Taunton Deane Borough Council

Full Council – 22 February 2018

General Fund Revenue Budget and Capital 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 information required for Full Council to approve the proposed revenue budget and capital programme for 2018/19, and to approve its proposed Council Tax rate for 2018/19.

1.2 Details of the Provisional "Settlement Funding Assessment" for 2018/19 was announced by the Department of Communities and Local Government in late December 2017 and it was reported to Executive that the Final "Settlement Funding Assessment" was announced on 6 February 2018. The settlement 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 has increased by £5,483.
b) New Home Bonus funding has reduced by £470,176 (12%) but this is after a reduction of 0.4% of the growth figure and the reduction to legacy grant of 4 years (6 years in 2016/17, then 5 years in 2017/18).
c) Retained business rates estimates have increased by £554,259 (18.2%).

2 Recommendations

2.1 It is **recommended** that the General Fund Revenue Budget and Capital Programme for 2018/09 be agreed and that Full Council:-

(a) Notes the forecast Medium Term Financial Plan and Reserves position, and notes the Section 151 Officer's Robustness Statement as set out in Appendix A of the report considered by the Executive;

(b) Approve the General Fund Net Revenue Budget 2018/19;

(c) Approve a Council Tax increase of 3.34%, increasing the Band D tax rate by £5 (on the non-SRA element) to £154.62 per year. This comprises £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 for the unparished area of Taunton;

(e) Approve that the minimum level of general reserves be increased to £1,700,000.

(e) Approve the new capital schemes of the General Fund Capital Programme Budget of £3,796,711 for 2018/19.

(f) Authority be delegated to the Section 151 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

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 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 Finance Settlement 2018/19

5.1 The Final Settlement was confirmed on 6 February 2018, and is reflected in the content of this report and the proposed budget.

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;
- 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, which will be subject to a later series of consultation.

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 with an unexpected small increase in RSDG included in the Final Settlement. Overall a 55% reduction in general revenue grant funding:

7.2

Table 1 – General Government Grant

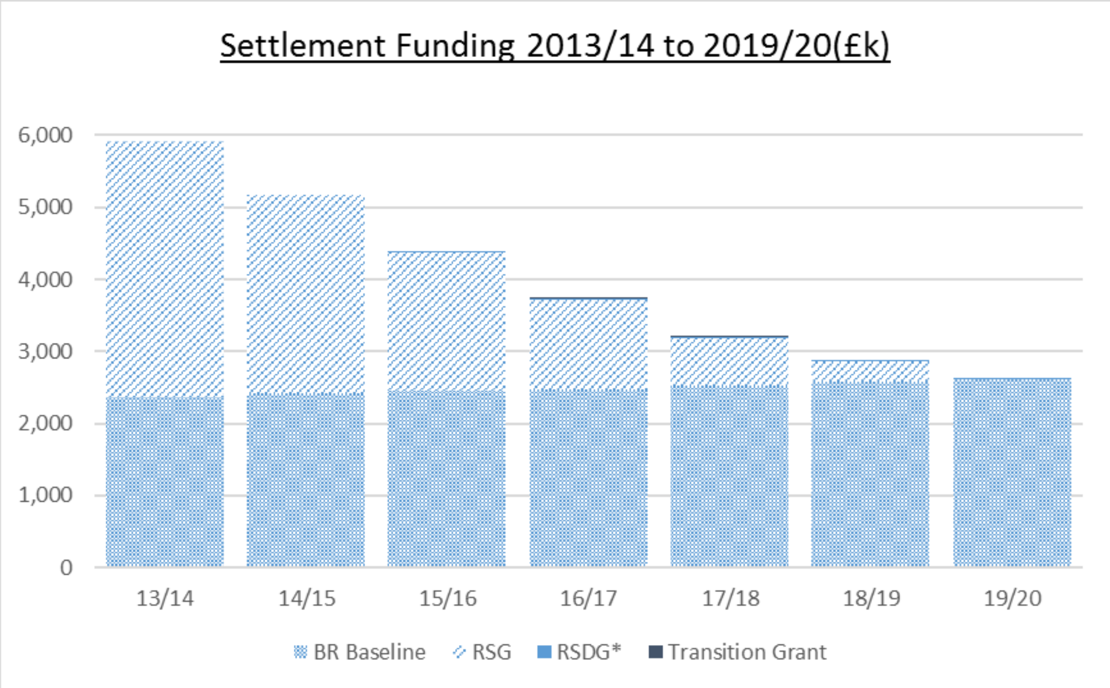
	2017/18 £	2018/19 £	Change £	
Revenue Support Grant (RSG)	644,801	279,788	-365,013	-48%
Rural Services Delivery Grant (RSDG)	22,271	27,754	5,483	+25%
Transition Grant	16,864	0	-16,864	-100%
Total General Revenue Grant Funding	**683,936**	**307,542**	**-376,394**	**-55%**

7.3 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	28	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**	**2,913**	**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 with the County Council and our other Somerset district partners. There were 27 bids to become new pilot areas. The Government has selected 10 in total for 2018/19 which unfortunately did not include the Somerset bid.

8.2 Despite not being selected as a pilot for 100% retention, the Government have approved the formation of a new Somerset Business Rates Pool under the current 50% retention scheme. This provides potential benefits which accrue from the mixture of tariff and top-up authorities from the lower and upper tiers, resulting in a lower levy rate for the Pool.

8.3 From initial estimates the potential gain is forecast in the region of £100k to £200k. 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 and will monitor carefully during the year.

8.4 The Final Settlement has confirmed the baseline and tariffs for 2018/19 (and the adjusted tariff for 2017/18).

8.5 The final 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 funding for Reliefs	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 system 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 original scheme design set out that each year’s Grant allocation would be payable for six years. We only use £392k of our NHB allocations each year towards the revenue budget for services. The remaining grant is allocated to our Growth Earmarked Reserve.

9.2 The confirmed NHB Grant for 2018/19 is £3,564,556, which is £470,176 or 12% less than 2017/18. Whilst this is a reduction, it is above our initial budget estimates 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 revised the changes to the New Homes Bonus methodology that was announced in 2017/18. The growth baseline remains at 0.4%, which sees a “top-slice” for growth which does not attract any NHB grant. In addition to the top-slice the Government has confirmed that the legacy amounts included in the annual grant allocation has reduced to 4 years from 2018/19 (was 6 years in 2016/17, then 5 years in 2017/18).

9.4 The impact of this 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
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	565.3
NHB Grant for growth (£1,590.55* x 80%** x 565.3)	£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)

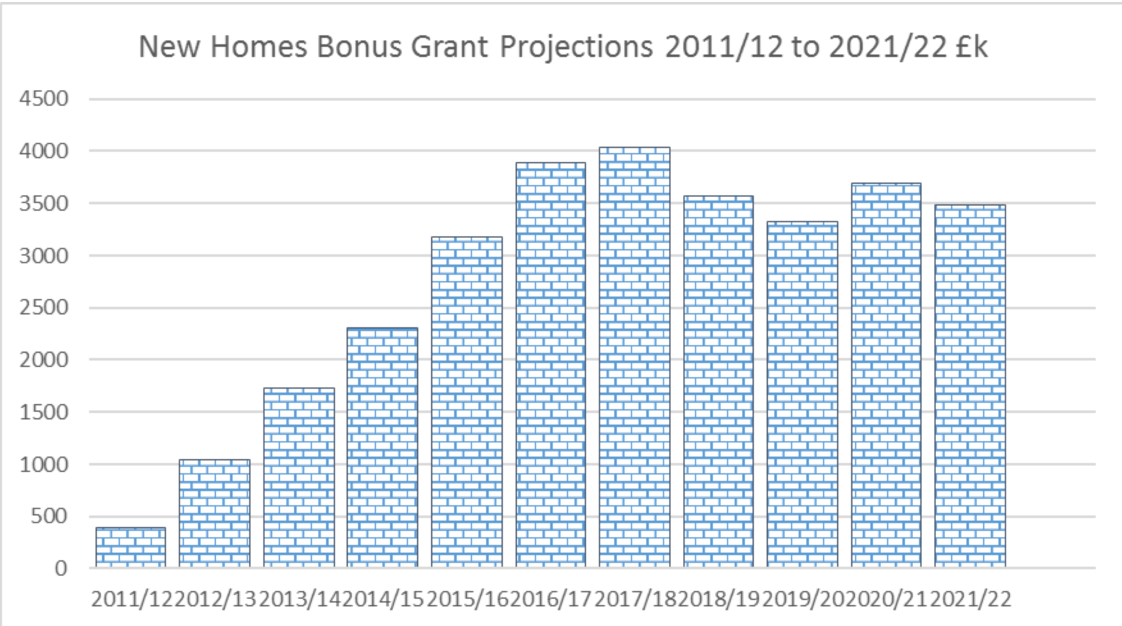
9.5 As this shows, housing growth (net of new housing, demolitions and increase/decrease in empty homes) of 196.7 Band D equivalents has not been rewarded in 2018/19. This has resulted in a loss of funding of approximately **£250,289** as a result of the top-slice for 0.4% growth.

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 peaked in 2017/18, 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**

9.7 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 The Executive has recommended the option to increase Council Tax by 3.34% which equates to the £5 limit on a Band D property, and this is reflected in the proposed budget 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 budget estimates for Council Tax income for TDBC is therefore 41,486.3 x £152.88 = £6,342,426. 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 Executive proposes to increase the Special Expenses (Unparished Area) precept by 2p on a Band D property, increasing the Band D special expenses rate to £3.02 per year, and raising an additional £302 per year in tax income. An increase of up to 2p does not affect the £5 Band D referendum trigger level for the area as a whole, but an increase of more than 2p in Special Expenses would require the £5 basic tax increase to be reduced.

11.2 Full Council on 15 December 2015 agreed to phase out the CTS grant funding provided to towns and parishes by 2018/19.

11.3 The proposed budget for 2018/19 is therefore £45,534, entirely funded through Special Expenses levied within the unparished area.

11.4 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

12.1 The Somerset Rivers Authority is currently unable 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. This will raise £72,186 in funding for the SRA 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 2018/19 Draft Budget Summary

13.1 The following tables provides a summary of the Budget position for 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	2,425,878
Transfer to/from General Reserves	0	0
AUTHORITY EXPENDITURE	**14,807,473**	**13,818,151**
Retained Business Rates	-3,038,286	-3,592,545
Revenue Support Grant	-644,801	-279,788
Rural Services Delivery Grant	-22,271	-27,754
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
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**

	£k	£k
Net Expenditure Base Budget 2017/18		**14,807**
Inflation costs	422	
SRA Contribution tax base increase	1	
Annual pension deficit payment increase	31	
Assets – Void Pressure	46	
SHAPE Contract	89	
DLO Trading	51	
Assets – Void Pressure	40	
Other Service Changes	261	
Transformation savings	-152	
Increase fees and charges	-250	
Other Service savings	-295	
Remove 17/18 one-off Deane House project and maintenance costs	-1,893	
Financing Costs (net interest income and repayment of borrowing)	102	
Subtotal costs		**-1,547**

Transfer from Business Rates Smoothing Reserve	-665	
Reduction in NHB contribution to reserves	-470	
Remove previous year transfers to reserves	50	
Remove 17/18 one-off transfer from Capital Financing Reserve for Deane House project	1,643	
Subtotal Reserve movement		**558**
Net Expenditure Base Budget 2018/19		**13,818**

	£k	**£k**
Total Funding 2017/18		**-14,807**
Reduction in RSG	365	
RSDG	-6	
Increased Retained Business Rates	-554	
Transition Grant	17	
Reduction in NHB	470	
Increased funding from Council Tax	-303	
SRA tax base	-1	
Collection Fund Deficit	1,001	
Subtotal - change in funding		**989**
Total Funding 2017/18		**-13,818**

14 Medium Term Financial Plan (MTFP) Summary

14.1 The current MTFP forecast is summarised below, reflecting the proposed budget for 2018/19 and the updates described in this report.

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 Reserves-Growth	3,642,752	3,172,576	2,937,042	3,302,435	3,087,062	2,987,957
Earmarked Reserves-Other	-1,774,510	-746,698	302,718	302,725	302,718	302,723
General Reserves	0	0	0	0	0	0
Net Expenditure	**14,041,339**	**13,052,017**	**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	-27,754	-22,271	-22,271	-22,271	-22,271
Transitional Grant	-16,864	0	0	0	0	0

	2017/18 £	2018/19 £	2019/20 £	2020/21 £	2021/22 £	2022/23 £
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**	**13,052,017**	**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

14.2 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 7 – Transformation Savings

	2017/18	2018/19	2019/20	2020/21	2021/22
	£k	£k	£k	£k	£k
Total annual savings	164	316	1,465	1,479	1,493

14.3 The transformation savings forecast for 2018/19 includes a prudent contingency for the phasing of implementation and transitional costs. We anticipate that the savings will be delivered in full in 2019/20.

14.4 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

14.5 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 in the longer term, and to provide further resilience to funding changes as well as additional funding for investment in services.

14.6 As 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 delivery of savings through transformation.

15 DLO Trading Account

15.1 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.

15.2 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)**

15.3 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**

16 Deane Helpline Trading Account

16.1 The 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.

16.2 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.

16.3 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.

16.4 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**

17 General Reserves

17.1 The current reserves position is shown below. The forecast Outturn for the 2017/18 budget is currently being reviewed but recent projections predict a net underspend of £318,000. The table below therefore gives a provisional forecast of the reserves position at the start of the next financial year.

Table 8 – General Reserves Balance

	£
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

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

18 2018/19 General Fund Capital Programme

18.1 The current capital strategy includes the following basis for prioritising schemes:

1) Business Continuity (corporate/organisational/health and safety)
2) Statutory Service Investment
3) Growth / Transformation
4) Invest to Save
5) Other

18.2 The recommended General Fund Capital Programme for 2018/19 totals £3.797m. Table 9 details bids submitted for General Fund Schemes. The tables summarise the bids that have been presented by services for consideration.

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

Table 9 - 2018/19 Capital Programme

Scheme	Cost £	Priority	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

18.4 **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.

18.5 **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.

18.6 **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.

18.7 **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.

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

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

18.10 **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.

18.11 **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.

18.12 **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.

18.13 **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.

18.14 **Growth Schemes:** See Section 20 below.

19 Funding the General Fund Capital Programme

19.1 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

19.2 Table 9 above summarises the proposed funding of the Capital Programme for 2018/19 and shows 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

19.3 **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.

19.4 **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.

19.5 **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.

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

19.7 **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.

19.8 **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.

19.9 **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.

20 Capital Programme for Growth and Regeneration 2018/19

20.1 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 its priorities relating to growth and regeneration. A number of spend categories were approved, as follows:

- Taunton Strategic Flood Alleviation
- Major Transport Schemes
- Town Centre Regeneration

- Employment site enabling and promoting enterprise and innovation
- Marketing, promotion and inward investment
- Supporting urban extension delivery
- Preparation of Local Development Orders

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

20.3 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.

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

Table 10 - Indicative Growth and Regeneration Spend Profile

Nov 2017 Revised Spending profile	2016/17	2017/18	2018/19	2019/20	2020/21	Totals
	£k	£k	£k	£k	£k	£k
Capital Schemes:						
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**
Revenue Costs:						
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**

20.5 Members will note from the above table that the spending categories remain as originally approved with an element now separately identified reflecting Taunton's Garden Town status. No change is proposed to the overall allocation of £16.6m over the period 2016/17 to 2020/21, which is forecast to be fully funded by New Homes Bonus / Growth Reserve.

20.6 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.

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

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.

S151 Officer 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 Included throughout the report.

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.

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.**