Executive

You are requested to attend a meeting of the Executive to be held in The Brittons Ash Community Centre, Bridgwater Road, Bathpool, Taunton, (Activity Room). on 8 February 2018 at 18:15.

Agenda

1 Apologies.

2 Minutes of the meeting of the Executive held on 11 January 2018 (attached).

3 Public Question Time.

4 Declaration of Interests
To receive declarations of Disclosable Pecuniary Interests or personal or prejudicial interests, in accordance with the Code of Conduct, in relation to items on the agenda. Such interests need to be declared even if they have already been recorded in the Register of Interests. The personal interests of Councillors who are County Councillors or Town or Parish Councillors will automatically be recorded in the minutes.

5 Draft Treasury Management Strategy Statement, Annual Investment Strategy and Minimum Revenue Provision Policy 2018/2019. Report of the Interim Financial Services Manager (attached).
Reporting Officer: Andrew Stark

6 Draft General Fund Revenue Budget Estimates 2018/2019. Report of the Interim Financial Services Manager (attached).
Reporting Officer: Andrew Stark

7 Housing Revenue Account (HRA) Budget Estimates 2018/2019. Report of the Interim Financial Services Manager (attached).
Reporting Officer: Andrew Stark

8 Capital Programme Draft Budget Estimates 2018/2019. Interim Financial Services Manager (attached).
Reporting Officer: Andrew Stark

9 Executive Forward Plan - details of forthcoming items to be considered by the Executive and the opportunity for Members to suggest further items (attached)

The following items are likely to be considered after the exclusion of the press and public because of the likelihood that exempt information would otherwise be disclosed relating to the Clause set out below of Schedule 12A of the Local Government Act 1972.

10 Planning (Listed Buildings and Conservation Areas) Act 1990 – Listed Buildings at Tonedale Mill, Milverton Road, Wellington. Report of the Wellington Heritage at Risk Project Manager (attached). Para graph 3 - Information relating to Financial or Business Affairs.

Reporting Officer: Joanne O'Hara

Bruce Lang
Assistant Chief Executive

07 August 2018

Members of the public are welcome to attend the meeting and listen to the discussions.

There is time set aside at the beginning of most meetings to allow the public to ask questions.

Speaking under "Public Question Time" is limited to 4 minutes per person in an overall period of 15 minutes. The Committee Administrator will keep a close watch on the time and the Chairman will be responsible for ensuring the time permitted does not overrun. The speaker will be allowed to address the Committee once only and will not be allowed to participate further in any debate.

Except at meetings of Full Council, where public participation will be restricted to Public Question Time only, if a member of the public wishes to address the Committee on any matter appearing on the agenda, the Chairman will normally permit this to occur when that item is reached and before the Councillors begin to debate the item.

This is more usual at meetings of the Council's Planning Committee and details of the "rules" which apply at these meetings can be found in the leaflet "Having Your Say on Planning Applications". A copy can be obtained free of charge from the Planning Reception Desk at The Deane House or by contacting the telephone number or e-mail address below.

If an item on the agenda is contentious, with a large number of people attending the meeting, a representative should be nominated to present the views of a group.

These arrangements do not apply to exempt (confidential) items on the agenda where any members of the press or public present will be asked to leave the Committee Room.

Full Council, Executive, Committees and Task and Finish Review agendas, reports and minutes are available on our website: www.tauntondeane.gov.uk

The meeting rooms at both the Brittons Ash Community Centre and West Monkton Primary School are on the ground floor and are fully accessible. Toilet facilities, with wheelchair access, are available.

Lift access to the Council Chamber on the first floor of Shire Hall, is available from the main ground floor entrance. Toilet facilities, with wheelchair access, are available through the door to the right hand side of the dais.

An induction loop operates at Shire Hall to enhance sound for anyone wearing a hearing aid or using a transmitter.

For further information about the meeting, please contact Democratic Services on 01823 219736 or email r.bryant@tauntondeane.gov.uk

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Executive Members:-

Councillor J Warmington (Community Leadership)
Councillor A Sully (Corporate Resources)
Councillor M Edwards (Economic Development, Asset Management, Arts and Culture, Tourism and Communications (Deputy Leader))
Councillor P Berry (Environmental Services & Climate Change)
Councillor T Beale (Housing Services)
Councillor J Williams - Leader of the Council (Leader of the Council)
Councillor R Parrish (Planning Policy and Transportation)
Councillor V Stock-Williams (Sports, Parks and Leisure)

AGENDA ITEM NO. 2

Executive – 11 January 2018

Present: Councillor Williams (Chairman)
Councillors Beale, Berry, Mrs Herbert, Mrs Stock-Williams and Mrs Warmington

Officers: Chris Hall (Assistant Director – Operational Delivery), Gary Bowles (Cemeteries and Crematorium Manager) and Richard Bryant (Democratic Services Manager)

Also present: Councillor Aldridge

(The meeting commenced at 6.30 p.m.)

1. **Apologies**

Councillors Edwards and Parrish

2. **Minutes**

The minutes of the meeting of the Executive held on 29 November 2017, copies of which had been circulated, were taken as read and were signed.

3. **Declaration of Interests**

Councillors Mrs Stock-Williams and Mrs Warmington declared personal interests as Members of Wellington Town Council and Bishops Lydeard and Cothelstone Parish Council respectively.

4. **Capital Improvements – Cemetery and Crematorium**

Considered report previously circulated, which sought support for capital improvement works to the waiting room and toilet facilities within the Chapel complex at Taunton Crematorium.

This work was necessary to support the increased volume of people who attended services and meet their needs in terms of accessible toilet facilities.

The current waiting room did not have the same capacity as the Chapel leading to frequent instances of the public having to wait outside until the prior funeral had come to an end. It also led to mourners from different services having to co-mingle.

The request was greater than just one of convenience for service users. The ability to manage the flow of people through the site was important especially where services had often to be planned back to back. There were approximately 2,000 services per year and around half of these services could not be fully accommodated within the waiting room without leaving people standing outside.

This situation would only get worse unless appropriate action was taken as there was an increasing trend towards greater numbers of mourners attending services. It was possible that unless the proposed improvements were introduced, the Crematorium might begin to lose some of its current business to other local providers.

Noted that the changes would nearly double the amount of waiting room space available to the public.

The additional resources being requested took account of the need for out of hours working and the provision of temporary toilets and a temporary waiting room. This was necessary to ensure the impacts on services were kept to a minimum.

Reported that whilst the work had yet to be competitively tendered, the design had been drawn up by Stone and Partners along with a quantity surveyors assessment. The build timeline was estimated at five months with additional time for tendering.

The budget request might appear high as this was fundamentally a reuse of existing space. There were however a number of factors which would increase the costs but were considered unavoidable for operational purposes. These factors were set out in the report.

The Community Scrutiny Committee had considered this matter on 13 December 2017 and Members were generally supportive of the report progressing unchanged to the Executive. However, a number of specific points had been raised which together with the officer responses were circulated for the consideration of the Executive.

Resolved that Full Council be recommended to approve a supplementary estimate of £400,000 to be added to the Capital Programme. £20,000 of this sum to be reallocated from the Capital approval for the Cremator brickwork which was now being funded from revenue resources and another £20,000 for the Chapel roof which was no longer required in the Capital Programme. The residual Capital sum of £360,000 to be funded from borrowing.

5. **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 6.48 p.m.)

Taunton Deane Borough Council

Executive – 8 February 2018

Draft Treasury Management Strategy Statement, Annual Investment Strategy and Minimum Revenue Provision Policy 2018/2019

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

Report Author: Andrew Stark, Interim Financial Services Manager

1 Executive Summary

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

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

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

1.4 The Council currently holds £85.5m of loans, which relate solely to the HRA. This sum increased significantly in March 2012 when the Council took on £82m of loans through the introduction of HRA Self Financing and the abolition of the old Housing Subsidy system. General Fund borrowing may be required in 2018/19 to support new projects which have been approved in 2017/18 although Table 1 of the Treasury Management Strategy Statement (TMSS) suggests that this may be covered initially from internal funds.

1.5 The Council's investment balances, in the past 12 months, have ranged between £34.4 million and £55.4 million, this is expected to reduce in 2018/19 as more of the Capital Programme is delivered.

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

2 Recommendations

2.1 That Executive recommends the draft Treasury Management Strategy Statement (TMSS), Annual Investment Strategy and MRP Policy as included with this report for approval by Full Council.

2.2 That Executive recommends the Prudential Indicators included within the TMSS which include limits for borrowing and investment, for approval by Full Council.

2.3 That Executive recommends the Council's Minimum Revenue Provision (MRP) policy for approval by Full Council.

3 Risk Assessment

Risk Matrix

Description	Likelihood	Impact	Overall
The Treasury Management Strategy and associated policies are not approved by Full Council in advance of the new financial year and become outdated.	Possible (2)	Major (4)	Medium (8)
The Treasury Management Strategy is approved by Full Council in March 2018 at the latest.	*Rare (1)*	*Minor (2)*	*Low (2)*

Risk Scoring Matrix

Likelihood	5	Very Likely	Low (5)	Medium (10)	High (15)	Very High (20)	Very High (25)
	4	Likely	Low (4)	Medium (8)	Medium (12)	High (16)	Very High (20)
	3	Feasible	Low (3)	Low (6)	Medium (9)	Medium (12)	High (15)
	2	Slight	Low (2)	Low (4)	Low (6)	Medium (8)	Medium (10)
	1	Very Unlikely	Low (1)	Low (2)	Low (3)	Low (4)	Low (5)
			1	2	3	4	5
			Negligible	Minor	Moderate	Major	Catastrophic
			Impact				

Likelihood of risk occurring	Indicator	Description (chance of occurrence)
1. Very Unlikely	May occur in exceptional circumstances	< 10%
2. Slight	Is unlikely to, but could occur at some time	10 – 25%
3. Feasible	Fairly likely to occur at some time	25 – 50%
4. Likely	Likely to occur within the next 1-2 years, or occurs occasionally	50 – 75%
5. Very Likely	Regular occurrence (daily/weekly/monthly)	> 75%

4 Background Information

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

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

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

4.4 The key principles of the Code are as follows:

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

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

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

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

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

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

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

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

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

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

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

5 Treasury Management Strategy Statement

5.1 The proposed treasury strategy, investment strategy, prudential indicators are set out in the appendices to this report.

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

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

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

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

- Considering security, liquidity and yield, in that order
- Considering alternative assessments of credit strength

- Spreading investments over a range of approved counterparties
- Only investing for longer periods to gain higher rates of return where there are acceptable levels of counterparty risk.

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

5.6 The Council's general fund capital financing requirement (CFR) for 2018/19 is £18.277m which is currently anticipated to be funded through internal borrowing.

5.7 The Council's Housing Revenue Account (HRA) CFR for 2018/19 is £101m which is currently funded through external borrowing of £82.5m plus internal borrowing of £18.5m. The Government sets a debt cap for the HRA which currently limits borrowing to £115.8m.

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

5.9 The Council's current authorised borrowing limit is £220 million as specified in the TMSS.

5.10 It is important to emphasise that the operational boundary relates to controls surrounding the Council's treasury management activities, and is not in itself "approval to borrow" for capital purposes. Any plans to support capital investment through borrowing would come forward to Council for approval in line with the normal budget decision process, supported with appropriate business case(s).

6 Minimum Revenue Provision

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

7 Links to Corporate Aims / Priorities

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

8 Finance / Resource Implications

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

9 Legal Implications

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

9.2 In March 2012 the Council adopted the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2011 Edition (the CIPFA Code) which requires the Council to approve a treasury management strategy before the start of each financial year.

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

10 Environmental Impact Implications

10.1 None

11 Safeguarding and/or Community Safety Implications

11.1 None.

12 Equalities and Diversity Implications

12.1 None.

13 Social Value Implications

13.1 None.

14 Partnership Implications

14.1 None.

15 Health & Wellbeing Implications

15.1 None.

16 Asset Management Implications

16.1 None.

17 Consultation Implications

17.1 None.

18 Scrutiny Comments / Recommendation(s)

18.1 Corporate Scrutiny Committee noted the report and supported the recommendations to Executive and Full Council.

Democratic Path:

- **Corporate Scrutiny – 25 January 2018**
- **Executive – 8 February 2018**
- **Full Council – 22 February 2018**

Reporting Frequency: Annual

List of Appendices

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

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Taunton Deane Borough Council

Treasury Management Strategy Statement 2018/2019

Appendix A

Introduction

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

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

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

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

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

External Context

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

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

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

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

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

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

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

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

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

Local Context

On 31st December 2017 the Council held £89.5m of borrowing and £49.7m of investments. This is set out in further detail at ***Appendix B***. Forecast changes in these sums are shown in the balance sheet analysis in table 1 below.

Table 1: Balance sheet summary and forecast

	31.3.17 Actual £000	**31.3.18 Estimate £000**	**31.3.19 Forecast £000**	**31.3.20 Forecast £000**	**31.3.21 Forecast £000**
General Fund CFR	7,283	7,048	18,277	17,858	17,458
HRA CFR	104,371	102,550	100,729	98,908	97,087
Total CFR	111,654	109,598	119,006	116,766	114,545
Less: External Borrowing *	(89,500)	(85,500)	(82,500)	(79,000)	(75,500)
Gross Borrowing Requirement/Internal Borrowing	22,154	24,098	36,506	37,766	39,045
Less: Usable Reserves	46,398	42,859	44,122	45,045	48,400
Net Borrowing Requirement/(Investments)	(24,244)	(18,761)	(7,616)	(7,279)	(9,355)

* shows only loans to which the Council is committed and excludes optional refinancing

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

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

Borrowing Strategy

The Council currently holds £89.5m of loans, as part of its strategy for funding previous years' capital programmes. This sum increased significantly in March 2012 when the Council took on £82.5m of loans through the introduction of Housing Revenue Account Self Financing and the abolition of the old Housing Subsidy system. The balance sheet forecast in table 1 shows that the Council does not expect to need to borrow externally in 2018/19. The Council may, however, borrow to pre-fund future years' requirements, providing this does not exceed the authorised limit for borrowing of £220m.

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

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

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

In addition, the Council may borrow short-term loans (normally for up to one month) to cover unplanned cash flow shortages.

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

- Public Works Loan Board (PWLB) and any successor body
- Any institution approved for investments (see below)
- Any other bank or building society authorised to operate in the UK
- UK public and private sector pension funds (except Somerset Pension Fund)
- Capital market bond investors
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues
- UK Local Authorities

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

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

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

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

LOBOs: The Council holds no LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate at set dates, following which the Council has the option to either accept the new rate or to repay the loan at no additional cost. The Council will take the option to repay LOBO loans at no cost if it has the opportunity to do so.

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

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

Investment Strategy

The Council holds invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the Council's investment balance has ranged between £34.449m and £55.371m this is expected to reduce in 2018/19 as more of the Capital Programme is delivered.

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

Negative interest rates: If the UK enters into a recession in 2018/19, there is a small chance that the Bank of England could set its Bank Rate at or below zero, which is likely to feed through to negative interest rates on all low risk, short-term investment options. This situation already exists in many other European countries. In this event, security will be measured as receiving the contractually agreed amount at maturity, even though this may be less than the amount originally invested.

Strategy: Given the increasing risk and very low returns from short-term unsecured bank investments, the Council aims to diversify into more secure and/or higher yielding asset classes during 2018/19. Less of the Council's surplus cash is now invested in short-term unsecured bank deposits, certificates of deposit and money market funds. This diversification will represent a continuation of our current investment strategy over the coming year.

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

Table 2: Approved investment counterparties and limits

Credit rating	Banks unsecured	Banks secured	Government	Corporates	Registered Providers
UK Govt	n/a	n/a	£ Unlimited 50 years	n/a	n/a
AAA	£3m 5 years	£6m 20 years	£6m 50 years	£3m 20 years	£3m 20 years
AA+	£3m 5 years	£6m 10 years	£6m 25 years	£3m 10 years	£3m 10 years
AA	£3m 4 years	£6m 5 years	£6m 15 years	£3m 5 years	£3m 10 years
AA-	£3m 3 years	£6m 4 years	£3m 10 years	£3m 4 years	£3m 10 years
A+	£3m 2 years	£6m 3 years	£3m 5 years	£3m 3 years	£3m 5 years
A	£3m 13 months	£6m 2 years	£3m 5 years	£3m 2 years	£3m 5 years
A-	£3m 6 months	£6m 13 months	£3m 5 years	£3m 13 months	£3m 5 years
BBB+	£1m 100 days	£3m 6 months	£1m 2 years	£1m 6 months	£1m 2 years
Unrated	£1m	n/a	£6m	£50k	£3m

	6 months		25 years	5 years	5 years
Pooled funds	Up to 50% of total investments limited to £6m each fund				

This table must be read in conjunction with the notes below

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

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

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

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

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

Registered providers: Loans and bonds issued by, guaranteed by or secured on the assets of registered providers of social housing, formerly known as housing associations. These bodies are tightly regulated by the Homes and Communities Agency and, as providers of public services, they retain the likelihood of receiving government support if needed.

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

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

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

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

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

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

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

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

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

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

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

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

Table 3: Non-specified investment limits

	Cash limit
Total long-term investments	£20m
Total investments without credit ratings or rated below BBB+	£10m
Total non-specified investments	£30m

Investment limits: The Council's General Fund revenue reserves available to cover investment losses are forecast to be £42.859m on 31st March 2018. In order that no more than 25% of available reserves will be put at risk in the case of a single default, the maximum that will be lent to any one organisation (other than the UK Government) will be £6m. A group of banks under the same ownership will be treated as a single organisation for limit purposes. Limits will also be placed on fund managers, investments in brokers' nominee accounts (e.g. King & Shaxon), foreign countries and industry sectors as below. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries.

<u>Table 4: Investment limits</u>

	Cash limit
Any single organisation, except the UK Central Government	£6m each
UK Central Government	Unlimited
Any group of organisations under the same ownership	£6m per group
Any group of pooled funds under the same management	£15m per manager
Negotiable instruments held in a broker's nominee account	£20m per broker
Foreign countries	£6m per country
Registered providers	£14m in total
Loans to unrated corporates	£6m in total
Money Market Funds	£28m in total

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

Non-Treasury Investments

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

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

Treasury Management Indicators

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

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

	Target
Portfolio average credit rating	A-

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

	Target
Total cash available within 3 months	£6m

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

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

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

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

	Upper	Lower
Under 12 months	50%	0%
12 months and within 24 months	50%	0%
24 months and within 5 years	50%	0%
5 years and within 10 years	75%	0%
10 years and within 20 years	100%	0%
20 years and within 30 years	100%	0%
30 years and within 40 years	100%	0%
40 years and within 50 years	100%	0%
50 years and above	100%	0%

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

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

	2018/19	2019/20	2020/21
Limit on principal invested beyond year end	£30m	£30m	£30m

Other Items

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

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

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

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

Policy on apportioning interest to the HRA: On 1st April 2012, the Council notionally split each of its existing long-term loans into General Fund and HRA pools. In the future, new long-term loans borrowed will be assigned in their entirety to one pool or the other. Interest payable and other costs/income arising from long-term loans (e.g. premiums and discounts on early redemption) will be charged/ credited to the respective revenue account. Differences between the value of the HRA loans pool and the HRA's underlying need to borrow (adjusted for HRA balance sheet resources available for investment) will result in a notional cash balance which may be positive or negative. This balance will be measured each month and interest transferred between the General Fund and HRA at the Council's average interest rate on investments, adjusted for credit risk.

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

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

Investment advisers: The Council has appointed Arlingclose Limited as treasury management advisers and receives specific advice on investment, debt and capital finance issues. The quality of this service is controlled by holding quarterly meetings and tendering periodically. The last tender was completed in March 2013.

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

The total amount borrowed will not exceed the authorised borrowing limit of £220m. The maximum period between borrowing and expenditure is expected to be two years, although the Council is not required to link particular loans with particular items of expenditure.

Financial Implications

The budget for investment income in 2018/19 is £0.746m (General Fund = £0.614m, HRA = £0.132m). The budget for debt interest to paid in 2018/19 is £2.912m (General Fund = £0.170m, HRA = £2.742m). If actual levels of investments and borrowing, and actual interest rates differ from those forecast, performance against budget will be correspondingly different.

Other Options Considered

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

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

Appendix B

Arlingclose Economic & Interest Rate Forecast November 2017

Underlying assumptions:

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

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

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

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

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

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

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

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

Forecast:

- The MPC has increased Bank Rate, largely to meet expectations they themselves created. Future expectations for higher short term interest rates are subdued. On-going decisions remain data dependant and negotiations on exiting the EU cast a shadow over monetary policy decisions.

- Our central case for Bank Rate is 0.5% over the medium term. The risks to the forecast are broadly balanced on both sides.

- The Arlingclose central case is for gilt yields to remain broadly stable across the medium term. Upward movement will be limited, although the UK government's seemingly deteriorating fiscal stance is an upside risk.

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

Appendix C

Existing Investment & Debt Portfolio Position

	31/12/2017 **Actual Portfolio £000**	31/12/2017 **Average Rate %**
External borrowing:		
PWLB – Fixed Rate	81,500	3.48
PWLB – Variable Rate	5,000	0.45
LOBO Fixed Rate Loans	3,000	4.25
Total External Borrowing	**89,500**	**3.20**
Treasury investments:		
Short Term	42,504	0.68
Long Term	7,191	3.13
Total treasury Investments	**49,695**	**1.02**
Net Debt	**39,805**	

Prudential Indicators 2018/19

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

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

Capital Expenditure and Financing	2017/18 Revised £000	2018/19 Estimate £000	2019/20 Estimate £000	2020/21 Estimate £000
General Fund	36,172	**3,622**	4,945	4,985
HRA	18,759	**8,973**	9,616	9,748
Total Capital Expenditure	**54,931**	**12,595**	**14,561**	**14,733**
Capital Receipts	(3,036)	(859)		
Capital Grants	(2,531)	(935)		
Revenue Contributions	(1,818)	(217)	(6,115)	(6,185)
Borrowing	(22,549)			
Growth Reserve	(5,777)	(2,470)		
Capital Financing Reserve	(1,265)			
Social Housing Development Fund	(1,185)	(1,170)	(1,170)	(1,200)
Major Repairs Reserve	(16,770)	(6,944)	(7,276)	(7,348)
Total Capital Financing	**(54,931)**	**(12,595)**	**14,561**	**14,733**

Estimates of Capital Financing Requirement: The Capital Financing Requirement (CFR) measures the Council's underlying need to borrow for a capital purpose.

Capital Financing Requirement	31.03.18 Revised £000	31.03.19 Estimate £000	31.03.20 Estimate £000	31.03.21 Estimate £000
General Fund	7,048	18,277	17,858	17,458
HRA	102,550	100,729	98,908	97,087
Total CFR	**109,598**	**119,006**	**116,766**	**114,545**

The CFR is forecast to increase over the next two years as capital expenditure financed by debt outweighs resources put aside for debt repayment.

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

Debt	31.03.18 Revised £000	31.03.19 Estimate £000	31.03.20 Estimate £000	31.03.21 Estimate £000
Borrowing	85,500	**82,500**	79,000	75,500
Total Debt	**85,500**	**82,500**	**79,000**	**75,500**

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

Operational Boundary for External Debt: The operational boundary is based on the Council's estimate of most likely (i.e. prudent but not worst case) scenario for external debt. It links directly to the Council's estimates of capital expenditure, the capital financing requirement and cash flow requirements, and is a key management tool for in-year monitoring. Other long-term liabilities comprise finance lease, Private Finance Initiative and other liabilities that are not borrowing but form part of the Council's debt.

Operational Boundary	2017/18 Revised £000	2018/19 Estimate £000	2019/20 Estimate £000	2020/21 Estimate £000
Borrowing	200,000	**200,000**	200,000	200,000
Total Debt	**200,000**	**200,000**	**200,000**	**200,000**

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

Authorised Limit	2017/18 Limit £000	2018/19 Limit £000	2019/20 Limit £000	2020/21 Limit £000
Borrowing	220,000	**220,000**	220,000	220,000
Total Debt	**220,000**	**220,000**	**220,000**	**220,000**

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

Ratio of Financing Costs to Net Revenue Stream	2017/18 Revised %	2018/19 Estimate %	2019/20 Estimate %	2020/21 Estimate %
General Fund	-0.98	-0.35	-0.39	-0.55
HRA	10.02%	9.94%	11.38%	10.92%
Total	**9.04%**	**9.59%**	**10.99%**	**10.37%**

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

Incremental Impact of Capital Investment Decisions	2018/19 Estimate £	2019/20 Estimate £	2020/21 Estimate £
General Fund - increase in annual band D Council Tax	4.44	4.39	5.29
HRA - increase in average weekly rents	-0.82	1.17	1.00

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

Appendix E

Annual Minimum Revenue Provision Statement 2018/19

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

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

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

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

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

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

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

A voluntary MRP will be charged in respect of assets held within the Housing Revenue Account.

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

AGENDA ITEM NO. 6

Taunton Deane Borough Council

Executive – 8 February 2018

Draft General Fund Revenue Budget Estimates 2018/2019

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

Report Author: Andrew Stark, Interim Financial Services Manager

1 Executive Summary

1.1 The purpose of this report is to provide Scrutiny Committee with an update on budget estimates for 2018/19 and Medium Term Financial Plan (MTFP) forecasts, and to consult with Members on the proposed means of closing the residual Budget Gap for 2018/19.

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

a) General funding, Revenue Support has reduced by £365,013 (57%) whilst Rural Services Delivery Grant was kept at the same level of £22,271.
b) New Home Bonus funding has reduced by £470,176 (12%) but this is after a reduction of 0.4% of the growth figure.
c) Retained business rates has increased by £554,259 (18.2%).

1.3 Executive is minded to implement a council tax increase of 3.33% (£5 on a Band D) which provides an additional £207,790 income. Together with the Tax Base which is slightly lower than previously estimated, total council tax funding will increase by £302,539 in 2018/19.

1.4 Executive is also minded to implement a council tax increase to the Unparished Area of 0.7% (2p on a Band D) which will raise an additional £302 (net of the growth increase).

1.5 Overall, funding from general grant, New Homes Bonus, business rates and council tax has reduced by some £546,153 (4%) in 2018/19.

1.6 The 2018/19 draft budget also includes a prior year net Collection Fund deficit of £872,776 (£937,440 business rates deficit, £64,664 council tax surplus).

1.7 Executive is also minded to use £937,440 from the business rates smoothing reserve in 2018/19 to offset the business rates deficit.

2 Recommendations

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

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

2.3 Executive recommends to Full Council a 2018/19 Council Tax increase of 3.33%, increasing the Band D basic tax rate by £5 to £154.62, comprising £152.88 for services and £1.74 on behalf of the Somerset Rivers Authority.

2.4 Executive recommends Full Council approves the minimum reserves level at £1.7m (see Section 17.2).

3 Risk Assessment

Risk Matrix

Description	Likelihood	Impact	Overall
Risk: The Council is unable to set a balanced budget	Slight (2)	Major (4)	Medium (8)
Mitigation: Members approve options to balance the budget	*Rare (1)*	*Major (4)*	*Low (4)*

Risk Scoring Matrix

Likelihood							
	5	Very Likely	Low (5)	Medium (10)	High (15)	Very High (20)	Very High (25)
	4	Likely	Low (4)	Medium (8)	Medium (12)	High (16)	Very High (20)
	3	Feasible	Low (3)	Low (6)	Medium (9)	Medium (12)	High (15)
	2	Slight	Low (2)	Low (4)	Low (6)	Medium (8)	Medium (10)
	1	Very Unlikely	Low (1)	Low (2)	Low (3)	Low (4)	Low (5)
			1	2	3	4	5
			Negligible	Minor	Moderate	Major	Catastrophic
			Impact				

Likelihood of risk occurring	Indicator	Description (chance of occurrence)
1. Very Unlikely	May occur in exceptional circumstances	< 10%
2. Slight	Is unlikely to, but could occur at some time	10 – 25%
3. Feasible	Fairly likely to occur at same time	25 – 50%
4. Likely	Likely to occur within the next 1-2 years, or occurs occasionally	50 – 75%
5. Very Likely	Regular occurrence (daily / weekly / monthly)	> 75%

4 Background Information

4.1 The General Fund Revenue Account is the Council's main fund and shows the income and expenditure relating to the provision of services which residents, visitors and businesses all have access to including planning, environmental services, car parks, certain housing functions, community services and corporate services.

4.2 The Council directly charges individual consumers for some of its services through fees and charges. The expenditure that remains is mainly funded through a combination of local taxation (including council tax and a proportion of business rates) and through grant funding from Central Government (including Revenue Support Grant, New Homes Bonus and other non-ringfenced and specific grants/subsidy).

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

4.4 It has been well reported that the Council faces significant and ongoing financial challenges, with a continuation of the annual reductions in Government funding for local council services as the Government seeks to reduce the national deficit.

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

5 Provisional Finance Settlement 2018/19

5.1 Since the 16 November 2017 report, we have received the Provisional Finance Settlement from DCLG. The Final Settlement is expected to be confirmed in early February 2018.

6 Fair Funding Review

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

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

6.3 In particular, it:

- presents the idea of using a simple foundation formula to measure the relative needs of local authorities, based on a small number of common cost driver;
- considers a number of service areas where in addition, a more sophisticated approach to measuring relative needs may potentially be

required; and

- outlines the statistical techniques that could be used to construct relative needs.

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

7 General Grant Funding

7.1 The grant funding from Government is in line with the confirmed multi-year settlement (2016/17 to 2019/20), with the expected reduction in 2018/19 of RSG but a levelling of RSDG which we had expected to reduce in 2018/19, overall a 56% reduction in general revenue grant funding:

Table 1 – General Government Grant

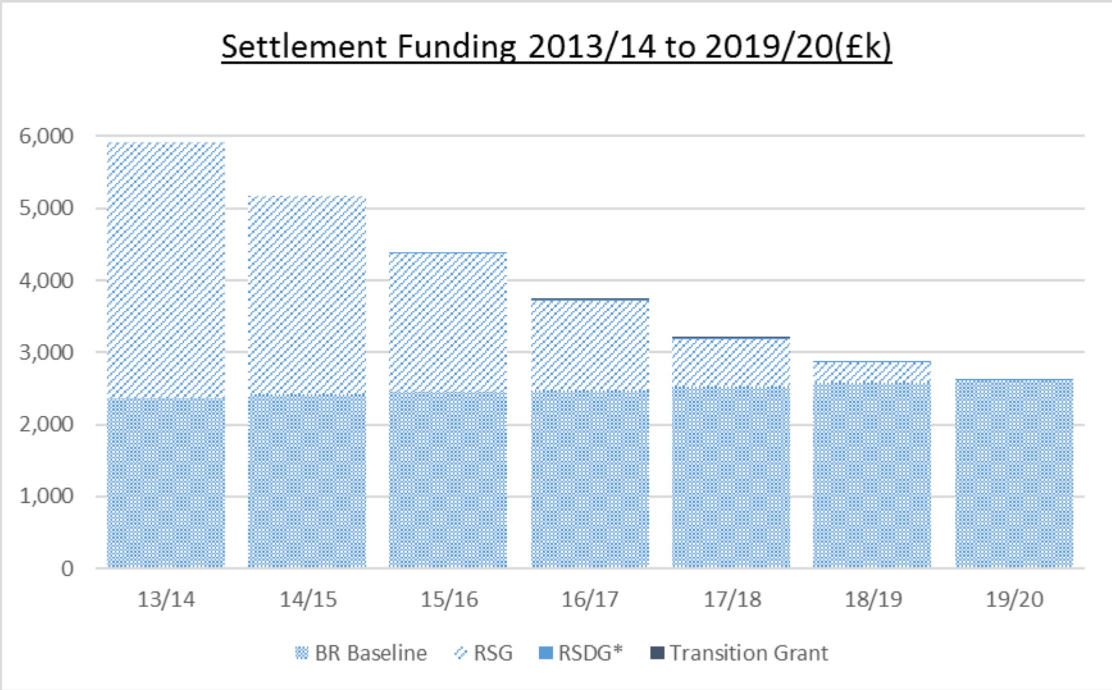
	2017/18 £	2018/19 £	Change £	
Revenue Support Grant (RSG)	644,801	279,788	-365,013	-48%
Rural Services Delivery Grant (RSDG)	22,271	22,271	0	0%
Transition Grant	16,864	0	-16,864	-100%
Total General Revenue Grant Funding	**683,936**	**302,059**	**-381,877**	**-56%**

7.2 The multi-year settlement includes further reductions in subsequent years. The following table summarises how these grants are projected to reduce since 2013/14, followed by a graph that clearly demonstrates the downward trend in the Council's Settlement Funding Assessment. During this period the Settlement reduces by 55% in cash terms (estimated 61% in real terms).

Table 2 – Settlement Funding

	13/14 £k	14/15 £k	15/16 £k	16/17 £k	17/18 £k	18/19 £k	19/20 £k
RSG	3,556	2,766	1,911	1,235	645	280	0
RSDG*	0	0	5	28	22	22	22
Transition Grant	0	0	0	17	17	0	0
BR Baseline	2,366	2,412	2,458	2,478	2,529	2,605	2,665
Govt Settlement	**5,922**	**5,178**	**4,374**	**3,758**	**3,213**	**2,907**	**2,687**

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



8 Business Rates Retention and 100% Business Rates Pilot Bid

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

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

8.3 There was significant interest in becoming a pilot with Government receiving 27 bids overall. Unfortunately we were not successful despite putting forward a strong bid, with only 10 new pilot areas being agreed. We were however given approval to form a Pool under the existing 50% Retention system and we are currently looking at our Business Rates forecasts alongside our partners to establish how much this could deliver in terms of additional funds. From our initial computations this was forecast to be in the region of up to £100k but there will need to be detailed work undertaken by all Pool members to shore up the most recent projections. We are confident that the potential gains far outweigh the risk of being in a pool, but prudently we have not factored any gain into budget at this stage as it remains uncertain.

8.4 The Provisional Settlement announcement by Government on 19 December incorporated adjustments to both the baseline and tariff methodology which led to a reduction of £131k in the Business Rates retained by the Council (see

Table 8) compared to previous estimates.

8.5 Provisional estimates for Business Rates Collection Fund Net Rates Income is summarised in the table below.

Table 3a Collection Fund Rating Income Estimate 2018/19

	£k
Net Rates Payable (after reliefs)	42,247
Transitional Protection Payments	-1,175
Less: Allowance for bad debts	-400
Less: Allowance for appeals	-2,280
Collectible Rates	**38,392**
Less: Costs of Collection	-173
Less: Disregarded amounts: Renewable Energy	-171
Non-Domestic Rating Income	**38,048**
TDBC 40% Share of NDR Income	**15,219**

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

Table 3b – Business Rates Retention Estimates

Business Rates Retention Funding Estimates	**2017/18 Budget £**	**2018/19 Estimate £**	**2019/20 Estimate £**
40% Standard Share of Business Rates Yield	14,817,804	15,219,065	15,567,120
Rates yield from renewable energy schemes	152,400	170,686	174,589
Tariff to Government	-12,262,201	-12,780,393	-13,073,180
Tariff Adjustment – Negative RSG			-127,940
Levy Payment	-345,337	-374,614	-383,186
Safety Net Income	0	0	0
S31 Grant	675,620	1,358,301	1,306,572
Net Retained Business Rates Funding	**3,038,286**	**3,592,545**	**3,463,975**
Net Retained B Rates Funding as % of yield	8.2%	9.4%	8.9%

9 New Homes Bonus

9.1 The New Homes Bonus (NHB) Grant has been in place since 2011/12. It is funding allocated by Government, separate to Revenue Support Grant and Business Rates, which incentivises and rewards housing growth. The NHB grant is non-ringfenced which means the Council is free to decide how to use it. The previous scheme design sets out that each year’s Grant allocation would be payable for six years. We only use £392k of our NHB allocations each year to help fund our revenue budget. The remaining grant is allocated to our Growth Earmarked reserve.

9.2 The provisional NHB Grant for 2018/19 is £3,564,556, which is £470,176 or 12% less than 2017/18, and £85,213 more than our December estimate which is good news for our growth aspirations.

Table 4 – New Homes Bonus 2018/19

	2017/18 £	2018/19 £	Change £	
New Homes Bonus Grant	4,034,732	3,564,556	-470,176	-12%

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

9.4 The impact of this new growth baseline is significant. The actual growth in Band D equivalents in 2017 was 762 or 1.55%. The impact is summarised within the following breakdown of the grant allocation related to 2018/19:

Table 5 – New Homes Bonus 2018/19 Calculation

Net Additions (October 2016 to October 2017	730
Net decrease in empty homes	68
Absolute net housing growth	798
Net housing growth weighted as Band D equivalents (=1.55%)	762
0.4% of October 2016 stock base – Band D equivalents	-196.7
Rewarded units =1.15% growth – Band D equivalents (rounded)	565.3
NHB Grant for growth (£1,590.55* x 80%** x 565.3 rounded)	£719,305
Affordable housing units growth (April 2016 to March 2017)	285
NHB Grant for affordable housing growth (£350 x 80%** x 285)	£79,800
Total NHB Grant allocation related to 2018/19	**£799,105**

*£1,590.55 = the national average Band D council tax for 2017/18

**growth is rewarded 80% to lower tier (District), 20% to upper tier (County)

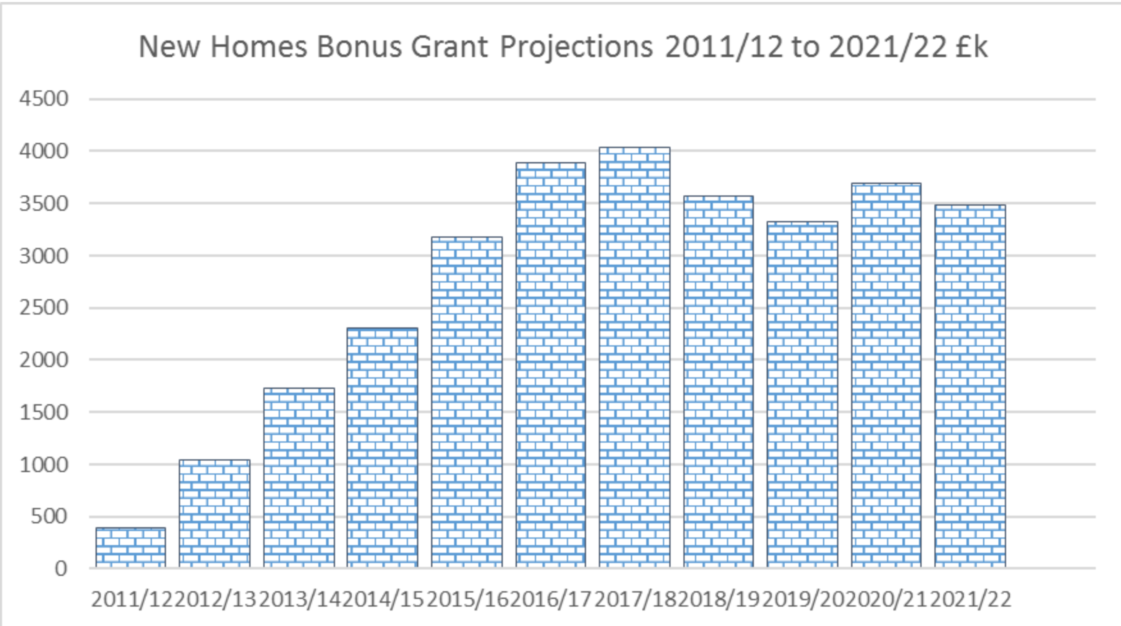
9.5 As this shows, housing growth (net of new housing, demolitions and increase/decrease in empty homes) of 196.7 Band D equivalents has not been rewarded in 2018/19. This has resulted in a loss of funding of approximately **£250,289** as a result of the top-slice for 0.4% growth.

9.6 The following table and graph summarises the historic allocations of NHB and the MTFP forecast up to 2021/22. The indicative trend indicates this grant source peaked in 2016/17, however indicative growth forecasts suggest that the level is fairly static in future years, assuming the terms of the scheme are not changed.

Table 6 – New Homes Bonus Grant Forecast

	11/12 £k	12/13 £k	13/14 £k	14/15 £k	15/16 £k	16/17 £k	17/18 £k	18/19 £k	19/20 £k	20/21 £k	21/22 £k	Totals £k
2011/12	392	392	392	392	392	392						2,352
2012/13		648	648	648	648	648						3,240
2013/14			687	687	687	687	687					3,435
2014/15				576	576	576	576					2,304
2015/16					876	876	876	876				3,504
2016/17						705	699	699	699			2,802
2017/18							1,197	1,191	1,191	1,191		4,770
2018/19								799	799	799	799	3,196
2019/20									640	640	640	1,920
2020/21										1,064	1,064	2,128
2021/22											976	976
Total	392	1,040	1,727	2,303	3,179	3,884	4,035	3,565	3,329	3,694	3,479	**30,627**

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



10 Council Tax

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

10.2 The 2017/18 annual basic tax rate towards the cost of Taunton Deane Borough Council services, for the average Band D property, is £147.88, and the Council also included £1.74 in respect of the Somerset Rivers Authority (SRA), making the total Band D charge £149.62 on the face of Band D tax bills in 2017/18.

10.3 Executive are minded to recommend to Full Council the option to increase

Council Tax by 3.33% which equates to the £5 limit on a Band D property, and this is reflected in the draft budget estimates for 2018/19. For an average Band D property this will set the tax rate at £154.62 or £2.97 per week (comprising £152.88 for Taunton Deane services and £1.74 for the SRA). Any increase above this amount would require a referendum of local tax payers.

10.4 The approved Tax Base for 2018/19 is 41,486.3 Band D Equivalents, an increase of 643.1 (1.6%) compared to 2017/18. The draft budget estimates for Council Tax income for TDBC is therefore 41,486.3 x £152.88 = £6,342,426 (rounded). This represents a total increase of £302,539 compared to the previous year. The budget estimates are calculated as follows.

	£
Council Tax Income Budget 2017/18	6,039,887
Increase due to change in Tax Base (Band D equivalents)	105,705
Increase due to proposed 3.34% increase in Tax Rate	196,834
Council Tax Income Estimate 2018/19	6,342,426

11 Special Expenses/Unparished Area Budget

11.1 The previous MTFP estimates assumed no increase in the Special Expenses Rate (SER) in 2018/19.

11.2 The Executive are minded to increase the Special Expenses (Unparished Area) precept by 2p on a Band D property, raising an additional £302 per year whilst still remaining within the £5 Band D referendum trigger level.

11.3 The Special Expenses income raised through council tax in 2017/18 is £44,901 which is a Band D Equivalent charge per year of £3.00 for the Unparished area of Taunton. In addition, the Unparished Area Budget received a CTS Grant of £2,010 in 2017/18 giving a total budget of £46,911. The 2p increase on a Band D property would therefore increase the charge tor the Unparished area to £3.02. This would raise an additional £302 after the underlying increase due to growth.

11.4 At the Full Council meeting on 15 December 2015 Members agreed to reduce the grant funding provided to towns and parishes by 1/3rd in 2016/17; 1/3rd in 2017/18 and therefore the CTS grant has been phased out in 2018/19.

11.5 The proposed budget for 2018/19 is therefore £45,534, entirely funded through Special Expenses levied within the Unparished Area.

11.6 The Unparished Area Fund currently holds an unallocated balance of £5,914 which will be allocated to schemes agreed in future by the Grants Panel/Portfolio Holder.

12 Somerset Rivers Authority

Members will be aware that the Somerset Rivers Authority are still unable as yet to raise their own precept and it is therefore proposed and supported by the Board members to follow the same arrangements as 2016/17 and 2017/18 and raise a precept for the same Band D value, i.e. £1.74 per year, which is currently included in our base. This will raise £72,186 funding from TDBC in 2018/19. Keeping the precept at this level will make it easier to “unravel it” from our Council Tax computations when the Rivers Authority has precepting power.

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

13.1 The 2018/19 Budget Gap as presented to Scrutiny Committee on 16 Nov 2017 was £99k. This table is reproduced in full below:

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

	£k	£k
2018/19 Budget Gap as reported to Scrutiny July 2017		**388**
Service Cost Pressures:		
TDBC Assets – Void Pressure 10%	46	
SHAPE Contract	89	
DLO Trading – Reset Pressure (reduction from £101k)	51	
SWP loan interest delay? (£31k)	?	
Waste contract pressure (TBC)	40	
Transformation savings delay	?	
Subtotal – Service Cost Pressures		**226**
Service Cost Savings:		
PSAA audit fees reduction	-27	
Deane Helpline - Additional income	-20	
Council Tax Collection - Additional Court Fees	-100	
Recycling/Green Waste	-20	
Additional Investment Income	-250	
Bereavement services - Additional income	-48	
Street Cleansing saving	-50	
Council Tax £5 assumed increase (implication £86k)	?	
Subtotal – Service Cost Savings		**-515**
Fees and Charges (Possible £42k towards gap)	**?**	
2018/19 Latest Budget Gap Estimate 16 November 2017		**99**

13.2 The Provisional Settlement and some other material changes to budget estimates have significantly increased the Budget Gap for next year from £99k in December. The impact of the Provisional Settlement is proposed to be mitigated by the use of the Business Rates Smoothing Reserve as the most significant pressure is the “one-off” deficit in Business Rates in 2017/18.

13.3 We have now finalised our NNDR1 Business Rates estimates for 2018/19 and they have indicated a decrease in the predicted BR Deficit for 2017/18 and also an increase in the forecast Business Rates Retained funds. This has meant that the previously assumed requirement to draw from General Reserves as reported to Scrutiny is no longer required. Additionally we now need a reduced contribution from the Smoothing Reserve.

Table 8 – Budget Gap Following Provisional Finance Settlement

	£k	£k
Budget Gap as reported to Scrutiny 16th Nov 2017		**99**

	£k	£k
Council Tax Provisional Estimates - Tax Base Reduction from assumption	11	
Council Tax Provisional Estimates - Assumed £5 tax increase	-85	
Reprofiling of SWP loan to 2020/2021	31	
Budget Setting - Salaries estimates	12	
Fees and Charges - Crematoria	-45	
Fees and Charges - Environmental Health New Charge	-2	
Fees and Charges - Court Fees	9	
Fees and Charges - Open Spaces	-3	
Effect of 2% Pay proposal	27	
Estimated Council Tax Surplus 2017/18	-65	
Estimated BR Deficit 2017/18	982	
Transfer from Business Rates Smoothing Reserve	-982	
Provisional Settlement - Additional RSDG	-5	
BR Retention - Provisional Settlement Tariff and Baseline Adjs	131	
Transfer from Business Rates Smoothing to mitigate Settlement Adjs	-31	
Additional NHB in Provisional Settlement	85	
Additional NHB transfer to Growth Reserve	-85	
Positional after Provisional Settlement announcement		**84**
Provision for potential delay in 2018/19 Transformation Savings (one-off timing difference) *see section 14.3*	459	
Support services charge to HRA - refresh	-65	
Other budget changes - refresh	-19	
Business Rates NNDR1 Adjustment	-568	
Transfer to Business Rates Smoothing Reserve	109	
BR Surplus 17/18 NNDR1 Adjustment	-45	
Transfer to Business Rates Smoothing Reserve	45	
		0

Business Rates Collection Fund Deficit

14.1 Where the total amount of business rates collected during the year varies from the budget estimates this results in a surplus or deficit balance in the Collection Fund. TDBC is liable for 40% of any balance, with the final projected deficit in 2017/18 forecast at £2.344m. The main reason for the deficit is a change in methodology applied to the provision for appeals. It will also have increased for the impact of new transitional support to reduce business rates for ratepayers following the 2017 Revaluation which was announced by Government after the 2017/18 business rates budget was set. We will be compensated for the cost of such reliefs through additional S31 Grant from Government (which sits outside of the Collection Fund). Our 40% share of the deficit is £937,440, which needs to be paid into the Collection Fund in 2018/19.

Business Rates Retention

14.2 As stated earlier in this report (see para 8.4) the business rates retention estimates for 2018/19 have decreased by around £131,000 due to the change in Tariff and Baseline announced in the Provisional Settlement. We are proposing to partly mitigate this pressure with a one-off transfer from the

Smoothing Reserve. To mitigate the future risk of retention a £250k increase to the Smoothing Reserve is proposed from 2019/20.

New Homes Bonus

14.3 As stated earlier in this report (see section 7) the NHB grant funding has increased from our previous estimates, due to significant growth but this has been partly offset by a new “top-slice” of 0.4% to the growth figures and the reduction in legacy payments to 4 years.

Fees and Charges

14.4 Fees and Charges for 2018/19 were approved by Full Council in December and this resulted in a £41k reduction in the Budget Gap.

15 2018/19 Draft Budget Summary

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

Table 11 – Draft Revenue Budget 2018/19

	Revised Budget 2017/18 £	**Estimates 2018/19 £**
Total Spending on TDBC Services	11,786,444	10,150,489
Somerset Rivers Authority Contribution	71,067	72,186
Revenue Contribution to Capital	401,500	401,500
Capital Debt Repayment Provision (MRP)	235,060	400,010
Interest Costs	0	170,420
Interest Income	-380,875	-614,000
Parish Precepts	766,134	766,134
Grants to Parishes for CTS	12,990	0
Special Expenses	44,901	45,534
Grants to Unparished Area	2,010	0
Transfers to/from Earmarked Reserves	1,868,242	2,420,395
Transfer to/from General Reserves	0	0
AUTHORITY EXPENDITURE	**14,807,473**	**13,812,668**
Retained Business Rates	-3,038,286	-3,592,545
Revenue Support Grant	-644,801	-279,788
Rural Services Delivery Grant	-22,271	-22,271
Transition	-16,864	0
New Homes Bonus	-4,034,730	-3,564,560
Surplus(-)/Deficit on Collection Fund – Council Tax	-166,957	-64,664
Surplus(-)/Deficit on Collection Fund – Business Rates	38,425	937,440
Demand on Collection Fund – Parishes and SER	-811,035	-811,668
Expenditure to be financed by Council Tax	***6,039,887***	***6,342,426***
Council Tax raised to fund SRA Contribution	***71,067***	***72,186***
Total Council Tax Raised by TDBC	**6,110,954**	**6,414,612**
Divided by Council Tax Base	40,843.2	41,486.3
Council Tax @ Band D – Taunton Deane Services	**147.88**	**152.88**
Council Tax @ Band D – Somerset Rivers Authority	**1.74**	**1.74**
Council Tax @ Band D – TDBC including SRA	**149.62**	**154.62**
Cost per week per Band D equivalent	**2.87**	**2.97**

16 Revised MTFP Position

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

Table 12 – Revised MTFP Summary as at 8 February 2018

	2017/18 £	2018/19 £	2019/20 £	2020/21 £	2021/22 £	2022/23 £
Services Costs	11,786,444	10,150,489	9,671,585	10,067,896	10,266,292	10,773,017
Net Financing Costs	255,685	357,930	351,040	327,275	306,010	304,120
SRA Contribution	71,067	72,186	0	0	0	0
Special Expenses	44,901	45,534	45,534	45,534	45,534	45,534
CTRS Grants	15,000	0	0	0	0	0
Earmarked	3,642,752	3,172,576	2,937,042	3,302,435	3,087,062	2,987,957

	2017/18 £	2018/19 £	2019/20 £	2020/21 £	2021/22 £	2022/23 £
Reserves-Growth						
Earmarked Reserves-Other	-1,774,510	-752,181	302,718	302,725	302,718	302,723
General Reserves	0	0	0	0	0	0
Net Expenditure	**14,041,339**	**13,046,534**	**13,307,919**	**14,045,865**	**14,007,616**	**14,413,351**
Retained Business Rates	-3,038,286	-3,592,545	-3,463,975	-3,531,314	-3,595,008	-3,655,133
Business Rates prior year surplus/deficit	38,425	937,440	0	0	0	0
Revenue Support Grant	-644,801	-279,788	0	0	0	0
Rural Services Delivery Grant	-22,271	-22,271	-22,271	-22,271	-22,271	-22,271
Transitional Grant	-16,864	0	0	0	0	0
New Homes Bonus	-4,034,730	-3,564,560	-3,329,020	-3,694,420	-3,479,040	-3,379,940
Council Tax–TDBC	-6,039,887	-6,342,426	-6,533,235	-6,729,758	-6,932,125	-7,140,450
Council Tax–SRA	-71,067	-72,186	0	0	0	0
Council Tax–Special Expenses	-44,901	-45,534	-45,534	-45,534	-45,534	-45,534
Council Tax prior year surplus/deficit	-166,957	-64,664	0	0	0	0
Net Funding	**14,041,339**	**13,046,534**	**13,394,035**	**14,023,297**	**14,073,978**	**14,243,328**
Budget Gap	0	0	-86,116	22,568	-66,362	170,023
Budget Gap Increase	0	0	-86,116	108,684	-88,930	236,385

Transformation of Services

16.2 The MTFP position above already includes the projected savings arising through the implementation of the Transformation Business Case, as summarised below. Without these savings the forecast budget gap would be a deficit of **£1.729m per year** by 2022/23. The savings from transformation included in the MTFP above are:

Table 13 – Transformation Savings

	2017/18	2018/19	2019/20	2020/21	2021/22
	£	£	£	£	£
Incremental Savings Delivered	164,000	611,000	690,000	14,000	14,000
Total annual savings	164,000	775,000	1,465,000	1,479,000	1,493,000

16.3 We have identified in Section 13 that the Transformation savings relating to 2017/18 and 2018/19 are expected to be delayed and we have added a pressure into the Budget Gap of £459k. We anticipate that the savings will be delivered in full in 2019/20.

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

Medium Term Forecast

16.5 The forecasts for the medium term reflect the position for Taunton Deane Borough Council on its own. It is clear that there is still a challenge in terms of finding additional savings and/or income to close the budget gap on-going. Any one-off use of reserves proposed to be applied to close the 2018/19 budget gap does not address the ongoing pressures and therefore further savings will be needed in future years.

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

17 DLO Trading Account

17.1 It has previously been decided to move the Building Maintenance section of the DLO to the Housing and Communities Directorship to align it with its main client – the Housing Revenue Account. This should provide greater transparency between the services. This came into effect from 1 April 2017 and the budget duly reflects this.

17.2 The General Fund budget includes the trading surplus of £50k providing a contribution to the net income for the Council. Any additional surplus will be transferred to the DLO Trading Reserve.

DLO Trading Account 2018/19	**Costs** £k	**Income** £k	**Net** £k
Grounds	3,373	(3,423)	(50)
Nursery	127	(127)	0
Totals	**3,500**	**(3,550)**	**(50)**

17.3 The forecast reserves position for 2018/19 remains positive, and provides some resilience to volatility in trading performance and future investment needs.

DLO Trading Account Reserves	**2017/18** £k	**2018/19** £k
Estimated Balance Brought Forward	121	121
Forecast Outturn	0	0
Estimated Balance Carried Forward	**121**	**121**

18 Deane Helpline Trading Account

18.1 The draft budget has assumed no increase in fees to private customers which is currently £5.86 per week and no increase in the charge to the HRA for

TDBC Tenants which is currently £4.86 per week. This was approved by Full Council in December.

18.2 The income budget shown below is based on a prudent projection of income due in the year, and makes an allowance for income collection risks.

18.3 The nature of the service means that staff costs are susceptible to increase in order to maintain services through unplanned staffing absences. Some provision has been included within the expenditure budget to provide for essential cover arrangements, although the service manager has reviewed staffing rota arrangements to minimise costs in this area.

18.4 The summary trading account is as follows. There are no uncommitted reserves brought forward on this account.

Deane Helpline Trading Unit Estimates	**2017/18** £k	**2018/19** £k
Direct operating Costs	964	1,088
Recharges and Capital Charges	228	144
Income	(1,051)	(1,097)
Estimated Deficit	**141**	**135**

19 General Reserves

19.1 The current reserves position is shown below. The forecast Outturn for the 2017/18 budget is currently being reviewed but recent projections predict an underspend of £318,000. Any final projected under/overspend will be adjusted through General Reserves.

	£
Balance Brought Forward 1 April 2017	2,186,155
Current Budgeted Balance	**2,186,155**
2017/18 Projected Outturn Variance	318,000
2017/18 Earmarked Reserves returned to general balances	91,649
Projected Balance 31 March 2018	**2,595,804**
Recommended Minimum Balance	1,700,000
Projected Balance above recommended minimum	895,804

19.2 A review of the level of General Reserves has recently been undertaken as per the attached Appendix B. Following this review it is recommended that the minimum balance of general reserves is increased from £1.6m to £1.7m. Given the future funding risks it is strongly advised to maintain reserves above the minimum.

20 Capital Programme

20.1 This is covered in a separate report.

21 Robustness of the Budget Process

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

Conclusion of the Robustness of the Budget and Adequacy of Reserves

21.2 Based on the evidence I have reviewed I am able to confirm that I believe the Council's draft budget proposals for 2018/19 to be sufficiently robust, and the Council's reserves to be adequate.

21.3 The budget for 2018/19 is balanced without the need to draw on general reserves. Looking ahead, the MTFP shows a budget gap rising to an estimated £170,000 by 2022/23. Key to this is achieving the planned transformation savings in full by 2019/20.

21.4 Whilst the forecast funding position beyond 2019/20 is uncertain, estimates are considered prudent at this stage. Key influences will be: the Government's next Spending Review and future funding settlements, the Fair Funding Review, the reset of the business rates baseline and tariff, and any further changes to the New Homes Bonus regime. A prudent contingency is included in the MTFP from 2019/20 onwards to cushion potential adverse of funding changes.

21.5 In forming my opinion I have considered the important decision taken by both West Somerset and Taunton Deane councils over the summer of 2016 to progress the creation of a new transformed council, and the "minded to" statement from the Secretary of State regarding the proposal to create a new council. The MTFP forecasts assume the overall annual savings target from the Transformation business case will be partly achieved during 2018/19 and achieved in full by 2019/20.

22 Links to Corporate Aims / Priorities

22.1 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.

23 Finance / Resource Implications

23.1 The Council's financial position is set out above within the body of this report. Whilst the draft budget estimates present a balanced draft budget for 2018/19 this relies to some extent on the use of reserves to mitigate the reduction in business rates funding.

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

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

24 Legal Implications

24.1 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.

25 Environmental Impact Implications

25.1 None for the purposes of this report. There have been no proposed policy changes or reductions in service budgets in order to balance the budget in 2018/19, in line with the Council's agreed financial strategy.

26 Safeguarding and/or Community Safety Implications

26.1 None for the purposes of this report.

27 Equality and Diversity Implications

27.1 None for the purposes of this report.

28 Social Value Implications

28.1 None for the purposes of this report.

29 Partnership Implications

29.1 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.

30 Health and Wellbeing Implications

30.1 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.

31 Asset Management Implications

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

32 Consultation Implications

32.1 None for the purposes of this report.

33 Scrutiny Comments / Recommendation(s)

33.1 Corporate Scrutiny Committee noted the report including the latest draft estimates for the General Fund Revenue Budget.

Democratic Path:

- **Corporate Scrutiny Committee – 25 January 2018**
- **Executive – 8 February 2018**
- **Full Council – 22 February 2018**

Reporting Frequency: **Annual**

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APPENDIX A

Robustness of Budget Estimates and Adequacy of Reserves 2018/19 – Taunton Deane Borough Council

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

1 Introduction

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

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

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

2 Background

2.1 Taunton Deane Borough Council has a good financial track record and is recognised for being of sound financial standing. Our external auditors have continued to assess the Council's current arrangements for achieving financial resilience as sound – "…the Council has demonstrated sufficient arrangements to secure the medium term financial position of the Council." *(Annual Audit Letter, October 2017)*

2.2 The Council has, like many Districts, a tough financial challenge ahead. The Council has prioritised "Growth" and directs the majority of New Homes Bonus funding to this aim rather than supporting day to day service delivery. This means the Council has to address its budget gap.

2.3 Transforming the way council services are delivered and forming a new, single council will deliver significant savings to the combined community. Savings through joint transformation have been built into the Medium Term Financial Plan (MTFP), and potential further savings through forming the new Council are identified within the Business Case. This was never envisaged to be the "entire" solution but was a significant step towards viable service delivery for the community.

2.4 For TDBC the initial MTFP presented to Members in the summer 2017 showed the Budget Gap by 2022/23 of £1.118m, taking into account the planned savings from transformation of c£1.5m for General Fund services.

2.5 The 2017 Revaluation of Rateable Values for businesses, effective from April 2017, represents a budget risk. However the impact of this together with changes including an increase in small business rates entitlement, for we are reimbursed through S31 grant, has led to an increase in our retained business rates forecasts. However, we know from past experience that business rates funding can be volatile and have included prudent provisions and contingencies to mitigate this risk.

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

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

2.8 There are key areas of uncertainty beyond 2019/20, and other potential risks in the shorter term that I have considered in commenting on the proposed budget. These are explained in further detail below and include:

- The budget and MTFP assumes relative stability in business rates funding, which is known to be volatile – a large cost of appeals or other reductions could conceivably reduce funding to the Baseline or Safety Net

- The budget relies on significant savings through transformation being delivered

- There is significant future uncertainty in terms of Government funding beyond 2018/19 with the unknown impacts of the next Spending Review, the Fair Funding Review, business rates baseline and tariff resets, and New Homes Bonus changes

2.9 Other key issues to be aware of are:

- The revenue, capital, and treasury forecasts are aligned and transparent

- The Council is exposed to financial risk in its business rates funding estimates before any Safety Net income is due, however this is mitigated in the short term through the Smoothing Reserve to provide time for plans to be developed and implemented if the reduction is ongoing.

- Looking ahead the Council needs to develop plans to address the residual gap in the updated MTFP, and build resilience to future reductions in funding that may create additional challenges. The creation of a new Council will provide further savings to those already reflected, assisting towards the ongoing financial position.

- The assessment of minimum level of reserves has been updated and it is recommended this balance is increased to £1.7m. Should the budget be approved, the General Fund Reserves are forecast to be £2.6m, leaving some headroom for unforeseen events during the coming financial year. This headroom provides resilience with the implementation of key programmes such as transformation and Deane House accommodation.

3 Robustness of Budget Estimates

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

4 Government Funding

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

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

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

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

5 Council Tax

5.1 On council tax, the Government have once again set the upper limit at a £5 annual increase for district councils on a Band D property, and have not imposed an upper limit on town/parish council precept increases. The Council is proposing a tax increase at the maximum level of £5 – a sound financial policy in light of the financial challenges ahead. The charge introduced in 2016/17 to support the Somerset Rivers Authority will continue at the same level in 2018/19.

6 Capital Programme Funding

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

6.2 The Executive's draft capital programmes for the General Fund and HRA follow the principles of the Prudential Code, and I am satisfied that the treasury implications are clear and within affordable limits.

6.3 The Council embraced the new Government policy introduced in 2016/17 which allows authorities the flexibility to use capital receipts received during a fixed time period to fund revenue spending that is transformational (i.e. brings revenue savings!). This flexibility has been extended from three years to six, up to 2021/22. In September 2016, Full Council agreed to direct future capital receipts of £1,314,000 (General Fund) to part fund the programme of transformation.

7 Inflation and Other Key Budget Assumptions

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

a) Inflation: inflation assumptions appear reasonable with general inflation projected at 2% in line with longer term government targets. An appropriate level of inflation allowance has also been reflected in the budget estimates for pay, pensions and core service contracts. Services will be required to absorb variations in costs compared to budget, and significant issues highlighted through budget monitoring reports.

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

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

d) Growth in service requirements: the MTFP identifies service growth areas such as waste collection and recycling. Detailed estimates are firmed up by discussions with managers during the budget process.

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

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

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

h) Economic assumptions: investment interest assumptions are based on independent economic forecasts and include the impact of treasury management decisions made in earlier years, as well as projected benefits from recent changes in the range of investments used for cash balances.

i) Council Tax: growth assumptions in the council tax base have been forecast at 1.6% in 2018/19 then 1.0% per year thereafter on a prudent estimate of the net effect of local growth, council tax support and other discounts. Council tax collection rates remain strong, providing confidence the income will be received as planned.

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

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

l) Sustainability: the proposed budget takes into account the future financial pressures faced by the Council. The Council can set a balanced budget for 2018/19 and the medium term challenge is deliverable.

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

8 Delivery of Savings

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

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

9 Partnership Risks & Opportunities

9.1 The Council has agreed to progress the creation of a new transformed council. The Secretary of State issued his "minded to" decision in December

2017, with a period of representation closing on 19 January 2018. At the time of writing this report we await the final decision.

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

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

10 Financial Standing of the Council

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

10.2 The Council currently has £92.198m of outstanding external debt, which is within our maximum borrowing level of £220m. This is entirely attributable to the HRA, and there are prudent repayment plans in place through the HRA Business Plan. There is also £85.5m of internal borrowing.

10.3 The Council currently has £51.4m of cash flow investments (26/01/2018). All treasury activity is placed in the markets in accordance with our policies. The levels of investment will fluctuate during the year and we continue to monitor our cash-flows carefully.

11 Track Record in Budget Management

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

Year	**Variance of Approved Net Budget**	
2013/14	-£0.964m	-6.7%
2014/15	-£0.222m	-1.7%
2015/16	-£0.280m	-2.1%
2016/17	-£0.101m	-0.7%
2017/18 Forecast	-£0.318m	-3.2%

(Negative = underspend against budget)

11.2 In the context of gross expenditure of over £91m, the above variances are reasonable.

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

12 Virement & Control Procedures

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

13 Risk Management

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

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

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

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

14 Key Risk Issues In 2018/19 Budget

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

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

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

f) Maintaining an adequate balance in the Smoothing Reserve

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

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

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

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

14.7 Subsidy budgets are very difficult to estimate due to the fluctuating volume of claims received and the different levels of subsidy payable of types of claimant error. The total benefit subsidy budget is approximately £26m – and therefore small fluctuations in this budget can have a big impact on the budget of the Council. Systems are in place to ensure this is monitored on a monthly basis. In addition, assumptions on the level of subsidy payable on local authority overpayments are at a prudent level.

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

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

14.10 Asset Management: the Council has agreed a new Asset Strategy, which has provided greater intelligence regarding the assets estate to inform investment, disposal and maintenance decisions. If all existing assets are retained maintenance works completed over the next five years will add pressure to existing budgets. The strategy provides a framework to enable the Council to consider plans for each asset, with the potential to avoid costs and mitigate this potential budget pressure.

14.11 New Homes Bonus (NHB) Forecasts and Growth Ambitions: the current housing trajectory indicates the level of NHB grant remains ‘good’ for the medium term, despite reductions in the reward due for growth that is delivered. The Growth Programme is currently projected to be fully funded through NHB but this will continue to be carefully monitored and spending plans reviewed each year in line with resources available.

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

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

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

15 Adequacy of Reserves

15.1 With the existing statutory and regulatory framework, it is my responsibility as S151 Officer to advise the Council about the adequacy of the Council’s reserves position.

15.2 All reserves are reviewed at least annually and my formal opinion updated during the budget setting process each year. The minimum level of reserves has been revised to £1.7m following an updated assessment in January 2018.

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

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

15.5 My opinion is given in the knowledge that known risks (strategic, operational and financial) are managed and mitigated appropriately in line with the Council's policies and strategies.

16 General Fund Reserve

16.1 The predicted General Fund Reserve position is set out in the main report, and remains above the minimum acceptable level. The level of reserve is therefore adequate.

16.2 As the Council progresses through significant organisational change it is appropriate to plan to maintain reserves above this minimum to provide flexibility and resilience.

17 Housing Revenue Account Reserve

17.1 The HRA working balance reserve is forecast to be £3.4m after budget approval for 2018/19. The minimum level of reserve remains at the current level of £300 per property – approximately £1.8m. The balance remains in line with business plan expectations.

18 Earmarked Reserves

18.1 At the end of 2017/18, the Council expects to have in the region of £17.0m in specific earmarked reserves. The largest earmarked reserve balances are:

General Fund

- Business Rates Smoothing Reserve £1.0m
- Transformation Reserve £1.4m
- Growth Reserve £6.0m

HRA

- Social Housing Development Fund £1.3m

19 Conclusions – Statement of the S151 Officer

19.1 Based on the evidence I have reviewed I am able to confirm that I believe the Council's draft budget proposals for 2018/19 to be sufficiently robust, and the Council's reserves to be adequate.

19.2 The budget for 2018/19 is balanced without the need to draw on general reserves. Looking ahead, the MTFP shows a budget gap rising to an estimated £170,000 by 2022/23. Key to this is achieving the planned transformation savings in full by 2019/20.

19.3 Whilst the forecast funding position beyond 2019/20 is uncertain estimates are considered prudent at this stage. Key influences will be: the Government's next Spending Review and future funding settlements, the Fair Funding Review, the reset of the business rates baseline and tariff, and any further changes to the New Homes Bonus regime. A prudent contingency is included in the MTFP from 2019/20 onwards to cushion potential adverse of funding changes.

19.4 In forming my opinion I have considered the important decision taken by both West Somerset and Taunton Deane councils over the summer of 2016 to progress the creation of a new transformed council, and the “minded to” statement from the Secretary of State regarding the proposal to create a new council. The MTFP forecasts assume the overall annual savings target from the Transformation business case will be partly achieved during 2018/19 and achieved in full by 2019/20.

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

Appendix B

Minimum Level of General Reserves

1. BACKGROUND INFORMATION

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

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

2. APPROACH AND METHODOLOGY

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

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

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

3. MITIGATING RISK – GENERAL RESERVES

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

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

- A means of building up funds to meet known or predicted requirements – via earmarked reserves (legally part of the General Fund)

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

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

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

4. QUANTIFYING THE FINANCIAL RISK

4.1 The risk-based assessment gave a range of appropriate "minimum" general reserves levels as £1.5m to £2.1m. With consideration to the challenges the Council faces from continuing reductions of Central Government funding and a need deliver its transformation savings it is prudent to recommend that the minimum reserve level be increased to £1.7m.

5. STRIKING A BALANCE QUESTIONNAIRE

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

6. NEAREST NEIGHBOUR COMPARISON

6.1 A benchmarking exercise with 15 other councils with similar attributes has been undertaken. The nearest neighbour comparison (based upon financial information as at 31 March 2017) indicates that Taunton Deane's general reserve was £2.186m which is equivalent to 21.5% of its net revenue expenditure of £10.156m. By comparison, the nearest neighbour average is £4.235m (37.5%) on net revenue expenditure of £11.291m. However Taunton

Deane's other earmarked reserves are £17.093m, equivalent to £168.3% of its net revenue expenditure. The nearest neighbour comparison is £11.721m which equates to only 103.8% of net revenue expenditure.

7. CONCLUSION AND NEXT STEPS

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

7.2 **With reference to the analysis that has been undertaken and with attention to the risks that the Council faces, a recommendation is made to increase the minimum level of reserves to £1.7m.**

Taunton Deane Borough Council

Executive – 8 February 2018

Housing Revenue Account (HRA) Budget Estimates 2018/2019

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

Report Author: Andrew Stark, Interim Financial Services Manager

1 Executive Summary

1.1 This report updates Members on the draft Housing Revenue Account (HRA) budget proposals for 2018/19.

1.2 The Housing Rent proposals for 2018/19 reflect national policy and recommend a reduction of 1% to the average weekly rent, from £82.52 per week to £81.69 per week in 2018/19.

1.3 The proposals included in this report would enable the Council to set a balanced budget for 2018/19. This includes a transfer to HRA General Reserves of £13k, which is lower than the £84k transfer from HRA General Reserves included in the Business Plan that was approved by Council in July 2016.

2 Recommendations

2.1 Executive recommends the HRA draft budget and proposed rent decrease of 1%, with proposed average rents of £81.69 per week in 2018/19, to Full Council.

3 Introduction and Background

3.1 The purpose of this report is to update and request comments from the Members on the Draft Housing Revenue Account (HRA) budget proposals for 2018/19.

3.2 In 2012 Taunton Deane moved away from a national subsidy system, which meant an annual payment from the HRA to Central Government, to be ‘self-financing’. As part of the self-financing agreement, a one-off payment of £85.12m was made to 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 £99.7m.

3.3 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 HRA Business Plan has been reviewed and updated annually since 2012, but since 2015 there have 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 2018/19 reflect the amendments approved in the Business Plan. Further details of the financial impacts of the review are included in Section 4.

3.4 The HRA faces a number of risks and uncertainties, many of which could be significant but the actual financial impact is not yet known. These are listed in Section 11.

3.5 A summary of the overall Draft HRA Budget 2018/19 is included in Appendix A.

4 Business Plan Review 2016

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

4.2 This included a number of changes which affected the base budget for 2018/19. The key amendments are summarised below.

Table 1: 2018/19 Changes in Approved Business Plan

	£k
Impact in 2018/19 of key changes within the Business Plan	
Starting position - balanced budget	0.0
Social Housing Development Fund	-15.3
Repairs and Maintenance savings	-528.4
Management savings	-672.3
Decrease in operating income	396.8
Reduction in movement in reserves	821.7
Depreciation	56.6
Other minor changes	24.9
Position in Business Plan - approved by Council in July 2016 (budgeted transfer from HRA General Reserves)	**84.0**

4.3 Further details of these changes are as follows:

a) The HRA Business Plan has previously included a fixed term increased provision for non-payment of rents because of Welfare Reform, and in particular the introduction of Universal Credit. Universal Credit was only fully introduced for new claimants in Taunton Deane in October 2016. As much of this previous provision was unused, £434k was put aside in an earmarked reserve in order to mitigate the loss of income. The Business Plan has included a new three year period of increased provision for bad debt, allowing for an increase in non-payment from 0.5% of rents to 2% for a new three year period. In 2018/19 this would be fully funded from the earmarked reserve.

b) The introduction of the Development Strategy increased the revenue provision for social housing development. The Business Plan has previously included a significant ongoing revenue contribution of £1.0m per year, but the Development Strategy instead includes an average annual addition of 15 units, estimated at £1.9m per year. These are fully funded in the Business Plan, partly from revenue and partly from Right to Buy receipts. The revenue funding in 2018/19 is included at £1.2m, with the remaining funding from capital receipts.

c) The Business Plan includes savings totalling £832k per year on repairs and maintenance. This is based on advice on savings that should be achievable for the stock held and is separate to savings identified as part of the corporate Transformation programme. This is due to be phased over five years, and the first annual saving of £166k is included from 2017/18. The ongoing savings are not fully identified in the Business Plan and this will need to be closely monitored by the Assistant Director – Operational Delivery.

d) The reduction in the movement of reserves is largely due to in a £500k provision in 2017/18 which was made in the budget to fund transformation. This provision has now been reduced to £0 for 18/19.

e) Permanent additional provision of £140k has been included in the Business Plan in line with the new objective of Supporting the Vulnerable. This is allocated as follows:
    - Mental Health Support, currently commissioned through Mind - £41k pa
    - Employment Support, currently commissioned through Inspired to Achieve - £46k pa
    - Money Matters Advice, currently commissioned through the Citizens Advice Bureau - £35k pa
    - Top up of Community Development budgets to £10k per area - £18k pa

f) The Business Plan changed the policy for the repayment of debt, with provision being made over 60 years. This equates to an annual revenue provision of £1.8m, the same as the 2017/18 budget, an increase of £814k on the provision included in 2016/17.

g) Revenue Contribution to Capital Outlay (RCCO) is reduced to £nil in 2018/19 as the capital programme can be fully funded from the Major Repairs Reserve which includes the transfer of depreciation.

h) Transfers from earmarked reserves totalling £1.0m are included in the Business Plan for 2017/18. This is due to slippage in revenue maintenance programmes such as the pre-planned maintenance contract and the electrical servicing programme, also the funding for the increased provision for bad debt.

i) Inflation of £407k is included in the Business Plan. This is the expected inflation across all expenditure including staffing costs, contracts and other expenditure.

j) A review was undertaken to increase the grounds maintenance service charge to bring it in line with the average cost of other housing associations to be able to carry out a service as requested by Tenant Services Management Board (TSMB). The increase in the service charge is £539k resulting in an increase in the service charge from 81p per household to £1.84 per household. The greatest increases in cost are as follows:

- Weed killing service provision at £78k
- Annual tree maintenance at £63k
- Additional 2 cuts of grass at 62k

This is an on-going cost for the foreseeable future. This was approved by TSMB on 25 September 2017.

5 Dwelling Rents for 2018/19

5.1 Dwelling rents for approximately 5,800 properties provides annual income of approximately £23.7m for the HRA.

5.2 The Welfare Reform and Work Act 2016 sets out a 1% reduction in social housing rents from 1st April 2016 for four years. For the first year, 2016/17, supported housing rents were exempt, but all social rents are to be included for the remaining three years.

5.3 Prior to this legislation Local Authorities had the power and duty to set their own rents. During the four year period rents must be set with at least a 1% reduction, but Members could choose to reduce rents by more than 1% if they wish. 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 of £123k per year, therefore a 1% decrease equates to £246k per year.

5.4 In line with the national rent guidance it is proposed that the average weekly rent for dwellings for 2018/19 should be set at the guideline rent of £81.69, a decrease of 1.0%, or £0.83 per week (there is a small difference due to rounding each weekly rent to the nearest penny).

5.5 It was expected from the Housing and Planning Act that from April 2017 tenants with a household income of over £31,000 would need to pay additional rent (up to market rents, based on their income) under 'Pay to Stay'. It was announced in November 2016 that this policy is no longer being implemented and social housing providers (both local authorities and housing associations) will continue to have discretion – but are not mandated – to charge a higher rent on tenants with a household income of over £60,000.

5.6 Any additional income raised from the Pay to Stay policy (less administration expenses) would have been repaid to Government and so this wouldn't have directly affected the Business Plan, however it was expected that this policy would increase

Right to Buys in the short term as the tenants who would have been affected by higher rents are likely to be those more able and willing to secure a mortgage. As this policy is no longer being implemented the assumption of Right to Buys (RTBs) has been reduced in the Business Plan from 60 per year, down to 40 for a three year period, reflecting the current level of RTBs. After this the provision for RTB returns to 30 per year. For 2018/19 this equates to expected additional income of £128k, although expected capital receipts from RTB will reduce.

5.7 Taunton Deane previously decided not to pursue increased rents for tenants earning over £60,000 per year, as the cost of administration was likely to be higher than the additional income and so no assumptions have been included in the budget.

5.8 Rent lost through void periods continue to be lower than the 2% allowed in the Business Plan. Future changes, such as the introduction of flexible tenancies, where new tenants are offered a fixed term tenancy which is renewed if appropriate (paragraph 12.7), may affect this in the future, but it is deemed appropriate to reduce the expected void rate to 1% for a two year period. This will be reviewed within future Business Plan reviews. This reduction in void rate from 2% to 1% increases the rental expectation in 2018/19 by £205k.

5.9 These changes give a total forecasted dwelling rent income of £24.1m.

5.10 On 4 October 2017 the Department for Communities and Local Government announced that “increases to social housing rents will be limited to the Consumer Price Index (CPI) plus 1% for 5 years from 2020.” Dwelling rents are forecast to increase by £237k over the current business plan to £24.3m from £24.1m.

6 Other Income

6.1 About 9.8% of HRA income, amounting to £2.6m in total, comes 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 reflect changes recommended to Council in the Fees and Charges paper.

6.2 **Garage rents**: a 3.9% increase to £6.17, an increase of £0.23 per week for tenants, representing RPI inflation at September 2017 (last year 2.0%). An increase of 7%, or £0.66 per week, to £10.00 (including VAT) for private garage tenants and second Council tenant garages.

6.3 **Charges for services and facilities**: an increase of 2.0% (last year 0.8%). Budgets for service charges have been reset in line with the current stock, and budgets added for annual service charges to leaseholders and rechargeable repairs for current and former tenants. Charges to leaseholders will continue to be based on actual costs incurred.

6.4 **Extra Care service charges**: As previously reported, Somerset County Council (SCC) has changed the way in which it procures Extra Care Housing. From April 2017 both the care and support elements were combined in one contract. Taunton Deane

Borough Council has ceased to provide the Extra Care Support, although an element of Housing Related support is still being provided with the services charges amended accordingly. This represented an increase in the housing related support element (the part which Taunton Deane will retain), which is eligible for Housing Benefit and current self-funded tenants will be protected from the increase.

6.5 A review of the sheltered housing contract we have with SCC was always due to happen post October 2018 when our current contract expires. In large measure our sheltered housing service model was changed in 2016/17 so that it is funded through housing benefit. Our sheltered housing tenants pay a weekly charge for our Sheltered Housing Officers (SHO) to provide tenant empowerment, community development and additional housing management services. The funding we currently get from SCC largely pays for SHOs to deliver housing related support to those tenants with high or higher support needs.

6.6 **Contributions towards expenditure**: contributions from the General Fund to cover a share of costs in the HRA for works on estates where people have bought their homes under Right to Buy. There are approximately 4,700 privately owned homes on HRA estates compared to around 5,800 HRA stock. Those private households pay their share of HRA estate management costs, such as grounds maintenance, through their council tax and the General Fund.

6.7 **Supporting People funding**: Somerset County Council continues to purchase Supporting People services from TDBC for sheltered housing, but not for Extra Care Housing.

7 Expenditure 2018/19

7.1 Below are brief descriptions of the main areas of spending with explanations of any significant changes to the currently approved Business Plan.-

7.2 **Management expenses**: These include the costs of the teams administering tenancies, collecting rents and arranging or planning maintenance work as well as a share of the Council's other relevant costs. The Business Plan included standard inflation assumptions.

7.3 Key changes for 2018/19 are:

a) Apprenticeship levy – the HRA share of Taunton Deane's Apprenticeship Levy is expected to be £20k.

7.4 **Maintenance**: The total cost of maintenance for 2018/19 is expected to decrease by £465k to £5.7m. This equates to spend of around £977 per property.

7.5 Key points for 2018/19 are:

a) Electrical testing will now be carried out by an in-house team, which is now in place and cost neutral to the HRA Financial Business Plan. The testing will be programmed on an ongoing basis rather than over a three year external contract and the budget has been amended accordingly. In the short term this is funded from earmarked reserves (which has built up over the last two financial years) and so the decrease in funding needed has been reflected in a reduction in transfer from the earmarked reserve.

b) The gas servicing and maintenance team was brought in-house for the 2017/18 year and will remain in house for 2018/19.

7.6 **Transformation**: The Business Plan includes savings of approximately £832k over a five year period, which is higher than the savings included in the Corporate Transformation Business Case. It is expected that these savings will primarily come from the ongoing transformation of Repairs and Maintenance, although the whole service will be affected by the transformation programme. The first annual saving of £166k has been found within maintenance budgets through the reorganisation of the service and the expectation that more work will be done in-house.

7.7 **Special Services**: Special services includes spend on communal areas, such as grounds maintenance and cleaning costs. It also includes Sheltered Housing and Extra Care schemes.

7.8 **Provision for bad debts**: The Business Plan increased the provision for bad debt to 2% (from 0.5%) for a period of three years. This is to mitigate the expected reduction in recovery of income due to the implementation of Universal Credit. In 2018/19 this is to be covered by a transfer from the bad debt earmarked reserve.

7.9 **Depreciation**: Depreciation is transferred to the Major Repairs Reserve (MRR) and must be used to fund the capital programme and/or repay debt. From 2018/19 depreciation will need to be included within the HRA accounts on a component accounting basis. This means depreciation will need to be calculated on each of the major components of each house e.g. kitchen, bathroom, rather than being based on the Major Repairs Allowance (MRA), an estimation of the works needed to maintain the stock in good condition.

7.10 Pending full calculation of the depreciation charges and agreement of the policy with our external auditors, an amount equivalent to MRA is included. A decrease of £100k is expected against the Business Plan. If, after full calculation, the charge decreases further, an equal amount would be included as Revenue Contribution to Capital Outlay (RCCO) in order to maintain the funding of the capital programme. Any increase in depreciation would need to come from general reserves in the immediate term and be factored into future revisions of the Business Plan.

7.11 **Debt Management Expenses**: bank charges and the costs of managing cash flow, borrowing and investments.

7.12 **Repayment of Borrowing and Interest**: interest and a contribution towards the repayment of the debt currently held in the HRA of £91.0m. The contribution towards the repayment of debt is £1.8m in 2018/19, in line with the Business Plan. In addition to this internal borrowing stands at £10.5m. This leaves £19.3m of borrowing headroom before the debt cap is reached.

7.13 **Interest receivable**: based on an estimated interest rate on investments.

7.14 **Social Housing Development Fund**: the revenue contribution made towards the development programme of £1.9m. In 2018/19 some of this funding will need to be replaced by capital receipts (non Right to Buy), in order to fund the HRA's contribution towards Transformation costs as approved in the Business Case. This does not affect the funding available for development, or the revenue position of the HRA.

8 Appropriations

8.1 **Revenue Contribution to Capital Outlay (RCCO)**: – RCCO pays for capital works costing more than the available funding in the Major Repairs Reserve (MRR), including the transfer from depreciation. The capital programme in 2018/19 can be fully funded from the forecasted balance in the MRR and so no budget is included for RCCO.

9 Summary of Movements in Draft 2018/19 HRA Estimates

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

Table 2: HRA Budget 2018/19 Changes

	Reference Paragraph	£k
Position in Business Plan (budgeted transfer from HRA General Reserves)		**84.0**
<u>Proposals included in this report</u>		
Service charges	4.3i/6.3/6.4	-352.2
Garages	6.2	-9.4
Leasehold Charges		-50.1
Repairs and maintenance savings	7.4	-626.4
Management savings		-185.5
Depreciation	7.9	-55.1
Increase in pension deficit contribution		45.9
Inflation costs excluding salaries		936.6
Staff 2% pay award and pay grade change		250.0
Other minor changes		-51.4
Balanced budget for 2018/19 ie net transfer to reserves		**-13.6**

10 HRA Reserves

10.1 As set out in the HRA Business Plan the recommended minimum unearmarked reserve balance for the HRA is £1.8m (approximately £300 per property). The reserve balance as at 1 April 2017 was £3.224m. There have not been any approved changes during the year from unearmarked reserves.

10.2 If the draft budget in this report is approved by Council, assuming no further changes, the balance would increase by £136k, to £3.4m. This is £1.6m over the minimum reserve balance, however this balance is expected to be used in 2018/19 and the reserve will be held at the minimum recommended balance of £1.8m.

10.3 Appendix A shows the forecasted position over the medium term based on this draft budget. This is subject to transfers to or from HRA general reserves in 2017/18, and any changes.

11 Risks and Uncertainties

11.1 The HRA faces a number of risks and uncertainties, both external to the Council and internal changes.

11.2 A number of legislative changes are being implemented, as reported in HRA Estimates 2016/17 and the HRA Business Plan Review.

11.3 Universal Credit – it is not known what impact the full roll out of Universal Credit will have on the HRA. The HRA has already taken steps to try and prevent loss of income where possible. Tenants are now able to pay through direct debits on any day of the month (rather than only three options previously) in order to allow them to make payments on the same day as their Universal Credit payment, salary, pension or other income. There are also currently additional officers working within the One Teams such as a Welfare Reform Officer and an additional Debt and Benefit Advisor in order to support tenants affected by welfare changes. However, the impact on social housing landlords in areas where Universal Credit has already been fully implemented has been significant.

11.4 Higher Value Asset Sales (Housing and Planning Act 2016) – this is the sale of vacant social housing with the proceeds being returned to Government in order to fund the extension of Right to Buy in Housing Associations.

The regulations have not yet been published, but it is expected that an amount will be payable to Government based on the value of the housing held by Taunton Deane Borough Council. However, it is expected that it will be determined locally how this funding is raised, and therefore it will not necessarily be funded through the sale of higher value housing. The financial value is not yet known.

It has been confirmed that no payment will be due in 2018/19 (letter from Sajid Javid MP, Secretary of State for Department of Communities and Local Government), therefore it is currently expected that this will commence from April 2019.

11.5 Local Housing Allowance (LHA) Rates - tenants in social housing will in future only be able to claim Housing Benefit up to the LHA rate. This is determined by the Valuation Office Agency and is based on local rents. Currently the LHA rates are only applicable for Housing Benefit claims in private rented stock. From April 2019 it has been announced that this will also apply to tenants in social housing.

In Taunton Deane this may have an impact on some of our Supported Housing residents, as the LHA rate includes service charges which are higher in Supported

Housing, and single claimants under 35, who will only be eligible for the shared accommodation rate (currently £64.14 per week). Officers will continue to consider what support can be provided to individuals affected. The majority of Taunton Deane housing is within the LHA rates for the area.

11.6 Fixed term tenancies (Housing and Planning Act 2016) – Councils will be required to review tenancies every five years rather than granting a lifetime tenancy, with extensions for tenants with a disability or school age children. This is expected to be in place for April 2018 and will impact on the way in which tenancies are managed.

11.7 The HRA also faces local risks including those within the Council.

11.8 Transformation – Savings from Transformation are included within the ongoing Business Plan (paragraph 7.6). If these savings aren't achieved the financial position of the

Business Plan will be affected.

11.9 Extra Care Housing - as reported in paragraphs 6.4 and 6.5 the Extra Care Housing service provision is being reviewed by SCC. SCC are due to award a new contract for both Care and Support. Taunton Deane will continue to provide the Support element throughout 2018/19 with the current contract with SCC expiring in October 2018.

11.10 Asbestos – significant progress has been made in implementing processes and procedures to ensure the Council meets its duties under the Control of Asbestos Regulations 2012. Detailed analysis is nearing completion which will identify the Councils short, medium and long-term financial liabilities for asbestos. The outcome will be compared with budgetary provision within the HRA Financial Business Plan and relevant earmark reserves, so as to schedule an affordable asbestos management plan.

12 HRA Borrowing

12.1 In 2012 Taunton Deane took out additional borrowing of £85.2m as part of the self-financing settlement with the Government. This brought the total borrowing in the HRA up to £99.6m at the start of self-financing, including £5.5m internal borrowing from the General Fund.

12.2 The opening balance of external borrowing currently totals £91.0m with an additional £10.5m of internal borrowing within the HRA (for approved capital schemes such as Creechbarrow Road and the Phase 1 sites). This internal borrowing is currently funded from reserves held by the HRA, but external borrowing will be required in the short term. Repayment of £3.0m will be made during 2018/19.

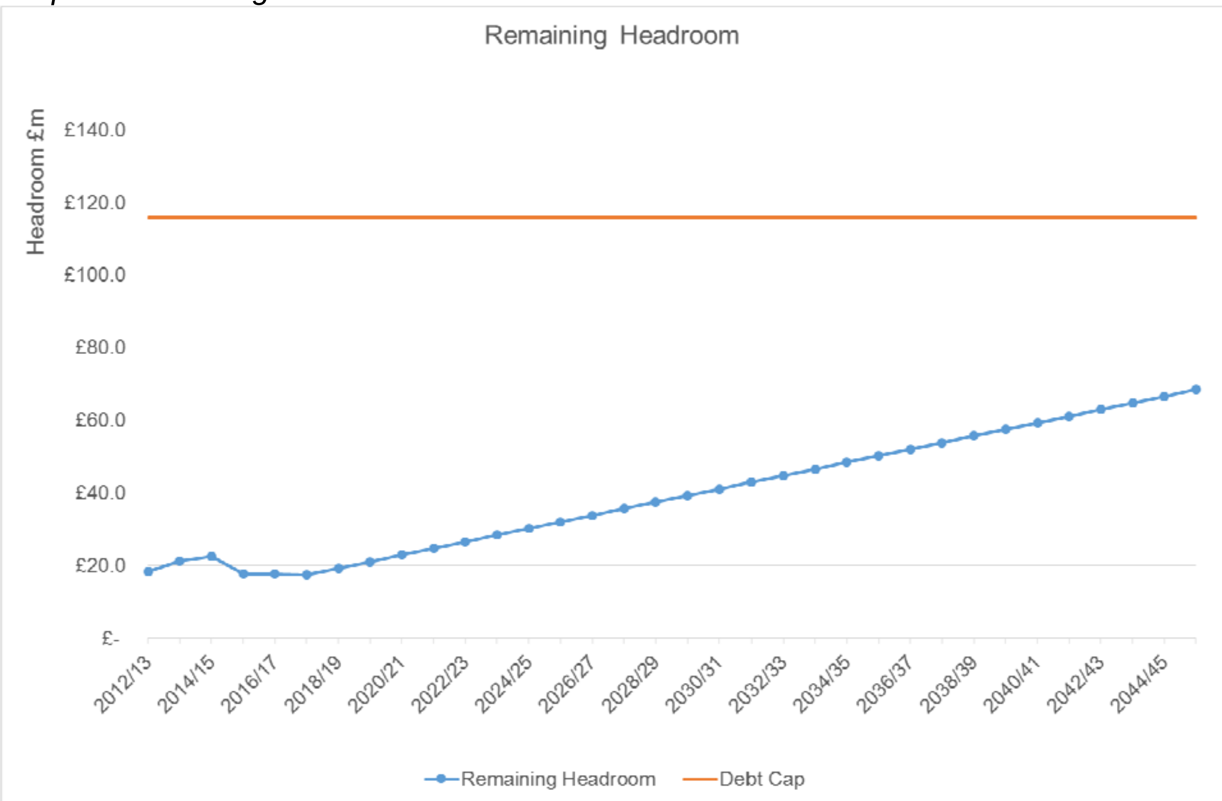
12.3 An annual provision of £1.8m for repayment of debt is included in the Business Plan, and ongoing repayments of borrowing will be made, with refinancing of loans occurring where necessary (in line with the repayment of borrowing over 60 years as approved in the Business Plan).

12.4 The headroom – the amount available to borrow up to the Government set debt cap for Taunton Deane HRA – is due to increase annually, as no additional borrowing is included within the Business Plan. Therefore the headroom is available to be allocated as new borrowing to future development schemes ie those over and above the 15 units already included in the Business Plan.

12.5 The Headroom in 2018/19 is expected to be £19.3m, and will increase annually by £1.8m (the provision made in revenue for the repayment of debt), until further borrowing is agreed by Council. The intention is for this borrowing headroom to be available for the larger regeneration schemes that can't be funded from the ongoing Social Housing Development Fund budget.

12.6 The following graph shows the current forecast for headroom over the Business Plan, but this will change as borrowing is allocated to schemes.

Graph 1: Borrowing Headroom forecast



13 Right to Buy (RTB) Receipts

13.1 In 2012 the maximum discounts offered to tenants who exercise their Right to Buy increased significantly to £77k (which rises with inflation). Taunton Deane signed up to retain the additional receipts, and agreed that these receipts would be used to fund new affordable housing. The additional RTB receipts can only account for 30% of spend on new housing, with the remaining 70% coming from other funds such as revenue funding or borrowing. The RTB receipts can’t be used in the same scheme as other Government funding such as Homes and Communities Agency (HCA) funding.

13.2 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. Receipts can be returned in the quarter in which they are received with no interest payable.

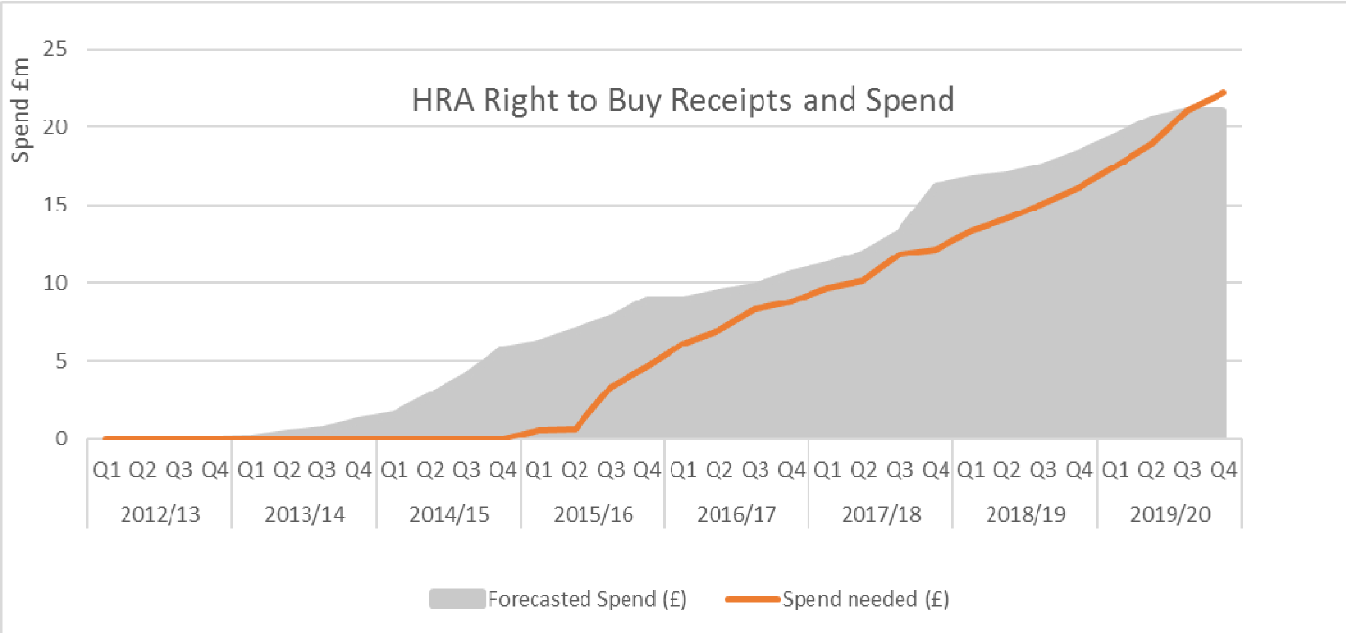
13.3 The below table shows the capital receipts received under the new RTB discount scheme, along with how much of those receipts are deemed to be ‘Additional receipts’, ie those which can be retained and used for new housing, and the total amount that would need to be spent in order to fully retain them.

Table 3: Right to Buy receipts

	Total 2012/13	**Total 2013/14**		**Total 2014/15**	**Total 2015/16**	**Total 2016/17**	**2017/18**		**Total to date**
							Q1	**Q2**	
Sales	37	47		35	38	44	10	13	224
Total Receipts (£k)	2,330.4	2,704.6		2,316.6	2,665.7	3,568.1	709.4	899.0	15,193.8
1-4-1 Receipts (£k)	1,233.7	1,230.5		1,004.9	1,192.7	1,816.7	308.8	408.6	7,195.9
Spend Required (£k)	4,112.4	4,101.5		3,349.6	3,975.6	6,055.8	1,029.2	1,362.2	23,986.2

13.4 The latest forecast shows that forecasted spend will be enough to meet the match funding requirements to quarter 3 of 2019/20. This is based only on currently approved budgets (including the ongoing provision of £1.9m), and doesn’t include any additional schemes funded through borrowing. It is possible to borrow for additional schemes, within the borrowing headroom in Section 11, but many schemes may not be able to repay the capital and interest costs from the rental income. This would create a net revenue cost to the HRA which would impact the Business Plan.

Graph 2: Right to Buy Receipts and forecasted spend



13.5 It should be noted that the new housing doesn't need to be provided by the Council. The 30% RTB funding could also be used by Housing Associations in the area, providing they meet the same match funding requirements.

13.6 Further options for the 70% match funding of RTB receipts in excess of planned development expenditure.

- Increase spend through borrowing – limited to debt cap
- Increase spend from revenue – would lead to reduced service provision as revenue is allocated within the Business Plan
- Use other Council funding
- Return funding to Government.

13.9 The requirement for the funding to be spent within three years does mean that there is flexibility to allocate funding after the capital receipts are retained. However development schemes are 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.

14 Implications

14.1 None for the purposes of this report.

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APPENDIX A
HRA Draft Budget 2018/19 and MTFP

	2017/18 Target Budget	2018/19 Draft Budget	2019/20 Forecasted Budget	2020/21 Forecasted Budget	2021/22 Forecasted Budget	2022/23 Forecasted Budget
Income						
Dwelling rents	(24,450)	(24,142)	(23,691)	(24,093)	(24,524)	(24,960)
Non dwelling rents	(617)	(628)	(641)	(653)	(666)	(678)
Service charges	(1,138)	(1,444)	(1,127)	(1,149)	(1,170)	(1,193)
Other income	(462)	(391)	(320)	(326)	(332)	(338)
Total Income	(26,667)	(26,605)	(25,779)	(26,221)	(26,692)	(27,169)
Expenditure						
Repairs and maintenance	6,193	6,134	5,662	5,365	5,109	5,140
Management	6,774	6,637	6,193	6,205	6,338	6,474
Rents and rates	373	385	386	414	429	445
Special management	1,288	1,321	1,197	1,169	1,194	1,221
Provision for bad debt	507	502	502	125	128	130
Debt Management Expenses	8	8	9	9	9	9
Depreciation	6,715	6,781	6,771	6,747	6,732	6,717
Total Expenditure	21,858	21,768	20,720	20,034	19,939	20,136
Other Expenditure						
Contribution to CDC	225	229	234	238	243	248
Revenue Contribution to Capital Outlay	-	-	-	477	677	605
Interest Payable	2,742	2,742	3,065	2,995	3,075	3,293
Investment Income	(70)	(132)	(60)	(60)	(60)	(60)
Social Housing Development Fund	1,185	1,170	1,170	1,200	1,220	1,351
Provision for repayment of debt	1,821	1,821	1,821	1,821	1,821	1,821
Transfers to/(from) earmarked reserves	(851)	(1,007)	(727)	(478)	(218)	(218)
Transfers to/(from) HRA general reserves	(243)	14	(444)	(6)	(5)	(7)
Total Other	4,809	4,837	5,059	6,187	6,753	7,033
Balanced Budget	0	0	0	0	0	0

HRA General Reserves	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
Opening Balance	3,224	2,981	2,995	2,551	2,545	2,540
Transfers to/from reserves	(243)	14	(444)	(6)	(5)	(7)
Closing Balance	2,981	2,995	2,551	2,545	2,540	2,533

AGENDA ITEM NO. 8

Taunton Deane Borough Council

Executive – 8 February 2018

Capital Programme Draft Budget Estimates 2018/2019

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

Report Author: Andrew Stark, Interim Financial Services Manager

1 Executive Summary

1.1 The purpose of this report is to provide Members with the detail of the Draft 2018/19 Capital Programme and the proposed sources of funding.

1.2 The total cost of the Draft General Fund Capital Programme for 2018/19 is £3.797m, which is proposed to be funded through a combination of revenue contribution, capital grant, S106 income, growth reserves and borrowing.

1.3 The Draft Housing Revenue Account Capital Programme contains planned investment in major works (such as replacement heating systems, windows, doors, bathrooms etc), social housing development, aids and adaptations, and other related assets and improvements.

1.4 The total cost of the Draft Housing Revenue Account Capital Programme for 2018/19 is £8.973m, which is proposed to be funded through a combination of the Major Repairs Reserve, Social Housing Development Fund and capital receipts.

2 Recommendations

2.1 Executive recommends to Full Council to approve the new capital schemes of the General Fund Capital Programme Budget of £1.327m for 2018/19, plus £2.470m in respect of the Growth and Regeneration Capital Budget in 2018/19.

2.2 Executive recommends to Full Council to approve the HRA Capital Programme of £8.973m for 2018/19.

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

3 Risk Assessment (if appropriate)

Risk Matrix

Description	Likelihood	Impact	Overall
The funding of some of the General Fund Capital Bids relies on Revenue resources which may not be available due to unforeseen pressures on revenue budgets	3	4	12
The revenue budgets are regularly monitored and alternative revenue resources are available if trading units/services fail to deliver the required surpluses.	2	4	8

Risk Scoring Matrix

Likelihood							
	5	Almost Certain	Low (5)	Medium (10)	High (15)	Very High (20)	Very High (25)
	4	Likely	Low (4)	Medium (8)	Medium (12)	High (16)	Very High (20)
	3	Possible	Low (3)	Low (6)	Medium (9)	Medium (12)	High (15)
	2	Unlikely	Low (2)	Low (4)	Low (6)	Medium (8)	Medium (10)
	1	Rare	Low (1)	Low (2)	Low (3)	Low (4)	Low (5)
			1	2	3	4	5
			Negligible	Minor	Moderate	Major	Catastrophic
			Impact				

Likelihood of risk occurring	Indicator	Description (chance of occurrence)
1. Very Unlikely	May occur in exceptional circumstances	< 10%
2. Slight	Is unlikely to, but could occur at some time	10 – 25%
3. Feasible	Fairly likely to occur at some time	25 – 50%
4. Likely	Likely to occur within the next 1-2 years, or occurs occasionally	50 – 75%
5. Very Likely	Regular occurrence (daily / weekly / monthly)	> 75%

4 2018/19 General Fund Capital Programme

4.1 The current capital strategy includes 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
5) Other

4.2 The recommended General Fund Capital Programme for 2018/19 totals £3.797m. Table 1 details bids submitted for General Fund Schemes. The tables summarise the bids that have been presented by services for consideration.

4.3 The current General Fund Capital Programme in 2017/18 includes approved projects totalling £33.320m.

Table 1: Draft 2018/19 Capital Programme

Scheme	Cost £	Rank	Proposed Funding				
			RCCO £	**Grants/ S106 £**	**Growth Reserve £**	**Borrowing £**	**Total Funding £**
DLO Schemes:							
Vehicle Replacement	152,000	2	152,000				152,000
Plant and Equipment	23,000	2	23,000				23,000
Sub-Total	**175,000**		**175,000**	**0**	**0**	**0**	**175,000**
General Schemes:							
Lifeline Equipment	28,000	1	28,000				28,000
DFGs	720,000	2	0	720,000			720,000
Leisure Grants to Clubs and Parishes	15,000	5	15,000				15,000
TDBC Replacement Play Equipment	84,711	2	20,000	64,711			84,711
Desktop Hardware Refresh	50,000	1	50,000				50,000
New/Replacement Waste Containers	100,000	2	100,000				100,000
Members IT Equipment Replacement	4,000	2	4,000				4,000
Grants to RSLs	150,000	2		150,000			150,000
Sub-Total	**1,151,711**		**217,000**	**934,711**	**0**	**0**	**1,151,711**
Growth Schemes:							
Major transport schemes	550,000	3			550,000		550,000
Town Centre regeneration	965,000	3			965,000		965,000
Employment site enabling and innovation to promote Growth	855,000	3			855,000		855,000
Marketing Promotion and Inward Investment	100,000				100,000		100,000
Sub-Total	**2,470,000**		**0**	**0**	**2,470,000**	**0**	**2,470,000**
Grand Total	**3,796,711**		**392,000**	**934,711**	**2,470,000**	**0**	**3,796,711**

Capital Schemes Explained

4.4 **DLO Vehicle Replacement £152k:** This provides the DLO with a budget for the cost of the rolling programme of vehicle replacement. This is funded from a yearly RCCO which is recovered from the DLO through capital charges.

4.5 **DLO Plant £23k:** This provides the DLO with a budget of £23k per year to replace small capital items of plant and equipment. This is funded from a yearly RCCO which is recovered from the DLO through capital charges.

4.6 **Deane Helpline £28k:** The service has just under 1800 Lifeline units installed in customer's homes. These units have a warranty of three years and on average a useful life of around 7 years before they require replacement. Some units do last longer but the average unit should be expected to remain in use for seven years. Each year we therefore need to replace 1/7th of our stock at an estimated cost of £25,000. Deane Helpline has also experienced significant growth over the last six months and additional units will be needed to maintain this growth therefore an additional £3,000 is included to fund yearly increase of 30 customers per year.

4.7 **Disabled Facility Grants (Private Sector) £720k:** The Council has a statutory duty to provide grants to enable the adaptation of homes to help meet the needs of disabled residents. The grants are means-tested and following confirmation of the grant to be received from Somerset County Council's Better Care Fund, the Council will receive £720k, providing the necessary funding to make this scheme affordable.

4.8 **Leisure Grants to Clubs and Parishes £15k:** Annual capital grant scheme for awards to voluntary village halls, community centres and sports clubs.

4.9 **Play Equipment Replacement £84k:** Annual capital scheme to replace play equipment within the Council's 104 children's playgrounds.

4.10 **Desktop Hardware £50k:** Annual PC refresh budget which plans for the entire desktop estate to be replaced on a rolling five year basis. The Windows 7 upgrade project replaced a large number of the oldest PCs.

4.11 **Waste Containers £100k:** This provides an annual budget of £100k to purchase new and replacement waste and recycling containers (bins and boxes) as part of the ongoing costs of the Somerset Waste Partnership.

4.12 **Members IT Equipment £4k:** This is an annual budget for replacement of IT equipment for members. £4k is included within the RCCO budget estimates for 2017/18 for this scheme.

4.13 **Grants to Registered Social Landlords £150k:** This scheme is ring fenced for the use of provision of new affordable housing. The funds consist of funding secured through the planning obligation process, capital receipts ring fenced for affordable housing and other capital receipts collected from developments in lieu of affordable housing on site.

4.14 **Growth Schemes:** See Section 6 below.

5 Funding the General Fund Capital Programme

5.1 Funding of capital investment by the Council can come from a variety of sources:

- Capital Receipts
- Grant Funding
- Capital Contributions (e.g. from another Local Authority / s.106 Funding)
- Revenue budgets/reserves (often referred as RCCO – Revenue Contributions to Capital Outlay)
- Borrowing

5.2 Table 1 above summarise the proposed funding of the Capital Programme for 2018/19 and they show that the proposed Capital Programme for 2018/19 is fully funded through a combination of revenue contributions (DLO and General), capital reserves plus grant funding provided via SCC.

Funding Sources Explained

5.3 **Capital Receipts General:** These come from the sale of the Council's assets. The Council also receives regular receipts from the sale of Council Houses (Right to Buys), and a proportion is retained by the General Fund.

5.4 **Capital Receipts Housing (non-HRA):** These are capital receipts received which are ring-fenced to be spent on affordable housing initiatives. The principle has been supported by Full Council that any future external funding received for affordable housing should be allocated to affordable housing projects and automatically added to the Capital Programme.

5.5 **Grant Funding:** The Council receives capital grant for Disabled Facilities Grant. The confirmed grant for 2017/18 is £660k. This funding is now rolled into the Better Care Fund (BCF) and it is the responsibility of the commissioners of the fund – the Clinical Commissioning Group (CCG) and Somerset County Council – to decide how the money is allocated. TDBC has representation on various groups to try and ensure our interests are protected.

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

5.7 **Revenue Funding (RCCO):** The Council's draft budget includes an annual sum of £401k to fund capital expenditure from General Fund revenue budgets. For 2018/19 RCCO bids total £392k, which if supported through the approval of the 2018/19 Programme would be affordable.

5.8 **Borrowing:** This would be in the form of taking out a loan either from the markets or through the PWLB which would incur interest costs chargeable to the revenue budget.

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

5.9 **Capital Reserve:** The Council has an earmarked Capital Reserve holding revenue resources previously set aside to fund capital spending. We currently hold no unallocated capital reserves.

6 Capital Programme for Growth and Regeneration 2018/19

6.1 Full Council, 15 December 2015 approved the allocation £16.6m of New Homes Bonus (NHB) funding over the five year period 2016/17 to 2020/21, to support it’s priorities relating to growth and regeneration. A number of ‘spend categories’ were approved, as follows:

- Taunton Strategic Flood Alleviation(£3m)
- Major Transport Schemes (£2.5m)
- Town Centre Regeneration (£2.5m)
- Employment site enabling and promoting enterprise and innovation (£4m)
- Marketing, promotion and inward investment (£0.5m)
- Supporting urban extension delivery (£4m)
- Preparation of Local Development Orders (£0.1m)

6.2 Full details of this allocation and the associated principles of spending were provided in the report to the Executive dated 3 December 2015.

6.3 The Executive report of 3 December highlighted the fact that the profile of spending over the five year period was indicative and would 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.

6.4 The Growth and Regeneration Capital Budget approved to date totals £3.9m. If approved this further £2.470m till bring the total approved Growth and Regeneration Capital Budget to £6.370m.

6.5 Having now carried out the above mentioned annual review, a refreshed annual profile of spending on growth is proposed in the table below.

Indicative Growth and Regeneration Spend Profile:

New Homes Bonus Forecast as at 30 November 2017						
2017 Revised Spending profile	2016/17 £k	2017/18 £k	2018/19 £k	2019/20 £k	2020/21 £k	Totals £k
Taunton Strategic Flood Alleviation				1,000	4,000	**5,000**
Major transport schemes	400	50	1,500	2,000	0	**3,950**
Town Centre regeneration	200	1,215	1,050	400	185	**3,050**
Employment site enabling and innovation to promote Growth		55	1,700	1,245	500	**3,500**
New Garden Communities		0	100	200	200	**500**

Marketing Promotion and Inward Investment	100	100	100	100	100	**500**
Preparation of LDO's	50	50				**100**
Total expected investment	**750**	**1,470**	**4,450**	**4,945**	**4,985**	**16,600**

6.6 Members will note from the above table that the spending categories remain as originally approved and that no change is proposed to the overall allocation of £16.6m over the period 2016/17 to 2020/21.

6.7 Within the overall £16.6m allocation, members will note that changes to the original profile) are now proposed in some categories, namely:

- **Taunton Strategic Flood Alleviation -** The allocation towards the Flood Alleviation project has been increased in line with the Councils commitment to flood relief, by reallocation from the Urban Extension project.
- **Major Transport Schemes** – overall allocation increased from £3.5m to £3.9m mainly due to the Access & Signage project to provide the Variable Messaging System and Pay on Foot system.
- **Town Centre Regeneration** - overall allocation increased from £2.5m to £3.5m to enable the delivery of major Town Centre schemes, such as Firepool and Coal Orchard.
- **Employment sites, enterprise and innovation** – reduction to overall allocation to £3.5m due to a reduction in the J25 Nexus allocation
- **Supporting Urban Extension delivery** – overall allocation reduced from £2m to £0m due to reallocation to the Strategic Flood Alleviation project in 2020/21.

6.8 Subject to business case, the Council could also consider the use of prudential borrowing to provide additional capital resources.

7 2018/19 Draft Housing Revenue Account Capital Programme

7.1 The proposed Draft HRA Capital Programme 2018/19 totals £8.97m. This is provided to deliver the prioritised capital investment requirements included in the current Business Plan for the next budget year. The current 5-Year HRA Capital Programme is shown below, which includes forecast capital expenditure requirements for the period 2018/19 to 2022/23, as identified in the Business Plan**.**

7.2 This report does not include schemes that have been previously approved where the spending is planned to be incurred in 2018/19.

Table 3: Draft HRA Capital Programme 2018/19

Project	**Total Cost £k**
Major Works	5,800
Improvements	150
Exceptional Extensive Works	492
Disabled Facilities Grants and Aids and Adaptations	381
Building Services Vehicles	121
Social Housing Development Fund	2,029
Total Proposed HRA Capital Programme 2018/19	**8,973**

7.3 Members are being asked to approve the Capital Maintenance and Improvement Works Programme budget for 2018/19 at £8.973m.

7.4 It is proposed that the HRA capital programme for 2018/19 shown above is funded from the Major Repairs Reserve (from depreciation), revenue contribution (RCCO) from the Social Housing Development Fund, and capital receipts (Right to Buy).

7.5 A summary of the estimated funding available before the funding of the 2017/18 capital programme is shown in the table below:

Table 4: Funding Estimates

General Fund	**2018/19 £k**
Major Repairs Reserve	6,944
Social Housing Development Fund (RCCO)	1,170
Capital Receipts	859
TOTAL Funding	**8,973**

Major Works

7.6 This line in the capital programme covers a number of areas of spend. The Council is required to maintain decent homes standards ensuring items are replaced as and when needed.

7.7 The detail used to make up the budget is shown in the table below and this is what the budget line is expected to be spent on. This is subject to change depending on factors such as contractor availability, and any changes to the profile of spend will be agreed with the Director for the service.

Table 5: Major Works

Project	**Total Cost £**
Bathrooms	1,400
Heating Systems	1,400
Fire Safety Work	1,000
Fasciae and Soffits	1,200
Insulation	800
Total	**5,800**

7.8 Major Works includes the following:

- Bathrooms: This is for the replacement of bathrooms as and when required.
- Heating Systems: The replacement and upgrade of boilers and heating systems.
- Fasciae, Soffits and Rainwater Goods: This is for replacement where necessary.
- Fire Safety Works: This is to fund works identified on the TDBC action plan following the fire in a block of flats. The action plan was accepted by the Fire Service.

- Insulation: The upgrade of insulation, for example cavity wall and loft insulation in dwellings.

Improvements

7.9 A budget of £150k for estate improvements is included in the HRA capital programme, as identified in the Business Plan.

Exceptional/Extensive Works

7.10 This project is for works such as asbestos removal and subsidence works to the Council's non-traditional properties. A budget of £492k is included in the 2018/19 programme for asbestos removal.

Disabled Facilities and Aids and Adaptations

7.11 This is an annual recurring budget for small and large scale home aids and adaptations in tenants' homes where there are mobility issues. This budget is demand led by requests from tenants or through recommendations by occupational therapists or other healthcare professionals. Applications are made through the Somerset West Private Sector Housing Partnership.

7.12 The demand for adaptations has been historically lower than budget and provision was made in the Business Plan for a phased reduction from £435k to £300k over a five year period. This will be done line with a number of steps being taken, such as moving towards more cost effective installations of wet floor shower rooms through a new fixed price contract; switching from concrete ramps to better value metal modular ramps; and a move toward stairlift loans and recycling, rather than purchases. These measures will ensure that the service stays within reduced budgets without impacting tenants.

Building Services Vehicles

7.13 The transfer of Building Services from the DLO to the HRA means that the HRA will need to hold a budget for any new/replacement vehicles needed. This will be funded from depreciation within Building Services, which has previously been included within the hourly rate to the HRA, and so does not increase the net cost to the HRA.

Social Housing Development Fund

7.14 The budget for the Social Housing Development Fund is for new development/redevelopment of housing. This budget represents an ongoing programme averaging 15 units a year. For 2018/19 this is increased to £2.03m.

Draft HRA 5-Year Capital Programme

7.15 The current 5-year capital programme is included for information and is shown in the table below.

Table 7: Draft HRA 5-Year Capital Programme

	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m	5-Year Total £m
Capital Programme	8.973	9.616	9.748	7.665	7.769	43.771

8 Links to Corporate Aims / Priorities

8.1 The budget proposals for 2018/19 have been prepared with consideration to links with the Corporate Aims.

9 Finance / Resource Implications

9.1 As set out above.

10 Legal Implications

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

11 Environmental Impact Implications

11.1 Environmental implications have been considered in arriving at the draft budget proposals for 2018/19.

12 Safeguarding and/or Community Safety Implications

12.1 Environmental and community safety implications have been considered in arriving at the draft budget proposals for 2018/19.

13 Equality and Diversity Implications

13.1 Equalities impacts have been considered regarding the Capital Programmes for the General Fund and HRA. No Equality Impact Assessments are required for the attached savings in the General Fund. An assessment in relation to Disabled Facilities Grants budget was included with the Budget Report in 16/17 and we have continued with the approved policy and the budget for 17/18 is materially the same. Therefore, an Equalities Impact Assessment has not been included with this report.

14 Social Value Implications

14.1 Procurement arrangements in respect of specific projects will be considered through the implementation of approved schemes, in line with the Council's procurement strategy.

15 Partnership Implications

15.1 The private sector housing capital budget is managed on behalf of TDBC by the

Somerset West Private Sector Housing Partnership (SWPSHP).

16 Health and Wellbeing Implications

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

17 Asset Management Implications (if any)

17.1 The Capital Programme includes proposals to address asset management priorities.

18 Consultation Implications

18.1 None for the purpose of this report.

19 Scrutiny Comments / Recommendation(s)

19.1 Corporate Scrutiny Committee noted the report and supported the recommendations to Executive and Full Council to approve the General Fund and HRA capital programmes.

Democratic Path:

- **Corporate Scrutiny – Yes**
- **Executive – Yes**
- **Full Council – Yes**

Reporting Frequency: Annually

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Executive Forward Plan

08/02/2018, Report:General Fund Revenue Budget 2018/ 2019

08/02/2018, Report:Housing Revenue Account Budget 2018/2019

08/02/2018, Report:Treasury Management Strategy 2018/

19/03/2018, Report:Transitioning to a New Council
Reporting Officers:Penny James,Shirlene Adam

05/07/2018, Report:Quarter 4 Performance Monitoring Report
Reporting Officers:Richard Doyle

05/07/2018, Report:Finance Outturn Report
Reporting Officers:Paul Carter

06/09/2018, Report:Taunton Transport Strategy
Reporting Officers:Dan Webb

06/09/2018, Report:Electric Vehicle Charging Points
Reporting Officers:Chris Hall

28/11/2018, Report:North Taunton Woolaway Project Proposal
Reporting Officers:Jo Humble

Executive – 8 February 2018

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

Officers: Paul Fitzgerald (Section 151 Officer), Paul Carter (Assistant Director – Corporate Services), Andrew Stark (Interim Financial Services Manager), Tim Burton (Assistant Director – Planning and Environment), Joanne O'Hara (Wellington Heritage at Risk Project Manager) and Richard Bryant (Democratic Services Manager)

Also present: Councillor Coles

(The meeting commenced at 6.30 p.m.)

6. **Minutes**

The minutes of the meeting of the Executive held on 11 January 2018, copies of which had been circulated, were taken as read and were signed.

7. **Public Question Time**

Alan Debenham asked the following questions:-

(1) Yet again we see the Government continuing with its ideologically imposed austerity programme of cuts upon cuts against Local Government via further systematic withdrawal of the Revenue Support Grant. What had the Executive done, or was doing, or would do, to fight back against this 'slaughter' and defend our services which we had elected them to defend as our Councillors?

In response, Councillor Williams acknowledged the demands for an end to austerity. However, what people did not fully recognise is the scale of the debt inherited by the present Government. The interest payments on this debt would pay the annual cost of the Armed Forces and the Education Service!

Providing more money rather than seeking efficiencies could only be achieved through even more borrowing. The drive to cut this Council's costs over the past five years had been a necessary part of trying to regularise the Balance of Payments. We would be a lot poorer without such action being taken.

Councillor Williams was proud that Taunton Deane had delivered efficiency savings without having to reduce front line services. This is the message that needed to be spread more widely and the fact that the Council had to live within its means.

(2) How was it the proposed Taunton Deane Council Tax demand was going to

be increased yet again above inflation, simultaneous with still bringing in massive further cuts with these being mitigated and hidden by the use of reserves and described in 'Transformation' generalisation rather than specific detail, for example showing the number of posts/services to be reduced?

Councillor Williams stated that Council Tax would have to rise simply because the Council had been going through quite a tight time financially in recent years but still wanted to maintain the services it currently delivered.

He acknowledged that the point was being reached where further efficiencies would not be possible in Taunton Deane alone. Hence the proposal to form a new Council with West Somerset which would bring savings of £3,100,000 per annum.

It was telling that no other suggestions to survive into the future had been forthcoming.

(3) The Housing Revenue Account Budget report describes a move away from non-existent national subsidy to self-financing via the payment of some £85,000,000 of borrowed money to the Government in the hope of Council freedom to run its own housing affairs. Why has the Council allowed this to become such a disastrous financial and political move with its obedience to all the recent Government policy whims?

Councillor Williams reported that the decision to become self-financing meant the Council was largely in control of its destiny, could provide a better quality of housing stock and would deliver savings overall.

Councillor Beale, added that self-financing had allowed approximately 200 affordable homes to be built each year since 2012. He added that the Council had no control over Government Policy – the rent decrease had not been wanted.

Nevertheless, the Council continued to look after the interests of its 5,800 tenants and, overall, the Council was better off than the previous negative subsidy system.

Councillor Mrs Warmington was of the view that self-financing had provided the opportunity to tackle a number of underlying issues with other agencies through the 'One Teams' which had generally improved conditions within the Council's housing areas.

8. **Declaration of Interests**

Councillors Mrs Stock-Williams and Mrs Warmington declared personal interests as Members of Wellington Town Council and Bishops Lydeard and Cothelstone Parish Council respectively.

9. **Draft Treasury Management Strategy Statement, Annual Investment Strategy and Minimum Revenue Provision Policy 2018/2019**

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 held £85,500,000 of loans, which related solely to the Housing Revenue Account (HRA). This sum had increased significantly in March 2012 when the Council took on £82,000,000 of loans through the introduction of HRA Self Financing and the abolition of the old Housing Subsidy system.

General Fund borrowing might therefore be required in 2018/2019 to support new projects which had been approved in 2018/2019 although the TMSS had suggested that this might be covered initially from internal funds.

Also noted that the Council's investment balances had ranged between £34,400,000 and £55,400,000. This was expected to reduce in 2016/2017 as more of the Capital Programme was delivered.

The Council's Treasury Management Advisor, Arlingclose, had advised that its central case was for the UK Bank Rtae to remain at 0.5% during 2018/2019.

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 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 2018/2019 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.

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.

10. **Draft General Fund Revenue Budget Estimates 2018/2019**

Considered report previously circulated, which set out the final 2018/2019 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 2018/2019 Budget had been prepared within the context of priorities identified by Members which were embedded in the Council’s current Corporate Plan.

The budget contained details on:-

(i) the General Fund Revenue Budget proposals for 2018/2019, 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 25 January 2018. The proposals had been noted.

Details of the Provisional “Settlement Funding Assessment” for 2018/2019 had been announced by the Department of Communities and Local Government during December 2017. Noted that the Final “Settlement Funding Assessment” had also been announced with the main difference being an increase of £5,040 to the Rural Delivery Grant.

Alongside the Finance Settlement, the Government had confirmed that it was looking to implement the Fair Funding Review in April 2020 and had published the consultation: Fair funding review: a review of relative needs and resources which focussed specifically on potential approaches that had been identified to measure the relative needs of local authorities.

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

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 2018/2019 as shown below – a 56% reduction in General Revenue Grant funding:-

General Government Grant

	2017/18 £	2018/19 £	Change £	
Revenue Support Grant (RSG)	644,801	279,788	-365,013	-48%
Rural Services Delivery Grant (RSDG)	22,271	22,271	0	0%
Transition Grant	16,864	0	-16,864	-100%
Total General Revenue Grant Funding	**683,936**	**302,059**	**-381,877**	**-56%**

The multi-year settlement included further reductions in subsequent years. The following table summarised how these grants were projected to reduce since 2013/2014. During this period the settlement had reduced by 55% in cash terms (estimated 61% in real terms).

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	22	22
Transition Grant	0	0	0	17	17	0	0
BR Baseline	2,366	2,412	2,458	2,478	2,529	2,605	2,665
Govt Settlement	**5,922**	**5,178**	**4,374**	**3,758**	**3,213**	**2,907**	**2,687**

Reported that following an invitation from Central Government a bid to become a 100% Business Rates (BR) Retention Pilot, had been submitted in conjunction with Somerset County Council and our other Somerset district partners. This revised scheme referred solely to the retention of the whole of the growth element of BR, 50% of which historically had gone to Government.

Unfortunately, despite putting forward a strong case, the bid had been unsuccessful. The Council was however given approval to form a Pool under the existing 50% Retention system and the BR forecasts were currently being looked at alongside our partners to establish how much this could deliver in terms of additional funds. From initial computations this was forecast to be in the region of up to £100,000 but this needed to be confirmed.

There was confidence that the potential gains far outweighed the risk of being in a pool, but prudently the Council had not factored any gain into the budget at this stage as it remained uncertain.

Noted that the Provisional Settlement announcement by the Government had incorporated adjustments to both the baseline and tariff methodology which had led to a reduction of £131,000 in the BR retained by the Council compared to previous estimates.

Further reported that the New Homes Bonus (NHB) incentivised and rewarded housing growth. The Council only used £392,000 of its NHB allocations each year to help fund the revenue budget. The remaining grant was allocated to the Growth Earmarked reserve.

The provisional NHB Grant for 2018/2019 was £3,564,556, which was £470,176 or 12% less than 2017/2018 but £85,213 more than the December estimate.

The Government had not changed the NHB methodology this year with a "top-slice" of 0.4% of growth. In addition to the top-slice confirmation had been received that the rolling up of grants had reduced to four years from 2018/2019. Previous Medium Term Financial Plan (MTFP) forecasts had been prepared on this basis.

The impact of this new growth baseline was significant. Housing growth of 196.7 Band D equivalents had not been rewarded in 2018/2019 resulting in a loss of funding of approximately £250,289.

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 3.33% of the basic Council Tax element (£5 on a Band D) for 2018/2019 which would mean that the Band D Council Tax would rise to £154.62 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 2018/2019 at a cost of £2.97 per week.

The previous MTFP estimates assumed no increase in the Special Expenses Rate (SER) in 2018/2019. The Executive was however minded to increase the Special Expenses (Unparished Area) precept by 2p on a Band D property, raising an additional £302 whilst still remaining within the £5 Band D referendum trigger level.

The Special Expenses income raised through Council Tax in 2017/2018 had been £44,901 which was a Band D Equivalent charge per year of £3.00. In addition, the Unparished Area Budget had received a Council Tax Support (CTS) Grant giving a total budget of £45,534. Noted that the CTS Grant had now been phased out.

The proposed budget for 2018/2019 was therefore £45,534 entirely funded through Special Expenses levied within the Unparished Area.

The 2018/2019 Budget Gap as presented to the Corporate Scrutiny Committee on 16 November 2016 was £99,000. The Provisional Settlement and some other material changes to budget estimates had significantly increased the Gap. The impact of the of the Provisional Settlement was proposed to be mitigated by the use of the BR Smoothing Reserve as the most significant pressure was the "one-off" deficit in Business Rates in 2017/2018.

The NNDR1 BR estimates for 2018/2019 had been finalised and they had indicated a decrease in the predicted BR Deficit for 2017/2018 and also an increase in the forecast BR Retained funds. This had meant that the previously assumed requirement to draw from General Reserves was no longer required. Additionally, the Council now needed a reduced contribution from the Smoothing Reserve. The gap had therefore now been closed.

The following table provided a summary of the Budget position for 2018/2019:-

Draft Revenue Budget 2018/2019

	Revised Budget 2017/18 £	**Estimates 2018/19 £**
Total Spending on TDBC Services	11,786,444	10,150,489
Somerset Rivers Authority Contribution	71,067	72,186
Revenue Contribution to Capital	401,500	401,500
Capital Debt Repayment Provision (MRP)	235,060	400,010
Interest Costs	0	170,420
Interest Income	-380,875	-614,000
Parish Precepts	766,134	766,134
Grants to Parishes for CTS	12,990	0
Special Expenses	44,901	45,534
Grants to Unparished Area	2,010	0
Transfers to/from Earmarked Reserves	1,868,242	2,420,395
Transfer to/from General Reserves	0	0
AUTHORITY EXPENDITURE	**14,807,473**	**13,812,668**
Retained Business Rates	-3,038,286	-3,592,545
Revenue Support Grant	-644,801	-279,788
Rural Services Delivery Grant	-22,271	-22,271
Transition	-16,864	0
New Homes Bonus	-4,034,730	-3,564,560
Surplus(-)/Deficit on Collection Fund – Council Tax	-166,957	-64,664
Surplus(-)/Deficit on Collection Fund – Business Rates	38,425	937,440
Demand on Collection Fund – Parishes and SER	-811,035	-811,668
Expenditure to be financed by Council Tax	***6,039,887***	***6,342,426***
Council Tax raised to fund SRA Contribution	***71,067***	***72,186***
Total Council Tax Raised by TDBC	**6,110,954**	**6,414,612**
Divided by Council Tax Base	40,843.2	41,486.3
Council Tax @ Band D – Taunton Deane Services	**147.88**	**152.88**
Council Tax @ Band D – Somerset Rivers Authority	**1.74**	**1.74**
Council Tax @ Band D – TDBC including SRA	**149.62**	**154.62**
Cost per week per Band D equivalent	**2.87**	**2.97**

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 2018/2019 and beyond and a summary of this position was reflected in the following table:-

Revised MTFP Summary as at 8 February 2018

	2017/18 £	2018/19 £	2019/20 £	2020/21 £	2021/22 £	2022/23 £
Services Costs	11,786,444	10,150,489	9,671,585	10,067,896	10,266,292	10,773,017
Net Financing Costs	255,685	357,930	351,040	327,275	306,010	304,120
SRA Contribution	71,067	72,186	0	0	0	0
Special Expenses	44,901	45,534	45,534	45,534	45,534	45,534
CTRS Grants	15,000	0	0	0	0	0
Earmarked	3,642,752	3,172,576	2,937,042	3,302,435	3,087,062	2,987,957

	2017/18 £	2018/19 £	2019/20 £	2020/21 £	2021/22 £	2022/23 £
Reserves-Growth						
Earmarked Reserves-Other	-1,774,510	-752,181	302,718	302,725	302,718	302,723
General Reserves	0	0	0	0	0	0
Net Expenditure	**14,041,339**	**13,046,534**	**13,307,919**	**14,045,865**	**14,007,616**	**14,413,351**
Retained Business Rates	-3,038,286	-3,592,545	-3,463,975	-3,531,314	-3,595,008	-3,655,133
Business Rates prior year surplus/deficit	38,425	937,440	0	0	0	0
Revenue Support Grant	-644,801	-279,788	0	0	0	0
Rural Services Delivery Grant	-22,271	-22,271	-22,271	-22,271	-22,271	-22,271
Transitional Grant	-16,864	0	0	0	0	0
New Homes Bonus	-4,034,730	-3,564,560	-3,329,020	-3,694,420	-3,479,040	-3,379,940
Council Tax–TDBC	-6,039,887	-6,342,426	-6,533,235	-6,729,758	-6,932,125	-7,140,450
Council Tax–SRA	-71,067	-72,186	0	0	0	0
Council Tax–Special Expenses	-44,901	-45,534	-45,534	-45,534	-45,534	-45,534
Council Tax prior year surplus/deficit	-166,957	-64,664	0	0	0	0
Net Funding	**14,041,339**	**13,046,534**	**13,394,035**	**14,023,297**	**14,073,978**	**14,243,328**
Budget Gap	0	0	-86,116	22,568	-66,362	170,023
Budget Gap Increase	0	0	-86,116	108,684	-88,930	236,385

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 a deficit of £1,729,000 per year by 2022/2023.

Noted that the Transformation savings relating to 2017/2018 and 2018/2019 were expected to be delayed and a pressure of £459,000 had therefore been added into the Budget Gap. It was anticipated that the Transformation savings would be delivered in full in 2019/2020.

These figures did not include the further savings that were identified in the Business Case that would be delivered through the creation of a new Council.

The General Fund budget included the trading surplus of £50,000 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 2018/2019 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 no increase in fees to private customers which was currently £5.86 per week and no increase in the charge to the Housing Revenue Account (HRA) for Taunton Deane Tenants which was currently £4.86 per week. This had been approved by Full Council in December 2017.

Reported the current reserves position which was shown below. The forecast Outturn for the 2017/2018 budget was currently being reviewed but recent projections predicted an underspend of £318,000. Any final projected under/overspend would be adjusted through General Reserves.

	£
Balance Brought Forward 1 April 2017	2,186,155
Current Budgeted Balance	**2,186,155**
2017/18 Projected Outturn Variance	318,000
2017/18 Earmarked Reserves returned to general balances	91,649
Projected Balance 31 March 2018	**2,595,804**
Recommended Minimum Balance	1,700,000
Projected Balance above recommended minimum	895,804

A review of the level of General Reserves had recently been undertaken and it was recommended that the minimum balance of General Reserves was increased from £1,600,000 to £1,700,000. Given the future funding risks it was strongly advised to maintain reserves above the minimum.

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 his response, Paul Fitzgerald had stated that he believed the Council's reserves to be adequate and the budget estimates used in preparing the 2018/2019 budget to be robust.

Resolved that the General Fund Revenue Budget for 2018/2019 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 2018/2019 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 3.33%, increasing the Band D tax rate by £5 to £154.62 per year. This comprised £152.88 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 £3.00 to £3.02; and

(e) Approve the minimum General Reserves level at £1,700,000

10. **Housing Revenue Account Budget Estimates 2018/2019**

Considered report previously circulated, concerning the proposed Housing Revenue Account (HRA) estimates for the 2018/2019 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 2018/2019 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 2018/2019. The key amendments were summarised below:-

2018/2019 Changes in Approved Business Plan

	£k
Impact in 2018/2019 of key changes within the Business Plan	
Starting position - balanced budget	0.0
Social Housing Development Fund	-15.3
Repairs and Maintenance savings	-528.4
Management savings	-672.3
Decrease in operating income	396.8
Reduction in movement in reserves	821.7
Depreciation	56.6
Other minor changes	24.9
Position in Business Plan - approved by Council in July 2016 (budgeted transfer from HRA General Reserves)	**84.0**

Full details of these changes were detailed in the report.

Dwelling rents for approximately 5,800 properties provided annual income of approximately £23,700,000 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 2018/2019 should be set at the guideline rent of £81.69, a decrease of 1.0%, or £0.83 per week.

It had been expected from the Housing and Planning Act that from April 2017 tenants with a household income of over £31,000 would need to pay additional rent under ‘Pay to Stay’. However, it was announced in November 2016 that this policy would no longer be implemented and social housing providers would continue to have discretion to charge a higher rent on tenants with a household income of over £60,000.

Any additional income raised from the Pay to Stay policy would have been repaid to the Government and so this would not have directly affected the Business Plan. However it was expected that this policy would increase Right to Buys in the short term as the tenants who would have been affected by higher rents would have been likely to be those more able and willing to secure a mortgage.

As this policy was no longer being implemented the assumption of Right to Buys (RTBs) had been reduced in the Business Plan to reflect the current level. Noted that for 2018/2019 this equated to expected additional income of £128,000, 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. Future changes, such as the introduction of flexible tenancies, where new tenants were offered a fixed term tenancy which was renewed if appropriate might affect this in the future, but it was deemed appropriate to reduce the expected void rate to 1% for a two year period. This would be reviewed within future Business Plan reviews. This reduction in void rate from 2% to 1% would increase the rental expectation in 2018/2019 by £205,000.

These changes give a total forecasted dwelling rent income of £24,100,000.

Further reported that in October 2017 the Department for Communities and Local Government announced that “increases to social housing rents would be limited to the Consumer Price Index (CPI) plus 1% for five years from 2020.” Dwelling rents were therefore forecast to increase by £237,000 over the current Business Plan to £24,300,000.

About 9.8% of HRA income, amounting to £2,600,000 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 12 December 2017.

The main areas of spending planned for the 2018/2019 financial year included:-

- Management expenses;
- Maintenance;
- Transformation;
- 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 2018/2019 Changes

	£k
Position in Business Plan **(budgeted transfer from HRA General Reserves)**	**84.0**
Proposals included in thE report	
Service charges	-352.2
Garages	-9.4
Leasehold Charges	-50.1
Repairs and maintenance savings	-626.4
Management savings	-185.5
Depreciation	-55.1
Increase in pension deficit contribution	45.9
Inflation costs excluding salaries	936.6
Staff 2% pay award and pay grade change	250.0
Other minor changes	-51.4
Balanced budget for 2018/19 ie net transfer to reserves	**-13.6**

The HRA Business Plan recommended that the minimum unearmarked reserve balance for the HRA should be £1,800,000. If the HRA budget was approved by Council, the balance would increase by £136,000, to £3,400,000.

Further reported that the HRA faced a number of risks and uncertainties, both external to the Council and internal changes.

A number of legislative changes were being implemented, as follows:-

Universal Credit – It was not known what impact the full roll out of Universal Credit would have on the HRA although steps had already been taken to try and prevent loss of income where possible. These were set out in the report.

Higher Value Asset Sales (Housing and Planning Act 2016) – This was the sale of vacant social housing with some of the proceeds being returned to the Government in order to fund the extension of Right to Buy in Housing Associations.

The regulations had not yet been published, but it was expected that an amount would be payable to the Government based on the value of the housing held by the Council. It was currently expected that this would commence from April 2019.

Local Housing Allowance (LHA) Rates - Tenants in social housing would in future only be able to claim Housing Benefit up to the LHA rate. Currently the LHA rates were only applicable for Housing Benefit claims in private rented stock. From April 2019, this would also apply to tenants in social housing. This might have an impact on some of our Supported Housing residents, but the majority of Taunton Deane housing was within the LHA rates for the area.

Fixed term tenancies (Housing and Planning Act 2016) – Councils would be required to review tenancies every five years rather than granting a lifetime tenancy, with extensions for tenants with a disability or school age children. This was expected to be in place for April 2018 and would impact on the way in which tenancies are managed.

The HRA also faced a number local risks including Transformation, Extra Care Housing and Asbestos, details of which were provided.

HRA Borrowing

In 2012 Taunton Deane took out additional borrowing of £85,200,000 as part of the self-financing settlement with the Government. This brought the total borrowing in the HRA up to £99,600,000 at the start of self-financing, including £5,500,000 internal borrowing from the General Fund.

The opening balance of external borrowing currently totalled £91,000,000 with an additional £10,500,000 of internal borrowing within the HRA (for approved capital schemes such as Creechbarrow Road, Taunton). This internal borrowing was currently funded from reserves held by the HRA, but external borrowing would be required in the short term. Repayment of £3,000,000 would be made during 2018/2019.

An annual provision of £1,800,000 for repayment of debt was included in the Business Plan, and ongoing repayments of borrowing would be made.

The headroom was due to increase annually, as no additional borrowing was included within the Business Plan. In 2018/2019 this was expected to be £19,300,000, and would increase annually by £1,800,000 until further borrowing was agreed by the Council. The intention was for this borrowing headroom to be available for the larger regeneration schemes that could not be funded from the Social Housing Development Fund budget.

Right to Buy (RTB) Receipts

In 2012 the maximum discounts offered to tenants who exercised their Right to Buy increased significantly to £77,000. Taunton Deane had signed up to retain the additional receipts, and 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 RTB receipts could not be used in the same scheme as other Government funding such as Homes and Communities Agency (HCA) funding.

The full spend on new housing had to be spent within three years of the capital receipt, or the RTB receipt had to be returned to the Government with interest at 4% over base rate from the date of the receipt.

The latest forecast showed that spend would be enough to meet the match funding requirements to quarter 3 of 2019/2020.

Noted that new housing did not need to be provided by the Council. The 30% RTB funding could also be used by Housing Associations in the area, provided they met the same match funding requirements.

Further options for the 70% match funding of RTB receipts in excess of planned development expenditure included:-

- Increasing spend through borrowing – limited to debt cap;
- Increasing spend from revenue – which would lead to reduced service provision as revenue was allocated within the Business Plan;
- The use of other Council 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 usually had large lead in times receipts therefore needed to be allocated as soon as possible to reduce the risk of having to repay the capital receipt to the Government with interest payments.

The Draft Housing Revenue Account Budget had been presented to the Corporate Scrutiny Committee on 25 January 2018 and noted.

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

Resolved that Full Council be recommended to approve the Housing Revenue Account draft budget and proposed 1% rent decrease, with proposed average rents of £81.69 per week in 2018/2019.

11. **Capital Programme Draft Budget Estimates 2018/2019**

Considered report previously circulated, concerning the proposed General Fund (GF) and Housing Revenue Account (HRA) Capital Programmes for 2018/2019.

2018/2019 General Fund Capital Programme

The current General Fund Capital Programme in 2017/2018 included approved projects totalling £33,320,000.

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 2018/2019 totalled £3,797,000 split between Deane DLO Schemes, General Fund Schemes and Growth Schemes, full details of which were submitted for the information of Councillors.

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 2018/2019

In December 2015 the Council had 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' had been 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).

Reported that the profile of spending over the five year period was indicative and needed 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.

The Growth and Regeneration Capital Budget approved to date totalled £3,900,000. If approved, a further £2,470,000 would bring the total budget to £6,370,000.

Having now carried out the above mentioned annual review, a refreshed annual profile of spending on growth was proposed. Although the spending categories and the overall allocation of £16,600,000 remained the same, a number of changes to the original profile were proposed in some categories, as follows:-

- **Taunton Strategic Flood Allocation** – The allocation had been increased to £5,000,000 in line with the Councils commitment to flood relief, by reallocation from the Urban Extension Project;

- **Major Transport Schemes** – The overall allocation had increased from £3,500,000 to £3,900,000 mainly due to the Access and Signage Project to provide the Variable Messaging System and Pay on Foot system;

- **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** – A reduction to the overall allocation (now £3,500,000) due to a reduction in the Junction 25 Nexus allocation; and

- **Supporting Urban Extension delivery** – The previous allocation of £2,000,000 had been reallocated to the Strategic Flood Alleviation Project in 2020/2021.

Noted that subject to a Business Case, the Council could also consider the use of prudential borrowing to provide additional resources.

2018/2019 Housing Revenue Account (HRA) Capital Programme

The HRA Capital Programme 2018/2019 totalled £8,970,000 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 2018/2019

Project	**Total Cost £k**
Major Works	5,800
Improvements	150
Exceptional Extensive Works	492
Disabled Facilities Grants and Aids and Adaptations	381

Project	Total Cost £k
Building Services Vehicles	121
Social Housing Development Fund	2,029
Total Proposed HRA Capital Programme 2018/19	**8,973**

Full details of proposed spending under the above project categories were set out in the report. The current five-year HRA Capital Programme included forecast capital expenditure requirements for the period 2018/2019 to 2022/2023, as identified in the Business Plan.

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

The Capital Programme Budget Estimates 2018/2019 were presented to the Corporate Scrutiny Committee on 25 January 2018 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 £1,327,000 for 2018/2019, plus £2,470,000 in respect of the Growth and Regeneration Capital Budget in 2018/2019 be approved;

(b) The Housing Revenue Account Capital Programme of £8,973,000 for 2018/2019 be approved; and

(c) Authority be delegated to the Section 151 Officer to approve adjustments to the 2018/2019 Disabled Facilities Grant Capital Budget to reflect the final grant funding received from the Better Care Fund.

12. **Executive Forward Plan**

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

Resolved that the Forward Plan be noted.

13. **Urgent Item**

The Chairman confirmed that the following confidential item should be treated as an urgent item as a decision was needed before the next scheduled meeting of the Executive.

14. **Exclusion of the Press and Public**

Resolved that the press and public be excluded from the meeting for the following items because of the likelihood that exempt information would otherwise be disclosed relating to Clauses 1 and 3 of Schedule 12A to the Local Government Act 1972 and the public interest in withholding the information outweighed the public interest in disclosing the information to the public.

15. **Planning (Listed Buildings and Conservation Areas) Act 1990 – Listed Buildings at Tonedale Mill, Milverton Road, Wellington**

Reference Minute No. 40/2017, considered further report relating to proposed actions proposed to be taken to secure the repair of the historic buildings at Tonedale Mill, Milverton Road, Wellington.

An Urgent Works Notice was to be served on the owner of the property identified in the report requiring the execution of works which were urgently necessary for the preservation of the building.

If the works were not carried out, the Council would need to step in and carry out the required works.

Historic England (HE) had confirmed that, in such circumstances, it would provide grant funding subject to match funding being provided by Taunton Deane.

The action proposed was the first step of a large programme of works with HE to secure the buildings on the site.

Resolved that Full Council be recommended to approve a supplementary estimate to the Capital Programme at the level set out in the report, in the event that the owner of the property failed to carry out the required works. The funding of these works to come from Historic England as detailed, with the remainder from a virement to the Council's Revenue Contribution to Capital in 2017/2018 funded from additional investment interest receipts.

(The meeting ended at 7.47 p.m.)