



Shadow Executive

Monday, 11th February, 2019, 4.30 pm

Council Chamber, West Somerset House, Killick Way, Williton, TA4 4QA

Members: J Williams (Chairman), A Trollope-Bellew (Vice-Chair), R Habgood, J Warmington, M Dewdney, A Hadley, S Pugsley and A Sully

Agenda

1. **Apologies.**
2. **Minutes of the previous meeting of the Shadow Executive held on 22 January 2019. (attached).** (Pages 3 - 8)
3. **Declarations of Interest.**

To receive and record any declarations of disclosable pecuniary interests or personal or prejudicial interests in respect of any matters included on the agenda for consideration at this meeting.
(The personal interests of Councillors and Clerks of Somerset County Council, Town or Parish Councils and other Local Authorities will automatically be recorded in the minutes.)
4. **Public Participation.**

The Chairman to advise the Committee of any items on which members of the public have requested to speak and advise those members of the public present of the details of the Council's public participation scheme.
5. **Housing Revenue Accounts (HRA) Budget Estimates 2019/20. Report of The Interim Head of Financial Services and Deputy s151 Officer of Taunton Deane Borough Council and West Somerset Council. (attached).** (Pages 9 - 26)

6. **Draft General Fund Revenue Budget and Capital Estimates 2019/20. Report of The The Interim Head of Financial Services and Deputy s151 Officer of Taunton Deane Borough Council and West Somerset Council. (attached).** (Pages 27 - 64)
7. **Draft Capital Strategy 2019/20. Report of The Interim Head of Financial Services and Deputy s151 Officer of Taunton Deane Borough Council and West Somerset Council. (attached).** (Pages 65 - 76)
8. **Draft Treasury Management Strategy Statement 2019/20. Report of The Interim Head of Financial Services and Deputy s151 Officer of Taunton Deane Borough Council and West Somerset Council. (attached).** (Pages 77 - 96)
9. **Draft Investment Strategy 2019/20. Report of the Interim Head of Financial Services and Deputy s151 Officer of Taunton Deane Borough Council and West Somerset Council. (attached).** (Pages 97 - 104)
10. **New Council Implementation Plan. Report of The Strategy Specialist and Senior Transformation Project Lead (attached).** (Pages 105 - 116)
11. **Watchet East Quay Development. Report of The Localities Manager (attached).** (Pages 117 - 222)
12. **North Taunton Woolaway Project. Report of The Lead Specialist - Place. (attached).** (Pages 223 - 252)

Appendix B of the following item is likely to be considered after the exclusion of the press and public because of the likelihood that exempt information would otherwise be disclosed relating to the Clause set out below of Schedule 12A of the Local Government Act 1972. Paragraph 3 – Information relating to financial or business affairs.

Shadow Executive - 22 January 2019

Present: Councillor J Williams (Chairman)

Councillors A Trollope-Bellew, R Habgood, J Warmington, M Dewdney, A Hadley, S Pugsley and A Sully

Officers: Paul Fitzgerald, Chris Hall, James Hassett, Steve Hughes and Andrew Randell

Also Present: Councillors P Berry and S Coles

(The meeting commenced at 3.30 pm)

44. Apologies.

There were no apologies to note.

45. Minutes of the previous meeting of the Shadow Executive held on 6 December 2018.

The minutes of the meeting held on 6 December 2018 were affirmed as a correct record.

46. Declarations of Interest.

Members present at the meeting declared the following personal interests in their capacity as a Member of a County, Parish or Town Council:

Name	Minute No.	Member of	Action Taken
Cllr A Trollope-Bellew	All	Crowcombe	Spoke and voted

47. Public Participation.

No member of the public requested to speak.

48. Appointment of External Auditor. Report of The Principal Accountant – Corporate.

The purpose of the report was to consider the Appointment of the External Auditor.

This report asks the Shadow Council to opt in to the Public Sector Auditor Appointments (PSAA) arrangement for the procurement of external audit services for SWATC.

This proposal was supported by the Shadow Corporate Governance and Standards Committee on 12 November 2018.

The Local Audit and Accountability Act 2014 abolished the Audit Commission and required local authorities to appoint their own external auditors.

The current external audit function for both Taunton Deane Borough Council (TDBC) and West Somerset Council (WSC) is provided by Grant Thornton (UK) LLP, having been procured through Public Sector Auditor Appointments (PSAA). PSAA is a not-for-profit company established by the Local Government Association that administers the current external audit contracts on behalf of central government. Both TDBC and WSC opted in to the PSAA appointment arrangements in 2014 and 2017, the latter of which provided for a five year appointment period starting with accounts for the 2018/19 financial year.

Grant Thornton (UK) LLP were to complete the audit of the accounts of Taunton Deane Borough Council and West Somerset Council for 2018/19 under the auditor appointment already made. This work will be undertaken during 2019.

The Somerset West and Taunton (Local Government Changes) Order 2018 resulted in the abolition of West Somerset and Taunton Deane districts and the District Councils on 31 March 2019, and the creation of the new Somerset West and Taunton Council with effect from 1 April 2019.

A new auditor appointment would be needed for Somerset West and Taunton Council, as it would be a separate legal entity. PSAA has confirmed that Somerset West and Taunton Council was eligible to become an opted-in authority from 1 April 2019, for the remaining four years of the appointing period covering the accounts for 2019/20 to 2022/23. PSAA would anticipate appointing the firm already appointed from 2018/19 to maintain continuity of audit arrangements, subject to confirming independence and considering the views and joint working arrangements of the new authority.

During the discussion of this item no comments were made and questions asked.

RESOLVED that:-

The Shadow Executive agree that Somerset West and Taunton Council opts in to the PSAA scheme for procuring external audit services for the period 2019/20 to 2022/23.

49. **Appointment of SWAP Director 2019 - Shadow Exec. Report of The Interim Section 151 Officer.**

The purpose of the report was to consider the appointment of the South West Audit Partnership Director 2019.

The governance arrangements for South West Audit Partnership Ltd (SWAP) were approved at Full Council meetings of West Somerset Council (WSC) and Taunton Deane Borough Council (TDBC) in February and March 2013 respectively. The approved governance structure included a Members' Board and

a Board of Directors. This report requested a new officer appointment to the Board of Directors representing Somerset West and Taunton Council.

During the discussion of this item no comments were made and questions asked.

RESOLVED that

- 1) The Shadow Executive approves the nomination of the Head of Performance and Governance (Christine Fraser) as a Director of SWAP Ltd representing Somerset West and Taunton Council at the earliest practical date to be appointed by SWAP Ltd, and no later than 1 April 2019.
- 2) The Shadow Executive approves the nomination of the Governance Manager post holder as a Director of SWAP Ltd representing Somerset West and Taunton Council, from date to be determined by the Head of Performance and Governance (estimated mid-2019).

50. **Somerset Waste Board Constitution and Membership 2019/20. Report of The Specialist – Clienting.**

The purpose of the report is to consider the Somerset Waste Board Constitution and Membership 2019/20.

The report sets out proposed revisions to the Somerset Waste Board's constitution and membership for 2019/20 as a result of the future amalgamation of Taunton Deane Borough Council and West Somerset Council to create the new Somerset West and Taunton local authority. The proposed changes to the constitution and board membership will require the dissolution of the current Board and agreement to establish a new Waste Board with an amended constitution to reflect the revised membership. Subject to the Committee's approval to the proposals within the report.

During the discussion of this item Members made comments and statements and asked questions, and the following main points were raised:

- The financial contributions would not change with the creation of the New Council.
- This had been considered by the waste board and was a regularising of the creation of the New Council as a member of the partnership.
- The budget for next year was due to be decided in February with cost apportionment to be worked out.
- Adequate representation would be given for the representatives of the New Council.

RESOLVED that The Shadow Executive:-

- 1) Endorse the proposed revision to the draft Constitution, set out in Appendix A for the Somerset Waste Partnership Board and recommend this for approval by the Executive Committee.
- 2) Delegate authority to the Board's Treasurer in consultation with the Administering Authority's Monitoring Officer to update the Inter-Authority

Agreement (IAA), as set out in Appendix B, to reflect the various changes agreed previously by the Board.

- 3) Recommend that with effect from 1 April 2019 the current Board and its membership (comprising six partner authorities) is dissolved and to then agree the formation of a new Somerset Waste Board (comprising five partner authorities) and appoint members to that Board.
- 4) Delegate authority to the Monitoring Officer of the Administering Authority to take forward the above recommendations in conjunction with the partner authorities.

51. **Exclusion of Press and Public**

Resolved that the press and public be excluded during consideration of item 9 on the grounds that, if the press and public were present during the item, there would be likely to be a disclosure to them of exempt information of the class specified in Paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972 as amended as follows: The item contained information that could release confidential information that related to the financial or business affairs of any particular person (including the authority holding that information). It was therefore agreed that after consideration of all the circumstances of the case, the public interest in maintaining the exemption outweighed the public interest in disclosing the information.

52. **Confidential Report - Leisure Operators Contract. Report of the Localities Manager**

The purpose of the report was to consider the confidential report relating to the Leisure Operators Contract.

The existing leisure contract was currently delivered by Greenwich Leisure Ltd (GLL) following their merger with Tone Leisure in 2016. The existing contract is for the management and operation of four sports and leisure centres and a golf course and high ropes facility – due to end on 31st July 2019.

The Authority advertised a new contract for an initial term (with the potential to extend by mutual consent) to operate the leisure centres in (Lot 1) and Lot 2).

The aim was that there would be no management fee payable from the Authority to operate the contract and that the Operator should take on additional repair and maintenance obligations when compared to the current situation.

The budget forecast for the provision of these services was set out, with additional ongoing budget provision for maintenance over the same period. The timetable aligned the contract with the council's financial years.

Following an extensive procurement process, the preferred operator was set out to manage the Lot 1 and Lot 2 facilities. The recommended operator submitted detailed financial bids.

When factoring the saving based on current payments by the Authority, the saving on maintenance responsibilities passed over to the new operator, the

receipts and payments of the management fees, and the one off transition costs this represents an improved financial position for the Authority over the initial life of the contract. In the event of an extension being awarded after this time then the saving would grow.

During the discussion of this item Members made comments and statements and asked questions, and the following main points were raised:

- There had been positive experience of the preferred supplier with other councils that had client relationships with them.
- Prices were not set to increase by no more than RPI within the next 20 months.
- The capital financing loan was for equipment replacement.
- Cleanliness of the facilities was a priority and there were heavy controls relating to this.
- No challenges were expected from the other bids for the contract.
- There was potential for future opportunities to be explored within the structure of contract
- Based on the opportunity put to market, this was considered a good deal.
- The hard work undertaken on the contract was commended.

RESOLVED that Shadow Council be recommended to approve:-

- 1) The contract award and associated leases of Lot 1
- 2) The contract award and associated leases of Lot 2.
- 3) Revisions to the MTFP to reflect the new budget profiling including the necessary transition costs.
- 4) The principle of capital financing loan with delegated authority to the S151 officer in consultation with the Leader of the Council to negotiate the final terms. Provision for such a loan would be included in the Capital Programme for 2019/20.

53. **Forward Plan**

The purpose of this item was to approve the Forward Plan.

RESOLVED that the Shadow Executive's Forward Plan be circulated to Members of the Shadow Executive after the meeting.

54. **Future Meeting Dates**

The next meeting date had been agreed:-

- Shadow Executive – 11 February 2019 at 4.30pm, Council Chamber, West Somerset house, Williton.

(The Meeting ended at 4.40 pm)

Somerset West and Taunton Council

Shadow Executive – 11 February 2019

Housing Revenue Account (HRA) Budget Estimates 2019/2020

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

Report Author: Kerry Prisco, Principal Accountant

1 Executive Summary

- 1.1 This report updates Members on the proposed draft Housing Revenue Account (HRA) Annual Budget and draft Housing Revenue Account (HRA) Capital Programme for 2019/20.
- 1.2 It is proposed to apply a 1% reduction in the average weekly rent in 2019/20, in line with national policy. This would reduce the average weekly rent, from £81.69 per week to £80.87 per week in 2019/20.
- 1.3 The proposals included in this report would enable the Council to set a balanced budget for 2019/20.

2 Recommendations

- 2.1 Shadow Executive recommends the draft HRA Revenue Budget, Capital Programme and proposed average weekly rent of £80.87 for 2019/20, to Shadow Council.

3 Risk Assessment

Risk Matrix

Description	Likelihood	Impact	Overall
<i>Risk: The Council is unable to set a balanced budget</i>	Slight (2)	Major (4)	Medium (8)
<i>Mitigation: Members approve options to balance the budget</i>	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 purpose of this report is to update and request comments from the Members on the proposed draft Housing Revenue Account (HRA) Annual Budget and Capital Programme for 2019/20.
- 4.2 Under the localism agenda, in 2012 the Government closed down the previous national Housing Revenue Account (HRA) Subsidy system. This was a key feature of the funding arrangements for local authorities with council housing stock, and under new arrangements was replaced with a new “self-financing” system of funding. At the time, TDBC was paying approximately £7m per year in “negative Subsidy”, which meant an annual payment from the HRA to Central Government. . As part of the implementation of self-financing, a one-off payment of £85.12m was made to Government, in return for being able to retain all income locally to manage and maintain the housing stock. The total debt in the HRA at the start of self-financing was £99.7m.
- 4.3 In order to manage the freedoms gained by the HRA through self-financing, a new 30-Year Business Plan (2012-2042) was introduced. This set out the Council’s overall aims and objectives for Housing Services, as well as laying out plans to manage the increased risks and opportunities.

- 4.4 The HRA Business Plan has been reviewed and updated annually since 2012. Due to a number of changes in national policies and local aspiration, a full review of the Business Plan was undertaken in 2016.
- 4.5 There is an anticipation that further regulatory changes are likely following the publication of the 'Social Housing Green Paper' issued on the 14 August 2018 and the independent review of Building Regulations and Fire Safety led by Dame Judith Hackitt. In addition to this, we have our own internal developing housing aspirations to consider. This would suggest that a timely and full review of the Business Plan should be undertaken to maintain the affordability and viability of these schemes and the financial impact of any regulatory changes within the overall Business Case.
- 4.6 The HRA faces a number of risks and uncertainties, many of which could be significant but the actual financial impact is not yet known. These are listed in Section 10.
- 4.7 As part of the self-financing agreement, an individual housing revenue debt cap of £115m was implemented by Government for Taunton Deane. This meant that the HRA was unable to take out external borrowing in excess of £115m within the HRA Business Plan. In October 2018 this debt cap was officially removed.
- 4.8 The expectation of Government is that the removal of the debt cap, along with other proposals such as allowing councils more flexibility on Right to Buy (RTB) receipts and the introduction of a new rent policy from 2010, will enable authorities to be able to plan for the development of new homes with more certainty.

5 Summary of Movements in Draft HRA Estimates

- 5.1 A summary of the overall draft HRA Revenue Budget for 2019/20 and Medium Term Financial Plan is included in Appendix A.
- 5.2 The following table provides a summary of the main proposed changes to the budget estimates from 2018/19 to 2019/20 for the draft HRA Revenue Budget.

Table 1: HRA Budget Setting 2019/20 Changes

	Reference Paragraph	£k
Original Budget 2018/19 – balanced budget		0.0
<u>Income</u>	Section 5 & 6	168.8
<u>Expenditure</u>		
Inflation (excluding salaries)	7.2	73.0
Housing Partnership	7.3	(21.6)
Pension Deficit	7.4	15.4
Provision for Bad Debt	7.5	(441.5)

Grounds Maintenance	7.7	298.5
Transformation savings	7.8	(929.0)
Other Savings		(9.3)
<u>Other Expenditure</u>		
Provision for Depreciation	7.9	(258.9)
Revenue Contribution to Capital Outlay	7.9	250.4
Interest Payable	7.12	(123.4)
Interest Receivable	7.13	62.0
Movement in earmarked reserves	7.14	914.7
Increase/Decrease in Provision for Repayment of Debt	7.15	0
Increase/Decrease in Social Housing Development Fund	7.16	0
Proposed Original Budget for 2019/20 i.e. net transfer to reserves		0.9

6 Dwelling Rental Income for 2019/20

- 6.1 The Welfare Reform and Work Act 2016 sets out a 1% annual reduction in social housing rents from 1st April 2016 for four years, up to and including 2019/20.
- 6.2 The proposed Housing Rent for 2019/20 reflects national policy that requires a reduction of (at least) 1%. For Somerset West and Taunton tenants this would see a reduction to the average weekly rent, from £81.69 per week to £80.87 per week.
- 6.3 These changes cause the dwelling rents annual income forecast to decrease by £129.1k over the current business plan to £24.013m from £24.142m for the HRA from approximately 5,700 properties.
- 6.4 On 4 October 2017 the Department for Communities and Local Government announced that “increases to social housing rents will be limited to the Consumer Price Index (CPI) plus 1% for 5 years from 2020.” This assumptions is included in the medium term forecast within the HRA financial plan.
- 6.5 Rent lost through void periods continue to be lower than the 2% allowed in the original Business Plan. Therefore it is proposed to reduce the expected void rate to 1% for a two year period and to also consider voids as a result of regeneration needs.

7 Other Income for 2019/20

- 7.1 About 9.3% of HRA income, amounting to £2.4m in total, comes from non-dwelling rent (mainly garages, but also shops and land), charges for services and facilities, and contributions to HRA costs from leaseholders and others. The proposed changes to specific budget lines reflect changes recommended to Council in the Fees and Charges report that was approved by Shadow Full Council in December 2018.

- 7.2 **Garage rents:** The fee will increase by 3.3% (last year 3.9%) to £6.37, which is an increase of £0.20 per week for tenants. An increase of 3.3%, or £0.32 per week, to £10.32 (including VAT) for private garage tenants and second Council tenant garages.
- 7.3 **Charges for services and facilities:** an increase of 3.3% (last year 2.0%). Budgets for service charges have been reset in line with the current stock, and budgets added for annual service charges to leaseholders and rechargeable repairs for current and former tenants. Charges to leaseholders will continue to be based on actual costs incurred.
- 7.4 **Extra Care service charges:** As previously reported, Somerset County Council (SCC) has changed the way in which it procures Extra Care Housing. From April 2017 both the care and support elements were combined in one contract. Taunton Deane Borough Council has ceased to provide the Extra Care Support, although an element of intensive housing management is still being provided with the services charges amended accordingly. This represented an increase in the housing element (the part which Taunton Deane will retain), which is eligible for Housing Benefit and current self-funded tenants will be protected from the increase.
- 7.5 A review of the sheltered housing contract we have with SCC was always due to happen post October 2018 when our current contract expires. Our sheltered housing service model was changed in 2016/17 so that it is self-sufficient. Our sheltered housing tenants pay a weekly charge for our Sheltered Housing Officers (SHO) to provide tenant empowerment, community development and additional housing management services.

8 Expenditure 2019/20

- 8.1 Below are brief explanations for any significant changes to the 2018/19 currently approved Business Plan. The key changes for 2019/20 are:
- 8.2 **General Inflation:** An additional budget of £73k is the expected inflation across all general expenditure at 3.3% representing RPI inflation at September 2018, including insurance (at 2% inflation) and utilities (at 3% inflation). This does not include staffing costs which have been included within the net Transformation Savings for Salaries.
- 8.3 **Housing Partnership:** A saving of £21.6k will be achieved due to the agreement of a new contract for this service area.
- 8.4 **Pension Deficit:** This £15.4k reflects the increase in pension deficit contribution attributable to the HRA.
- 8.5 **Provision for bad debts:** The Business Plan had previously increased the provision for bad debt to 2% (from 0.5%) for a period of three years. This was to mitigate the expected reduction in recovery of income due to the implementation of Universal Credit.

- 8.6 However Universal Credit was only fully introduced for new claimants in Taunton Deane in October 2016, and has not yet been fully implemented for existing claimants. As a consequence our Bad Debt Impairment provision has remained fairly low and is expected to remain low due to the continued delay in the full implementation of Universal Credit. Therefore the Bad Debt Provision has temporarily been reduced to £60k for 2019/20, returning to £500k in 20/21.
- 8.7 **Grounds Maintenance Service Charges:** A review was undertaken to increase the grounds maintenance service charge to bring it in line with the average cost of other housing associations to be able to carry out a service, as requested by Tenant Services Management Board (TSMB). This resulted in an increase in the weekly service charge from 81p per household to £1.84 per household in 2018/19 (£1.90 for 2019/20). The Service Level Agreement (SLA) for 2019/20 has increased budgeted costs by £298.5k.
- 8.8 **Transformation Savings:** The Business Plan includes the expected full realisation of annual savings of £929k in 2019/20 in line with the Transformation Business Case and revised savings target agreed by TDBC and WSC in December 2018.
- 8.9 **Provision for Depreciation and RCCO:** Depreciation is transferred to the Major Repairs Reserve (MRR) and must be used to fund the capital programme and/or repay debt. Depreciation is calculated on a component accounting basis. This means Depreciation is calculated on each of the major components of each house e.g. kitchen, bathroom, rather than being based on the Major Repairs Allowance (MRA), an estimation of the works needed to maintain the stock in good condition.
- 8.10 Following a full calculation of the depreciation charges and agreement of the policy with our external auditors, a decrease in depreciation has been seen requiring an equal amount to be included as Revenue Contribution to Capital Outlay (RCCO) in order to maintain the funding of the capital programme.
- 8.11 This will be the first year we have properly budgeted for this, with the adjustments showing a decrease in depreciation of £258.9k and an increase in RCCO of £250.4k reflecting this change in depreciation policy and to match the budgeted expectations for 2019/20 as per the original Business Plan.
- 8.12 **Interest payable:** The majority of existing external borrowing is based on fixed interest rates for the term of the loan, with only two loans based on variable rates of interest. Therefore we are able to predict the interest payment for these elements with a high degree of certainty. The budget for 2019/20 has been updated to more accurately reflect the anticipated interest payments including the reduction for the repayment of a £3m loan during 2018/19. This reduces the budgeted interest payable for 2019/20 by £123.4k. The HRA also has internal borrowing from the general fund and the expectation is that this will continue into 2019/20 without the need for the HRA to take out any additional external borrowing to fund this (however this will be kept under review).

- 8.13 **Interest receivable:** This is based on an estimated interest rate on investments. The interest receivable for 2017/18 was considerably lower than budgeted and there is an expectation that this will continue in 2018/19 and for 2019/20. Therefore this budget has been adjusted by £62k to show that less interest income is expected to be received.
- 8.14 **Transfers from Earmarked Reserves:** Transfers from earmarked reserves totalling £1.0m were included in the Business Plan for 2018/19. This is due largely due to the use of reserves to fund staff prior to the restructure as part of the Transformation Programme, as well as the reduced requirement for the provision of bad debt. This provision has now been reduced to £100k for 19/20.
- 8.15 **Repayment of Borrowing:** In 2017/18, the provision for the repayment of borrowing was increased to £1.8m to allow the current level of debt to be repaid over 60 years. In addition to this internal borrowing stands at £12.8m. The proposal is to maintain this level of contribution towards the repayment of debt at £1.8m for 2019/20.
- 8.16 **Social Housing Development Fund:** The revenue contribution made towards the development programme will continue to be £1.17m in 2019/20.

9 Draft Housing Revenue Account Capital Programme for 2019/20

- 9.1 The proposed draft HRA Capital Programme for 2019/20 totals £9.59m. This is provided to deliver the prioritised capital investment requirements included in the current Business Plan for the next budget year. The current 5-Year HRA Capital Programme is shown below, which includes forecast capital expenditure requirements for the period 2019/20 to 2023/24, as identified in the Business Plan.
- 9.2 This report does not include schemes that have been previously approved where the spending is planned to be incurred in 2019/20.

Table 2: Draft HRA Capital Programme 2019/20

Project	Total Cost £000
Major Works	6,197
Improvements	321
Exceptional Extensive Works	502
Disabled Facilities Grants and Aids and Adaptations	376
Building Services Vehicles	121
Social Housing Development Fund	2,069
Total Proposed HRA Capital Programme 2018/19	9,586

- 9.3 Members are being asked to approve the Capital Maintenance and Improvement Works Programme budget for 2019/20 at £9.586m.
- 9.4 It is proposed that the HRA capital programme for 2019/20 shown above is funded from the Major Repairs Reserve (from depreciation), revenue contribution (RCCO) from the

Social Housing Development Fund, and capital receipts (Right to Buy).

- 9.5 A summary of the estimated funding available before the funding of the 2018/19 capital programme is shown in the table below:

Table 3: Funding Estimates

General Fund	2019/20 £k
Major Repairs Reserve	7,517
Social Housing Development Fund (RCCO)	1,170
Capital Receipts	899
TOTAL Funding	9,586

Major Works

- 9.6 This line in the capital programme covers a number of areas of spend. The Council is required to maintain decent homes standards ensuring items are replaced as and when needed.
- 9.7 The detail used to make up the budget is shown in the table below and this is what the budget line is expected to be spent on. This is subject to change depending on factors such as contractor availability, and any changes to the profile of spend will be agreed with the Director for the service.

Table 4: Major Works

Project	Total Cost £000
Bathrooms	1,400
Heating Systems	1,625
Fire Safety Work	1,172
Fasciae and Soffits	1,200
Insulation	800
Total	6,197

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

Improvements

- 9.9 A budget of £322k for estate improvements is included in the HRA capital programme, as identified in the Business Plan.

Exceptional/Extensive Works

- 9.10 This project is for works such as asbestos removal and subsidence works to the Council's non-traditional properties. A budget of £502k is included in the 2019/20 programme for asbestos removal.

Disabled Facilities and Aids and Adaptations

- 9.11 This is an annual recurring budget for small and large scale home aids and adaptations in tenants' homes where there are mobility issues. This budget is demand led by requests from tenants or through recommendations by occupational therapists or other healthcare professionals. Applications are made through the Somerset West Private Sector Housing Partnership.
- 9.12 The demand for adaptations has been historically lower than budget and provision was made in the Business Plan for a phased reduction over a five year period. This will be done line with a number of steps being taken, such as moving towards more cost effective installations of wet floor shower rooms through a new fixed price contract; switching from concrete ramps to better value metal modular ramps; and a move toward stairlift loans and recycling, rather than purchases. These measures will ensure that the service stays within reduced budgets without impacting tenants.

Building Services Vehicles

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

Social Housing Development Fund

- 9.14 The budget for the Social Housing Development Fund is for new development/redevelopment of housing. This budget represents an ongoing programme averaging 15 units a year. For 2019/20 this is increased to £2.07m.

Draft HRA 5-Year Capital Programme

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

Table 5: Draft HRA 5-Year Capital Programme

	2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m	5-Year Total £m
Capital Programme	9.586	9.699	7.632	7.770	7.910	42.597

10 HRA General Reserves

- 10.1 As set out in the HRA Business Plan the recommended minimum unearmarked reserve balance for the HRA is £1.8m (approximately £300 per property). The reserve balance as at 1 April 2018 was £2.778m. There have not been any approved changes during the year from unearmarked reserves.
- 10.2 If the draft budget in this report is approved by Council, assuming no further changes, the balance would increase by £0.9k, to £2.779m. This is £979k over the minimum reserve balance. This reserve will be held at the minimum recommended balance of £1.8m when considering any further demands on this reserve.
- 10.3 Appendix A shows the forecast position over the medium term based on this draft budget. This is subject to transfers to or from HRA general reserves in 2018/19, and any other changes.

11 Risks and Uncertainties

- 11.1 Although some previous risks have now been removed (e.g. Higher Value Asset Sales), the HRA still faces a number of medium to long-term risks and uncertainties, both internal and external to the Council. These include:
- 11.2 Universal Credit: It is not known what impact the full roll out of Universal Credit will have on the HRA. The HRA has already taken steps to try and prevent loss of income where possible. Tenants are now able to pay through direct debits on any day of the month (rather than only three options previously) in order to allow them to make payments on the same day as their Universal Credit payment, salary, pension or other income. There are also currently additional officers working within the One Teams such as a Welfare Reform Officer and an additional Debt and Benefit Advisor in order to support tenants affected by welfare changes. However, the impact on social housing landlords in areas where Universal Credit has already been fully implemented for new claimants has been significant. The impact this will have when Universal Credit is fully implemented for existing claimants is still unknown.
- 11.3 Social Housing Green Paper: On the 14 August 2018 the government published its Social Housing Green Paper in response to the tragedy at Grenfell Tower. Whilst the initial consultation has now closed, we are still awaiting the outcome of this consultation and any regulatory changes that this may bring.
- 11.4 Independent Review of Building Regulations and Fire Safety: The final report sets out over 50 recommendations for government as to how to deliver a more robust regulatory system to ensure that the buildings residents live in are safe and remain so.

Again, we are awaiting the final regulatory changes to understand the full budgetary impact this may have on the HRA.

- 11.5 Transformation: Savings from Transformation are included within the ongoing Business Plan. If these savings aren't achieved the financial position of the Business Plan will be affected.
- 11.6 Asbestos: Significant progress has been made in implementing processes and procedures to ensure the Council meets its duties under the Control of Asbestos Regulations 2012. The detailed analysis is nearing completion which will identify the Council's short, medium and long-term financial liabilities for asbestos. The outcome will be compared with budgetary provision within the HRA Business Plan and relevant earmark reserves, so as to schedule an affordable asbestos management plan.

12 HRA Borrowing

- 12.1 In 2012 Taunton Deane took out additional borrowing of £85.2m as part of the self-financing settlement with the Government. This brought the total borrowing in the HRA up to £99.6m at the start of self-financing, including £5.5m internal borrowing from the General Fund.
- 12.2 The current borrowing requirement for 2018/19 totals £104.8m with an additional £12.8m of internal borrowing within the HRA (for approved capital schemes such as Creechbarrow Road). This internal borrowing is currently funded from reserves held by the HRA, but external borrowing may be required in the future. This will be reassessed as part of the overall Business Plan review during 2019/20. A loan repayment of £3.5m will be made during 2019/20.
- 12.3 An annual provision of £1.8m for repayment of debt is included in the Business Plan, and ongoing repayments of borrowing will be made, with refinancing of loans occurring where necessary (in line with the repayment of borrowing over 60 years as approved in the Business Plan).
- 12.4 In October 2018 the government officially removed the debt cap that was set at the inception of self-financing. This means that the HRA comes under the same prudential borrowing rules as the General Fund and is therefore able to borrow providing that it is affordable and viable as part of the overall Business Case and ensuring that this can be repaid over the 60 years.

13 Right to Buy (RTB) Receipts

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

- 13.2 The full spend on new housing (the 30% RTB funding and 70% Council funding) should be spent within three years of the capital receipt, or the RTB receipt must be returned to Government with interest at 4% over base rate from the date of the receipt. Receipts can be returned in the quarter in which they are received with no interest payable.
- 13.3 The table below shows the capital receipts received under the new RTB discount scheme, along with how much of those receipts are deemed to be 'Additional receipts', i.e. those which can be retained and used for new housing, and the total amount that would need to be spent in order to fully retain them.

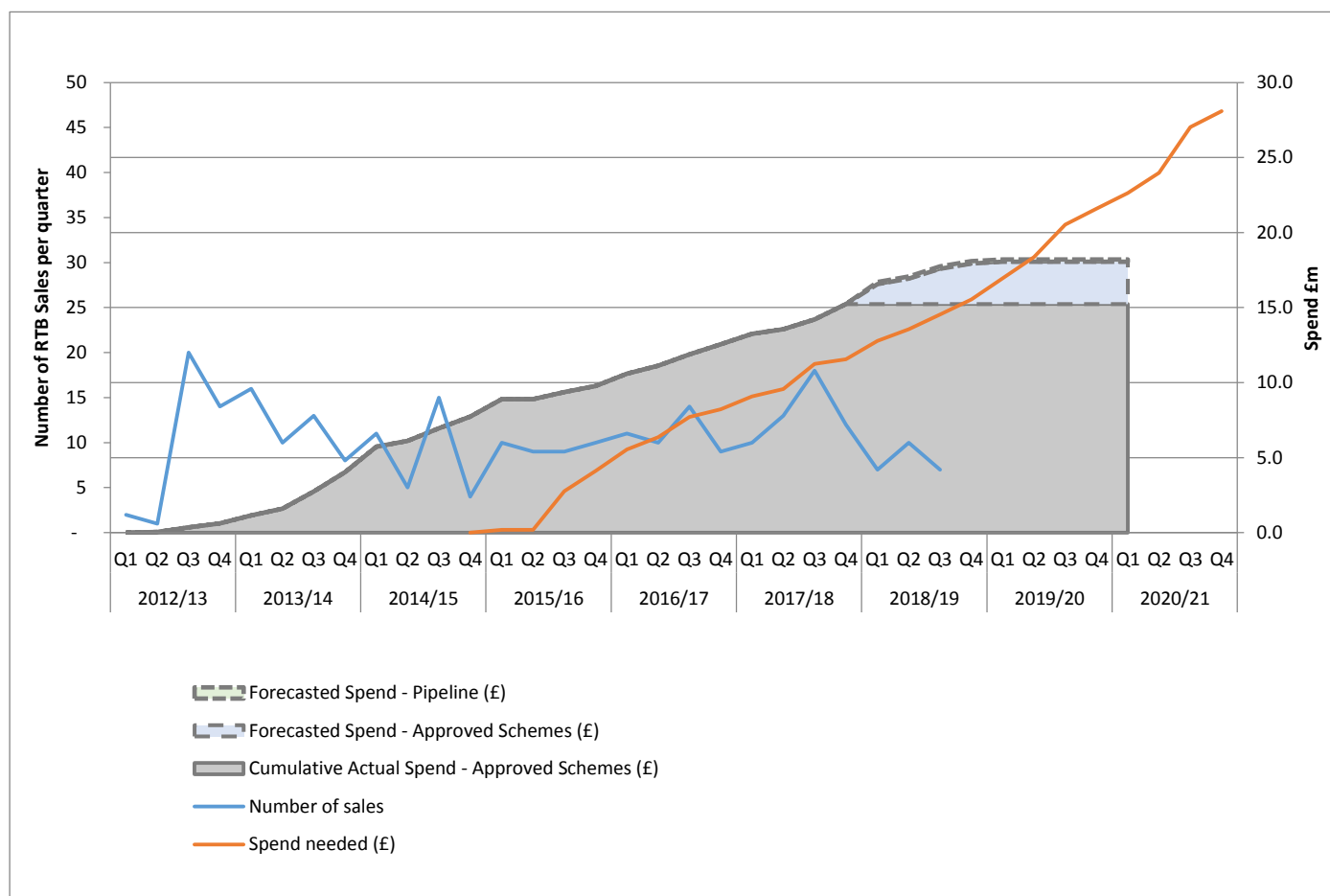
Table 6: Right to Buy receipts

	Total 2012/13	Total 2013/14	Total 2014/15	Total 2015/16	Total 2016/17	Total 2017/18	2018/19			Total to date
							Q1	Q2	Q3	
Sales	37	47	35	38	44	53	7	10	7	278
Total Receipts (£k)	2,330.4	2,704.6	2,316.6	2,665.7	3,568.1	3,971.5	465.2	802.3	516.1	19,340.5
1-4-1 Receipts (£k)	1,233.7	1,230.5	1,004.9	1,192.7	1,816.7	1,949.1	189.0	369.6	347.9	9,334.1
Spend Required (£k)	4,112.4	4,101.5	3,349.6	3,975.6	6,055.8	6,496	630.1	1,231.9	1,159.6	31,112.5

- 13.4 The latest forecast shows that forecast spend will be enough to meet the match funding requirements to quarter 2 of 2019/20. This is based only on currently approved budgets (therefore does not include eligible spend on North Taunton), and doesn't include any additional schemes funded through borrowing. It is possible to borrow for additional schemes, within the borrowing headroom in Section 13, but many schemes may not be able to repay the capital and interest costs from the rental income. This would create a net revenue cost to the HRA which would impact the Business Plan.
- 13.5 It should be noted that the new housing doesn't need to be provided by the Council. The 30% RTB funding could also be used by Housing Associations in the area, providing they meet the same match funding requirements.
- 13.6 Further options for the 70% match funding of RTB receipts in excess of planned development expenditure.
- Increase spend through borrowing
 - Increase spend from revenue – would lead to reduced service provision as revenue is allocated within the Business Plan
 - Use other Council funding
 - Return funding to Government

- 13.7 The requirement for the funding to be spent within three years does mean that there is flexibility to allocate funding after the capital receipts are retained. However development schemes are likely to have large lead in times and so receipts should be allocated as soon as possible to reduce the risk of having to repay the capital receipt to Government with interest payments.

Graph 2: Right to Buy Receipts and forecasted spend



14 Links to Corporate Aims / Priorities

- 14.1 It is important that Councillors recognise the financial position, challenges and risks faced by the HRA 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 2019.

15 Finance / Resource Implications

- 15.1 The HRA's financial position is set out above within the body of this report. The HRA is required to set a balanced budget to ensure that the service remains self-sufficient.
- 15.2 There have been no proposed policy changes or reductions in service budgets in order to balance the budget in 2019/20, in line with the HRA overall Business Plan.

- 15.3 It is important that Councillors have a good understanding of the financial position and forecasts over the medium term.
- 16 Legal Implications** (if any)
- 16.1 None for the purposes of this report. The Welfare Reform and Work Act 2016 sets out a 1% reduction in social housing rents from 1st April 2016 for four years, up to and including 2019/20.
- 17 Environmental Impact Implications** (if any)
- 17.1 None for the purposes of this report.
- 18 Safeguarding and/or Community Safety Implications** (if any)
- 18.1 None for the purposes of this report.
- 19 Equality and Diversity Implications** (if any)
- 19.1 None for the purposes of this report.
- 20 Social Value Implications** (if any)
- 20.1 None for the purposes of this report.
- 21 Partnership Implications** (if any)
- 21.1 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.
- 22 Health and Wellbeing Implications** (if any)
- 22.1 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.
- 23 Asset Management Implications** (if any)
- 23.1 None directly for the purposes of this report. The financial implications associated with asset management will be reflected in due course.
- 24 Data Protection Implications** (if any)
- 24.1 None for the purposes of this report.
- 25 Consultation Implications** (if any)
- 25.1 None for the purposes of this report.
- 26 Scrutiny Comments / Recommendation(s)** (if any)
- 26.1 To be included following the meeting if appropriate.

Democratic Path:

Shadow Scrutiny – 5 February 2019
Shadow Executive – 11 February 2019
Shadow Council – 21 February 2019

Reporting Frequency: Annually

List of Appendices (delete if not applicable)

Appendix A	HRA Draft Budget for 2019/20 and MTFP
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APPENDIX A

HRA Draft Budget for 2019/20 and MTFP

	2018/19 Target Budget	2019/20 Draft Budget	2020/21 Forecast Budget	2021/22 Forecast Budget	2022/23 Forecast Budget	2023/24 Forecast Budget	2024/25 Forecast Budget
Income							
Dwelling Rents	(24,142)	(24,013)	(24,260)	(24,964)	(25,774)	(26,545)	(27,327)
Non Dwelling Rents	(628)	(649)	(669)	(689)	(710)	(731)	(753)
Service Charges	(1,444)	(1,445)	(1,461)	(1,502)	(1,546)	(1,589)	(1,633)
Other Income	(430)	(369)	(386)	(388)	(390)	(393)	(395)
Sub Total Income	(26,644)	(26,476)	(26,776)	(27,543)	(28,420)	(29,257)	(30,108)
Expenditure							
Repairs and Maintenance	5,782	2,225	1,845	1,874	1,903	1,933	1,963
Management	6,934	9,720	10,014	10,250	10,491	10,739	10,993
Rents and Rates	385	394	403	412	421	430	440
Special Management	1,335	1,525	1,544	1,563	1,578	1,597	1,616
Bad Debt Provision	502	60	500	500	500	500	500
Debt Management	9	9	9	9	10	10	10
Expenses							
Other Expenditure	0	0	0	0	0	0	0
Sub Total Expenditure	14,947	13,934	14,314	14,607	14,903	15,209	15,523
Other Expenditure							
Depreciation	6,780	6,522	6,467	6,427	6,406	6,378	6,346
Revenue Contribution to Capital Outlay	0	250	306	345	367	394	427
Contribution to CDC	229	229	229	229	229	229	229
Interest Payable	2,742	2,619	2,549	2,559	2,650	2,522	2,508
New Loan interest requirements	0	0	86	134	184	223	272
Investment Income	(132)	(70)	(70)	(70)	(70)	(70)	(70)
Social Housing Development Fund	1,170	1,170	1,200	1,220	1,351	1,387	1,423
Provision for repayment of debt	1,821	1,821	1,821	1,821	1,821	1,821	1,821
New Loan capital requirements	0	0	38	41	57	71	89
Movement in Reserves	(913)	0	0	0	0	0	0
Transfer to/(from) HRA general reserve	0	1	(164)	229	523	1,093	1,542
Sub Total Other Expenditure	11,698	12,542	12,462	12,936	13,517	14,048	14,585
Balanced Budget	0	0	0	0	0	0	0

General Reserves							
Opening Balance	2,778	2,778	2,779	2,615	2,845	3,367	4,461
Transfers to/(from)	0	1	(164)	229	523	1,093	1,542
Closing Balance	2,778	2,779	2,615	2,845	3,367	4,461	6,003

Somerset West and Taunton

Shadow Executive – 11th February 2019

Draft General Fund Revenue Budget and Capital Estimates 2019/20

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

Report Author: Andrew Stark, Interim Financial Services Manager, Deputy S151 Officer

1 Executive Summary

- 1.1 This report sets out the first revenue and capital budget proposals for the new Somerset West and Taunton Council. It combines the previous budgets of Taunton Deane and West Somerset Councils for the services they provide with updated assumptions in regard of the finance settlement for 2019/20 and other financial projections.
- 1.2 This report also sets out the draft revenue and capital budget proposals for 2019/20 including an updated Medium Term Financial Plan (MTFP) and the proposed council tax for the first year of the new council.
- 1.3 The final funding settlement was issued by Government at the end of January, 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 increased in 2019/20:
 - a) General funding, Revenue Support Grant has reduced by £443,641 to only £6,340 whilst Rural Services Delivery Grant has been kept at the same level of £241,506.
 - b) New Home Bonus funding has reduced by £151,768 (4%).
 - c) Retained business rates has increased by £972,599 reflecting business rates pooling and the 75% Business Rates Retention pilot scheme (18%).
 - d) Share of National Levy Account Surplus of £59,037.
 - e) An announcement of additional funding of £35,000 for each district council (covering 2018/19 and 2019/20) towards Brexit preparations.
- 1.4 Shadow Executive is minded to set a uniform annual Band D council tax rate of £157.88 which together with an increased tax base provides additional council tax income of £405,662 compared to 2018/19.
- 1.5 Shadow Executive is also minded to retain the annual council tax rate at £3.02 for a Band D for the Unparished Area of Taunton which will raise an additional £1,449 due to the tax base increase.
- 1.6 The 2019/20 draft budget also includes a prior year net Collection Fund surplus of £1,448,216 (£1,331,905 business rates surplus, £116,311 council tax surplus).

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 This is the first budget for the newly formed Somerset West and Taunton Council. 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-ring-fenced and specific grants/subsidy).
- 4.3 Each year the Council has to set an annual budget which details the resources needed to meet operational requirements. The annual budget should be prepared within the context of priorities identified by Members which are embedded in the Council's current Corporate Plan.
- 4.4 The draft budget reflects transformation savings and shows a broadly balanced position for the medium term. However there is significant uncertainty from 2020/21 onwards with the implementation of the Fair Funding Review and resetting of business rates baselines.
- 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 2019/20.

5 Final Finance Settlement 2019/20

- 5.1 The Final Finance Settlement was received on 29 January 2019. This reconfirmed the funding indicated by the provisional settlement with the announcement of additional funding towards Brexit preparations – each district council to receive £35k over 2 years covering 2018/19 and 2019/20.
- 5.2 The impact of the Provisional Settlement was provided to All Councillors on the 14th December. The impact of the Finance Settlement is reflected in the MTFP and explanations are provided in the body of this report.

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 a further consultation on its progress.
- 6.2 This consultation covers all three key strands of the Review. In particular, it:
- Sets out the Government's preferred options on the structure of the relative needs assessment, including tier-specific foundation formulas and formulas to assess specific services, the leading cost drivers for inclusion in these formulas, and analytical techniques to weight cost drivers;
 - Sets out the Government's preferred options on measuring the council tax base, in particular treatment of mandatory and discretionary council tax discounts, and the choice of council tax level to be used when calculating the resources adjustment; and
 - Outlines options on high level principles that could underpin the choices of transition mechanism, and the definition and measurement of 'baseline' and 'target' between which the transition mechanism would be applied to.

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 2019/20 of Revenue Support Grant but with the unexpected maintenance of Rural Services Delivery Grant at the 2018/19 settlement level. There was confirmation that Negative Revenue Support Grant will be offset in 19/20 – this is worth £128k for Somerset West and Taunton and we had assumed that this would happen. Overall a 64% reduction in general revenue grant funding:

Table 1 – General Government Grant

	TDBC/WSC 2018/19 £	SWT 2019/20 £	Change £	
Revenue Support Grant	449,841	6,340	-443,641	-99%
Rural Services Delivery Grant	241,506	241,506	-	-
Total General Revenue Grant Funding	691,487	247,846	-443,641	-64%

- 7.2 The following table summarises how overall settlement funding has changed since 2015/16 (for comparison purposes the years 2015/16 to 2018/19 incorporate the combined funding assessments for Taunton Deane and West Somerset Councils). During this period the Settlement reduces by 33% in cash terms.

Table 2 – Settlement Funding

	15/16 £k	16/17 £k	17/18 £k	18/19 £k	19/20 £k
RSG	2,751	1,785	962	450	6
RSDG	46	240	194	242	242
Transition Grant	0	17	17	0	0
Business Rates Baseline	3,550	3,579	3,652	3,762	4,096
Government Settlement	6,347	5,621	4,825	4,454	4,344



8 Business Rates Retention and 75% Business Rates Pilot Bid

- 8.1 Local authorities receive a significant proportion of their funding through the Business Rates Retention (BRR) system. SWT will operate within the Somerset Business Rates Pool in 2019/20. In addition, the Pool has applied successfully to be a Pilot area for 75% BRR (one of 16 pilots nationally in 2019/20). Being a Pilot area is expected to bring significant financial benefits in 2019/20 for Somerset as a whole with the County and each District council taking a share.
- 8.1 From initial estimates the one-off gain through the Pilot is £6m to £7m in addition to a similar amount through pooling, of which Somerset West and Taunton's share of the gain would be between £1.2m and £1.4m. We are confident that the potential gains far outweigh the risk of being in a pool. At this stage we have therefore prudently assumed that an amount of £1.2m arising from the potential gain will be set aside within a special Economic Growth and Prosperity Fund. We will closely monitor the position of the Somerset Pool during the year such that no funding will be available from this Fund until any potential gains are realised.
- 8.2 The overall BRR position has improved not only through the Pilot scheme, but also through closer alignment in key assumptions between the Pool authorities regarding appeals and refunds. It is evident that the new "Check, Challenge, Appeal" arrangements introduced by the Valuation Office in 2017 have significantly reduced appeal volumes. We are therefore able to reduce our provision for appeals, which in turns means a greater

proportion of business rates collected can be distributed to the councils. This is considered an acceptable risk, particularly in view of the level of funds set aside in the Business Rates Smoothing Reserve and General Reserves.

- 8.3 The provisional estimates for Business Rates Income based upon the 75% BRR Pooling scheme is summarised in the table below.

Table 3a Collection Fund Rating Income Estimate 2019/20

	Pool 75% £k
Net Rates Payable (after reliefs)	59,895
Transitional Protection Payments	-528
Less: Allowance for bad debts	-382
Less: Allowance for appeals	-1,488
Collectible Rates	57,497
Less: Costs of Collection	-252
Less: Disregarded amounts: Renewable Energy	-205
Non-Domestic Rating Income	57,040
SWT Share of NDR Income (44%)	25,098

- 8.4 A summary of the new Retained Funding figure is shown in the table below. Business rates funding has been forecast to reduce in 2020/21 reflecting of the one year benefit of the 75% Pool Pilot together with an estimated reduction reflecting the Fair Funding Review and reset of business rates baseline from 2020/21.

Table 3b – Business Rates Retention Estimates

Business Rates Retention Funding Estimates	2018/19 Budget £	2019/20 Estimate 75% Pool £	Indicative (50% Scheme) 2020/21 Estimate £
Share of Business Rates Yield	21,881,460	25,097,568	22,838,760
Rates yield from renewable energy	200,336	204,926	209,101
Tariff to Government	-17,694,364	-20,046,813	-18,468,493
Tariff Adjustment – Negative RSG			-130,546
Fair Funding Review and Reset			-1,000,000
Levy Payment	-919,124	-1,842,946	-1,192,820
S31 Grant funding for Reliefs	2,087,839	3,116,011	2,100,000
Net Retained Business Rates Funding	5,556,147	6,528,746	4,797,881
Net Retained Rates Funding as % of yield	10.1%	11.4%	8.2%

9 New Homes Bonus

- 9.3 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-ring-fenced which means that the Council is free to decide how to use it. The Council only uses intends to use part of its NHB allocation each year towards the revenue budget for

services. The remaining grant will be allocated to the Growth Earmarked Reserve.

- 9.4 The confirmed NHB Grant for 2019/20 is £3,809,209, which is £151,768 or 4% less than the comparable amount for 2018/19. 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 2019/20

	2018/19 £	2019/20 £	Change £	
Amount for revenue budget	788,397	720,000	-68,397	
Amount for growth	3,172,576	3,089,209	-83,371	
New Homes Bonus Grant	3,960,977	3,809,209	-151,768	-4%

- 9.5 The Government has not revised the changes to the New Homes Bonus methodology that were 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 our previous forecast we had assumed that the growth baseline would be increased to 0.5%). In addition to the top-slice, the Government has reaffirmed that the legacy amounts included in the annual grant allocation is reduced to 4 years from 2018/19 (was 6 years in 2016/17, then 5 years in 2017/18).
- 9.6 The impact of this growth baseline is significant. The actual growth in Band D equivalents in 2018 was 881 or 1.3%. The impact is summarised within the following breakdown of the grant allocation related to 2019/20:

Table 5 – New Homes Bonus 2019/20 Calculation

Net Additions (October 2017 to October 2018)	995
Net increase in empty homes	-47
Net housing growth	948
Net housing growth weighted as Band D equivalents (=1.31%)	881.4
0.4% of October 2018 stock base – Band D equivalents	-268.6
Rewarded units =0.81% growth – Band D equivalents	612.9
NHB Grant for growth (£1,671.45* x 80%** x 612.9)	£819,491
Affordable housing units growth (April 2017 to March 2018)	114
NHB Grant for affordable housing growth (£350 x 80%** x 114)	£31,920
Total NHB Grant allocation related to 2019/20	£851,411

*£1,671.45 = the national average Band D council tax for 2018/19

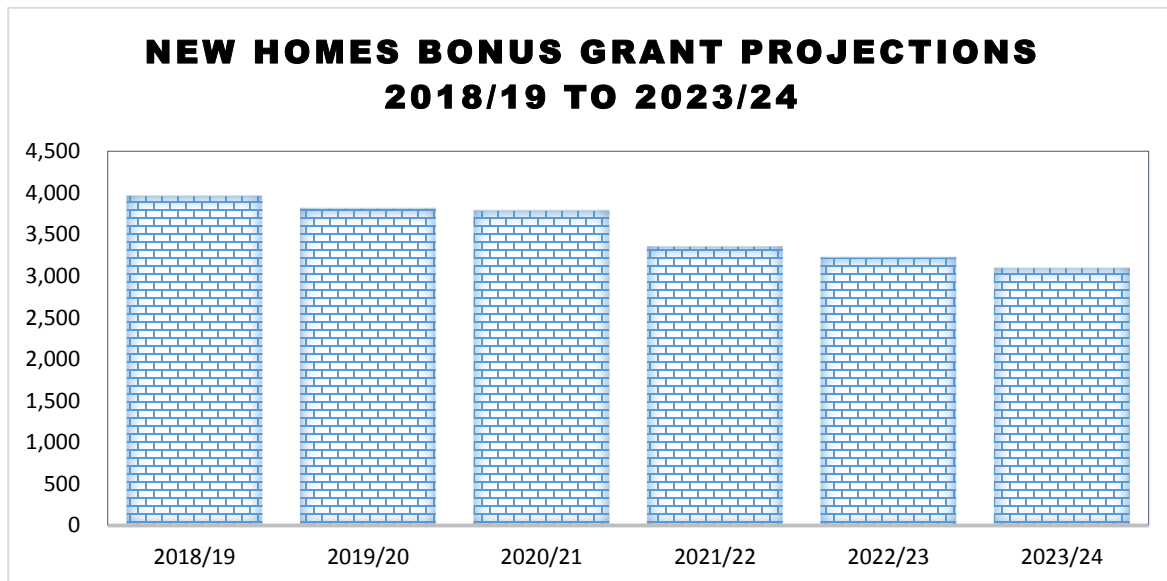
**growth is rewarded 80% to lower tier (District), 20% to upper tier (County)

- 9.7 As this shows, housing growth (net of new housing, demolitions and increase/decrease in empty homes) of 268.6 Band D equivalents has not been rewarded in 2019/20. This has resulted in a loss of funding of approximately **£359,161** due to the top-slice for 0.4% growth.
- 9.8 The following table and graph summarises the allocations of NHB since 2018/19 and including the MTFP forecast up to 2023/24.

Table 6 – New Homes Bonus Grant Forecast

	2018/19 £k	2019/20 £k	2020/21 £k	2021/22 £k	2022/23 £k	2023/24 £k	Total £k
2015/16	1,003						1,003
2016/17	841	841					1,682
2017/18	1,258	1,258	1,258				3,774
2018/19	858	858	858	858			3,432
2019/20		851	851	851	851		3,404
2020/21			816	816	816	816	3,264
2021/22				825	825	825	2,475
2022/23					727	727	1,454
2023/24						727	727
Total	3,960	3,808	3,783	3,350	3,219	3,095	21,215

- 9.9 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 new Council is required to address the issue of the different amounts of council tax that have been previously set by the former councils of Taunton Deane and West Somerset. The new Council is required to set a ‘harmonised’ council tax rate such that all residents within the new council area pay the same amount of district level council tax relative to the banding of their property. Although legislation would have allowed for harmonisation to be implemented over a number of years, the relative closeness of the existing band D council tax amounts, means that for practical purposes harmonisation could be implemented immediately.
- 10.2 The current basic band D council tax amounts are £152.88 for TDBC and £155.56 for WSC respectively. For initial financial planning purposes it was assumed that the initial ‘harmonised’ rate for 2019/20 would be £157.88 (the lower TDBC rate of £152.88 increased by £5). Thereafter, the Medium Term Financial Plan reflects a financial

planning assumption that Council Tax charges will increase by 2.99% each year from 2020/21.

- 10.3 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 2019/20 without the need for a referendum.
- 10.4 Executive are minded to recommend the option to increase Band D Council Tax to £157.88 which equates to the £5 annual increase on current TDBC rate of £152.88 and an increase of £2.32 on current WSC Band D, and this is reflected in the proposed budget for 2019/20. The Band D tax rate including £1.75 for Somerset Rivers Authority will be £159.63 per year or £3.05 per week.
- 10.5 The approved Tax Base for 2019/20 is 56,622.8 Band D Equivalents, an increase of 1,048.6 (1.9%) compared to 2018/19 tax base of TDBC and WSC. The budget estimates for Council Tax income for SWT is therefore $56,622.8 \times £157.88 = £8,939,605$. This represents a total increase of £405,662 compared to the previous year. The budget estimates are calculated as follows.

	£
Council Tax Income Budget 2018/19 (TDBC & WSC)	8,553,943
Increase due to change in Tax Base (Band D equivalents)	160,304
Increase due to proposed increase in Tax Rate	<u>245,358</u>
Council Tax Income Estimate 2019/20	<u>8,939,605</u>

11 Special Expenses/Unparished Area Budget

- 11.1 The Executive are minded to keep the Special Expenses (Unparished Area) precept at £3.02 on a Band D property. Due to an increase in tax base this will raise an additional £1,449 per year in tax income.
- 11.2 The proposed budget for 2019/20 is therefore £46,983, entirely funded through Special Expenses levied within the unparished area.

12 Somerset Rivers Authority

- 12.1 The Somerset Rivers Authority (SRA) remains unable to raise their own precept and it is therefore proposed to follow the same arrangements as previous for TDBC and WSC. For 2019/20 it is proposed that the Band D amount will be £1.75 and this will raise £99,090 in funding for the SRA from the Council in 2019/20.

13 2019/20 Draft Budget Summary

- 13.1 The following tables provides a summary of the Budget position for 2019/20.

	TDBC/WSC Budget 2018/19 £	SWT Budget 2019/20 £
Total Spending on Services	14,842,723	14,148,279
Somerset Rivers Authority Contribution	96,981	99,090
Revenue Contribution to Capital	440,500	375,000
Capital Debt Repayment Provision (MRP)	543,110	455,010
Interest Costs	175,420	168,530
Interest Income	-642,000	-642,000
Parish Precepts	1,828,378	1,828,378
Special Expenses	45,534	46,983
Transfers to Earmarked Reserves	2,957,089	6,527,840
Transfer to Economic Growth and Prosperity Fund	0	1,200,000
AUTHORITY EXPENDITURE	20,287,735	24,207,110
Retained Business Rates (including pool and pilot 2019/20)	-5,556,147	-6,528,746
Somerset BRR Pilot		-1,200,000
Share of Levy Surplus		-59,037
Revenue Support Grant	-449,981	-6,340
Rural Services Delivery Grant	-241,506	-241,506
New Homes Bonus	-3,960,977	-3,809,209
Surplus(-)/Deficit on Collection Fund – Council Tax	-115,977	-116,311
Surplus(-)/Deficit on Collection Fund – Business Rates	541,689	-1,331,905
Demand on Collection Fund – Parishes and SER	-1,873,912	-1,875,361
Total Council Tax Raised by Council	8,630,924	9,038,695
Divided by Council Tax Base	55,574.2	56,622.8
Council Tax Band D – SWT Services	153.56	157.88
Council Tax Band D – Somerset Rivers Authority	1.74	1.75
Council Tax Band D – SWT including SRA	155.30	159.63
Cost per week per Band D equivalent	2.98	3.05

The table below shows the movement in spending and funding between 2018/19 and 2019/20:-

	£k	£k
Net Expenditure Base Budget 2018/19		20,288
Inflation costs	503	
Annual pension deficit payment increase	41	
Somerset Waste Partnership	77	
Contribution to Citizens Advice Bureau	45	
Leisure Contract	399	
Other Service Changes	42	
Transformation savings	-1,638	
New Council – Savings per business case	-360	
Increase fees and charges	-64	
Deane House project and maintenance costs	137	
Increased IT Costs	126	
Financing Costs (net interest income and repayment of borrowing)	-160	
Subtotal costs		-852
Contribution to Economic Growth and Prosperity Fund	1,200	
Business Rates Smoothing Reserve	3,732	
Reduction in NHB contribution to reserves	-84	

Remove previous year transfers to reserves	-210	
Negative RSG - Contingency	128	
Use of Leisure Reserve	-62	
Other Reserve Adjustments	67	
Subtotal Reserve movement		4,771
Net Expenditure Base Budget 2019/20		24,207

	£k	£k
Total Funding 2018/19		-20,288
Reduction in RSG	444	
Increased Retained Business Rates	-973	
Somerset Rates Pool	-1,200	
Share of Levy Surplus	-59	
Reduction in NHB	152	
Increased funding from Council Tax	-409	
Collection Fund Surplus	-1,874	
Subtotal - change in funding		-3,919
Total Funding 2019/20		-24,207

14 Medium Term Financial Plan (MTFP) Summary

14.1 The current MTFP forecast is summarised below, reflecting the proposed budget for 2019/20 and the updates described in this report.

MTFP Summary 2019/19 to 2023/24

	2018/19 £	2019/20 £	2020/21 £	2021/22 £	2022/23 £	2023/24 £
Services Costs	14,842,723	14,148,279	14,096,828	14,449,146	15,154,436	15,740,866
Net Financing Costs	517,030	356,540	485,900	470,260	633,370	416,480
SRA Contribution	96,981	99,090	100,675	102,286	103,923	105,586
Special Expenses	45,534	46,983	47,641	48,308	48,985	49,670
Earmarked Reserves-Growth	3,172,576	3,089,209	3,183,714	2,800,666	2,719,432	2,594,664
Earmarked Reserves-Other	-215,487	3,438,631	250,194	250,194	194	194
Economic Growth and Prosperity	0	1,200,000	0	0	0	0
Net Expenditure	18,459,357	22,378,732	18,164,952	18,120,860	18,660,340	18,907,460
Retained Business Rates	-5,556,147	-6,528,746	-4,797,881	-4,871,689	-4,945,497	-5,019,305
Business Rates prior year surplus/deficit	541,689	-1,331,905	0	0	0	0
Somerset BRR Pilot		-1,200,000				
Share of National Levy Account Surplus		-59,037				
Revenue Support Grant	-449,981	-6,946,681	0	0	0	0

Rural Services Delivery Grant	-241,506	-241,506	-241,506	-241,506	-241,506	-241,506
New Homes Bonus	-3,960,977	-3,809,209	-3,783,714	-3,350,666	-3,219,432	-3,094,664
Council Tax	-8,533,943	-8,939,605	-9,354,180	-9,787,916	-10,241,447	-10,716,043
Council Tax–SRA	-96,981	-99,090	-100,675	-102,286	-103,923	-105,586
Council Tax–Special Expenses	-45,534	-46,983	-47,641	-48,308	-48,985	-49,670
Council Tax prior year surplus/deficit	-115,977	-116,311	0	0	0	0
Net Funding	18,459,357	22,378,732	18,325,597	18,402,371	18,800,790	19,226,774
Budget Gap	0	0	-160,645	-281,511	-140,450	-319,314
Gap – Change on Previous Year	0	0	-160,645	-120,866	141,061	-178,864

Transformation of Services

- 14.2 The MTFP position above already includes the projected savings arising through the implementation of the Transformation Business Case and formation of the new council, as summarised below. Without these savings the forecast budget gap would be a deficit of **£2.057m per year** by 2023/24. The savings from transformation included in the MTFP above are:

Table 7 – Transformation Savings

	2018/19	2019/20	2020/21	2021/22	2022/23
	£k	£k	£k	£k	£k
Transformation Savings	197	1,835	1,853	1,871	1,871
New Council Savings		360	420	505	505
Total Annual Savings	197	2,195	2,273	2,376	2,376

2019/20 is a critical period with the new Council launch and significant change in staffing levels, business processes and ways of delivering services to our customers. This carries a degree of financial risk.

Contract Procurement Savings

- 14.3 It is anticipated that there will be significant revenue savings arising from a contract procurement exercise. Although there will be some additional costs during the first year of the new contract (2019/20), savings thereafter are significant. The impact of this procurement is included in the MTFP projections, subject to imminent contract completion.

15 Fees and Charges

- 15.1 A charge has been applied (in TDBC) since 2006 for the hire of its parks and open spaces for events. It is proposed that Somerset West and Taunton continue with the fees as previously set with the inclusion of those from WSC in the same charging profile. It has come to light that a number of sites were accidentally excluded from the previous fees and charges report, and therefore these have been included in the revised Appendix N. They are the sites at Stenhelm Gardens, Minehead Esplanade

and Harbour. With this being the first year that WSC assets have been included it is unclear the level of take up there will be and as a result there is no impact upon the MTFP.

16 General Reserves

- 16.1 The current reserves position is shown below. The forecast Outturn for the 2018/19 budget is currently being reviewed for Taunton Deane and West Somerset but recent projections predict a combined underspend of £163,000. In addition it has been approved that £24,000 of the predicted underspend and £509,000 from General Reserves is used to fund the Transformation Programme during 2018/19. 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

	£k
Balance Brought Forward 1 April 2018	3,198
2018/19 Projected Outturn Underspend	163
Use of underspend for Transformation	-24
Use of General Reserve for Transformation	-509
Projected Balance 31 March 2019	2,828
Recommended Minimum Balance	2,400
Projected Balance above recommended minimum	428

- 16.2 A review of the level of General Reserves has recently been undertaken for the new council as per the attached Appendix B. Following this review it is recommended that the minimum balance of general reserves is set at £2.4m. Given the future funding risks it is strongly advised to maintain reserves above the minimum.

17 2019/20 General Fund Capital Programme

- 17.1 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

- 17.2 The recommended General Fund Capital Programme for 2019/20 totals £10.274m including part of the overall allocations for NHB Growth Schemes and Community Infrastructure Levy. Table 9 details bids submitted for General Fund Schemes. The table summarise the bids that have been presented by services for consideration.

- 17.3 The current General Fund Capital Programme in 2018/19 includes approved projects totalling £60.502m and is shown in Appendix A.

Table 9 – 2019/20 Capital Programme

Scheme	Cost £	Priority	Proposed Funding				
			RCCO £	Grants/ S106 £	Growth Reserve £	Capital Receipts £	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	31,000	1	31,000				31,000
DFGs	1,200,000	2		1,200,000			1,200,000
Leisure Grants to Clubs and Parishes	15,000	5	15,000				15,000
TDBC Replacement Play Equipment	76,740	2				76,740	76,740
Refresh of End User Devices	50,000	1	50,000				50,000
Microsoft 365 Migration	100,000					100,000	100,000
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	495,000	2		495,000			495,000
Sub-Total	2,246,740		375,000	1,695,000	0	176,740	2,246,740
NHB Growth Schemes:							
Taunton Town Centre regeneration	991,000	3			991,000		991,000
Employment site enabling and innovation to promote Growth	536,000	3			536,000		536,000
Taunton Strategic Flood alleviation	500,000				500,000		500,000
Sub-Total	2,027,000		0	0	2,027,000	0	2,027,000
Community Infrastructure Levy							
Cycle and pedestrian improvements	1,000,000			1,000,000			
Education Provision	4,000,000			4,000,000			
Public transport improvements	1,000,000			1,000,000			
Sub-Total	6,000,000						
Grand Total	10,273,740		375,000	7,695,000	2,027,000	176,740	10,273,740

Capital Schemes Explained

- 17.4 **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.
- 17.5 **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.

- 17.6 **Deane Helpline £31k:** The service has just under 1,800 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 £28,000. 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.
- 17.7 **Disabled Facility Grants (Private Sector) £1,200k:** 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 £1,200,000k, providing the necessary funding to make this scheme affordable.
- 17.8 **Leisure Grants to Clubs and Parishes £15k:** Annual capital grant scheme for awards to voluntary village halls, community centres and sports clubs.
- 17.9 **Play Equipment Replacement £77k:** Annual capital scheme to replace play equipment within the Council's 104 children's playgrounds.
- 17.10 **Refresh of End User Devices £50k:** Annual refresh budget which plans for laptops and tablets to be replaced on a rolling five year basis and smart devices every three years.
- 17.11 **Microsoft 365 Migration £100k:** A cloud based replacement of our Microsoft office/email/sharepoint systems as our current Office 2013, Sharepoint 2013 and Exchange 2013 systems become unsupported.
- 17.12 **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.
- 17.13 **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 2019/20 for this scheme.
- 17.14 **Grants to Registered Social Landlords £495k:** 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.
- 17.15 **Growth Schemes:** See Section 19 below.

18 Funding the General Fund Capital Programme

18.1 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

- 18.2 Table 9 above summarises the proposed funding of the Capital Programme for 2019/20 and shows that the proposed Capital Programme for 2019/20 is fully funded through a combination of revenue contributions, capital grants, S106 contributions, the NHB growth reserve and capital receipts.

Funding Sources Explained

- 18.3 **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.
- 18.4 **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.
- 18.5 **Grant Funding:** The Council receives capital grant for Disabled Facilities Grant. The confirmed grant for 2018/19 is £1,180k. 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. The Council has representation on various groups to try and ensure our interests are protected.
- 18.6 **Capital Contributions:** This could take the form of capital contributions from other authorities or developers in the form of s.106 funding.
- 18.7 **Revenue Funding (RCCO):** The Council's draft budget includes an annual sum of £375k to fund capital expenditure from General Fund revenue budgets which, if supported through the approval of the 2019/20 Capital Programme, would be affordable.
- 18.8 **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.
- 18.9 **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.

19 Capital Programme for Growth and Regeneration 2019/20

- 19.1 TDBC has previously 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

- 19.2 Full details of this allocation and the associated principles of spending were provided in the report to the TDBC 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.
- 19.3 The Growth and Regeneration Capital Budget approved to date totals £6.370m. If approved, this further £2.027m will bring the total approved NHB Growth and Regeneration Capital Budget to £8.397m.
- 19.4 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

New Homes Bonus Forecast as at January 2019							
2019 Revised Spending profile	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	Totals
	Actual	Actual	Forecast	Indicative	Indicative	Indicative	
	£k	£k	£k	£k	£k	£k	£k
Major transport schemes	0	0	650	0	2,875	625	4,150
Taunton Town Centre regeneration	14	161	875	991	427	309	2,777
Employment site enabling and innovation to promote Growth	0	16	85	536	1,600	1,500	3,737
Taunton Strategic Flood Alleviation	0	152	483	500	2,000	2,500	5,635
New Garden Communities	0	0	0	0	0	0	0
Marketing Promotion and Inward Investment	102	110	29	0	0	0	242
Preparation of LDO's	59	0	0	0	0	0	59
Total expected investment	175	440	2,122	2,027	6,902	4,934	16,600

- 19.5 Members will note from the above table that the spending categories remain as originally approved and that no change is proposed to the overall allocation of £16.6m over the period 2016/17 to 2021/22.
- 19.6 Within the overall £16.6m allocation, members will note that changes to the original profile) are now proposed in some categories, namely:
- **Major Transport Schemes** – overall allocation increased slightly to £4.1m due to re-profiling of costs, with the delivery of the Variable Messaging and Pay on Foot systems in progress. The contribution to the J25 improvement scheme has been re-profiled to 2020/21 in line with the anticipated delivery of this project.
 - **Taunton Town Centre Regeneration** - overall allocation decreased slightly £2.8m due to re-profiling of costs, while retaining the aim of enabling the delivery of major Town Centre schemes, such as Firepool and Coal Orchard.
 - **Employment sites, enterprise and innovation** – increase to overall allocation to £3.7m due to a reallocation from Marketing Promotion to provide for the Innovation centres.

- **Taunton Strategic Flood Alleviation** - The allocation towards the Flood Alleviation project has been increased by reallocation from New Garden Communities in line with the Councils commitment to flood relief.

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

20 Community Infrastructure Levy (CIL)

20.1 TDBC introduced a Community Infrastructure Levy (CIL) on 1 April 2014. The Community Infrastructure Levy is a tariff charged on residential development (excluding Taunton town centre and Wellington) and retail development outside Taunton and Wellington town centres. The principle behind CIL is that most development has some impact on infrastructure and the developer should contribute to the cost of providing or improving it. CIL applies to new floor space and charges are based on the size, type and location of the new development.

20.2 A separate report regarding CIL and future allocations for 2019/20 to 2022/23 was considered by TDBC Scrutiny Committee in September and Shadow Executive on 26 September. The projected balance of CIL receipts as at 31 March 2019 is anticipated to be £4m. The report detailed proposed CIL allocations of £15.5m for the period 2019/20-2022/23 for member consideration. The proposed CIL allocations are for infrastructure categories associated with the delivery of infrastructure projects for the Taunton Garden Town and are in addition to the £16.6m New Homes Bonus already committed to delivering the Council's growth agenda. The report to Shadow Executive included a recommendation that the proposed investment of Community Infrastructure Allocations be included within the recommended capital programme for 2019/20.

20.3 The proposed CIL allocations for the period 2019/20 to 2022/23 are set out in the table below.

Table 11: CIL allocations for the period 2019/20-2022/23 (including payment in kind land/infrastructure)

Taunton Garden Town CIL projects	2018/19	2019/20	2020/21	2021/22	2022/23	Proposed Total CIL allocations for 2019-2023
	£	£	£	£	£	£
Cycle and pedestrian improvements		1,000,000			500,000	1,500,000
Education provision		4,000,000			2,000,000	6,000,000
Public transport improvements		1,000,000	1,000,000	1,000,000		3,000,000
Taunton Town Centre Regeneration			1,000,000	500,000		1,500,000
Surface Water and Flood Risk Mitigation			1,000,000	2,000,000		3,000,000
Community Development					500,000	500,000

Total allocations	-	6,000,000	3,000,000	3,500,000	3,000,000	15,500,000
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21 Robustness of Budget Estimates and Adequacy of Reserves – Report by S151 Officer

- 21.1 Under Section 25 of the Local Government Act 2003 the S151 officer is required to report to Council on the robustness of the estimates made for the purpose of calculations of the budget and the adequacy of the proposed financial reserves. These
- 21.2 The Draft Budget for 2019/20 brings together the previous budgets of Taunton Deane and West Somerset Councils and has allowed for best estimates of expenditure and income including assumptions for increases and decreases due to trends and future influences such as inflation. It reflects commitments necessary to maintain service levels, and with demand-led budgets this inevitably entails a degree of judgement.
- 21.3 There has been a significant degree of scrutiny of the proposed budgets and savings by:
- The finance team – with several staff holding professional accountancy qualifications
 - Senior Leadership Team and Leadership group
 - Portfolio Holders
 - Shadow Scrutiny Committee
- 21.4 These examinations of the budgets have led to refinements and provide considerable assurance about the robustness of the estimates.
- 21.5 Transforming the way council services are delivered and the formation of the 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), including further savings arising from the formation of the new Council, in line with the business case. There is a significant degree of risk that cost estimates and the delivery of savings will change.
- 21.6 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. However, as referred above, 2019/20 carries significant risk and it is therefore very important that contingencies and reserve levels are maintained.
- 21.7 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 2019/20 with the unknown impacts of the next Spending Review, the Fair Funding Review, business rates baseline and tariff resets, and New Homes Bonus changes.

21.8 Other key risks to be aware of are:

- The Council is exposed to financial risk in its business rates funding estimates. Business Rates Retention (BRR) funding is based on the estimates completed in January each year. Estimates reflect anticipated growth, mandatory and discretionary discounts/reliefs and collection rates. Financial provisions are made for potential losses for appeals and other reductions, however experience shows that business rates funding can be volatile despite prudent estimates. There are also timing differences between financial years inherent in the required accounting arrangements. The Council seeks to mitigate the budget risk of reductions in funding by holding funds in a Business Rates Smoothing Reserve.
- Business Rates Pooling and 75% BRR Pilot: The County and four Districts in Somerset form the Somerset Business Rates Pool, which will be a pilot area (for one year only) for 75% Retention in 2019/20. Pooling seeks to reduce the levy paid to Government on growth in business rates income above the funding baseline. The pool will distribute gains from levy savings in the form of a 'dividend' at the end of each financial year. Being in a pool increases risk with a lower safety net, although the safety is more beneficial under the 75% scheme (95% of baseline as opposed to 92.5%) for the Pool. In mitigation the Pool plans to cover individual authority safety net costs from pooling gains before any dividend is issued however there is no guarantee the gains will be sufficient to cover large scale losses. The risk is considered to be low in this respect, but will be carefully monitored. The proposed budget for 2019/20 includes a reasonable estimate of the pooling and pilot gain, with the funding to be set aside in an Economic Growth and Prosperity Fund.
- The assessment of minimum level of reserves has been reviewed for the new council and it is recommended this balance is set to £2.4m. Should the budget be approved, the General Fund Reserves are forecast to be £2.8m, leaving some essential headroom for unforeseen events during the coming financial year.
- Brexit: A downturn in the economy for example through Brexit would impact on our key income streams including business rates. A 5% reduction in development control, car parking, and building control alone would result in a loss in excess of £300k per annum. The final finance settlement has announced some additional funding (£35k over 2 years) towards Brexit preparations.
- Council Tax Reduction Scheme: Members have approved the scheme for 2019/0. We will continue to monitor the financial impact on the Council. The key risk on this item is on the level of take-up.
- Housing Benefits / Subsidy: The administration funding has once again reduced in 2019/20. It is possible that 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.
- Subsidy budgets are very difficult to estimate due to the fluctuating volume of claims received and the different levels of subsidy payable. Adjustments reducing the grant subsidy can also be made for local authority error. The total benefit subsidy budget is approximately £40m – 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.

- 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.

Government Funding

- 21.9 The grant funding from Government is in line with the confirmed multi-year settlement. This provides confidence in our estimates of revenue support funding up to 2019/20. As explained in the main report, RSG is as expected whilst RSDG has been maintained at 2018/19 funding levels. The final settlement confirmed on 29 January.
- 21.10 The Government continue to develop their policy on local government finance. In this year's settlement the Secretary of State again indicated the 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. There is therefore significant uncertainty regarding the funding position for 2020/21 onwards, with the funding system due to be updated following the Spending Review, Fair Funding Review and Business Rates Retention reform – all due to be implemented from April 2020.

Council Tax

- 21.11 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 setting a harmonised basic band D council tax that will increase the existing TDCC basic band D tax rate by £5 per annum – a sound policy in light of the financial uncertainty ahead.

Capital Programme Funding

- 21.12 The Shadow Executive's draft budget proposals for the General Fund capital programme are set out in this main 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.
- 21.13 The Shadow 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.

Inflation and Other Key Budget Assumptions

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

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.

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 projections.

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.

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

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.

Council Tax: growth assumptions in the council tax base have been forecast at 1.6% in 2019/20 and for each 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.

Sustainability: the proposed budget takes into account the future financial uncertainty faced by the Council. The Council can set a balanced budget for 2019/20 and the medium term financial plan is deliverable.

Delivery of Savings

- 21.15 The budget approach for 2019/20 has sought to avoid the need for service savings plans. The key savings in the MTFP will be delivered through transformation. I remain confident that the programme remains on track to achieve the financial benefits in full by 2019/20.

22 Adequacy of Reserves

- 22.1 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.
- 22.2 All reserves are reviewed at least annually and my formal opinion updated during the budget setting process each year. The minimum level of reserves for the new council has been set at £2.4m following an assessment in January 2019.
- 22.3 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.
- 22.4 The Shadow Executive's draft budget for 2019/20 does not rely on the use reserves to support ongoing spending – which is a positive position.
- 22.5 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.

General Fund Reserve

- 22.6 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.

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

Housing Revenue Account Reserve

- 22.8 The HRA working balance reserve is forecast to be £2.8m after budget approval for 2019/20. 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.

Earmarked Reserves

- 22.9 At the beginning of 2019/20, the Council expects to have in the region of £25m in specific earmarked reserves.

23 Conclusions – Statement of the S151 Officer

- 23.1 Based on the evidence I have reviewed I am able to confirm that I believe the Council's draft budget proposals for 2019/20 to be sufficiently robust, and the Council's reserves to be adequate.
- 23.2 The budget for 2019/20 is balanced without the need to draw on general reserves. Looking ahead, the MTFP shows a broadly balanced position (a surplus of £319k predicted by 2023/24). Key to this is achieving the planned transformation savings in full.
- 23.3 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.
- 23.4 Finally of course, Brexit also brings significant uncertainty at the time of writing this report. It will therefore be necessary to review the Financial Strategy not only in light of the outcome of this but also with the other potential issues that I have highlighted.

24 Links to Corporate Aims / Priorities

- 24.1 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 2019.

25 Finance / Resource Implications

- 25.1 The Council's financial position is set out above within the body of this report.
- 25.2 It is important that Councillors have a good understanding of the financial position and forecasts over the medium term.
- 25.3 The MTFP reflects the projected savings from transformation of council services.

26 Legal Implications (if any)

26.1 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.

27 Environmental Impact Implications (if any)

27.1 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 2019/20, in line with the Council's agreed financial strategy.

28 Safeguarding and/or Community Safety Implications (if any)

28.1 None for the purposes of this report.

29 Equality and Diversity Implications (if any)

29.1 None for the purposes of this report.

30 Social Value Implications (if any)

28.1 None for the purposes of this report.

31 Partnership Implications (if any)

31.1 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.

32 Health and Wellbeing Implications (if any)

32.1 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.

33 Asset Management Implications (if any)

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

30 Data Protection Implications (if any)

30.1 None for the purposes of this report.

31 Consultation Implications (if any)

31.1 None for the purposes of this report.

32 Scrutiny Comments / Recommendation(s) (if any)

32.1 To be highlighted to members of Shadow Executive.

Shadow Scrutiny – 5 February 2019
Shadow Executive – 11 February 2019
Shadow Council – 21 February 2019

Reporting Frequency: Annually

List of Appendices (delete if not applicable)

Appendix A	General Fund Capital Programme
Appendix B	Minimum Level of General Reserves
Appendix C	Fees and Charges – Open Spaces

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GENERAL FUND CAPITAL PROGRAMME

APPENDIX A

Project Code	Project Code Description	Completed Scheme £	Programme Budget £	Approved Budget 2018/19 £	Proposed Budget 2019/20 £	Actual Spend In Previous Years £	Predicted Spend 2018/19 £	Projected Spend 2019/20 and Beyond £	Forecast Total Spend £
Growth Programme									
XT068	Major Transport Schemes	N	4,150,000	650,000			650,000	3,500,000	4,150,000
XT032	Town Centre Regeneration	N	2,777,000	875,000	991,000	175,000	875,000	1,727,000	2,777,000
XT079	Employment Site Enabling and Innovation to Promote Growth	N	3,737,000	85,000	536,000	16,000	85,000	3,636,000	3,737,000
XT069	Taunton Strategic Flood Alleviation	N	5,635,000	483,000	500,000	152,000	483,000	5,000,000	5,635,000
XT096	Marketing Promotion and Inward Investments	N	242,000	29,000		212,000	29,000	1,000	242,000
XT110	Preparation of LDOs	N	59,000			59,000		0	59,000
Total Growth Programme			16,600,000	2,122,000	2,027,000	614,000	2,122,000	13,864,000	16,600,000
IT Projects									
XT001	Members IT Equipment	N	28,000	12,260	4,000	11,442	12,558	4,000	28,000
XT039	Joint Management and Shared Service	N	804,897	515,833		29,967	774,930	0	804,897
XT054	Refresh of End User Devices	N	440,400	50,000	50,000	340,400	50,000	50,000	440,400
XT056	Cemetery IT System	N	50,000	50,000			50,000	0	50,000
XT070	Transformation	N	995,000	825,080		169,921	407,330	417,749	995,000
XT111	Microsoft 365 Migration	N	100,000		100,000			100,000	100,000
2066	IT Projects - ICT Infrastructure Projects	N	15,545	8,595		6,950	11,734	0	18,684
2066	IT Projects - Office Backup Facility	N	15,000	15,000				15,000	15,000
2066	IT Projects - Annual Hardware Replacement	N	11,000	8,857		2,143	8,857	0	11,000
2066	Server Refresh	N	20,000	20,000				20,000	20,000
2235	JMASS ICT Transformation	N	188,580	271,663		2,917	185,663	0	188,580
Total IT Projects			2,668,422	1,777,288	154,000	563,740	1,501,072	606,749	2,671,561
Major Projects									
XT035	Confidential Budget Allocation	N	10,567,990	10,412,990		281,441	129,496	10,157,053	10,567,990
XT036	Confidential Budget Allocation	N	3,108,500	3,096,620		11,964	50,000	3,046,536	3,108,500
XT047	Blackbrook Pool	N	6,505,300	103,960		6,398,161	107,139	0	6,505,300
XT052	Somerset Waste Partnership Loan	N	3,500,000	3,500,000			0	3,500,000	3,500,000
XT060	Orchard Car Park Major Repairs (Paul Street)	N	887,000	520,490		365,700	400,000	121,300	887,000
XT076	Deane House Accommodation	N	5,873,600	4,091,930		1,813,174	3,191,705	868,721	5,873,600
XT094	Confidential Budget Allocation	N	15,677,900	15,677,900				15,677,900	15,677,900
XT095	Crematorium Waiting Room	N	400,000	340,830		59,175	340,825	0	400,000
XT099	Somerset Coast YMCA Loan	Y	750,000	750,000			750,000	0	750,000
2188	Seaward Way Mixed Proposal Development	N	3,023,225	2,919,000		104,225	57,592	2,861,408	3,023,225
2256	Somerset Waste Partnership	N	3,500,000	3,500,000				3,500,000	3,500,000
Total Major Projects			53,793,515	44,913,720	0	9,033,840	5,026,757	39,732,918	53,793,515
Housing									
XT020	Grants to Registered Providers (Affordable Housing)	N	2,887,800	1,953,808	495,000	1,180,254	182,938	1,524,608	2,887,800
XT028	Disabled Facilities Grants	N	4,614,357	1,286,659	1,200,000	1,932,986	650,000	2,031,371	4,614,357
Total Housing Projects			7,502,157	3,240,467	1,695,000	3,113,240	832,938	3,555,979	7,502,157
Other Projects									
XT002	Special Expenses - Play Grants	N	20,000	11,000		9,004	10,996	0	20,000
XT019	Youth Project Capital	N	281,470	20,030		261,473	0	19,997	281,470
XT021	Gypsy Site	N	108,500	91,770		16,732	0	91,768	108,500
XT029	Project Taunton - Longrun Meadow Bridge	N	138,300	4,200		134,100	0	4,200	138,300
XT040	DLO Vehicle Acquisitions	N	1,423,540	341,250	152,000	937,063	334,477	152,000	1,423,540

GENERAL FUND CAPITAL PROGRAMME

APPENDIX A

Project Code	Project Code Description	Completed Scheme £	Programme Budget £	Approved Budget 2018/19 £	Proposed Budget 2019/20 £	Actual Spend In Previous Years £	Predicted Spend 2018/19 £	Projected Spend 2019/20 and Beyond £	Forecast Total Spend £
XT041	Waste Containers	N	635,910	104,590	100,000	433,726	102,184	100,000	635,910
XT048	Play Equipment - Grants to Halls and Sports Fields	N	196,800	40,180	7,500	173,721	11,100	11,979	196,800
XT049	Play Equipment - Grants to Parishes	N	95,000	34,330	7,500	82,157	6,500	6,343	95,000
XT050	Play Equipment - Replacement	N	337,767	105,181	76,740	205,390	69,403	62,974	337,767
XT051	Community Alarms	N	284,736	28,000	31,000	225,736	28,000	31,000	284,736
XT057	DLO Plant	N	161,000	47,880	23,000	90,124	47,910	22,966	161,000
XT090	Crematorium Project	N	94,000	62,850		31,155	49,979	12,866	94,000
XT097	Norton Fitzwarren Hillfort	N	165,000	165,000			165,000	0	165,000
XT098	West Monkton Country Park	N	479,000	479,000			428,274	50,726	479,000
1939	East Wharf Scheme	N	73,680	66,611		7,069		66,611	73,680
1997	Disabled Facilities Grants	N	1,342,783	778,579		564,204	350,000	428,579	1,342,783
2065	Other Projects - Superfast Broadband	N	240,000	240,000			70,000	170,000	240,000
2065	Other Projects - 7 The Esplanade	N	15,000	15,000			15,000	0	15,000
2077	Steam Coast Trail Project	N	502,820	156,661		346,159	109,418	47,243	502,820
2168	Decent Homes	N	15,910	15,910			15,910	0	15,910
2217	Stair Lift Recycling	N	760	760			760	0	760
2238	Cuckoo Meadow	N	2,950	3,113		(163)	2,010	1,103	2,950
2253	Transformation	N	196,000	170,179		25,821	87,929	82,250	196,000
2254	CASA Project	N	78,565	78,165		400	5,000	73,165	78,565
2255	Capital Sustainability Fund	N					11,936	0	11,936
2260	WSH Reception Pod	N	4,435	4,435			4,435	0	4,435
2290	Minehead Esplanade Project	N	49,900	17,563		32,337		17,563	49,900
Total Other Projects			6,943,826	3,082,237	397,740	3,576,208	1,926,221	1,453,333	6,955,762
S106 Funded - General Schemes									
2065	Huish Champflower Village Hall	N	10,000	10,000				10,000	10,000
2065	Footpath Lighting Enhancement	N	41,000	6,000		35,000	6,000	0	41,000
2065	Dunster Parish Council - Multi Use Games Area	N	25,728	25,728			25,728	0	25,728
2065	Minehead Town Council Community Hall	N	120,000	120,000				120,000	120,000
2065	Watchet Bowling Club	N	135,000	135,000				135,000	135,000
2065	Stogursey Parish Council Youth Club Equipment	N	2,170	2,170			2,034	136	2,170
Total S106 Funded - General Schemes			333,898	298,898	0	35,000	33,762	265,136	333,898
S106 Funded - Hinkley Schemes									
2077	Steam Coast Trail	N	216,334	216,334			216,334	0	216,334
2239	Westfield United Church	N	110,000	8,100		101,900	8,100	0	110,000
2239	S BW & NP Mitigation	N	344,850	344,850				344,850	344,850
2239	BW TC Support Scheme	N	116,070	76,340		39,730	76,340	0	116,070
2239	Williton Pavilion	N	250,000	184,017		65,983	105,347	78,670	250,000
2239	Holford and District Village Hall	N	155,000	155,000			29,695	125,305	155,000
2239	Minehead Town Council	N	382,047	382,047				382,047	382,047
2239	Great Western Hotel Project (YMCA)	N	500,000	500,000				500,000	500,000
2239	Bridgwater Food Bank	Y	110,000	110,000			110,000	0	110,000
2239	Fiddington Village Hall	N	69,000	69,000			18,500	50,500	69,000
2239	Watchet Bowling Club	N	150,000	150,000				150,000	150,000
2239	Williton Shooting Club	N	23,000	23,000				23,000	23,000
2239	Cheddar PC - Community Pavilion	N	320,000	320,000				320,000	320,000
2239	BoS & HB Council - Burnham Evolution	N	350,000	350,000				350,000	350,000
2239	Victoria Ward Green Spaces	N	51,428	51,428				51,428	51,428

GENERAL FUND CAPITAL PROGRAMME

APPENDIX A

Project Code	Project Code Description	Completed Scheme £	Programme Budget £	Approved Budget 2018/19 £	Proposed Budget 2019/20 £	Actual Spend In Previous Years £	Predicted Spend 2018/19 £	Projected Spend 2019/20 and Beyond £	Forecast Total Spend £
2239	North Petherton RFC - Community Gym	N	300,000	300,000				300,000	300,000
2241	Empty Homes & LOTS	N	94,500	90,000			94,500	0	94,500
2249	Stogursey Leisure	N	1,240,001	1,318,169		31,832	200,000	1,008,169	1,240,001
2251	Enterprising Minehead	N	303,477	303,361		116	303,361	0	303,477
Total S106 Funded - Hinkley Schemes			5,085,707	4,951,646	0	239,561	1,162,177	3,683,969	5,085,707
Externally Funded Projects									
XT083	Community Infrastructure Grants	N	15,616,034	116,034	6,000,000		116,034	15,500,000	15,616,034
Total Externally Funded Projects			15,616,034	116,034	6,000,000	0	116,034	15,500,000	15,616,034
Total GF			108,543,559	60,502,290	10,273,740	17,175,589	12,720,961	78,662,084	108,558,634

Appendix B

Minimum Level of General Reserves

1. BACKGROUND INFORMATION

- 1.1 As part of their annual budget setting process, Taunton Deane Borough Council and West Somerset Council reviewed and determined a minimum level of General Reserves. A similar review therefore needs to be undertaken for the new Somerset West and Taunton Council.
- 1.2 This review of General Reserves is essential particularly with this being the first year of operation of the new council and with the continued uncertainty over future Central Government Funding. In addition all councils are always exposed to unforeseen events, risks and pressures.
- 1.3 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 will be reviewed by Somerset West and Taunton 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, where earmarked reserves are deemed to be no longer required/too high they can be returned to general reserves.
- 2.2 In order to arrive at an appropriate level, various publications are reviewed and the Council will benchmark 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 be 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 £1.9m to £2.9m. With consideration to the challenges the Council faces from continuing reductions of Central Government funding and a need to deliver its transformation savings it is prudent to recommend that the minimum reserve level for the new council be set at £2.4m.

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 2018) indicates that the average general reserve balance (of the councils within the comparison group) is £3.871m and average earmarked reserves are £14.147m. By comparison, Somerset West and Taunton is predicted to have an opening general reserve balance of £2.828m but will have significantly higher earmarked reserves in excess of £25m.

7. CONCLUSION AND NEXT STEPS

- 7.1 The risk assessment and Audit Commission questionnaire are useful tools in establishing Somerset West and Taunton'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 set the minimum level of general reserves at £2.4m.**

Appendix C

Somerset West and Taunton – Fees and Charges 2019/20 Hire and sponsorship of Open Spaces, Parks, roundabouts, and plant beds

A charge has been applied (in TDBC) since 2006 for the hire of its parks and open spaces for events. This report proposes that Somerset West and Taunton continue with the fees as previously set with the inclusion of those from WSC in the same charging profile.

Any services required for an event for example electricity are charged in addition to the basic hire fee. Currently friends groups, who are raising funds to put back into the parks are not charged a hire fee. Registered charities benefit from a reduction in the advertised rate of 20%.

Charges for roundabout sponsorship and plant beds have been inconsistently applied and this report seeks to resolve this with a clear and transparent schedule.

It has come to light that a number of sites were accidentally excluded from the previous report, therefore these have been included here in bold. They are the sites at Blenheim Gardens, Minehead Esplanade and Harbour.

Destination Sites

Site	Daily hire fee 2019/20 £
Vivary Park	1,100.00
Wellington Park	720.00
Blenheim Gardens	720.00
Wilton Lands	280.00

Neighbourhood sites

Site	Daily hire fee 2019/20 £
Castle Green	200.00
French Weir Park	200.00
Goodland Gardens	200.00
Minehead Esplanade & Harbour	200.00
Hamilton Park	200.00
Somerset Square	200.00
Taunton Green	200.00
Victoria Park	200.00
Wellington Playing Field	200.00
Longrun Meadow	200.00

Appendix C

Local sites

Site	Daily hire fee 2019/20 £
Cotford St Luke Recreation Ground	107.00
Galmington Playing Field	107.00
Gordon Hawkins Playing Field	107.00
Greenway Recreation Ground	107.00
Higher Holway	107.00
Hudson Way	107.00
Lyngford Park	107.00
Moorfields	107.00
Priorswood Playing Field	107.00
Roughmoor	107.00
Wellington Recreation Ground	107.00

Flexible hire for small scale fitness activities of less than 50 people for less than 2 hours per session at £200 for 12 months for a single park, or £300 for 12 months for up to 5 locations. A flexible hire is offered to support businesses wanting to operate instructor lead fitness activities such as military style boot camps, outdoor yoga, etc.

The decision has been made not to introduce charges for park run.

Additional Charges

In addition to the daily basic hire charge a separate fixed price of £55 is payable for hire and events to cover the extensive necessary administration tasks involved in checking the application and raising the Permit to Use the Land. This work is carried out in order to indemnify the Council.

Use of onsite electricity and water supplies will be charged at a unit cost where utilised.

A refundable damage deposit will also be requested, the rate to be set by an authorised officer of the council, dependant on the type of event.

Additional commercial services requested of the Open Spaces team will be charged at the appropriate chargeable rates.

Roundabout sponsorship

All roundabouts will be charged on the basis of the number of advertising / sponsorship signs that are placed. The rate per sign has been established following research into other southwest council charges. It is proposed that the charge is based upon the number of sponsorship / advertising signs that are permitted on the roundabout rather than a set rate per roundabout.

Roundabouts would have only one sponsor at any one time and would cover a period of 12months.

Appendix C

Each sign permitted on a major road would be £800pa and £600pa on a minor road. With a roundabout typically serving 3 or more junctions it would therefore have 3 or more signs. We consider this to be good value based on the number of views each sign will get from passing motorists.

The charge above does not cover the provision of the signs which are a further cost of £100.00 per sign. Signs are limited in size and the service will have final say over the design and wording of the sign.

Planting beds

We occasionally receive request for sponsorship / advertising on flower beds, this charging schedule makes a move towards proactive marketing of these areas and seeks to test the markets interest and affordability. The cost of a planning bed will be less than roundabout sponsorship based on the volume of people that would see it. The charge is dependent on bed size as follows:

Bed area up to 9m ²	£200
Bed area of 10 – 15m ²	£300
Bed area greater than 15m ²	£400

Proposed Discounts

Currently the Friends groups are not charged to hire their particular open space or park. It is proposed that this continues in recognition of the good work done by the various groups in raising the profile of their parks, maintaining the profile and putting funding back into the park, by raising funds and applying for grants not available to the council.

Registered charities are charged a discounted fee. This discount is 20% across all fees identified in this report.

Finance implications

The proposed rates to apply to all bookings and new sponsorships from 1 April 2019. With this being the first year that WSC assets have been included it is unclear the level of take up there will be, as a result this is a no change report there are no increases to the MTFP.

END

Chris Hall
Localities Manager

Somerset West and Taunton Council

Shadow Executive – 11 February 2019

Draft Capital Strategy 2019/20

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

Report Author: Andrew Stark, Interim Finance Manager

1 Executive Summary

- 1.1 This capital strategy is a new report for 2019/20, giving a high-level overview of how capital expenditure, capital financing, and treasury management activities contribute to the provision of local public services along with an overview of how associated risk is managed and the implications for future financial sustainability.
- 1.2 For comparison purposes the tables in the report show the combined position for Taunton Deane Borough Council and West Somerset Council for the years up to and including 2018/19.

2 Recommendations

- 2.1 Shadow Executive recommends the draft 2019/20 Capital Strategy for approval by Shadow Council.
- 2.2 Shadow Executive recommends the Council's Minimum Revenue Provision policy for approval (attached Appendix A) for approval by Shadow Council.

3 Risk Assessment

3.1 Risk Matrix

Description	Likelihood	Impact	Overall
The Council fails to maintain an adequate system of internal control	2	4	8
The Council has in place suitable arrangements to develop, approve and deliver its capital strategy through appropriately trained staff and with access to specialist advice.	1	4	4

Risk Scoring Matrix

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

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

4 Capital Expenditure and Financing

- 4.1 Capital expenditure is where the Council spends money on assets, such as property or vehicles, which will be used for more than one year. In local government this includes spending on assets owned by other bodies, and loans and grants to other bodies enabling them to buy assets. The Council has some limited discretion on what counts as capital expenditure, for example assets costing below £10k are not capitalised and are charged to revenue in the year.

- 4.2 In 2019/20, the Council is planning capital expenditure of £20.309m as detailed below:

Table 1: Prudential Indicator: Estimates of Capital Expenditure

	2017/18 Actual £m	2018/19 Forecast £m	2019/20 Budget £m	2020/21 Budget £m	2021/22 Actual £m
General Fund	5.998	11.726	10.722	13.194	12.692
HRA	10.126	8.973	9.587	9.699	7.632
Total	16.124	20.699	20.309	22.893	20.324

- 4.3 The main General Fund capital projects also include £16.6m for growth projects.
- 4.4 The Housing Revenue Account (HRA) is a ring-fenced account which ensures that council housing does not subsidise, or is itself subsidised, by other local services. HRA capital expenditure is, therefore, recorded separately.
- 4.5 Governance: Service managers bid annually in September to include projects in the Council's Capital Programme. Bids are collated by Finance and the final Capital Programme is then presented to Scrutiny, the Executive and to Full Council in February each year.
- 4.6 Full details of the Council's capital programme is contained in the Draft General Fund Revenue Budget and Capital Estimates 2019/20 and the Housing Revenue Account (HRA) Budget Estimates 2019/20.
- 4.7 All capital expenditure must be financed, either from external sources (government grants and other contributions), the Council's own resources (revenue, reserves and capital receipts) or debt (borrowing, leasing and Private Financing Initiative). The planned financing of the above capital expenditure is as follows:

Table 2: Capital Financing

	2017/18 Actual £m	2018/19 Forecast £m	2019/20 Budget £m	Budget 2020/21 £m	Budget 2021/22 £m
External Sources	1.952	3.887	7.695	4.510	5.095
Own Resources	9.291	12.527	12.614	18.383	15.229
Debt	4.881	4.285	0	0	0
Total	16.124	20.699	20.309	22.893	20.324

- 4.8 Debt is only a temporary source of finance, since loans and leases must be repaid and this is, therefore, replaced over time by other financing, usually from revenue which is known as minimum revenue provision (MRP). Alternatively, proceeds from selling capital assets (known as capital receipts) may be used to replace debt finance. Planned MRP repayments and the use of capital receipts are as follows:

Table 3: Replacement of Debt Finance

	2017/18 Actual £m	2018/19 Forecast £m	2019/20 Budget £m	Budget 2020/21 £m	Budget 2021/22 £m
MRP	2.632	2.364	2.276	2.326	2.326

The Council's MRP policy is available as Appendix A to this report.

- 4.9 The Council's cumulative amount of debt finance is measured by the Capital Financing Requirement (CFR). This increases with new debt-financed capital expenditure and reduces with MRP repayments and capital receipts used to replace debt. Based on the above figures for expenditure and financing the Council's estimated CFR is as follows:-

Table 4: Estimated CFR

	2017/18 Actual £m	2018/19 Forecast £m	2019/20 Budget £m	Budget 2020/21 £m	Budget 2021/22 £m
General Fund	14.402	13.859	13.404	12.899	12.394
HRA	104.848	100.729	103.355	101.534	99.713
Total	119.250	114.588	116.759	114.433	112.107

5 Asset Management

- 5.1 To ensure that capital assets continue to be of long-term use, both Taunton Deane Borough Council and West Somerset Council currently have an asset management strategy in place which drives forward new ways of managing the asset portfolio by proactive asset management.

6 Asset Disposals

- 6.1 When a capital asset is no longer needed it may be sold so that the proceeds, known as capital receipts, can be spent on new assets or used to repay debt. The Council is currently also permitted to spend capital receipts on transformation projects until 2021/22. Repayments of capital grants, loans and investments also generate capital receipts. The Council plans to receive £6.420m of capital receipts in the coming financial year as follows:

Table 5: Capital Receipts

	2017/18 Actual £m	2018/19 Forecast £m	2019/20 Budget £m	Budget 2020/21 £m	Budget 2021/22 £m
Asset Sales	(4.303)	(3.988)	(5.902)	(4.240)	(4.410)
Loans Repaid	(488)	(518)	(518)	(518)	(518)
Total	(4.791)	(4.506)	(6.420)	(4.758)	(4.928)

7 Treasury Management

- 7.1 Treasury management is concerned with keeping sufficient but not excessive cash available to meet the Council's spending needs while managing the risks involved. Surplus cash is invested until required, while a shortage of cash will be met by borrowing. The Council is typically cash rich in the short-term as revenue is earned before it is spent but cash poor in the long-term as capital expenditure is incurred before being financed. The revenue cash surpluses are offset against capital cash shortfalls to reduce overall borrowing.
- 7.2 Due to decisions taken in the past, the Council currently has £85.5m of borrowing and treasury investments of £56.3m.

8 Borrowing Strategy

- 8.1 The Council's main objectives when borrowing are to achieve a low but certain cost of finance while retaining flexibility should plans change in the future. These objectives are often conflicting and the Council, therefore, seeks to strike a balance between cheap short-term loans (currently available at around 0.75%) and long term fixed rate loans where the future cost is known but higher (currently 2%-3%).
- 8.2 Projected levels of the Council's total outstanding debt are shown below, compared with the CFR (as also detailed above).

Table 6: Prudential Indicator: Gross Debt and the CFR

	2017/18 Actual £m	2018/19 Forecast £m	2019/20 Budget £m	Budget 2020/21 £m	Budget 2021/22 £m
Debt	85.500	82.500	79.000	75.500	65.500
CFR	119.250	114.588	116.759	114.433	112.107

- 8.3 Statutory guidance is that debt should remain below the CFR, except in the short-term. As can be seen from Table 6 the Council expects to comply with this in the medium term.

9 Affordable Borrowing Limit

- 9.1 The Council is legally obliged to set an affordable borrowing limit (also termed the authorised limit for external debt) each year and to keep it under review. In line with statutory guidance, a lower "operational boundary" is also set as a warning level should debt approach this limit.

	2018/19 Forecast £m	2019/20 Budget £m	2020/21 Budget £m	2021/22 Budget £m
Authorised Limit	244.0	244.0	244.0	244.0
Operational Boundary	212.0	212.0	212.0	212.0

- 9.2 Further details of existing borrowing can be found in Appendix C of the Treasury Management Strategy Statement.

10 Investment Strategy

- 10.1 Treasury investments arise from receiving cash before it is paid out again. Investments made for service reasons or for pure financial gain are not generally considered to be part of treasury management.
- 10.2 The Council's policy on treasury investments is to prioritise security and liquidity over yield, therefore to focus on minimising risk rather than maximising returns. Cash that is likely to be spent in the near term is invested securely, for example with the government, other local authorities or selected high quality banks to minimise the risk of loss. Money that will be held for longer terms is invested more widely, including in bonds, shares and property, to balance the risk of loss against the risk of receiving returns below inflation. Both near-term and longer-term investments may be held in pooled funds, where an external fund manager makes decisions on which particular investments to buy and the Council may request its money back at short notice.

Table 8: Treasury Management Investments

	31.03.18 Actual £m	31.03.19 Forecast £m	31.03.20 Budget £m	31.03.21 Budget £m	31.03.22 Budget £m
Short-term investments	36.744	40.333	40.000	40.000	40.000
Long term investments	16.022	16.000	16.000	16.000	16.000
Total	52.766	56.333	56.000	56.000	56.000

- 10.3 Further details of existing treasury investments can be found in Appendix C of the Treasury Management Strategy Statement.
- 10.4 Governance: Decisions on treasury management and borrowing are made daily and are, therefore, delegated to the s151 Officer and his staff who must act in line with the Treasury Management Strategy approved by Full Council. Reports on treasury management activities are presented to the Audit, Standards and Governance Committee.

11 Investments for Service Purposes

- 11.1 The Council makes investments to assist local public services, including making loans to local small businesses to promote economic growth. In light of the public service objective, the Council is willing to take more risk than with treasury investments, however, it still plans for such investments to generate a profit after all costs.
- 11.2 Governance: Decisions on service investments are made by the relevant service manager in consultation with the s151 officer and must meet the criteria

and limits laid down in the investment strategy. Most loans are capital expenditure and purchases will, therefore, also be approved as part of the capital programme.

- 11.3 Further details on service investments are contained in the Investment Strategy.

12 Commercial Activities

- 12.1 With central government financial support for local public services declining the Council intends to diversify into investments in commercial property mainly for financial gain.
- 12.2 With financial return being the main objective, the Council will be prepared to accept higher risk on commercial investments than with treasury investments. As the Council develops its commercial agenda a new strategy will be put before members for approval which will detail governance arrangements for commercial investments. Property and most other commercial investments are also capital expenditure and purchases will, therefore, be approved as part of the capital programme in future.

13 Liabilities

- 13.1 In addition to debt of £85.5m detailed above the Council is committed to making future payments to cover its pension deficit valued at £111.020m. It has also set aside £2.403m to cover provisions. The Council is also at risk of having to pay for contingent liabilities but has not put aside any money because payment is contingent on, as yet, unknown events occurring which may crystallise possible amounts due.
- 13.2 Governance: Decisions on incurring new discretionary liabilities are taken by service managers in consultation with the s151 Officer. The risk of liabilities crystallising and requiring payment is monitored by the finance team and reported to the s151 officer.
- 13.3 Further details on liabilities and guarantees can be found in the 2017/18 Statement of Accounts of Taunton Deane Borough Council and West Somerset Council.

14 Revenue Budget Implications

- 14.1 Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and MRP is charged to revenue, offset by any investment income receivable. The net annual charge is known as financing costs; this is compared to the net revenue stream i.e. the amount funded from council tax, business rates and general government grants.

Table 9: Prudential Indicator: Proportion of Financing Costs to Net Revenue Stream

	2017/18 Actual £m	2018/19 Forecast £m	2019/20 Budget £m	Budget 2020/21 £m	Budget 2021/22 £m
General Fund					
Net Financing Costs (£m)	0.366	0.076	-0.018	0.041	0.005
Proportion of net revenue stream (%)	1.90	0.37	-0.07	0.20	0.02
HRA					
Net Financing Costs (£m)	4.300	4.431	4.370	4.425	4.485
Proportion of net revenue stream (%)	15.99	16.63	16.51	16.53	16.28

- 14.2 Sustainability: Due to the very long-term nature of capital expenditure and financing, the revenue budget implications of expenditure incurred in the next few years will extend for up to 50 years into the future. The s151 Officer is satisfied that the proposed capital programme is prudent, affordable and sustainable.

15 Knowledge and Skills

- 15.1 The Council employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. For example, the s151 Officer is a qualified accountant with many years' experience. The Council pays for other staff to study towards relevant professional qualifications including AAT and CCAB accounting qualifications.
- 15.2 Where council staff do not have the knowledge and skills required, use is made of external advisers and consultants that are specialists in their field. The Council currently employs Arlingclose Limited as treasury management advisers and various property consultants as required. This approach is more cost effective than employing such staff directly and ensures that the Council has access to knowledge and skills commensurate with its risk appetite.

16 Links to Corporate Aims / Priorities

- 16.1 The Treasury Management and Investment Strategy supports the delivery of the Corporate Aims.

17 Finance / Resource Implications

- 17.1 Any financial/resource implications are contained in the main body of the report.

18 Legal Implications

18.1 There are no legal comments for this report.

19 Environmental Impact Implications

19.1 There are no environmental impacts applicable to this report.

20 Safeguarding and/or Community Safety Implications

20.1 There are no safeguarding or community safety implications applicable to this report.

21 Equality and Diversity Implications

21.1 There are no equalities implications applicable to this report.

22 Social Value Implications

22.1 There are no social value implications to this report.

23 Partnership Implications

23.1 There are no partnership implications to this report.

24 Health and Wellbeing Implications

24.1 There are no health and wellbeing implications to this report.

25 Asset Management Implications

25.1 There are no asset management implications to this report.

26 Data Protection Implications

26.1 There are no data implications to this report.

27 Consultation Implications

27.1 There are no consultation implications to this report.

28 Scrutiny Comments / Recommendation(s)

28.1 To be added following the meeting as appropriate.

Democratic Path:

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

Reporting Frequency: ☐ Once only ☐ Ad-hoc ☐ Quarterly
☐ Twice-yearly ☒ Annually

List of Appendices

Appendix A	Annual Minimum Revenue Provision Statement 2019/20
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Contact Officers

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Annual Minimum Revenue Provision Statement 2019/20

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

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

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

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

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

This base calculation was reviewed for 2019/20 with the creation of the new Somerset West and Taunton Council. Any additional CFR is calculated separately and added to the MRP as a distinct calculation thus protecting the original calculation and adding to it where appropriate.

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

Capital expenditure incurred during 2019/20 will not be subject to a MRP charge until 2020/21.

Somerset West and Taunton Council

Shadow Scrutiny – 5 February 2019

Draft Treasury Management Strategy Statement 2019/20

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

Report Author: Andrew Stark, Interim Finance Manager

1 Executive Summary

- 1.1 The purpose of this report is to inform members of the recommended strategy for managing the Council's cash resources including the approach to borrowing and investments. This strategy has been prepared taking into account professional advice and information from the Council's treasury management advisor Arlingclose.
- 1.2 This strategy continues the previous approach adopted by Taunton Deane Borough Council and West Somerset Council of prioritising security and liquidity of cash over investment returns.

2 Recommendations

- 2.1 That Shadow Executive recommends the draft Treasury Management Strategy Statement for 2019/20 as included within this report for approval by Shadow Council.

3 Risk Assessment

3.1 Risk Matrix

Description	Likelihood	Impact	Overall
The Council fails to maintain an adequate system of internal control	2	4	8
The Council has in place suitable arrangements to develop, approve and deliver its treasury management strategy statement through appropriately trained staff and access to specialist treasury advice.	1	4	4

Risk Scoring Matrix

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

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

4 Introduction

- 4.1 Treasury management is the management of the Council's cash flows, borrowing and investments and the associated risks. The Council has invested substantial sums of money and is, therefore, exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of financial risk are, therefore, central to the Council's prudent financial management.
- 4.2 Treasury risk management at the Council is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2017 Edition (the CIPFA Code) which requires the Council to approve a treasury management strategy before the start of each financial year. This report fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.

- 4.3 Investments held for service purposes or for commercial profit are considered in a different report, the Investment Strategy.

5 Local Context

- 5.1 On 31 December 2018 Taunton Deane Borough Council held £85.5m of borrowing and £37.228m of investments. West Somerset Council held £19.105m of investments. This is set out in further detail in Appendix C. Forecast changes in these sums are shown in the balance sheet analysis in table 1 below. For analysis purposes the balance sheet summary for 31.03.18 and 31.03.19 reflects the combined position for Taunton Deane Borough Council and West Somerset Council.

Table 1: Balance sheet summary and forecast

	31.03.18 Actual £k	31.03.19 Estimate £k	31.03.20 Forecast £k	31.03.21 Forecast £k	31.03.22 Forecast £k
General Fund CFR	14,402	13,859	13,404	12,899	12,394
HRA CFR	104,848	100,729	103,355	101,534	99,713
Total CFR	119,250	114,588	116,759	114,433	112,107
Less: external borrowing	(85,500)	(82,500)	(79,000)	(75,500)	(65,500)
Internal borrowing	33,750	32,088	37,759	38,933	46,607
Less: Usable reserves	(61,484)	(64,071)	(68,555)	(69,773)	(73,072)
Less: Working capital deficit	23,378	23,378	23,378	23,378	23,378
Investments (or new borrowing)	(4,356)	(8,605)	(7,418)	(7,462)	(3,087)

- 5.2 The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investments. The Council's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing.
- 5.3 CIPFA's prudential Code for Capital Finance in Local Authorities recommends that the Council's total debt should be lower than its highest forecast CFR over the next three years. Table 1 shows that Council expects to comply with this recommendation during 2019/20.

6 Borrowing Strategy

- 6.1 Taunton Deane Borough Council currently holds £85.5m of loans, a decrease of £4m on the previous year, as part of its strategy for funding previous years' capital programmes. The balance sheet forecast in table 1 shows that the new Somerset West and Taunton Council does not expect to borrow in 2019/20 but is likely to borrow in 2020/21 to fund previously approved capital schemes.
- 6.2 Objectives: The Council's chief objective when borrowing money is to strike an

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

- 6.3 Strategy: Given the significant cuts to public expenditure and in particular local government funding, the Council's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. With short-term interest rates currently much lower than long-term rates, it is likely to be more cost effective in the short term to either use internal resources, or to borrow short term loans instead.
- 6.4 By doing so the Council is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. The benefits of internal/short-term borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise modestly. Arlingclose will assist the Council with this 'cost of carry' and breakeven analysis. Its output may determine whether the Council borrows additional sums at long-term fixed rates in 2020/21 with a view to keeping future interest costs low even if this causes costs in the short-term.

7 Sources of borrowing

- 7.1 The approved sources of long-term and short-term borrowing are:
- Public Works Loan Board (PWLB) and any successor body
 - Any institution approved for investments (see below)
 - Any other bank or building society authorised to operate in the UK
 - Any other UK public sector body
 - UK public and private pension funds (except Somerset County Pension Fund)
 - Capital market bond investors
 - UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues
- 7.2 Other sources of debt finance: In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:
- Leasing
 - Hire purchase
 - Private finance initiative
 - Sale and leaseback

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

- 7.3 Municipal Bonds Agency: UK Municipal Bonds Agency plc was established in 2014 by the Local Government Association as an alternative to the PWLB. It plans

to issue bonds on the capital markets and lend the proceeds to local authorities. This will be a more complicated source of finance than the PWLB for two reasons: borrowing authorities will be required to provide bond investors with a joint and several guarantee to refund their investment in the event the agency is unable to for any reason; and there will be a lead time of several months between committing to borrow and knowing the interest rate payable. Any decision to borrow from the Agency will, therefore, be the subject of a separate report to full Council.

- 7.4 Short-term and variable rate loans: these loans leave the Council exposed to the risk of short-term interest rate rises and are, therefore, subject to the interest rate exposure limits in the treasury management indicators below.
- 7.5 Debt rescheduling: The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. Other lenders may also be prepared to negotiate premature redemption terms. The Council may take advantage of this and replace some loans with new loans, or repay loans without replacement where this is expected to lead to an overall cost saving or a reduction in risk.

8 Investment Strategy

- 8.1 The Council holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past twelve months the Council's investment balance has ranged between £51m and £83m and similar levels are expected to be maintained in the forthcoming year.
- 8.2 Objectives: The CIPFA Code requires the Council to invest its funds prudently and to have regard to the security and liquidity of its investments before seeking the highest rate of return or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. Where balances are expected to be invested for more than one year, the Council will aim to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested.
- 8.3 Negative interest rates: If the UK enters into a recession in 2019/20 there is a small chance that the Bank of England could set its Bank Rate at or below zero which is likely to feed through to negative interest rates on all low risk, short-term investment options. This situation already exists in many other European countries. In this event, security will be measured as receiving the contractual agreed amount at maturity, even though this may be less than the amount originally invested.
- 8.4 Strategy: Given the increasing risk and very low returns from short-term unsecured bank investments, the Council aims to further diversify into higher yielding asset classes during 2019/20. A dwindling proportion of the Council's cash surplus is invested in short-term unsecured bank deposits, certificates of deposit and money market funds. This represents a continuation of the strategy adopted in earlier years.
- 8.5 Business Models: Under the new IFRS 9 standard, the accounting for certain investments depends on the Council's 'business model' for managing them. The

Council aims to achieve value for money from its internally managed treasury investments by a business model of collecting the contractual cash flows and, therefore, where other criteria are also met, these investments will continue to be accounted for at amortised cost.

9 Approved counterparties

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

Table 2: Approved investment counterparties and limits

Credit rating	Banks unsecured	Banks secured	Government	Corporates	Registered Providers
UK Govt	n/a	n/a	£ Unlimited 50 years	n/a	n/a
AAA	£5m 5 years	£9m 20 years	£9m 50 years	£5m 20 years	£5m 20 years
AA+	£5m 5 years	£9m 10 years	£9m 25 years	£5m 10 years	£5m 10 years
AA	£5m 4 years	£9m 5 years	£9m 15 years	£5m 5 years	£5m 10 years
AA-	£5m 3 years	£9m 4 years	£9m 10 years	£5m 4 years	£5m 10 years
A+	£5m 2 years	£9m 3 years	£5m 5 years	£5m 3 years	£5m 5 years
A	£5m 13 months	£9m 2 years	£5m 5 years	£5m 2 years	£5m 5 years
A-	£5m 6 months	£9m 13 months	£5m 5 years	£5m 13 months	£5m 5 years
None	£1m 6 months	n/a	£9m 25 years	£50k 5 years	£5m 5 years
Pooled funds and real estate investment trusts		Up to 50% of total investments limited to £9m each fund or trust			

- 9.2 **Credit rating:** Investment limits are set by reference to the lowest published long-term credit rating from a selection of external rating agencies. Where available, the credit rating relevant to the specific investments or class of investment is used, otherwise the counterparty rating is used. However, investment decisions are never made solely based on credit ratings and all other relevant factors including external advice will be taken into account.
- 9.3 **Banks unsecured:** Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. See below for arrangements relating to operational bank accounts.
- 9.4 **Banks secured:** Covered bonds, reverse repurchase agreements and other collateralised arrangements with banks and building societies. These investments

are secured on the bank's assets, which limits the potential losses in the unlikely event of insolvency, and means that they are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used to determine cash and time limits. The combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments.

- 9.5 **Government:** Loans, bonds and bills issued or guaranteed by national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is generally a lower risk of insolvency, although they are not zero risk. Investments with the UK Central Government may be made in unlimited amounts for up to 50 years.
- 9.6 **Corporates:** Loans, bonds and commercial paper issued by companies other than banks and registered providers. These investments are not subject to bail-in, but are exposed to the risk of the company going insolvent. Loans to unrated companies will only be made either following an external credit assessment or to a maximum of £2m per company as part of a diversified pool in order to spread the risk widely.
- 9.7 **Registered providers:** Loans and bonds issued by, guaranteed by or secured on the assets of registered providers of social housing and registered social landlords, formerly known as housing associations. These bodies are tightly regulated by the Regulator of Social Housing (in England. As providers of public services, they retain the likelihood of receiving government support if needed.
- 9.8 **Pooled funds:** Shares or units in diversified investment vehicles consisting of any of the above investment types, plus equity shares and property. These funds have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a fee. Short-term Money Market Funds that offer same-day liquidity and very low or no volatility will be used as an alternative to instant access bank accounts, while pooled funds whose value changes with market prices and/or have a notice period will be used for longer investment periods.
- 9.9 Bond, equity and property funds offer enhanced returns over the longer term, but are more volatile in the short term. These allow the Council to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Council's investment objectives will be monitored regularly.
- 9.10 **Real estate investment trusts:** Shares in companies that invest mainly in real estate and pay the majority of their rental income to investors in a similar manner to pooled property funds. As with property funds, REITs offer enhanced returns over the longer term, but are more volatile especially as the share price reflects changing demand for the shares as well as changes in the value of the underlying properties.
- 9.11 **Operational bank accounts:** The Council may incur operational exposures, for example through current accounts, collection accounts and merchant acquiring

services, to any UK bank with credit ratings no lower than BBB- and with assets greater than £25 billion. These are not classed as investments, but are still subject to the risk of a bank bail-in, and balances will therefore be kept below £300k per bank. The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of the Council maintaining operational continuity.

- 9.12 **Risk assessment and credit ratings:** Credit ratings are obtained and monitored by the Council's treasury advisers, who will notify changes in ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:
- no new investments will be made,
 - any existing investments that can be recalled or sold at no cost will be, and
 - full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.
- 9.13 Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as "rating watch negative" or "credit watch negative") so that it may fall below the approved rating criteria, then only investments that can be withdrawn on the next working day will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.
- 9.14 **Other information on the security of investments:** The Council understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support, reports in the quality financial press and analysis and advice from the Council's treasury management adviser. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may otherwise meet the above criteria.
- 9.15 When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2011, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Council will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Council's cash balances, then the surplus will be deposited with the UK Government via the Debt Management Office or invested in government treasury bills for example, or with other local authorities. This will cause a reduction in the level of investment income earned, but will protect the principal sum invested.

- 9.16 **Investment limits:** Taunton Deane Borough Council and West Somerset Council's revenue reserves available to cover investment losses are forecast to be £64m on 31 March 2019. In order that no more than 14% of available reserves will be put at risk in the case of a single default, the maximum that will be lent to any one organisation (other than the UK Government) will be £9m. A group of banks under the same ownership will be treated as a single organisation for limit purposes. Limits will also be placed on fund managers, investments in brokers' nominee accounts, foreign countries and industry sectors as below. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries.

Table 3: Investment limits

	Cash limit
Any single organisation, except the UK Central Government	£9m each
UK Central Government	unlimited
Any group of organisations under the same ownership	£9m per group
Any group of pooled funds under the same management	£21m per manager
Negotiable instruments held in a broker's nominee account	£21m per broker
Foreign countries	£9m per country
Registered providers and registered social landlords	£21m in total
Unsecured investments with building societies	£9m in total
Loans to unrated corporates	£9m in total
Money market funds	£42m in total
Real estate investment trusts	£21m in total

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

10 Treasury Management Indicators

- 10.1 The Council measures and manages its exposures to treasury management risks using the following indicators.
- 10.2 **Security:** The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2,

etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

Credit risk indicator	Target
Portfolio average credit rating	A-

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

Liquidity risk indicator	Target
Total cash available within 3 months	£21m

- 10.4 **Interest rate exposures:** This indicator is set to control the Council's exposure to interest rate risk. The upper limits on the one-year revenue impact of a 1% rise or fall in interest rates will be:

Interest rate risk indicator	Limit
Upper limit on one-year revenue impact of a 1% <u>rise</u> in interest rates	(£121,000)
Upper limit on one-year revenue impact of a 1% <u>fall</u> in interest rates	£121,000

- 10.5 The impact of a change in interest rates is calculated on the assumption that maturing loans and investments will be replaced at current rates.

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

Refinancing rate risk indicator	Upper limit	Lower limit
Under 12 months	100%	0%
12 months and within 24 months	100%	0%
24 months and within 5 years	100%	0%
5 years and within 10 years	100%	0%
10 years and above	100%	0%

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

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

Price risk indicator	2019/20	2020/21	2021/22
Limit on principal invested beyond year end	£40m	£24m	£24m

11 **Related Matters**

- 11.1 The CIPFA Code requires the Council to include the following in its treasury management strategy.
- 11.2 **Financial Derivatives:** Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans and callable deposits). The general power of competence in Section 1 of the *Localism Act 2011* removes much of the uncertainty over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment).
- 11.3 The Council will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Council is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives, including those present in pooled funds and forward starting transactions, will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.
- 11.4 Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria. The current value of any amount due from a derivative counterparty will count against the counterparty credit limit and the relevant foreign country limit.
- 11.5 **Housing Revenue Account:** On 1st April 2012, the Council notionally split each of its existing long-term loans into General Fund and HRA pools. In the future, new long-term loans borrowed will be assigned in their entirety to one pool or the other. Interest payable and other costs/income arising from long-term loans (e.g. premiums and discounts on early redemption) will be charged/ credited to the respective revenue account. Differences between the value of the HRA loans pool and the HRA's underlying need to borrow (adjusted for HRA balance sheet resources available for investment) will result in a notional cash balance which may be positive or negative. This balance will be measured each month and interest transferred between the General Fund and HRA at the Council's average interest rate on investments, adjusted for credit risk.
- 11.6 **Markets in Financial Instruments Directive:** The Council has opted up to professional client with its providers of financial services, including advisers, banks, brokers and fund managers, allowing it access to a greater range of services but without the greater regulatory protections afforded to individuals and small companies. Given the size and range of the Council's treasury management activities, the S151 Officer believes this to be the most appropriate status.

12 Financial Implications

- 12.1 The budget for investment income in 2019/20 is £704k (split General Fund £642k, HRA 62k). The budget for debt interest paid in 2019/20 is £292k (split General Fund £169k, HRA £123k). If actual levels of investments and borrowing, or actual interest rates, differ from those forecast, performance against budget will be correspondingly different.

13 Other Options Considered

- 13.1 The CIPFA Code does not prescribe any particular treasury management strategy for local authorities to adopt. The S151 Officer believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed below.

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

14 Links to Corporate Aims / Priorities

14.1 The Investment Strategy supports the delivery of the Corporate Aims.

15 Finance / Resource Implications

15.1 Any financial/resource implications are contained in the main body of the report.

16 Legal Implications

16.1 There are no legal comments for this report.

17 Environmental Impact Implications

17.1 There are no environmental impacts applicable to this report.

18 Safeguarding and/or Community Safety Implications

18.1 There are no safeguarding or community safety implications applicable to this report.

19 Equality and Diversity Implications

19.1 There are no equalities implications applicable to this report.

20 Social Value Implications

20.1 There are no social value implications to this report.

21 Partnership Implications

21.1 There are no partnership implications to this report.

22 Health and Wellbeing Implications

22.1 There are no health and wellbeing implications to this report.

23 Asset Management Implications

23.1 There are no asset management implications to this report.

24 Data Protection Implications

24.1 There are no data protection implications in this report.

25 Consultation Implications

25.1 There are no consultation implications to this report.

26 Scrutiny Comments / Recommendation(s)

26.1 To be included following meeting if appropriate.

Democratic Path:

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

Reporting Frequency: Annually**List of Appendices**

Appendix A	Commentary by Arlingclose
Appendix B	Arlingclose Economic and Interest Rate Forecast December 2018
Appendix C	Existing Investment and Debt Portfolio Position

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Commentary by Arlingclose

Economic background: The UK's progress negotiating its exit from the European Union, together with its future trading arrangements, will continue to be a major influence on the Council's treasury management strategy for 2019/20.

UK Consumer Price Inflation (CPI) for October was up 2.4% year/year, slightly below the consensus forecast and broadly in line with the Bank of England's November Inflation Report. The most recent labour market data for October 2018 showed the unemployment rate edged up slightly to 4.1% while the employment rate of 75.7% was the joint highest on record. The 3-month average annual growth rate for pay excluding bonuses was 3.3% as wages continue to rise steadily and provide some pull on general inflation. Adjusted for inflation, real wages grew by 1.0%, a level still likely to have little effect on consumer spending.

The rise in quarterly GDP growth to 0.6% in Q3 from 0.4% in the previous quarter was due to weather-related factors boosting overall household consumption and construction activity over the summer following the weather-related weakness in Q1. At 1.5%, annual GDP growth continues to remain below trend. Looking ahead, the BoE, in its November Inflation Report, expects GDP growth to average around 1.75% over the forecast horizon, providing the UK's exit from the EU is relatively smooth.

Following the Bank of England's decision to increase Bank Rate to 0.75% in August, no changes to monetary policy has been made since. However, the Bank expects that should the economy continue to evolve in line with its November forecast, further increases in Bank Rate will be required to return inflation to the 2% target. The Monetary Policy Committee continues to reiterate that any further increases will be at a gradual pace and limited in extent.

While US growth has slowed over 2018, the economy continues to perform robustly. The US Federal Reserve continued its tightening bias throughout 2018, pushing rates to the current 2%-2.25% in September. Markets continue to expect one more rate rise in December, but expectations are fading that the further hikes previously expected in 2019 will materialise as concerns over trade wars drag on economic activity.

Credit outlook: The big four UK banking groups have now divided their retail and investment banking divisions into separate legal entities under ring-fencing legislation. Bank of Scotland, Barclays Bank UK, HSBC UK Bank, Lloyds Bank, National Westminster Bank, Royal Bank of Scotland and Ulster Bank are the ring-fenced banks that now only conduct lower risk retail banking activities. Barclays Bank, HSBC Bank, Lloyds Bank Corporate Markets and NatWest Markets are the investment banks. Credit rating agencies have adjusted the ratings of some of these banks with the ring-fenced banks generally being better rated than their non-ring-fenced counterparts.

The Bank of England released its latest report on bank stress testing, illustrating that all entities included in the analysis were deemed to have passed the test once the levels of capital and potential mitigating actions presumed to be taken by management were factored in. The BoE did not require any bank to raise additional capital.

European banks are considering their approach to Brexit, with some looking to create new UK subsidiaries to ensure they can continue trading here. The credit strength of these new banks remains unknown, although the chance of parental support is assumed to be very high if ever needed. The uncertainty caused by protracted negotiations between the UK and EU is weighing on the creditworthiness of both UK and European banks with substantial operations in both jurisdictions.

Interest rate forecast: Following the increase in Bank Rate to 0.75% in August 2018, the Council's treasury management adviser Arlingclose is forecasting two more 0.25% hikes during 2019 to take official UK interest rates to 1.25%. The Bank of England's MPC has maintained expectations for slow and steady rate rises over the forecast horizon. The MPC continues to have a bias towards tighter monetary policy but is reluctant to push interest rate expectations too strongly. Arlingclose believes that MPC members consider both that ultra-low interest rates result in other economic problems, and that higher Bank Rate will be a more effective policy weapon should downside Brexit risks crystallise when rate cuts will be required.

The UK economic environment remains relatively soft, despite seemingly strong labour market data. Arlingclose's view is that the economy still faces a challenging outlook as it exits the European Union and Eurozone growth softens. While assumptions are that a Brexit deal is struck and some agreement reached on transition and future trading arrangements before the UK leaves the EU, the possibility of a "no deal" Brexit still hangs over economic activity. As such, the risks to the interest rate forecast are considered firmly to the downside.

Gilt yields and hence long-term borrowing rates have remained at low levels but some upward movement from current levels is expected based on Arlingclose's interest rate projections, due to the strength of the US economy and the ECB's forward guidance on higher rates. 10-year and 20-year gilt yields are forecast to remain around 1.7% and 2.2% respectively over the interest rate forecast horizon, however volatility arising from both economic and political events are likely to continue to offer borrowing opportunities.

Arlingclose Economic and Interest Rate Forecast December 2018**Underlying assumptions:**

- Our central interest rate forecasts are predicated on there being a transitional period following the UK's official exit from the EU.
- The MPC has a bias towards tighter monetary policy but is reluctant to push interest rate expectations too strongly. We believe that MPC members consider that: 1) tight labour markets will prompt inflationary pressure in the future, 2) ultra-low interest rates result in other economic problems, and 3) higher Bank Rate will be a more effective policy weapon if downside risks to growth crystallise.
- Both our projected outlook and the increase in the magnitude of political and economic risks facing the UK economy means we maintain the significant downside risks to our forecasts, despite the potential for slightly stronger growth next year as business investment rebounds should the EU Withdrawal Agreement be approved. The potential for severe economic outcomes has increased following the poor reception of the Withdrawal Agreement by MPs. We expect the Bank of England to hold at or reduce interest rates from current levels if Brexit risks materialise.
- The UK economic environment is relatively soft, despite seemingly strong labour market data. GDP growth recovered somewhat in the middle quarters of 2018, but more recent data suggests the economy slowed markedly in Q4. Our view is that the UK economy still faces a challenging outlook as the country exits the European Union and Eurozone economic growth softens.
- Cost pressures are easing but inflation is forecast to remain above the Bank's 2% target through most of the forecast period. Lower oil prices have reduced inflationary pressure, but the tight labour market and decline in the value of sterling means inflation may remain above target for longer than expected.
- Global economic growth is slowing. Despite slower growth, the European Central Bank is conditioning markets for the end of QE, the timing of the first rate hike (2019) and their path thereafter. More recent US data has placed pressure on the Federal Reserve to reduce the pace of monetary tightening – previous hikes and heightened expectations will, however, slow economic growth.
- Central bank actions and geopolitical risks have and will continue to produce significant volatility in financial markets, including bond markets.

Forecast:

- The MPC has maintained expectations of a slow rise in interest rates over the forecast horizon, but recent events around Brexit have dampened interest rate expectations. Our central case is for Bank Rate to rise twice in 2019, after the UK exits the EU. The risks are weighted to the downside.

- Gilt yields have remained at low levels. We expect some upward movement from current levels based on our central case that the UK will enter a transitional period following its EU exit in March 2019. However, our projected weak economic outlook and volatility arising from both economic and political events will continue to offer borrowing opportunities.

	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Average
Official Bank Rate														
Upside risk	0.00	0.00	0.00	0.00	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.17
Arlingclose Central Case	0.75	0.75	1.00	1.00	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.13
Downside risk	0.00	-0.50	-0.75	-0.75	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-0.85
3-mth money market rate														
Upside risk	0.10	0.10	0.10	0.10	0.15	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.17
Arlingclose Central Case	0.90	0.95	1.10	1.30	1.40	1.40	1.40	1.35	1.35	1.35	1.35	1.35	1.35	1.27
Downside risk	-0.20	-0.45	-0.60	-0.80	-0.90	-0.90	-0.90	-0.85	-0.85	-0.85	-0.85	-0.85	-0.85	-0.76
1-yr money market rate														
Upside risk	0.20	0.30	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.33
Arlingclose Central Case	1.15	1.25	1.35	1.50	1.70	1.60	1.50	1.40	1.35	1.35	1.35	1.35	1.35	1.40
Downside risk	-0.35	-0.50	-0.60	-0.80	-0.90	-0.90	-0.90	-0.85	-0.85	-0.85	-0.85	-0.85	-0.85	-0.77
5-yr gilt yield														
Upside risk	0.25	0.30	0.30	0.35	0.35	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.37
Arlingclose Central Case	1.15	1.25	1.35	1.50	1.50	1.40	1.35	1.35	1.30	1.30	1.30	1.30	1.30	1.33
Downside risk	-0.50	-0.60	-0.65	-0.80	-0.80	-0.70	-0.65	-0.65	-0.65	-0.65	-0.65	-0.65	-0.65	-0.66
10-yr gilt yield														
Upside risk	0.25	0.30	0.30	0.35	0.35	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.37
Arlingclose Central Case	1.50	1.65	1.70	1.80	1.80	1.75	1.75	1.70	1.70	1.70	1.70	1.70	1.70	1.70
Downside risk	-0.55	-0.70	-0.70	-0.80	-0.80	-0.75	-0.75	-0.70	-0.70	-0.70	-0.70	-0.70	-0.70	-0.71
20-yr gilt yield														
Upside risk	0.25	0.30	0.30	0.35	0.35	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.37
Arlingclose Central Case	2.00	2.10	2.20	2.20	2.20	2.20	2.20	2.20	2.20	2.20	2.20	2.20	2.20	2.18
Downside risk	-0.60	-0.70	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.73
50-yr gilt yield														
Upside risk	0.25	0.30	0.30	0.35	0.35	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.37
Arlingclose Central Case	1.90	1.95	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	1.99
Downside risk	-0.60	-0.70	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.73

PWLB Certainly Rate (Maturity Loans) = Gilt yield + 0.80%

PWLB Infrastructure Rate (Maturity Loans) = Gilt Yield + 0.60%

Existing Investment and Debt Portfolio Position

	31.12.18 Actual Portfolio £m
External borrowing:	
Public Works Loan Board	82.500
Barclays	3.000
Total external borrowing	85.500
Treasury investments:	
Banks and building societies (unsecured)	12.000
Covered bonds (secured)	2.128
Government (incl. local authorities)	13.461
Money Market Funds	12.744
Other pooled funds	16.000
Total treasury investments	56.333
Net debt	29.167

Somerset West and Taunton Council

Shadow Executive – 11 February 2019

Draft Investment Strategy 2019/20

This matter is the responsibility of Shadow Executive Councillors Andrew Sully and Martin Dewdney.

Report Author: Andrew Stark, Interim Finance Manager

1 Executive Summary

- 1.1 This investment strategy is a new report for 2019/20, meeting the requirements of statutory guidance issued by the government in January 2018.
- 1.2 For comparison purposes the tables in the report show the combined position for Taunton Deane Borough Council and West Somerset Council for the years up to and including 2018/19.

2 Recommendations

- 2.1 Shadow Executive recommends the draft Investment Strategy for 2019/20 as included within this report, for approval by Shadow Council.

3 Risk Assessment

3.1 Risk Matrix

Description	Likelihood	Impact	Overall
The Council fails to maintain an adequate system of internal control	2	4	8
The Council has in place suitable arrangements to develop, approve and deliver its investment strategy through appropriately trained staff and access to specialist treasury and commercial advice.	1	4	4

Risk Scoring Matrix

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

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

4 Introduction

4.1 The Council invests its money for three broad purposes:

- because it has surplus cash as a result of its day-to-day activities, for example when income is received in advance of expenditure (known as treasury management investments),
- to support local public services by lending to other organisations (service investments), and
- to earn investment income (known as commercial investments where this is the main purpose).

4.2 This strategy focuses on the second and third of these categories.

5 Treasury Management Investments

- 5.1 The Council typically receives its income in cash (e.g. from taxes and grants) before it pays for its expenditure in cash (e.g. through payroll and invoices). It also holds reserves for future expenditure and collects local taxes on behalf of other local authorities and central government. These activities, plus the timing of borrowing decisions, lead to a cash surplus which is invested in accordance with guidance from the Chartered Institute of Public Finance and Accountancy (CIPFA). The balance of treasury management investments is expected to fluctuate between £50m and £90m during the 2019/20 financial year.
- 5.2 **Contribution:** The contribution that these investments make to the objectives of the Council is to support effective treasury management activities. Full details of the Council's policies and its plans for the 2019/20 treasury management investments are covered in a separate document, the treasury management strategy.

6 Service Investments: Loans

- 6.1 **Contribution:** The Council lends money to local businesses, local charities and employees to support local public services and stimulate local economic growth.
- 6.2 **Security:** The main risk when making service loans is that the borrower will be unable to repay the principal lent and/or the interest due. In order to minimise this risk and ensure that total exposure to service loans remains proportionate to the size of the Council, upper limits on the outstanding loans to each category of borrower have been set as follows:

Table 1: Loans for Service Purposes

Category of Borrower	31.03.18 Actual			2019/20
	Balance Owing	Loss Allowance	Net Figure in Accounts	Approved Limit
	£m	£m	£m	£m
Local Businesses	2.043	(0.022)	2.021	20.000
Local Charities	0.902	(0.001)	0.901	3.000
Total	2.945	(0.023)	2.922	23.000

Accounting standards require the Council to set aside a loss allowance for loans, reflecting the likelihood of non-payment. The figures for loans in the Council's statement of accounts from 2018/19 onwards will be shown net of this loss allowance. However, the Council makes every reasonable effort to collect the full sum lent and has appropriate credit control arrangements in place to recover overdue payments

- 6.3 **Risk Assessment:** The Council assesses the risk of loss before entering into and whilst holding service loans by working up a robust business case and applying due diligence to all requests for service loans.

7 Commercial Investments: Property

- 7.1 The Council does not currently hold any commercial property investments, although this is an area that the Council is currently exploring. If, and when, such investments are deemed appropriate a policy will be developed which covers security, risk and liquidity as well as explaining the contribution these investments would make to council objectives.

8 Financial Guarantees

- 8.1 Although not strictly counted as investments, since no money has exchanged hands yet, financial guarantees carry similar risks to the Council and are included here for completeness.
- 8.2 Taunton Deane Borough Council has guaranteed the following items which are included in the 2017/18 Statement of Accounts:-
- Greenwich Leisure Limited Pension Liability £4.9m
 - South West Audit Partnership Limited Pension Liability £0.268m

9 Capacity, Skills and Culture

- 9.1 Officers involved in the investment making decision process are governed by internal procedures and processes and external statutory guidance in the form of the CIPFA Treasury Management Code and MHCLG Investment guidance. Internally limits are set in the annual Treasury Management Strategy Statement and the overriding Treasury Management Practices.
- 9.2 Commercial deals: this is a relatively new area for the Council, however, the commercialism agenda is very much at the centre of the organisational structure of Somerset West and Taunton Council. The new Commercial Investment and Change function will lead on commercial activities for the Council. Recruitment is ongoing to ensure that the appropriate commercial skills and knowledge will be available to the new Council. Where specialist commercial advice is required, for example asset valuation, conveyancing etc then this advice will be bought in.
- 9.3 Commercial Investment and Change members of staff will also be subject to an induction process and ongoing training which will ensure that those negotiating commercial deals are aware of the core principles of the Prudential Framework and of the regulatory regime within which all local authorities operate.
- 9.4 Corporate governance: arrangements have been put in place to ensure accountability, responsibility and authority for decision making on investment activities. Existing governance arrangements stem from the Constitution and the associated scheme of delegation. Budget approvals are in place to support all requests for commercial schemes and third party loans.

10 Investment Indicators

- 10.1 The Council has set the following quantitative indicators to allow elected members and the public to assess the Councils total risk exposure as a result

of its investment decisions.

- 10.2 **Total risk exposure:** the first indicator shows the Council's total exposure to potential investment losses. This includes amounts the Council is contractually committed to lend but have yet to draw down and guarantees the Council has issued over third party loans.

Table 2: Total Investment Exposure

	31.03.18 Actual £m	31.03.19 Forecast £m	31.03.20 Forecast £m
Treasury Management Investments	56.333	56.333	56.333
Service Investments: Loans	2.946	2.674	2.271
Commercial Investments: Property	0	0	2.000
Total Investments	59.279	59.007	60.604
Commitments to Lend	0	0	13.000
Guarantees Issued on Pension Liabilities	5.168	5.168	5.168
Total Exposure	64.447	64.175	78.772

- 12.3 **How investments are funded:** Government guidance is that these indicators should include how investments are funded. Since the Council does not normally associate particular assets with particular liabilities, it is difficult to comply with this guidance. However, the following investments could be described as being funded by borrowing. The remainder of the Council's investments are funded by usable reserves and income received in advance of need.

Table 3: Investments Funded by Borrowing

	31.03.18 Actual £m	31.03.19 Forecast £m	31.03.20 Forecast £m
Service Investments: Loans	0	0.750	7.000
Commercial Investments: Property	0	0	2.000
Total Funded By Borrowing	0	0.750	9.000

13 Links to Corporate Aims / Priorities

- 13.1 The Investment Strategy supports the delivery of the Corporate Aims.

14 Finance / Resource Implications

- 14.1 Any financial/resource implications are contained in the main body of the report.

15 Legal Implications

- 15.1 There are no legal comments for this report.

16 Environmental Impact Implications

16.1 There are no environmental impacts applicable to this report.

17 Safeguarding and/or Community Safety Implications

17.1 There are no safeguarding or community safety implications applicable to this report.

18 Equality and Diversity Implications

18.1 There are no equalities implications applicable to this report.

19 Social Value Implications

19.1 There are no social value implications to this report.

20 Partnership Implications

20.1 There are no partnership implications to this report.

21 Health and Wellbeing Implications

21.1 There are no health and wellbeing implications to this report.

22 Asset Management Implications

22.1 There are no asset management implications to this report.

23 Data Protection Implications

23.1 There are no data protection implications to this report.

24 Consultation Implications

24.1 There are no consultation implications to this report.

25 Scrutiny Comments / Recommendation(s)

25.1 To be included following the meeting if appropriate.

Democratic Path:

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

Reporting Frequency: ☐ **Once only** ☐ **Ad-hoc** ☐ **Quarterly**
 ☐ **Twice-yearly** ✓ **Annually**

Contact Officer

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Somerset West and Taunton Shadow Council

Shadow Executive Meeting – February 2019

Implementation Plan for the Creation of a New Council for Somerset West and Taunton - Update

This matter is the responsibility of the Leader of the Shadow Council
Report Author: Paul Harding – New Council Workstream Lead

1 Executive Summary

- 1.1 The Somerset West and Taunton Shadow Authority is required to have in place an Implementation Plan to outline how the functions and responsibilities of Taunton Deane and West Somerset will transfer to the Somerset West and Taunton Council on 1 April 2019.
- 1.2 This report provides members of the Shadow Executive with an update on progress against the Plan, which was approved by Shadow Council at their October meeting.

2 Recommendations

- 2.1 It is recommended that Shadow Executive for Somerset West and Taunton Council notes the progress made in relation to the Implementation Plan.

Risk Assessment

Risk Matrix

Description	Likelihood	Impact	Overall
Somerset West and Taunton Council is not legal, safe or functioning from 1 April.	3	5	15
<i>The mitigations for this is the Implementation Plan described within this report</i>	1	5	5

Risk Scoring Matrix

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

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

1 Background

- 1.1 In May 2018 the orders to create a new, single district-level council for Somerset West and Taunton were signed into law by the Secretary of State for Housing, Communities and Local Government confirming that the new Council would be created on 1 April 2019 and elections to the new Council would take place on 2 May 2019.
- 1.2 The order that creates the new Somerset West and Taunton Council provided for the establishment of a Shadow Authority and Shadow Executive to operate before Somerset West and Taunton Council takes on full responsibility on 1 April 2019.
- 1.3 Regulation 11 of The Somerset West and Taunton (Local Government Changes) Order 2018 provides that the Shadow Authority must prepare, keep under review, and revise as necessary an Implementation Plan. The Implementation Plan must include such plans, timetables and budgets as the Authority considers necessary to facilitate the economic, effective, efficient and timely discharge, on or after 1 April 2019, of the functions that, before that date, are the District Councils' functions.

- 1.4 The Shadow Authority must approve the Implementation Plan and delegate the functions conferred on it by Regulation 11 of the Changes Order to the Shadow Executive. Therefore, the Shadow Executive is responsible for keeping the Implementation Plan under review, and revising it, as necessary.

2 The Implementation Plan

- 2.1 The focus of the Implementation Plan is to ensure the new council is legal, safe and functioning from 1 April 2019.
- 2.2 The Plan seeks to identify all of the actions necessary to meet these objectives.
- 2.3 Due to the legislative path that is being followed to create the new council, there is no precedent regarding the individual elements that an Implementation Plan should include nor what form the Plan should take.
- 2.4 Officers have shared our initial draft with MHCLG officials and have also looked at the approach being adopted by other councils currently in the process of creating new councils who are following the same legislative path as ourselves, in order to help shape the content of our Plan.
- 2.5 At a high level, the Plan focuses on ensuring Somerset West and Taunton Council...
- has the staff and contracts in place to deliver services to our community;
 - can make lawful decisions (constitution, strategies, plans and policies);
 - holds the necessary insurances, licences and permits to operate;
 - has the necessary governance arrangements in place (statutory officers, auditors, committees);
 - can order necessary goods and services;
 - can pay its suppliers, members and staff;
 - can set, bill and collect income.

3. Finance / Resource Implications

- 3.1 The implementation of the new Somerset West and Taunton Council has an agreed budget which both councils committed to as part of the approved transformation business case in the summer of 2016. The new single council is estimated to generate approximate ongoing savings of £0.5 million per annum; with payback being delivered in 2020/21.
- 3.2 The actions within the Implementation Plan will predominantly be delivered by a combination of project resource within the Transformation Team and One Team officers in operational service areas.

4 Legal Implications

- 4.1 The Shadow Authority is required to have an Implementation Plan in place by virtue of Regulation 11 of The Somerset West and Taunton (Local Government Changes) Order 2018.
- 4.2 In preparing and carrying out the Implementation Plan, the Shadow Authority must have regard to the information originally supplied to the Secretary of State in support of proposals for a single council.
- 4.3 The whole process of establishing shadow governance arrangements has required external specialist legal support and this will continue until a new, legal, safe and functioning council is stood up on 1 April 2019.

5 Environmental Impact Implications

- 5.1 No specific impact.

6 Safeguarding and/or Community Safety Implications

- 6.1 No specific impact.

7 Equality and Diversity Implications

- 7.1 As we progress towards 1 April 2019, and take forward individual actions arising out of the implementation plan, we will need to assess the impacts that any potential service changes have. Where appropriate, the impacts will be subject to formal assessment (such as equality impact assessment, or data protection impact assessment) and appropriate mitigations will be developed.

8 Social Value Implications

- 8.1 No specific impact.

9 Partnership Implications

- 9.1 The implementation plan contains items relating to partnerships.

10 Health and Wellbeing Implications

- 10.1 No specific impact.

11 Asset Management Implications

- 11.1 The implementation plan contains items relating to assets.

12 Consultation Implications

- 12.1 The Shadow Scrutiny committee and Shadow Council have reviewed the Implementation Plan.
- 12.2 A progress update was provided to the January Shadow Scrutiny committee. No significant issues or concerns were raised.

Democratic Path:

- ☐ Shadow Scrutiny – Yes
- ☐ Shadow Executive– Yes

List of Appendices

Appendix A	Implementation Plan - Update Summary
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Contact Officers

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Implementation Plan

Update- Shadow Executive – Feb 2019

Key Activity – since last meeting

The plan is progressing satisfactorily with no significant issues.

There has been some slight slippage with regard to completion of some of the Implementation Plan actions, this is against indicative rather than fixed dates. Equally there have been other tasks completed ahead of time. All tasks that were time critical have been completed as anticipated.

Since the last update to the Shadow Executive in late November key areas of progress have been:

- Further developing the Constitution;
- Working with the DWP to ensure smooth transition to SWT with no impact on our customers or our HB subsidy;
- Preparations for Council Tax, Non-Domestic Rate and Rent annual billing 2019/20;
- Finalising banking arrangements for SWT;
- Car Parking – planning ticketing & Signage alterations;
- Preparations for the May elections;
- Developing a solution for decision making between 1 April and the May 19 Council meeting (particularly licencing and planning).

A progress update was provided to the November Shadow Scrutiny committee. No significant issues or concerns raised.

Focus – Feb & March 19

➤ Outstanding Constitutional Documents – Phase III

- 1) Rules of procedure for Council
- 2) Access to information procedure rules
- 3) Contract procedure rules
- 4) Employment procedure rules
- 5) Protocol on Member/Officer relationships
- 6) Code of Conduct
- 7) Planning Code of Conduct

Plus, Procedure for dealing with allegations of misconduct, Member allowances, Scheme delegation, Provision for Charter Trustees in the Constitution.

➤ Key Reports

- Comprehensive covering report on the Constitution together with all documents refined and consolidated
- Report on specified data to be handed to SWT,
- Report setting out decision-making arrangements for period 1 April 2019 to Annual Council
- Plan for closing WSC & TDBC accounts
- Report appointing two remaining Statutory Officers
- Tax and Budget Setting 2019/2020 - Treasury Strategy, Investment Strategy, Prudential Indicators, Minimum Revenue Provision Policy, Capital Strategy, General Revenue Budget and Capital Programme, Housing Revenue Account Budget and Capital Programme.

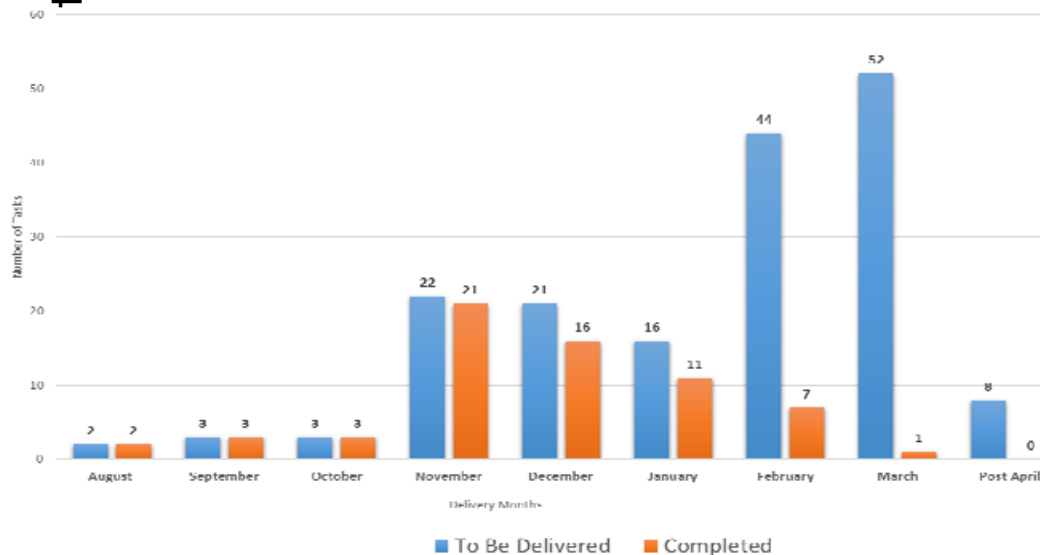
➤ Closing out the remaining Implementation plan actions

Overview

Implementation Plan Actions @ 1 Feb 2019

Not Started	In Progress	Completed	Total
45	63	64	172
26%	37%	37%	100%

Task Delivery Profile



Risks and Issues

Risks

- A Dependencies on third parties (e.g. technology providers, HMRC), causes delay beyond our control.

Issues

- A Movement of staff within, and exiting, the council and their current capacity.

New Council Cost

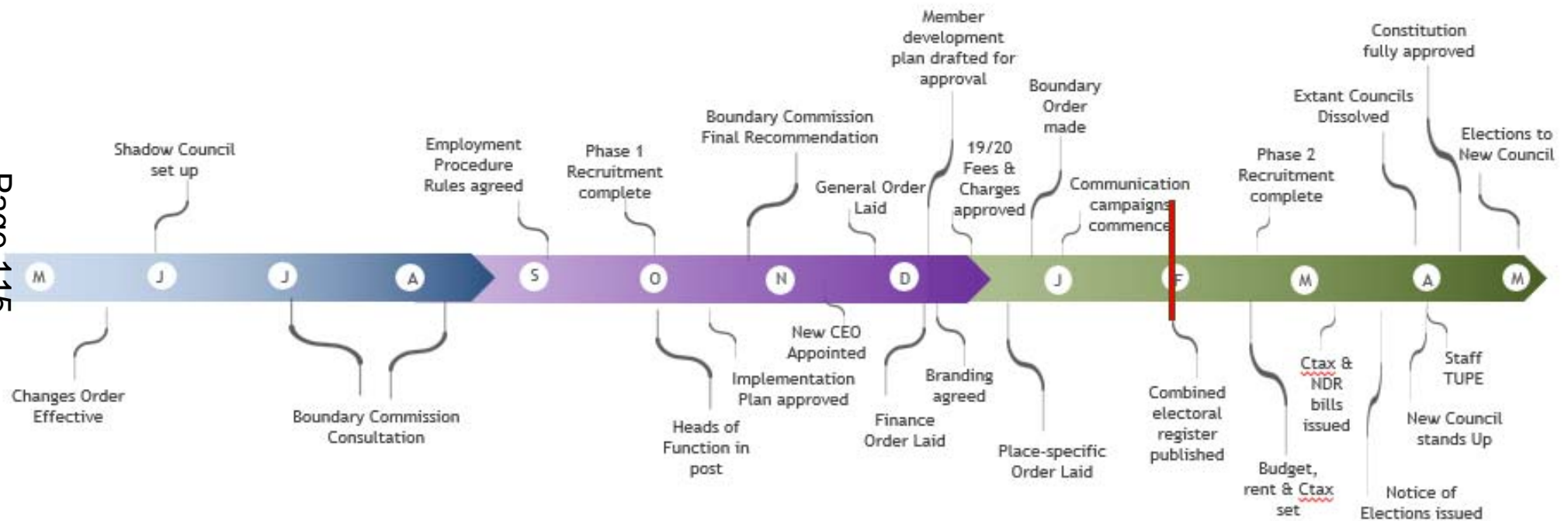
Total Budget
£ 381k

Forecast Cost
£381k

Somerset West
and Taunton

Key Milestones

Page 115



West Somerset Council Shadow Executive 11th February 2019

East Quay Development

Report of Localities Manager – Chris Hall

(This matter is the responsibility of Lead Member for Resources Councillor Martin Dewdney)

1. Executive Summary

This report updates Members on the recent progress made with The Onion Collective, seeks approval of the lease on part of the land at Easy Quay, Watchet, and approval of a loan to bridge their reducing funding gap.

Each of these aspects support The Onion Collective in their bid to the Coastal Communities Fund (CCF) for up to £5m of the overall development cost of £7m.

This report follows on from an all Member update briefing on the proposed development and bid for grant funding that took place on 12th December 2018.

2. Recommendations

This committee is recommended to support to West Somerset Full Council:

- i) The award of the lease under the terms set out in the report upon resolution of the conditions in the confidential appendixes, with delegated authority to Head of Localities in consultation with the Leader of the Council to negotiate the final terms.
- ii) The principle of capital financing loan to The Onion Collective for the sum of up to £1.5m with delegated authority to the Head of Localities & S151 officer in consultation with the Leader of the Council to negotiate the final terms. Provision for such a loan to be included in the Capital Programme for 2019/20.

3. Risk Assessment

Risk Matrix

Description	Likelihood	Impact	Overall
Risk: Onion Collective are unable to meet the criteria for the bid and it is not awarded	Possible (3)	Catastrophic (5)	Medium (15)
<i>Mitigation: The council have been working with OC to resolve a number of issues and give in principle support to the bid within the timeline necessary</i>	Unlikely (2)	Catastrophic (5)	Medium (10)
Risk: The bid fails to meet the criteria set by CCF or is otherwise unsuccessful under competition	Possible (3)	Moderate (3)	Medium (9)

<i>Mitigation: In this event the OC will not have a funded bid but do still have time within the option agreement to look for alternative funding streams</i>	Possible (3)	Moderate (3)	Medium (9)
Risk: Onion Collective do not secure sufficient funds to build out the development during construction	Possible (3)	Catastrophic (5)	High (15)
<i>Mitigation -WSC can take possession of the site under the terms of the building lease</i>	Possible (3)	Moderate (3)	Medium (9)
Risk: The cost of repairing the Impounding Wall is unknown at the present time so it could be that only a section of the repair works can be carried out.	Possible (3)	Catastrophic (5)	High (15)
<i>Mitigation- The council will prioritise its resources and maximise the positive impact of these for the safety of the public and to fulfil its responsibilities under the lease to the marina.</i>	Possible (3)	Major (4)	Medium (12)

4. Background

4.1 In February 2015 West Somerset Council approved the following recommendations, which have set the parameters for this report:

- i) *To appoint the Onion Collective as the Council's preferred bidder for asset transfer of the land at East Quay, Watchet.*
- ii) *To approve the principle of entering into a three year option agreement with The Onion Collective to allow them to develop a detailed scheme design and funded business case that complies with the Council's conditions, prior to full asset transfer taking place.*
- iii) *To delegate authority to the Director of Housing and Communities to work with the Lead Member for Asset Management to negotiate and agree full terms of the agreement.*

4.2 The 2015 report also set out that the final decision to complete the transfer of the asset will be presented to Council for approval, this forms one of the recommendations of this report, but is now proposed as a lease, with the council retaining freehold ownership.

4.3 The approval delegated authority to a senior officer in conjunction with the Lead Member to negotiate the full detail of the agreement. Roles within the organisation have changed since this report was approved, and the role now responsible for this is the Head of Localities.

4.4 West Somerset Council granted planning consent in June 2018 for the development.

4.5 There is no other detailed scheme or opportunity for comparison of the Onion Collective's outcomes. Back in 2015 the partnership with Urban Splash was

terminated as, despite best efforts, no commercial development of the land could be established. This means that there is no alternative so readily on offer to the council or the community.

- 4.6 As part of the negotiations all parties supported a long term lease rather than a land disposal. Therefore keeping the land in public ownership whilst drawing a lease income.
- 4.7 There have been a number of complicating factors that have delayed the completion of the Option Agreement, each of these have been worked through and a practical solution found that ensures the development stands the best chance of receiving the funding (CCF) and therefore supports this community.
- 4.8 The Option Agreement was not entered into immediately following the 2015 report and the Option Agreement was instead exchanged on 18th January 2019. The agreement allows the Onion Collective to exercise the option at any time, subject to the satisfaction of the conditions precedents which are detailed in Appendix C which summarises the terms of the Option Agreement. The Onion Collective can serve the Option Notice up to 36 months after exchange of the Option Agreement.
- 4.9 Whilst Watchet is the one of the most deprived wards in the district it also has some key strengths. In CLG/DEFRA's benchmarking report on coastal towns Watchet appeared in the bottom ten in all economic domains, being among those with the 'greatest economic problems'. The more positive angle to Watchet is that it has relatively young population by comparison to local towns and villages, and has an industrial legacy, and coastal location. Most importantly, Watchet has an incredible community with abundant social capital, meaning people in Watchet work together to solve their problems despite the town suffering terrible deprivation. Throughout The Onion Collective's consultation there has been strong public support culminating in the successful achievement of planning consent.
- 4.10 The East Quay development provides many opportunities, not least of which being the chance to change the narrative of Watchet, transforming it into a destination that supports tourism, employment, skills development, and growth.
- 4.11 The Member briefing on 12th December '18 set out in detail the proposals of how the Onion Collective will develop and operate the site, including a question and answer session for Members to understand all aspects of the development and its mix of uses. Whilst this report is focused on the lease a number of the key benefits have been set out below as a reminder:
- 37 new direct jobs on the developed site
 - 166 new indirect jobs due to the increased tourism spend to the West Somerset area (valued at £6.7m per annum)
 - 17 safeguarded jobs
 - 76 construction jobs, for the duration of the build
 - Develop and fund the access road to the development and for the remainder of the site. (£300k - £400k)
 - Additional business rates for the council that could reach up to £960k over a decade, however this is subject to the occupants of the units.

- Approximately £230,000 in additional parking revenue over a decade.
- Bringing in £5m-£7m in external regeneration funding to the district.
- Delivering multi-layered social benefits to the tune of £3m per annum (wellbeing, culture, aspiration, mental health).
- Creating an arts/cultural and social enterprise development with a national profile, closely aligned with the interests of government.

4.12 The 2015 report identified a number of next steps which have had significant progress made or have been concluded. Updates against these actions are identified in bold text:

*i) Officers will work with the bidder and legal advisors to develop, agree and sign off an option agreement. – **Action Completed in January 2019***

*ii) The preferred bidder status and subsequent option agreement will allow the successful applicant to develop full details of a scheme, supported by the necessary approvals and a fully funded business case, with the Council's authority and sanction. The successful applicant will also have to satisfy the Council's two key conditions as set out at the outset of the process, namely: **Outline details have been provided and planning consent achieved. The final specification is being prepared. Approval of the lease is sought through this report.***

*- Scheme plans will be required to include the delivery of a substantial capital receipt or revenue stream for the Council. - **A revenue stream for the council is provided.***

- Agreement must be reached with Watchet Harbour Marina in relation to all aspects of interaction between the marina operations and the development proposed, to incorporate issues such as on shore facilities, boat storage, car parking, access routes etc. This will ensure all outstanding matters and lease issues can be resolved between Watchet Harbour Marina and the Council prior to any asset transfer taking place.

– Progress has been made see confidential Appendix

4.13 Onion Collective had a very tight timeline in which to submit the bid for CCF funding, (21st January 2019) the council have submitted a letter of support to the CCF assessors, Appendix 2. This letter sets out our intention to support their bid and its community outcomes subject to formal council approval. The letter includes the in principle support of a loan from the council.

4.14 Members can be assured that the council are not bound by this letter either for the provision of the loan or their continued support should the offer from OC change. It should also be noted that the lease and loan, if approved, are dependent on OC achieving the grant funding from the CCF.

4.15 Officers agree that approval of a loan would give the OC the best chance of success in securing their bid funding. It should be noted that this is a competitive process and if awarded this would be the largest single award by the CCF. This is one of the reasons to fully explore the role of the Council in enabling this development whilst also securing a reasonable rate of return for the authority.

- 4.16 A continued partnership approach between the Council and The Onion Collective will be required with responsibility for convening input from the various internal specialisms to deliver this project resting with the council's Localities team.

5. East Quay Wall

- 5.1 As stated earlier the council owns the East Quay, which forms a perimeter wall of the marina. This is not only a built structure that allows for the existence of the East Quay but also acts as a coastal defence protecting Watchet. The wall is made up of a number of sections that have been replaced or refurbished over the years. The stability of the structure was in question and the council have undertaken survey works to establish what may be required. This report is not intended to be the feedback of these results but draws Members attention to the potential for further consideration. One important aspect is any additional loading that the development may place on the wall.
- 5.2 With questions on stability still under review the option agreement that has been negotiated allows the Council time to consider the impacts of the wall structure before entering into a lease, thus protecting the council from otherwise unknown liabilities. In practice WSC will not enter into the lease until the questions have been fully considered.
- 5.3 The Onion Collective have provided an engineer's assessment that the built development will not increase the wall loading, due to the proposed construction type. More detailed information has been requested from The Onion Collective and it is their responsibility to ensure that the information is accurate and capable of being relied upon. The repair scheme will then be designed in accordance with that information.
- 5.4 The marina have permission within their lease to load and unload vessels from the East Quay wall, this requires heavy traffic in the form road transport and a loading crane. This information will form part of the council's consideration of any work necessary to maintain the wall, which is our responsibility.

6. Grant Funding / construction timeline

- 6.1 As identified earlier in the report the development, if funded, would be managed by the Onion Collective or their agents, as such this is not a project under the direct control of the council, we instead are undertaking an enabling role. WSC Have the right in the building lease to appoint a surveyor to monitor and sign off on behalf of WSC. Under the building lease WSC have the ability as a last resort to veto the certification of OC of the marina facilities and service road only.
- 6.2 Up until this point the Onion Collective have secured £150,000 from Esmee Fairbairn Foundation, £120,000 SIB/CRF and £91,000 from the Arts Council. They are also in the final round of a Magnox bid for £250,000 hopefully to be confirmed mid-February. OC also anticipate a £500,000 bid to ACE Small Capital in April. There is the potential therefore that the funding gap could be as low as £889,000 to borrow in a couple of tranches from the council.

- 6.3 Final Submission, including amongst other things RIBA stage 4 drawings and council support in principle, was submitted on 21st January 2019.
- 6.4 Decision on funding will be communicated during spring 2019.
- 6.5 Our understanding of the funding criteria is that it requires construction to start no later than autumn 2019, there is an estimated construction time of 15 months. At this stage there is no evaluation of what “starting” means. Consideration does need to be given to the work that may be required on the East Quay wall and how both aspects can be programmed on this site. The first aspect is for The Onion Collective to secure the CCF funding.
- 6.6 The development is due to be completed and opened in spring 2021. Subject to the above there may be a reasonable extension granted due to the nature of the site which may need to be considered.

7. Financial resource implications

- 7.1 Financial implications of the councils proposed support and involvement have been considered by the finance team, with details provided in this and the confidential appendix A. Based on a review of The Onion Collective business case the advice given strikes a balance between a number of key factors, including securing a reasonable financial return for the authority, maximising the prospect of securing major external funding (£5m), ensuring the long economic viability of the community led project and enabling transformational economic and community benefits in an area of significant deprivation.
- 7.2 The loan is being offered as a minority, but none the less important element of the financing package. The Onion Collective have stated that they will only draw down on this loan as a last resort, should they not be able to source grant funding for the total cost of the East Quay re-development project.

8. Prudential Borrowing

- 8.1 The Onion Collective have asked the council for a loan agreement for up to £1.5m to close the gap between grant funding and development costs. It is their intention, subject to their fundraising efforts, not to draw down the loan but for the purposes of the CCF bid they consider their best opportunity for success is to evidence a fully funded scheme. OC have confirmed that should they be unable to raise the gap funding from another source then the loan would be drawn down last in the sequence of financing.
- 8.2 Due diligence has been undertaken by the Council’s qualified finance professional with a review of the business plan for The Onion Collective, together with the creditworthiness and financial status of The Onion Collective as a prospective borrower/debtor of the Council. No loan investment is risk free, however based on the current proposal, there will be sufficient value in the asset to provide the necessary security required for the full value of the loan.
- 8.3 It is recommended that a Prudential Borrowing facility of up to £1.5m be made available to the Onion Collective with terms and interest rate under delegated

authority to the Leader of the Council and the S151 Officer, and that loan principal repayments received are set aside to reduce the related impact on the Council's capital financing requirement. The borrowing facility represents capital expenditure and if approved will be incorporated within the Capital Programme.

- 8.4 The loan facility is up to £1.5m for up to 30 years. The facility can provide for tiered drawdowns to enable flexibility in loan amounts and periods. It is recommended final terms are to be agreed by the S151 Officer and the Council Leader.
- 8.5 The interest rate chargeable on the loan is a concessionary rate based on PWLB plus a 1% premium to cover the costs and risk to the Council.
- 8.6 The loan conditions will contain provisions to ensure that in the event that The Onion Collective repay the loan early then any premium subsequently payable to the PWLB by the Council will be reimbursed by The Onion Collective.
- 8.7 Loans of this type are regarded as investments under the new MHCLG guidance on investments and details of which will be included in the new requirement for the Council to produce a Capital Strategy. The limits included in the proposed capital strategy include an allowance for this loan facility if approved by Council.
- 8.8 The Council will account for the loan as capital expenditure within its own accounts, and would be financed by borrowing thus adding to the Council's "capital financing requirement" (CFR). It is proposed the principal repayments received from The Onion Collective when the loan is repaid will be treated as capital receipts, which will be utilised to repay the Council's related borrowing, thus mitigating the requirement for a Minimum Revenue Provision cost to the General Fund.

9. Legal Implications

- 9.1 External legal support was commissioned and has been involved throughout these discussions and negotiations.
- 9.2 The authority to complete the Option Agreement was delegated to the Head of Localities under the Resolution contained in the WSC Council Meeting minutes dated 18th February 2015.
- 9.3 Subject to both parties satisfying various Condition Precedent Clauses, the Option Agreement secured the right for the Onion Collective to take a new lease, expiring 26th July 2126, of an area of East Wharf.
- 9.4 There is a Condition Precedent clause in the Option Agreement which requires Full Council approval to key clauses contained in the Building Lease before the Option may be exercised and the Building Lease granted. It is the recommendation of this report that council approve the lease with delegation to the Head of Localities in consultation with the Leader of the Council to finalise the outstanding clauses.
- 9.5 The council have considered the implications of state aid against the details of the proposals. We do not consider that this constitutes state aid on the basis of the return being made to the council and community, the regeneration of a deprived area following years of inactivity, and that our involvement has the potential to

unlock the CCF bid. The loan, if approved, creates a return to the council on top of the regeneration benefits.

10. Environmental Impact

- 10.1 There are no adverse impacts, the scheme will be undertaken in accordance with all relevant regulatory requirements. The scheme that has been granted planning permission will enhance the physical environment around the harbour.
- 10.2 There are no plans to carry out sea defence works along the outer sea wall of East Wharf. However it is not believed that either the Marina nor the Onion Collective's use of the East Wharf will impact on the integrity of the sea wall and vice versa at this point in time.

11. Safeguarding and/or Community Safety Implications

- 11.1 There are no implications resulting from the recommendations of this report.

12. Asset Management Implications

- 12.1 The Asset Management Team has been involved for a considerable time on the options and possibilities for the Harbour and the surrounding area. The Asset Management Group have also been involved in much of the historical debate relating to this area.
- 12.2 The team have ensured the documentation places requirements on The Onion Collective to comply with all statutory obligations.
- 12.3 The Council will retain freehold ownership of the land at East Quay. The lease clauses have safe guarded the council's position in terms of repair and maintenance of the service road as they have to contribute towards its upkeep. The Onion Collective have agreed to fully repair and maintain the land demised to them, they are further obliged to a contribution of a fair proportion of the costs of maintaining the service road and estate as defined by the lease.
- 12.4 The Option Agreement is attached under Appendix B and contains Condition Precedents which both parties to the agreement have to satisfy before the Option Notice can be issued by Onion Collective which will trigger completion of the Building Lease.
- 12.5 The Condition Precedents in the Option Agreement are contained in Confidential Appendix C.
- 12.6 The draft Building Lease is attached under Appendix B. The key clauses in the Building Lease which are recommended to be delegated to the Head of Localities are captured in confidential Appendix D.

13. Data Protection Implications

- 13.1 There are no identified implications of the recommendations set out in this report.

14. Consultation Implications

14.1 There are no identified implications of the recommendations set out in this report.

15. Equalities Impact

15.1 The project delivers an improved use of the land with all new building needing to conform to Building Regulations on accessibility.

16. Partnership Implications

16.1 The Onion Collective is the Council's preferred development partner for the East Quay and strong partnership has been instrumental in bringing the project to this stage. Maintaining and developing the partnership will remain vital as the project moves further into delivery.

Appendices:

Appendix A	Further confidential narrative
Appendix B	Confidential - Option Agreement, Draft Building Lease, and Plans
Appendix C	Confidential - Summary of Conditions Precedent in Option Agreement
Appendix D	Confidential - Summary of key terms in Building Lease
Appendix E	WSC Council Minutes 18 th February 2015
Appendix F	Letter of Support from TDBC and WSC Leaders

Democratic Path:

- **Shadow Executive – 11 February 2019**
- **WSC Full Council – 20 February 2019**

Background reports:

WSC 23/15 – Regeneration of East Quay Watchet 4th February 2015

Reporting Frequency: One off

Contact Officer

Name	Chris Hall
Direct Dial	01823 356499
Email	c.hall@tauntondeane.gov.uk

Risk Scoring Matrix

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

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

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted

Appendix E

WEST SOMERSET COUNCIL

Minutes of the Meeting held on 18 February 2015 at 4.30 pm

in the Council Chamber, Williton

Present:

Councillor G S Dowding	Chairman
Councillor A F Knight	Vice-Chairman
Councillor M J Chilcott	Councillor S Y Goss
Councillor P N Grierson	Councillor A P Hadley
Councillor B Heywood	Councillor K V Kravis
Councillor R P Lillis	Councillor E May
Councillor I R Melhuish	Councillor K M Mills
Councillor C Morgan	Councillor P H Murphy
Councillor S J Pugsley	Councillor D D Ross
Councillor D J Sanders	Councillor L W Smith
Councillor M A Smith	Councillor T Taylor
Councillor A H Trollope-Bellew	Councillor K H Turner
D J Westcott	

Officers in Attendance:

Chief Executive (P James)
Assistant Chief Executive and Monitoring Officer (B Lang)
Director - Housing and Communities (J Barrah)
New Nuclear Programme Manager (A Goodchild)
Economic Regeneration and Tourism Manager (C Matthews)
Finance Manager (S Plenty)
Meeting Administrator (K Kowalewska)

Prior to the start of the meeting, the Chairman requested a minute's silence in memory of Pam Driver, an ex-West Somerset Councillor, and Alan Beynon, an exWest Somerset Council senior officer.

C102 Apologies for Absence

Apologies for absence were received from Councillors H J W Davies, M O A Dewdney, J Freeman and K J Ross.

C103 Minutes

(Minutes of the meeting of Council held on 21 January 2015, circulated with the Agenda.)

RESOLVED that the Minutes of the meeting of Council held on 21 January 2015 be confirmed as a correct record.

C104 Declarations of Interest

Members present at the meeting declared the following personal interests in their capacity as a Member of a County, Parish or Town Council:

Name	Minute No.	Member of	Action Taken
Cllr S Y Goss	All	Stogursey	Spoke and voted
Cllr P N Grierson	All	Minehead	Spoke and voted
Cllr P H Murphy	All	Watchet	Spoke and voted
Cllr L W Smith	All	Minehead	Spoke and voted
Cllr K H Turner	All	Brompton Ralph	Spoke and voted
Cllr D J Westcott	All	Watchet	Spoke and voted

In addition, the following interests were declared:

Name	Minute No.	Description of interest	Personal or Prejudicial	Action Taken
Cllr D D Ross	C109	Regal Theatre Board Member	Prejudicial	Left the Chamber

C105 Public Participation

John Irlen, Chairman of West Somerset Railway; Paul Upton, Watchet Conservation Society, and Vidya Alekson, Chief Executive Power to Change Trust, spoke in support of Agenda Item 6 Regeneration of East Quay, Watchet.

Jess Prendergrast, Director of Onion Collective addressed the Council on the plans for Watchet regeneration.

C106 Chairman's Announcements

The Chairman had no announcements to make.

C107 Appointment of Deputy Leader

Councillor K V Kravis announced that she wished to resign as Deputy Leader of the Council with immediate effect. She stated she would retain her role as Lead Member for Resources and Central Support, however felt

that it was the right time to tender her resignation as neither she nor the Leader of Council were standing for re-election in May and she was concerned that there would be a political void during the election period, and therefore wished for the role to be undertaken and carried forward post-election by another Member.

The Council were saddened by her resignation and the Chairman took the opportunity to thank Councillor Kravis for her hard work, commitment and immense enthusiasm during her time as Deputy Leader.

It was proposed and seconded to nominate Councillor Trollope-Bellew as Deputy Leader of Council.

RESOLVED that Councillor A H Trollope-Bellew be appointed as Deputy Leader of West Somerset Council with immediate effect.

NOTE: Having regard to the special circumstances pertaining in relation to this item – namely the need to ensure that the position of Deputy Leader of Council was filled as soon as possible – the Chairman was of the opinion that, despite its non-inclusion on the agenda, this item should be considered at this meeting as a matter of urgency.

C108 Regeneration of East Quay, Watchet

(Report No. WSC 31/15, circulated with the Agenda.)

The purpose of the report was to consider the outcome of the recent process of seeking expressions of interest from relevant organisations for proposals to facilitate regeneration of the area around the harbour at Watchet and to approve a preferred bidder to continue to work with the Council towards potential asset transfer.

The Leader of Council conveyed how great it was to see so much support for the Onion Collective proposals and stated that this was a great opportunity to move the development of Watchet forwards. He went on to present the report in detail. He explained the Community Asset Transfer route proposed to be taken and stressed that the key activities of the Watchet Harbour Marina would have to be integrated into any development proposals in order to operate effectively and for a viable development to take place. This was seen as a considerable challenge, however very important as it formed the basis of a Council condition as detailed in the report. The Leader congratulated the Onion Collective for their submission of the business plan which was very comprehensive and of high quality. He drew Members' attention to the next steps and process if the Onion Collective were to be appointed, reporting that the final decision to complete the transfer of the asset would be presented to a future meeting of Full Council for approval. The asset management implications contained within the report were also highlighted.

The Leader proposed the recommendations contained within the report which was seconded by Councillor C Morgan.

Members praised the exemplary work of the Onion Collective, and strongly expressed support for their proposals to regenerate Watchet.

RESOLVED (1) that the Onion Collective be appointed as the Council's preferred bidder for asset transfer of land at East Quay, Watchet.

RESOLVED (2) that the principle of entering into a three year option agreement with the Onion Collective to allow them to develop a detailed scheme design and funded business case that complies with the Council's conditions, prior to full asset transfer taking place be approved.

RESOLVED (3) that authority be delegated to the Director of Housing and Communities to work with the Lead Member for Asset Management to negotiate and agree full terms of the option agreement

C109 Request for Allocation of Planning Obligations Funding – Minehead Illuminations Project

(Report No. WSC 27/15, circulated with the Agenda.)

The purpose of the report was to make proposals for the allocation of monies secured through planning obligations to individual schemes.

The Lead Member for Resources and Central Support presented the item, reporting that this was the last tranche of the Morrisons Section 106 money and reference was made as to how the money had been allocated on a wide ranging, comprehensive list of projects that had met the tough criteria of the agreement. The Lead Member provided an overview of the project and advised that community and business consultation had been undertaken and overwhelming positive responses had been received especially via social media. She drew Members' attention to the practicalities of the project with regards to maintenance, health and safety checks etc., and the comprehensive cost breakdown, as detailed in the report. It was also reported that to enable the project to proceed WSC would own the lights for three years with no extra costs being incurred, after which time ownership would pass to the Minehead Chamber of Trade.

The Lead Member proposed the recommendations in the report which were seconded by Councillor I R Melhuish.

Members expressed support for the project and during the discussion the following points were raised:

- Any project that enhanced Minehead and further promoted tourism would benefit the whole of the district.

- The timescale for allocating section 106 monies and setting a more flexible criteria for future consideration of projects should be closely examined in the future.
- Concern was expressed regarding the requirement to remove the lights after 30 days and clarification was provided that by entering into a Section 50 Agreement with SCC Highways meant that the lights would not have to be taken down unless for maintenance purposes.

RESOLVED (1) that the allocation of £34,416.76 for the Minehead Illuminations Project to be added to the capital programme and funded from planning obligations contributions be approved.

RESOLVED (2) that £4,102.33 underspend from previous approved allocation from planning obligation contributions (related to same Agreement as outlined in paragraph 5.3 of the report) be approved to be reallocated to the Minehead Illuminations Project.

C110 Hinkley Tourism Action Plan Strategy and Action Plan

(Report No. WSC 30/15, circulated with the Agenda.)

The purpose of the report was to consult with Council on the contents of the Hinkley Tourism Action Partnership (HTAP) Strategy and Action Plan, and to outline proposals to Council for the drawdown of HPC S106 Tourism mitigation funding to support delivery of four projects in the action plan.

The Lead Member for Regeneration Economic Growth presented the report and provided Members with the background information, drawing particular attention to the vision of the Strategy and its three clear aims and nine priorities. She confirmed that in response to previous concerns regarding housing and the potential impact this could have on tourism businesses, strategic aim one, priority three of the vision would monitor and deal with these issues.

The Lead Member went on to propose the recommendations of the report which were duly seconded by Councillor A H Trollope-Bellew.

RESOLVED (1) that the HTAP Strategy and activity in the Action Plan be approved.

RESOLVED (2) that the drawdown of the Phase 1 S106 Tourism Contribution of £125,385 to support the delivery of the 4 projects identified within the HTAP Action Plan be approved.

RESOLVED (3) that £45,000 of the action plan delivery was previously agreed by Council in November 2014 be noted.

C111 Hinkley Point C – Proposed Changes to EDF Energy’s Development Consent Order (DCO) Plans

(Report No. WSC 28/15, circulated with the Agenda.)

The purpose of the report was to bring to Members’ attention EDF Energy’s proposed changes to the DCO ‘plot plan’ (essentially the detail plans of the buildings on site during operation) and to formulate West Somerset Council’s response to those changes.

The Lead Member for Environment - Hinkley presented the report in detail drawing attention to the fact that the proposed changes related to the small ancillary buildings on the edge of the site and there would be no significant visual impact locally.

The Lead Member proposed the recommendations which were duly seconded by Councillor T Taylor.

RESOLVED (1) that no objection be raised to the proposed changes to the DCO plans as proposed by EDF Energy and that delegated authority be granted to the New Nuclear Programme Manager to respond to the consultation undertaken by the Planning Inspectorate.

RESOLVED (2) that delegated powers be granted to the New Nuclear Programme Manager, following consultation with the Lead Member for Environment – Hinkley Point, to respond to further proposed non-material changes to the DCO plans relating to Hinkley Point where there are no significant effects identified from such changes.

NOTE: Councillor M Smith requested that it be recorded she had abstained from voting on this item.

C112 Hinkley C Connection Project – Local Impact Report and DCO Examination

(Report No. WSC 29/15, circulated with the Agenda.)

The purpose of the report was to provide Members with an overview of National Grid’s Hinkley C Connection Project; identified the key issues pertinent to West Somerset; set out the key steps in the Examination Timetable; explained and sought Member approval to submit the Joint Local Impact Report in accordance with the Examination Timetable; and finally set out the resource implications for the Council and sought approval to vire up to £25,000 from an Earmarked Reserve for the purposes of procuring specialist technical and legal advice during the Examination.

The Lead Member for Environment - Hinkley presented the item and provided Members with the background information contained within the

report, summarising the proposals and key issues for West Somerset. He went on to propose the recommendations which were duly seconded by Councillor K H Turner.

The New Nuclear Programme Manager provided additional information on the proposals contained within the DCO application, advising that the main issue of concern related to the amount of planting being delivered as part of the off-site planting and enhancement scheme because it was felt that the amount of planting was not considered to be sufficient to mitigate the community visual impact.

In response, it was confirmed that it was the onus of National Grid to acquire land and undertake the planting as set out in the scheme and WSC would act as observer/monitor of the situation.

The Lead Member wished Members to be highly aware of the issue concerning the visual impact as it would not be specific to the locality but would be seen across the whole district and would affect everyone; and he underlined the importance of the mitigation measures to mask the visual impact.

RESOLVED (1) that the content of the draft Local Impact Report (LIR) and grants delegated powers to the New Nuclear Programme Manager to submit the LIR on behalf of West Somerset Council on 26th February 2015 be endorsed.

RESOLVED (2) that up to £25,000 from the National Grid PPA Earmarked Reserve be vired to an expenditure budget for the purposes of procuring specialist technical and legal advice during the forthcoming Examination be agreed.

NOTE: Councillor M Smith requested that it be recorded she had abstained from voting on this item.

C113 Minutes and Notes for Information

(Minutes and Notes relating to this item, circulated via the Council's website.)

RESOLVED (1) that the notes of the WWQ Area Panel held on 16 December 2014 be noted.

RESOLVED (2) that the notes of the Exmoor Area Panel held on 20 January 2015 be noted.

RESOLVED (3) that the notes of the Dunster Area Panel held on 26 January 2015 be noted.

The meeting closed at 6.47 pm

Appendix F



Taunton Deane Borough Council
The Deane House, Belvedere Road,
Taunton, Somerset TA1 1HE

West Somerset Council
West Somerset House, Killick Way,
Williton, Somerset TA4 4QA

Our Ref:

Date: 18 January 2019

Jessica Prendergast
Director
Onion Collective CIC
Harbour Studios East
Quay
Harbour Road
Watchet
Somerset
TA23 0AQ

Sent by email

Dear Jessica,

Coastal Communities Fund (CCF) application for the development of East Quay, Watchet

We are writing to express our Councils' support to Onion Collective's major (£5m) application to the Coastal Communities Fund for the development of East Quay, Watchet. You will, of course, be aware that a new larger district council (Somerset West and Taunton) will be created in April 2019, covering the area currently served by our two separate authorities.

The East Quay cultural and enterprise development will transform the economic landscape of West Somerset and bring prosperity and pride back to a coastal town currently experiencing severe economic deprivation following the closure of its defining industries, namely the docks in the 1970s and, most recently, the closure of Wansbrough Paper Mill in 2015.

This carefully thought out and community led development represents a guiding light for regeneration developments. Local people have been central to the concept and development of the plans and this will mean that both the purpose of the buildings and aesthetics of the design come from community voices. We believe this is an exemplar

model of regeneration, particularly for coastal towns seeking a new post-industrial identity and will be a flagship project for the government's civil society ambitions.

The Onion Collective scheme at East Quay will provide:

- 37 new direct jobs in the building
- 166 new indirect jobs due to the increased tourism spend to the West Somerset area
- 17 safeguarded jobs
- 76 construction jobs, for the duration of the build

The purpose of East Quay, as a culture, enterprise and tourism development means that it will support each one of those three vital sectors needed for economic growth in the district. West Somerset currently has the lowest social mobility, lowest wages and lowest SME productivity in the country. This type of statistic is so severe it will only be overcome by innovative thinking and collaborative working. Councils can no longer work alone to address such levels of deprivation and must act with like-minded organisations who also wish to shift economic and social circumstances of a place to one of prosperity and wellbeing. As a social enterprise committed to lifting economic and social deprivation, Onion Collective are just such an organisation and we are delighted to be working with you to raise the prospects of our district.

West Somerset Council (WSC) has worked with Onion Collective since 2014 and has collaborated on a number of previous regeneration projects, including the asset transfer of Council owned land to them for the development of a new Visitor Centre for Watchet and a new refurbished Boat Museum. The project was an excellent example of partnership working and is now run successfully as co-located space for Watchet Town Council, Friends of the Flatner Museum and a local taxi firm.

WSC also worked closely with Onion Collective and Watchet Coastal Community Team on their recent Place Based Social Action bid to DCMS, (decision pending January 2019), which, if successful, will focus on citizen participation to address social issues. WSC is proud of the strong trust and working relationship that exists with Onion Collective and this project will forge ever closer ties between the newly created council, benefiting the prosperity and well-being of the wider area.

In addition to the option agreement that is already in place to enable this project on Council owned land at East Quay, WSC has been working closely with the team at Onion Collective to provide a loan facility that gives assurance to CCF that the required match funding is in place. To this end, an enabling loan of up to £1.5m has been agreed in principle, and will be recommended for approval at WSC Full Council on 20 February 2019. The same meeting will also consider positive recommendations in respect of the long term lease that will sit alongside the already agreed option agreement. It had been originally envisaged by the option agreement that the lease approval would take place on confirmation of funding being secured but due to the more stringent requirement of CCF to put the lease in place within one month of funding, this has been brought forward to the same meeting so that it is agreed in advance.

Through this letter, we wholeheartedly commend the Coastal Communities Fund to support this ambitious and exemplar application for the development of East Quay. It will bring a desperately needed injection of investment into one of the most disadvantaged communities in the country. We anticipate this project to act as a catalyst for the economic recovery of the whole area and believe it to be a truly transformative regeneration project.

Yours sincerely

John Williams
Leader, Taunton Deane Borough Council

Anthony Trollope-Bellew
Leader, West Somerset Council

Taunton Deane Borough Council

Shadow Executive – 11th February 2019

North Taunton Woolaway Project

This matter is the responsibility of Executive Councillor Terry Beale

Report Author: Jo Humble – Lead Specialist Place

1 Recommendations Proposed to be put before Shadow Council

- 1.1 The Council approves the project and the progression of the scheme. Council delegates the decisions to progress matters for the scheme to be determined by the Head of Commercial, Investment and Change in consultation with the relevant Portfolio Holder.
- 1.2 The Council approves the proposed funding of the scheme utilising a combination of capital receipts, Social Housing Development Fund revenue contribution, and capital borrowing. Council delegates the final funding arrangement to be determined by the S151 Officer in line with the Council's capital and treasury strategies, prioritising affordability for the Housing Revenue Account.
- 1.3 The Council approves a supplementary budget of £7,200,000 within the HRA Capital Programme for Phase A of the North Taunton Woolaway Project.
- 1.4 Approval is granted to serve Initial and Final Demolition Notices, and for the demolition of properties to enable site clearance to facilitate new development for the whole scheme.
- 1.5 The Council approves the principle to utilise Compulsory Purchase Powers using section 17 of the Housing Act 1985, should Vacant Possession not progress to acquire properties under the regeneration initiative detailed in this report, and to delegate such decision making to the Executive.

2. Corporate Context

- 2.1 The key drivers for the North Taunton Woolway project are in response to the strategic objectives agreed in the updated Housing Revenue Account (HRA) Business Plan 2016-2046:
 - **Providing Quality Homes.** We are committed to investing in our existing homes to deliver good quality of life for residents and value for the money spent, and to developing new homes that meet local needs.

- **Supporting the most vulnerable.** We are committed to letting homes to people who have the fewest housing options, and will provide additional support that helps people who are older, disabled, or socially excluded to live comfortably in their council-owned home.
 - **Better Service.** We are customer and community focused and are committed to improving our services in line with what our residents have said matters to them. Our approach will support people to move through our social housing to cater for their changing needs and aspirations over time.
 - **A Stronger Business.** We will prioritise efficiency to support delivery of our social priorities and objectives. It sets out how we will improve our business practices, drive out value for money and pursue new activities.
- 2.2 The HRA Revenue budget and 30 Year Business Plan has been updated to reflect the additional income and expenditure arising from this investment. The HRA Business Plan was further supported through the adoption in July 2017 of a new Asset Strategy and a new Development Strategy
- 2.3 Just over 22% of Taunton Deane Borough Council (TDBC) stock is of non-traditional construction housing property types. This includes homes that are built with prefabricated reinforced concrete (PRC) panels or other methods such as steel frames.
- 2.4 Most of TDBC non-traditional construction types have been brought up to licensed repair standards and require no significant additional costs in future compared with properties for traditional construction. The exception is the properties of Woolaway construction.
- 2.5 As part of the development of the Asset Management Strategy the financial performance of the TDBC stock was evaluated, based on 30 year income and expenditure associated with the assets, alongside other non-financial measures of broader neighbourhood sustainability.
- 2.6 Through the evaluation, the asset management model identified 4% of the total stock with an average Net Present Value which is negative. These were exclusively for the Council's properties of Woolaway construction, reflecting the anticipated need for major works to these properties in the medium term.
- 2.7 The North Taunton Woolaway project is providing a prudent and proactive approach to address the stock condition issues of TDBC poorest performing assets.
- 2.8 The Development strategy focused on two keys areas of activity:-
- Opportunity led development that may include TDBC land and wider market opportunities such as rural exception schemes.

- Strategic, asset management led developments that addresses the non-traditional or poor performing stock within TBBC's portfolio.

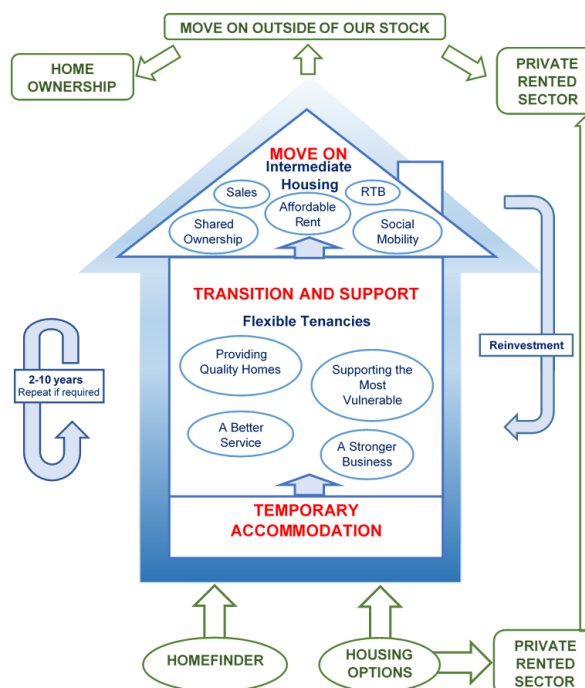
2.9 The Woolaway project fits into the second key area. This strategic focus, combined with learning from previous Council regeneration schemes at Creechbarrow Road and Rockwell Green, have informed the North Taunton Woolaway project's ethos and principles. Engaging and listening to our residents has been a fundamental driver with clear project principles established at project initiation.

2.10 The key project principles include :-

- Existing TDBC Residents within the scheme area will be given the opportunity to remain on a social rent level.
- Existing TDBC Residents within the scheme will be supported to downsize through the scheme design but retain the right to return to the equivalent size property within the new scheme.

2.11 The HRA business plan provides for funding for 15 new homes per annum, which this North Taunton Woolaway project will contribute to. The scheme proposal is underpinned by the TDBC development aspirations and provides additional new, high quality homes.

2.12 The emerging scheme supports the Council's Housing Vision set out in the Housing Revenue Account Business Plan 2016-2046. The following diagram is extracted from the Business Plan and represents the more dynamic service TDBC intends to offer to help people access accommodation that meets their needs at a particular point in their lives.



- 2.13 Within social housing TDBC intends to help people develop stable lives and life skills and then if appropriate, look to help them move into home ownership over time as and when this meets their needs and aspirations. This in turn allows others to begin their social housing journey by freeing up valuable social housing.
- 2.14 Through this scheme TDBC will seek to provide a small supply of alternative housing products. Details of a shared equity arrangement is being developed to offer an alternative low cost homeownership choice. This will complement the Shared Ownership offer which is being piloted at the Weavers Arms, Rockwell Green Development.
- 2.15 Following Taunton's success in becoming a Garden Town the scheme has been an opportunity to embrace Taunton's Garden Town principles and develop a new garden community with the design safeguarding the natural environment, providing areas of planting and open space, and ensuring that people have access to suitable housing and facilities.

3 Risk Assessment

- 3.1 A risk and issues register which has been produced for this scheme is shown in **Appendix A**. The primary risks associated with the scheme both directly and indirectly are the following;

Risk	Mitigation
Insufficient funds for the project	Continue to professionally verify cost estimates. Refresh HRA business plan in line with cost estimates. Explore and secure external funding options
Construction Cost estimate is below Tender prices received following contractor procurement	Value engineering exercise would be undertaken with revised phasing and design to an affordable level or revision of the HRA Business Plan capacity would be undertaken.
Changes in Councils responsibilities and income through changes implemented from Central Government.	Continue to monitor legislative changes from Central Government. The scheme will be delivered in a phased basis and would incorporate any future changes in the Councils responsibilities, meaning each phase is manageable within resources.

4 Background and Full details of the Report

4.1 Background

- 4.1.1 Taunton Deane Borough Council (TDBC) owns a variety of non-traditional construction housing property types across the Borough. A Structural Engineering report was carried out in 2013. The report highlighted through testing that the Woolaway units were showing signs of deterioration. This type of non-traditional unit was Designated Defective under the Housing Defect Act 1984. This did not mean that the Woolaway units were unsafe, it prevented any more of the houses being built.
- 4.1.2 In response to the report findings, TDBC undertook a regeneration scheme in Rockwell Green, Wellington. This scheme involved land assembly through the acquisition of a public house and a redundant toilet block in addition to the demolition of 10 Woolaway homes. The scheme is nearing completion and will deliver 26 new affordable homes.
- 4.1.3 TDBC undertook a further assessment during the demolition of the Woolaway units at Rockwell Green. This confirmed the units were in a worse condition than identified in the 2013 report. These findings have accelerated activity in seeking solutions to address the quality of Woolaway housing elsewhere in the Council's stock.
- 4.1.4 TDBC has approximately 240 Woolaway properties across the Borough with the main concentration being in Pyrland and Rowbarton Ward. In February 2017 TDBC had the opportunity to bid for funding from the Ministry of Housing, Communities and Local Government (MHCLG) designed to accelerate Estate Regeneration planning.
- 4.1.5 TDBC were awarded sufficient funding to enable the creation of a Master Planning Team to include expertise in Architecture, Community Consultation, Engineering and Cost Consultancy to support the Development Team in progressing the North Taunton Woolaway Project.
- 4.1.6 The aims of the project are to engage with the community living in the Woolaway properties in the North Taunton area and to work with the community to bring forward a phased regeneration scheme.

4.2 Community Engagement

- 4.2.1 The project aims to be an exemplar project for Estate Regeneration and reflect the aspirations of the Garden Town. Community Engagement and supporting the residents affected by the scheme, have been at the forefront of the projects ethos to regenerate the area providing high quality, energy efficient properties as well as creating a sustainable and healthy living environment that fosters independent living within a strong and thriving community.

- 4.2.2 TDBC established a community hub in a vacant property within the heart of the affected area, where officers are available for residents to 'drop in' should they have any questions or concerns.
- 4.2.3 TDBC Officers worked with residents through individual appointments in their homes, achieving approximately 90% coverage. This is in addition to hosting four public consultations during the past year to obtain views and comments from those affected by the project. The information gathered has influenced the design of the scheme and specific house types.
- 4.2.4 A Residents Design Group was established to help the Master Planning Team capture the local knowledge and develop a scheme which addresses the wider issues affecting the estate and residents. The Group has provided invaluable community representation for the Master planning team to work with.
- 4.2.5 The Design Group consists of 20 residents with a range of housing and lifestyle requirements and a mix of home owners and Taunton Deane tenants. Ten Resident Design Group meetings have taken place between October 2017 and October 2018. These have been followed up by meetings with individual Design Group members at the community hub.
- 4.2.6 The Pyrland and Rowbarton Ward Councillors, Tenant Services Management Board and Tenants Forum have received briefings and updates during the resident consultation phase. The project principles were presented to Members through a Members Briefing in June 2018 and at Strategic Forum in September 2018.

4.3 Scheme Proposal

- 4.3.1 The existing site comprises of 212 Woolaway homes of which Taunton Deane retain ownership of 167.
- 4.3.2 Following an extensive 12 month resident consultation and a range of detailed site investigations, an Outline planning application and Phase A detailed planning application were submitted in December 2018.
- 4.3.3 The scheme Masterplan currently show five phases, A to E. To continue momentum for this development, this Council paper makes a specific request for funding for Phase A.
- 4.3.4 The indicative outline planning application indicates a broad scheme to provide 226 new build homes and refurbish 27 existing TDBC homes through a phased approach. As a result of the indicative scheme there will be a net increase of 86 new TDBC homes with 149 additional bed spaces.

	In TDBC Ownership	In private ownership	Total
Existing Woolaway Homes	167	45	212
(Acquire) & Demolish	140	22	162
Refurb	27	* See note	27
Newbuilds	226		226
Total Proposed	226	27	253
Net Increase in TDBC stock			86
Existing bed spaces			964
Proposed bed spaces			1113

Note: * There are 23 homes in private ownership within the scheme area which are excluded from planned works. However the Council will be supportive if those private owners wish to undertake their own refurbishment.

- 4.3.5 Subject to planning approval, a tender process would then begin to select the range of professionals, including a build contractor to progress the scheme development with an anticipation to start physical works during our financial year 2020/21.
- 4.3.6 Owing to the complexities and size of the scheme the build period can only be estimated at this time and will range around a 10 year programme. However this will be reviewed as each Phase progresses, seeking opportunity to accelerate and overlap phases where possible.
- 4.3.7 The mix of homes is indicative at this stage and will be reviewed prior to submitting Reserved Matters for subsequent phases. The intention is to undertake the project in five phases, to support the decant requirements of existing residents and enable each phase to be assessed against changes in housing need, affordability and mitigate future unknown changes which may affect the scheme proposal and financing.
- 4.3.8 Each phase will consider the required mix to support the returning decants and provide a range of housing tenures, including affordable rent and a range of options to support residents who aspire to home ownership.

4.3.9 The indicative mix of homes for the whole scheme is:-

Dwelling Type	Occupancy	Number of Units
1B Bungalow	2 persons	2
1B Flat	2 persons	30
2B Flat	3 persons	14
2B Bungalow	3 persons	8
2B House	4 persons	42
3B House	5 persons	94
4B House	6 persons	33
5B House	7 persons	3
Refurb 2B House	3 persons	20
Refurb 3B House	4 persons	7
Community Facility		

4.3.10 From the indicative whole scheme mix, the intended mix for Phase A is:

Dwelling Type	Occupancy	Number of Units
1B Flat over Garage	2 persons	1
1B Bungalow	2 persons	2
1B Flat	2 persons	12
2B Flat over Garage	3 persons	1
2B Flat	3 persons	4
2B Bungalow	4 persons	4
2B House	4 persons	2
3B House	5 persons	5
3B Chalet	6 persons	4
4B House	6 persons	4
Community Facility		

4.3.11 Through the consultation a strong request for a community facility was identified and incorporated into the scheme design, within Phase A. In the event that the community facility is no longer required the facility will be designed to enable conversion to 2 x 2 bed flats. A detailed business case for the operation and revenue funding for a community centre will be developed working with the community through the scheme implementation project plan.

4.3.12 The homes will be built to Nationally Described Space Standards and Housing Quality Indicator layout standards. The homes will be designed predominantly to Building Regulations Part M4 Category 2 with nine anticipated as wheelchair adapted homes at Category 3.

4.3.13 Three design options were developed which considered different levels of refurbishment and new build. A scoring mechanism was established with the Design Group, the external consultant team and TDBC Project Board to score the different options and agree the preferred approach. Each group independently scored option 3 the highest. This option was shown to the whole community at a

consultation event on the 5th October 2018.

- 4.3.14 The scheme has been evaluated by the Design Review Panel prior to submission of the planning application. The Panel considered the design process and community consultation process undertaken to date as extremely rigorous and is considered outstanding, in terms of process the Panel were extremely supportive.
- 4.3.15 The Panel welcomed the presentation of previous design iterations that demonstrated the strategic approach and rationale behind the design decisions taken. The Panel considered that, based on the brief and design parameters set, that the design has the potential to be exceptional.
- 4.3.16 The relatively minor recommendations received from the Design Review Panel are being reviewed and incorporated within the scheme design as appropriate.
- 4.3.17 TDBC Officers continue to work closely with affected residents on a one to one basis. The intention is for the current TDBC residents whose homes are subject to demolition to be given the opportunity to return to a new property at a social rent level.
- 4.3.18 The range of property sizes will help to address existing overcrowding and under occupation which have been identified through the community. In line with the key project principles, residents will be supported to downsize through the design of the proposed scheme but retain the right to return to the equivalent size property within the new scheme.
- 4.3.19 Residents within the refurbished area will return to their newly refurbished home unless there are extenuating circumstances.
- 4.3.20 Existing Homeowners within the redevelopment area are in discussion with TDBC officers regarding their personal options and the reasonable offers made by the Council.
- 4.3.21 Statutory Home loss and Disturbance payments will be made in line with legislative guidance.

5 Links to Corporate Aims / Priorities

- 5.1 The scheme supports the Council's Corporate Strategy 2016-2020 – Key Theme 1 – People. The project will facilitate an increase in the availability of affordable homes for local people to both buy and rent. It will develop a range of additional housing types suitable in particular for single person households and elderly people.
- 5.2 The scheme also supports the Housing Revenue Account Business Plan 2016 – 2046 objectives by providing quality homes and supports the Housing Vision to broaden the housing offer to cater for residents housing needs and aspirations.

6 Finance / Resource Implications

- 6.1 The total cost of the whole North Taunton Woolaway project as presented in this report is estimated to be in the region of £45m. This is based on a number of assumptions and indicative costs.
- 6.2 The scheme remains subject to planning consent being granted. It is worth noting from the outset, that for a proposed scheme of such duration (up to 10 years) there is an obvious risk that costs can potentially change quite significantly e.g. for price inflation and other market factors. Estimates for price inflation have been included in the estimate, and will need to be carefully monitored at each phase of planning and delivery.
- 6.3 The current proposal is to fund the scheme as detailed in Table 1 below, which has been modelled on the basis of delivering the scheme over a 10-year period.

Table 1: Proposed Funding Profile for the North Taunton Woolaway project

	£(000s)
Total Estimated Cost	45,000
Funded by:	
Right to Buy (RTB) Receipts	3,468
Major Repairs Reserve	8,953
External Borrowing	32,579

- 6.4 A number of factors may ultimately influence the funding plan, for example: changes in cost; changes to the proposed build design/mix; and changes to the refurbishment timetable.
- 6.5 It is therefore proposed that the Council agrees to the funding allocations in principle, and delegates' authority to the Section 151 Officer to update this as the programme progresses in line with the Council's capital and treasury strategies, prioritising affordability for the Housing Revenue Account. Any such updates to the funding arrangements would be reported to Councillors through the normal financial reporting process.
- 6.6 The indicative scheme would allow funding from Right to Buy receipts of up to £3.468m to support the increase in dwelling numbers. This is in line with the current Right to Buy policy. If this scheme does not go ahead, and no alternative eligible investment of RTB receipts is made, this would place significant risk on having to hand over these RTB receipts to central Government plus an additional penalty fee of bank base rate plus 4%.
- 6.7 From the overall funding outlined, Phase A is estimated to require a budget of £7.2m. This sum includes a significant contingency sum and may be rolled forward towards subsequent phases if not required.

6.8 Table 2 below details the breakdown of the proposed funding.

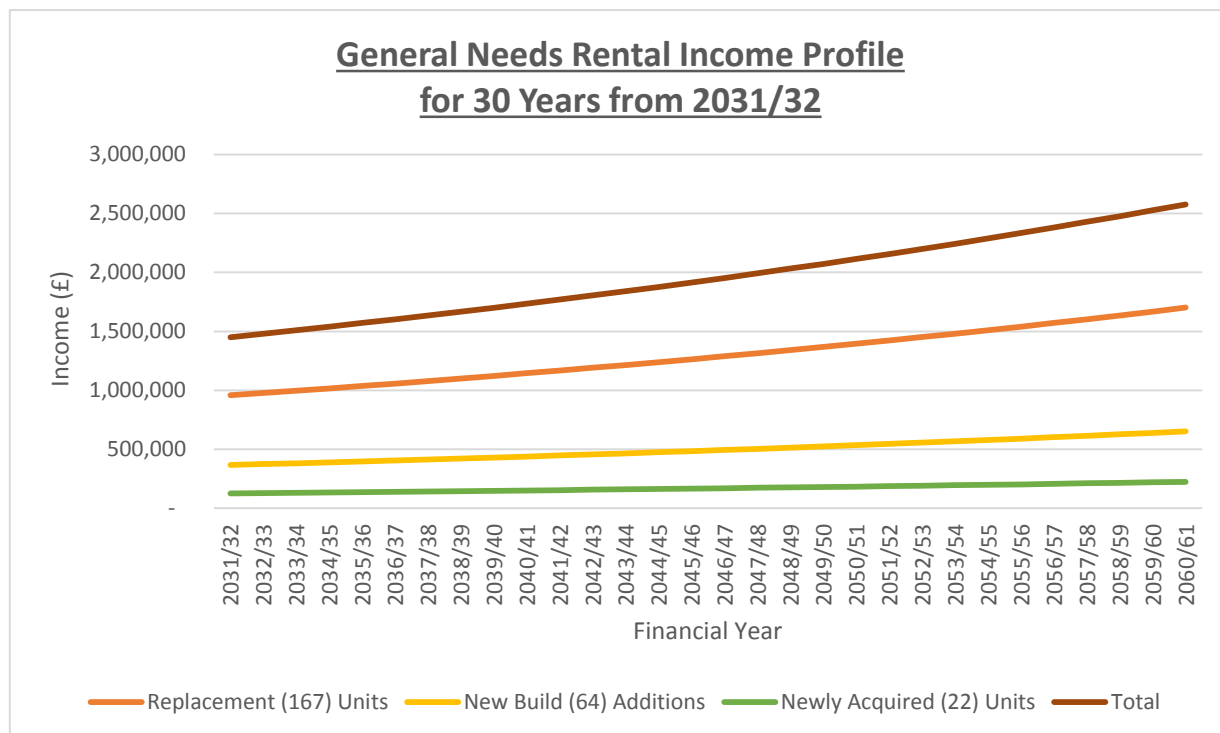
Table 2: Proposed Funding Profile for Phase A

	£(000s)
Total Estimated Cost	7,200
Funded by:	
Right to Buy (RTB) Receipts	534
Major Repairs Reserve	0
External Borrowing	6,666

- 6.9 Phase A is predominately social rented properties, providing new homes to existing residents within the regeneration area and includes the Community Centre. Both these factors result in the Phase A scheme requiring more subsidy than future phases which may include a broader range of tenure and income generation.
- 6.10 The Council is required to maintain the Major Repairs Reserve, which controls the application of the Major Repairs Allowance (MRA). The MRA is restricted to being applied to new capital investment in HRA assets or the financing of historical capital expenditure by the HRA. The balance shows the MRA has yet to be applied at the year-end.
- 6.11 The 30 year Business Plan includes the use of the Major Repairs Reserve to fund the Woolaway replacement. The overall Major Repairs investment/maintenance programme will be re-phased to ensure the affordability of this scheme.
- 6.12 The HRA borrowing cap position has changed in October 2018, in that the original HRA capital debt cap of £115m imposed by government has now been removed. This provides greater freedom to the Council to borrow to fund further investment in viable and affordable social housing development. However it is worth noting that this scheme does enable us to remain within the original debt cap based on the current estimates.
- 6.13 The borrowing will ultimately be executed through external borrowing such as taking out a loan from Public Works Loans Board (PWLb) or another financial institution.
- 6.14 The eventual financing arrangements will be handled through the Council's treasury operations, in line with the Treasury Management Strategy and Policies. Arlingclose, the Council's treasury advisors, will be consulted on appropriate borrowing arrangements to deliver the optimum financing of the scheme.
- 6.15 The financial appraisal and business case has assumed a borrowing rate of 2.99% for financial modelling purposes. This is based on the external rate of borrowing over 50 years which is the maximum loan term available from the PWLB.

- 6.16 At the time of preparing this report the rate available to the Council is lower than 2.99%, building some contingency on the financing cost estimates in the financial model. Financing rates will be closely monitored and arrangements made to secure the most beneficial borrowing rate at the appropriate times.
- 6.17 The cost of the repayment of the principle borrowing can be, and will be, funded within the Business Plan, alongside historical debt repayment. The financial modelling assumes that each phase of additional borrowing for this scheme will be repaid in full over a 50 year period. The Council can borrow at fixed rates, which will provide some certainty for financial planning and manage interest rate risk.
- 6.18 The cost of the repayment of the associated interest costs have been included in the financial modelling for the HRA and are shown as affordable without impacting on HRA reserves. However as the financing arrangements will flow from the phasing of works there is a risk that the cost of borrowing undertaken in future years will vary from business model assumptions.
- 6.19 On completion of the project, from 2031/32 onwards, the estimated income generated by this project over the following 30 years is anticipated to be a total of £58.9 m, of which £38.9m relates to the 167 units remaining rentable, £14.9m to the 64 additional units, and £5.1m to the 22 newly acquired units from private owners, as shown in table 3 below:

Table 3: Projected income



- 6.20 Of the additional 86 units, this income of £20m would need to be offset by the additional maintenance costs of £5.2m and would leave net income of £14.8m from the whole project over 30 years from 2031/32. This additional income would provide a positive contribution to the overall business plan, helping to offset housing stock management overheads as well as offset any underperforming properties.
- 6.21 The project to date has received £270,375 of external funding through MHCLG Estate Regeneration Funding and £54,270 through Garden Town funding. This has covered a large proportion of the Resident Consultation phase of the project. Opportunities to secure additional external funding are being explored. In the event additional funding is secured the funding requirement for TDBC will be adjusted as appropriate.
- 6.22 It is reasonable to conclude that, based on what we know now and the reasonable assumptions made, the investment in the North Taunton Woolaway Project is affordable over the long term, as the properties should have a useful life well in excess of 50 years if maintained as planned.
- 6.23 The HRA Revenue Budget and 30 Year Business Plan has been updated (**see Appendix B**) to reflect the additional income and expenditure arising from this investment. A number of assumptions and high level estimates have been made that will need to be reviewed and the Business Plan updated accordingly, as the project progresses through each of the phases of the overall scheme and where more detailed information becomes available.
- 6.24 Whilst reviewing the affordability of Phase A (total phase cost of £7.2m), we have considered the affordability of the whole scheme (£45m) in its entirety, as well as ensuring that other schemes elsewhere can be delivered financially.
- 6.25 The overall scheme, once completed, will maintain and bring online additional units to the housing stock and the generation of £58.9m rental income over 30 years.
- 6.26 There may also be the opportunity of capital receipts depending on the development to offer alternative low cost homeownership choice through a shared equity arrangement. The outcome will be dependent on the details of the scheme and subsequent take-up. This impact of this alternative option will need to be modelled into the Business Plan.
- 6.27 The repayment of the principle borrowing and associated interest costs, and the new income streams and associated maintenance costs will need to be built into the Business Plan as it is extended over the next 50 years accordingly.
- 6.28 National and Local housing policy can influence the position (regardless of this proposal) and usual management of resources and risks will be applied.

7 Legal Implications

- 7.1 The decanting of tenants in the Woolaway houses will require due process to be followed pursuant to the Housing Act 1985 (as amended), including (but not limited to) the publication of a demolition notice under the Act.
- 7.2 Statutory Homeloss and Disturbance payments will be made in line with legislative guidance. As properties are anticipated to be purchased under, or 'under the threat of' the exercise of Compulsory Purchase Order (CPO) powers there is scope for utilisation of the HMG guidance on compensation payments.
- 7.3 The Council is requested also to approve the issue and service of Demolition Notices under the Housing Act 1985.
- 7.4 Whilst the Council intends to work closely with each household and seek agreement to achieve Vacant Possession in the event an acceptable agreement cannot be sought, the Council approves the principle to utilise Compulsory Purchase Powers should Vacant Possession not progress. The CPO will be delegated to Executive in the event this is required.

8 Environmental Impact Implications

- 8.1 New build homes will be constructed to Part L of the Building Regulations which will improve the thermal performance of the dwelling compared to the existing dwelling.
- 8.2 The thermal fabric of the refurbished homes will be improved by upgrading the external wall construction and increasing the insulation. Replacing the windows will also improve the environmental performance of the refurbished dwellings.
- 8.3 More energy efficient central heating will be installed to both the refurbished and newbuild dwellings.
- 8.4 Energy efficient lighting can be installed in the refurbished and new build dwellings and water saving taps will reduce the water consumption.
- 8.5 Externally we aim to increase the Biodiversity opportunities in the neighbourhood. This will include the planting of street trees and creating a new public open space. The project will demonstrate Garden Town Principles.

9 Safeguarding and/or Community Safety Implications

- 9.1 The Crime Prevention Design Advisor was consulted in the development of the Masterplan. Housing has been positioned along streets to provide overlooking of pedestrians.
- 9.2 The former open space at the rear of the flats that was not overlooked presented a security risk and has been removed and replaced by a central overlooked green space.

- 9.3 Courtyard parking has been provided in two locations, but this mixed with dwellings to ensure that the areas can be observed by residents.

10 Equality and Diversity Implications

- 10.1 An initial Equality Impact Assessment (EIA) has been undertaken. Copy attached in **Appendix C**.
- 10.2 The new housing will offer a range of tenure and will be affordable to families of different sizes, older people and disabled people.
- 10.3 The quality of the new housing being provided will help create and encourage better living environments for everyone. As a consequence, it is expected the health outcomes for the area will be improved as well as opportunities for reaching better educational outcomes for households.
- 10.4 Tenants and residents will feel safe in the public realm and feelings of safety and security in the home will improve for all due to the adoption of crime prevention measures in the new development. Compliance with such crime prevention measures have been proven to reduce the opportunity for crime and fear of crime.
- 10.5 The community space and open space will be accessible for all groups in the community reflecting the diversity of the local population, helping to bring people together and foster good relations between different groups.

11 Social Value Implications

- 11.1 The resident consultation phase of the project has delivered social value through providing the opportunity for residents to be actively involved in the scheme design process and provide valued and informed contributions.
- 11.2 Working with a group of residents with no development experience, the Design Group experience has provided the individuals with the necessary skills to comment and critique the scheme design and house types in an informed manner. This has led to a deeper appreciation of the environment they live in.
- 11.3 Social Value will be part of the selection criteria when undertaking the procurement process during the delivery phase.

12 Partnership Implications

- 12.1 Any project opportunities for partnership working with different organisations and agencies that enhance the benefits of the scheme would be explored as they arise, particularly with a focus on the Garden Town status.

13 Health and Wellbeing Implications

- 13.1 Many of the existing dwellings have slopes and steps to the front door. The outline application will review the finished floor levels of the proposed dwellings to comply with Building Regulations Part M.
- 13.2 Nationally Described Space Standard guidance specifies storage provision, floor to ceiling heights, and minimum room widths. These features go some way to futureproofing properties, allowing residents' scope to benefit from some of the principles of lifetime homes.
- 13.3 The improved space standards including the provision of a ground floor WC will contribute to the improve health and wellbeing of the residents.
- 13.4 A wider range of house types will be re-provided. This will provide greater opportunities for families to live in the neighbourhood as their children grow.
- 13.5 Ten bungalows are proposed which will assist elderly and disabled residents to live in the neighbourhood. Seventeen chalets are proposed which are family homes with a ground floor bedroom and open plan living space to accommodate families with specific access requirements. The ground floor bedroom provides an opportunity for residents to continue to live independently by allowing greater privacy and dignity for individuals wishing to be cared for at home and supported by the local community.
- 13.6 Existing routes have been maintained and improved including permeable pedestrian connections to Lyngford Lane to promote walking and cycling, an opportunity for exercise and links to local facilities.
- 13.7 The location of the North Taunton Woolaway Project allows residents to access existing services and local facilities such as Priorswood Shops and Lyngford Park, as well as a regular bus service.
- 13.8 Community facilities provide a focal point for local people to get together facilitating and enhancing community spirit and interactions.

14 Asset Management Implications

- 14.1 TDBC as a provider of social housing, is faced with a stock of older houses and they continue to need a large programme of investment to keep them up to date. With changing tastes and preferences, accommodation that is no longer suitable or acceptable to tenants will need to be replaced.
- 14.2 Dwellings, such as Woolaways, which are 'Designated Defective' under the Housing Act 1984. Unless action is taken to address the structural defects, the properties will continue to deteriorate increasing the problems of a poor environment and an unsustainable community.

- 14.3 Providing the properties with modern, energy efficient, affordable homes will vastly improve the living standards for residents with a balanced range of tenures and property sizes to provide a sustainable community of high quality homes. In addition, increasing the scheme density will generate greater income.
- 14.4 From an Asset Management perspective, being proactive by taking a commercial approach to the long term investment needs of the housing stock, is widely acknowledged as being good practice and making 'best use of assets'.
- 14.5 The HRA Asset Strategy 2016 recognised the Woolaway house type as TDBC's lowest performing stock with a limited life expectancy and high future maintenance costs.

15 Data Protection Implications

- 15.1 All personal data is held in accordance with GDPR regulations.

16 Consultation Implications

- 16.1 An extensive resident consultation has been undertaken over the previous 12 months, providing a detailed understanding and demographic profile of the existing community, and its potential future needs has been created. This information has been captured through the Equality Impact Assessment.
- 16.2 The consultation included four public consultation events, the opportunity for home visits from the project team alongside the project team being based in an office hub to provide a 'drop in' facility for the residents.
- 16.3 The scheme proposals have evolved in consultation with a project Design Group. The Design Group consists of 20 residents with a range of housing and lifestyle requirements and a mix of home owners and Taunton Deane Tenants.

17 Scrutiny Comments / Recommendation(s) (if any)

(To be included usually in reports which are submitted for consideration by the Executive / Cabinet or Full Council.)

Democratic Path:

- **Shadow Scrutiny**– Scheduled for 4th February 2019
- **Shadow Executive** – Scheduled for 11th February 2019
- **Shadow Full Council** – Scheduled for 21st February 2019

Reporting Frequency: ☒ **Once only** ☐ **Ad-hoc** ☐ **Quarterly**
 ☐ **Twice-yearly** ☐ **Annually**

List of Appendices

Appendix A	Risk Register
Appendix B	HRA Business Plan extract
Appendix C	Equality Impact Assessment

Contact Officers

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Appendix A

North Taunton Woolaway Project Risk Register

Risk no.	Date raised	Risk/issue description and effects	Risk Owner	Existing Control Measures	Current Assessment		Score	Proximity	Consequence	Mitigation Measure	Target score		Score
					Probability	Impact					Probability	Impact	
Corporate Risk													
1	May-18	Failure to secure Council approval for project recommendations	TDBC - JH/RS	Members informed and updated through transparent and clear communications. Portfolio Holder member of Project Board	Possible (3)	Major (4)	12	October to December 2018	- Housing Asset remains in state of disrepair - Reputational damage - Loss of community trust - Financial loss through abortive works	Governance of the Project is followed. Internal and external communications are transparent, clear and informative. Outline of project presented to Members Briefing and Strategic Forum	Unlikely (2)	Moderate (3)	6
2	May-18	Lack of continuity in staff dedicated to the project	TDBC - JH/RS	Dedicated project team with range of skills embedded within the community.	Possible (3)	Major (4)	12	April 2019	- Loss of project specific and development knowledge/expertise. Insufficient resource to progress development and support community	Project Sponsor and Transformation Lead to be kept informed of project progress and resource requirements. The project has been identified as a major project with in the new CIC functional area. Four officers associated with the scheme have secured roles in the new Council.	Possible (3)	Moderate (3)	9
3	May-18	Reputational damage from project delays and failure to deliver	TDBC - JH/RS	Robust project management with achievable and realistic milestones within the programme	Possible (3)	Major (4)	12	Duration of project	- Loss of community trust and support for the project and Council - Financial Loss through abortive works	Continuation of robust project management and retaining skilled resource with development expertise	Unlikely (2)	Moderate (3)	6
4	May-18	Resident opposition to scheme proposal	TDBC - JH/RS	Extensive resident engagement, including resident design group, 121 resident visit and public consultation, dedicated project team	Possible (3)	Major (4)	12	Duration of project	- Loss of trust of the community - Financial Loss through abortive works	Continue with project team embedded within the Community to support each resident	Unlikely (2)	Moderate (3)	6
Planning Risk													
5	May-18	Refusal of Planning Permission	TDBC - JH/RS	Continuous consultation with planning officers, Highways and local residents to inform the scheme proposal	Possible (3)	Major (4)	12	November 2018 to April 2019	- Housing Asset remains in state of disrepair - Reputational damage - Loss of community trust - Project delay and possible increase in project costs	Continue to work with planning officers, Highways and local residents to agree a financially viable and deliverable scheme proposal.	Possible (3)	Moderate (3)	9
6	Aug-18	Failure to meet Scheme Design Requirements	TDBC - JH/RS	Architect and planning officer working closely on design and incorporating Garden Town Principles and TDBC design standards	Possible (3)	Major (4)	12	November 2018 to April 2019	- Failure to obtain planning permission	Agree design principles with Architect and planning officer to develop sustainable, exemplar Garden Town scheme Submit scheme to Design Review Panel	Unlikely (2)	Moderate (3)	6
7	Aug-18	Change in planning legislation	TDBC - JH/RS	Architect and planning officer working closely to ensure scheme design meets revised planning requirements	Possible (3)	Major (4)	12	November 2018 to April 2019	- Failure to obtain planning permission	Identify planning legislation changes and amend the scheme design to meet the changes or justify where changes can not be made.	Unlikely (2)	Moderate (3)	6
Financial Risk													
8	Aug-18	Insufficient funds for the project	TDBC - JH/RS	Professional appraisal of cost estimates. Close working with Finance, particularly in relation to HRA funding capacity. External funding secured for pre application resident consultation and progressing to planning application stage.	Liekly (4)	Major (4)	16	Duration of project	- Housing Asset remains in state of disrepair - Reputational damage - Loss of community trust - Project delay and possible increase in project costs	Continue to professionally verify cost estimates. Refresh HRA business plan in line with cost estimates explore and secure external funding options	Possible (3)	Moderate (3)	9

9	Aug-18	Construction Cost estimate is below Tender prices received following contractor procurement	TDBC - JH/RS	Professional appraisal of cost estimates provided. Procurement to be undertaken through existing Framework	Likely (4)	Major (4)	16	2019/2020	Scheme exceeds estimated costs	Value engineering exercise would be undertaken with revised phasing and design to an affordable level or a revision of the HRA Business Plan capacity would be undertaken.	Possible (3)	Moderate (3)	9
10	Aug-18	Changes to Statutory Home loss and Disturbance allowance criteria	TDBC - JH/RS	Financial estimates based on 2018 allowance levels	Likely (4)	Moderate (3)	12	Duration of resident decant	Additional cost to scheme	Contingency increase included within scheme profiling	Unlikely (2)	Moderate (3)	6
11	Aug-18	Changes in Councils responsibilities and income through changes implemented from Central Government.	TDBC - JH/RS	Working within current guidelines and Statutory responsibilities	Likely (4)	Major (4)	16	Duration of project	Additional cost to scheme or restriction in funding owing to changes implemented	Continue to monitor legislative changes. The scheme will be delivered in a phased basis and would incorporate any future changes in the Councils responsibilities, meaning each phase is manageable within resources.	Likely (4)	Moderate (3)	12
12	May-18	Failure to obtain vacant possession as required	TDBC - JH/RS	Identify and develop future housing options for existing residents. .	Possible (3)	Major (4)	12	Duration of project	- Financial loss through abortive works and project delays - Reputational damage	- work with each resident on their housing options - Implement Compulsory Purchase Orders	Unlikely (2)	Moderate (3)	6

Risk Scoring Matrix

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

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

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted

Somerset Equality Impact Assessment

Before completing this EIA please ensure you have read the EIA guidance notes – available from your Equality Officer

Organisation prepared for	Taunton Deane Borough Council		
Version	1	Date Completed	December 2018

Description of what is being impact assessed

Taunton Deane Borough Council - North Taunton Woolaway Project.

The main purposes of the project are:-

- To refurbish and replace stock deemed defective under the 1984 Housing Act
- To provide housing where there is a 'need' within the Borough
- Provide housing that is sustainable and energy efficient
- Replace housing stock which decreases annually through Right to Buys

Evidence

What data/information have you used to assess how this policy/service might impact on protected groups? Sources such as the [Office of National Statistics](#), [Somerset Intelligence Partnership](#), [Somerset's Joint Strategic Needs Analysis \(JSNA\)](#), Staff and/ or [area profiles](#), should be detailed here

Through the extensive resident consultation undertaken over the previous 12 months a detailed understanding and demographic profile of the existing community and its potential future needs has been created.

This consultation included four public consultation events in a venue selected for its close proximity and accessibility to the affected residents, the opportunity for home visits from the project team alongside the project team being based in an office hub to provide a 'drop in' facility for the residents.

The scheme proposals have evolved in consultation with a project Design Group. The Design Group consists of xxx residents with a range of housing and lifestyle requirements and a mix of home owners and Taunton Deane Tenants.

In addition to information gathered through the resident consultation, the community profile has been further populated through information held by the Somerset Intelligence Partnership, specifically the area Indices of Multiple Deprivation results.

Housing needs have been further informed by data held within the Choice Based Lettings System 'Homefinder Somerset'.

Who have you consulted with to assess possible impact on protected groups? If you have not consulted other people, please explain why?

The demographic profiles includes every single household within the projects redline area. The information gathered, particularly through 1-2-1 home visits included completing questionnaires to help identify vulnerable and protected groups.

The project team have worked across a range of agencies and partners within the Priorswood 'One Team' area.

To assist with Skills and Learning, Somerset Academy and Skills and Learning Council have been invited to discussions. The local primary school and doctors surgery have been provided with progress updates.

Taunton Deane Borough Council Tenants Forum and Tenant Services Management Board have received regular feedback on the project and provided views and considerations.

Taunton Deane Members have been briefed on the purpose of the project at a Members Briefing and a Strategic Forum where initial views, comments and suggestions were given.

Analysis of impact on protected groups				
<p>The Public Sector Equality Duty requires us to eliminate discrimination, advance equality of opportunity and foster good relations with protected groups. Consider how this policy/service will achieve these aims. In the table below, using the evidence outlined above and your own understanding, detail what considerations and potential impacts against each of the three aims of the Public Sector Equality Duty. Based on this information, make an assessment of the likely outcome, before you have implemented any mitigation.</p>				
Protected group	Summary of impact	Negative outcome	Neutral outcome	Positive outcome
Age	<ul style="list-style-type: none"> The increased choice of affordable housing type, size and tenure provides housing options for all age groups. For rented properties Lettings will be taken from the choice based lettings system 'Homefinder Somerset' which has equality and diversity policies in place to ensure protected groups are not disadvantaged. 	□	□	☒
Disability	<ul style="list-style-type: none"> Specific provision for a range of adapted properties has been made within the scheme proposal to provide a housing choice for those with a disability For rented properties Lettings will be taken from the choice based lettings system 'Homefinder Somerset' which has equality and diversity policies in place to ensure protected groups are not disadvantaged. 	□	□	☒
Gender reassignment	<ul style="list-style-type: none"> The increased choice of affordable housing type, size and tenure provides housing options that will not negatively impact on this protected group. 	□	□	☒

	<ul style="list-style-type: none"> For rented properties Lettings will be taken from the choice based lettings system 'Homefinder Somerset' which has equality and diversity policies in place to ensure protected groups are not disadvantaged. 			
Marriage and civil partnership	<ul style="list-style-type: none"> The increased choice of affordable housing type, size and tenure provides housing options that will not negatively impact on this protected group. For rented properties Lettings will be taken from the choice based lettings system 'Homefinder Somerset' which has equality and diversity policies in place to ensure protected groups are not disadvantaged. 	□	□	☒
Pregnancy and maternity	<ul style="list-style-type: none"> The increased choice of affordable housing type, size and tenure provides housing options that will not negatively impact on this protected group. For rented properties Lettings will be taken from the choice based lettings system 'Homefinder Somerset' which has equality and diversity policies in place to ensure protected groups are not disadvantaged. 	□	□	☒
Race and ethnicity	<ul style="list-style-type: none"> The increased choice of affordable housing type, size and tenure provides housing options that will not negatively impact on this protected group. For rented properties Lettings will be taken from the choice based lettings system 'Homefinder Somerset' which has equality and diversity policies in place to ensure protected groups are not disadvantaged. 	□	□	☒

Religion or belief	<ul style="list-style-type: none"> The increased choice of affordable housing type, size and tenure provides housing options that will not negatively impact on this protected group. For rented properties Lettings will be taken from the choice based lettings system 'Homefinder Somerset' which has equality and diversity policies in place to ensure protected groups are not disadvantaged. 	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Sex	<ul style="list-style-type: none"> The increased choice of affordable housing type, size and tenure provides housing options that will not negatively impact on this protected group. For rented properties Lettings will be taken from the choice based lettings system 'Homefinder Somerset' which has equality and diversity policies in place to ensure protected groups are not disadvantaged. 	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Sexual orientation	<ul style="list-style-type: none"> The increased choice of affordable housing type, size and tenure provides housing options that will not negatively impact on this protected group. For rented properties Lettings will be taken from the choice based lettings system 'Homefinder Somerset' which has equality and diversity policies in place to ensure protected groups are not disadvantaged. 	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Other, e.g. carers, veterans, homeless, low income, rurality/isolation, etc.	<ul style="list-style-type: none"> 	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Negative outcomes action plan

Where you have ascertained that there will potentially be negative outcomes, you are required to mitigate the impact of these. Please detail below the actions that you intend to take.

Action taken/to be taken	Date	Person responsible	How will it be monitored?	Action complete
No adverse equality impact identified. These have been mitigated through an extensive 12 month resident consultation process and the resultant scheme design. Any negative outcomes which may emerge during the scheme development will be addressed through strong project management and identifiable workstreams.	Select date			<input type="checkbox"/>
	Select date			<input type="checkbox"/>
	Select date			<input type="checkbox"/>
	Select date			<input type="checkbox"/>
	Select date			<input type="checkbox"/>
	Select date			<input type="checkbox"/>
	Select date			<input type="checkbox"/>

If negative impacts remain, please provide an explanation below.

Completed by:	Jo Humble – Lead Specialist Place
Date	11 December 2018
Signed off by:	
Date	
Equality Lead/Manager sign off date:	
To be reviewed by: (officer name)	
Review date:	

