



Shadow Scrutiny

Tuesday, 5th February, 2019, 6.00 pm  
Training Suite (Ground Floor) - The Albemarle Centre

**Members: P Murphy (Chairman), F Smith-Roberts (Vice-Chair), G James, C Tucker, S Coles, J Gage, R Henley, R Lillis, B Maitland-Walker, D Mansell, P Pilkington, R Ryan, P Watson, R Woods, G Wren and N Thwaites**

Agenda

**1. Apologies.**

**2. 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.)

**3. 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.

- |   |                 |
|---|-----------------|
| <b>4. Draft General Fund Revenue Budget and Capital Estimates 2019/20</b> | (Pages 3 - 32)  |
| <b>5. Housing Revenue Account (HRA) Budget Estimates 2019/2020</b>        | (Pages 33 - 50) |
| <b>6. Draft Treasury Management Strategy Statement 2019/20</b>            | (Pages 51 - 70) |
| <b>7. Draft Capital Strategy 2019/20</b>                                  | (Pages 71 - 82) |
| <b>8. Draft Investment Strategy 2019/20</b>                               | (Pages 83 - 90) |



## Somerset West and Taunton Council

### Shadow Scrutiny Committee – 5<sup>th</sup> 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.
- 1.1 The report is provides Shadow Scrutiny Committee with an update on budget estimates for 2019/20, Medium Term Financial Plan (MTFP) forecasts, and draft 2019/20 Capital Programme and the proposed sources of funding.
- 1.2 The provisional funding settlement was issued by Government during December, and included details regarding general revenue grant funding, New Homes Bonus, and business rates retention baseline and tariff. Overall the funding available to deliver services has 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.
- 1.3 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.
- 1.4 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.
- 1.5 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).
- 1.6 Executive is also minded to transfer £1,331,905 to the business rates smoothing reserve in 2019/20 in respect of the business rates collection fund surplus, reflecting the need to mitigate funding volatility and risk under the business rates funding system.

## 2 Recommendations

- 2.1 Shadow Scrutiny notes the draft revenue budget estimates and proposals and refers any comments to Shadow Executive.
- 2.2 That Shadow Scrutiny supports a recommendation to the Executive and Full Council to approve the new capital schemes of the General Fund Capital Programme Budget of £2.247m for 2019/20, plus £13.864m in respect of the NHB Growth and Programme as set out in Appendix A and Table 10 and £15.5m allocations for Community Infrastructure Projects as set out in Appendix A and Table 11.
- 2.3 Shadow Scrutiny is recommended to support the proposed changes to fees and charges for open spaces as per the attached Appendix N.

## 3 Risk Assessment

### Risk Matrix

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

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 Provisional Finance Settlement 2019/20**

- 5.1 The Provisional Finance Settlement was received on 13 December 2018 with the Final Settlement expected to be confirmed at the end of January 2019.
- 5.2 The impact of the Provisional Settlement was provided to All Councillors on the 14<sup>th</sup> December. These changes have been 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:

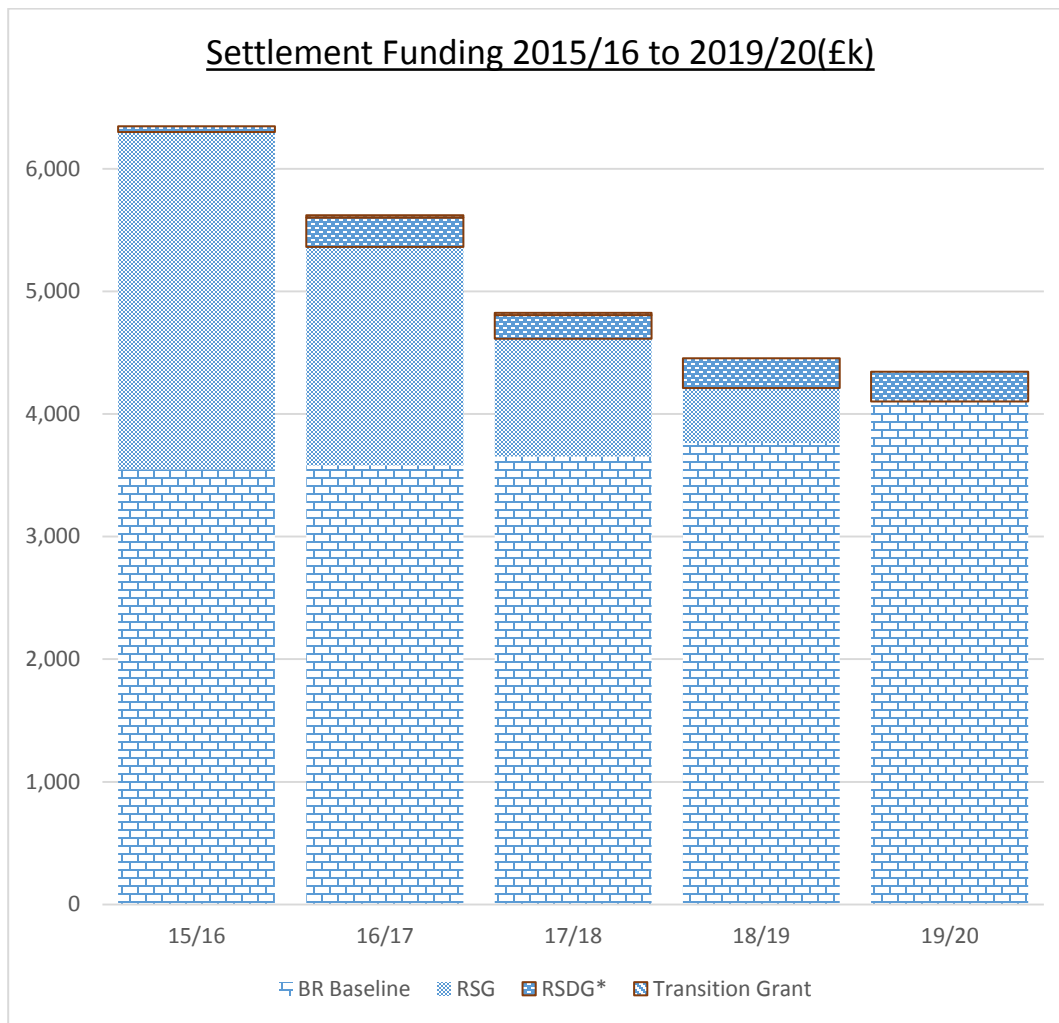
Table 1 – General Government Grant

	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	-	-
<b>Total General Revenue Grant Funding</b>	<b>691,487</b>	<b>247,846</b>	<b>-443,641</b>	<b>-64%</b>

- 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
BR Baseline	3,550	3,579	3,652	3,762	4,096
<b>Government Settlement</b>	<b>6,347</b>	<b>5,621</b>	<b>4,825</b>	<b>4,454</b>	<b>4,344</b>



## 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

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

- 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

<b>Business Rates Retention Funding Estimates</b>	<b>2018/19 Budget £</b>	<b>2019/20 Estimate 75% Pool £</b>	<b>Indicative (50% Scheme) 2020/21 Estimate £</b>
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
<b>Net Retained Business Rates Funding</b>	<b>5,556,147</b>	<b>6,528,746</b>	<b>4,797,881</b>
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 income 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 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	
<b>New Homes Bonus Grant</b>	<b>3,960,977</b>	<b>3,809,209</b>	<b>-151,768</b>	<b>-4%</b>

- 9.5 The Government has not revised the changes to the New Homes Bonus methodology that was announced in 2017/18. The growth baseline remains at 0.4%, which sees a “top-slice” for growth which does not attract any NHB grant (In 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 2017 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
<b>Total NHB Grant allocation related to 2019/20</b>	<b>£851,411</b>

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

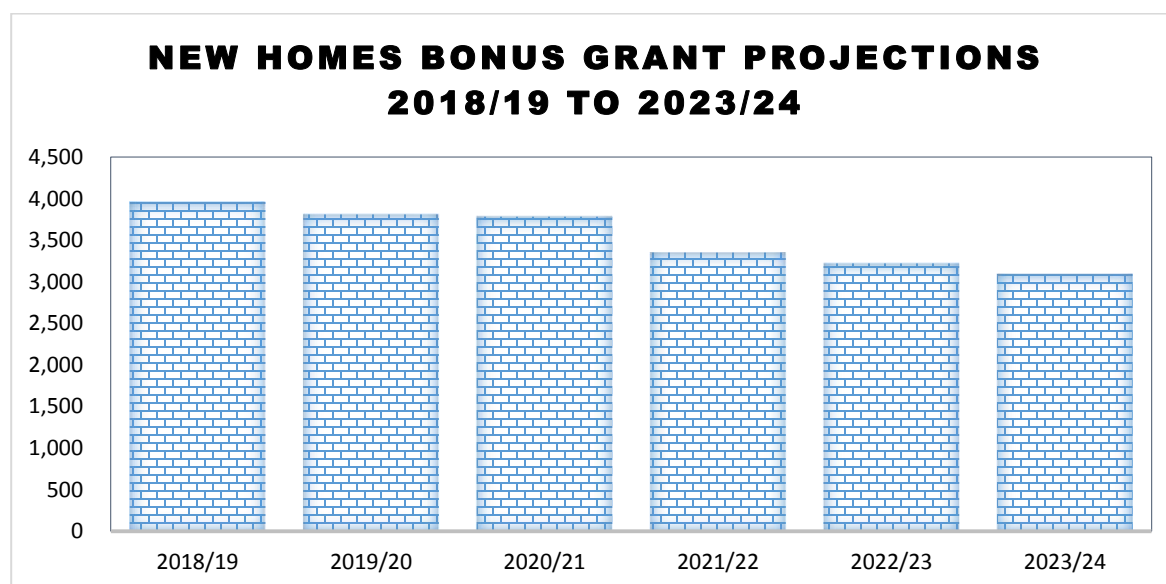
\*\*growth is rewarded 80% to lower tier (District), 20% to upper tier (County)

- 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
<b>Total</b>	<b>3,960</b>	<b>3,808</b>	<b>3,783</b>	<b>3,350</b>	<b>3,219</b>	<b>3,095</b>	<b>21,215</b>

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**

- 11.2 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.
- 11.3 The proposed budget for 2019/20 is therefore £46,983, entirely funded through Special Expenses levied within the unparished area.

## **12 Somerset Rivers Authority**

- 12.2 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**

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

	<b>TDBC/WSC Budget 2018/19 £</b>	<b>SWT Budget 2019/20 £</b>
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
<b>AUTHORITY EXPENDITURE</b>	<b>20,287,735</b>	<b>24,207,110</b>
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	<b>8,630,924</b>	<b>9,038,695</b>
Divided by Council Tax Base	55,574.2	56,622.8
<b>Council Tax Band D – SWT Services</b>	<b>153.56</b>	<b>157.88</b>
<b>Council Tax Band D – Somerset Rivers Authority</b>	<b>1.74</b>	<b>1.75</b>
<b>Council Tax Band D – SWT including SRA</b>	<b>155.30</b>	<b>159.63</b>
<b>Cost per week per Band D equivalent</b>	<b>2.98</b>	<b>3.05</b>

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

	<b>£k</b>	<b>£k</b>
<b>Net Expenditure Base Budget 2018/19</b>		<b>20,288</b>
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	
<b>Subtotal costs</b>		<b>-852</b>
Contribution to Economic Growth and Prosperity Fund	1,200	
Transfer to 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	
<b>Subtotal Reserve movement</b>		<b>4,771</b>
<b>Net Expenditure Base Budget 2019/20</b>		<b>24,207</b>

	<b>£k</b>	<b>£k</b>
<b>Total Funding 2018/19</b>		<b>-20,288</b>
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	-1,874	
<b>Subtotal - change in funding</b>		<b>-3,919</b>
<b>Total Funding 2019/20</b>		<b>-24,207</b>

## 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
<b>Net Expenditure</b>	<b>18,459,357</b>	<b>22,378,732</b>	<b>18,164,952</b>	<b>18,120,860</b>	<b>18,660,340</b>	<b>18,907,460</b>
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	-6,246,000	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
<b>Net Funding</b>	<b>18,459,357</b>	<b>22,378,732</b>	<b>18,325,597</b>	<b>18,402,371</b>	<b>18,800,790</b>	<b>19,226,774</b>
<b>Budget Gap</b>	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
<b>Total Annual Savings</b>	<b>197</b>	<b>2,195</b>	<b>2,273</b>	<b>2,376</b>	<b>2,376</b>

### 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 Blenheim 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
<b>Projected Balance 31 March 2019</b>	<b>2,828</b>
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. 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. 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 £
<b>DLO Schemes:</b>							
Vehicle Replacement	152,000	2	152,000				152,000
Plant and Equipment	23,000	2	23,000				23,000
<b>Sub-Total</b>	<b>175,000</b>		<b>175,000</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>175,000</b>
<b>General Schemes:</b>							
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
<b>Sub-Total</b>	<b>2,246,740</b>		<b>375,000</b>	<b>1,695,000</b>	<b>0</b>	<b>176,740</b>	<b>2,246,740</b>
<b>NHB Growth Schemes:</b>							
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
<b>Sub-Total</b>	<b>2,027,000</b>		<b>0</b>	<b>0</b>	<b>2,027,000</b>	<b>0</b>	<b>2,027,000</b>
<b>Community Infrastructure Levy</b>							
Cycle and pedestrian improvements	1,000,000			1,000,000			
Education Provision	4,000,000			4,000,000			
Public transport improvements				1,000,000			
<b>Sub-Total</b>	<b>6,000,000</b>						
<b>Grand Total</b>	<b>10,273,740</b>		<b>375,000</b>	<b>7,695,000</b>	<b>2,027,000</b>	<b>176,740</b>	<b>10,273,740</b>

**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 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	<b>4,150</b>
Taunton Town Centre regeneration	14	161	875	991	427	309	<b>2,777</b>
Employment site enabling and innovation to promote Growth	0	16	85	536	1,600	1,500	<b>3,737</b>
Taunton Strategic Flood Alleviation	0	152	483	500	2,000	2,500	<b>5,635</b>
New Garden Communities	0	0	0	0	0	0	<b>0</b>
Marketing Promotion and Inward Investment	102	110	29	0	0	0	<b>242</b>
Preparation of LDO's	59	0	0	0	0	0	<b>59</b>
<b>Total expected investment</b>	<b>175</b>	<b>440</b>	<b>2,122</b>	<b>2,027</b>	<b>6,902</b>	<b>4,934</b>	<b>16,600</b>

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
<b>Total allocations</b>	<b>-</b>	<b>6,000,000</b>	<b>3,000,000</b>	<b>3,500,000</b>	<b>3,000,000</b>	<b>15,500,000</b>

## **21 Robustness of the Budget Process**

21.1 The Local Government Act 2003 requires a report on the adequacy of the Council's financial reserves and for the S151 Officer to report on the robustness of the budget plans. Both of these elements will be included in subsequent reports to Executive and Full Council in February.

## **22 Links to Corporate Aims / Priorities**

22.1 It is important that Councillors recognise the financial position, challenges and risks faced by the Council and fully engage in the corporate and financial planning processes in order to determine an affordable and sustainable set of corporate aims and priorities. This should lead to the Council approving a sustainable final budget and MTFP in February 2019.

## **23 Finance / Resource Implications**

23.1 The Council's financial position is set out above within the body of this report.

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

23.3 The MTFP reflects the projected savings from transformation of council services.

## **24 Legal Implications (if any)**

24.1 The Council is required by law to set a balanced budget and failure to do so would result in serious financial and service implications and lead to Government intervention.

## **25 Environmental Impact Implications (if any)**

25.1 None for the purposes of this report. There have been no proposed policy changes or reductions in service budgets in order to balance the budget in 2019/20, in line with the Council's agreed financial strategy.

## **26 Safeguarding and/or Community Safety Implications (if any)**

26.1 None for the purposes of this report.

## **27 Equality and Diversity Implications (if any)**

27.1 None for the purposes of this report.

## **28 Social Value Implications (if any) Page 21**

28.1 None for the purposes of this report.

**29 Partnership Implications (if any)**

29.1 None for the purposes of this report. The Council budget incorporates costs and income related to the various partnership arrangements, and any changes in relevant forecasts and proposals will be reported for consideration as these emerge.

**30 Health and Wellbeing Implications (if any)**

30.1 None for the purposes of this report. Any relevant information and decisions with regard to health and wellbeing will be reported as these emerge through the financial planning process.

**31 Asset Management Implications (if any)**

31.1 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 Shadow Scrutiny comments are invited at this meeting, for consideration by Shadow Executive and in forming recommendations to Members to address the ongoing financial sustainability of the Council.

**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	General Fund Capital Programme
Appendix N	Fees and Charges – Open Spaces

Name	Andrew Stark	Name	Paul Fitzgerald
Direct Dial	01823 219490	Direct Dial	01823 257557
Email	a.stark@tauntondeane.gov.uk	Email	p.fitzgerald@tauntondeane.gov.uk





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 £
<b>Growth Programme</b>									
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
<b>Total Growth Programme</b>			<b>16,600,000</b>	<b>2,122,000</b>	<b>2,027,000</b>	<b>614,000</b>	<b>2,122,000</b>	<b>13,864,000</b>	<b>16,600,000</b>
<b>IT Projects</b>									
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
<b>Total IT Projects</b>			<b>2,668,422</b>	<b>1,777,288</b>	<b>154,000</b>	<b>563,740</b>	<b>1,501,072</b>	<b>606,749</b>	<b>2,671,561</b>
<b>Major Projects</b>									
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
<b>Total Major Projects</b>			<b>53,793,515</b>	<b>44,913,720</b>	<b>0</b>	<b>9,033,840</b>	<b>5,026,757</b>	<b>39,732,918</b>	<b>53,793,515</b>
<b>Housing</b>									
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
<b>Total Housing Projects</b>			<b>7,502,157</b>	<b>3,240,467</b>	<b>1,695,000</b>	<b>3,113,240</b>	<b>832,938</b>	<b>3,555,979</b>	<b>7,502,157</b>
<b>Other Projects</b>									
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
<b>Total Other Projects</b>			<b>6,943,826</b>	<b>3,082,237</b>	<b>397,740</b>	<b>3,576,208</b>	<b>1,926,221</b>	<b>1,453,333</b>	<b>6,955,762</b>
<b>S106 Funded - General Schemes</b>									
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
<b>Total S106 Funded - General Schemes</b>			<b>333,898</b>	<b>298,898</b>	<b>0</b>	<b>35,000</b>	<b>33,762</b>	<b>265,136</b>	<b>333,898</b>
<b>S106 Funded - Hinkley Schemes</b>									
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
<b>Total S106 Funded - Hinkley Schemes</b>			<b>5,085,707</b>	<b>4,951,646</b>	<b>0</b>	<b>239,561</b>	<b>1,162,177</b>	<b>3,683,969</b>	<b>5,085,707</b>
<b>Externally Funded Projects</b>									
XT083	Community Infrastructure Grants	N	15,616,034	116,034	6,000,000		116,034	15,500,000	15,616,034
<b>Total Externally Funded Projects</b>			<b>15,616,034</b>	<b>116,034</b>	<b>6,000,000</b>	<b>0</b>	<b>116,034</b>	<b>15,500,000</b>	<b>15,616,034</b>
<b>Total GF</b>			<b>108,543,559</b>	<b>60,502,290</b>	<b>10,273,740</b>	<b>17,175,589</b>	<b>12,720,961</b>	<b>78,662,084</b>	<b>108,558,634</b>



## Appendix N

### **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
<b>Blenheim Gardens</b>	<b>720.00</b>
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
<b>Minehead Esplanade &amp; Harbour</b>	<b>200.00</b>
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 N

### 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 N

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 <sup>2</sup>	£200
Bed area of 10 – 15m <sup>2</sup>	£300
Bed area greater than 15m <sup>2</sup>	£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 Scrutiny – 5 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 The Shadow Scrutiny notes the draft HRA Revenue Budget, Capital Programme and proposed average weekly rent for 2019/20, and refers any comments to Shadow Executive.

#### 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

<b>Likelihood</b>	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
<b>Impact</b>							

<b>Likelihood of risk occurring</b>	<b>Indicator</b>	<b>Description (chance of occurrence)</b>
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
<b>Original Budget 2018/19 – balanced budget</b>		<b>0.0</b>
<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
<b>Proposed Original Budget for 2019/20 i.e. net transfer to reserves</b>		<b>0.9</b>

## 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 1<sup>st</sup> 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

<b>Project</b>	<b>Total Cost £000</b>
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
<b>Total Proposed HRA Capital Programme 2018/19</b>	<b>9,586</b>

- 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

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

### **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

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

- 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	
<b>Sales</b>	37	47	35	38	44	53	7	10	7	278
<b>Total Receipts (£k)</b>	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
<b>1-4-1 Receipts (£k)</b>	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
<b>Spend Required (£k)</b>	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.

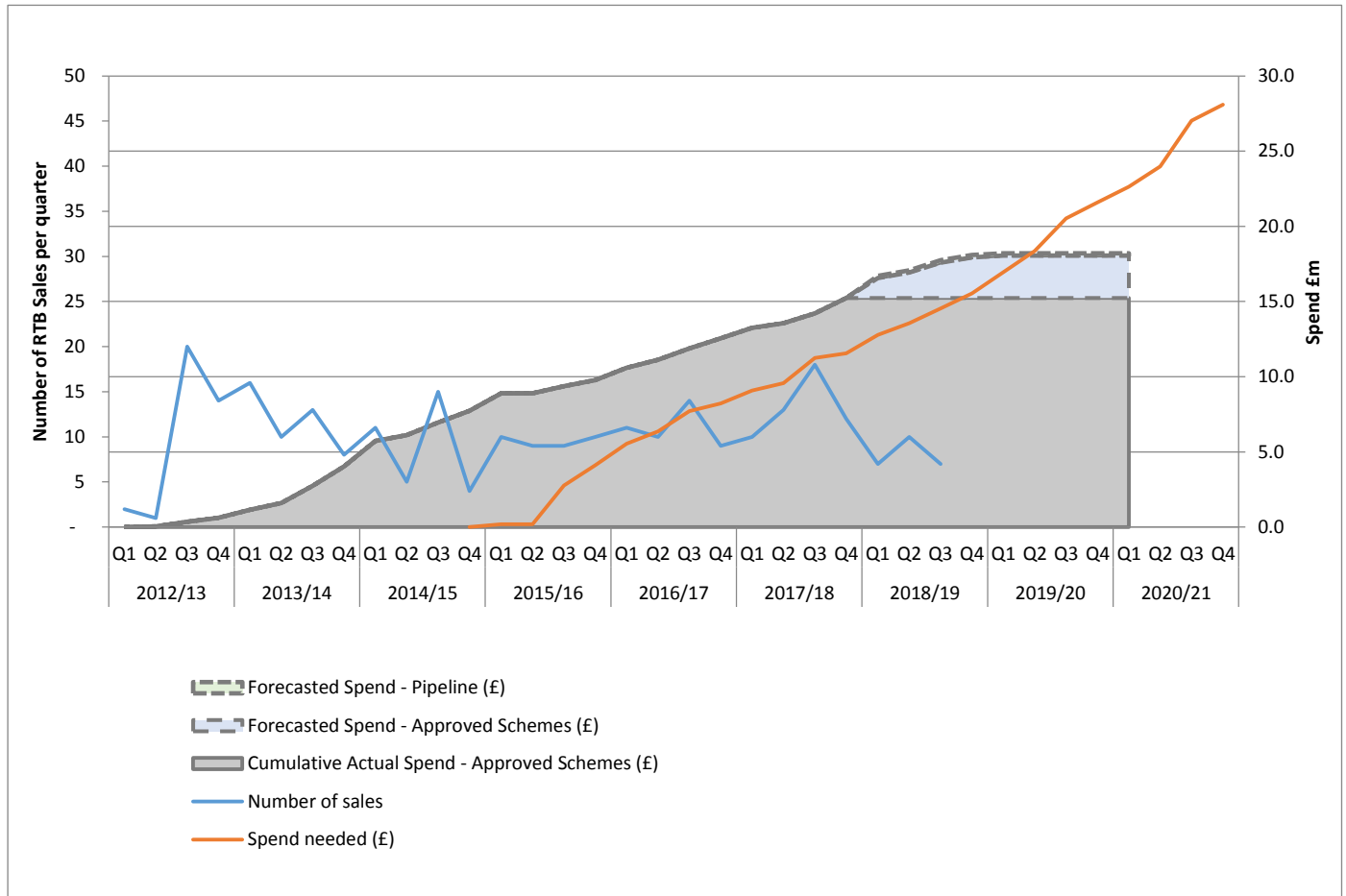
13.5 It should be noted that the new housing doesn't need to be provided by the Council. The 30% RTB funding could also be used by Housing Associations in the area, providing they meet the same match funding requirements.

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 Shadow Scrutiny comments are invited at this meeting, for consideration by Shadow Executive and Shadow Full Council for final budget approval.

**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
------------	---------------------------------------

**Contact Officers**

Name	<b>Kerry Prisco</b>	Name	<b>Andy Stark</b>
Direct Dial	01823 218758	Direct Dial	01823 219490
Email	<a href="mailto:k.prisco@tauntondeane.gov.uk">k.prisco@tauntondeane.gov.uk</a>	Email	<a href="mailto:a.stark@tauntondeane.gov.uk">a.stark@tauntondeane.gov.uk</a>
Name	<b>Stephen Boland</b>	Name	
Direct Dial	01823 219503	Direct Dial	
Email	<a href="mailto:s.boland@tauntondeane.gov.uk">s.boland@tauntondeane.gov.uk</a>	Email	

## 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
<b>Income</b>							
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)
<b>Sub Total Income</b>	<b>(26,644)</b>	<b>(26,476)</b>	<b>(26,776)</b>	<b>(27,543)</b>	<b>(28,420)</b>	<b>(29,257)</b>	<b>(30,108)</b>
<b>Expenditure</b>							
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 Expenses	9	9	9	9	10	10	10
Other Expenditure	0	0	0	0	0	0	0
<b>Sub Total Expenditure</b>	<b>14,947</b>	<b>13,934</b>	<b>14,314</b>	<b>14,607</b>	<b>14,903</b>	<b>15,209</b>	<b>15,523</b>
<b>Other Expenditure</b>							
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
<b>Sub Total Other Expenditure</b>	<b>11,698</b>	<b>12,542</b>	<b>12,462</b>	<b>12,936</b>	<b>13,517</b>	<b>14,048</b>	<b>14,585</b>
<b>Balanced Budget</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>



**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
<b>Closing Balance</b>	<b>2,778</b>	<b>2,779</b>	<b>2,615</b>	<b>2,845</b>	<b>3,367</b>	<b>4,461</b>	<b>6,003</b>



## Somerset West and Taunton Council

### Shadow Scrutiny – 5 February 2019

#### Draft Treasury Management Strategy Statement 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 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 Shadow Scrutiny notes the draft Treasury Management Strategy Statement for 2019/20 and refers any comments to the Shadow Executive.

#### 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

<b>Likelihood</b>	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
			<b>Impact</b>				

<b>Likelihood of risk occurring</b>	<b>Indicator</b>	<b>Description (chance of occurrence)</b>
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	13,947	13,442	12,937	12,432
HRA CFR	104,848	100,729	103,355	101,534	99,713
<b>Total CFR</b>	<b>119,250</b>	<b>114,676</b>	<b>116,797</b>	<b>114,471</b>	<b>112,145</b>
Less: external borrowing	(85,500)	(82,500)	(79,000)	(75,500)	(65,500)
<b>Internal borrowing</b>	<b>33,750</b>	<b>32,176</b>	<b>37,797</b>	<b>38,971</b>	<b>46,645</b>
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
<b>Investments (or new borrowing)</b>	<b>(4,356)</b>	<b>(8,517)</b>	<b>(7,380)</b>	<b>(7,424)</b>	<b>(3,049)</b>

- 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
<b>Pooled funds and real estate investment trusts</b>		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

	<b>Cash limit</b>
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.

<b>Alternative</b>	<b>Impact on income and expenditure</b>	<b>Impact on risk management</b>
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:     **Once only**                       **Ad-hoc**     **Quarterly**  
    **Twice-yearly**                       **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

**Contact Officers**

Name	Andy Stark	Name	Sue Williamson
Direct Dial	01823 219490	Direct Dial	01823 219470
Email	<a href="mailto:a.stark@tauntondeane.gov.uk">a.stark@tauntondeane.gov.uk</a>	Email	<a href="mailto:s.williamson@tauntondeane.gov.uk">s.williamson@tauntondeane.gov.uk</a>



### 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
<b>Official Bank Rate</b>														
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
<b>3-mth money market rate</b>														
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
<b>1-yr money market rate</b>														
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
<b>5-yr gilt yield</b>														
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
<b>10-yr gilt yield</b>														
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
<b>20-yr gilt yield</b>														
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
<b>50-yr gilt yield</b>														
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

	<b>31.12.18 Actual Portfolio £m</b>
<b>External borrowing:</b>	
Public Works Loan Board	82.500
Barclays	3.000
<b>Total external borrowing</b>	<b>85.500</b>
<b>Treasury investments:</b>	
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
<b>Total treasury investments</b>	<b>56.333</b>
<b>Net debt</b>	<b>29.167</b>



## Somerset West and Taunton Council

### Shadow Scrutiny – 5 February 2019

#### Draft Capital 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 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 Members are required to approve the Capital Strategy for 2019/20 including the Council's prudential indicators.
- 2.2 Shadow Scrutiny notes the draft Capital Strategy for 2019/20 and refers any comments to the Shadow Executive.

#### 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

<b>Likelihood</b>	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
<b>Impact</b>							

<b>Likelihood of risk occurring</b>	<b>Indicator</b>	<b>Description (chance of occurrence)</b>
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*

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

- 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*

	<b>2017/18 Actual £m</b>	<b>2018/19 Forecast £m</b>	<b>2019/20 Budget £m</b>	<b>Budget 2020/21 £m</b>	<b>Budget 2021/22 £m</b>
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
<b>Total</b>	<b>16.124</b>	<b>20.699</b>	<b>20.309</b>	<b>22.893</b>	<b>20.324</b>

- 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	13.947	13.442	12.937	12.432
HRA	104.848	100.729	103.355	101.534	99.713
<b>Total</b>	<b>119.250</b>	<b>114.676</b>	<b>116.797</b>	<b>114.471</b>	<b>112.145</b>

## 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)
<b>Total</b>	<b>(4.791)</b>	<b>(4.506)</b>	<b>(6.420)</b>	<b>(4.758)</b>	<b>(4.928)</b>

## 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	114.676	116.797	114.471	112.145

- 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*

	<b>31.03.18 Actual £m</b>	<b>31.03.19 Forecast £m</b>	<b>31.03.20 Budget £m</b>	<b>31.03.21 Budget £m</b>	<b>31.03.22 Budget £m</b>
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
<b>Total</b>	<b>52.766</b>	<b>56.333</b>	<b>56.000</b>	<b>56.000</b>	<b>56.000</b>

- 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	2018/19 Forecast	2019/20 Budget	Budget 2020/21	Budget 2021/22
<b>General Fund</b>					
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
<b>HRA</b>					
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
------------	--

**Contact Officers**

Name	Andrew Stark	Name	Sue Williamson
Direct Dial	01823 219490	Direct Dial	01823 219470
Email	<a href="mailto:a.stark@tauntondeane.gov.uk">a.stark@tauntondeane.gov.uk</a>	Email	<a href="mailto:s.williamson@tauntondeane.gov.uk">s.williamson@tauntondeane.gov.uk</a>



### 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 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 Scrutiny notes the draft Investment Strategy for 2019/20 and refers any comments to the Shadow Executive.

#### 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

<b>Likelihood</b>	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
<b>Impact</b>							

<b>Likelihood of risk occurring</b>	<b>Indicator</b>	<b>Description (chance of occurrence)</b>
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 £m	Loss Allowance £m	Net Figure in Accounts £m	Approved Limit £m
Local Businesses	2.043	(0.022)	2.021	20.000
Local Charities	0.902	(0.001)	0.901	3.000
<b>Total</b>	<b>2.945</b>	<b>(0.023)</b>	<b>2.922</b>	<b>23.000</b>

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 Councils 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

	<b>31.03.18 Actual £m</b>	<b>31.03.19 Forecast £m</b>	<b>31.03.20 Forecast £m</b>
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
<b>Total Investments</b>	<b>59.279</b>	<b>59.007</b>	<b>60.604</b>
Commitments to Lend	0	0	13.000
Guarantees Issued on Pension Liabilities	5.168	5.168	5.168
<b>Total Exposure</b>	<b>64.447</b>	<b>64.175</b>	<b>78.772</b>

- 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

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

### 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**

Name	Andrew Stark	Name	Sue Williamson
Direct Dial	01823 219490	Direct Dial	01823 219470
Email	<a href="mailto:a.stark@tauntondeane.gov.uk">a.stark@tauntondeane.gov.uk</a>	Email	<a href="mailto:s.williamson@tauntondeane.gov.uk">s.williamson@tauntondeane.gov.uk</a>

