

## SWT Scrutiny Committee - 27 January 2021

Present: Councillor Gwil Wren (Chair)

Councillors Libby Lisgo, Ian Aldridge, Sue Buller, Norman Cavill, Simon Coles, Dixie Darch, Habib Farbahi, Ed Firmin, Dave Mansell, Derek Perry, Phil Stone, Ray Tully, Nick Thwaites and Keith Wheatley

Officers: Paul Fitzgerald, James Barra, Alison North, Andrew Pritchard, Stephen Boland, Chris Hall, Joe Wharton, Bryony Cole, Nick Bryant, Ian Candlish, Emily Collacott, James Hassett and Kerry Prisco

Also Present: Councillors Janet Lloyd, Hazel Prior-Sankey, Loretta Whetlor, Benet Allen, Mark Blaker, Chris Booth, Caroline Ellis, Roger Habgood, John Hassall, Ross Henley, Richard Lees, Peter Pilkington, Mike Rigby, Francesca Smith, Federica Smith-Roberts, Vivienne Stock-Williams, Sarah Wakefield and Alan Wedderkopp

(The meeting commenced at 6.15 pm)

### 117. Apologies

No apologies were received.

### 118. Minutes of the previous meetings of the Scrutiny Committee held on 2 December 2020 and 6 January 2021.

(Minutes of the meeting of the Scrutiny Committee held on 2<sup>nd</sup> December 2020 and 6 January 2021 circulated with the agenda)

**Resolved** that the minutes of the Scrutiny Committee held on 2<sup>nd</sup> December 2020 and 6 January 2021, following minor amendments be considered at the next meeting.

### 119. Declarations of Interest

Members present at the meeting declared the following personal interests in their capacity as a Councillor or Clerk of a County, Town or Parish Council or any other Local Authority:-

Name	Minute No.	Description of Interest	Reason	Action Taken
Cllr N Cavill	All Items	West Monkton	Personal	Spoke and Voted
Cllr S Coles	All Items	SCC & Taunton Charter Trustee	Personal	Spoke and Voted
Cllr L Lisgo	All Items	Taunton Charter Trustee	Personal	Spoke and Voted
Cllr D Mansell	All Items	Wiveliscombe	Personal	Spoke and Voted

Cllr D Perry	All Items	Taunton Charter Trustee	Personal	Spoke and Voted
Cllr R Tully	All Items	West Monkton	Personal	Spoke and Voted
Cllr G Wren	All Items	Clerk to Milverton PC	Personal	Spoke and Voted

120. **Public Participation**

No members of the public had requested to speak on any item on the agenda.

121. **Scrutiny Committee Forward Plan**

(Copy of the Scrutiny Committee Forward Plan, circulated with the agenda).

Councillors were reminded that if they had an item they wanted to add to the agenda, that they should send their requests to the Governance Team.

**Resolved** that the Scrutiny Committee Forward Plan be considered at the meeting scheduled on 3<sup>rd</sup> February 2021.

122. **Full Council Forward Plan**

(Copy of the Full Council Forward Plan, circulated with the agenda).

Councillors were reminded that if they had an item they wanted to add to the agenda, that they should send their requests to the Governance Team.

**Resolved** that the Full Council Forward Plan be considered at the meeting scheduled on 3<sup>rd</sup> February 2021.

123. **Executive Forward Plan**

(Copy of the Executive Forward Plan, circulated with the agenda).

Councillors were reminded that if they had an item they wanted to add to the agenda, that they should send their requests to the Governance Team.

**Resolved** that Executive Forward Plan be considered at the meeting scheduled on 3<sup>rd</sup> February 2021.

124. **HRA Revenue and Capital budget setting 21/22, including Dwelling Rent setting 21/22 and 30 year Business Plan Review**

The report updated Members on the proposed Housing Revenue Account (HRA) Annual Revenue Budget and Capital Programme for 2021/22, the proposed Rent Setting for 2021/22 and an update on the 30-Year Business Plan Review. The proposals included in the report enabled the Council to set a balanced budget for the HRA for 2021/22.

The HRA is a ring fenced account used to manage the Council's housing stock of some 5,700 properties, with the Council acting as the Landlord.

In April 2012, under the Localism Act 2011, the HRA (under the administration of Taunton Deane Borough Council (TDBC)) moved away from a national subsidy system (which required an annual payment from the HRA to Central Government) to become 'self-financing'. This enabled the Council to retain all rental income to meet the costs of managing and maintaining the housing stock, as well as meeting the interest payments and repayment of debt. As part of the self-financing agreement, a one-off payment of £85.198m was made to Government.

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

The HRA Business Plan has been reviewed and updated annually since 2012, with a full review undertaken in 2016 and 2020 in response to the changes in national policies and local aspiration. The 30-Year Business Plan has again been reviewed as part of the 2021/22 budget setting cycle and the key changes / updates to the plan are described in section 5 below.

The HRA continued to face a number of risks and issues, many of which could be significant but the actual financial impact is not yet known. These risks and issues are more significant for us as we proactively drive forward substantial investment in social housing development, with both existing schemes and more schemes planned for the future. These risks and issues are discussed in section 3 above.

As part of the self-financing agreement, an individual housing revenue borrowing cap of £116m was implemented for TDBC. This meant that the HRA was unable to exceed a capital borrowing requirement of £116m within the HRA Business Plan. In October 2018 this borrowing cap was officially removed.

The HRA has benefited from these freedoms in particular the ability to develop new homes; with the addition of 183 homes to the housing stock since 2012.

#### The HRA 2021 30-Year Business Plan Review

Whilst the business plan was updated on a regular basis, a more thorough review was undertaken again this financial year as part of the budget setting process. This was as a direct result of the significant financial and economic impact caused by the COVID pandemic as well as the need to ensure a comprehensive financial investment appraisal was undertaken for the significant social development schemes recently considered.

Independent financial housing advice was sought from Altair to support the business in undertaking this in-depth review; to provide challenge to our existing assumptions and provide assurance in the HRA's ability to deliver the new build aspirations. The outcome of this evaluation can be found in Altair's report found in Appendix A.

In summary, a new business appraisal model had been used and updated with the following key assumptions and projections:

- Revenue Budget Estimates for 2021/22

- Capital Programme for the next 10 years
- Dwelling Rent increase of 1.5% until 2024/25, reducing to just Consumer Price Index (CPI) thereafter
- Void loss at 2% of gross rental income
- Inflation projections that reflect the statistics published in October 2020 by the Office of National Statistic (ONS) (September CPI) and HM Land Registry (HMLR) (August House Price Index (HPI))
- Interest on new debt at 2% until 2024/25, rising to 2.5% thereafter
- Minimum reserves position of £2m
- Social housing development programme to include the recently approved Zero Carbon Pilot, Seaward Way, Oxford Inn and North Taunton Woolaway Project.

Performance measures had been used by Altair to assess affordability and financial sustainability of our operational aspirations, which have been summarised below as per Altair's report (see Appendix A Section 4).

The Minimum General Reserves Balance was maintained at above the minimum proposed limit of £2m throughout the forecast. The business plan assumed that any "excess" rents generated were made available to repay debt.

During the debate the following comments and questions were raised:-

- Rent increases and the impact of this was questioned.
- Reserves were held in case of future policy reducing rent increases or a rent freeze.
- There was flexibility for the service to borrow more was considered important should the service be faced with adverse impacts.
- Developing new homes in a way that's measured and safe was a balance that the service sought to strike.
- SWT rental rates were low in comparison to other neighbouring authorities.
- 27/28 would be the year peak debt levels were reached, this would be reduced into the future.
- The North Taunton project was considered in December. There were regeneration projects of £2.9million, the context of this in the budget was questioned. Appendix C set out the context of this around the budget.
- A 1.5% rent increase was considered, and if this reflected spending patterns from the pandemic and Brexit, alongside how this impacted the HRA business plan.
- Rent arrears and debt provision as part of the business plan was considered.
- The service had a better record than other landlords in relation to rent arrears
- Increases were a reflection of the impact of the increase of costs on compliance and housing standards.
- Increases in rent arrears in the background of Covid-19 was a recognised risk.
- Reserves and the figure around rent arrears if tenants were unable to pay was discussed. Reserves were currently set at £2.7 million, this would remain above £2million to recognise the increased risk.
- Earmarked reserves were set at £1million.
- In year cashflow and fluctuations within the next two financial years was questioned. This was due to the development included within the 30 year HRA plan.
- The business plan review was a constant exercise and not an annual review.
- Grenfell implications and appointing building safety managers had been addressed, £2 million had been allocated to fire safety works and compliance.
- There was a provision for bad debt set at £180k with a void rate at 2%.

- The Treasury Management approach was to pursue a short term debt approach due to the low rates and competitive rates from other sources. The scale of investment and long term rates would be explored to develop plans further.
- Funding CCTV from the HRA was queried, this was due to the cameras being located on HRA estates. There was a payment holiday to the maintenance fund, the allocation from the HRA was historic and was related to safety to protect local communities, funding was allocated pro rata.
- Historically HRA was ring-fenced to the former Taunton Deane area, although the HRA could develop homes across the new authority which included the Seaward Way development.
- The HRA could own and manage properties outside of the district, there were no restrictions on the boundary.
- The Director of Housing was commended for the Fire Safety Certificates undertaken on the housing stock.
- Public Works Loan Board borrowing restrictions were considered a risk and ongoing issue, an increase in interest rates would have a severe impact in relation to the Woolaway project. Concerns were expressed around long term borrowing with Councils inhibited in using assets as security.
- Retrofitting and insulation to Council homes was considered alongside retrofitting of homes to zero carbon standards. It was requested for a task and finish group was created to assess retrofitting and the future of council housing alongside funding sources and approach for a zero carbon retrofit to council housing.
- A Terms of Reference and scoping document be brought back in March.
- This would be a working group of Scrutiny and not a wider Council working group, recognising further work was needed for retrofitting.
- The officer capacity to support process was questioned considering the emerging factors and ongoing programme of works to the HRA, there would be an impact to HRA works and projects.
- An ambition for all properties be to retrofitted to a EPC C standard was a first step, and incorporating zero carbon standards.

The Scrutiny Committee recommended:-

Full Council approve the following recommendations:

1. To approve the HRA Annual Revenue Budget for 2021/22.
2. To approve the increase of 1.5% (CPI+1%) to Dwelling Rents for 2021/22.
3. To approve the HRA Capital Programme for 2021/22.
4. To note the reviewed and updated assumptions in the 2021 HRA 30-Year Business Plan.
5. To approve the minimum operational balance on HRA general reserves at £2m.
6. A Task and Finish Group on funding sources and approaches for a zero carbon retrofit programme for SWT's council housing is further investigated with a further report brought back to the Scrutiny Committee to decide on establishment, with Terms of Reference.

## 125. **Draft General Fund Revenue Budget and Capital Programme 2021/22**

The report set out the draft budget estimates for 2021/22, Medium Term Financial Plan (MTFP) forecasts, and 2021/22 Capital Programme and the proposed sources of funding.

The Provisional Finance Settlement for 2021/22 was issued by Government on 17 December, and included details regarding general revenue grant funding, New Homes

Bonus, COVID funding and business rates retention baseline and tariff. The information arising is better than the estimates previously included in the MTFP. The final Finance Settlement is expected to be published in late January/early February. Funding for later years is subject to future Spending Reviews by Government and anticipated funding reform.

Executive is minded to implement a council tax increase of 3.04% (£5 on a Band D) in 2021/22, making the annual Band D charge £169.63. The increase in the tax rate provides an additional £279,739 income, however a reduction in the tax base equating to £81,766 results in a net additional council tax income of £197,963 compared to 2020/21.

Executive is also minded to precept £29,093 in special expenses for the Unparished Area of Taunton. This results in an annual council tax rate at £1.91 for a Band D for the Unparished Area of Taunton.

The budget for 2021/22 has been prepared in the context of increased uncertainty. The Government's Spending Review and Finance Settlement has again been for one year only. The effects of the COVID pandemic on both the local economy and public sector services is ongoing with the country currently in the third national lockdown and a range of restrictions in place as national policy has evolved. The Council has settled its organisation structure during 2020/21 with budgets reorganised into directorates. SMT and the directorate management teams have reviewed budgets in detail to ensure budgets align with up to date cost and income estimates, creating a stronger foundation for future resource planning and decision making.

SMT and the Executive present a balanced draft budget for 2021/22, which includes use of temporary funding from reserves to soften the budget gap in the face of current service demands and funding uncertainty. Longer term the Medium Term Financial Plan presents a significant structural challenge which needed to be addressed.

During the debate the following comments and questions were raised:-

- Concerns were expressed in relation to asset disposals and the process around this.
- Hinkley business case funding allocated was questioned.
- 75% of losses funded by the government was anticipated
- Business rates income was not at the collection levels expected, levels were based on award of the valuation office.
- Many Income streams carried risk as a result of the pandemic, New Homes Bonus and general grant funding predicted levels were lower than anticipated.
- Predictable funding streams were set around council tax, reasonable assumptions had been made and significant reserves based on investment risk cover had been set aside.
- Assets and sales of disposable assets were considered. Decisions relating to disposals would be an asset and treasury management consideration to draw down on when required.
- Work would be undertaken to ensure appropriate assets could come forward.
- Enhancing assets was an ongoing ambition by the leadership team.
- The existing strategy formed the ambition of the disposal of assets to avoid borrowing in the short term.
- It was estimated that overall asset value of the Council was worth around £400 million, however a portion of this was HRA assets.
- Disposal of assets as liabilities were being prioritised.

- Concerns were expressed around business investment income and shortfalls and the ultimate responsibilities on investment decisions on behalf of the council.
- Disposal of assets which were a liability were sometimes challenging and largely done to mitigate losses to dispose of them.
- Investment income projections were requested giving consideration of the advanced knowledge of expectations.
- A net income of 1.1-1.2 million was anticipated next year, informed assumptions had been made with a return anticipated. A reasonable estimate had been made deepening on prudent estimates.
- Revaluation of assets in 2020 were considered as part of the audit. The majority of assets were valued on a 5 year rolling programme, investment properties were valued on an annual basis.
- The climate budget was welcomed and more information was welcomed on how this would be utilised. A report in relation to this was encouraged.
- Risks around the report were not well presented, more information was requested in relation to how these were being addressed was questioned.
- Clarification was requested on identifying asset sales to realise the figure required £2.5 million.
- Engaging with Council and taxpayers before decisions made on capital funds was encouraged.
- Concerns were expressed that the parameters of the investment strategy didn't include housing.
- Where the asset strategy sat in the asset management policy was questioned. The lack of transparency around this was considered.
- Garden town ambitions bringing in public and private investment was set out.
- Concerns were expressed that Pg 99 free car parking didn't detail Wellington, this was acknowledged as an error and would be corrected in future versions of the report.
- An amendment, requesting an additional 2.6d that included Wellington, was proposed. Reassurance was provided by officers all towns included in future bids. As a result of this the amendment was dropped.
- The Committee requested that Executive took on board the request for all towns with paid car parks including Wellington to be included in future versions of the report to ensure specific towns were not omitted.
- The Committee were reminded Car Parking policy was a full council decision.

Councillors Aldridge, Lisgo, Cavill, Buller, Mansell, Stone abstained from the vote.

The Scrutiny Committee:-

1. Reviewed and commented on the draft revenue and capital budget estimates and proposals and supports the following proposed recommendations to the Executive and Full Council.
2. Recommended Full Council approve the Draft Revenue Budget expenditure, savings and income targets, subject to any final adjustments as may be required for new information prior to Full Council (such as the NNDR1 final estimates and the Final Finance Settlement).
3. Recommended to Full Council a basic band D council tax of £169.63, comprising £167.88 for services and £1.75 on behalf of the Somerset Rivers Authority.
4. Recommended Full Council approve the new capital schemes of the General Fund Capital Programme Budget of £3,116,980 for 2021/22, £2,033,980 for 2022/23 and the asset for sale target of £2,472,720, as set out in Table 11.

5. Recommended Full Council delegate authority to the Chief Executive, in consultation with the S151 Officer, to allocate the £813,000 one-off grant funding to meet COVID-related exceptional service costs and income losses during 2021/22.

6. Recommended Full Council approve a continued policy of suspend parking charges as detailed below on the three Saturdays leading up to Christmas and on one Sunday in Dulverton in line with previous years, to support local economies.

(a) Free parking will apply all day; from 00:00 to 23:59 on the three Saturdays (subject to car park opening hours) in Minehead and West Somerset Car Parks.

(b) Free parking will apply from 15:00 to 23:59 on the three Saturdays (subject to car park opening hours) in Taunton Car Parks.

(c) Free parking will apply all day; from 00:00 to 23:59 on one Sunday (subject to carpark opening hours) in Dulverton Car Parks to support the Dulverton by Starlight events.

(The Meeting ended at 9.15 pm)