

Taunton Deane Borough Council

Executive – 3 August 2017

Draft Medium Term Financial Plan 2018/2019

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

Report Author: Paul Fitzgerald, Assistant Director Strategic Finance and S151 Officer

1 Executive Summary / Purpose of the Report

- 1.1 The purpose of this report is to present Councillors with the initial draft of the Council's Medium Term Financial Strategy (MTFS), which is the Council's approach for balancing the budget over the medium term including the approach to managing costs and optimising the funding that will be available to support spending on services. The Strategy overarches the Medium Term Financial Plan (MTFP), which is a summary of the financial costs and income in monetary terms.
- 1.2 The MTFP forecasts have been reviewed and at this stage there are no material changes to the forecasts that were reported to Council in February 2017 when the budget for 2017/18 was approved.
- 1.3 The Budget Gap – the difference between projected costs and projected funding – in 2018/19 is currently £388,000, rising to an estimated £1,118,000 by 2022/23. This gap reflects decisions already taken by the Council such as anticipated savings from transformation of service delivery, and is based on a range of assumptions.
- 1.4 The MTFS includes a summary of the approach in respect of:
 - Business rates funding
 - New homes bonus
 - Council tax and council tax support
 - Service spending and income
 - Reserves and balances
 - Capital
 - Treasury
- 1.5 There are a number of risks and uncertainties recognised in the Strategy. The financial forecasts are considered to be reasonable and robust at this stage but it is right to recognise that the position can change in future, particularly with a significant update in the allocation of business rates funding expected in 2019/20

or 2020/21. At this stage we cannot predict what the results of this change will be.

- 1.6 The General Reserves balance is currently £2,186,000, which stands at £586,000 above the recommended minimum balance of £1,600,000. This provides some financial resilience to unplanned costs, but falling below the minimum would require urgent action to return the balance to an acceptable level.

2 Recommendations

- 2.1 The Committee supports the draft Medium Term Financial Strategy (MTFS) and commits to the proposed approach within the Strategy to address the challenge of closing the gap between costs and income in order to produce a sustainable financial position for the foreseeable future.

3 Risk Assessment

Risk Matrix

Description	Likelihood	Impact	Overall
The Council fails to agree and deliver a sustainable Medium Term Financial Plan for the next five years.	Possible 3	Moderate 3	Medium 9
<i>The Council is progressing a Transformation business case which aims to deliver significant budget savings, and other savings plans will need to be developed through the annual budget process.</i>	Unlikely 2	Minor 2	Low 4

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 same time	25 – 50%
4. Likely	Likely to occur within the next 1-2 years, or	50 – 75%

	occurs occasionally	
5. Very Likely	Regular occurrence (daily / weekly / monthly)	> 75%

3.1 A number of risks are detailed within the main MTFS document.

4 Medium Term Financial Strategy

4.1 The financial challenge for Taunton Deane Borough Council (TDBC) is ongoing as the Government continues to reduce central grant funding for local authorities. The Council's financial forecasts indicate significant financial savings will be needed to maintain balanced budgets and a sound, sustainable financial footing for the future and underpin the planned investment in the top priority of growth and infrastructure.

4.2 The Medium Term Financial Strategy (MTFS) – attached to this report – is the Council's approach for balancing the budget over the medium term including the approach to managing costs and optimising the funding that will be available to support spending on services. The Strategy overarches the Medium Term Financial Plan (MTFP), which is a summary of the financial costs and income in monetary terms.

4.3 The Council has implemented several measures over recent years to meet the financial challenges to date. This includes the significant step of joining together shared management and staff structures with West Somerset Council to achieve cost efficiencies and improve the resilience of services.

4.4 The next phase of this partnership is to implement a transformation programme that aims to put the customer at the heart of what we do, and at the same time provide further financial savings to ensure our costs remain in step with our income. The business case for this programme was approved by both Taunton Deane and West Somerset in the summer of 2016, and the anticipated savings are reflected in the forecasts within the Medium Term Financial Plan.

4.5 The forecasts have been reviewed with no material changes since February, and reflect what is "known", and provides "best estimates" on areas of uncertainty. The MTFP will continue to be updated as new information emerges and further updates shared with Members at key points in the budget process.

4.6 The draft Strategy is included with this covering report and covers the planned approach in terms of:-

- Business rates funding
- New homes bonus
- Council tax and council tax support
- Service spending and income
- Reserves and balances
- Capital

- Treasury

- 4.7 The document is in a new style this year, with the Strategy covering the above, supported with a summary Medium Term Financial Plan (MTFP) that includes the forecasts of net spending on services and the estimated funding available to support these costs. Further detail is provided as an Annex to the MTFS to provide further information on assumptions and method applied to the estimates.
- 4.8 The Council has taken a variety of actions and decisions to produce a balanced budget over recent years in the face of reducing funding from central Government. This trend of reducing funding will continue and this is reflected in our MTFP estimates which projects a Budget Gap – the difference between projected costs and projected funding – of **£388,000 in 2018/19**, rising to an estimated **£1,118,000 by 2022/23**. This includes the anticipated savings that can be achieved through transforming how we deliver services. It does not include a notional share of the additional forecast £551,000 savings that could be delivered on top of transformation through the proposed creation of a new Council covering Taunton Deane and West Somerset areas.
- 4.9 The General Reserves balance is currently £2,186,000, which stands at £586,000 above the recommended minimum balance of £1,600,000. This provides some financial resilience to unplanned costs, but falling below the minimum would require urgent action to return the balance to an acceptable level.

5 Links to Corporate Aims / Priorities

- 5.1 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.

6 Finance / Resource Implications

- 6.1 The Council's financial position is summarised above and explained in detail within the financial strategy and supporting information.
- 6.2 It is important that Councillors have a good understanding of the financial position and forecasts over the medium term, both to support the key decisions faced in July when Full Council considers the Transformation business case, and subsequently through the annual budget process.
- 6.3 This report provides a summary of the financial projections for the revenue budget estimates and the Council's revenue reserves.
- 6.4 The MTFS aims to secure a sustainable approach to budget setting recognising the strategic priorities of transformation and growth. The approach for 2018/19

will follow in line with the MTFS and also seek to ensure the approach is as efficient as possible in order to protect management and staff resources to implement transformation and maintain service delivery.

7 Legal Implications

7.1 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.

8 Environmental Impact Implications

8.1 None for the purposes of this report.

9 Safeguarding and/or Community Safety Implications

9.1 None for the purposes of this report.

10 Equality and Diversity Implications

10.1 None for the purposes of this report. The specific proposals that develop through the budgeting and service planning processes will require equalities impact assessments to be completed and, where relevant, action plans to understand impacts and mitigations for the protected characteristic groups.

11 Social Value Implications

11.1 None for the purposes of this report.

12 Partnership Implications

12.1 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.

13 Health and Wellbeing Implications

13.1 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.

14 Asset Management Implications

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

15 Consultation Implications

15.1 None for the purposes of this report.

16 Scrutiny Comments / Recommendation(s)

16.1 Corporate Scrutiny supported the approach at its meeting on 20 July 2017.

Democratic Path:

- **Corporate Scrutiny Committee – Yes (20 July 2017)**
- **Executive – Yes (3 August 2017)**
- **Full Council – No**

Reporting Frequency: **Annually** (with further reports through the budget process)

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Taunton Deane Borough Council

Medium Term Financial Strategy and Plan 2018/19 to 2022/23 and Annual Budget 2018/19

1 Purpose of the Medium Term Financial Strategy (MTFS)

1.1 This strategy has been developed for partners, councillors, staff and most importantly residents to consider the financial context in which the Council will be operating. It will cover:

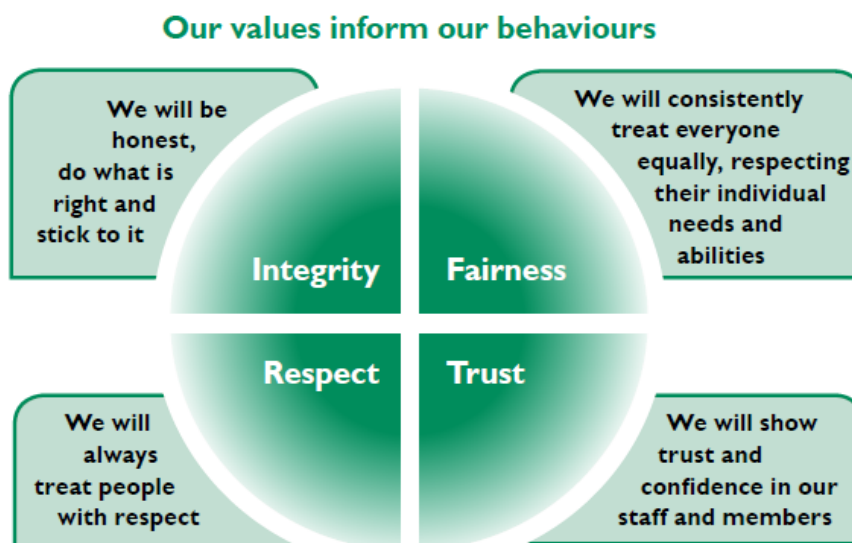
- Our aims and aspirations for the period of the plan
- How our resources will support the delivery of our priorities as detailed in the Council's Corporate Strategy
- Consideration of financial issues and pressures facing the Council during the period of the plan
- Review the national position and the impact of Central Government funding
- Consider the local issues and how these impact financially
- Consider local opportunities to maximise resources
- Consider risks and uncertainties in financial planning
- Provide parameters and guidance for the annual budget process

2 Corporate Strategy and Priorities

The Council exists to serve and represent the interests of its citizens and communities and to ensure the provision of the best possible services for its residents.

2.1 Following consultation with Members and stakeholders during 2015 a new Corporate Strategy 2016 to 2020 was adopted by the Council in February 2016. The Strategy outlines our strategic direction for the next four years, setting out our vision, priorities, values and principles. It will guide our planning and allocation of resources as we establish detailed corporate and operational plans each year.

2.2 At the heart of the Strategy is a set of core values and principles that express the beliefs of the Council and will underpin the actions we take over the next four years:



2.3 The Strategy is centred around four Key Themes

Theme 1	People Taunton Deane is growing and has an increasingly older population. These changes require greater housing and employment provision as well as services which support the needs of an older population.
Theme 2	Business and Enterprise An increasing local working-age population and the desire to keep our town centres vibrant means that sustaining our local economy must be central to the Council's priorities and planning.
Theme 3	Our Place We want to keep Taunton Deane a place to be proud of and one which is well-maintained, welcoming to residents, visitors and businesses and is easy to get around.
Theme 4	An Efficient and Modern Council Like all Councils, we continue to be challenged by significant budget cuts and pressure on services. We need to continue to collaborate with a range of organisations to deliver and enable outcomes that are important to our communities and find new ways of working that ensure we continue to get the best possible value out of the funds available to us.

2.4 The priorities within the Strategy will inform where resources are directed.

3 **Financial Strategy**

- 3.1 The MTFs provides the Council's plan for balancing the budget over the medium term including the approach to managing costs and optimising / forecasting the funding that will be available to support spending on services. The MTFP contains the financial forecasts that underpins the strategy.
- 3.2 The Council's financial strategy recognises that, like all local authorities, the challenge is to drive through even greater efficiency in our delivery of services to the community. The Council has responded well to reductions in central Government funding since 2011, and maintains a sound financial footing on which to build for the future. Government funding for local authorities will continue to reduce during the current Parliament, and there are a number changes in the funding regime planned. This will bring some uncertainty as well as opportunity for which we need to prepare.
- 3.3 The Council has been through significant change in the past 2-3 years, in particular through the implementation of the Joint Management and Shared Services ("JMASS") partnership with West Somerset Council. This partnership has enabled both Councils to make efficiencies in its running costs, with Taunton Deane General Fund saving around £1.5m per year.
- 3.4 The MTFs considers financial issues that the Council will face during the five year period covered within this document. The ultimate aim of this plan is to provide short and medium term guidance for officers and Members, highlighting the budgetary issues which need to be addressed in order to deliver a sustainable financial position over the next five years.
- 3.5 The budget process starts in June/July and culminates in the Council setting its annual budget and council tax requirement in February – allowing time for the bills to be sent out ready for collection from 1 April. A summary of the budget timetable is set out below.

June / July	Previous financial year outturn report issued Initial MTFs and MTFP estimates provided for information
August to October	Update detailed budget estimates Develop budget options and proposals Update MTFP Develop capital budget requirements
November	Updated MTFP and Budget Gap to Scrutiny Fees and Charges to Scrutiny Budget Options to Scrutiny
December	Fees and Charges set by Executive and Council
January	Draft Revenue Budget to Scrutiny Draft Capital Budget to Scrutiny Draft Treasury and Investment Strategy to Scrutiny
February	Executive propose Council Tax and Housing Rent Council approve Council Tax and Housing Rent

Four Year Funding Settlement, Efficiency Strategy and Flexible Use of Capital Receipts

- 3.6 In October 2016 the Council accepted the Government's offer of a four year funding settlement for the period 2016/17 to 2019/20. Whilst the inherent reduction in funding is not a "good deal" this approach gives greater certainty for financial planning and provides greater confidence over measures needed to balance the budget over the medium term, and reduces risk that funding would be less than the amounts included in the offer.
- 3.7 The funding streams within scope of the settlement are the Revenue Support Grant (RSG), Transitional Grant and Rural Services Delivery Grant (RSDG). In addition, tariffs and top-ups in 2017-18, 2018-19 and 2019-20 will not be altered for reasons related to the relative needs of local authorities, and in the final year may be subject to the implementation of 100% business rates retention (although this may now be delayed following the General Election in 2017). As set out later in this document, the settlement will see general grant funding reduce from £1.916m in 2015/16 to –£0.106m in 2019/20 (with a "negative RSG" adjustment to Business Rates Tariff in 2019/20 of £0.127m partly offset by small residual RSDG funding).
- 3.8 The Council produced an Efficiency Strategy – a pre-requisite for accepting the offer – and will keep this under review. The Council plans to achieve efficiency savings largely through transformation of services.
- 3.9 The Efficiency Strategy also includes plans for the flexible use of capital receipts to fund revenue costs of projects designed to deliver ongoing revenue savings. The Council aims to generate £1.574m in General Fund capital receipts income that will contribute to the overall funding of transformation during the period 2016/17 to 2018/19, of which £1.13m is planned to cover revenue costs using the new flexibility.
- [Link to Efficiency Plan](#)
- 3.10 Further detail on the Funding Settlement including general grant funding is included in Annex 1, section 1.

Strategy for Business Rates (also known as Non Domestic Rates)

- 3.11 Through the Funding Settlement the Government has set a funding "baseline". Under the current Business Rates Retention (BRR) system, the Council will retain a proportion of

business rates that exceed this baseline. The most prudent approach to budgeting for BRR is to set retained income at the safety net level as this is the guaranteed minimum level of income for any authority. However this could understate income and require more budget savings from services than may ultimately be required. The strategy is therefore to budget based on a reasonable forecast of BRR income each year taking into account appropriate assumptions and risks. The main risks are revaluation, economic growth, and appeals.

- 3.12 The current forecasts reflect initial estimates for the impact of the 2017 Revaluation. Whilst this national process is expected to 'fiscally neutral' overall, this will not be the case for individual authorities and the government aims to minimise the impact on individual authority funding through adjustments to the Tariff. The MTFP reflects our best estimates at this stage of the ongoing tariff adjustments, which will be confirmed in the 2018/19 Settlement.
- 3.13 To help protect against funding volatility the Council sets aside a specific Business Rates Smoothing earmarked reserve, to provide a contingency for estimation differences and accounting timing differences for element of the BRR system.
- 3.14 The Council was part of the Somerset Business Rates Pool until March 2017, at which point the pool discontinued due to one of member authorities participating in a pilot of 100% Retention. Pooling has provided a dividend in its two years of operation through a reduction in levy costs. The MTFP is forecast on the basis of the council operating outside of any pooling arrangements. Further information regarding the Business Rates Pool is included in Annex 1, section 2.

100% Business Rates Retention

- 3.15 In the Autumn Statement 2015 the Government confirmed its intention to allow local authorities to keep 100% of business rates income by 2020. The system of tariffs and top ups is expected to remain in order to prevent significant redistribution of baseline funding between authorities. In addition it is anticipated that local authorities will take on additional responsibilities through this change (e.g. housing benefit and council tax support administration, homelessness prevention and so on). As well as additional responsibility, this direction in funding will see a further transfer of risk to local authorities. The options are still in development, with high level consultation undertaken in 2016 and further detailed technical consultation anticipated during 2017. We have previously anticipated 100% BRR being implemented in 2019/20 however the timing is no longer certain following the General Election in 2017. The Local Government Finance Bill is not expected to continue through Parliament for the immediate future.
- 3.16 The MTFP is forecast on the assumption that the move to 100% will have a neutral effect on our Net Budget. In practice this will not be known with certainty until the system is fully implemented and the transferred responsibilities are confirmed.

Strategy for New Homes Bonus

- 3.17 New Homes Bonus (NHB) grant was introduced in 2011/12 with annual grant funding for district councils provided based on a sum equivalent to 80% of the national average annual council tax for every new home once occupied. This sum was payable for six years with an additional bonus of £280 (80% of £350) for every affordable home occupied. The grant aims to incentivise the delivery of housing growth, and is not ring-fenced.

- 3.18 The funding method changed in 2017/18, with the number of years 'rewarded' reducing from six to four by 2018/19. In addition no grant is now received on the first 0.4% of growth in housing, measured as 'Band D equivalents'. This is as a result of funding being redirected to social care within the local government sector.
- 3.19 Taunton Deane's strategy for use of NHB funding is to allocate £392,000 of NHB grant each year to fund service costs within the annual budget, with the remaining majority of the funds set aside to support investment in growth, infrastructure and other projects that meet the priorities of the Council. Significantly, in December 2015 the Council agreed in principle to allocate the majority of New Homes Bonus to support planned £16m investment in growth and infrastructure schemes over a five year period from 2016/17 – as set out later in this document.
- 3.20 The total grant received in 2017/18 is £4.03m. Within the MTFP the total grant is projected within the range of £3.3m to £3.7m per year from 2018/19 onwards.
- 3.21 Further detail regarding New Homes Bonus is included in Annex 1, section 3.

Strategy for Council Tax

- 3.22 The setting of Council Tax is determined each year at Full Council. In 2016/17 and 2017/18 the Council has utilised the option given to shire districts of increasing Band D council tax by £5. Currently the Medium Term Financial Plan reflects a financial planning assumption that Council Tax charges will increase by 1.99% each year from 2018/19. Information provided with the four year funding settlement indicates that, as a shire district, TDBC will have the option to increase the Band D by £5 each year in 2018/19 and 2019/20 if Members are minded. This will be confirmed each year by the Secretary of State, usually alongside the Finance Settlement. Increasing Council Tax by £5 instead of 1.99% would increase funding by approximately £86k compared to current MTFP estimates.
- 3.23 The basic annual tax rate set by TDBC for 2017/18 is £147.88. Total Council Tax income for TDBC services in 2017/18 is £6.04m, with a further £45k raised in 'special expenses' for spending specifically in the unparished area of Taunton.
- 3.24 The Council has also decided to use additional precepting permissions to raise funds through Council Tax on behalf of the Somerset Rivers Authority since 2016/17. In 2017/18 the amount collected by TDBC equates to a £1.74 Band D charge, and has raised £71k in additional Council Tax which is passported to the SRA. This helps to fund investment in the 20 Year Flood Action Plan that was developed following the severe flooding experienced in Somerset in early 2014. The intention is for the Government to establish primary legislation to allow the SRA to raise funds via a council tax precept in its own right.
- 3.25 The Executive will recommend future council tax rates in February each year.
- 3.26 Further details regarding Council Tax, special expenses and Somerset Rivers Authority are included in Annex 1, sections 4, 5 and 6 respectively.

Council Tax Support

- 3.27 Since 2013 local authorities have operated local Council Tax Support schemes, replacing the previous Council Tax Benefit system that was determined and funded by central Government.

- 3.28 TDBC reviews the scheme each year, and currently the policy requires working age claimants to pay at least 20% of the council tax liability with relevant household income is assessed to determine the total amount of CTS discount given. Pension age claimants are protected and continue to be entitled to up to 100% discount in line with the previous CT Benefit system.
- 3.29 The current estimated costs of the scheme is £5,605,370 for 2017/18, with TDBC liable for approximately 9.6% of this cost. The Council will consult on the 2018/19 CTS Scheme during the summer of 2017.
- 3.30 Further detail regarding Council Tax Support is included in Annex 1, Section 7.

Strategy for Service Spending and Income

- 3.31 Service spending “base budgets” are normally taken from the previous year, and then adjusted to remove one-off items and add unavoidable inflation costs on pay, contracts and utilities. Assistant Directors then assist the Executive to propose budget prioritisation options to increase investment in services or apply savings in order to maintain costs at an affordable level. Prioritisation of options seeks to avoid disruption and reduction in highest priority front line services and prioritise efficiency savings.
- 3.32 A key driver for service cost efficiency now is the delivery of the transformation programme, which will add greater efficiency to the way we deliver services.
- 3.33 The Council reviews its fees and charges each year. The strategy applied to fees and charges is to seek to fully recover costs of services. The Council will also consider introducing new charges for discretionary services in line with corporate priorities, where this will also enable valued services to be delivered. In certain service areas such as licensing there are specific regulations which are followed that mean we aim to ‘break even’ on recoverable costs over a rolling period of 2-3 years, and any accrued surpluses or deficits are used to adjust fees and charges in subsequent years.
- 3.34 Proposed fees and charges are usually presented to Council for approval in December or January to set the rates to apply in the subsequent financial year. Clearly, it is important that decisions do not only consider inflationary increases but also assess supply and demand for the service and the fees charged within the competitive market. It is also important that officers and councillors fully consider all options in order to maximise income
- 3.35 The council is also exploring further opportunities to generate income through commercial investment and other income generation initiatives. This will follow the principle of social enterprise as agreed in the Corporate Strategy, so that income and profit generated will be reinvested in important local services.

Strategy for Reserves and Balances

- 3.36 The Council maintains both General (unearmarked) Reserves and Earmarked Reserves.
- 3.37 General Reserves are retained to provide contingency funds to mitigate financial risks and accumulated revenue surpluses that may be used to support one-off spending.
- 3.38 Earmarked Reserves are revenue funds that have been set aside for specific purposes to be spent in future years.
- 3.39 A regular review of financial risks is undertaken by the S151 Officer to assess the

minimum adequate level of reserves, and the budget strategy and approach to ongoing financial management seeks to ensure General Reserves are maintained at or above the assessed minimum. As at February 2017 the adequate minimum General Reserves balance is £1.6m, or £1.35m if being replenished via invest to save initiatives.

- 3.40 The Council aims to balance the budget each year without the need to use reserves, and will prioritise allocating any significant surplus balance to fund one-off costs rather than support day to day running costs of the Council's services. Having some flexibility in the reserves balance is important in view of the transformation programme, as this will require up-front investment, as well as to mitigate unplanned/unforeseen costs arising during the year.
- 3.41 The General Fund Reserves balance as at 1 April 2017 is **£2.186m** which is £586k above the recommended minimum balance.
- 3.42 General Fund Earmarked Reserves totals £17.344m as at 1 April 2017.
- 3.43 Further detail regarding Reserves is included in Annex 1, Section 8.

Capital Strategy

- 3.44 The current strategy for capital investment takes a low risk approach to general schemes. Funding is prioritised against available resources, and the Council has considered strategic use of affordable capital borrowing with a supporting business case.
- 3.45 As general capital resources are limited, a short term approach to annual capital bids from services, which are prioritised on the following criteria:
- 1) Business Continuity (corporate/organisational/health and safety)
 - 2) Statutory Service Investment (to get statutory minimum/contractual/continuity)
 - 3) Transformation
 - 4) Invest to Save
 - 5) Other
- 3.46 The Council has also prioritised investing the bulk of New Homes Bonus grant funding to support investment in key strategic priorities of growth and infrastructure. This is explained further later in this document.
- 3.47 It is proposed to review the Capital Strategy during 2017 to support the Corporate Strategy and the Council's plans for transformation. The Asset Management Strategy is also under review and will inform possible changes to the MTFP when completed.

Treasury Strategy

- 3.48 The Council annually reviews its Treasury Management Strategy, Annual Investment Strategy and approach to servicing capital debt ("Minimum Revenue Provision"). The detailed strategies are reported separately to the MTFs and MTFP, but are clearly inter-linked with our approach to financial planning and effective use of resources.
- 3.49 The strategies reflect the ongoing challenging and uncertain economic times. The current economic outlook has several key treasury management implications:
- Investment returns are likely to remain relatively low during 2017/18 and in the near term

- Borrowing interest rates are currently attractive but are likely to remain low for some time
- The timing of any borrowing will need to be monitored carefully; there will remain a cost of carry – any borrowing undertaken that results in an increase in investments will incur a revenue loss between borrowing costs and investment returns.

3.50 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.

4 Medium Term Financial Plan Summary

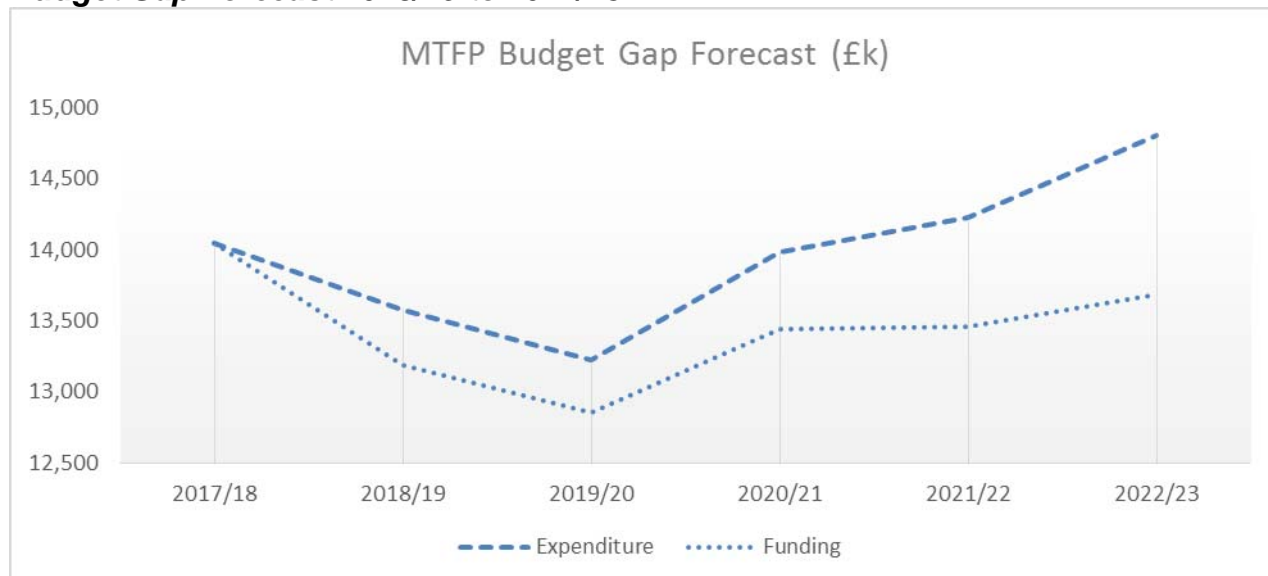
4.1 The following table and chart sets out a summary of the council's latest forecasts of costs and funding. There are no material changes to the position presented to Council in February 2017. A notional share of the anticipated additional savings deliverable by creating a new Council covering Taunton Deane and West Somerset areas (totalling more than £0.5m per year to the new Council) is not included. The table provides a summary of the MTFP showing forecast costs, funding and the resulting Budget Gap. The chart shows pictorially the familiar trend of recent years in terms of the financial challenge faced by this council – no different to most councils across the Country – with costs rising and funding declining to give a significant “budget gap”.

MTFP Summary 2018/19 to 2022/23

	2017/18 £	2018/19 £	2019/20 £	2020/21 £	2021/22 £	2022/23 £
Services Costs	11,786,444	9,815,874	9,626,814	10,027,695	10,501,781	11,096,356
Net Financing Costs	255,685	576,680	574,790	572,900	571,010	569,120
SRA Contribution	71,067	0	0	0	0	0
Special Expenses	44,901	44,901	44,901	44,901	44,901	44,901
CTRS Grants	15,000	0	0	0	0	0
Earmarked Reserves – Growth (NHB)	3,642,752	3,087,363	2,924,490	3,279,861	3,055,236	3,041,344
Earmarked Reserves – Other	-1,774,510	52,717	52,720	52,719	52,724	52,716
General Reserves	0	0	0	0	0	0
Net Expenditure	14,041,339	13,577,535	13,223,715	13,978,076	14,225,652	14,804,437
Retained Business Rates	-3,038,286	-3,100,622	-3,012,141	-3,050,613	-3,089,465	-3,128,743
Business Rates prior year surplus/deficit	38,425	0	0	0	0	0
Revenue Support Grant	-644,801	-279,788	0	0	0	0
Rural Services Delivery Grant	-22,271	-17,132	-22,271	-22,271	-22,271	-22,271
Transitional Grant	-16,864	0	0	0	0	0
New Homes Bonus	-4,034,730	-3,479,340	-3,316,470	-3,671,840	-3,447,220	-3,433,320
Council Tax–TDBC	-6,039,887	-6,267,772	-6,456,373	-6,650,655	-6,850,746	-7,056,778
Council Tax–SRA	-71,067	0	0	0	0	0
Council Tax–Special Expenses	-44,901	-44,901	-44,901	-44,901	-44,901	-44,901
Council Tax prior year surplus/deficit	-166,957	0	0	0	0	0

	2017/18 £	2018/19 £	2019/20 £	2020/21 £	2021/22 £	2022/23 £
Net Funding	14,041,339	13,189,555	12,852,156	13,440,280	13,454,603	13,686,013
Budget Gap	0	387,980	371,559	537,796	771,049	1,118,424
Budget Gap Increase	0	387,980	-16,421	166,237	233,253	347,375

Budget Gap Forecast 2018/19 to 2022/23



- 4.2 This MTFP Summary shows that our projected Budget Gap is £0.388m in 2018/19 and rises to an estimated £1.118m by 2022/23. The future gap of £1.118m is equivalent to 8% of the projected budget requirement in 2022/23. The Council has a legal requirement to set a balanced budget and needs to ensure that its overall costs are affordable i.e. they can be funded through income and planned use of reserves. Members therefore need to take the necessary decisions and actions to manage net spending within affordable limits.

Key Assumptions within the MTFP

- 4.3 The MTFP is based on reasonable estimates of costs and income over the period of the plan. These include:

Service Costs and Income Assumptions

- Staff pay awards are estimated at 2% annually – note Government has indicated its intention to limit civil service pay to 1% annually throughout the current Parliament.
- Inflation increases incorporated for main contractual arrangements: Somerset Waste Partnership, CCTV monitoring (by Sedgemoor DC), plus utilities and insurances.
- Demographic growth reflected in demand for street cleaning services. No funding is provided in core assumptions for demand growth in other services.
- Employers pension contributions based on 15.4% of pay, based on the latest 2016 actuarial valuation.
- Pension Fund deficit recovery lump sum costs rising from £1.898m in 2017/18 to £2.2m in 2022/23, based on the latest 2016 actuarial valuation (note, these costs are apportioned between the General Fund, HRA and Trading Accounts pro-rata to pension contribution costs).

- Transformation savings delivered within the General Fund rising to £1.493m per year by 2021/22 (plus a further £0.7m savings within the Housing Revenue Account budget).

Funding Assumptions

- Business Rates Retention (BRR) will be set in line with rating income forecasts, projected to grow in line with inflation.
- Neutral impact on funding / costs through the implementation of 100% BRR, projected to be implemented by 2019/20 (subject to confirmation by new Government post-2017 General Election).
- General Government Grant – Revenue Support Grant, Rural Services Delivery Grant, and Transitional Grant – remains in line with the four year settlement agreed with Government in 2016.
- NHB Grant above £392k each year earmarked for growth and infrastructure investment.
- Council tax is forecast based on an assumed 1.99% increase per year. Government has indicated all shire districts will have the option to increase Band D tax by £5 per year in 2018/19 and 2019/20 (subject to annual announcement by the Secretary of State).

5 Approach to Closing the Budget Gap

- 5.1 It is important that the Council adopts a robust and sustainable strategy to ensure the underlying financial position is preserved and investment in priority services remains affordable. As the Council has jointly applied the Secretary of State to create a new Council covering Taunton Deane and West Somerset areas it is proposed to consider the budget approach in this context, focussing on the 2018/19 Budget on the assumption that longer term decisions will need to be made by the new council and any interim 'skeleton' governance arrangements.
- 5.2 The recommended overarching approach to closing the gap in the short term will be considered and reported to Members in the near future.
- 5.3 It is worth reminding Members of the current agreed approaches which, it is anticipated, will underpin the overall budget strategy for 2018/19:
- Investing in growth and infrastructure – local government funding is becoming more and more reliant on local funding raised through business rates and council tax, with the main government grant through New Homes Bonus incentivising housing growth. Investing in growth, regeneration, housing and infrastructure will help to grow the funding available for local service delivery.
 - Transforming services – with ongoing savings of £1.49m already factored into the General Fund MTFP forecasts (plus and a further £0.74m savings within the Housing Revenue Account).
 - New Council – both Taunton Deane and West Somerset councils have also submitted a proposal to replace the two with a new single council covering both areas, which would jointly provide further savings estimated at £0.55m. This is not reflected within the MTFP forecasts currently.
 - Accommodation – the council is investing in modernising and reconfiguring its office accommodation, both to provide fit for purpose space for staff, Members and visitors, and also to secure additional income through letting to other public and/or private sector tenants.

- Fees and charges – will be reviewed and updated to ensure full cost recovery wherever possible, and consider premium pricing for a premium service. Additional fees may be introduced for discretionary services.
- Income generation – within the Transformation Business Case the Council recognises that generating additional income through commercial activities / investments can provide essential funding needed for local service delivery.
- Treasury management – it is proposed to explore opportunities to increase interest earned on investments, whilst maintaining a prudent treasury strategy.
- Savings Options – The council will also consider options for further savings within services in line with Members’ priorities, to be considered through the budget setting process.
- Base budget review – Undertake a robust review of the base budget estimates and assumptions, particularly focussing on areas where larger variances have been reported in 2016/17.

5.4 Proposals and realistic options for the 2018/19 Budget will be presented for Members for consideration as part of the budget process, with the budget due to be approved in February 2018.

DLO

5.5 The Council’s DLO operates parks and open spaces maintenance and a plant nursery. The DLO aims to charge at cost for ‘internal’ work, and price competitively with a view to making a profit on external work. The overall surplus target for the DLO Trading Account is £101,000 which is provided as a contribution to the General Fund both towards corporate costs not included in the Trading Account and a general ‘return on investment’.

Deane Helpline

5.6 The Council runs an emergency response service for both private customers and council housing tenants, with both individual and corporate contracts in place. It operates in a competitive market. The income budget is based on a prudent projection of sales due for the year and makes an allowance for collection risks. Costs are susceptible to increase in order to maintain services through unplanned staffing absences, although the operation is tightly managed to keep costs to a minimum.

Deane Helpline Trading Account Summary

	2017/18 Budget £k
Income	1,077
Direct operating costs	-1,065
Gross profit / contribution	12
Recharges and capital charges	-134
Net Budget Deficit	-122

6 Investing in Growth

6.1 Since 2013, the Council has achieved significant success with partners in taking forward its growth priority. Examples of success include:-

- Joint agreement (with Somerset County Council) of a Growth Prospectus for Taunton, establishing a clear vision for Taunton’s economic success and a list of key growth projects to accelerate delivery.
- Funding awards for major transport schemes, including Taunton Rail Station

enhancement (£4,600,000), Junction 25 improvement (£12,000,000) and dual-lining of A358 between A303 and J25 (c.£275,000,000).

- Roll-out of Superfast Broadband to at least 90 per cent of properties through phase 1 of the Connecting Devon and Somerset programme in a £52m contract by end 2016.
- Development of an alternative and commercially viable proposal for the Firepool site, consistent with the Taunton Rethink, which will bring forward an exciting mixed use scheme.
- Approval of a Delivery Strategy for the redevelopment of the Coal Orchard site, and appointment of consultants to progress the next phase.
- Transformation of the landmark Market House Building, providing a new home for the Taunton Visitor Centre as well as a new high quality restaurant.
- £1.2m funding for Wiveliscombe Enterprise Centre.
- Shared commitment of key partners to delivery of a major new strategic employment site adjacent to Junction 25, providing up to 4000 jobs and stimulating growth in higher value business.
- Government funding for a dedicated delivery team for the Monkton Heathfield Urban Extension, providing 4,500 new homes.
- Achieving Garden Town status in 2017, and initially attracting £350,000 in grant funding from Government to help deliver the ambitions for Taunton.

6.2 In December 2015 Full Council supported investment in principle of £16.6m from projected NHB receipts towards a number of growth spend categories reflecting the priorities established in the Taunton Growth Prospectus and aligned with the relevant plans and priorities of key partners, such as Somerset County Council, Environment Agency, Local Enterprise Partnership and the business community. Having such funds allocated will enable the Council to respond quickly to commercial and funding opportunities to support growth, which in turn will facilitate the realisation of Taunton's economic vision and key economic benefits (as defined in the approved Taunton Growth Prospectus), such as: new homes, new enterprises, new and better jobs, increased employment land – new office space and industrial land, and a vibrant town centre. The planned investment includes £16m for growth and infrastructure capital schemes and £0.6m for revenue costs.

6.3 The profile of planned investment is kept under review and in February 2017 the Council confirmed an updated plan. The Council has maintained its ambitious level of investment and updated the projected funding available from New Homes Bonus.

Growth and Infrastructure Investment

	2016/17 Budget £k	2017/18 Proposed £k	2018/19 Indicative £k	2019/20 Indicative £k	2020/21 Indicative £k	Totals £k
<i>Capital schemes:</i>						
Taunton Strategic Flood Alleviation				1,000	2,000	3,000
Major transport schemes	400	1,000	1,000	800	300	3,500
Town Centre regeneration	200	1,300	1,700	300		3,500
Employment site enabling and innovation to promote Growth		500	1,500	1,500	500	4,000
Urban Extensions		500	500	500	500	2,000
<i>Revenue costs:</i>						
Marketing Promotion and Inward Investment	100	100	100	100	100	500
Preparation of LDO's	50	50				100
Total Investment	750	3,450	4,800	4,200	3,400	16,600

Funding Growth and Infrastructure Investment

	2016/17 Budget £k	2017/18 Proposed £k	2018/19 Indicative £k	2019/20 Indicative £k	2020/21 Indicative £k	Totals £k
<i>Funding Available:</i>						
Projected NHB Income	3,883	4,035	3,479	3,316	3,672	18,385
NHB Balance brought forward	4,162					4,162
Car Parking Revenue		150	150			300
Repayment to NHB pot						
Less: NHB Allocated to Revenue Budget	-392	-392	-392	-392	-392	-1,960
NHB Funding Available	7,653	3,793	3,237	2,924	3,280	20,887
<i>Funding Required:</i>						
Brought forward approved growth commitments	4,683					4,683
£16.6m Growth Programme	750	3,450	4,800	4,200	3,400	16,600
Funding Required	5,433	3,450	4,800	4,200	3,400	21,283
Cumulative Funding Surplus / Shortfall(-)	2,220	2,563	1,000	-276	-396	-396

- 6.4 The table shows that based on the current forecast there is an estimated shortfall of £396k in projected NHB needed to support the programme. If this remains the case the Council will need to explore other funding options.
- 6.5 In addition to funding the growth programme, the Council has agreed to underwrite capital receipts needed for transformation from New Homes Bonus. This may mean the availability of NHB is less than shown above, increasing the likelihood that other funding options will be required for growth and infrastructure. This will be kept under review throughout the financial planning period.

7 Financing and Investment Costs and Income

Revenue Costs of Capital

- 7.1 The Council's capital investment is funded from a variety of sources which can have a direct or indirect impact on the revenue budget. The main 'capital financing costs' relate to repayments of borrowing and interest plus direct revenue contributions ("RCCO") to fund capital spending.
- 7.2 Repayment of capital borrowing is known as Minimum Revenue Provision (MRP). During 2015/16 the Council reviewed its MRP Policy and significantly reduced the annual costs by calculating the charge based on an equal instalment method using weighted average asset life. This means that for TDBC the annual revenue budget requirement for repayment of capital borrowing through MRP has been extended to 45.6 years – therefore approximately 2.2% of debt is repaid annually rather than historic 4%. The annual budget for MRP within the MTFP is currently £180,060.
- 7.3 The Council's General Fund capital debt is currently planned to be financed entirely through 'internal borrowing' for the foreseeable future therefore there is no forecast budget requirement for interest costs for the duration of the current MTFP.
- 7.4 The Council also plans to fund a number of recurring annual capital budgets through direct Revenue Contributions to Capital ("RCCO"). The current MTFP includes an annual RCCO budget requirement of £401,500 from 2017/18.

Interest Income

- 7.5 The Council has been holding significant cash surpluses – which tend to range between £30m and £50m in recent years. Since the economic downturn in 2008 and subsequent recession interest rates on investments have remained low. The Bank of England Base Rate remained at 0.5% since March 2009 and reduced further to 0.25% in August 2016. It is currently projected to remain at this level during 2017/18. With advice from Arlingclose – our treasury advisors – we continue to review opportunities to improve investment returns whilst minimising risk to capital and liquidity. The investment income budget will be reviewed during the summer, but initial estimates within the MTFP assume the income will increase in 2017/18 to £406,500 per year.

8 Risks, Uncertainties and Sensitivity Analysis

- 8.1 A number of risks and uncertainties have been identified within this MTFP document. The financial projections include known information and a range of assumptions in order to prepare reasonable estimates.
- 8.2 The following table provides some examples of sensitivity and risk around key financial headings and assumptions (increased income / savings shown as negative figures).

Sensitivity Analysis

	2018/19 Budget £k	Factor	Indicative Range	Impact £k
Funding:				
New Homes Bonus	-3,479	Housing growth is below 0.4% for the 2018/19 grant settlement.		+714

	2018/19 Budget £k	Factor	Indicative Range	Impact £k
New Homes Bonus	-3,479	Estimation error in 2018/19 annual growth allocation	+/- 20%	+/- 142
Council Tax Base	-6,268	Tax base estimation error	0.5% - 1.5%	+/- 31-94
Council Tax Rate	-6,268	Members decision on increase differs to MTFP assumption	0% - 3.38%	-122 if 0%, +86 if 3.38%
Business Rates	-3,101	Volatility in estimates e.g. impact of growth/decline, appeals, refunds, reliefs, collection rates	+/- 10%	+/- 310
Business Rates	-3,101	Indicative total of reduction in BRR income before Safety Net is triggered		545
Services:				
Planning Fee Income	-722	Demand fluctuation	+/- 10%	+/- 72
Parking Income	-4,764	Usage / demand fluctuation	+/- 5%	+/- 238
Garden waste income	-604	Usage / demand fluctuation	+/- 5%	+/- 30
Financing:				
Interest Income	-381	Estimation error, e.g. interest rates change	+/- 5%	+/- 19

8.3 Other significant risks and uncertainties currently faced in our financial planning include:

- Current and future business rates appeals outcomes
- Finalising Business Rates Tariff adjustments for the 2017 business rates revaluation
- Future impact and risks under the move to 100% Business Rates Retention
- Further changes to New Homes Bonus funding regime
- Achieving necessary level of savings through transformation
- Delivery of other savings targets
- Asset management and compliance costs
- Timing and values of capital receipts
- Significant contracts / funding agreements due to be replaced e.g. waste partnership (2020), leisure services (2019)
- Future changes in Government policy

9 **Capital Funding and Reserves**

Capital Receipts

- 9.1 The Council currently has fully committed its general capital receipts reserves to fund approved capital schemes up to and including the 2017/18 capital programme.
- 9.2 Additional capital receipts income of £1.574m is required during the period 2016/17 to 2018/19, in line with the funding plan for the Transformation programme.

Capital Earmarked Reserve

- 9.3 The Council currently has a sum of £789k held in earmarked reserves towards funding of approved schemes within the Capital Programme.

Revenue Contributions to Capital (“RCCO”)

- 9.4 The Council’s funding strategy includes the principle that recurring annual operational capital budgets are funded from revenue budget contributions. The annual RCCO budget requirement for 2017/18 and subsequent years is currently estimated at £401,500, providing funding for

- IT hardware annual replacement programme
- New and replacement waste and recycling containers (provided via the Waste Partnership)
- Leisure capital grants and play equipment replacement
- DLO vehicles, plant and equipment replacement programme

- 9.5 Currently the MTFP forecasts this annual budget requirement will remain static for the period to 2021/22.

External Grants and Contributions

- 9.6 The Council plans to finance some of its capital investment requirement from external grants and contributions. This will include:

- S106 planning obligations income from developers
- Community Infrastructure Levy
- Better Care Fund grant from Somerset County Council for Disabled Facilities Grants

- 9.7 Central Government grant funding is limited due to the squeeze on public spending, however the Council has worked with local authority partners to secured major infrastructure investment funding as explained earlier in this document.

Community Infrastructure Levy (CIL)

- 9.8 CIL is a tariff in the form of a standard charge on certain types of development, which in Taunton Deane is set by the Borough Council to help the funding of infrastructure. The principle behind CIL is that most development has some impact on infrastructure and the developer should contribute to the cost of providing or improving it. CIL applies to new floor space and charges are based on the size, type and location of the new development.

- 9.9 The following table provides a summary of the CIL income and its use up to 31 March 2017, in accordance with the Community Infrastructure Regulations 2010 (as amended). These regulations state that 5% of the CIL collected over the period of years one to three may be applied to administrative expenses. 15% of each CIL payment is passed on to the Parish in which it was collected. This Parish payment is capped at £100 per existing council tax dwelling within the Parish. If a Parish has a Neighbourhood Plan in place this payment increases to 25% of each CIL payment and is uncapped. The Neighbourhood Development Plan must have been adopted before the planning consent was granted.

CIL as at 31 March 2017

	£k	£k
Total CIL Receipts April 2014 to March 2017		1,400
Allocated to:		
Administration	-45	

Town and Parish Councils	-100	
Held by TDBC for Unparished Area	-45	
Total deductions from CIL receipts		-190
Balance held for Strategic infrastructure investment fund		1,210

- 9.10 The table shows that TDBC currently holds £1.21m to fund strategic infrastructure in the Borough. In addition, £45k is held in respect of infrastructure investment in the unparished area, and the Unparished Area Fund Panel is consulted on the prioritisation of these funds. The strategic infrastructure pot will be considered through the development of the Capital Programme, and will be in line with the “TDBC Regulation 123 List” which is reported on the Council’s website.

<https://www.tauntondeane.gov.uk/media/1116/regulation-123-list.pdf>

Borrowing

- 9.11 The Council prioritises use of surplus capital reserves and revenue resources where available, including NHB, to fund the General Fund capital programme. Borrowing has generally been low in recent years, and has been limited to funding of the new swimming pool in Taunton and funding of loans to third parties where the cost of borrowing is offset by the loan repayments and interest received. Loan finance will also be required within the current capital programme for office accommodation improvements. The current policy is to borrow internally and avoid external borrowing if possible, as this is the cheaper option whilst interest rates on investments are low compared to the interest rates for borrowing. However new borrowing will be considered for material capital projects where the business need can be established.

- 9.12 The current and projected borrowing balances are summarised below:

Capital Financing Requirement

	2017/18 £k	2018/19 £k	2019/20 £k
Capital Borrowing (CFR) Opening Balance	7,283	16,172	15,272
Estimated New Borrowing	9,374	0	0
Income from repayment of loans to third parties	(250)	(500)	(500)
Minimum Revenue Provision	(235)	(400)	(400)
Capital Borrowing (CFR) Closing Balance	16,172	15,272	14,372

10 Capital Investment and Financing

- 10.1 The Council approved a Capital Programme for 2017/18 totalling £10.275m for General Schemes. This is in addition to £3.45m included in 2017/18 as part of the five year growth investment programme of £16m (as shown in section 6 above). The General schemes are funded through a combination of revenue contributions, earmarked reserves and capital contributions received.
- 10.2 The plans for 2018/19 and beyond will be developed through the development of the transformation Business Case and annual budget process.

11 Robustness of the Budget and Adequacy of Reserves

- 11.1 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.

11.2 This assurance will be reported on as part of the final budget proposals presented to Members in February 2018.

12 Going Concern

12.1 Following several years of significant funding reductions, the requirement to undertake an annual 'going concern' assessment is more important than ever, to provide assurance that the Council can continue operations for the foreseeable future. This assessment is considered by the external auditor as part of the annual audit of accounts and value for money conclusion, which is reported to the Corporate Governance Committee each year (July to September). The latest assessment concludes that the Council continues to operate as a going concern.

Annex 1 – Funding Additional Information

1 Settlement Funding Assessment (SFA) Baseline

- 1.1 Following the Local Government Finance Review in 2011 a new system of funding was introduced in April 2013. This provided a ‘Start-Up Funding Assessment’, based on the previous needs-based formula grant, and set a new Baseline position comprising Revenue Support Grant (RSG) and Business Rates Baseline. Local authorities were encouraged to drive future funding through local economic and housing growth which has the potential to increase funding through Business Rates Retention, New Homes Bonus and Council Tax. Alongside the potential growth in these areas, Government has significantly reduced RSG and will continue to do so with RSG expected to disappear completely by 2020. For some authorities, where the Government calculates funding should be reduced by more than the amount currently provided in RSG, a further reduction to funding will be applied in the form of an adjustment to the business rate tariff. Indicative settlement figures suggest this will apply to TDBC in 2019/20.
- 1.2 The table below shows the change in SFA since the inception of this funding regime in 2013. It shows that the Baseline has reduced by some £2.2m – 37% between 2013/14 and 2016/17. It is projected to reduce further using the Government’s indicative figures included within the Provisional/Final Settlement for 2016/17.

Settlement Funding Baseline

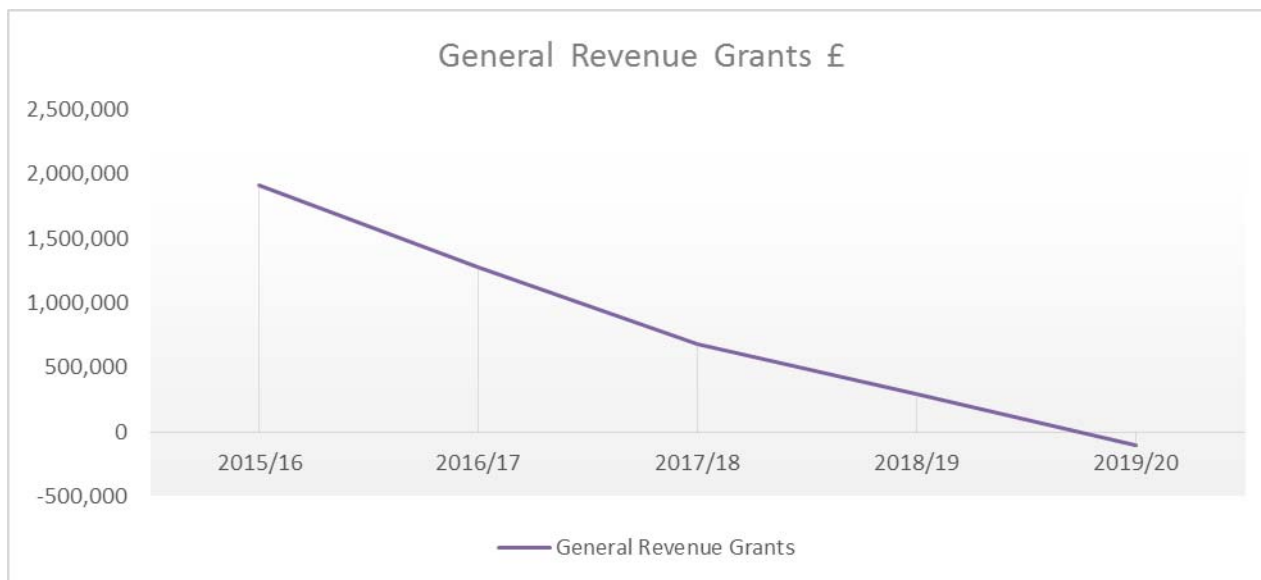
	2013/14 Actual £k	2014/15 Actual £k	2015/16 Actual £k	2016/17 Budget £k	2017/18 Indicative £k	2018/19 Indicative £k	2019/20 Indicative £k
RSG	3,556	2,766	1,973	1,235	645	280	0
BR Tariff Adjust (= ‘negative RSG’)	0	0	0	0	0	0	-128
BR Baseline	2,366	2,412	2,458	2,478	2,527	2,602	2,685
Total SFA	5,922	5,178	4,431	3,713	3,172	2,882	2,557
Cumulative reductions compared to 2013/14				-2,209 -37%			-3,365 -57%

General Government Grant

- 1.3 Included within the four year funding settlement offered by government, commencing in 2016/17, are three general revenue grants.
- 1.4 The funding included in our MTFP, based on the four year confirmed allocations, are summarised in the table and graph below. This shows that grant has diminished over the period, and it is expected the small residual balance of rural services grant together with the “negative RSG” will be rolled into 100% Business Rates Retention when that is introduced.

General Revenue Grants

	2015/16 Actual £	2016/17 Budget £	2017/18 Indicative £	2018/19 Indicative £	2019/20 Indicative £
Revenue Support Grant	1,916,420	1,235,137	644,801	279,788	-127,940
Transitional Grant	0	16,930	16,864	0	0
Rural Services Delivery Grant	0	27,582	22,271	17,132	22,271
Total General Grant Funding	1,916,420	1,279,649	683,936	296,920	-105,669



- 1.5 The approach to funding for local authorities changed in April 2013 with a move away from needs-based formula grant to a system that incentivises growth. This included the introduction of Business Rates Retention (BRR). The BRR scheme is based on 50% of business rates collected in the local area being retained by the Local Authorities (40% District, 9% County, 1% Fire).

2 **Business Rates Retention**

- 2.1 The approach to funding for local authorities changed in April 2013 with a move away from needs-based formula grant to a system that incentivises growth. This included the introduction of Business Rates Retention (BRR). The BRR scheme is based on 50% of business rates collected in the local area being retained by the Local Authorities (40% District, 9% County, 1% Fire).
- 2.2 Each Local Authority was set a baseline by the Government prior to the scheme being implemented in April. This was based on the level of funding under the previous formula scheme. The rules of the new scheme would see TDBC keep 40% of business rates collected. However, because this is a large amount of income far in excess of previous levels of funding reflected in the new Baseline, TDBC is classed as a “tariff authority”. This means a fixed amount is paid over to the Government, bringing the amount down to the baseline figure. Any income collected over and above the baseline figure has a levy of 50% which is paid to Government with the other 50% retained by TDBC. To reduce the levy rate paid to Government, local authorities have an option to establish a Business Rates Pool with other Local Authorities – which we have done in Somerset – see below.
- 2.3 The BRR system is quite complex, and is susceptible to volatility and fluctuation based on inflation, rate of growth, appeals and refunds, bad debt, and changes in Government policy. Since the inception of the scheme the biggest area of risk, uncertainty and

volatility relates to appeals and refunds. The Council mitigates this risk through a combination of:

- prudent forecasting through analysis of past trends, and future risks and opportunities
- budgeting for a provision for funding reductions in respect of appeals and refunds
- maintaining an earmarked “BRR Smoothing” reserve to guard against large reductions in funding for services and also address accounting timing differences.

2.4 The initial BRR estimates for 2018/19 assume net funding growth is in line with inflation, with net growth in rating income being offset by appeals and other reductions. These assumptions will be reviewed during the budget process in the autumn and reflected in budget estimates around October/November.

BRR Funding Estimates

	2017/18 Budget £	2018/19 Estimate £
40% Standard Share of Business Rates Yield	14,818	15,103
Rates yield from renewable energy schemes	152	155
S31 Grant Income – Reliefs and RPI cap	675	693
Less: Tariff payable to Government	-12,262	-12,498
Less: Levy Payment to Government	-345	-352
Net Retained Business Rates Funding	3,038	3,101

Managing risks including appeals and refunds

2.5 As referred above, business rates retained funding can be volatile. The Council monitors changes in rateable values which are reported by the Valuation Office Agency (VOA) on a weekly basis. The risk of reductions due to appeals and other decreases in rateable value is significant, and where a reduction is backdated this can lead to large cash refunds as well as reducing future revenues. The 2017/18 BRR Budget included a total provision of up to £2.275m for possible refunds against the 2017 Rateable Values, and the Council has also set aside an overall provision of up to £2.336m in respect of prior years’ appeals(Taunton Deane share - £934k). As at 31 March 2017 there were 289 unresolved appeals registered with the VOA comprising a total Gross Rateable Value of £28.4m.

2.6 Where BRR funding is over-estimated this creates a budget pressure, as it will lead to a deficit in the Business Rates Collection Fund. TDBC will need to cover 40% of the deficit from the General Fund (with the rest being a cost to Government, the County Council and Fire Authority). We therefore set aside funds in a “BRR Smoothing Reserve” to cover possible deficits and therefore mitigate sharp reductions in General Reserves or annual budgets. Our financial strategy aims to maintain the Smoothing Reserve balance at around 2 times the funding risk between the BRR Budget and the Safety Net – therefore approximately £1m in 2017/18. The current projected balance is £1.606m in 2018/19. This recognises uncertainty and contingent risks to business rates funding and provides a ‘healthy’ level of resilience to funding volatility. This balance will be regularly reviewed to ensure funding risks are kept to a minimum and the reserve balance is neither too high nor too low.

Business Rates Smoothing Reserve Estimates

	2017/18 £	2018/19 £	2019/20 £
Balance brought forward	1,937,146	1,605,590	1,605,590
Original budget transfers	-133,908	0	0
In year allocations	0	0	0
Funding previous year deficit	-197,648	0	0
Balance carried forward	1,605,590	1,605,590	1,605,590

Somerset Business Rates Pool

- 2.7 Taunton Deane is one of seven authorities that voluntarily formed the Somerset Business Rates Pool with effect from April 2015. The Pool has the potential to reduce the levy payable to Government in respect of business rates growth that is above the baseline – which would result in a ‘dividend’ being shared amongst the members of the Pool (TDBC, Somerset County Council, Bath and North East Somerset Council, North Somerset Council, and Mendip, Sedgemoor and South Somerset districts).
- 2.8 Within a pool all Tariffs and all Top-Ups are combined, and a single – lower – levy rate is applied – this is the primary advantage of pooling. Similarly, safety net eligibility is also calculated at aggregate pool level – this results in increased risk for pool members as combined income would fall to a greater extent before the safety net kicks in. The gain the pool makes, due to a reduced levy payment to Government, is distributed based on the methodology agreed by the pool members. Any losses are also distributed on this basis.
- 2.9 The pooling dividends gained through this arrangement are summarised below:
- | | |
|---------|-------|
| 2015/16 | £193k |
| 2016/17 | £218k |
| Total | £411k |
- 2.10 This funding is held in an earmarked reserve and is available for investment in initiatives that will benefit the local economy.
- 2.11 As one of the pool authorities is piloting 100% retention in 2017/18 the pool has dissolved with effect from 31 March 2017, and the Council will revert to operating as an individual authority under business rates retention. Further opportunities to Pool may be explored in future and it is anticipated updated pooling arrangements will be issued under 100% Business Rates Retention.

3 New Homes Bonus

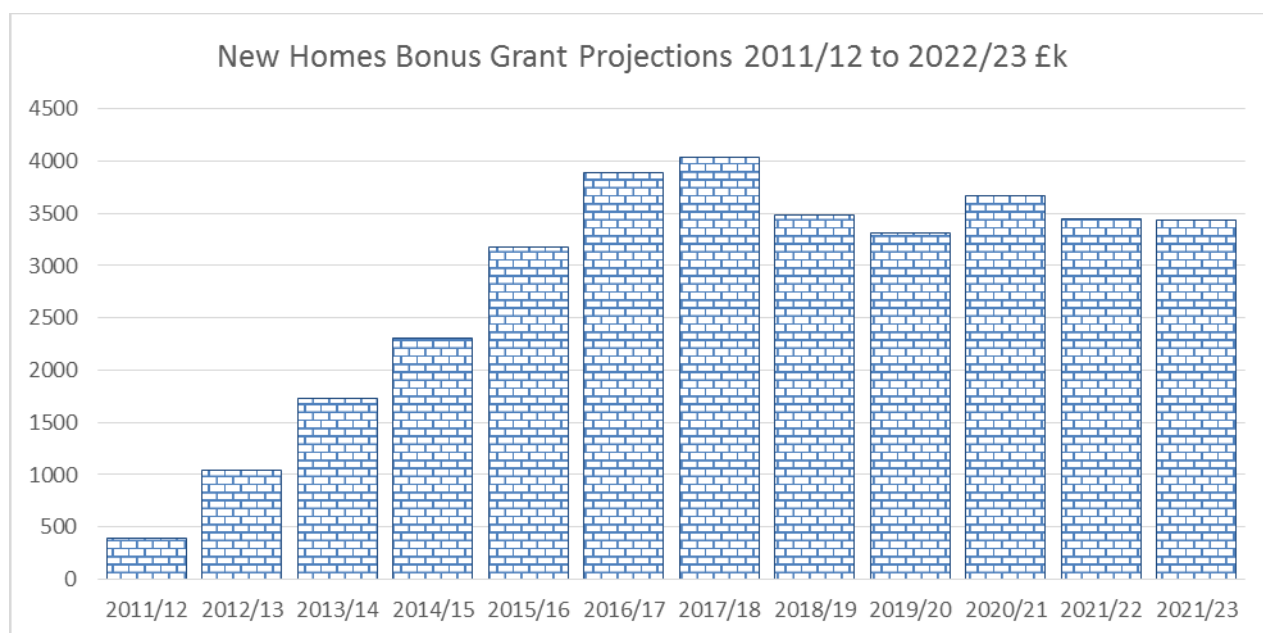
- 3.1 The New Homes Bonus (NHB) Grant is a grant from the Government which ‘rewards’ housing growth. The NHB Grant is not ring-fenced, which means the Council is free to decide how to use it based on local priorities.
- 3.2 The calculation of the grant has changed from 2017/18 onwards, as the government has redirected funding available under NHB to the Better Care Fund in support of social care funding pressures. The scheme was originally designed such that each year of housing growth attracted funding for 6 years, therefore in 2016/17 we received 6 years’ worth of grant. As part of the Finance Settlement for 2017/18 the Government confirmed this would reduce to 5 years’ worth in 2017/and then 4 years’ worth from 2018/19. In addition, no grant would be paid on the first 0.4% of Band D equivalent growth each year from

2017/18 onwards.

- 3.3 The overall level of projected funding has therefore fallen below the £4m “peak” in 2016/17, but remains above £3m until the last year of the current MTFP.
- 3.4 The table below summarises the grant calculations and estimates from 2016/17 onwards, and the following graph also includes the total grant received since the NHB grant was introduced in 2011/12.

New Homes Bonus Projection

Allocations in respect of:	Actuals		Estimates				
	16/17	17/18	18/19	19/20	20/21	21/22	22/23
	£k	£k	£k	£k	£k	£k	
2011/12	392						
2012/13	648						
2013/14	687	687					
2014/15	576	576					
2015/16	876	876	876				
2016/17	704	699	699	699			
2017/18		1,197	1,191	1,191	1,191		
2018/19			714	714	714	714	
2019/20				713	713	713	713
2020/21					1,054	1,054	1,054
2021/22						966	966
2022/23							700
Total	3,883	4,035	3,479	3,316	3,672	3,447	3,433



- 3.5 It is anticipated the provisional grant allocation for 2018/19 will be confirmed in November 2017.

4 Council Tax Base and Rate

- 4.1 The Council Tax Base on which the Council generates its local tax revenue is the sum residential properties expressed as Band D equivalents. It reflects adjustments for reductions including Single Person Discount and Local Council Tax Support as well as

assumptions around net growth and collection rates. The Tax Base is increasing each year by between approximately 1% and 2%. The actual tax base rise for 2017/18 will be calculated in December 2017 once the CTB1 form has been completed.

- 4.2 The Council and the major preceptors have committed additional resources in 2016/17 and 2017/18 to drive improved collection and compliance in order to maintain and increase council tax income. The Tax Base forecasts within the MTFP take a prudent approach over medium term and also reflect this additional investment, with an estimated growth of 1.75% in 2017/18 and 2018/19, then reverting to 1% per annum thereafter.
- 4.3 The Council Tax Base for 2017/18 of 40,843.2 Band D Equivalents has been approved under delegated powers by the Section 151 Officer.
- 4.4 The Council has kept tax changes low in recent years:

Council Tax Increases

	Actual Increase	Cap / Referendum Threshold		Actual Increase	Cap / Referendum Threshold
2011/12	0%	3.5%	2015/16	0%	1.99%
2012/13	0%	3.5%	2016/17	3.62%*	3.62%*
2013/14	0%	3.7%	2017/18	3.5%*	3.5% = £5 on Band D
2014/15	1.99%	1.99%	2018/19	TBC**	TBC

**excludes Somerset Rivers Authority precept (see below)*

***the MTFP assumption, solely for financial modelling purposes, is based on a 1.99% increase each year*

- 4.5 Tax increases have been kept low in recent years reflecting austerity and the intention to reduce pressure on household bills during the recession. This was incentivised through the availability of funding from Government through a Council Tax Freeze (CTF) Grant each year between 2011/12 and 2015/16. The Council attracted CTF Grant in each year except for 2014/15 where tax was increased to provide additional funding in response to severe flooding in the winter 2013/14.
- 4.6 The Government's Comprehensive Spending Review (CSR) in 2015 signalled a change in Government approach, with many authorities given increased flexibility to raise Council Tax in the face of further funding cuts. This Council has opted to increase Council by £5 on a Band D in 2016/17 and 2017/18 remaining below the Secretary of State's 'excessiveness' threshold.
- 4.7 The basic Band D tax rate for 2017/18 is £147.88 per year (£2.84 per week). The MTFP assumes a Council Tax increase of 1.99% each year from 2018/19 onwards. Information provided with the four year funding settlement indicates that, as a shire district, TDBC will have the option to increase the Band D by £5 each year in 2018/19 and 2019/20 if Members are minded. This will be confirmed each year by the Secretary of State.
- 4.8 The following table summarises the projected Council Tax Base and income budget estimates within the Plan (excluding SRA precept).

Council Tax Base and Income Projections

	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
Council Tax Base					
Increase %	1.75%	1.00%	1.00%	1.00%	1.00%
Increase in Band D Equivalents	714.8	415.6	419.7	423.9	428.2
Tax Base	41,558.0	41,973.6	42,393.3	42,817.2	43,245.4
Council Tax Rate					
Increase % (MTFP assumption)	1.99%	1.99%	1.99%	1.99%	1.99%
Increase £	2.94	3.00	3.06	3.12	3.18
Band D Rate £	150.82	153.82	156.88	160.00	163.18
Council Tax Income					
Increase due to Tax Base £	105,705	62,681	64,558	66,501	68,512
Increase due to Tax Rate £	122,180	125,920	129,724	133,590	137,520
Total Council Tax Precept £	6,267,772	6,456,373	6,650,655	6,850,746	7,056,778

- 4.9 Based on the 2017/18 starting point, a 1% increase in the tax rate equates to approximately £57,000 in additional income for the Council and would add £1.43 on the basic Band D tax rate. The following 'ready reckoner' shows the impact of an example range of tax changes.

Table 13 – Council Tax Increase Scenarios for 2018/19
Assumes Tax Base of 41,558.0 per Indicative MTFP Estimate

Council Tax Increase	Band D Tax Per Year £	Band D Increase Per Year £	Basic Council Tax Income £	Additional Income £
0.00%	147.88	0.00	6,145,591	0
1.00%	149.36	1.48	6,207,100	61,506
1.99% (MTFP assumption)	150.82	2.94	6,267,770	122,181
3.00%	152.32	4.44	6,330,108	184,517
3.38%	152.88	5.00	6,353,381	207,790

- 4.10 As the table indicates, the assumed 1.99% increase in the MTFP increases income for services by £122,181.
- 4.11 As an example, if Members have the option and are minded to implement a £5 increase on a Band D this would represent a 3.38% increase on the basic tax element and raise a further estimated £85,609 compared to a 1.99% increase.

5 **Special Expenses – Taunton Unparished Area Fund**

- 5.1 Taunton does not have its own Town Council, and TDBC therefore raises additional Council Tax specifically for the Unparished Area of Taunton in the form of a Special Expenses precept. This enables the Council to deliver local priorities for the town that would ordinarily be the responsibility of a town council. The table below summarises the Tax Base, Special Expenses and Budget for the unparished area, with an indicative position for 2018/19 based on current MTFP assumptions.

Taunton Unparished Area Fund

	2017/18 Budget	2018/19 Estimate
Tax Base - Band D Equivalents	14,966.86	14,996.86
Tax Rate increase (subject to Council decisions each February)	0%	0%
Unparished Area Band D Special Expenses Charge	£3.00	£3.00
<i>Notional Special Expenses Average Band D Charge*</i>	£1.10	£1.08
Council Tax Special Expenses Income	£44,901	£44,901
Council Tax Support Grant from TDBC General Fund	£2,010	£0
Total Unparished Area Fund Budget	£46,911	£44,901

5.2 At the Full Council meeting on 15 December 2015 Members agreed to reduce the council tax support grant funding provided to towns and parishes on a straight-line basis over three years. 2017/18 is the final year that this grant will be paid and thus reduces to nil in 2018/19.

5.3 The Unparished Area Fund Budget is administered by its own Grants Panel, and allocations are published in the Weekly Bulletin. The fund balance as at 1 April 2017 is £171,173.

6 **Somerset Rivers Authority Precept**

6.1 The Somerset Rivers Authority (SRA) was created following the severe flooding that hit the area in the winter of 2013/14. It has developed a 20 Year Flood Action Plan which will target long term investment to develop improved flood prevention and resilience when flooding is unavoidable. In 2015/16 through a combination of Government funding and contributions from local authorities in Somerset, the SRA had a budget of £2.7m to progress the Action Plan. In future the SRA will be able to set its own Precept to raise Council Tax income to help deliver the Plan.

6.2 In 2016/17 the County Council and the five district Councils in Somerset had the opportunity to raise additional council tax funding, based on 1.25% of the 2015/16 Council Tax rate, to raise funding the Somerset Rivers Authority pending its establishment as a precepting body. For TDBC this equates to £1.74 a year on a Band D.

6.3 In 2017/18 the Council Tax raised and passed on to the SRA is £71,067.

6.4 The overall opportunity across Somerset aims to raise £2.7m in funding for the SRA in 2017/18. The SRA Board met on 8 February 2017 to consider and approve its 2017/18 budget – see <http://www.somersetiversauthority.org.uk/about-us/board-meetings-and-papers/> – where the £2.7m has been prioritised to progress the five key workstreams within Somerset's 20 Year Flood Action Plan. These are:

- dredging and river management
- land management (including natural flood management)
- urban water management
- resilient infrastructure
- building local resilience

6.5 More can be read about the approach the SRA has taken to developing its programme of works for 2017/18 at

7 Localised Council Tax Support

- 7.1 In April 2013 the Government ended the centrally-funded Council Tax Benefit scheme, and required local billing authorities to set up their own local policies for Council Tax support in its place. Only 90% of the Government funding for Council Tax Benefit was shared out to local authorities, leaving a shortfall meaning Councils would need to reduce the costs of Council Tax support through the local policy or subsidise this through reductions in other areas. All precepting authorities were consulted and it was agreed that the new scheme would be cost neutral at its inception. A scheme was introduced which required working age claimants who previously had full Council Tax Benefit to pay up to 20%, despite no change in their circumstances. Pension age claimants are protected from the changes.
- 7.2 The Government detailed the funding for the local Council Tax support scheme for 2013/14, however this was for the first year only. From then on the funding is included within the Settlement Funding Assessment (SFA) for each authority through the RSG and Business Rate Retention baseline. It is clear that with RSG reducing to nil by 2019/20 the cost of the scheme will essentially be fully funding from local Council Tax and Business Rates income in future.
- 7.3 It is important that the figures are monitored as the grant is fixed. If the scheme costs more than estimated the authorities will need to pick up the additional costs. Once a scheme is approved it cannot be changed until the next financial year.
- 7.4 The Council plans to review the scheme each year, and with the ongoing reductions in funding the Council needs to consider whether the current level of Support remains affordable. Possible revisions to the Policy will be considered early in the financial year and then put out to consultation during the summer.
- 7.5 The current estimated costs of the scheme – which is incorporated as a reduction to the net Council Tax Base – is £5,605,370 for 2017/18. The costs are shared through the Collection Fund, giving an estimated cost to the precepting authorities as shown below. The costs of CTS have fallen each year since the local scheme was introduced. However the MTFP forecast prudently assumes the demand / eligibility will remain at similar levels each year.

Council Tax Support

Precepting Body	Estimated Costs 2017/18 £	%
Somerset County Council	4,050,538	72.3
Police and Crime Commissioner	654,725	11.7
Devon and Somerset Fire and Rescue Authority	293,746	5.2
Taunton Deane Borough Council	538,804	9.6
Town and Parish Councils, and unparished area	67,558	1.2
Total Estimated CTS Costs 2016/17	5,605,370	

8 Reserves

8.1 The Council's General Fund Reserves balance as at 1 April 2017 is £2.186m. This is £586k above the recommended minimum balance.

8.2 In addition to general balances, the Council holds funds in a range of General Fund Earmarked Reserves. These are held for a range of purposes including:

- Grants received in advance of spending
- Revenue budgets set aside where spending is planned in future years
- Contingencies for specified financial risks (such as business rates volatility)

8.3 The following table summarises the main earmarked reserves held as at 31 March 2017.

Reserve	Balance March 2017 £'000
<i>Reserves above £100,000:</i>	
Capital Financing Reserve	789
Asset Management – Leisure	197
CEO Initiatives	103
Underwrite Savings within MTFP	164
DLO Trading Account	121
DLO Vehicle Replacement	316
General Fund Carry Forwards	429
Housing Enabling	193
Self Insurance Fund	485
Travel Plan	149
Asset Management General	289
Business Rates Smoothing	1,937
Eco Towns Projects Funding	238
Growth and Regeneration (New Homes Bonus)	4,231
Homelessness Grant	164
Waste services	134
Neighbourhood Planning Grant	122
Customer Access & Accommodation Project	1,668
Monkton Heathfield Planning	557
Resources Service Costs	189
Support Services Succession Planning	499
SAP Replacement	320
Economic Development (Business Rates Pool Dividend)	315
Transformation	1,979
Garden Town	512
Balance of other reserves each below £100,000	1,244
Total Earmarked Reserves	17,344