

Executive – 9 February 2017

Present: Councillor Williams (Chairman)
Councillors Beale, Berry, Habgood, Mrs Herbert, Parrish and
Mrs Warmington

Officers: Shirlene Adam (Director – Operations), Chris Hall (Assistant Director – Operational Delivery), Steve Read (Somerset Waste Partnership), Lisa Redston (Community and Housing Lead – Hinkley Point C), Becky Brown (Housing Initiatives Officer – Hinkley Point C), Christine Chu Hui Davies (Housing and Community Strategy Officer), Paul Fitzgerald (Assistant Director – Resources), Jo Nacey (Finance Manager) and Richard Bryant (Democratic Services Manager)

Also present: Councillors Aldridge and Coles

(The meeting commenced at 6.15 pm.)

1. Apology

Councillor Edwards.

2. Minutes

The minutes of the meeting of the Executive held on 30 November 2016, copies of which had been circulated, were taken as read and were signed.

3. Declarations of Interest

Councillor Berry declared a personal interest as a Member of the Somerset Waste Board. Councillor Mrs Warmington declared a personal interest as a Member of Bishops Lydeard and Cothelstone Parish Council.

4. Somerset Waste Partnership Draft Business Plan 2017-2022

Considered report previously circulated, concerning the Somerset Waste Partnership's (SWP) Draft Business Plan for the period 2017-2022. The draft Plan had been made available to Members.

Whilst the Business Plan had a five year horizon, Councillors were only requested to approve the plan for the financial year 2017/2018.

The Draft Business Plan and associated Action Plan were the means by which the partnership described its business, evaluated changes to the operating environment, identified strategic risks and set out its priorities. The plan had a five year horizon with particular focus on the next 12 months. It was the primary means to seek approval for and to secure the necessary resources to implement its proposals from the partner authorities.

The plan also set out the draft Annual Budget for the Waste Partnership for

2017/2018, which for Taunton Deane represented a relatively minor increase of 2.99% or £102,028.

The Somerset Waste Board (SWB) had delegated authority for decision making across all services and therefore had to make proposals to the partners on how savings could be made, taking into account any requirements to make those savings and proposals on how this could be achieved.

Individual partners had previously been asked to give an indication of any savings targets so that options to achieve these and associated risks could be assessed by the SWP in consultation with the Strategic Management Group. All partners had a need to control costs in this area and a number of initiatives had been underway to evaluate the opportunities and impacts of future cost management choices.

Specifically trials were undertaken in Taunton Deane which had, and would continue, to inform the nature of the service going forward for the entire partnership. These trials had made temporary alterations to the material types that were collected at the kerbside and the frequency of collections.

'Recycle More' had been approved by the Executive on 30 November 2016 (Minute No 67/2016). Noted that the budget presented in the appended Business Case for 2017/2018 contained no savings or costs associated with this new operating model during the roll out phase.

SWP's key aims and priorities were identified within the Draft Business Plan. Members were reminded of the large scale projects underway which would produce significant changes to service delivery:-

- Alternative refuse treatment; and
- 'Recycle More' - the new service model.

Comments on the Business Plan were requested by mid-February, to enable the SWB to adopt both the Plan and its budget at its meeting later in the month.

The Draft Plan has been brought together against the background of the continuing difficult economic situation but with a continuing desire from partners to deliver the following key priority areas:-

1. Waste minimisation, high diversion and high capture;
2. Improved services for customers;
3. Contract monitoring and review;
4. Alternatives to landfill and optimising material processing;
5. Investigating Recycling Centre options;
6. Investigating collection service options; and
7. Organisational efficiency.

The Draft Business Plan had been considered by the Community Scrutiny Committee on 7 February 2017. Overall the Committee was very supportive of the Business Plan.

Resolved that:-

- (1) The Somerset Waste Partnership's Budget for 2017/2018 be approved; and
- (2) The content of the Business Plan 2017-2022 be noted.

5. **Hinkley Point C : Housing Funding Strategy (Phase Two)**

Considered report previously circulated, which sought approval of the Hinkley Point C (HPC) Housing Funding Strategy (Phase Two).

In January 2012 West Somerset Council granted planning permission to EDF Energy to undertake Site Preparation Works at the HPC site.

Under the Section 106 Planning Obligations Agreement, £4,000,000 of funding was secured to deliver additional housing capacity in the West Somerset and Sedgemoor areas. The aim was to mitigate any potential adverse effects on the local private rented and low cost housing market and particularly for those on lower incomes that might arise as a result of the HPC development. This funding became available in May 2014.

Reported that a further £3,500,000 of funding became available in June 2016 when EDF Energy transitioned from the Site Preparation Works planning permission to the Development Consent Order. This additional funding was secured to deliver additional housing capacity in West Somerset, Taunton Deane, Sedgemoor and North Somerset.

The funds that were ring-fenced for Taunton Deane amounted to £660,000. £60,000 of these funds were to be used for Housing Officer support across both Taunton Deane and West Somerset, whilst the remaining £600,000 would be used on various housing initiatives.

Phase 2 funding would also be shared between West Somerset, Sedgemoor and North Somerset Councils, but this would leave £643,000 unallocated, which could be accessed by any of the four Councils once the individual ring-fenced amounts had been allocated based on areas of need and the location of HPC workers. Anot

The HPC Housing Funding Strategy set out how the £600,000 would be spent on a range of housing initiatives that had already been trialled in the West Somerset area. Some of the initiatives had proved to be very successful, whilst others had not. It was unlikely that all initiatives used in the West Somerset area would be rolled out in Taunton Deane.

The main points of the HPC Housing Funding Strategy (Phase Two) were:-

- To provide an update on the Phase One HPC Housing Funding Strategy, which was approved by West Somerset Council in November 2014;
- To present proposals for the allocation of the remaining HPC Housing Fund made available to West Somerset Council through the Site Preparations Works Section 106 Agreement; and

- To present proposals for the allocation of the new funds made available to West Somerset Council and Taunton Deane Council through the HPC Development Consent Order Section 106 Agreement.

Resolved that:-

- (1) The principles and outline expenditure set out in the Hinkley Point C Housing Funding Strategy (Phase Two) be approved; and
- (2) The responsibility for approving minor amendments to the plans for expenditure set out in the Hinkley Point C Housing Funding Strategy (Phase Two) be delegated to the Portfolio Holder for Housing Services, in consultation with the Assistant Director for Housing and Communities and, where appropriate, the Chairman or Vice-Chairman of the Community Scrutiny Committee.

6. Draft Treasury Management Strategy Statement, Annual Investment Strategy and Minimum Revenue Provision Policy 2017/2018

Considered report previously circulated, concerning the recommended strategy for managing the Council's cash resources including the approach to borrowing and investments. Approval was also sought for the Treasury Management Strategy Statement and Investment Strategy (TMSS), the Annual Investment Strategy (AIS) and the Minimum Revenue Provision (MRP) Policy.

It was noted that the Council currently had external borrowing of £92,198,000, which was all attributable to the Housing Revenue Account. The Bank Base Rate had been reduced to 0.25% in August 2016 and was currently forecast to remain at this level during 2017/2018.

Also noted that the Council's investment balances had ranged between £33,000,000 and £52,000,000. This was expected to reduce in 2016/2017 as more of the Capital Programme was delivered.

The TMSS and related policies had been prepared taking into account the 2011 revised Chartered Institute of Public Finance and Accountancy (CIPFA) Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the Code") and the Department of Communities and Local Government's Guidance on Local Government Investments ("the Guidance").

The key principles of the Code were 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 stated that responsibility for treasury management lay clearly within the organisation and that the Strategy clearly stated the appetite for risk;
- That value for money and suitable performance measures were reflected in the

framework.

The Council's Finance Officers had worked closely with Arlingclose, the Council's Treasury Advisor, to consider the requirements of the Code and Guidance and determine the proposed TMSS, AIS and MRP Policy that would ensure compliance and provide a set of 'rules' for the Council to follow in dealing with investments, borrowing and cash flow management.

The TMSS for 2017/2018 continued 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 continuing risks in the financial sector, the TMSS continued to build in greater "diversification" – so that surplus funds were held in a wider range of investments/accounts.

The proposed MRP continued the policy approved by the Council for 2016/2017, with an addition to set out a policy in respect of capital loans provided to third parties. This took into account the recent decision to make a further loan to the Somerset Waste Partnership for the purchase of new collection vehicles. For such loans it was proposed to link MRP to the life of the asset(s) for which a loan was provided.

Resolved that Full Council be recommended to approve:-

- (1) The Treasury Management Strategy Statement, Annual Investment Strategy and Minimum Reserve Provision Policy as set out in the Appendix to the report; and
- (2) The Prudential Indicators included within the Treasury Management Strategy Statement which included limits for borrowing and investments.

7. General Fund Revenue Estimates 2017/2018

Considered report previously circulated, which set out the final 2017/2018 budget proposals. These recognised the continuing financial challenges, with annual reductions in Government funding for Local Council services as the Government sought to reduce the national deficit.

The 2017/2018 Budget had been prepared within the context of priorities identified by Members which were embedded in the Council's Corporate Plan.

The budget contained details on:-

- (i) the General Fund Revenue Budget proposals for 2017/2018, including a proposed Council Tax increase; and
- (ii) draft figures on the predicted financial position of the Council for subsequent years.

The Corporate Scrutiny Committee had considered the draft budget proposals at its meeting on 26 January 2017. Although no specific recommendations were made by the Committee, a number of comments were made by Members details of which

were submitted for the information of the Executive.

Details of the Provisional “Settlement Funding Assessment” for 2017/2018 had been announced by the Department of Communities and Local Government in late December 2016 with the Final “Settlement Funding Assessment” due to be announced imminently.

Unusually this year there was the prospect of Full Council being asked to approve its Annual Budget prior to the Government announcing the Final Settlement. If this was the case. Members would be advised to set the 2017/2018 based on the Provisional Settlement information.

Subsequently, any material changes in the Final Settlement would be notified promptly to all Councillors, and any further resulting recommendations would be subject to the budget decision process in line with the Scheme of Delegation and Financial Regulations.

The grant funding from the Government was in line with the confirmed multi-year settlement (2016/2017 to 2019/2020), with the expected reduction in 2017/2018 as shown below – a 46% reduction in General Revenue Grant funding:-

General Government Grant

| | 2016/17 £ | 2017/18 £ | Change £ | |
|--|------------------|----------------|-----------------|-------------|
| Revenue Support Grant (RSG) | 1,235,137 | 644,801 | -590,336 | -48% |
| Rural Services Delivery Grant (RSDG) | 27,582 | 22,271 | -5,311 | -19% |
| Transition Grant | 16,930 | 16,864 | -66 | 0 |
| Total General Revenue Grant Funding | 1,279,649 | 683,936 | -595,713 | -46% |

The multi-year settlement included further reductions in subsequent years. The following table summarised how these grants, together with the Business Rates Baseline (BR Baseline) had and were projected to reduce since 2013/2014.

The headline reduction in the Settlement funding position was -14.5% from 2016/2017 to 2017/2018.

Settlement Funding

| | 13/14 £k | 14/15 £k | 15/16 £k | 16/17 £k | 17/18 £k | 18/19 £k | 19/20 £k |
|-----------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| RSG | 3,556 | 2,766 | 1,911 | 1,235 | 645 | 280 | 0 |
| RSDG | 0 | 0 | 5 | 28 | 22 | 17 | 22 |
| Transition Grant | 0 | 0 | 0 | 17 | 17 | 0 | 0 |
| BR Baseline | 2,366 | 2,412 | 2,458 | 2,478 | 2,529 | 2,578 | 2,605 |
| Government Settlement | 5,922 | 5,178 | 4,374 | 3,758 | 3,213 | 2,675 | 2,627 |

The budget proposals took into account Business Rates Retention where funding had increased by £78,892 in 2017/2018 compared to the last financial year, possible new proposals for the implementation of “100% Business Rates Retention” and the New Homes Bonus (NHB).

With regard to the latter, the provisional NHB Grant for 2017/2018 was £4,034,732, which was £151,421 or 3.9% more than 2016/2017, and £674,549 more than the December estimate which was good news for the Council's growth aspirations funding but unfortunate in terms of the unexpected growth top slice.

The Government had consulted on proposed changes to the funding methodology for NHB, and despite positive housing growth which was higher than previously forecast for budget purposes, a new baseline of 0.4% growth has been introduced from 2017/2018 which had effectively acted as a top-slice so that the Council only received grant for growth above 0.4%. In addition, the Government had now confirmed that the rolling up of grants had been reduced from six to five years in 2017/2018 and then would reduce further to four years from 2018/2019. The previous Medium Term Financial Plan (MTFP) forecasts had been prepared on this basis.

Despite the reduction in the level of "reward" for housing growth, the growth trajectory indicated that funding through NHB should remain considerable.

The proposed budget for Taunton Deane contained a proposed Council Tax increase of 3.47% of the basic Council Tax element (£5 on a Band D) for 2017/2018 which would mean that the Band D Council Tax would rise to £149.62 per year. This figure again included the sum of £1.74 in respect of the Somerset Rivers Authority because it was still unable to raise its own precept. The Band D taxpayer would, therefore, receive all the services provided by the Council in 2017/2018 at a cost of £2.87 per week.

The previous MTFP estimates assumed the Special Expenses Rate (SER) would be subject to a 1.99% increase in 2017/2018.

The Executive was therefore minded to increase the Special Expenses (Unparished Area) precept by 2p on a Band D property, raising an additional £300 whilst still remaining within the £5 Band D referendum trigger level.

The Special Expenses income raised through Council Tax in 2016/2017 was £43,360 which was a Band D Equivalent charge per year of £2.98. In addition, the Unparished Area Budget had received a Council Tax Support (CTS) Grant of £4,020 in 2016/ 2017 giving a total budget of £47,380.

However, Full Council had previously agreed to reduce the grant funding provided to towns and parishes by 1/3rd in 2016/2017; 1/3rd in 2017/2018 and therefore the CTS grant was expected to be phased out by 2018/2019. Therefore, the proposed budget for 2017/2018 was £46,911.

The 2017/2018 Budget Gap as presented to the Corporate Scrutiny Committee on 8 December 2016 was £403,000. The Provisional Settlement and some other material changes to budget estimates – not least those relating to Pension deficit recovery lump sum increases and Pension contribution rate increases – had significantly increased the Budget Gap to £859,000 in January 2017.

This gap had now been closed as a result of the approved new Fees and Charges, the proposed Council Tax increase, the various savings options, the NHB, the

Business Rates Retention and the transfer of funds from the Business Rates Smoothing Reserve. The following table provided a summary of the Budget position for 2017/2018:-

Revenue Budget 2017/2018

| | Budget 2016/17 £ | Estimates 2017/18 £ |
|---|---------------------------------|------------------------------------|
| Total Spending on TDBC Services | 9,931,503 | 11,786,444 |
| Somerset Rivers Authority Contribution | 67,987 | 71,067 |
| Revenue Contribution to Capital | 482,500 | 401,500 |
| Capital Debt Repayment Provision (MRP) | 180,060 | 235,060 |
| Interest Costs | 0 | 0 |
| Interest Income | -314,000 | -380,875 |
| Parish Precepts | 640,320 | 640,316 |
| Grants to Parishes for CTS | 25,980 | 12,990 |
| Special Expenses | 43,360 | 44,901 |
| Grants to Unparished Area | 4,020 | 2,010 |
| Transfers to/from Earmarked Reserves | 3,334,152 | 1,868,242 |
| Transfer to/from General Reserves | 0 | 0 |
| AUTHORITY EXPENDITURE | 14,395,882 | 14,681,655 |
| Retained Business Rates | -2,959,304 | -3,038,286 |
| Revenue Support Grant | -1,235,137 | -644,801 |
| Rural Services Delivery Grant | -27,582 | -22,271 |
| Transition | -16,930 | -16,864 |
| New Homes Bonus | -3,883,310 | -4,034,730 |
| Surplus(-)/Deficit on Collection Fund – Council Tax | -130,890 | -166,957 |
| Surplus(-)/Deficit on Collection Fund – Business Rates | 191,668 | 38,425 |
| Demand on Collection Fund – Parishes and SER | -683,680 | -685,217 |
| <i>Expenditure to be financed by Council Tax</i> | 5,582,730 | 6,039,887 |
| <i>Council Tax raised to fund SRA Contribution</i> | 67,987 | 71,067 |
| Total Council Tax Raised by TDBC | 5,650,717 | 6,110,954 |
| Divided by Council Tax Base | 39,072.9 | 40,843.2 |
| Council Tax @ Band D – Taunton Deane Services | 142.88 | 147.88 |
| Council Tax @ Band D – Somerset Rivers Authority | 1.74 | 1.74 |
| Council Tax @ Band D – TDBC including SRA | 144.62 | 149.62 |
| Cost per week per Band D equivalent | 2.77 | 2.87 |

It was a requirement for the Council to prepare not only budgets for the following financial year but to also provide indicative figures into future years. The MTFP provided an indication of the expected budget gap going forward into 2017/2018 and beyond and a summary of this position was reflected in the following table:-

Revised MTFP Summary as at 9 February 2017

| | 2016/17 £ | 2017/18 £ | 2018/19 £ | 2019/20 £ | 2020/21 £ | 2021/22 £ |
|---------------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Services Costs | 9,931,503 | 11,786,444 | 9,815,874 | 9,626,814 | 10,027,695 | 10,501,781 |
| Net Financing Costs | 348,560 | 255,685 | 576,680 | 574,790 | 572,900 | 571,010 |
| SRA Contribution | 67,987 | 71,067 | 0 | 0 | 0 | 0 |
| Special Expenses | 43,360 | 44,901 | 44,901 | 44,901 | 44,901 | 44,901 |
| CTRS Grants | 30,000 | 15,000 | 0 | 0 | 0 | 0 |

| | 2016/17 £ | 2017/18 £ | 2018/19 £ | 2019/20 £ | 2020/21 £ | 2021/22 £ |
|---|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Earmarked Reserves-Growth | 3,491,331 | 3,642,752 | 3,087,363 | 2,924,490 | 3,279,861 | 3,055,236 |
| Earmarked Reserves-Other | -157,179 | -1,774,510 | 52,717 | 52,720 | 52,719 | 52,724 |
| General Reserves | 0 | 0 | 0 | 0 | 0 | 0 |
| Net Expenditure | 13,755,562 | 14,041,339 | 13,577,535 | 13,223,715 | 13,978,076 | 14,225,652 |
| Retained Business Rates | -2,959,304 | -3,038,286 | -3,100,622 | -3,012,141 | -3,050,613 | -3,089,465 |
| Business Rates prior year surplus/deficit | 191,668 | 38,425 | 0 | 0 | 0 | 0 |
| Revenue Support Grant | -1,235,137 | -644,801 | -279,788 | 0 | 0 | 0 |
| Rural Services Delivery Grant | -27,582 | -22,271 | -17,132 | -22,271 | -22,271 | -22,271 |
| Transitional Grant | -16,930 | -16,864 | 0 | 0 | 0 | 0 |
| New Homes Bonus | -3,883,310 | -4,034,730 | -3,479,340 | -3,316,470 | -3,671,840 | -3,447,220 |
| Council Tax–TDBC | -5,582,730 | -6,039,887 | -6,267,772 | -6,456,373 | -6,650,655 | -6,850,746 |
| Council Tax–SRA | -67,987 | -71,067 | 0 | 0 | 0 | 0 |
| Council Tax – Special Expenses | -43,360 | -44,901 | -44,901 | -44,901 | -44,901 | -44,901 |
| Council Tax prior year surplus/deficit | -130,890 | -166,957 | 0 | 0 | 0 | 0 |
| Net Funding | 13,755,562 | 14,041,339 | 13,189,555 | 12,852,156 | 13,440,280 | 13,454,603 |
| Budget Gap | 0 | 0 | 387,980 | 371,559 | 537,796 | 771,049 |
| Budget Gap Increase | 0 | 0 | 387,980 | -16,421 | 166,237 | 233,253 |

The significant pressures leading to the Gap in 2018/2019 were:-

- £387,000 reduction in General Revenue Support funding;
- One-off use of £144,000 Business Rate Retention Smoothing Reserve in 2017/2018 to mitigate volatility in Business Rates funding, collection fund deficit and to balance the budget;
- One-off use of £50,000 earmarked reserves to fund CCTV costs in 2017/2018;
- One-off Council Tax Collection Fund Surplus of £167,000 in 2017/2018;
- £383,000 estimated inflation pressures on pay and contracts; and
- £360,000 phased maintenance costs for The Deane House, mitigated by £355,000 following the decision to fully refurbish the property and to rent space to the Police.

The MTFP position above already included the projected savings arising through the implementation of the Transformation Business Case. Without these savings the forecast budget gap would be even greater - £2,031,000 per year by 2021/2022.

The General Fund budget included the trading surplus of £101,000 providing a contribution to the net income for the Council. Any additional surplus would be transferred to the Deane DLO Trading Reserve.

The forecast reserves position of Deane DLO for 2017/2018 remained positive, and provided some resilience to volatility in trading performance and future investment needs.

The draft budget for the Deane Helpline Trading Account had assumed an increase

in fees to private customers from £4.99 per week to £5.40 per week and the charge to the Housing Revenue Account (HRA) for Taunton Deane Tenants had been increased by £0.06 to £4.49 per week. This had been approved by Full Council in December 2016 and, subsequently amended, had reduced the budget gap in 2017/2018 by £26,439.

Following the emergence of the increased costs in respect of the Pension Fund deficit contribution and annual employer contribution increases, the Deane Helpline had revised its fees to reflect this and mitigate the effect on the budget gap. The Council would therefore be recommended to approve revised fees for private paying customers of £5.86 per week and the charge to the HRA for Taunton Deane tenants of £4.80 per week.

With regard to General Reserves, the current reserves position was above the recommended minimum (£1,600,000), at £1,913,000. The mid-year forecast for the 2016/2017 budget was a projected underspend of £271,000, which would increase the balance at the year end to £2,184,000, however this was not certain at this stage.

General Reserves Balance 31 March 2017

| | £ |
|--|------------------|
| Balance Brought Forward 1 April 2016 | 2,113,085 |
| Supplementary Budget – Transformation Implementation | -200,000 |
| Current Budgeted Balance | 1,913,085 |
| 2016/17 Projected Outturn Variance – Mid-Year Forecast | 271,000 |
| Projected Balance 31 March 2017 | 2,184,085 |
| Recommended Minimum Balance | 1,600,000 |
| Projected Balance above recommended minimum | 584,085 |

The Council's Section 151 Officer had a duty to comment, as part of the budget setting process on the robustness of the budget and the adequacy of reserves. In her response, Shirlene Adam had stated that she believed the Council's reserves to be adequate and the budget estimates used in preparing the 2016/2017 budget to be robust.

Resolved that the General Fund Revenue Budget for 2017/2018 be agreed and that Full Council be recommended to:-

- (a) Note the forecast Medium Term Financial Plan and Reserves position, and note the Section 151 Officer's Robustness Statement as set out in the report;
- (b) Approve the General Fund Net Revenue Budget 2017/2018 subject to any amendments required as a result of the Final Funding Settlement, if received in advance of this meeting, or should the Final Settlement not be received, then based on the Provisional Settlement;
- (c) Approve a Council Tax increase of 3.47% (on the non-SRA element), increasing the Band D tax rate by £5 to £149.62 per year. This comprised £147.88 for services and £1.74 on behalf of the Somerset Rivers Authority;

(d) Approve an increase to the Special Expenses Precept of 0.7% increasing the Band D rate from £2.98 to £3.00; and

(e) Approve revised Deane Helpline fees to mitigate increased pension-related costs. This amounted to an additional £27,000 income for the Deane Helpline Trading Account.

8. **Housing Revenue Account Estimates 2017/2018**

Considered report previously circulated, concerning the proposed Housing Revenue Account (HRA) estimates for the 2017/2018 Financial Year.

In 2012 Taunton Deane moved away from a national subsidy system to be 'self-financing'. As part of the self-financing agreement, a one-off payment of £85,120,000 was made to the Government, in return for being able to retain all income locally to manage and maintain the housing stock. The total debt in the HRA at the start of self-financing was £99,700,000.

In order to manage the freedoms gained by the HRA through self-financing, a new 30 year Business Plan (2012-2042) was introduced. This set out the Council's overall aims and objectives for Housing Services, as well as laying out plans to manage the increased risks and opportunities.

The Business Plan had been reviewed and updated annually since 2012, but since 2015 there had been many changes in national policies and local aspiration and a full review of the Business Plan was undertaken in 2016. The draft estimates for 2017/2018 therefore reflected the amendments approved in the Business Plan.

Business Plan Review 2016

A full review of the HRA 30 Year Business Plan was approved by Council in July 2016.

This had included a number of changes which affected the base budget for 2017/2018. The key amendments were summarised below:-

2017/2018 Changes in Approved Business Plan

| | £k |
|--|--------|
| <u>Impact in 2017/2018 of key changes within the Business</u> | |
| Starting position - balanced budget | 0.0 |
| Rents - rent reduction and increase in RTB for Pay to Stay | 308.0 |
| Bad Debt Provision (funded from EMR) | 288.7 |
| Social Housing Development Fund | 185.3 |
| Repairs and Maintenance savings | -166.4 |
| Management savings | -253.0 |
| Community provision | 140.0 |
| Provision for repaying borrowing | 814.2 |
| Transformation funding | 500.0 |
| RCCO | -911.6 |

| | |
|--|--------------|
| Funding from EMRs in 2017/2018 (provision for bad debt and Revenue and Maintenance contracts – Pre-planned Maintenance and electrical) | -1,040.1 |
| Inflationary uplifts | 374.2 |
| Reduced income assumptions (supporting people contract changes and PV Income due to system sizes) | 87.9 |
| Other minor changes | 22.3 |
| Position in Business Plan - approved by Council in July 2016 (budgeted transfer from HRA General Reserves) | 349.5 |

Dwelling rents for approximately 5,800 properties provided annual income of approximately £24,000,000 for the HRA.

The Welfare Reform and Work Act 2016 had set out a 1% reduction in social housing rents from 1 April 2016 for four years. For the first year, 2016/2017, supported housing rents were exempt, but all social rents were to be included for the remaining three years.

During the four year period, rents had to be set with at least a 1% reduction. However, each additional 0.5% decrease would reduce the average weekly rent for tenants by £0.42, or £21.84 per year, and decrease dwelling rent income to the HRA by £123,000 per year.

In line with the national rent guidance, it was proposed that the average weekly rent for dwellings for 2017/2018 should be set at the guideline rent of £82.52, a decrease of 1.0%, or £0.84 per week.

On becoming vacant, dwellings continued to be re-let at the Formula Rent, a national rent calculation for social housing which was designed to give fair and consistent rents across all social housing in local authority and housing association stock.

Until 2015/2016 increases to rent were allowed for convergence – in order to slowly bring rents in line with the national policy. From 2016/2017 onwards this was no longer allowable for existing tenancies. Currently 70% of tenants had rents below the Formula Rent. Of those with rents below Formula Rent, the average difference was £1.04 per week, or 1.2%. This was equivalent to a loss of income of £211,000 per year.

Following the Government deciding not to proceed with its 'Pay to Stay' Policy, where tenants with a significant household income would be required to pay additional rent, the assumption as to an increase in Right to Buys (RTBs) had been reduced in the Business Plan from 60 per year, down to 40 for a three year period, reflecting the current level of RTBs. For 2017/2018 this equated to expected additional rental income of £43,000, which increased to £128,000 in 2018/2019, although expected capital receipts from RTB would reduce.

Rent lost through void periods continued to be lower than the 2% allowed in the Business Plan. As such, it was deemed appropriate to reduce the expected void

rate to 1% for a two year period increasing the rental expectation in 2017/2018 by £179,000.

These changes gave a total forecasted dwelling rent income of £24,500,000.

About 8.3% of HRA income, amounting to £2,200,000 in total, came from non-dwelling rent (mainly garages, but also shops and land), charges for services and facilities, and contributions to HRA costs from leaseholders and others. The proposed changes to specific budget lines reflected changes agreed by Full Council in the Fees and Charges report on 13 December 2016.

The main areas of spending planned for the 2017/2018 financial year included:-

- Management expenses;
- Maintenance;
- Transformation;
- Rents, rates and other taxes;
- Special services;
- Provision for bad debts;
- Depreciation;
- Debt Management Expenses;
- Repayment of Borrowing and Interest;
- Interest receivable; and
- Social Housing Development Fund.

The following table provided a summary of the main changes to the budget estimates for the HRA Revenue Account since the approval of the HRA Business Plan.

HRA Budget 2017/2018 Changes

| | £000s |
|--|--------------|
| Position in Business Plan (budgeted transfer from HRA General Reserves) | 349.5 |
| Proposals included in this report | |
| Deduction in rent loss from voids | -179.0 |
| Reduction in rent lost from Right to Buys (due to Pay to Stay) | -43.1 |
| Service charges | -20.4 |
| Garages | -13.0 |
| Leasehold Charges | -50.1 |
| RTB admin contribution | -12.5 |
| R&M Transition Contingency | 480.0 |
| Charges from GF and pension deficit (49.2k reported in GF, but most of this was included in inflationary uplift above) | 9.5 |
| HRA share of apprentice levy | 19.3 |
| Insurance premiums | 30.6 |

| | |
|---|--------------|
| Depreciation | -100.5 |
| Investment income | -10.0 |
| Interest payable | -435.5 |
| Increase in employer pension contribution | 90.1 |
| Increase in pension deficit contribution | 116.3 |
| Increase in support service charges to the HRA due to pension | 36.8 |
| Other minor changes | -25.0 |
| Balanced Budget for 2017/18 | 243.0 |

The HRA Business Plan recommended that the minimum unearmarked reserve balance for the HRA should be £1,800,000. The reserve balance as at 1 April 2016 was £2,675,000, however with a number of approved changes during the year, the current balance was £2,342,000. This did not include any 2016/2017 forecast variances, or any further supplementary estimates in 2016/2017.

If the HRA budget was approved by Council, the balance would reduce by £243,000, to £2,099,000.

With regard to RTB receipts, the Council had agreed that these receipts would be used to fund new affordable housing. The additional RTB receipts could only account for 30% of spend on new housing, with the remaining 70% coming from other funds such as revenue funding or borrowing.

The full spend on new housing (the 30% RTB funding and 70% Council funding) should be spent within three years of the capital receipt, or the RTB receipt must be returned to Government with interest at 4% over base rate from the date of the receipt.

The additional receipts received in the first two quarters of 2016/2017 totalled £844,000, which would require total spend of £2,800,000 within three years. If this level continued it could be expected that the annual total spend would need to be in the region of £5,600,000.

Although the provision for the Social Housing Development Fund had been increased in the Business Plan, the annual total budget was £1,900,000, an annual shortfall of £3,700,000. The latest forecast showed that forecasted spend would not be enough to meet the match funding requirements in 2019/2020.

The options that needed to be considered were:-

- Increase spend through borrowing – limited to the debt cap;
- Increase spend from revenue – which would lead to reduced service provision as revenue was allocated within the Business Plan;
- Use other Council funding;
- Give grant funding to Housing Associations – providing they matched 70% of the funding; or
- Return funding to Government.

The requirement for the funding to be spent within three years did mean that there was flexibility to allocate funding after the capital receipts were retained. However, development schemes were likely to have large lead in times and so receipts should be allocated as soon as possible to reduce the risk of having to repay the capital

receipt to Government with interest payments.

The Draft Housing Revenue Account Budget was presented to the Corporate Scrutiny Committee on 26 January 2017 for review and comment. Although no specific amendments to the Draft Budget were formally recommended by the Committee, the main comments raised by Members were considered by the Executive.

The Tenant Services Management Board has also considered the proposed HRA Budget.

Resolved that Full Council be recommended to approve:-

- (a) The proposed rent decrease of 1%, with proposed average rents of £82.52 per week in 2017/2018; and
- (b) The Housing Revenue Account Budget for 2017/2018.

9. **Capital Programme Budget Estimates 2017/2018**

Considered report previously circulated, concerning the proposed General Fund (GF) and Housing Revenue Account (HRA) Capital Programmes for 2017/2018.

2017/2018 General Fund Capital Programme

The current General Fund Capital Programme in 2016/2017 included approved projects totalling £11,192,000.

The current capital strategy included the following basis for prioritising schemes:-

- 1) Business Continuity (corporate/organisational/health and safety);
- 2) Statutory Service Investment (to get statutory minimum/contractual/continuity);
- 3) Growth / Transformation;
- 4) Invest to Save; and
- 5) Other.

The recommended General Fund Capital Programme for 2017/2018 totalled £13,750,000 split between Deane DLO Schemes, General Fund Schemes and Growth Schemes.

Funding for capital investment by the Council could come from a variety of sources including:-

- Capital Receipts;
- Grant Funding;
- Capital Contributions (for example from another Local Authority or Section 106 Agreement funding);
- Revenue budgets/reserves (often referred as RCCO – Revenue Contributions to Capital Outlay); and
- Borrowing.

All of the schemes in the Capital Programme could be fully funded through a combination of revenue contributions (DLO and General), capital reserves plus grant funding provided via Somerset County Council. As a result, the Capital Programme which incorporated all of the reported bids was supported by the Executive.

Capital Programme for Growth and Regeneration 2017/2018

In December 2015 the Council approved an allocation £16,600,000 of New Homes Bonus (NHB) funding over the five year period 2016/2017 to 2020/2021, to support its priorities relating to growth and regeneration. A number of 'spend categories' were approved, as follows:-

- Taunton Strategic Flood Alleviation (£3,000,000);
- Major Transport Schemes (£2,500,000);
- Town Centre Regeneration (£2,500,000);
- Employment site enabling and promoting enterprise and innovation (£4,000,000);
- Marketing, promotion and inward investment (£500,000);
- Supporting urban extension delivery (£4,000,000); and
- Preparation of Local Development Orders (£100,000).

At the time it was acknowledged that the profile of spending over the five year period was indicative and would need to be refreshed annually, to ensure that spending plans remained aligned with an evolving picture of external funding secured, opportunities for new funding and new growth priorities.

Having now carried out the above mentioned annual review, a refreshed annual profile of spending on growth was proposed as follows:-

- **Major Transport Schemes** – The overall allocation had increased from £2,500,000 to £3,500,000 mainly due to the need to provide match funding towards major transport improvements at Junction 25 (where major Local Enterprise Partnership funding had been approved) and the Toneway Corridor;
- **Town Centre Regeneration** – The allocation had increased from £2,500,000 to £3,500,000 to enable the delivery of major Town Centre schemes, such as Firepool and Coal Orchard;
- **Employment sites, enterprise and innovation** – No change to the overall allocation (£4,000,000) but a change in profile to reflect the likely spend requirement; and
- **Supporting Urban Extension delivery** – The overall allocation had reduced from £4,000,000 to £2,000,000 due to increased ability to use alternative funding sources such as the Community Infrastructure Levy (CIL), Capacity Funding and planning performance agreements to support delivery.

Following the refresh of the NHB funding forecast (taking account of the proposals within the Provisional Settlement 2017/2018) and housing planning trajectory, there was a projected funding shortfall of £396,000 over the five year period of the plan.

This shortfall was considerably less than previous forecasts.

Work on a number of potential options was taking place though to maintain, and potentially increase, the overall funding commitment to delivering growth through a number of sources in addition to NHB, such as:-

- Capacity funding from the Government, where large scale developments (such as urban extensions) might be eligible for support;
- Planning performance agreements and planning fee income; and
- The CIL.

2017/2018 Housing Revenue Account (HRA) Capital Programme

The HRA Capital Programme 2017/2018 totalled £9,360,000 and was shown in the table below. This was provided to deliver the prioritised capital investment requirements included in the current Business Plan for the next budget year.

Draft HRA Capital Programme 2017/2018

| Project | Total Cost £k |
|---|--------------------------|
| Major Works | 6,222 |
| Related Assets | 80 |
| Improvements | 50 |
| Exceptional Extensive Works | 482 |
| Disabled Facilities Grants and Aids and Adaptations | 416 |
| Building Services Vehicles | 121 |
| Social Housing Development Fund | 1,989 |
| Total Proposed HRA Capital Programme 2017/18 | 9,360 |

The current five-year HRA Capital Programme included forecast capital expenditure requirements for the period 2017/2018 to 2021/2022, as identified in the Business Plan.

The programme would be funded from the Major Repairs Reserve (from depreciation), revenue contribution (RCCO), the Social Housing Development Fund and capital receipts (Right to Buy).

The Capital Programme Budget Estimates 2017/2018 were presented to the Corporate Scrutiny Committee on 26 January 2017 for review and comment. No specific amendments to the Budget were formally recommended by the Committee.

Resolved that it be recommended to Full Council that:-

- (a) The new capital schemes of the General Fund Capital Programme Budget of £13,749,816 for 2017/2018 be approved;
- (b) Authority be delegated to the Section 151 Officer to approve adjustments to the 2017/2018 Disabled Facilities Grant Capital Budget to reflect the final grant funding received from the Better Care Fund; and

(c) The new capital schemes of the Housing Revenue Account Capital Programme of £9,360,000 for 2017/2018 be approved.

10. **Executive Forward Plan**

Submitted for information the Forward Plan of the Executive over the next few months.

Resolved that the Forward Plan be noted.

(The meeting ended at 7.38 p.m.)