate £000	31.03.20 Estimate £000	31.03.21 Estimate £000
General Fund	5,204	**5,061**	7,757	7,538

The CFR is forecast to increase (before the reduction of MRP) by £2.839m in 2019/20 which incorporates the need for external borrowing in respect of the mixed development proposal at Seaward Way.

Gross Debt and the Capital Financing Requirement: In order to ensure that over the medium term debt will only be for a capital purpose, the Council should ensure that debt does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years. This is a key indicator of prudence.

Debt	31.03.18 Revised £000	31.03.19 Estimate £000	31.03.20 Estimate £000	31.03.21 Estimate £000
Borrowing	0	**0**	2,839	2,720

Total debt is expected to remain below the CFR during the forecast period.

Operational Boundary for External Debt: The operational boundary is based on the Council's estimate of most likely (i.e. prudent but not worst case) scenario for external debt. It links directly to the Council's estimates of capital expenditure, the capital financing requirement and cash flow requirements, and is a key management tool for in-year monitoring.

Operational Boundary	2017/18 Revised £000	2018/19 Estimate £000	2019/20 Estimate £000	2020/21 Estimate £000
Borrowing	12,000	**12,000**	12,000	12,000

Authorised Limit for External Debt: The authorised limit is the affordable borrowing limit determined in compliance with the Local Government Act 2003. It is the maximum amount of debt that the Council can legally owe. The authorised limit provides headroom over and above the operational boundary for unusual cash movements.

Authorised Limit	**2017/18 Limit £000**	**2018/19 Limit £000**	**2019/20 Limit £000**	**2020/21 Limit £000**
Borrowing	24,000	**24,000**	24,000	24,000

Ratio of Financing Costs to Net Revenue Stream: This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs, net of investment income.

Ratio of Financing Costs to Net Revenue Stream	**2017/18 Revised %**	**2018/19 Estimate %**	**2019/20 Estimate %**	**2020/21 Estimate %**
General Fund	-0.38	**1.85**	2.13	1.85

The revised estimate for 2017/18 is negative due to the Council having no debt to service (no interest to pay on borrowing) and a capital programme which does not impact on the revenue budget.

Incremental Impact of Capital Investment Decisions: This is an indicator of affordability that shows the impact of capital investment decisions on Council Tax levels. The incremental impact is the difference between the total revenue budget requirement of the current approved capital programme and the revenue budget requirement arising from the capital programme proposed.

Incremental Impact of Capital Investment Decisions	**2018/19 Estimate £**	**2019/20 Estimate £**	**2020/21 Estimate £**
General Fund - increase in annual band D Council Tax	**0**	0	0

Adoption of the CIPFA Treasury Management Code: The Council adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2011 Edition* in March 2012 It fully complies with the Codes recommendations.

Appendix E

Annual Minimum Revenue Provision Statement 2018/19

Where the Council finances capital expenditure by debt, it must put aside resources to repay that debt in later years. The amount charged to the revenue budget for the repayment of debt is known as Minimum Revenue Provision (MRP), although there has been no statutory minimum since 2008. The Local Government Act 2003 requires the Council to have regard to the Department for Communities and Local Government's *Guidance on Minimum Revenue Provision* (the CLG Guidance) most recently issued in 2012.

The broad aim of the CLG Guidance is to ensure that debt is repaid over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits, or, in the case of borrowing supported by Government Revenue Support Grant, reasonably commensurate with the period implicit in the determination of that grant.

The CLG Guidance requires the Council to approve an Annual MRP Statement each year, and recommends a number of options for calculating a prudent amount of MRP.

The MRP methodology was reviewed in 2016/17 to ensure that our approach was appropriate for our financial stability and was robust and prudent for future capital expenditure.

The weighted average useful life approach was deemed to be the most prudent approach and took into consideration the materiality of each asset and its recorded remaining useful life. The weighted average was then applied to the class of asset then applied across the whole fixed asset base. That gave a robust basis to support the asset life applied to MRP calculations and be appropriate for audit scrutiny.

This base calculation will stay the same but any additional CFR is calculated separately and added to the MRP as a distinct calculation thus protecting the original calculation and adding to it where appropriate.

For capital expenditure loans to third parties that are repaid in annual or more frequent instalments of principal, the Council will make nil MRP, but will instead apply the capital receipts arising from principal repayments to reduce the capital financing requirement instead. In years where there is no principal repayment, MRP will be charged in accordance with the MRP policy for the assets funded by the loan.

Capital expenditure incurred during 2018/19 will not be subject to a MRP charge until 2019/20.