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

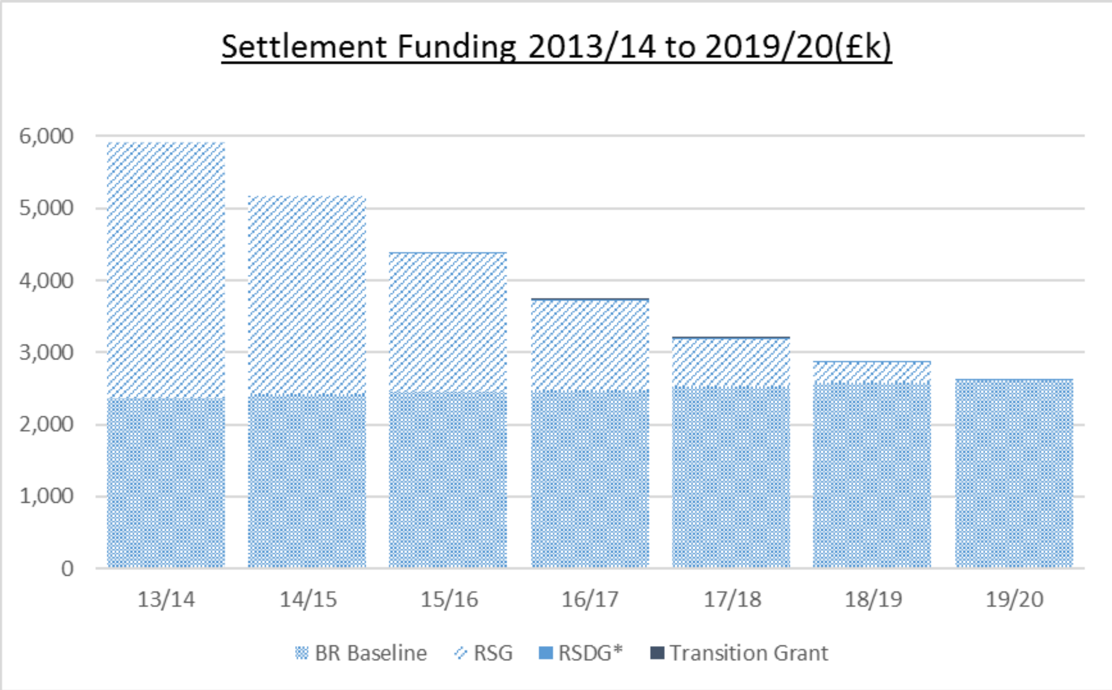
	2017/18 £	2018/19 £	Change £	
Revenue Support Grant (RSG)	644,801	279,788	-365,013	-48%
Rural Services Delivery Grant (RSDG)	22,271	22,271	0	0%
Transition Grant	16,864	0	-16,864	-100%
Total General Revenue Grant Funding	**683,936**	**302,059**	**-381,877**	**-56%**

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)

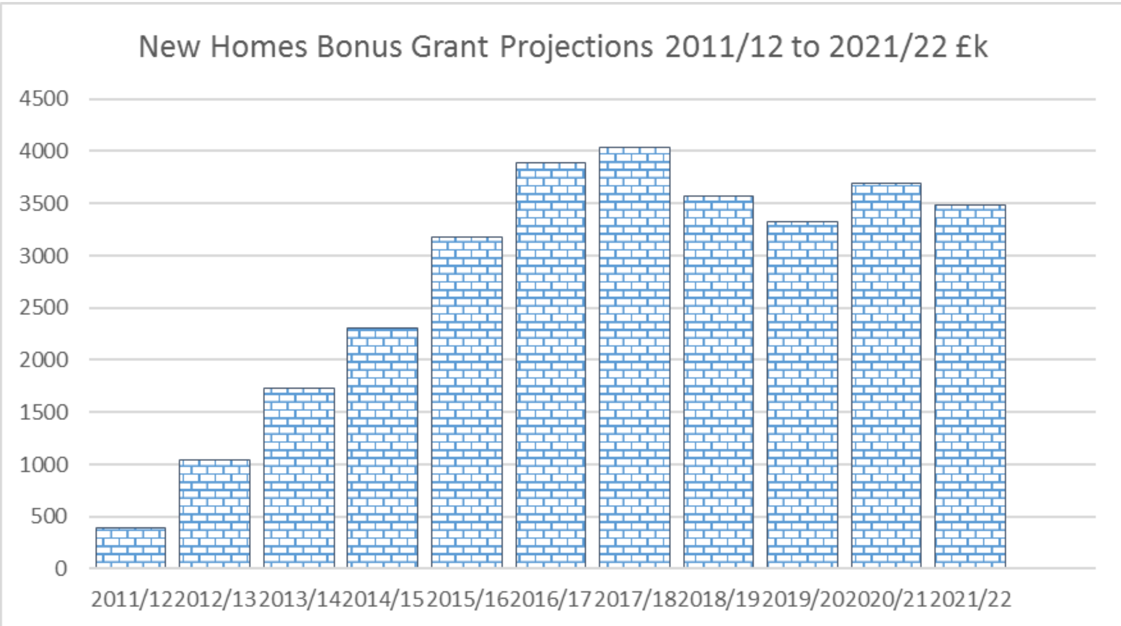
9.5 As this shows, housing growth (net of new housing, demolitions and increase/decrease in empty homes) of 196.7 Band D equivalents has not been rewarded in 2018/19. This has resulted in a loss of funding of approximately **£250,289** as a result of the top-slice for 0.4% growth.

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.**