SWT Executive

Wednesday, 16th March, 2022, 6.15 pm

The John Meikle Room - The Deane House

SWT MEETING WEBCAST LINK

Somerset West and Taunton

Members: **Federica Smith-Roberts (Chair), Derek Perry (Vice-Chair), Chris Booth, Dixie Darch, Caroline Ellis, Ross Henley, Marcus Kravis, Mike Rigby, Francesca Smith and Andrew Sully**

Agenda

1. Apologies

To receive any apologies for absence.

2. Declarations of Interest

To receive and note any declarations of disclosable pecuniary or prejudicial or personal 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 Chair 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.

For those members of the public who have submitted any questions or statements, please note, a three minute time limit applies to each speaker and you will be asked to speak before Councillors debate the issue.

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4.	**Executive Forward Plan** To receive items and review the Forward Plan.	(Pages 7 - 8)
5.	**Corporate Performance Report, Quarter 3 2021/22** This matter is the responsibility of Executive Councillor for Corporate Resources, Councillor Ross Henley. This paper provides an update on the council's performance for the first 9 months of the 2021/22 financial year (1st April 2021 – 31st December 2021).	(Pages 9 - 26)
6.	**2021/22 General Fund Financial Monitoring as at Quarter 3 (31 December 2021)** This matter is the responsibility of Executive Councillor for Corporate Resources, Councillor Ross Henley. This report provides an update on the projected outturn financial position of the Council's General Fund (GF) for the financial year 2021/22 (as at 31 December 2021 forecast).	(Pages 27 - 56)
7.	**2021/22 Housing Revenue Account Financial Monitoring as at Quarter 3 (31 December 2021)** This matter is the responsibility of Executive Councillor for Housing, Councillor Fran Smith. This report provides an update on the projected outturn financial position of the Council's Housing Revenue Account (HRA) for the financial year 2021/22 (as at 31 December 2021).	(Pages 57 - 78)
8.	**Budget Approval - Electric Vehicle Charging Points** This matter is the responsibility of Executive Councillor for Climate Change, Councillor Dixie Darch. In line with the Council's financial regulations, this report seeks to confirm and regularise the capital budget required for the rollout of the Electric Vehicle Charging Points.	(Pages 79 - 82)
9.	**Annual Pay Policy Statement 2022/23** This matter is the responsibility of Executive Councillor for Corporate Resources, Councillor Ross Henley. Section 38 (1) of the Localism Act 2011 establishes a statutory requirement for local authorities to prepare and	(Pages 83 - 114)

publish a pay policy statement for each financial year, approved by Full Council.

10. Capital, Investment and Treasury Strategies 2022/23 to 2024/25 (Pages 115 - 184)

This matter is the responsibility of Executive Councillor for Corporate Resources, Councillor Ross Henley.

The purpose of this report is to bring to Members three recommended strategies covering Capital, Investment and Treasury Management (CIT Strategies) for their consideration and adoption.

11. Wellington and Cullompton Railway Station Project - Approval of Revised Project Governance Arrangements (Pages 185 - 202)

This matter is the responsibility of Executive Councillor for Planning and Transportation, Councillor Mike Rigby.

The purpose of this report is to seek approval of the project governance arrangements for the next phase of the Wellington and Cullompton Railway Station Project, for which the end product will be a Final Business Case (FBC).

12. Wordsworth Drive and Coleridge Crescent Flats Regeneration, Taunton (Pages 203 - 222)

This matter is the responsibility of Executive Councillor for Housing, Councillor Francesca Smith.

The report proposes that the flats no longer provide the quality of accommodation, in terms of decency and thermal efficiency, which SWT tenants should expect and which the Council strive to provide.

ANDREW PRITCHARD
CHIEF EXECUTIVE

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Members of the public are welcome to attend the meeting and listen to the discussions. There is time set aside at the beginning of most meetings to allow the public to ask questions. Speaking under "Public Question Time" is limited to 3 minutes per person in an overall period of 15 minutes and you can only speak to the Committee once. If there are a group of people attending to speak about a particular item then a representative should be chosen to speak on behalf of the group. These arrangements do not apply to exempt (confidential) items on the agenda where any members of the press or public present will be asked to leave the Committee Room.

If you would like to ask a question or speak at a meeting, you will need to submit your request to a member of the Governance Team in advance of the meeting. You can request to speak at a Council meeting by emailing your full name, the agenda item and your question to the Governance Team using governance@somersetwestandtaunton.gov.uk

Any requests need to be received by 4pm on the day that provides 1 clear working day before the meeting (excluding the day of the meeting itself). For example, if the meeting is due to take place on a Tuesday, requests need to be received by 4pm on the Friday prior to the meeting.

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The meeting rooms, including the Council Chamber at The Deane House, are on the first floor and are fully accessible. Lift access to The John Meikle Room (Council Chamber), is available from the main ground floor entrance at The Deane House. The Council Chamber at West Somerset House is on the ground floor and is fully accessible via a public entrance door. Toilet facilities, with wheelchair access, are available across both locations. An induction loop operates at both The Deane House and West Somerset House to enhance sound for anyone wearing a hearing aid or using a transmitter.

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EXECUTIVE

Executive Meeting	Draft Agenda Items	Lead Officer
16 March 2022	GF Financial Performance 2021/22 Q3	Emily Collacott
venue =	HRA Financial Performance 2021/22 Q3	Kerry Prisco
Exec RD = 4 March	Capital, Investment and Treasury Strategy 2022/23	John Dyson
Informal Exec RD = 1 February	Corporate Performance Report Q3	Malcolm Riches
SMT RD = 19 January	SWT Pay Policy	Nicky Rendell
	Wellington and Cullompton Stations - project governance arrangements	Sarah Povall
	Wordsworth Drive and Coleridge Crescent Regeneration	James Barrah/Chris Brown
	Budget Approval - Electric Charging Points	Sue Tomlinson
	NO MORE ITEMS	
20 April 2022	Green Space Acquisition (confidential)	Jo O'Hara
venue =	Task and Finish Group Report on Council Housing Zero Carbon Retrofit	Chris Brown/James Barrah
Exec RD = 6 April		
Informal Exec RD = 8 March		
SMT RD = 23 February		
18 May 2022	**MEETING CANCELLATION - DUE TO LACK OF BUSINESS/ELECTIONS**	
venue =	any requests to go through the Directors	
Exec RD = 6 May		
Informal Exec RD = 5 April		
SMT RD = 23 March		
15 June 2022	GF Financial Performance 2021/22 Q4	Emily Collacott
venue =	HRA Financial Performance 2021/22 Q4	Kerry Prisco
Exec RD = 3 June	Corporate Performance Report Q4	Malcolm Riches
Informal Exec RD = 4 May	CCTV	Sally Parry/Scott Weetch
SMT RD = 20 April	Ecological Vision and Action Plan	Katherine Church
20 July 2022		
venue =		
Exec RD = 8 July		
Informal Exec RD = 7 June		
SMT RD = 25 May		
17 August 2022		
venue =		
Exec RD = 5 August		

Informal Exec RD = 5 July		
SMT RD = 22 June		
21 September 2022	GF Financial Performance 2022/23 Q1	Emily Collacott
venue =	HRA Financial Performance 2022/23 Q1	Kerry Prisco
Exec RD = 9 September	Corporate Performance Report Q1	Malcolm Riches
Informal Exec RD = 9 August		
SMT RD = 27 July		
19 October 2022		
venue =		
Exec RD = 7 October		
Informal Exec RD = 6 September		
SMT RD = 24 August		
16 November 2022	Marina Lease	Andrew Pritchard/Jonathan Stevens
venue =		
Exec RD = 4 November		
Informal Exec RD = 4 October		
SMT RD = 21 September		
21 December 2022	GF Financial Performance 2022/23 Q2	Emily Collacott
venue =	HRA Financial Performance 2022/23 Q2	Kerry Prisco
Exec RD = 9 December	Corporate Performance Report Q2	Malcolm Riches
Informal Exec RD = 8 November	Housing Revenue Account 2023/24 Draft Budget Update	Kerry Prisco
SMT RD = 26 October	General Fund 2023/24 Draft Budget Update	Emily Collacott
18 January 2023		
venue =		
Exec RD = 6 January		
Informal Exec RD = 6 December		
SMT RD = 23 November		

Somerset West and Taunton Council

Executive – 16 March 2022

Corporate Performance Report, Quarter 3 2021/22

This matter is the responsibility of Executive Councillor Member Ross Henley.

Report Author: Malcolm Riches, Business Intelligence and Performance Manager.

1. **Executive Summary / Purpose of the Report**

   This paper provides an update on the council's performance for the first 9 months of the 2021/22 financial year (1st April 2021 – 31st December 2021). The report includes information for a range of key performance indicators and includes the key business risks for the council.

   Given the breadth of information contained in the report, it is unlikely that all questions can be answered at the meeting. It would be helpful if any detailed questions could be submitted in advance.

2. **Recommendations**

   The Scrutiny Committee and Executive are asked to note the Council's performance report for quarter 3.

3. **Risk Assessment**

   Failure to regularly monitor performance could lead to the council not delivering on some of its corporate priorities or key services.

4. **Background and Full details of the Report**

   As part of the Councils commitment to transparency and accountability this report provides an update on performance. The Covid pandemic continues to have an impact and the Council's response is being achieved in addition to the regular day-to-day responsibilities. Specifically, the report provides:

   - The position in respect of our key performance indicators at the end of quarter 3 of the financial year; and

   - A summary of the Council's key business risks and issues together with the current status of the actions being taken to respond to them.

   Progress updates for the actions to deliver the Council's Annual Plan was included at the end of Q2, and as these are reported every 6 months, the next update will be for the end of March in the out-turn report.

4.1 Summary of Performance

The Council's Corporate Strategy contains four priority strategic themes. Each year the Council produces a plan (the Annual Plan) to identify actions to assist in the delivery of the four strategic priorities. The plan for this year identifies 31 actions. Progress against these is reported every 6 months, and the next update will be for the end of March.

Progress against a range of Key Performance Indicators (KPI's) is reported quarterly. These KPI's are used to monitor progress in delivering key services and to enable us to quickly identify and rectify any problem areas. These indicators are linked to one of the four corporate priorities to indicate how they support the delivery of the Corporate Strategy.

The table in Appendix 1 includes the councils Key Performance Indicators and shows how the council has performed for the first 9 months of the 2021/22 financial year. The table includes a "direction of travel" arrow to show whether performance has improved, worsened, or stayed the same, since the end of Quarter 2.

For the majority of indicators, the target has either been met or, in many cases, has been exceeded. Overall, there are 5 'Red' and 2 'Amber' indicators, which are being monitored closely. More information is provided below regarding the red and amber indicators.

Percentage of complaints responded to in 10 working days:

The percentage of complaints responded to in 10 days for the first 9 months of this year is 78%, which is below the target of 90%.

The reasons for this are varied and are summarised below:

- *Increased numbers of complaints* - the number of complaints received continue to be significantly higher than in the previous financial years. Higher volumes of complaints present challenges in some areas in being able to respond within the target time.

- *Complexity* - we are continuing to receive a greater number of more complex complaints. These take longer to investigate and respond to and often cannot be responded to within target. Where this is the case officers are under instruction to contact the complainant and agree a new realistic deadline for response.

- *Capacity* - the increased volumes and complexity are highlighting capacity problems in some areas around having enough sufficiently skilled officers to respond to complaints.

- *Customer expectations* - customer expectations are increasing resulting in a growth in the number of complaints being registered. This is a sector wide trend across local government. The Housing Ombudsman is reporting a 230% increase in the complaints reported for the period April to June 2021 from the same period in the previous year.

- *Local service-related issues* – we have recommenced normal recovery and enforcement activity in respect of Council Tax, Business Rates and Miscellaneous Income debts. In addition, we have recently launched a project to target a backlog of previous year Council Tax and Business Rate debts. There were also problems with waste collection in the earlier part of the financial year. All of this has acted to increase complaints.

We are actively taking steps to improve our performance on response times, and these remain significantly better than in the previous financial year. These steps include:

- Refining and re-writing elements of the IT software (Firmstep) that manages the complaints process to make the routing of complaints easier. These changes are currently being tested and will be rolled out shortly.

- Training is being delivered across the organisation to both build capacity and improve the quality of responses to complaints.

- Over 70 staff within the Housing Directorate have received specific complaints training from the Housing Quality Network which has focussed on improving the quality of responses. In addition, all Housing staff have completed refresher customer care training to ensure customers are treated with fairness and respect.

- A complaints dashboard is being developed to improve the quality of feedback and trend analysis for individual areas.

- Learning from complaints and complaint trends are driving new work. In Housing, for example, a working group is looking at damp and mould issues, and deep dive activity is being undertaken with other authorities to compare performance and share good practice.

- Our complaints lead continues to work closely with services to resolve issues and to ensure we can issue responses as quickly as possible. Localised reporting in some directorates has also started in detail, for example weekly follow up on cases within Housing.

We are actively monitoring the workload in this area together with response times and implementing improvements. However, we are conscious that demand will continue to grow particularly in view of the anticipated impact of the fuel price increase and inflation all of which will continue to make this a challenging target.

Average call wait times:

Detailed commentary is included in Appendix 2.

Forecast budget variance for General Fund and Housing Revenue Account.

Detailed commentary for these 2 indicators is included in the separate Budget Monitoring Reports.

Average re-let times.

The average re-let time for council properties over the past quarter was 54.9 days, which exceeded our target of 44 days. While performance for October and November was above the target, for December both Minor and Major voids have shown a reduction in turnaround times.

This is a particularly challenging time for void management and all Housing Providers across Somerset are struggling with increasing void times. Common factors include scarcity of key tradespeople (such as electricians), both in-house and through external contractors, many of whom have been attracted to other work such as Hinkley; Refocussing trades staff to clear repairs backlogs built up during the pandemic; lack of availability of some materials, which inevitably holds up work. For SWT, we have also noted a higher proportion of Major Voids (compared to Minor Voids) which skews our turnaround times higher. That said, we are progressing against our plan to improve void turnaround times. The plan includes:

- Strengthening our approach with departing tenants to ensure they leave the property clean and tidy
- Providing decoration packs for able-bodied tenants, rather than undertaking full redecoration to let the property quicker
- Investigating how we streamline the asbestos process to reduce delays due to surveys and works
- Implementation of the voids module on Open Housing which will allow improved performance management of the overall voids process
- Look to undertake major capital works as part of the capital programme where possible, after the tenant moves in, rather than during the void. This will also be more cost effective through economies of scale.
- We will undertake a ‘deep dive’ review with Homes in Sedgemoor to compare approaches and share best practice
- Explore voids inspections and scheduling software that can lead to a more efficient inspection and scheduling of trades staff into the properties and flag up capacity issues to allow earlier resolution.

The target of 44 days was set in December 2020 for the current financial year and was based on Quarter 2 Housemark metrics that showed a median performance of 44.5 days for District Councils that held housing stock at that time. Since then, Housemark data showed that the District Council average void turnaround time had increased to 49.8 days by Quarter 4 of 2020/21 (and no doubt has continued to further increase this year). Reasons for this increase across the sector have been described above.

The Housing Management team also reviews wider performance indicators to give a rounded view of performance with respect to letting of properties. The Pulse statistical data for September 2021 places us in the top quartile for the indicators “Proportion of dwellings vacant, but available to let”, and only marginally outside of top quartile performance for ‘Proportion of social homes let”, so our performance overall does give us some confidence that although improvement is required, we are not significantly out of step with other Housing Providers.

Percentage of communal areas with a Fire Risk Assessment (FRA) in place and FRA Review complete (where applicable)

The target is to complete 100% of Fire Risk Assessment (FRA) in place and FRA Review complete (where applicable). One FRA Review was completed late in the 3rd quarter, although no concerns were found once this was undertaken. All FRAs and Reviews are up-to-date at the point of writing this report.

Completion of emergency housing repairs in 24 hours.

The target is to complete 100% of emergency repairs within 24 hours. Over the past 3 months 100% of emergency repairs have been completed within 24 hours. The performance of 99.9% for the year so far is due to one emergency repair in the previous quarter that took 15 minutes longer to complete than the 24 hour target.

Contextual information for the indicator: Income collected as a percentage of rent owed.

Performance for the indicator which measures the “Income collected as a percentage of rent owed, excluding arrears brought forward” is above the target, and is rated as green. In Quarter 2 the performance was slightly over 100% because tenants had paid more than was due in the period i.e. they are paying towards their rent arrears as well as paying the current rent due in the period. In setting the target the formula assumes arrears balances brought forward are being excluded but the income tenants have actually paid towards their arrears is not being excluded.

4.2 Risk Management update

As outlined in the separate report on Risk Management in May 2021, the quarterly Corporate Performance Reports will include an update on the key business risks and issues for the Council.

Processes are in place within each directorate to regularly review existing and identify any new risks and issues. As new risks or issues are identified they are included on the risk register or issues log and mitigations are identified and planned. A target date is set as to when the mitigations should be in place, and a lead officer is appointed.

The risks are all scored based on their probability and potential impact. The Risk Scoring Matrix used to score the risks is attached at Appendix 3. Risks with a higher score are likely to have a more detailed mitigation plan. Issues are things which have already happened, so they are not scored in the same way as risks, but they have a RAG status which relates to the severity of the issue.

As of the end of December there were 5 Key Business Risks (with a score of 15 or higher) on the risk register which are shown in Appendix 4.

As of the end of December the Corporate Issues Log contained 3 Issues which are shown in Appendix 5.

Appendices 4 and 5 provide a summary of the key risk or issue together with the current status of the development and delivery of any mitigation plans required to address them.

The risk register and issues log are updated as necessary and new risks/issues can be added at any point. They are routinely reviewed each month through the regular cycle of meetings. The lead officer is responsible for updating the risk register with progress made regarding mitigations, and this is reported back to Directorate performance meetings, and to the Corporate Performance Board where SMT review the key risks monthly

5. **Links to Corporate Strategy**

   This performance report provides an update on Corporate Performance which is fundamental to the implementation of the Corporate Strategy.

6. **Finance / Resource Implications**

   The detailed financial position is available in a separate budget monitoring report.

Democratic Path:

- **Scrutiny / Corporate Governance or Audit Committees – Yes**
- **Cabinet/Executive – Yes**
- **Full Council – No**

Reporting Frequency: Quarterly

List of Appendices (delete if not applicable)

Appendix 1	Key Performance Indicators Report
Appendix 2	Update on Average Call Wait Times
Appendix 3	Risk Scoring Matrix
Appendix 4	Corporate Risk Register – Key Business Risks
Appendix 5	Corporate Issues

Contact Officers

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Email	r.sealy@somersetwestandtaunton.gov.uk	Email	m.riches@somersetwestandtaunton.gov.uk

Appendix 1 - Key Performance Indicators

SWT Performance report 2021/22

Link to Corporate Strategy	Full definition	Target 2021/22	Quarter 2	Quarter 3	Direction of Travel since Q2	Denominator	Year to date	Numerator	Year to date
Transparent & Customer Focused	% of complaints responded to in 10 working days	90%	83%	78%	↓	Total number of complaints received	885	Number of complaints responded to within 10 working days	689
	% of FOI requests responded to in 20 working days	75%	92%	92%	↔	Total number of FOI requests received	276	Number of FOI responded to within 20 working days	254
	% of calls to Deane Helpine answered in < 60 seconds	90%	95%	95%	↔	Total number of calls to Deane Helpine in the month	276884	Number of calls answered in under 60 seconds	262981
	Average call wait time (secs) for the last month	60 secs	177	164	↑				
	Cumulative percentage of the amount of Council Tax collected*	97%	61.22%	88.14%	↑	Total amount of Council Tax to be collected by the 31st March	£109,781,506	Amount of Council Tax collected in the year so far	£96,756,671
	Cumulative percentage of the amount of Business Rates collected*	95%	52.79%	79.86%	↑	Total amount of Business Rates to be collected by the 31st March	£48,427,894	Amount of Business Rates collected in the year so far	£38,675,650
	Average processing times of new Housing Benefit claims	19 dys	15.40	15.28	↑	Number of new Housing Benefit claims received	419	Total number of days	6404
	Average processing times for changes in circumstances for Housing Benefit claims	9 dys	4.58	4.71	↓	Number of new Housing Benefit Change of Circumstances received	5652	Total number of days	26618
	% of Licensing applications process within required timescales	90%	90%	91%	↑	Number of licensing applications processed	1065	Number of licensing applications responded within timescales	971
	Sickness Absence (average days sickness per employee)	7.2 dys	3.27	5.3	↔	Total working days lost for all employees (cumulative)	3102.5	Number of FTE staff	585
	Staff Turnover	< 12	5.35	7.35	↔	Total number of staff	585	Total number of leavers	43
An Enterprising Council	Forecast budget variance for General Fund	£0	£0	-£620k	↓				
	Forecast budget variance for Housing Revenue Account	£0	+£566k	+£354k	↑				
	Forecast level of uncommitted reserves for General Fund.	£2.4m	£4.793m	£5.863m	↑				
	Forecast level of reserves for Housing Revenue Account.	£2m	£2.493m	£2.708m	↑				
	On target for Commercial Income Generation	£2.9m	Yes	Yes	↔				

Link to Corporate Strategy	Full definition	Target 2021/22	Quarter 2	Quarter 3	Direction of Travel since Q2	Denominator	Year to date	Numerator	Year to date
Environment & Economy	% of reported fly tipping incidents responded to within 5 working days	80%	81%	82%	↑	Number of fly tipping incidents	640	Number of fly tipping incidents reponded to within 5 days	525
	% of service requests for street cleansing actioned within 5 working days	85%	91%	89%	↓	Number of service requests for street cleansing	938	Number of service requests actioned within 5 working days	838
	% of major planning applications determined within 13 weeks or within agreed extension of time **	75%	100%	100%	↔	Total number of major planning applications received	12	Total number of major planning applications determined within 13 weeks or agreed extension	12
	% of minor planning applications determined within 8 weeks or agreed extension of time **	65%	81%	80%	↓	Total number of minor planning applications received	232	Total number of minor planning applications determined within 8 weeks	185
	% of other planning applications determined within 8 weeks or an agreed extension of time **	80%	88%	86%	↓	Total number of other planning applications received	712	Total number of other planning applications determined within 8 weeks or an agreed extension	611
	% of planning appeals that have had the decision overturned	33%	33%	33%	↔	Number of appeals received	51	Number of appeals where the decision is overturned	17
	% Play area inspections completed to schedule	100%	100%	100%	↔	Play areas to be inspected	1323	Inspections carried out	1323
Homes and Communities	Income collected as a % of rent owed excluding arrears brought forward	98.30%	100.05%	99.90%	↓				
	Number of families in B&B over 6 weeks (position at the end of the quarter)	0	1	0	↑				
	Average re-let time in calendar days (key to key)	44 dys	52.7	54.9	↓	Total Number of dwellings let following void process	286		
	% of housing dwellings with a valid gas safety certificate (LGSR)	100%	100%	100%	↔	Total number of dwellings requiring a valid gas safety certificate	4480	Total number of dwellings without a valid gas safety certificate	0
	% of communal areas with a Fire Risk Assessment (FRA) in place and FRA Review complete (where applicable)	100%	100%	99.72%	↓				
	Completion of housing emergency repairs within 24 hours	100%	99.9%	99.9%	↔	Total number of emergency housing repairs	2085	Total number of emergency housing repairs completed in 24hrs	2084

The column titled Direction of Travel, shows whether performance has improved, worsened or is similar to the last report.

↑ Performance has improved

↓ Performance has got worse

↔ Performance is similar

* The current figures appear well below target, but these are cumulative totals.

** The planning indicators included in this report are calculated using nationally prescribed definitions to ensure performance is consistently reported and to allow for benchmarking and comparisons. The indicators calculate timescales upon completion. Due to the current issues with Phosphates, there are a number of applications which are held in abeyance, the details of which are available here: https://www.somersetwestandtaunton.gov.uk/planning/phosphates-on-the-somerset-levels-and-moors

APPENDIX 2

Average Call Waiting Times

Background

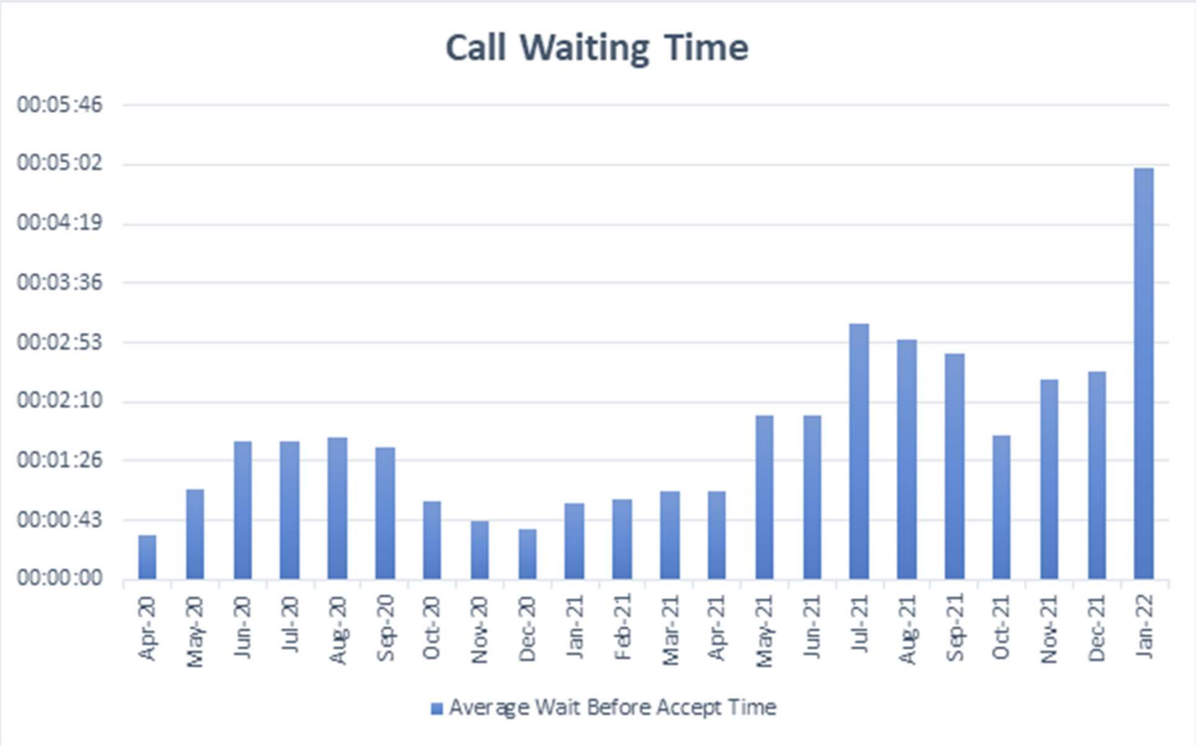
The indicator measures the length of time it takes one of our Customer Services Team to answer a call once the customer has listened to the initial recorded options and selected an appropriate queue.

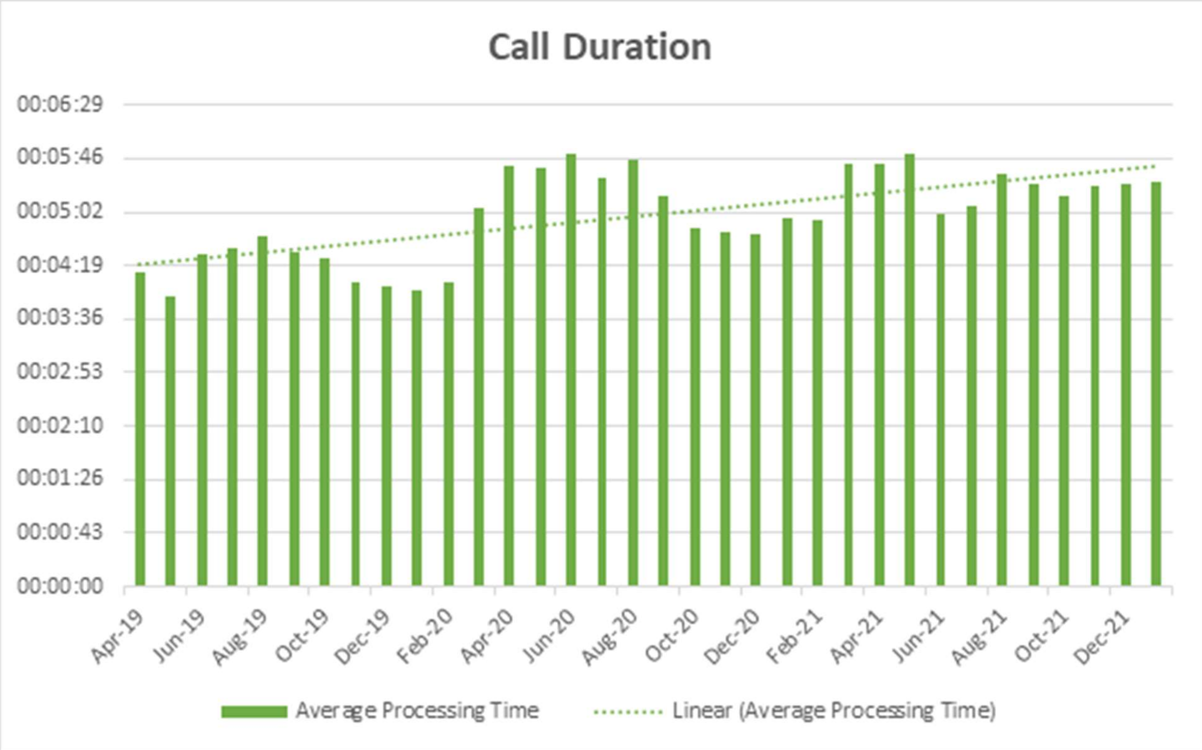
Our target is to answer all calls within 60 seconds. This is an ambitious target when compared with many other organisations where it is not uncommon to be waiting longer than 5 minutes. There is a clear relationship between the number and length of calls and the levels of staff resourcing required to maintain an answer rate of 60 seconds or below.

We have largely managed to meet this target since the current Customer Services team and approach was implemented. There are periods of the year when we are busier, March and April tend so see us receiving more calls due to Council Tax and Business Rate bills, garden waste renewal letters etc.

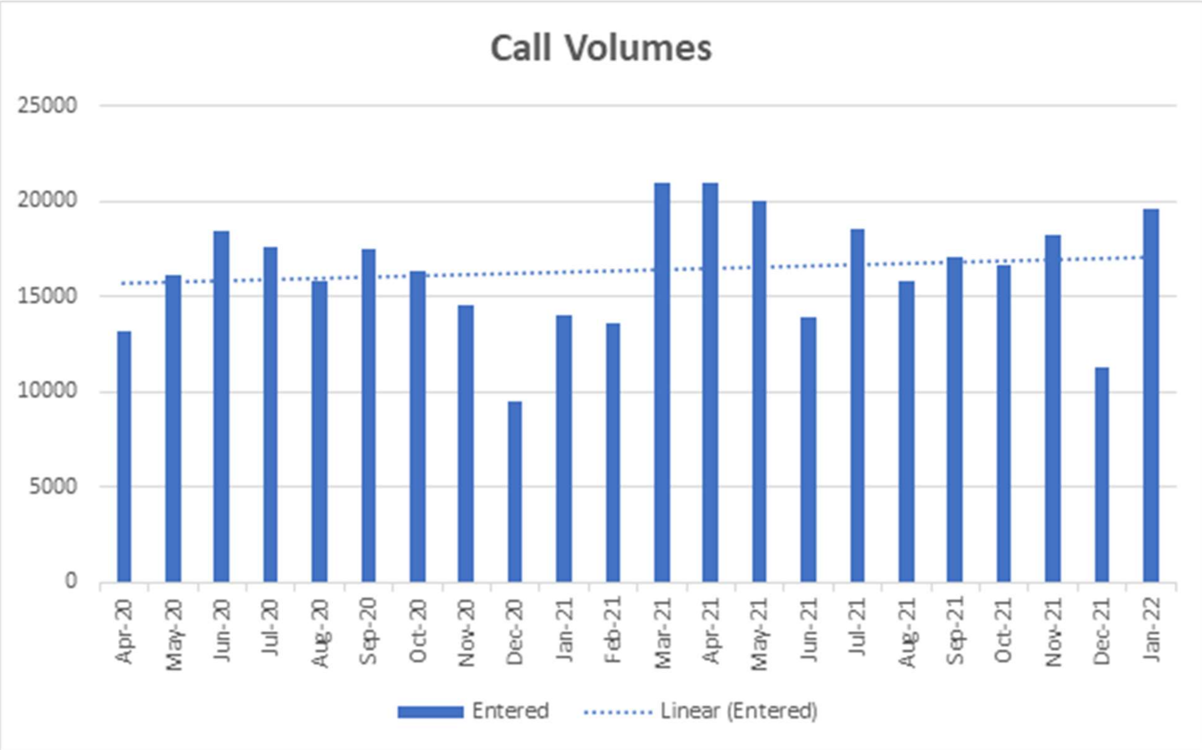
The current position

During the 2021/2022 Financial year we have missed the target of 60 seconds for most months. The performance figures for each month are detailed below.





Call Duration
00:06:29
00:05:46
00:05:02
00:04:19
00:03:36
00:02:53
00:02:10
00:01:26
00:00:43
00:00:00
Apr-19
Jun-19
Aug-19
Oct-19
Dec-19
Feb-20
Apr-20
Jun-20
Aug-20
Oct-20
Dec-20
Feb-21
Apr-21
Jun-21
Aug-21
Oct-21
Dec-21
Average Processing Time
Linear (Average Processing Time)



Call Volumes
25000
20000
15000
10000
5000
0
Apr-20
May-20
Jun-20
Jul-20
Aug-20
Sep-20
Oct-20
Nov-20
Dec-20
Jan-21
Feb-21
Mar-21
Apr-21
May-21
Jun-21
Jul-21
Aug-21
Sep-21
Oct-21
Nov-21
Dec-21
Jan-22
Entered
Linear (Entered)

Call data analysis

We have undertaken detailed analysis of the call data we hold to try an understand why this is happening. This analysis indicates that:

- Call volumes have increased – call volumes in 2021 have been higher than in 2020. The overall trend of call volumes mapped over the past 2 years indicates that volumes are increasing.
- Call duration has increased – the length of calls each month in 2021 is higher than the previous average. The average has increased from 265 seconds to 326 seconds per call. Whilst this change appears small this equates to an additional 12 hours of work per day.

We have identified a range of factors which we believe are impacting on call volumes, call duration and our capacity to answer calls within the target time. The key message is that there is no single reason or simple answer. The factors are summarised below:

- Organisation wide we are now operating again at pretty much full capacity following the Covid crisis. This means, for example, that we have recommenced things such as our full recovery activities for Revenues and Benefits, miscellaneous income etc.

In addition the public are now expecting us to be operating largely as normal. All of this generates calls and some services will be dealing with backlogs that developed as a result of the Covid restrictions.

- Waste collection issues – over the summer and autumn we received significantly increased numbers of calls due to the disruption to waste collection.
- Following the waste disruption we introduced the Recycle More program which increased call volumes
- There has been a general increase in the length of calls. This is both a good and a bad thing. In some cases, as with waste, it indicates problems that are simply taking longer to deal with. However, this also indicates that our customer champions are increasingly able to deal with more at the first point of contact i.e. the calls are longer because they are sorting the issue for the customer rather than passing the call to the back office.
- Channel shift – we have, through necessity during the Covid crisis, channel-shifted many of our customers to the telephone who would previously have visited our offices. This is good news in respect of moving them to a more cost-effective way of dealing with them. However, our area offices are now starting to re-open which requires us to pull staff away from the phones to man the various front desks, which obviously reduces our telephone answering capacity. Footfall at all of our offices is low.
- Staff turnover – Over the last three months we have seen a number of our most experienced staff move on to other roles within the Council. We are recruiting to minimise the gap this causes but it takes time to recruit and train new staff.
- Experience Gap – With the staff turnover we've experienced a skills gap, especially in areas that require experience such as Council Tax and Repairs.

Actions being taken

We are taking immediate actions to alleviate the problem and also identifying longer term actions. Action is already underway through the Customer Experience Programme to identify areas for improvement, and we are using some of the findings from the programme to identify changes.

In the latter part of last year we identified that we had a key risk relating to staff welfare. Ongoing high call volumes backed up by increasingly frustrated customers has an impact on the resilience of the staff. This is likely a driver for the increased number of staff moving to other teams.

In preparation for Recycle More and to provide additional call handling capacity we recruited additional, temporary resource into the team to help manage the demand and waste calls were handled well. We have retained several of these agency workers to cover the staff who have moved to other teams.

We have also been working closely with the Housing team to improve the customer experience by increasing the number of cases Customer Champions can deal with at first point of contact and to provide an escalation route to resolve issues that would otherwise become complaints.

We have used the data we collected to analyse our resourcing requirements. In part this involves reviewing if we have sufficient staff with the right skills to answer the anticipated volume of calls. However, we are also looking at other changes we can make e.g. improvements to our website layout and web forms in order to increase the amount of self-service.

APPENDIX 3

Risk Scoring Matrix

Impact

Risk Impact/Severity The impact of the threat being realised is defined as:

	Score	Impact	Definition
Very Low	1	No impact	No notable impact identifiable
Low	2	Minor	Affects only one group of stakeholders, with minimum impact
Medium	3	Significant	Affects more than one group of stakeholders, with widespread but short-term impact. May attract the short-term attention of legislative/regulatory bodies
High	4	Major	Affects more than one group of stakeholders with widespread medium-term impact. Attracts the medium-term attention of legislative/regulatory bodies
Very High	5	Catastrophic	Medium to long term impact on performance and delivery of services. Affects all groups of stakeholders, with a long-term impact. National impact with the rapid intervention of legislative/regulatory bodies

Risk Likelihood

The likelihood of the threat being realised is expressed on a scale of 1-5, using the definitions below

	Score	Likelihood	Definition
Very Low	1	Rare	May occur in exceptional circumstances
Low	2	Possible	Risk may occur in the next 3 years
Medium	3	Likely	The risk is likely to occur more than once in the next 3 years
High	4	Almost certai	The risk is likely to occur this year
Very High	5	Certain	The risk has occurred and will continue to do so without action being taken

Appendix 4 Key Business Risks

REF	Risk details			Current score			Action summary		
	Name	Summary of the risk (cause) / What is the impact?	Date added	Imp.	Prob.	Total	Owner	Mitigation plan development status	Mitigation plan implementaton status
CR11	Cyber attack	Cause - Cyber Attack Impact - Potential for financial, legal and reputational damage or that we are targeted and locked out of essential systems.	Jun-20	4	4	16	Sean Papworth	G	G
CR23	Landlord Safety Checks	Cause: Failure to comply with Landlord Property Safety Compliance requirements. Impact: Regulatory failure, failure to comply with the law, incident causing injury or death, negative PR, and financial loss (compensation and / or fine)	Mar-21	4	4	16	Ian Candlish	G	A
CR28	Rough Sleeping Provision	Cause:Not able to continue Canonsgrove provision for a further two years and / or inability to find sufficient additional accommodation in time Impact: could result in 'return to streets' for those currently housed and lead to criticism from MHCLG, the public and poor reputation	Jan-22	4	5	20	Simon Lewis	A	A
CR29	Delay in Recycle More	Cause: Delay in rollout of Recycle More Impact (risk): Significant financial risk as savings delivered by the scheme would not be made	Jun-21	5	3	15	Stuart Noyce	G	G
CR32	Data breach with paper records	Cause: Through the information projects we have greatly improved our management of information, especially digital records through our switch to SharePoint online and associated retention schedules. The focus on this area was to safeguard the future. Nest pase will be a review of the the current paper estate to reconcile and audit that there is compliance under the retention periods Impact: This leaves us open to data breaches and fines for keeping information beyond agreed retention periods.	Jan-22	4	4	16	Alison North	A	A

Green = key actions identified & mitigation plan in place	Green = mitigation actions on target or completed
Amber = key actions identified but plan not fully developed	Amber = mitigation actions behind target, but impact not significant
Red = key actions NOT identified & NO plan in place	Red = mitigation actions significantly behind target

Appendix 5 Corporate Issues

REF	Issue details					
	Name	**Summary of the issue**	**Date added**	**Owner**	**Mitigation plan development status**	**Mitigation plan implementaton status**
CI 9	Phosphates	Management of phosphate levels in Tone catchment, particularly regarding impact on planning applications.	Nov-20	Alison Blom Cooper	A	R
CI 12	System Reconciliation	Work is underway by finance officers and the CIL/S106 team to reconcile system entries. Whilst there is a current discrepancy there is no financial loss to the authority.	Nov-21	Alison Blom Cooper	To be determined once the issue has been fully assessed	To be determined once the issue has been fully assessed
CI 14	Health and Safety Improvement Programme	Low maturity health and safety management systems leading to increased risk of injury, reputational damage, legal challenge and financial loss.	Oct-21	Sean Papworth	G	A

Green = key actions identified & mitigation plan in place	Green = mitigation actions on target or completed
Amber = key actions identified but plan not fully developed	Amber = mitigation actions behind target, but impact not significant
Red = key actions NOT identified & NO plan in place	Red = mitigation actions significantly behind target

Report Number: SWT 38/22

Somerset West and Taunton Council

Executive – 16 March 2022

2021/22 General Fund Financial Monitoring as at Quarter 3 (31 December 2021)

This matter is the responsibility of Executive Councillor Henley, Corporate Resources

Report Author: Emily Collacott (Lead Finance Business Partner and Deputy s151 Officer)

1 Executive Summary

1.1 This report provides an update on the projected outturn financial position of the Council's General Fund (GF) for the financial year 2021/22 (as at 31 December 2021 forecast).

1.2 The position this year continues to be significantly affected by the ongoing impact of COVID and the pace of economic recovery. This is particularly noticeable with parking income which is projected to remain £2m below the base budget for this year. The economic situation is also affecting the pace of delivery in some areas, which is resulting in deferred costs into next financial year. Despite the financial pressures, through management of spend and an increase in reported underspends this quarter it now appears it will not be necessary to utilise the budget volatility reserve set aside to underwrite risk this year. Officers continue to monitor risks and uncertainties but present the latest projections as reasonable forecast assumptions at this stage.

1.3 The Council remains financially resilient and continues to forecast adequate reserve balances at this stage. This is important as reserves provide added security when risks are high, the financial strategy relies on reserves to help balance the budget in 2022/23, and further financial pressures are expected in respect of the transition to a unitary authority as reflected in the proposed 2022/23 budget.

1.4 The General Fund **Revenue Budget** forecast is currently projecting an underspend of £3.204m for the current year, but with proposed budget carry forwards of £2.014m for costs slipping into next financial year and a transfer to capital financing of £570k. Taking these into account the net underspend is projected to be £620k. It is prudent to utilise such an underspend if still reported at year end to reduce the contribution from General Reserves to fund 2021/22 costs, which is currently budgeted to be £2m.

1.5 The total approved **Capital Budget** is £165.016m. Of this, the profiled budget spend for 2021/22 is £79.4m with a current forecast net underspend of £1.729m being reported. We are projecting £8.3m of slippage into next year mainly due to £2.9m on regeneration site delayed due to Phosphate remediation issues, £0.9m on Coal Orchard due to materials and labour shortages, £1.5m on Firepool as a result of phosphate issues together with the rescheduling of the Trenchard Way intersection by Somerset County Council Highways, £0.5m due to delays on the SWP depot works and £0.7m on car park improvements now scheduled for 2022/23.

1.6 The unearmarked **General Reserves** balance is currently £5.843m. The projected balance at year end is £5.863m which will reduce to £4.488m based on future commitments, which is £1.661m above the current recommended minimum balance.

1.7 The General Fund **Earmarked Reserves** closing balance is currently projected to be approximately £27m. This is projected to reduce to £14m by March 2023 based on commitments for next year.

2 Recommendations

2.1 This report is to be noted as the Council's forecast financial performance and projected reserves position for 2021/22 financial year as at 31 December 2021.

3 Risk Assessment

3.1 Financial forecasts are based on known information and projections based on assumptions. As such any forecast carries an element of risk. The current forecasts included in this report are considered reasonable given the extra element of risk around COVID and based on experience it is feasible the year end position could change. It is common for underspends to emerge during the last quarter, reflecting an optimism bias within previous forecasting. Managers have already significantly revised forecasts during Q3 which should reduce the likelihood of further material variances being reported at year end. However, experience shows that managers' optimism on spending assumptions can be overstated. There may also be matters beyond the Council's control that affect the final outturn position.

3.2 Salient in year budget risks are summarised in section 9 in this report. The Council manages financial risk in several ways including setting prudent budgets, carrying out appropriate monitoring and control of spend, operating robust financial procedures, and so on. The Council also holds both general and earmarked reserves which include contingencies to manage budget risk.

4 Background and Full details of the Report

4.1 This report provides the Council's General Fund forecast end of year financial position in March 2022 for revenue and capital expenditure, as at 31 December 2021.

4.2 The regular monitoring of financial information is a key element in the Council's Performance Management Framework. Crucially it enables remedial action to be taken in response to significant budget variances, some of which may be unavoidable. It also provides the opportunity to assess any consequent impact on reserves and the Council's Medium Term Financial Plan.

4.3 Members will be aware from previous experience that the position can change between 'in-year' projections and the final outturn position, mainly due to demand-led service costs and income levels and where actual costs and income can vary from initial estimates and assumptions. The budget monitoring process involves a detailed review of the more volatile budgets and a proportionate review of low risk/low volatility budget areas. Budget Holders, with support and advice from their finance business partners, update their forecasts on a monthly basis based on currently available information and knowledge of service requirements for the remainder of the year. As with any forecast there is always a risk that some unforeseen changes could influence the position at the year-end, and several risks and uncertainties are highlighted within this report. However, the following forecast is reasonable based on current information.

5 General Fund Revenue Budget 2021/22 Forecast Outturn

5.1 The Council's General Fund is currently forecasting an overall net underspend of £3.204m (17.1% of £18.7m Net Budget). The main reasons for this are shown in table 2 below. The forecast shows a significant increase in the forecast underspend reported at Quarter 2 which was an underspend, before carry forwards, of £437k. The forecast net expenditure has therefore reduced by £2.767m since Q2 and the detail is included below.

5.2 The forecast remains volatile and subject to change. It includes a significant number of assumptions about demand for services and the timing of planned spend to meet service objectives. The level of uncertainty is still increased this year as the continuing impact of COVID and the pace of economic recovery is not yet certain. There has been an immediate impact on service costs and income, for example a significant reduction in parking income due to lock down measures and sustained changes in usage. The Government has so far provided emergency additional funding of £813k, which is included in our budget. We have also claimed grant to partly offset the loss of income from fees and charges for the first quarter of the year.

5.3 As previously reported, despite the reported pressures and uncertainties summarised in this report, the Council is currently resilient to estimated losses this year. This financial strength is a direct result of the being able to reallocate reserves last year to support economic recovery in this financial year.

5.4 The following table presents a summary of the revenue budget and current forecast outturn for the year by directorate.

Table 1: General Fund Revenue Outturn Summary 2021/22

	Original Budget	Virement	Current Budget	Outturn Forecast	Variance	
	£'000	£'000	£'000	£'000	£'000	%
Development and Place	2,230	1,040	3,271	2,743	-528	-16.1%
External Operations & Climate Change	8,282	2,347	10,629	9,229	-1,399	-13.2%
Housing & Communities	3,028	233	3,261	3,113	-87	-2.7%
Internal Operations	9,324	868	10,192	9,980	-212	-2.1%
Senior Management Team	544	0	554	563	9	1.62%
Provision for staff pay award (not yet agreed)	0	0	0	303	303	100.0%

	Original Budget	Virement	Current Budget	Outturn Forecast	Variance	
	£'000	£'000	£'000	£'000	£'000	%
Net Cost of Services	**23,419**	**4,488**	**27,907**	**25,994**	**-1,913**	**-6.9%**
COVID General Grants	0	-506	-506	-1,349	-843	166.6%
Investment Properties	3,407	-1,254	-4,662	-4,662	0	0.0%
Interest and Investment Income	-202	445	243	-360	-603	-248.0%
Expected Credit Losses	0	0	0	0	0	0.0%
Transfers to Earmarked Reserves	1,665	-1,265	400	400	0	0.0%
Transfers from General Reserves	-1,160	-912	-2,071	-2,071	0	0.0%
Capital and Other Adjustments	-1,602	-951	-2,553	-2,359	194	-7.6%
Net Budget	**-18,714**	**-45**	**18,759**	**15,593**	**-3,165**	**-16.9%**
Funding	-18,714	-45	-18,759	-18,798	-39	0.2%
Variance	**0**	**0**	**0**	**-3,204**	**-3,204**	**-17.1%**
Proposed Carry Forwards (Not yet approved) – See Section 6					**2,014**	
Proposed Transfer to Capital Financing Reserves (Full Council 24 February 2022)					**570**	
Forecast Variance Net of Proposed Carry Forwards/Transfer to Capital Financing					**-620**	

5.5 A summary of the forecast outturn position is summarised per directorate below.

Development & Place:

5.6 The Development and Place directorate has a current net expenditure budget of £3.271m in 2021/22, which plans to deliver a range of services and projects including:

- Strategy and policy development
- Planning services including Local Plan development, Development Management applications processing and enforcement
- Economic development
- Town centre regeneration
- Heritage at Risk projects
- Major Capital Projects for regeneration purposes and where possible to generate a return to the Council
- Commercial investment (investment properties budget is reported 'below the line')

5.7 The directorate is currently forecasting a net underspend of £528k for the year, largely derived from vacancies and a difficultly in recruiting to key roles.

5.8 The directorate's budget volatility and forecast has been managed via robust contract and financial / budget management by budget holders.

Table 2: Development & Place Forecast Variances as at Q3

Department Notes	Q3	Q2	Q1
	Variance £'000		
Strategy and Policy: Primarily driven by £166k of local plan fee budget release (spend expected to be in 22/23), £40.5k planning policy fees/hired services budget release, £49.6k vacancy savings and £20k of Wellington Station funding (spend expected in 22/23), £1k of subsistence/subscriptions/mileage budget releases. Partially offset by unbudgeted spend/forecast spend of £6.4k on job adverts, £2.2k on IT equipment for new starters, £2.5k for professional subscriptions.	-265	-155	-55
Planning Obligations: Vacancy savings	-9	-100	0
Phosphates: Savings due to 2 x FTC staff employment c9 months into the budget period. The remainder of the contract costs are budgeted in 22/23. Due to the issues with recruitment the operating cost budget will not be fully spend in 21/22 so £100k has been requested for carry forward to 22/23.	-182	-82	0
Planning: The service has struggled to recruit to vacant posts resulting in higher agency backfill costs (£39k). This variance also relates to budgeted grant income (£20k) that is not expected and other overspends on operational costs (mainly IT equipment & licences and Somerset Ecology fees (£32k)).	96	90	59
Major & Special Projects: Following a review of establishment, vacancy savings have been included in the forecast of £81k. In addition, feasibility consultancy fee budgets of £57.3k have been released. This has been partially offset by spend on Heritage of £3.7k (boards/site inspection fees/legals), legal fees of £0.5k, general staff costs of £0.3k and premises insurance £0.8k.	-133	-138	0
Other Minor Variances	-35	-42	-7
Total	**-528**	**-427**	**-3**

External Operations and Climate Change:

5.9 The External Operations and Climate Change directorate has reported current net expenditure budget of £10.629m in 2021/22, which plans to deliver a range of services and projects including:

- Climate change strategy development and Carbon Neutrality and Climate Resilience (CNCR) action plan implementation
- Asset and property management for general fund assets
- Regulatory services such as environmental health and licensing
- Service resilience and emergency planning
- Open spaces and street scene
- Client for major contracts including waste, building control, leisure, street cleansing
- Harbours, coastal protection, and flood management
- Cemeteries and crematorium
- Car parks

5.10 The directorate has reported a current forecast net underspend for the year of £1,399k as at the end of quarter 3.

5.11 The headline for the Directorate is to look beyond the car park income figure to the improved performance in most of the other business areas of the Directorate. Specifically, income from the Assets team and Bereavement services. As a team we continue to manage our workforce and ensure we adapt to provide resources at the point of need. This Q3 report shows a significant movement in forecast position, which is linked in part to reconciling those planned works which will be delivered in 2021/22 and those which fall into 2022/23. The nature of large-scale works.

5.12 Car Parking income is significantly down on the 2019/20 pre-pandemic level used to benchmark the income figure for 2021/22. In tracking income, it is broadly one third down on where it was pre-pandemic. That activity will be tracked through the year, in setting a budget for 2022/23 the income figure for car parking will need to reflect the known activity for 2021/22.

Table 3: External Operations and Climate Change Forecast Variances as at Q3

Department Notes	Q3	Q2	Q1
	Variance £'000		
Major Contracts: Major Contracts includes the following areas; Leisure, Waste, Building Control, Street Cleansing and Fleet Management. Following a fleet review and the introduction of a new fleet contract, the service is forecasting a £220k underspend. There is £370k in maintenance which has been ear marked for the replacement roof at Wellington Sports Centre. This work has been programmed for 2022/23. Waste contract costs are forecast to be less than budget. This contract is exposed to cost volatility and therefore the budget is set with some risk.	-721	-147	0
Street Scene / Open Spaces: It is requested to carry forward £100k for works to Hankridge Pond due to weather conditions delaying the project. £100k for the works to the bandstand in Vivary Park and £30k for Vivary Park footpath project. These were 2021/22 supplementary budgets funded from reserves. These works have been programmed for 2022/23. Forecast savings across fees and hired services and vehicle fuel. Salary savings due to active vacancy management.	-451	-306	-47
Asset Management: Forecast underspend across building costs and maintenance. This is due to reduced usage of council buildings and the service being unable to deliver all the programmed maintenance works. It is requested to carry forward £100k for the maintenance at Stogursey Wall and £14,250 for the installation of energy efficient heating in Market House. These were 2021/22 supplementary budgets funded from reserves and works have now been programmed for 2022/23. New lettings, completion of leases earlier than expected and proactive recovery of proportionate costs had led to an increase in income levels. This variance is subject to some risk from outstanding allocation of costs via the Open	-1,003	-598	-247

Department Notes	Q3	Q2	Q1
	Variance £'000		
Contractor system. Budgets across Assets are being realigned accordingly following another iteration of budget setting.			
Public Health: This variance is due to the cost of staff re-directed (and not backfilled) onto COVID-19 activities being fully funded through the Community Outbreak Management fund creating an underspend. There are also salary savings across the service due to staff vacancies. It is requested to carry forward £15k for the seagull control programme work. This was a 2021/22 supplementary budget funded from reserves. Due to change in legislation work was delayed, meaning that the spend will likely fall into next financial year.	-75	-35	-54
Licensing: Updated projections for income evidence related to both general and taxi licensing have identified a likely shortfall for this year.	62	47	47
Bereavement Services: This is a demand led service where the income budget is estimated each year. The current forecast is an over recovery on income.	-262	-151	-184
Parking: The parking income baseline budgets were maintained at historic levels as part of budget process, with a known risk. The current forecast income loss for the year due to ongoing fall in demand, mainly due to COVID-19 lockdown restrictions, is £2.107m. This has been calculated using both 2020/21 and 2019/20 data and reflects a forecast 36% reduction in income. £390k has been claimed through the COVID Income Compensation Scheme for 71% of losses for April to June 2021. £155k from the COVID grant has also been allocated to help offset this income loss. The remainder can be offset from directorate and corporate underspends. £230k maintenance ear marked for the car park improvement project, programmed to take place in 2022/23.	1,599	1,911	1,937
Climate Change: Full Council agreed a one-off budget for 21/22 for further tree planting across the district. The Climate Change Team are working with a partner organisation to identify suitable areas for planting. It is forecast that the majority of planting will take place in next financial year, therefore it is requested to c/fwd £100k. There is also a forecast £480k c/fwd request from the CNCR budget, this is to meet some significant commitments to key projects that will run into next financial year. Some assumptions have been made when calculating this figure, therefore the carry forward request is subject to change.	-580	0	0
Private Sector Housing: Variance is due to a forecast loss in HMO licence income. Project work has been delayed.	75	47	28
Other Minor Variances	-43	-52	18
Total	**-1,399**	**716**	**1,498**

Housing & Communities:

5.13 The Housing and Communities directorate has a current net expenditure budget of £3.261m in 2021/22, which plans to deliver a range of services and projects including:

- Housing options include accommodation and support for homelessness and rough sleepers including the ‘everyone in’ priority due to COVID
- Housing strategy development
- Housing enabling, including affordable and rural housing
- Community resilience services such as CCTV, public safety and community engagement
- The service also manages council housing and supported housing services through the Housing Revenue Account which is accounted for separately.

5.14 The directorate has reported a current forecast net underspend of £87k at the end of quarter 3.

5.15 Whilst we are currently reporting some variances, we are expecting some volatility particularly in our homelessness service as a legacy of the COVID restrictions and in the knowledge that patterns of substantial community hardship are already starting to become apparent. We have some ability to manage the financial impacts of this by using earmarked reserves of specific Government funding, however we will need to keep this under close review. There is also substantial pressure on our resources to deliver our ambitions for single homeless customers and our need to decant the Canonsgrove facility.

Table 4: Housing & Communities Forecast Variances as at Q3

Department Notes	**Q3**	**Q2**	**Q1**
	Variance £’000		
Community Resilience: This underspend relates to members of staff who have been seconded with no backfill and the completion of the final audit of the Cuckoo Meadow scheme has identified that funds (c£25k) were not drawn down in prior years to cover costs incurred by authority.	-55	0	0
Minor Variances	-31	16	5
Total	**-87**	**16**	**5**

Internal Operations:

5.16 The Internal Operations directorate has a current net expenditure budget of £10.192m in 2021/22. This delivers a range of support services and corporate projects, as well as budgets for a range of centrally held corporate costs. The main services and projects delivered within this directorate include:

- Customer Services including call-handling, front of house, Deane Helpline and Emergency Response Team
- Council Tax and Business Rates administration and income collection services
- Housing benefits and local council tax support administration
- Income control and collection from customers (‘Accounts Receivable’)
- Payments to suppliers (‘Accounts Payable’)

- Corporate strategy, corporate performance, and business intelligence
- Operational support and digital mailroom
- Finance and procurement services
- Corporate Services including Communications and Engagement, People Management including HR and Payroll, Corporate Health and Safety, ICT services
- Corporate governance including Committee administration and Elections services
- Internal Change programmes and projects

5.17 The directorate is currently forecasting a net underspend of £212k at the end of quarter achieved through vacancy savings and ICT operational service management efficiencies. A large proportion of the underspend has been generated by greater administration grant for Housing Benefit administration something which is outside of the control of officer forecasting.

5.18 The Revenues underspend includes the late start of the enforcement project due to other operational pressures. This underspend will be carried forward to complete the project. The delay resulted from our having to hold back the secondment of two staff from the Customer Services team to enable them to continue to provide support in call answering through the rollout of Recycle More.

Table 5: Internal Operations Forecast Variances as at Q3

Department Notes	Q3	Q2	Q1
	Variance £'000		
ICT: There is a £21k underspend identified in salaries due to in year vacancies. In addition, the service has managed to identify savings of c£29k to date by rationalising ICT network circuits, replacement of equipment and removing third party support costs. There has been a risk around the BT charges for Deane Helpline - due to a new redirect service which has incurred additional costs. Negotiations were made with BT to reduce the cost per call down, which has now been implemented. However, until this was agreed we continued to incur the higher charges.	-71	-99	-53
Benefits: This underspend results from receiving a greater amount of administration grant for administering Housing Benefit and Council Tax Support than we had originally budgeted for. The grant is to ensure we have sufficient funding to adequately resource the administration of Benefits behalf of the DWP. The DWP require us to undertake an increased amount of review work on claims this year. We may need to utilise some of this budget underspend later in the year to ensure we have sufficient resourcing to deliver to the required DWP standards. In additional the Benefits team have administered and received separate funding outside of the Benefits budget to deliver the Test & Trace payments scheme. We have transferred some staffing costs to be covered by the Test and Trace funding. Due to in year efficiencies through automation we have managed to keep abreast with most of the benefits administration work and the Test & Trace work hence the underspend forecast prediction.	-128	-134	-87

Department Notes	Q3	Q2	Q1
	Variance £'000		
Revenues: Part of the underspend is due to over recovery on court cost income due to catching up from last year. Bulk debt write off over 10 years is currently being done. There is a risk this may affect court cost income. The 2022/23 budget assumes that £99k is carried forward to fund the enforcement project as it didn't start until November 21. An additional £22k has now been requested due to further project slippage.	-245	-125	0
Governance: There are additional costs of £100k for the deputy monitoring officer together with costs of a T&P Liaison and Scrutiny Officer post plus an estimate of £20k for Community governance review offset by other staff underspends due to in year vacancies.	128	87	266
Customer Services: We are forecasting a £66k overspend across the Visitor Centre, Deane Helpline and Customer Services areas. This is predominantly due to a one off correction in historical payments to some members of staff following a review of their anti-social hours enhancement entitlements. This is partially offset by an increase in income of £10k. The Customer Services function is due to meet budget. Additional Agency costs required to cover additional call volumes due to the Waste disruption over the summer and the expected increase in demand due to the launch of Recycle More has been covered by existing vacancies. The Taunton Visitor Centre has experienced a significant reduction in events and travel bookings over the last six months. As the visitor centre income is based on commission sales this loss in income comes with a corresponding reduction in expenditure.	66	60	0
People / HR: The £100k vacancy saving target has now been allocated across directorates against staff underspends. There are staffing and training budget savings within the HR service that are being offset by overspends due to legal costs, compensation payments and additional iTrent costs.	65	73	92
Shared Support Service Charges: the proportion of shared support staff servicing the Housing Revenue Account (HRA) has been reviewed and updated to reflect current allocation of time and this has now been allocated out to the services it relates to for the Qtr3 position.	0	170	0
Other Minor Variances	-27	-7	-9
Total	**-212**	**25**	**209**

Senior Management Team (SMT)

5.19 The SMT has a current net expenditure budget of £554k in 2021/22. This budget line holds the costs of the Chief Executive and four directors, a contingency to support strategic priorities in-year, and funding approved to support Stronger Somerset business case development and related costs.

5.20 A very minor variance to budget is forecast at the end of quarter 3.

Pay Award 2021

5.21 The staff pay award has been estimated at 1.75%, reflecting the employers' final offer. The pay award has not yet been accepted by the unions, and therefore not yet implemented. The 2021/22 approved budget assumed a 0% pay award, consistent with the Government's proposals for civil service pay, therefore any pay increase presents a budget pressure in year. A provision for estimated costs of £303k across General Fund services based on 1.75%. Following feedback at Corporate Scrutiny Committee on the Q1 report this has now been shown as a separate line (rather than against SMT) in the summary table 1 above, and will be reflected across all service budgets once settlement is reached and implemented.

Other Costs, Income and Reserve Transfers

5.22 As well as budgets allocated to directorates for the delivery of services, several budgets are reported 'below the line' as centrally held/corporate items.

5.23 For 2021/22 this includes accounting for additional emergency COVID grant funding that has been received to mitigate additional costs and income losses due to national and local restrictions. This area also includes items such as:

- Investment properties net income
- Other interest costs and income
- Accounting provisions for Expected Credit Losses (commonly known as bad debt provisions)
- Capital accounting adjustments including capital debt repayment, revenue financing of capital costs, and transfers to and from capital reserves
- Transfers to and from general and earmarked revenue reserves

5.24 A net underspend / income surplus of £1.291m is currently forecast as at the end of quarter 3, predominantly due to estimated income loss grant funding from Government and a more favourable interest payable and investment income position.

Table 6: Forecast Variances as at Q3

Department Notes	Q3	Q2	Q1
	Variance £'000		
COVID General Grants: £507k of the current COVID grant budget of £813k is being used to offset overspends on Leisure and Waste Services leaving £307k of this grant unallocated in 2021/22. A carry forward request has been put forward for £135k to fund the leisure contract deferred savings and £172k to fund the waste contract pressures in 22/23 due to COVID 19. The SFC compensation is only running until end of June 2021. The claim has been submitted and the estimated compensation from income loss is £415k, this mainly relates to carparking. New burdens grant of £120k was received in December 2021.	-843	-550	-430
Investment Properties: Commercial Investment income expected to be £69k higher than budgeted on new properties as per 24th Feb Council Report. This is offset by income from legacy properties	0	60	0

Department Notes	Q3	Q2	Q1
	Variance £'000		
being £69k lower than budgeted due to a £15k rent shortfall and increased landlord repair costs relating to rooves/gutters etc and scaffolding requirements plus a £9k provision for deposit refunds.			
Interest Payable and Investment Income: After a volatile and difficult year for treasury investment performance shaped by the pandemic, recovery has been excellent. SWT's good performance is from strategic investments. We have received 4.5% income from strategic pooled funds in year. It means the income return from the total investment portfolio is 1.5% which, in terms of current money market investment returns, is particularly healthy. Advantage has been taken of internal borrowing (available from cashflows used for unspent monies for service-delivery, balances for emergency and contingency reserves and monies from other commitments with a time lag before payments are made). Commercial Investments have occurred later than originally forecast together with slippage in other capital expenditure, which has reduced the borrowing periods within the current financial year. Attention has leaned more towards taking short-term borrowing in place of longer-term borrowing, creating greater flexibility on the approach to a new Somerset unitary authority. Meanwhile, current economic indicators (e.g. inflation) and market interest rate expectations remain particularly volatile, so substantial variations should be expected in the final outturn on borrowing costs.	-603	-221	-305
Net Transfers from Earmarked Reserves: The budget volatility and risk reserve is not required in year.	0	-517	-1,145
Capital and Other Adjustments: The overspend of £194k relates to an increase in the minimum revenue provision compared to original budget estimate.	194	194	80
Other Minor Variances	-39	-39	25
Total	**-1,291**	**-1,073**	**-1,775**

5.25 The Budget Volatility and Risk Reserve was created to underwrite the higher than usual risks within budget estimates. For example, the parking income base budget was not reduced in 2021/22 but the risk was known and covered by this reserve. The current outturn forecast for this year indicates that the expected shortfall of c£2m in parking income has been covered in part by grants from Government and then fully offset by other in-year underspend/savings. The S151 Officer recommends that the £2.4m is reprioritised as in-year budget risk is now vastly reduced (a) with £2m used towards financing the 2021/22 capital programme through additional revenue contribution (RCCO) and (b) £0.4m being transferred to General Reserves. Using £2m for capital financing represents a prudent measure to support financial sustainability by reducing future MRP and interest costs and reducing debt refinancing risk. The General Fund Revenue Budget and Capital Estimates 2022-23 report being presented to Full Council on 24 February 2022 includes this recommendation.

6 General Fund Proposed Carry Forwards

6.1 Whilst reviewing the predicted outturn position the following potential carry forwards of budget have been identified totalling £2.584m. Of these £982k relates to carry forwards that have been assumed in the 2022/23 budget proposal being presented to Full Council on 24 February 2022. If all of the carry forwards approved at the end of the financial year this would effectively roll forward this spending approval into next financial year, leaving a net underspend of £620k.

Table 7a: Carry Forward Requests included within the 22/23 Budget Proposals

	£'000
Local Plan Feasibility: As a result of team vacancies and Unitary the spend in this area has been delayed. Interviewing has been completed to fill roles and this will mean some spend will be incurred in 2021/22 but not as much as was anticipated. In addition, we are awaiting the Draft Order for Local Reorganisation which will set out the timeline for the adoption of a local plan for the new authority. This c/f is anticipated to fund budget pressures in the 2022/23 budget setting report.	94
Phosphates: Part of the costs relating to the 21/22 supplementary budget funded from reserves/carry forwards from 20/21 will fall into 22/23 due to a delay in recruitment. This c/f is anticipated to fund budget pressures in the 2022/23 budget setting report.	82
Revenues Enforcement Project: This project start date was delayed until Nov 21. Budget required for staffing in 22/23.	99
Leisure Contract: To fund a forecast 22/23 budget pressure arising due to COVID-19 and to be funded from the remaining COVID grant in 21/22.	135
Wellington Sports Centre: A new roof replacement has been programmed during 2022/23. This budget will be used to fund the capital cost of this so that further borrowing is not required.	370
Somerset Waste Partnership: to fund forecast 22/23 budget pressure due to COVID-19 from the remaining COVID grant in 21/22.	172
Footpath Maintenance: Works programmed to continue into 22/23.	30
Sub-Total	**982**

Table7b: Further requests to carry forward not currently included in the 22/23 budget proposals

	£'000
Local Plan Feasibility: An initial £94k was flagged to be carried forward to the 22/23 budget, this is remaining spend within the same budget and is recommended to also be carried forward.	71
Phosphates Consultancy: This was a 21/22 supplementary budget funded from carry forwards from 20/21. Due to the evolving nature of the phosphates work and the fact that there has been a delay in recruiting staff (roles filled in late Nov) budget spend has been delayed with the requirement to role further funds forward to 22/23.	100
Revenues Enforcement Project: This project start date was delayed further which means more cost will slip into 22/23 that wasn't included in the 22/23 staffing budget	22
Seagull Control Programme: This was a 21/22 supplementary budget funded from reserves. Due to changes in legislation this work will be delayed and will fall into next financial year.	15

	£’000
Tree Planting: This was a one-off budget for 21/22 to further tree planting across the district. The Climate Change Team are working with a partner organisation to identify suitable areas for planting. It is forecast that the majority of the planting will take place in next financial year.	100
Market House: The heating repair and maintenance works have been delayed due to listed building consent being required.	14
Hankridge Pond Work: This was a 21/22 supplementary budget funded from reserves. Works have been delayed and cannot take place during winter meaning that the spend will fall into next financial year.	100
Vivary Park Bandstand: There are some subsidence issues requiring structural investigation works which will delay actual refurbishment works into 22/23.	100
Stogursey Wall: Work is in progress and will continue into 22/23.	100
CNCR: To meet significant commitments to key projects that will run into next year, such as Phase 2 of EV charging point strategy, nature recovery projects, installation of solar PV.	390
Sub-Total	**1,012**

Table 7c: Request for new Item

	£’000
Wellington Station Feasibility: Work to date has been paid for by SWT & Mid Devon as well as part funded by DfT. The overall project will now be funded by Network Rail, but there is the likely requirement for additional feasibility works by SWT in Mar/Apr 22. There is funding in 21/22 to facilitate this work, which is requested to be carried forward.	**20**

Table 7d: Request to transfer to capital financing

	£’000
Car Park Improvement Project: Car park and Asset maintenance underspend. Identified revenue contribution to capital, to help fund the Car Park Capital Improvement Project of £480k. With a further £90k from the CNCR budget.	570

6.2 Carry Forwards for items up to £150k can be approved by the S151 Officer, which would follow consultation with SMT and portfolio holders. Carry Forwards for items above £150k require Executive Committee approval.

7 General Fund (GF) Reserves

Unearmarked Reserves

7.1 The opening general reserves balance as at 1 April 2021 is £7.914m.

7.2 Approved allocations from general reserves are shown in the table below. Within the 2022/23 budget setting report is it recommended that a supplementary budget in 2021/22 of £1m for additional debt repayment budget; return £0.4m from the Budget Volatility and Risk Earmarked Reserve in 2021/22 and the 2022/23 budget proposals include a contribution of £1.375m for LGR costs.

7.3 The net underspend position after the carry forward requests is £620k. The expectation is that this amount would be returned to General Reserve hence reducing the amount required towards the 2021/22 budget.

Table 8: GF General Reserve Balance

	Approval	£000
Balance Brought Forward 1 April 2021		**7,914**
2021/22 Original Budget Transfer From Reserve	Council – 18/02/21	-1,160
Supplementary Budget - Local Poll	Council – 04/05/21	-86
Supplementary Budget - Phosphates	Executive – 21/07/21	-200
Supplementary Budget - Health & Safety	Executive – 21/07/21	-126
Supplementary Budget - Parks & Open Spaces	Executive – 21/07/21	-100
Supplementary Budget - Asset Management	Executive – 21/07/21	-150
Supplementary Budget - Asset Management Compliance	Executive – 21/07/21	-100
Supplementary Budget - Revenues Service Capacity	Executive – 21/07/21	-130
Supplementary Budget - Project Management Resources	Director/S151 – 15/07/21	-19
Current Balance		**5,843**
Recommended Supplementary Budget – Debt Repayment (subject to approval Full Council 24/2/2022)	Full Council – 24/2/22	-1,000
Recommended Return from the Budget Volatility and Risk Earmarked Reserve (subject to approval Full Council 24/2/2022)	Full Council – 24/2/22	400
Balance After Approvals		**5,243**
Forecast – Q3 Projected Underspend net of Proposed Carry Forwards and Reserve Transfers		620
Projected Balance 31 March 2022		**5,863**
Planned Use of Reserve in 2022/23 for LGR		-1,375
Projected uncommitted balance		**4,488**
Recommended Minimum Balance		2,400
Projected Balance above Minimum Reserve Balance		2,088

7.4 Although reserves are currently projected to be above the minimum reserves balance, Members are advised that significant financial risks remain not least the transition to the unitary council and the need to ongoing financial sustainability measures in future. It is strongly recommended by the S151 Officer that reserves are maintained above the recommended minimum to provide flexibility and resilience in this context.

Earmarked Reserves

7.5 The General Fund Earmarked Reserves brought forward balance for 2021/22 is £33.8m. This includes a £14.8m Business Rates S31 Grant reserve created in 2020/21 to set aside grant from Government that will be needed to mitigate the Collection Fund Deficit in the 2021/22 budget predominantly but also the spread of deficit over 3 years where required. The net budgeted/approved and projected transfers from earmarked reserves in 2021/22 is currently £6.525m.

7.6 The following table details those reserves with balances greater than £500,000.

Table 9: General Fund Earmarked Reserves

	Opening Balance 1 April 2021 £'000	Budgeted/ Approved Transfers £'000	Projected Transfers £'000	Closing Balance 31 March 2022 £'000
2020/21 Business Rate Holiday S31 Grant	11,695	-11,118	4,905	5,482
2020/21 Business Rate Losses S31 Grant	3,081	-999	0	2,082
Covid Additional Relief Fund (CARF) S31 Grant	0	0	1,162	1,162
Business Rates Volatility	5,375	415	0	5,790
Investment Risk	3,673	-673	0	3,000
Investment Assets Sinking Fund	0	500	0	500
Budget Volatility & Risk (transfer subject to approval Full Council 24/2/2022)	2,400	0	-2,400	2,400
Commercial Investment Financing Fund	0	2,173	0	2,173
General Carry Forwards	2,112	-2,112	1,308	738
Garden Town Fund	870	-68	0	802
Economic Development Initiatives	769	0	0	769
Asset Management	687	0	400	1,087
Community Housing Grant (ring-fenced)	533	0	0	533
Other Smaller Balances	2,648	-18	0	2,630
Total	**33,844**	**-11,900**	**5,375**	**27,318**

8 General Fund (GF) Capital Programme

8.1 The current Capital Programme Budget is £165.016m in total (see **Appendix A**). This consists of £5.151m of new schemes approved in February 2021 (for £3.117m in 2021/22 and £2.034m in 2022/23), plus £153.899m of previously approved schemes from prior years.

8.2 This also includes in-year supplementary budgets for Development & Place of £2.258m for Future High Street schemes approved by Full Council on 7 September 2021, £2.0m for Phosphates approved by Full Council on 5 October 2021 and £400k restoration to Toneworks fully funded by a Historic England grant approved September 2021.

8.3 For Housing & Communities a supplementary budget of £380k for the Single Homeless Strategy approved by Full Council on 5 October 2021 and a return of £522k to realign funding to match budget for the disabled facilities grants as approved by the Executive on the 15 September 2021.

8.4 In addition, the following were approved under delegated authority: £433k CIL payments to Parishes, £150k for electrical vehicle charging points, £80k for Finance System licences and £50k for Watchet Cleeve Hill.

8.5 There are also capital works of £821k under S106 obligations mainly consisting of Norton Fitzwarren play pitches and play areas. The Section 151 Officer has approved supplementary capital budgets for each of the S106 schemes to represent the spend commitment and match funding held.

8.6 The Council plans to finance this investment through Capital Receipts, Capital Grants, Revenue Funding and Borrowing (see **Appendix B**).

8.7 The General Fund Capital Budget relates to schemes which are estimated to be completed over the next four years. The current annual profiling of approved budget is summarised in **Appendix C.**

8.8 Financial performance to date against this profiled spend for this financial year can be found below and in **Appendix D** with an update from each directorate provided below. Overall, the Council is currently forecasting a carry forwards of £8.337k and net underspend against profiled budget for 2021/22 of £1.729k.

8.9 **Development and Place:** Capital Funding is provided for Development activity and Property Investment Activity. These budgets are governed via the Directorate and Programme Boards before being reported to Full Council. The slippage is mainly as a result of the phosphate related planning issues preventing progress on a proposed development site (£2.9m), Coal Orchard delayed by supply and labour shortages, and Phosphate related revision to the development plan on Firepool, off set by higher than expected CIL funded purchase of the Comeytrowe Primary School site. The underspend is primarily as a result of a saving on the Commercial Investment programme which completed £1.056k under budget.

8.10 **External Operations and Climate Change:** The Capital programme spans a diverse range of activities that in part span several financial years. The Directorate has a robust programme management system to ensure the capital spend is tracked and drawn down in a timely manner. The current forecast for this financial year is slippage of £1.793k which is due to cost of depot works for Recycle More likely to fall into 2022/23, Car Park improvements programmed into 2022/23, new Fleet Contract, delays on Blue Anchor in obtaining approval from the Marine Management Organisation and on the Wellington Leisure Centre quotations for works higher than budget resulting in re-assessment of the options. The underspend of £310k is mainly related to savings on the Fleet contract and Compliance costs being revenue and not capital costs.

8.11 **Housing and Communities:** The capital programme has been updated to reflect the Single Homelessness and Rough Sleeper Accommodation Strategy & Delivery Plan passed by full council on 5th October. The strategy identifies the demand for additional accommodation, splits this down by specific need, and puts in place an end-to-end process of interventions, from early help through to tenancy support. The delivery plan looks at the accommodation and support requirements and identifies how these may best be delivered, whether that is through partner providers (preferred) or whether this is through direct intervention by SWT. RSAP grants are front-loaded and therefore we plan to use this first and our Better Care Fund has slipped to next year

8.12 **Internal Operations:** Capital funding is profiled against technology projects including infrastructure upgrades to support cyber security improvements, finance system upgrades. Annual PC refresh upgrades and alarms for the lifeline service are also profiled here. Capital funding has also been allocated to support change programmes that have realigned the digital delivery programme and service improvement & efficiency programmes. The current forecast is an underspend of £105k for budgets that are no longer required.

8.13 **Hinkley:** The Hinkley funded projects saving related to projects that are complete.

8.14 **S106 Schemes:** The S106 projects relate to schemes on which costs have been incurred in the current year as per the obligations under the S106 agreements.

9 General Fund - Risk and Uncertainty

9.1 Budgets and forecasts are based on known information and the best estimates of the Council's future spending and income. Income and expenditure over the 2021/22 financial year are estimated by budget holders and then reported through the budget monitoring process. During this process risks and uncertainties are identified which could impact on the financial projections, but for which the likelihood, and/or amount are uncertain. The Council carries protection against risk and uncertainty in several ways, such as insurances and maintaining reserves. This is a prudent approach and helps to mitigate unforeseen pressures.

9.2 The following general risks and uncertainties have been identified:

a) **Year-end Adjustments:** There are certain items that are not determined or finalised until the financial year-end. For example, the final assessment of provisions required for bad debts and final allocations of support service recharges. These can result in potentially significant differences to current forecasts.

b) **COVID 19:** Although work continues to identify as much as we can the impacts of COVID, there could still be short, medium and long term impacts to both income and expenditure which have not yet been identified.

c) **Unitary Council:** The Secretary of State has announced his decision on the future of local government in Somerset and has chosen the "One Somerset" option put forward by the County Council. This means there will be one new council for Somerset replacing the existing five councils in April 2023. The costs of implementation will be significant and will bring significant additional demand on officers to support the process with potential additional capacity required.

d) **Fluctuation in demand for services:** We operate a number of demand-led services and the levels of demand do not always follow a recognisable trend. We therefore have to caveat the forecasts in these areas to account for fluctuations.

e) **Forecasting Assumptions:** It is conceivable that, whilst budget holders are optimistic that they will spend all their budget, experience shows an increase in underspends often reported in the last quarter of the financial year. The pace of spending may also reduce as capacity and delivery of priorities is affected by local government structural change.

f) **Job Costing Charges via Open Contractor (OC):** The project lead is thoroughly reviewing and improving the efficient and accurate operational use of OC. The ability of affected services to accurately forecast their outturn position on job costs apportioned via OC remains at risk until improvements are fully implemented, although officers are working through ways to mitigate this issue in the interim.

g) **Pay Award:** The budgets have been set based on 0% pay award for 2021/22 following the Government's announcement in respect of public sector pay restraint. However pay negotiations for local government are still being undertaken. The current forecast estimates a 1.75% pay award increasing direct staffing costs by c£478k (£303k GF / £175k HRA).

h) **Landlord Property Compliance:** A review of all compliance areas against every property for which Somerset West and Taunton Council is responsible has largely been undertaken. The compliance works required following this review are currently being planned, procured and delivered. Whilst additional budget provision has been added for 2021/22 the full extent of the financial pressure remains uncertain as more information is gathered.

i) **Asset Management**: The budgets for maintaining our assets do not hold any contingency for significant unforeseen repairs or improvement works. The Asset Management plan is evolving but progress has been, in part, been slowed by staff turnover. Significant budget carry forwards and earmarked reserves supplement the 2021/22 budgets in this area. An example of this would be North Hill, Minehead.

j) **Homelessness:** This is a demand led service supporting a variety of complex needs. This service has received further Homelessness Prevention Grant and Rough Sleeper Initiative Government funding in 2021/22. The position needs to be kept under review pending the delivery of the Homelessness Strategy including the planned decant from the Canonsgrove site.

k) **Revenues & Benefits:** The position on rent allowances/rent rebates could change significantly (approximately £200-£300k) as a result of the recoupment and debt impairment adjustments. We can calculate these at a given point in time but are unable to reliably forecast what these will be at year end as the financial implications are volatile.

l) **IT:** There is a risk around the cost of BT charges for Deane Helpline due to a new redirect service. Negotiations are being made with BT to reduce the cost per call down however if this is unsuccessful there could be increased costs of £63k above the current projection.

m) **New Burdens:** SWT is expected to receive more New Burdens Grant Funding during the year which will increase our revenue income, but the amount is not yet known.

n) **Interest and Investment Income**: There are two aspects impacting on investment returns. The first relates to cashflows, particularly in a year when substantial capital purchases are due to be made which, in turn, adds high risk of variations to budget because of the timing of transactions. Careful management of liquidity and borrowing decisions can, to some degree, mitigate this and produce favourable investment returns and in-year cost of borrowing. The second aspect relates to non-property investment performance. After a volatile and difficult year for investment performance shaped by the pandemic, recovery has been excellent. SWT's good performance is from strategic investments. We have received 4.5% income from strategic pooled funds in year. It means the income return from the total investment portfolio is 1.5% which, in terms of current money market investment returns, is particularly healthy.

o) **Business Rates (Risk):** There are inherent risks and uncertainties within the Business Rates Retention system. The Council's share of business rates funding is directly linked to the total amount of business rates due and collected in the area, which can fluctuate throughout the year and be affected by the result of Rateable Value changes e.g. as a result of Appeals. The highest value risk applies to Hinkley Point B nuclear power station which accounts for almost 20% of the tax base within SWT area. The power station was temporarily shut down for the majority of 2020/21 resulting in a large refund and is currently due to commence decommissioning no later than July 2022. Any earlier shut down or decommissioning could have a material impact on funding.

p) **Business Rates (Issue):** The Government's calculator for Tax Income Guarantee grant included an error. A corrected version was issued after the 2020/21 accounts were closed. The impact of the error is that we over-accrued business rates, TIG income and BRR Pooling Gain by £244,850, which will adversely affect funding in 2021/22 when corrected. This will need to be offset by a transfer from the Business Rates Volatility Reserve.

q) **Council Tax:** This income is under pressure due to the increase in discounts being issued. This will have an impact on the Collection Fund in the current year and future years, which would impact on the General Fund budget in future years through the Surplus or Deficit recovery. Regular review of statistics will be undertaken to monitor the situation.

10 Links to Corporate Aims / Priorities

10.1 The financial performance of the Council underpins the delivery of corporate priorities and therefore all Corporate Aims.

11 Partnership Implications

11.1 A wide range of Council services are provided through partnership arrangements e.g. SLM for leisure services and Somerset Waste Partnership for Waste and Recycling services. The cost of these services is reflected in the Council's financial outturn position for the year.

12 Scrutiny Comments / Recommendations

12.1 This report was considered, and the recommendations supported by the Community Scrutiny Committee on 2 March 2022.

12.2 The main comments and questions were related to:

(a) A number of comments were made about the operation of the car parks including broken barriers, the loss of income including causes of this and usage seen in different car park locations and how the income is used.

In response to how car parking income, it is important to differentiate between on-street and off-street car parking. On-street parking income (charged by the county council) usage is restricted to expenses such as parking management and enforcement, highways management and environmental improvements. Off-street parking income arises from traffic management, and driver usage and compliance. The income is used to cover the costs of providing and managing off-street parking services. This is not ring-fenced income however and if ultimately a surplus arises this can be used for the purposes of any lawful General Fund expenditure. Equally if a deficit arises this must be made good by the General Fund."

(b) A request was made for the total amount of government grants received over the last two years. Officers propose to collate this information at year end to include all grants for 20/21 and 21/22.

(c) A comment was made about the timing and content of the Q3 report vs the Budget Setting Report.

(d) A comment was made with regards to the change in variances presented in the quarterly reports during the year and the trends seen year on year.

(e) Councillors expressed their gratitude to the S151 Officer and the Finance Team for supporting the authority in managing the budgets through difficult and constantly changing circumstances. Councillors also expressed their gratitude to the officers involved investing in commercial assets that are realising c£4m net income.

Democratic Path:

- **Corporate Scrutiny – 2 March 2022**
- **Executive – 16 March 2022**
- **Full Council - No**

Reporting Frequency: Quarterly

List of Appendices

Appendix A	Approved Capital Budget
Appendix B	Capital Financing of Total Approved Budget
Appendix C	Annual Profiling of Approved Capital Budget

Appendix D	Profiled Capital Budget for 2021/22 Vs Forecast Capital Outturn for 2021/22

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Appendix A: General Fund Approved Capital Budget

SWT Capital Programme	Prior Year Slippage	Current Year Approval Feb 2021 Budget Setting for 2021/22	Current Year Approval Feb 2021 Budget Setting for 2022/23	Total Approved Budget	Current Year Supplements	Current Year Returns	Revised Current Year Approved Capital Budget
Development and Place	140,445,197	275,000	300,000	141,020,197	5,055,953	(49,465)	**146,026,685**
External Operations and Climate Change	6,971,579	1,735,360	532,360	9,239,299	200,000	0	**9,439,299**
Housing & Communities	4,110,423	896,620	896,620	5,903,663	380,000	(522,098)	**5,761,565**
Internal Operations	1,515,070	210,000	305,000	2,030,070	80,000	0	**2,110,070**
Hinkley Capital Schemes	856,875	-	-	856,875	0	0	**856,875**
S106 Capital Schemes	-	-	-	-	821,123	0	**821,123**
Total GF	**153,899,144**	**3,116,980**	**2,033,980**	**159,050,104**	**6,537,076**	**(571,563)**	**165,015,617**

Appendix B: Capital Financing Plan of Total Approved Budget

SWT Capital Programme	TOTAL CAPITAL FINANCING	Capital Grants CIL	Capital Grants	Section 106 Agreements	Capital Receipts	General Fund RCCO	Capital Funding Reserve	Borrowing
Development and Place	146,026,685	13,599,022	14,572,533	582,302	745,000	-	-	116,527,828
External Operations and Climate Change	9,439,299	-	5,164,313	-	2,153,720	59,000	-	2,062,266
Housing & Communities	5,761,565	-	4,811,935	455,682	385,446	-	108,502	-
Internal Operations	2,110,070	-	-	-	1,181,900	-	20,000	908,170
Hinkley Capital Schemes	856,875	-	856,875	-	-	-	-	-
S106 Capital Schemes	821,124	-	-	821,124	-	-	-	-
Total GF	**165,015,617**	**13,599,022**	**25,405,656**	**1,859,108**	**4,466,066**	**59,000**	**128,502**	**119,498,264**

Appendix C: General Fund Annual Profiling of Approved Capital Budget

SWT Capital Programme	Total Approved Budget	Capital Spend 2021/22	Capital Spend 2022/23	Capital Spend 2023/24	Capital Spend 2024/25
Development and Place	146,026,685	69,059,446	31,274,129	37,754,966	7,938,144
External Operations and Climate Change	9,439,299	5,598,713	3,840,586	-	-
Housing & Communities	5,761,565	1,852,601	1,760,964	1,089,000	1,059,000
Internal Operations	2,110,070	1,680,418	429,652	-	-
Hinkley Capital Schemes	856,875	856,875	-	-	-
S106 Capital Schemes	821,123	322,293	498,831	-	-
Total GF	**165,015,617**	**79,370,346**	**37,804,161**	**38,843,966**	**8,997,144**

Appendix D: Profiled Capital Budget for 2021/22 Vs Forecast Capital Outturn for 2021/22

SWT Capital Programme	Profiled Capex Budget 2021/22	Expenditure YTD	Forecast Outturn 2021/22	Variance; - underspend + overspend	- Slippage c/f	In Year - Underspend + Overspend
Development and Place	69,059,446	59,919,466	**62,324,553**	(6,734,894)	(5,651,135)	(1,083,759)
External Operations and Climate Change	5,598,713	2,498,650	**3,496,419**	(2,102,294)	(1,792,677)	(309,617)
Housing & Communities	1,852,601	286,020	**1,076,486**	(776,115)	(776,115)	0
Internal Operations	1,680,418	1,422,706	**1,558,176**	(122,242)	(16,935)	(105,307)
Hinkley Capital Schemes	856,875	483,500	**526,585**	(330,290)	(99,990)	(230,300)
S106 Capital Schemes	322,293	267,491	**322,292**	(1)	(1)	0
Total GF	**79,370,346**	**64,877,833**	**69,304,511**	**(10,065,835)**	**(8,336,853)**	**(1,728,982)**

Report Number: SWT 39/22

Somerset West and Taunton Council

Executive – 16 March 2022

2021/22 Housing Revenue Account Financial Monitoring as at Quarter 3 (31 December 2021)

This matter is the responsibility of Executive Councillor Fran Smith, Housing

Report Author: Kerry Prisco (Management Accounting and Reporting Lead)

1 Executive Summary

1.1 This report provides an update on the projected outturn financial position of the Council's Housing Revenue Account (HRA) for the financial year 2021/22 (as at 31 December 2021).

1.2 The current HRA **Revenue Budget** forecast is a projected overspend of £354k.

1.3 The revenue position remains under significant pressure as it continues to be affected by the ongoing impact of COVID and operating within an environment of economic recovery. The service has had a backlog of responsive and planned maintenance and compliance works to deliver. Costs have escalated in terms of materials, staffing, and servicing costs. Future financial pressures are still to be confirmed in terms of staff pay award, income collection, cost of implementing regulatory changes, and the cost of implementing a unitary authority. A thorough analysis of risks and uncertainties facing the HRA has been undertaken and careful monitoring of these will continue for early indications of further financial pressures.

1.4 Whilst best endeavours to forecast with as much accuracy as possible we have seen a historical change in forecasts each quarter and to year end. However, it is essential that control over spending continues to reduce the forecast overspend and maintain adequate reserves.

1.5 Since the Q1 report the housing senior management team have taken steps to better control expenditure, to undertake the capitalisation of some improvement works' costs and to maximise income to try to contain and reverse our overspend position. For example, voids performance is starting to improve, and an additional 50 garages have been let in recent months. Since the Q2 report there has been ongoing movements in the projections in particular some below the line treasury and corporate changes, which have had a mixture of positive and negative impacts on the forecast. The overall trend from Q1 to Q3 is a slightly improved position.

1.6 Members will be aware that budget setting for 2022/23 has been challenging, where some budgets required re-basing especially around repairs and maintenance, and consequently the service wclimateill be pursuing efficiency targets into next financial year and beyond. Whilst steps will continue to be taken to further control our 2021/22 forecast, it is also acknowledged that some solutions will take some time to deliver and that we are operating at a higher operating costs base particularly in the short term which has influenced our in year position.

1.7 There is currently sufficient capacity in general reserves to cover new in-year pressures identified to date and the current forecast outturn position.

1.8 The **unearmarked reserves** are projected to be £2.708m which is £708k above the recommended minimum balance of £2m.

1.9 The **earmarked reserves** opening balance is £1.1m. Of this £1.044m has been returned to general reserves to mitigate in-year budget pressures.

1.10 The HRA **Capital Programme** has a total approved budget of £118m. The profiled budgeted spend for 2021/22 is £29m and this is currently forecast to underspend in the year by £16.257m; £13.332m due to slippage of work into 2022/23 and £2.925m budget to be returned.

2 Recommendations

2.1 This report is to be noted as the HRA's forecast financial performance and projected reserves position for 2021/22 financial year as at 31 December 2022.

3 Risk Assessment

3.1 Financial forecasts are based on known information and projections based on assumptions and reasonable estimates. As such any forecast carries an element of risk. The current forecasts included in this report are considered reasonable given the extra element of risk around COVID and pace of economic recovery and based on experience it is feasible the year end position could change. It is common for further variances to emerge during the last quarter, reflecting an optimism bias within previous forecasting.

3.2 Despite the risks related to forecasting assumptions, it is essential that measures are implemented promptly to ensure the financial resilience of the Housing Revenue Account and adequate reserves are maintained. The current forecast highlights a risk that reserves may fall below acceptable levels by the end of this financial year if the projected overspend outturn position was to increase and further in year financial pressures arise.

3.3 Salient in year budget risks are summarised in section 9 in this report. The Council manages financial risk in several ways including setting prudent budgets, carrying out appropriate monitoring and control of spend, and operating robust financial procedures. The Council also holds both general and earmarked reserves which include contingencies to manage budget risk, though these are low for the HRA.

4 Background and Full details of the Report

4.1 This report provides the Housing Revenue Account (HRA) forecast end of year financial position for revenue and capital expenditure as at 31 December 2021.

4.2 The regular monitoring of financial information is a key element in the HRA's Performance Management Framework. Crucially it enables remedial action to be taken in response to significant budget variances, some of which may be unavoidable. It also provides the opportunity to assess any consequent impact on reserves and the HRA's Medium Term Financial Plan and 30-Year Business Plan.

4.3 Members will be aware from previous experience that the position can change between 'in-year' projections and the final outturn position, mainly due to demand-led service costs and income levels. The budget monitoring process involves a detailed review of the more volatile budgets and a proportionate review of low risk/low volatility budget areas. Budget Holders, with support and advice from their finance business partners, update their forecasts monthly based on currently available information and knowledge of service requirements for the remainder of the year. As with any forecast there is always a risk that some unforeseen changes could influence the position at the year-end, and several risks and uncertainties are highlighted within this report. However, the following forecast is reasonable based on current information.

5 HRA Revenue Budget 2021/22 Forecast Outturn

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

5.2 The Council retains all rental income to meet the costs of managing and maintaining the housing stock, as well as meeting the interest payments and repayment of capital debt.

5.3 The current year end forecast outturn position for the Housing Revenue Account for 2021/22 is a net overspend of £354k. This is a reduction on the projected overspend of £566k reported in Q2 and £610k as reported in Q1, though the outturn position is still of significant concern.

Table 1: HRA Revenue Outturn Summary

	Current Budget £000	Forecast Outturn £000	Forecast Variance £000	Forecast Variance %
Gross Income	-27,668	-27,436	232	0.8%
Service Expenditure	15,374	15,997	623	2.3%
Other Expenditure	12,294	11,793	-501	-1.8%
Total	**0**	**354**	**354**	**1.3%**

5.4 The variances to budget are shown in more detail in Table 2 and following explanations.

Table 2: Summary of Forecast Variances for the Year

	Current Budget £000	Outturn Forecast £000	Q3	Q2	Q1
			Variance £000		

Gross Income:					
Dwelling Rents	-24,951	-24,526	424	291	29
Non-Dwelling Rents	-704	-758	-54	8	6
Charges for Services / Facilities	-1,623	-1,718	-95	-27	-42
Other Income	-389	-434	-44	-2	-2
Sub-Total Gross Income	**-27,668**	**-27,436**	**231**	**269**	**-9**
Service Expenditure:					
Development & Regeneration	219	155	-64	-265	-43
Community Resilience	154	163	9	8	14
Tenancy Management	2,901	3,230	329	54	128
Maintenance	3,429	4,512	1,083	682	354
Assets	1,277	1,045	-232	-137	-53
Compliance	2,317	1,991	-326	438	233
Performance	5,077	4,901	-175	-187	-13
Sub-Total Service Expenditure	**15,374**	**15,997**	**623**	**590**	**620**
Central Costs / Movement in Reserves:					
Revenue Contribution to Capital	-	-	-	-	-
Interest Payable	2,669	2,819	150	-	-
Interest Receivable	-	-358	-358	-	-
Change in Provision for Bad Debt	180	180	-	-	-
Depreciation	7,663	7,370	-293	-293	-
Capital Debt Repayment	1,821	1,821	-	-	-
Movement In Reserves	-39	-39	-	-	-
Sub-Total Central Costs / Movement in Reserves:	**12,294**	**11,793**	**-501**	**-293**	**-**
Net Surplus(-) / Deficit for the Year	**-**	**354**	**354**	**566**	**610**

Income

5.5 **Dwelling Rent Income:** the budgeted income for 2021/22 is £24.951m, which reflects an assumption of 2% void losses and applying a 52-week year. The overall current projections suggest that less income will be recovered than predicted when setting the budget and providing an allowance for voids. The current projection for dwelling rent income is an under recovery against budget of £424k which is largely due to stock reductions related to the North Taunton regeneration scheme and levels of voids. This also includes £62k of write offs during the year so far.

5.6 **Non-Dwelling Rents:** The majority of this variance relates to a projected income in garage rents due to active advertising to fill voids; an increase of c50 rentals has already been achieved.

5.7 **Charges for Services / Facilities:**

5.8 The budgeted income for 2021/22 for the **Service Charge Income for Dwellings** (after discounts have been applied to tenants such as Piper Charge to Sheltered Housing and Extra Care) less an average 2% void loss and applying a 52-week year, is £1.380m. The current projections suggest that c£200k more income will be recovered than predicted when setting the budget and providing an allowance for voids.

5.9 The budget income for 2021/22 for income for **Leaseholder Charges for Services** is £233k. Leaseholds are invoiced a year in arrears. The routine repairs were low due to COVID and lockdown. The major repairs were also lower and capped at £250 this year. In addition to this, following a successful tender, building insurance premiums have now dropped meaning less of a recharge to our customers. Therefore £103k less income was billed to leaseholders.

5.10 The budgeted income for **Meeting Halls** for 2021/22 is £10k. The current projection is that no income will be received due to COVID restrictions preventing this service to be provided. The meeting halls were re-opened at the end of September 2021 and there have been a few bookings but nowhere near the budgeted amount.

Expenditure

5.11 **Development & Regeneration:** The underspend relates to a few posts held vacant for the early part of the year. The delivery of new development projects has not required this resource as the service has focused on establishing a development pipeline. The development pipeline of 342 units is now established and following procurement and planning this resource in the structure will be required as the service increasingly moves into delivery from 2022/23.

5.12 **Tenancy Management:** This area covers lettings, supported housing, rent recovery, leaseholders and other tenancy management support activities. The total current budget is £2.901m and it is forecasting an overspend of £329k. This relates to a number of different areas including (a) an overspend related to the upgrade of the controlled entry systems to flat blocks where we are now incurring expenditure relating to contracts and the maintenance of the systems that are higher than before, (b) an overspend due to increased levels of cleaning in supported housing settings required in light of COVID plus the cost for a range of compliance requirements, (3) an overspend related to a significant increase in activity following the implementation of annual tenancy reviews to identify and help resolve issues (for example house clearance due to hoarding), and (4) an overspend on staffing costs due to additional resource drafted in to help the team manage challenging workloads throughout COVID and backfilling long term sickness.

5.13 **Maintenance**: The overspend relates to the ongoing repairs and maintenance of the housing stock either tenanted or void activity undertaken to ensure our Lettable Standard is met. Whilst this is a very demand led and reactive service based on the needs of the tenants, this service is experiencing an increase in cost pressures as inflation drives up the cost of materials (as seen nationally). The assumed ongoing impact of this pressure is reflected in the rebasing of budgets for 2022/23. This year the team has also incurred additional costs to deliver the backlog of repairs following COVID restrictions.

5.14 **Assets**: The underspend relates to the delivery of the pre-planned maintenance external decorations programme being delayed due to COVID restricting staffing resources, and a number of staff vacancies during the year across the capital investment team.

5.15 **Compliance:** The service is forecasting an underspend of £326k which is due to the validation surveys recently undertaken identifying a range of compliancy areas requiring reduced funding during 2021/22 (e.g. Fire Risk Assessments needing review, rather than a full new survey), as well as reduced expenditure on staffing in the team due to vacancies. We are, however, continuing to maintain and improve on all necessary property safety compliance activities to ensure the safety of our residents.

5.16 **Performance:** Of the total budget of £5m, £3.9m relates to shared costs such as support services, pension deficit, governance leaving £1.1m on operating costs such as staffing, insurance, training, travel, stationery, printing and bank charges, as well as the Tenants Empowerment and Tenants Action Group. The underspend is an updated projection of shared support staff plus a combination of various small overspends offset by part year vacancy savings in the performance team and forecast underspends in both Tenants Empowerment and Tenants Action Group costs.

5.17 **Interest Receivable:** The updated capital spend projections (see section 6 and appendix D) forecast slippage of £13.3m and return of £2.9m. This has impacted the capital financing requirement for the HRA considerably and the update projections suggests that the HRA could receive c£358k of interest income. This is highly dependent on the final capital outturn for the year.

5.18 **Depreciation:** This is the current estimate for depreciation charges for the HRA. These will be finalised at the end of the financial year. Depreciation costs are credited to the Major Repairs Reserve and reinvested in the housing stock through financing of the capital programme.

6 HRA Capital Programme

6.1 The HRA approved Capital Programme is £118.3m. This consists of £13.8m of new schemes approved for 2021/22 plus £104.5m of previously approved schemes in prior years (see **Appendix A**).

6.2 The Council plans to finance this investment through the Major Repairs Reserve, Capital Receipts, Capital Grants, Revenue Funding and Borrowing (see **Appendix B**).

6.3 The HRA Capital Programme relates to in-year works and longer-term schemes that will be completed over the next ten years. The current planned profiled spend is summarised in **Appendix C.** The budget has been profiled to reflect the estimated timing of costs for the approved schemes, with £29.9m profiled to be spent in 2021/22 with the balance of £88.4m projected forward into future years.

6.4 Further information on the three distinct areas of the HRA capital programme and its financial performance to date against this financial year can be found below and in **Appendix D.** It is currently forecast that the programme will underspend against profiled budget for 2021/22 by £16.257m; £13.332m slipping into subsequent years and £2.925m being returned.

6.5 **Major Works**: The approved budget of £14.5m is funded by the Major Repairs Reserve and relates to spend on major works to existing dwellings. New schemes approved for 2021/22 total £8.9m with slippage from the prior year of £5.6m.

6.6 All internal capital programme works were placed on hold during the COVID lockdown periods, and some external works were also delayed, causing budget slippage to occur from the 2020/21 financial year. The level of overall capital programmes to be delivered in 2021/22 was therefore significantly higher to try to catch up and delivering this volume of work was always going to be very challenging. Several of the existing contracts for various programmes were ending and this placed a strain on available procurement resources, compounded by a number of procurement exercises having a lower-than-normal level of interest to tender shown by contractors, leading to delays in commencing works on site. In addition, ongoing Brexit and COVID related disruption to supply chains (shortages and delays of materials) and the labour market (lack of skilled trades) has exacerbated the difficulty of delivering a wide range of capital programmes during the year. Finally, residents self-isolating and anxieties about providing access to their homes to allow works to be undertaken have further delayed programme completions.

6.7 The 2021/22 capital programme includes major programmes such as:

- Kitchens
- Bathrooms
- Air Source Heat Pumps
- Heating improvements
- Insulation and ventilation
- Door entry systems
- External doors
- Fascias and soffits
- Roofing
- Windows

6.8 The current forecast projected spend is £6.184m resulting in an underspend against budget of £8.346m which will fall into subsequent years.

6.9 **Improvements**: The approved budget of £3.8m is funded by the Major Repairs Reserve and relates to spend on improvements to existing dwellings. New schemes approved for

2021/22 total £1.1m with slippage from the prior year of £2.7m.

6.10 As noted in Major Works above, some capital programme works were placed on hold during the COVID lockdown periods causing budget slippage to occur from the 2020/21 financial year and this also affected some improvement programmes. Fire safety improvement works have been prioritised (e.g. programmes of installation of replacement fire doors, and new emergency lighting to communal areas, have commenced on site). However, again the disruption to supply chains and the labour market has caused delays in the commencement of a number of improvement programmes.

6.11 The current forecast projected spend is £2.231m resulting in an underspend against budget of £1.160m which will fall into subsequent years.

6.12 **Social Housing Development Programme:** The approved budget of £100m is for the provision of new housing through schemes such as Phases A-E for North Taunton Regeneration (NTWP), Seaward Way, Oxford Inn, Zero Carbon Affordable Homes and other buybacks to increase the Council's housing stock.

6.13 The new build programme has entered into one contract (Phase A NTWP) and is due to enter into a second contract (Seaward Way) in 2021/22. This will obligate SWT through contract £21m of spend between 2021 and 2024 and SWT will gain 101 new low carbon council homes and a community facility. Both contracts are design and build and therefore provide the council with cost certainty with costs risk primarily borne by the contractors. The service is also bringing forward a new planning application for NTWP phases B and C.

6.14 The project is decanting Phase B and Ci for start on site for early next financial year. Rent loss at NTWP will increase up to 2025/26 at which time additional units, over those demolished, will generate greater income at the point of phase D delivery. Predicted void loss is reflected in the HRA Business Plan and this will continue to be updated with business plan reviews. The decant strategy will decant customers in smaller subphases and retain as many customers within the scheme area through a two-move approach in order to maximise rental income. Some NTWP dwellings will continue to be used for temporary accommodation providing an income to mitigate some rent loss.

6.15 The service will review the delivery timescales and budget for the 61 new build units in the zero carbon affordable homes pilot and Oxford Inn following planning permission which is subject to a requirement to mitigate against phosphates. The garage income from these sites will not be affected by the proposed development until contracts are let for the schemes. Refurbishment schemes at Oake and NTWP Phase E will commence 2022/23 with rent loss being controlled by limiting the number of units under refurbishment to circa four per scheme at any one time.

6.16 Please note that there have been changes to the use of Right To Buy (RTB) receipts which are favourable to SWT and its new build programme. The new rules will increase the subsidy available for new build schemes by circa 10% and reduce the borrowing required for the schemes. All schemes are being future proofed to meet 2030 and 2050 low and zero carbon targets.

6.17 The current forecast projected spend is £5.2m resulting in an underspend against in-year profiled budget of £6.8m. Of this £3.8m slippage will fall into subsequent years due to some delays in schemes commencing and £2.9m will be a budget return as new build schemes are projected to meet RTB 1-4-1 spend requirements instead of purchases.

7 HRA Earmarked Reserves

7.1 The HRA Earmarked Reserves at the beginning of 2021/22 totalled £1.107m (see **Table 3** below). Of this £869k was approved to be returned to General Reserves by Full Council on 5 October 2021 and a further £175k by the Executive on 15 December 2021. The remaining funds have been earmarked to be spent within the next two years.

Table 3: Earmarked Reserves Balances

Description	**Opening Balance 01/04/2021 £000**	**Return to General Reserves £000**	**Projected Balance 31/3/2022 £000**
HRA One Teams	26	-20	6
HRA Social Housing Development Fund	849	-849	0
HRA Hinkley	57	-30	26
HRA Contribution to Change	175	-175	0
HRA Total	**1,107**	**-1,074**	**32**

8 HRA Unearmarked Reserves

8.1 The HRA general (unearmarked) reserves at the start of the year were £2.686m. This is £686k above the minimum recommended reserve level of £2m. Remaining at or above these targets provides financial resilience to in year pressures through volatility and unforeseen cost increases and income reductions.

8.2 General reserves have increased by £1.044m through the return of earmarked reserves that are no longer required for their original purpose (approved by Full Council on 5 October 2021 and the Executive 15 December 2021). However, there are several commitments and pressures for 2021/22 and forecast for 2022/23 that will significantly reduce general reserves if savings cannot be found during the year.

8.3 The current outturn position is forecast to be a net overspend of £354k. If the forecast outturn position does not improve the deficit will reduce reserve balances to £2.708, which is £708k above the recommended minimum balance of £2m. It is essential that control on spending for the remainder of the year continues to reduce the forecast overspend and maintain adequate reserves. If reserves do fall below adequate minimum levels it will be vital that sustainable plans are implemented during 2022/23 to restore balances to acceptable level. Financial pressures this year have demonstrated the potential scale of financial risks, which will almost certainly be exacerbated during the transition to the unitary authority and in an increasingly volatile operating environment. It is vital that costs are managed within annual income totals to ensure ongoing affordability of services.

8.4 **Table 4** below summarises the movement on the HRA unearmarked reserves during 2021/22.

Table 4: HRA Unearmarked Reserves Balance

	Approval	£'000
Balance Brought Forward 1 April 2021		**2,686**
Approved - Released EMRs	Full Council – 05.10.21	869
Approved - Release further EMRs	Executive – 15.12.21	175
Approved – Share of Change	Director 16.06.21	-21
Approved - OC & Supply Chain Project Lead	Director / S151	-19
Approved - Housing Improvement Programme Manager	SMT	-89
Approved - Housing Policy Review	SMT	-20
Approved - Housing Performance Complaints CM	SMT	-19
Approved - Compliance Administrator	SMT	-19
Approved - Building Safety CM	SMT	-25
Approved - Stock Condition Surveyors x2	SMT	-59
Approved - Procurement Support	SMT	-60
Approved - 1.75% Pay Award	Executive – 15.09.21	-175
Approved - Share of Additional H&S Costs	Director	-96
Forecast Balance after current commitments		**3,129**
Projected Outturn - Total variance		-354
22/23 - Housing Policy Review	SMT	-30
22/23 - Housing Performance Complaints CM	SMT	-6
22/23 - Stock Condition Surveyors x2	SMT	-30
Forecast Balance 31 March 2022		**2,708**
Recommended Minimum Balance		2,000
Projected Balance above recommended Minimum Balance		708

9 Risk and Uncertainty

9.1 Budgets and forecasts are based on known information and the best estimates of the housing service's future income and expenditure activity. Income and expenditure over the financial year is controlled by budget holders and then reported through the budget monitoring process. During this process any risks and uncertainties are identified which could impact financial projections, but for which the likelihood and/or amount are uncertain.

9.2 There are certain items that are not determined or finalised until the financial year-end. For example, the final assessment of provisions required for bad debts, and final allocations of support service recharges. These can result in potentially significant differences to current forecasts.

9.3 The current areas of risk and uncertainty being reported include:

9.4 **Year-End Adjustments**: There are certain items that are not determined or finalised until the financial year-end. For example the final allocations of support service recharges and the final assessment of provisions required for bad debts. These can result in potentially significant differences to current forecasts.

9.5 With regards to bad debts, for a significant part of the year we have been unable to issue 'notice seeking possession' as part of our normal early intervention within our rent recovery process (due to eviction not being allowed during the pandemic). Although rent recovery performance is holding up well, this is likely to impact our ability to meet our year end rent recovery target.

9.6 **Staff Pay Award:** The budgets have been set based on 0% pay award for 2021/22 following the government's announcement in respect of public sector pay. However, pay negotiations are still being undertaken. The current forecast estimates a 1.75% pay award increasing direct staffing costs by c£175k. The Executive have agreed in principle that the final pay award will be funded from General Reserves.

9.7 **COVID-19:** The impact of COVID during the last financial year included delays in responsive repairs works (Revenue) and planned major and improvement works (Capital) reducing spend in these areas. The repairs non-emergency backlog is being resolved by recruitment of additional resources for the in-house trade team and by use of external contractors. However, we continue to have difficulty in recruitment of in-house skilled tradespersons for a range of work areas. We continue to carefully monitor and manage progress in this area and keep residents informed in relation to their repair requests.

9.8 The ongoing impact of the pandemic presents a risk to the Housing Service, particularly in terms of revenue collection as well as impact on tenant mental health and wellbeing. We have already seen a drop in inflation rates impacting our future income and expenditure, however another significant risk relates to financial hardship that will result from the impact of COVID, particularly following the ending of government support such as furlough and the current uplift in Universal Credit. The net result is unclear with respect to unemployment however inflation and UC will result in much tighter finances for many households which will impact on their ability to pay rent. Furthermore, there may be an increasing need to invest more in support services for tenant households affected by the impact of COVID. This could present across a range of service demands including increased debt and benefits advice; unemployment support, mental health support; anti-social behaviour intervention, safeguarding and domestic abuse support.

9.9 In addition, there has been substantial increases on a range of construction materials (and this pattern is expected to continue). Also, difficulties in recruitment of construction professional and trades staff for both normal work levels and COVID backlog is leading to salary inflation. Both factors are putting further pressure on several revenue and capital budgets.

9.10 **Repairs & Maintenance**: Overall this is a very demand led and reactive service based on the needs of the tenants. There are also a number of uncontrollable variables associated with this service such as the weather (e.g. cold winters causing burst pipes, roof leaks, etc), condition of properties when returned (e.g. void refurbishments), consumer demand on minor internal / external repairs (e.g. broken door or fence) and the type of repair work required. Market pricing of materials etc can also be volatile with some unit costs increasing in recent months. As such the levels of demand do not always follow a recognisable trend. We therefore caveat the forecasts in these areas to account for fluctuations.

9.11 **Landlord Compliance:** A review of all compliance areas against every property for which Somerset West and Taunton Council has landlord property compliance responsibility has largely been undertaken. The compliance works required following this review are currently being planned and procured. Whilst additional budget provision has been added for 2021/22 the full extent of the financial pressure remains uncertain as more information is gathered.

9.12 **Electrical Compliance:** As noted above, a high number of remedial works have been identified from the electrical inspection condition reports. The majority of this is expected to fall under 'major' works and capitalised. However, an unknown proportion of this will only be 'minor' works and will need to be funded from revenue presenting a potential overspend.

9.13 **Welfare Reform and Universal Credit (UC):** The impacts of Welfare Reform and UC are significant with the number and value of rent accounts in arrears expected to increase considerably. Several mitigations are already in place to help support tenants affected by Welfare Reform and UC such as debt advice, access to discretionary housing payments and an arrears management team with redesigned workflow processes. Welfare Reform and UC may require the Council to revise future income projections as our experience with Welfare Reform and UC develops.

9.14 **Responding to increased stock quality standards:** Changes to the Regulator of Social Housing’s decent home standard as well as higher thermal efficiency standards which are unsupported by additional external grant funding would place an additional burden on HRA resources available for elemental investment in homes. Once the detail is known, we will need to adapt to ensure we continue to maintain stock at the Decent Homes Standard and prepare to meet all the evolving expectations, incorporating the financial impacts into the Business Plan.

9.15 **Building Regulation and Fire Safety:** The Grenfell Tower fire and subsequent Review of Building Regulation and Fire Safety bring several operational and financial risks. These have been mitigated with the increases in revenue and capital budgets approved for 2021/22 for compliance related work. However, the exact costs are currently unclear. There are likely to be other impacts, such as on the repairs budget due to additional work to communal areas, more intensive management of flat blocks and further resilience within teams to respond to the volume and breadth of enquiries. We will need to ensure continued compliance with these statutory requirements.

9.16 **Housing White Paper:** In November 2020 the Government published the Housing White Paper which sets out the changes to how social landlords will operate. It will require several changes to home safety, tenant satisfaction measures, complaints handling, a new inspection regime for social landlords and a strengthened role for the Regulator of Social Housing. Many of the new changes in the white paper have already been mitigated in Housing by strengthening our compliance activities, setting up the new Housing Performance Team to be responsible for communications, performance data and engagement but this will need to be kept under review and self-assessment has begun.

9.17 **Job Costing Charges via Open Contractor (OC):** The project lead is thoroughly reviewing and improving the efficient and accurate operational use of OC. The underlying issues around timing of information and accuracy of coding still remains and the ability of services to accurately forecast their outturn position on charges coming from OC remains low though still largely affected by the demand led nature of the service. Reporting 'work arounds' have been developed to assist budget holders with their forecasting whilst the project progresses.

9.18 **Right To Buy (RTB) Receipts**: This is a government policy that enables tenants to purchase their homes at a discount, subject to meeting qualifying criteria. The receipts allowed to be retained by the Council can now fund up to 40% of new social housing costs and must be used within five years of receipt, following a temporary amendment to the scheme policy from the 1 April 2021. To date, the Council has successfully fully spent all of their retained 1-4-1 receipts within the require timescales resulting in no returns being made to the Treasury/DLUHC.

9.19 Whilst projected spend on new build developments is currently adequate to meet 1-4-1 spend requirements this is dependent on the successful delivery of these social development schemes. There is a risk that progress on new build schemes could be delayed and purchasing houses on the open market is also hindered, both as a direct result of COVID, and may result in funds being return to DLUHC/Treasury.

9.20 **Unitary Authority:** The Secretary of State has announced his decision on the future of local government in Somerset and has chosen the "One Somerset" option put forward by the County Council. This means there will be one new council for Somerset replacing the existing five councils in April 2023. The costs of implementation will be significant and will bring significant additional demand on officers to support the process with potential additional capacity required.

9.21 It is currently unknown what the future potential HRA costs will be because of this decision, and whether these costs will need to be funded using revenue or capital budgets. From a capital perspective the business plan does provide some headroom to allow non-right to buy receipts to be used as flexible capital receipts to fund transformation costs. However, this direction ends on the 31 March 2022 and whilst a statement of intent has been issued by the Government to extend this directive for a further three years, this has not yet been confirmed. Revenue costs of implementation are not currently budgeted and will place additional pressures on the HRA budget and reserves, thus we will need to review planned expenditure and reserves to make this affordable.

10 Links to Corporate Aims / Priorities

10.1 The financial performance of the Council underpins the delivery of corporate priorities and therefore all Corporate Aims.

11 Partnership Implications

11.1 A range of HRA services are provided through partnership arrangements such as MIND, citizen's advice, Inspire to Achieve, Taunton East Development Trust, North Taunton and Wiveliscombe Area Partnership. The cost of these services is reflected in the Council's financial outturn position for the year.

12 Scrutiny Comments / Recommendations

12.1 This report was considered, and the recommendations supported by the Community Scrutiny Committee on 23 February 2022.

12.2 The main comments and questions were related to:

(a) Further information with regards to HSMT action around cost control to maintain and / or reduce the overspend in 21/22.

(b) The current number of void garages and whether SWT HRA is considering the addition of electric charging points to garages.

(c) An explanation of depreciation, how this is calculated and how the funds are used.

(d) A discussion of the relationship between the compliance budgeted underspend and the risk and uncertainty raised within the report.

Democratic Path:

- **Community Scrutiny – 23 February 2022**
- **Executive – 16 March 2022**
- **Full Council - No**

Reporting Frequency: **Quarterly**

List of Appendices

Appendix A	Approved Capital Budget
Appendix B	Capital Financing of Total Approved Budget
Appendix C	Annual Profiling of Approved Capital Budget
Appendix D	Profiled Capital Budget for 2021/22 Vs Forecast Capital Outturn for 2021/22

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Appendix A: HRA Approved Capital Budget

SWT Capital Programme	Prior Year Slippage	Current Year Approval Feb 2021 Budget Setting for 2021/22	Current Year Approval Feb 2021 Budget Setting for 2022/23	Total Approved Budget	Current Year Supplements	Current Year Returns	Revised Current Year Approved Capital Budget
Major Works	5,646,075	8,883,710	-	14,529,785	-	-	**14,529,785**
Fire Safety	1,553,967	202,000	-	1,755,967	-	-	**1,755,967**
Related Assets	30,073	100,000	-	130,073	-	-	**130,073**
Exceptional & Extensive	-	293,500	-	293,500	-	-	**293,500**
Vehicles	347,800	121,000	-	468,800	-	-	**468,800**
ICT	745,598	-	-	745,598	-	-	**745,598**
Aids & Adaptations & DFGs	-	370,000	-	370,000	-	-	**370,000**
Sub-Total Majors & Improvements	**8,323,513**	**9,970,210**	**-**	**18,293,723**	**-**	**-**	**18,293,723**
Social Housing Development	96,203,047	3,830,000	-	**100,033,047**	-	-	**100,033,047**
Total HRA	**104,526,560**	**13,800,210**	**-**	**118,326,770**	**-**	**-**	**118,326,770**

Appendix B: HRA Capital Financing of Total Approved Budget

SWT Capital Programme	TOTAL CAPITAL FINANCING	Capital Grants	Right To Buy (RTB) Capital Receipts	Capital Receipts	HRA Revenue Contribution	Major Repairs Reserve	Other Earmarked Reserves	Borrowing
Major Works	14,529,785	-	-	-	-	14,529,785	-	-
Fire Safety	1,755,967	-	-	-	-	1,755,967	-	-
Related Assets	130,073	-	-	-	-	130,073	-	-
Exceptional & Extensive	293,500	-	-	-	-	293,500	-	-
Vehicles	468,800	-	-	-	-	468,800	-	-
ICT	745,598	-	-	-	-	745,598	-	-
Aids & Adaptations & DFGs	370,000	-	-	-	-	370,000	-	-
Sub-Total Majors & Improvements	**18,293,723**	**-**	**-**	**-**	**-**	**18,293,723**	**-**	**-**
Social Housing Development	100,033,047	470,000	18,524,287	-	-	-	-	81,038,760
Total HRA	**118,326,770**	**470,000**	**18,524,287**	**-**	**-**	**18,293,723**	**-**	**81,038,760**

Appendix C: HRA Annual Profiling of Approved Capital Budget

SWT Capital Programme	Total Approved Budget	Capital Spend 2021/22	Capital Spend 2022/23	Capital Spend 2023/24	Capital Spend 2024/25	Capital Spend 2025/26	Capital Spend 2026/27	Capital Spend 2027/28	Capital Spend 2028/29
Major Works	14,529,785	14,529,785	-	-	-	-	-	-	-
Fire Safety	1,755,967	1,755,967	-	-	-	-	-	-	-
Related Assets	130,073	130,073	-	-	-	-	-	-	-
Exceptional & Extensive	293,500	293,500	-	-	-	-	-	-	-
Vehicles	468,800	468,800	-	-	-	-	-	-	-
ICT	745,598	372,799	372,799	-	-	-	-	-	-
Aids & Adaptations & DFGs	370,000	370,000	-	-	-	-	-	-	-
Sub-Total Majors & Improvements	**18,293,723**	**17,920,924**	**372,799**	**-**	**-**	**-**	**-**	**-**	**-**
Social Housing Development	100,033,047	11,933,318	30,525,739	16,635,980	11,824,610	12,846,700	10,966,880	4,522,260	777,560
Total HRA	**118,326,770**	**29,854,242**	**30,898,538**	**16,635,980**	**11,824,610**	**12,846,700**	**10,966,880**	**4,522,260**	**777,560**

Appendix D: HRA Profiled Capital Budget for 2021/22 Vs Forecast Capital Outturn for 2021/22

SWT Capital Programme	Profiled Capex Budget 2021/22	Expenditure YTD	Forecast Outturn 2021/22	Variance; - underspend + overspend	- Slippage c/f	In Year - Underspend + Overspend
Major Works	14,529,785	1,777,701	**6,183,723**	(8,346,062)	(8,346,062)	0
Fire Safety	1,755,967	(396,523)	**980,000**	(775,967)	(775,967)	0
Related Assets	130,073	16,389	**35,999**	(94,074)	(94,074)	0
Exceptional & Extensive	293,500	(52,364)	**40,000**	(253,500)	(253,500)	0
Vehicles	468,800	0	**468,800**	0	0	0
ICT	372,799	334,248	**372,799**	0	0	0
Aids & Adaptations & DFGs	370,000	60,460	**333,044**	(36,956)	(36,956)	0
Sub-Total Majors & Improvements	**17,920,924**	**1,739,911**	**8,414,365**	**(9,506,559)**	**(9,506,559)**	**0**
Social Housing Development	11,933,318	3,033,623	**5,182,954**	(6,750,364)	(3,825,032)	(2,925,331)
Total HRA	**29,854,242**	**4,773,534**	**13,597,319**	**(16,256,923)**	**(13,331,592)**	**(2,925,331)**

Report Number: SWT 40/22

Somerset West and Taunton Council

Executive – 16 March 2022

Budget Approval – Electric Vehicle Charging Points

This matter is the responsibility of Executive Councillor Dixie Darch

Report Author: Sue Tomlinson, Programme Manager for Climate Change

1 Executive Summary / Purpose of the Report

1.1 In line with the Council's financial regulations, this report seeks to confirm and regularise the capital budget required for the rollout of the Electric Vehicle Charging Points. This project does not require any new funding or borrowing.

1.2 As part of 2021/22 budget monitoring, £150k supplementary capital budget was identified and approved for this project. At the time, the full cost and financing of this project were still being realised.

1.3 The capital costs for the project are now forecast to be £270k, £134k is funded from the CNCR budget and the remainder £136k is secured funding from a successful grant bid with OZEV (Office for Zero Emission Vehicles).

1.4 Full Council approval is required as this now represents two supplementary budget allocations which total more than £250k.

2 Recommendations

2.1 It is recommended that Executive support to Full Council the supplementary capital budget allocation of £120k, making a total of £270k of which £136k is secured funding from OZEV.

3 Background and Full details of the Report

3.1 Somerset West and Taunton Council declared a climate emergency in February 2019 and adopted the Countywide Emergency Strategy in October 2020.

3.2 Electric vehicle charging points were identified as a priority area within the strategy and external consultants WSP were commissioned on behalf of Somerset County Council and the 4 District Councils to produce a Countywide Electric Vehicle Charging Strategy, to help deliver an effective electric vehicle charging network for Somerset.

3.3 The strategy identifies numerous car parks where it recommends the installation of electric vehicle charging points within Somerset West and Taunton and it was adopted in December 2020.

3.4 A project manager within the climate change programme was allocated the project to progress the feasibility of implementing electric vehicle charging points.

3.5 Using the Countywide Electric Vehicle Charging Strategy as a baseline, 9 car parks were identified to be included in the phase one project, these were Belvedere Road, Wood Street and Castle Street in Taunton, North Street in Wellington, North Street in Wiveliscombe, Williton Central, Porlock Central, North Street in Minehead and Swain Street in Watchet.

3.6 Installing charge points in these locations will provide wider access to charging infrastructure across the district.

3.7 Following a period of exploring the market and obtaining budget estimates it was decided to procure the electric vehicle charging points via the ESPO (363) Framework, by direct award contract to SWARCO.

3.8 There were several reasons why the purchase option was chosen they were; Somerset West and Taunton retain control, future expansion would not be limited by exclusion zones, the council would not be tied into long term agreements, planning permission was not required under permitted development rights, integration after unitary would be easier by selecting OCPP (open charge point protocol) compliant products and there was the potential for OZEV funding for 75% of the capital costs.

3.9 Officers applied for and were successful in securing OZEV funding to the value of £136k.

3.10 Installation works started in November 2020 and will be complete during Q1 2022/23, most locations are receiving 2 x 22kw (fast) double headed charge points apart from North Street in Wiveliscombe and Swain Street in Watchet where there will be one.

4 Links to Corporate Strategy

4.1 The electric vehicle charging point project links directly to a number of corporate strategies and priorities.

4.2 Corporate priority ‘Our Environment and Economy’ - work towards making our District carbon neutral by 2030 - deliver projects based on a Carbon Neutrality and Climate Resilience Plan that work toward this goal.

4.3 The Countywide Emergency Strategy, the Countywide Electric Vehicle Charging Strategy, and our own Carbon Neutrality and Climate Resilience action plan.

5 Finance / Resource Implications

5.1 There are no financial implications, other than achieving compliance with the Council’s financial regulations. There is no new funding or borrowing required.

Democratic Path:

- **Executive – Yes (16 March 2022)**
- **Full Council – Yes (29 March 2022)**

Reporting Frequency: Once only

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Somerset West and Taunton Council

Executive – 16 March 2022

Annual Pay Policy Statement 2022/23

This matter is the responsibility of Executive Councillor Cllr Ross Henley

Report Author: Nicky Rendell HR Specialist and Tony Bryant Strategic HR Lead

1 Executive Summary / Purpose of the Report

1.1 Section 38 (1) of the Localism Act 2011 establishes a statutory requirement for local authorities to prepare and publish a pay policy statement for each financial year, approved by Full Council.

1.2 The pay policy statement describes the pay arrangements and policies that relate to the pay of the workforce which serves Somerset West & Taunton Council. The statement describes the arrangements for senior staff and its lowest paid employees.

2 Recommendations

2.1 It is recommended that the Pay Policy statement 2022/23 is approved by Full Council.

3 Risk Assessment (if appropriate)

3.1 Failure to approve an annual pay policy statement would be a breach of the council's statutory duty

4 Background and Full details of the Report

4.1 Section 38 (1) of the Localism Act 2011 requires local authorities to prepare and publish a pay policy statement for each financial year, approved by Full Council.

4.2 The pay policy statement has been drafted for approval in advance of the 31st March 2022 to ensure that the Council complies with the requirements of the above Act.

4.3 The data detailed in the Pay Policy statement reflects the pay award 2021/22. Chief Executive and Chief Officers received a pay award of 1.5% and all other employees received a pay award of 1.75% from 1 April 2021.

4.4 The council recognises the Living Wage Foundation therefore the lowest hourly wage for a current employee is £10.81 per hour.

4.5 The ratios between the senior pay of the Chief Executive, Directors and Assistant Directors and the lowest paid employee all remain the same as the previous year. The mean salary per full time employee is £32,573.82 and the median salary per full time employee is £30,995.00, slight increases on last year's report.

4.6 There have been no updates to pension discretions

5 Links to Corporate Strategy

5.1 The council has a statutory duty to approve a pay policy statement on an annual basis to comply with Section 38 (1) of the Localism Act 2011.

6 Finance / Resource Implications

6.1 There are no finance or resource implications of this report.

7 Legal Implications

7.1 The council has a statutory duty to approve a pay policy statement on an annual basis to comply with Section 38 (1) of the Localism Act 2011. Failure to publish the statement before 31 March 2022 would result in the council being in breach of their statutory duty. The pay policy statement will be published on the council website, once approved by Full Council.

8 Equality and Diversity Implications

8.1 The principles of equal pay have been fully considered in the production of this statement. The pay award will be negotiated at a national level and is applicable to all employees.

9 Scrutiny/Executive Comments / Recommendation(s) (if any – delete if not applicable)

9.1 N/a

Democratic Path:

- **Scrutiny / Audit and Governance Committee – No**
- **Executive – Yes (16/03/2022)**
- **Full Council – Yes (29/03/2022)**

Reporting Frequency: Annually

List of Appendices (background papers to the report)

Appendix A	Pay policy explanations & remuneration of senior staff
Appendix B	Grading structure
Appendix C	LGPS Employers Discretions & Key Pensions policy
Appendix D	Redundancy Policy
Appendix E	Compensation Policy
Appendix F	Flexible Retirement Policy

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Appendix A

1. Background

The Pay Policy Statement is intended to bring together sufficient information about the different elements of the local authority's pay policies to enable local taxpayers to reach an informed view about local decisions on all aspects of pay and reward for employees. It also provides the context for the more detailed financial information that is already published by local authorities under the Code of Recommended Practice for Local Authorities on Data Transparency and by the Accounts and Audit (England) Regulations 2011.

2. Pay Arrangements for 2022/23

This pay policy statement for Somerset West & Taunton Council represents the position on the pay structures and other elements of the remuneration package for staff up to 31 March 2022.

The date detailed within the Pay Policy statement reflects the pay award for 2021/22. Chief Executive and Chief Officers received a pay award of 1.5% and all other employees received a pay award of 1.75% from 1 April 2021.

3. Policy statement

Somerset West & Taunton Council is committed to ensuring transparent, fair and equitable pay and reward arrangements that provide value for money and enable the recruitment and retention of employees with the skills and motivation to deliver high quality services for the council and its communities. The policies that support these objectives are summarised in this document.

4. Scope

The pay statement describes the pay arrangements that apply to the Senior Leadership Team (the senior employees) and the lowest paid employees.

For the purpose of this pay statement **senior employees** are defined as those staffn the top tiers of management; the Chief Executive, 3 Directors, and 11 renumerated at Assistant Director level

The pay and grading of employees, other than senior employees, are currently set using pay structures divided into grades within which there are spinal column points setting the pay rates. Posts are allocated to a pay grade through a process of job evaluation.

The current pay and grading structure for the workforce is set out in the attached Appendix B.

For the purpose of this statement the **lowest paid employees** are defined as follows:

- Those who receive a salary equivalent to Grade D on the Council's pay structure as there are currently no employees paid at Grade C (apprenticeships and casual employees are excluded). The lowest salary currently paid to an employee on the Grade D band as at 31 March 2022 equates to an hourly rate of £10.81 which is above the National Living Wage hourly rate (£8.91 on 1 April 2021, moving to £9.50 from 1 April 2022) and above the Real Living Wage which is currently £9.90 outside of London. This lowest hourly rate is an increase on last year's reported figure of £10.23.

The Council will therefore define the lowest paid employees as those on the minimum pay points as these (apart from apprentices and casual employees) are the lowest hourly rates paid to employees of the Council. The Council has adopted this definition, as it can be easily understood.

Other than the posts set out above as senior employees and recognised apprentices, all posts within the council have been subject to job evaluation to assess the value of the job content and then, subject to that value, have been placed in an agreed grade.

5. Remuneration of senior employees

As part of the annual Pay Policy Statement the Council must state:

(a) The elements of remuneration for each senior employee

(b) The policy for determining the remuneration of senior employees on recruitment.

The Senior Leadership Team are employed on fixed pay points for all posts within the top tiers and therefore remuneration in terms of salary will be fixed on appointment.

Any other elements of remuneration, as set out in Appendix A, that are relevant at the point of recruitment are highlighted accordingly.

The Leader will, after taking independent pay advice from Southwest Councils or similar, recommend the remuneration package on appointment to the above posts to Full Council prior to advertisement of any vacancy. The remuneration package will then have been subject to the approval of Full Council.

(c) How any increases and additions to remuneration for each senior employee are made:

Annual cost of living pay awards are negotiated nationally by the National Joint Council (NJC) for Local Government Services and, where a pay award is agreed, these will be applied to the fixed pay point of the employee.

The Council has the ability to determine certain Local Government Pension Scheme Discretions. The Pension Scheme Discretions which have been adopted by Somerset West & Taunton Council are included in the annual Pay Policy Statement.

The post of Chief Executive is employed on the Terms and Conditions of Employment agreed by the Joint Negotiating Committee (JNC) for Chief Executives and all other senior employees are covered by the Terms and Conditions of Employment agreed by the JNC for Chief Officers, all of which are supplemented by local terms and conditions agreed by Somerset West & Taunton Council as the employer.

(d) The use of performance-related pay for chief officers.

The council does not operate performance related pay schemes for any of its staff.

(e) The use of bonuses for senior employees.

The council does not operate bonus schemes or bonus payments for any ofits staff.

(f) The approach to the payment of senior employees on their ceasing to hold office under or to be employed by the authority

Any termination payments to senior employees on ceasing office will comply with the policies current at that time, which will have been approved by the Full Council of the employing authority. No additional termination payments will be made without the approval of the Executive/Cabinet, this will include any settlement agreements, which may be subject to a confidentiality clause. The current Redundancy Policy and Retirement Policy is included in the Pay Policy statement in the appendices.

Should severance payments for staff exceed £95,000 (effective 4 November 2020), they will be reported to Full Council for approval and in presenting information to Full Council the components of the relevant severance package will be clearly set out. These components may include salary paid in lieu, redundancy compensation, pension entitlements, holiday pay and any bonuses, fees or allowances paid.

(g) The remuneration of senior employees who return to Local Authority employment.

Where the senior employee:

(i) Was a previously employed senior employee who left with a severance payment and applies to return as a senior employee.

Executive/Cabinet approval would be required to authorise re-employment within the authority of a previously employed senior employee who had left with a severance payment and is seeking re-employment.

(ii) Was previously employed by the same authority and applies to return as a senior employee under a contract for services.

Executive/Cabinet will be required to approve any award of a ‘contract for services’ to a senior employee who has previously been employed by the authority.

(iii) Is in receipt of a Local Government Pension Scheme Pension.

If an employee receiving a pension from the Local Government Pension Scheme becomes re-employed, then their pension could be affected. This will apply where the pension in payment arose for a reason that resulted in a strain cost being paid by the employer (e.g. redundancy, interests of efficiency, ill-health, early retirement with consent or flexible retirement). If their pension plus the earnings from their new job is higher than the final pay their pension was calculated on, then their pension will be affected. For every pound that their earnings plus pension exceed previous pay, then their pension will reduce by a pound. This abatement will last for as long as the person exceeds their limit (so either when the new job ends, or they reduce their hours, so their earnings drop down below the acceptable level).

The Chief Executive is the appointed Returning Officer for Somerset West & Taunton Council and receives a fee for County, District and Parish Council and for Parliamentary Election duties. The fee for undertaking this role varies from year to year and is not subject to this policy since fee levels are set regionally and nationally.

6. Remuneration of other employees

As explained in paragraph 5 above, the pay structure for all other employees consists of grades and incremental points set out in the attached appendices. Grades are allocated to jobs through a process of job evaluation which establishes the relative value of different jobs within the workforce. The council uses the Greater London Provincial Council Scheme for job evaluation. Salaries for all employees (including senior employees) are subject to increases agreed under national pay award settlements.

The council’s pay structure creates the basis of the relationship between the pay ofall employees within the scope of the Pay Policy Statement.

The maximum salary for the post of Chief Executive is approximately 6:1 times the maximum salary of the lowest paid employee in the workforce (£126,875/£20,852). This ratio has not changed from last year.

The maximum salary of a Director is approximately 5:1 times the maximum salary of the lowest paid employee in the workforce (£104,291/ £20,852). The ratio has not changed from last year.

The standard salary of an Assistant Director is approximately 3:1 times the standard salary of the lowest paid employee in the workforce (£67,790 / £20,852).

Average salaries:

The maximum salary for the post of Chief Executive is 4:1 times the median FTE salary (£30,995). The ratio has not changed from last year.

The maximum salary for the post of Chief Executive is approximately 4:1 times the mean FTE salary (£32,573.82). The ratio has not changed from last year.

7. Transparency and Publication of Data

The council will publish the Pay Policy Statement on the Somerset West & Taunton Council website alongside other information relating to transparency/open government and this can be found on:

www.somersetwestandtaunton.gov.uk

8. Review

The Localism Act requires councils to prepare and publish a pay policy statement for each financial year. The next statement is due for publication before 31 March 2023.

Appendix A cont - Remuneration to Senior Staff

The Level and Remuneration for each Chief Officer

Post	Statutory Role	Terms and Conditions and JE Status ***	Salary **	Salary Progression	Bonus or Performance related pay	Other Benefits	Pension Enhance-ment in Year
Chief Executive	Head of Paid Service	JNC Chief Executives – Outside of JE	£126,875	No	No	Payment of Professional Subscription *Election payments – Returning Officer Payments relating to LGPS Employer Contributions	No
Director – Internal Operations		JNC Chief Officers – Outside of JE	£104,291	No	No	Payment of Professional Subscription Payments relating to LGPS Employer Contributions	No
Director – Housing		JNC Chief Officers – Outside of JE	£104,291	No	No	Payment of Professional Subscription Payments relating to LGPS Employer contributions	No

Post	Statutory Role	Terms and Conditions and JE Status ***	Salary **	Salary Progression	Bonus or Performance related pay	Other Benefits	Pension Enhance-ment in Year
Director - Development and Place		JNC Chief Officers – Outside of JE	£104,291	No	No	Payment of Professional Subscription	No
Assistant Director Finance & S151 Officer (1)	S151 Officer	JNC Chief Officers – Outside of JE	£67,790 + £5,425 for s151	No	No	Payment of Professional Subscription Payments relating to LGPS Employer	No
Assistant Director Major and Special Projects		JNC Chief Officers – Outside of JE	£67,790	No	No	Payment of Professional Subscription Payments relating to LGPS Employer Contributions	No
Assistant Director Climate Change and Assets		JNC Chief Officers – Outside of JE	£67,790	No	No	Payment of Professional Subscription Payments relating to LGPS Employer Contributions	No

Post	Statutory Role	Terms and Conditions and JE Status ***	Salary **	Salary Progression	Bonus or Performance related pay	Other Benefits	Pension Enhance-ment in Year
Assistant Director Housing Property Services		JNC Chief Officers – Outside of JE	£67,790	No	No	Payment of Professional Subscription Payments relating to LGPS Employer Contributions	No
Assistant Director Customer		JNC Chief Officers – Outside of JE	£67,790	No	No	Payment of Professional Subscription Payments relating to LGPS Employer Contributions	No
Assistant Director – Internal Operations		JNC Chief Officers – Outside of JE	£67,790	No	No	Payment of Professional Subscription Payments relating to LGPS Employer Contributions	No
Assistant Director Strategic Place Planning		JNC Chief Officers – Outside of JE	£67,790 + Market Factor of £10,365	No	No	Payment of Professional Subscription Payments relating to LGPS Employer Contributions	No

Post	Statutory Role	Terms and Conditions and JE Status ***	Salary **	Salary Progression	Bonus or Performance related pay	Other Benefits	Pension Enhancement in Year
Assistant Director Housing and Communities		JNC Chief Officers – Outside of JE	£80,176 (pay protection until 31/05/2022 then reduces to £67,790)	No	No	Payment of Professional Subscription Payments relating to LGPS Employer Contributions	No
Assistant Director Development and Regeneration		JNC Chief Officers – Outside of JE	£67,790	No	No	Payment of Professional Subscription Payments relating to LGPS Employer Contributions	No
Assistant Director Commercial Service		JNC Chief Officers – Outside of JE	£67,790	No	No	Payment of Professional Subscription Payments relating to LGPS Employer Contributions	No
Homelessness Commissioning Lead		JNC Chief Officers – Outside of JE	£67,790	No	No	Payment of Professional Subscription Payments relating to LGPS Employer Contributions	No

* Additional payments are made by Central Government to officers carrying out additional duties at elections. These payments will only be received when elections take place and vary according tothe responsibility undertaken.

** These thresholds relate to the publication of salary information as required under the Code of Recommended Practice for Local Authorities on Data Transparency (£58,200 is the minimum of theSenior Civil Service minimum pay band) and the Audit and Accounts Regulations (£50,000)

*** JNC Chief Officers – Outside of JE. The job evaluation scheme is not applicable to Chief Officer posts. The salaries of Chief Officer posts are evaluated against local market data provided by South WestCouncils. This data provides salary details for comparable Chief Officer posts within comparable district councils.

(1) The statutory function of monitoring officer is performed by the Performance & GovernanceManager.

Appendix B – Somerset West & Taunton Pay & Grading structure
(Applicable from 1 April 2021)

Grade	SCP				
A	N/A	N/A	N/A	N/A	N/A
B	N/A	N/A	N/A	N/A	N/A
C	N/A	N/A	5	6	7
			£19,650	£20,043	£20,444
D			8	9	11
	-	-	£20,852	£21,269	£22,129
E			15	17	19
	-	-	£23,953	£24,920	£25,927
F			23	24	25
	-	-	£28,226	£29,174	£30,095
G	26	27	28	29	30
	-	-	£32,798	£33,486	£34,373
H	31	32	33	34	35
	-	-	£37,568	£38,553	£39,571
I	36	37	38	39	40
	-	-	£42,614	£43,570	£44,624
J	41	42	43	44*	45*
	-	-	£47,665	£48,690	£49,686
K	46	47	48*	49*	50*
	-	-	£52,715	£53,493	£54,275
L	51	52	53*	54*	55*
	-	-	£56,612	£57,391	£58,173

Appendix C - Written Statement on Local Government Pension Scheme Employers Discretions and Key Pensions Policy

Somerset West & Taunton Council

LGPS (Administration) Regulations 2008

Regulation B30 (5)

With regard to the early payment of benefits on or after age 55 and before age 60 made under B30 (2) above the Council retains the right to waive the actuarial reduction of benefits on exceptional compassionate grounds.

Regulation B30A (5)

With regard to an application for reinstatement of a suspended tier 3 ill health pension on or after age 55 and before age 60 made under B30A (3) above the Council retains the right to waive the actuarial reduction of benefits on exceptional compassionate grounds.

Local Government Pension Scheme Regulations 1997 (as amended) in relation to active councillor members and pre 1 April 2008 scheme leavers.

The Council will allow a post 31 March 1998/pre 1 April 2008 leaver or from a councillor member the option to request early payment of benefits on or after age 50 and before age 55 which will be considered on a case-by-case basis following the production of a business case. In these cases, no additional compensation will be awarded.

Regulation 31 (5)

With regard to the early payment of benefits made in accordance with Regulation 31 (2) the Council retains the right to waive the actuarial reduction of benefits on exceptional compassionate grounds.

Regulation 31 (7A)

The Council will allow councillor optants out and pre 1 April 2008 employee optants out the option to request payment of benefits at normal retirement date and these will be considered on a case-by-case basis following the production of a business case.

The Local Government Pension Scheme Regulations 2013Regulation 100 (6)

It is not Council policy to extend the 12-month limit on transfer of previous pension rights into the LGPS.

Regulation 9 (1) and 9 (3)

It is Council policy to allow employee contribution rates to be determined as changes occur during the financial year.

Regulation 16(2)(e) and 16(4)(d) Funding of Additional Pension

It is not the policy of the Council to fund additional pension and the Council will not enter into a shared cost additional pension contributions arrangement other than where an employee leaving the council has requested that the council use all of the compensatory redundancy payment due to the employee to purchase additional pension benefits.

Regulation 30(6) Flexible Retirement

The Council will allow benefits to be paid to a member of staff if they reduce their hours/grade (known as flexible retirement) and this is set out in the Council's Retirement Policy. Each case will be decided individually after the consideration of a detailed business case and only applies to those aged 55 and over.

Regulation 30(8)

With regard to flexible retirement and requests from staff aged 55 or over for retirement the Council retains the right to waive the actuarial reduction of benefits on exceptional compassionate grounds.

Regulation TPSch 2 'Switch on' of the 85-year rule (excludes flexible retirement) upon the voluntary early payment of benefits

The 85-year rule does not (other than on flexible retirement) automatically fully apply to members who would otherwise be subject to it and who choose to voluntarily draw their benefits on or after age 55 and before age 60. The Council retains the right to switch on the 85-year rule for members who voluntarily draw on their benefits on or after aged 55 and before age 60. This will be on a case by case basis and only in exceptional circumstances. It is not the policy for the Council to switch on the 85-year rule for:

- Former members who ceased active membership between 1st April 2008 and 31st March 2014 and choose to voluntarily draw their suspended tier 3 ill health pension (on or after 14 May 2018) on or after age 55 and before age 60 and,
- Former members who ceased active membership between 1st April 1998 and 31st March 2014) and elect for voluntary early payment of any deferred benefits.

Regulation 31 Award of Additional Pension

It is not the policy of the Council to award Employer APC for active members leaving on redundancy/efficiency other than by allowing employees leaving on grounds of redundancy/efficiency to use compensation payments to fund additional pension.

The Local Government (Early Termination of Employment) Discretionary Compensation Regulations 2006

As set out in the Redundancy Policy the Council do not limit redundancy payments to the statutory maximum weekly pay threshold and instead use the actual weekly pay of the employee. Actual weekly pay does not include payment of pension contributions.

The Council does not offer a minimum payment with regards to redundancy. Benefits are calculated using actual weekly pay and the statutory number of weeks as calculated against continuous local government service (and service covered by the Modification Order).

The Council provides up to 15 weeks compensation, in addition to any redundancy payment as set out in the Compensation Policy.

Where additional compensation is paid the employee has the option to augment their pension benefits by using all the additional compensation unless specific criteria are met.

Appendix D – Somerset West & Taunton Council Redundancy Policy

Introduction

Somerset West and Taunton Council recognise a responsibility to safeguard the job security and prospects of their employees as far as possible. This policy covers all redundancy situations that may arise within the Council and sets out the ways in which it will, as far as possible, seek to avoid or minimise the need for compulsory redundancies.

Aims

The aim of this policy is to set out a clear and fair process for handling redundancies. In doing so, it ensures employees, managers and UNISON are clear of the procedure that is being followed through any redundancy process.

Redundancy Procedure

Consultation

Where the possibility of redundancies is identified the Council will inform and consult with the relevant trade union representatives as early as possible and before any formal decisions have been made. As part of the consultation the Council will provide the following information:

- the reasons for the proposed redundancies;
- the numbers and descriptions of employees it proposes to make redundant;
- the total number of employees of those descriptions employed at the establishment in question;
- the proposed method of selecting those who may be dismissed;
- the proposed method of carrying out the dismissals, including the period over which the dismissals are to take effect;
- the proposed method of calculating any redundancy payments;
- the number of agency workers working temporarily for, and under the supervision and direction of, the employer;
- the parts of the employer's business in which the agency workers work; and
- the type of work that the agency workers carry out.

Formal consultation shall be deemed to commence on the date when these details are given in a letter to the Branch Secretaries of UNISON.

Consultation timescales will depend upon the scale of potential redundancies and will be as follows:

- A minimum of 30 days before the first dismissal takes affect where up to 99 employees are to be made redundant over a period of 90 days or less: or
- A minimum of 45 days before the first dismissal takes affect where more than 100 employees are to be made redundant over a period of 90 days or less.

Any consultation responses received in time will be included in any committee reports to be considered by the appropriate Committee.

Measures to avoid or minimise compulsory redundancies

The Council will, in consultation with the appropriate trade union representatives explore any options to avoid or minimise the need for compulsory redundancies. Alternatives may include (not in order of priority):

- Reductions through natural staff turnover (i.e., not automatically replacing employees who leave).
- Seeking volunteers for redundancy;
- Redeployment, including retraining where appropriate;
- Stopping or reducing overtime other than contractual or emergency overtime;
- Restrictions on permanent and/or external recruitment;
- Termination of casual or agency worker arrangements;
- Flexible retirements/voluntary reduction in hours.

Employees 'at risk' of redundancy

Notification of 'at risk' status

As soon as practicable after the unions have been informed of the potential for redundancies, any individuals affected will be informed that they are 'at risk' of redundancy and that consultation has commenced. An individual will be identified as being 'at risk' of redundancy if their current post does not exist in a new structure or there will be a reduction in the number of the same post in a new structure. This will be confirmed in writing with an estimate of any redundancy payment and if applicable, pension payment due.

Throughout the consultation period, further meetings (usually mid consultation and at the end of the consultation period) will be arranged with individuals 'at risk' of redundancy to discuss any concerns, redeployment opportunities, any selection processes etc. Records of any discussions will be kept on the employee's personal file.

Rights of employees 'at risk'

Employees 'at risk' of redundancy have certain rights. The Council will make every effort to redeploy the individuals within the Council's' services.

Employees are entitled to reasonable paid time off to look for alternative employment. This may include time off to attend interviews or attend relevant training courses. A reasonable amount of time is up to two days per week (pro rata for part-time employees). Such time off must be arranged in advance with the line manager.

A central register of employees 'at risk' of redundancy will be held by the People Function and those employees put 'at risk' will be informed by the People Function of all relevant vacancies arising within the Council. Efforts will be made to redeploy employees within the Council to retain skills, knowledge and experience and reasonable training will be provided if necessary.

The Council will make every effort to facilitate employees search for new employment, either through in-house support or, on occasions, outplacement specialists. Support may include advice on writing application forms or preparing CVs, interview tips, coaching etc.

Selection for redundancy

Once a proposal for a restructure or reduction in headcount is approved and where compulsory redundancies are unavoidable, the ring fence arrangements and process of selection for redundancy will be agreed with UNISON. It may include some or all the following criteria:

- Attendance records (other than absences covered by the Equality Act 2010);
- Disciplinary records ('live' warnings only);
- Skills and experience;
- Past performance records;
- A selection interview.

If a function or service is to be discontinued all employees directly related to the provision of that function will automatically be selected for redundancy.

If there is to be a reduction in the number of posts but the job descriptions remain largely unchanged, (i.e., duties are more than 80% the same). Selection will be based on agreed criteria and made by a selection panel that comprises of a higher level of management, at least one member of the Senior Leadership Team (SLT) and a representative from the HR and People Team.

If a restructure involves the creation of new roles, selection for redundancy will be dependent on success at interview for those new roles. A new role is one where the duties are more than 20% different. A ring fence of employees that can apply for the new posts will be agreed with UNISON and will be based on job type, grade and/or salary levels. The appointment panel should consist of managers from a higher level of management, at least one member of SLT and a representative from the People Function.

This appointment process does not apply to posts named as Scheduled Posts on the constitution, for example the Chief Executive. As these appointments require an Appointments Committee, comprising of at least one member of each of the Councils' Executive/Cabinet.

The employee/s selected for redundancy will receive written notification of the reasons for their selection as well as their proper contractual notice in accordance with their contract of employment or statutory notice whichever is greater.

NB: The cost of redundancy is not a factor that will be considered when selection for redundancy is made.

Calculation of redundancy payments

Employees will be notified personally about their redundancy entitlements as soon as possible after they have been notified that they are 'at risk' of redundancy, including the compensation/severance payment in writing and details of any pension due where applicable.

The qualifying service in respect of redundancy payments is two years continuous local government service (in accordance with the Redundancy Payments (Local Government) Modification Order. Reckonable service is limited to the last 20 years before redundancy.

Statutory redundancy payments are made according to the following scale:

(a) one and a half week's pay* for each year of employment during which the employee was aged 41 and over;
(b) one week's pay* for each year of employment during which the employee was aged 22 to 40 inclusive;
(c) half a week's pay* for each year of employment in which the employee was aged 21 and under.

* A week's pay is based on contractual pay and does not include occasional overtime or additional payments.

Appendix One includes a table with the number of statutory weeks entitlement according to age and continuous service.

If prior to the expiry of the employee's notice of dismissal an individual receives an offer of employment with a related employer (in accordance with the Redundancy Payments Continuity of Employment in Local Government Modification Order 1999) to start immediately or within four weeks of the end of the previous employment, a redundancy payment cannot be made by the Council.

Compensation/severance payments

The Council operate a discretionary enhanced redundancy payment scheme under the Local Government (Early Termination of Employment) (Discretionary Compensation) Regulations 2006, as compensation for the loss of employment on redundancy grounds. Details of the Councils' compensation schemes are annexed as Appendix Two.

Employees will be entitled to the discretionary compensation payment in accordance with the Compensation Policy

Redundancy and compensation payments will be made to employees within the next payroll run, provided that Payroll have been notified before the payroll deadline for that month.

Local Government Pension Scheme Payments

If you are age 55 or over, your main LGPS benefits are payable immediately without any early retirement reductions if the Council makes you redundant and you have met the two years ***vesting period*** in the Scheme.

Redeployment Procedure

Wherever possible employees will be redeployed to avoid compulsory redundancy.

The Council reserve the right in agreement with UNISON to apply a ring fence to new roles that are created as a result of any proposed restructures and offer them in the first instance to those employees at a similar job type grade/salary level within the existing structure and who have the relevant skills and experience that match the job description or person specification.

Where there is more than one employee that matches the role or a group of employees to more than one role, a selection procedure panel will take place that involves a formal interview and other recruitment selection procedures.

Where only one individual is matched with the new position, they will be slotted in.

All other vacancies arising within the Council where a suitable ring fence is not identified will be offered to employees 'at risk' of redundancy in the first instance. Such vacancies will be sent initially to the People Function who will check them against the 'at risk' register for any suitable candidates. Employees will be matched according to the essential criteria on the person specification, salary levels and preferred hours of work. Consideration must also be given to any reasonable appropriate training that will enable them to perform the duties of the role.

Any employees that meet the essential criteria will be made an offer of redeployment. Where more than one employee is matched to a vacancy a selection process will apply.

Any offer of redeployment will be made in writing and will include reference to a trial period, any training available, terms and conditions and protection arrangements if applicable.

Any employees that are redeployed into a new role will be given a 4-week trial period. This period may be extended by mutual agreement.

If the trial period is successful, the employee will be sent written confirmation of any changes to terms and conditions. If the trial period is deemed unsuccessful by the manager, contractual notice will be reduced by the length of the trial period.

If an offer of redeployment is made by the Council and the employee decides during the trial period that they wish to reject the offer, they must advise the People Function in writing within the trial period.

An employee who believes that a job offer is not suitable alternative employment may claim a redundancy payment. However, this will only be paid where the Council agree that the job is unsuitable. The decision will be made by a Member of SLT, taking account of any changes to terms and conditions and the level of seniority.

Pay Protection

Pay protection will be available where employment on less favourable terms is offered to an employee as an alternative to redundancy. An employee's basic pay will be protected for up to two years if the reduction in their basic pay does not exceed 17.5%.

If, by accepting alternative employment, the reduction in an employee's basic pay exceeds 17.5%, pay protection is subject to the People Business Partner or the HR Specialist and the relevant member of SLT being satisfied that there is some tangible benefit to be gained by the Council, for example, in circumstances where pay protection would be less costly than an employee's redundancy.

During the pay protection period, an employee's basic pay is protected on a 'mark time' basis. 'Mark time' means that during the period of protection, an employee's basic pay is frozen and that any increments and annual pay awards applicable to their previous job are not paid to the employee.

Appeals

If an employee is aggrieved about their selection for redundancy, they have the right of appeal. The appeal must be received in writing by the People Function within 10 working days of the decision being made. Refer to Council Appeals Procedure.

If the selection for redundancy was made by the Chief Executive the employee with have the right of appeal to be heard by an Appeal Committee comprising of at least one member of each of the Councils' Executive or Cabinet.

If the selection for redundancy was made by a Member of SLT other than the Executive, the employee will have a right of appeal to be heard by the Chief Executive.

All decisions made by the appeal panel are final

Appendix one – Table to show entitlement to statutory weeks' redundancy based on age andcontinuous service

		Years Service																		
		2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
Age	18																			
	19																			
	20	1.0	1.0	1.0	1.0															
	21	1.0	1.5	1.5	1.5	1.5														
	22	1.0	1.5	2.0	2.0	2.0	2.0													
	23	1.5	2.0	2.5	3.0	3.0	3.0	3.0												
	24	2.0	2.5	3.0	3.5	4.0	4.0	4.0	4.0											
	25	2.0	3.0	3.5	4.0	4.5	5.0	5.0	5.0	5.0										
	26	2.0	3.0	4.0	4.5	5.0	5.5	6.0	6.0	6.0	6.0									
	27	2.0	3.0	4.0	5.0	5.5	6.0	6.5	7.0	7.0	7.0	7.0								
	28	2.0	3.0	4.0	5.0	6.0	6.5	7.0	7.5	8.0	8.0	8.0	8.0							
	29	2.0	3.0	4.0	5.0	6.0	7.0	7.5	8.0	8.5	9.0	9.0	9.0	9.0						
	30	2.0	3.0	4.0	5.0	6.0	7.0	8.0	8.5	9.0	9.5	10.0	10.0	10.0	10.0					
	31	2.0	3.0	4.0	5.0	6.0	7.0	8.0	9.0	9.5	10.0	10.5	11.0	11.0	11.0	11.0				
	32	2.0	3.0	4.0	5.0	6.0	7.0	8.0	9.0	10.0	10.5	11.0	11.5	12.0	12.0	12.0	12.0			
	33	2.0	3.0	4.0	5.0	6.0	7.0	8.0	9.0	10.0	11.0	11.5	12.0	12.5	13.0	13.0	13.0	13.0		
	34	2.0	3.0	4.0	5.0	6.0	7.0	8.0	9.0	10.0	11.0	12.0	12.5	13.0	13.5	14.0	14.0	14.0	14.0	
	35	2.0	3.0	4.0	5.0	6.0	7.0	8.0	9.0	10.0	11.0	12.0	13.0	13.5	14.0	14.5	15.0	15.0	15.0	15.0
	36	2.0	3.0	4.0	5.0	6.0	7.0	8.0	9.0	10.0	11.0	12.0	13.0	14.0	14.5	15.0	15.5	16.0	16.0	16.0
	37	2.0	3.0	4.0	5.0	6.0	7.0	8.0	9.0	10.0	11.0	12.0	13.0	14.0	15.0	15.5	16.0	16.5	17.0	17.0
	38	2.0	3.0	4.0	5.0	6.0	7.0	8.0	9.0	10.0	11.0	12.0	13.0	14.0	15.0	16.0	16.5	17.0	17.5	18.0
	39	2.0	3.0	4.0	5.0	6.0	7.0	8.0	9.0	10.0	11.0	12.0	13.0	14.0	15.0	16.0	17.0	17.5	18.0	18.5
	40	2.0	3.0	4.0	5.0	6.0	7.0	8.0	9.0	10.0	11.0	12.0	13.0	14.0	15.0	16.0	17.0	18.0	18.5	19.0
	41	2.0	3.0	4.0	5.0	6.0	7.0	8.0	9.0	10.0	11.0	12.0	13.0	14.0	15.0	16.0	17.0	18.0	19.0	19.5
	42	2.5	3.5	4.5	5.5	6.5	7.5	8.5	9.5	10.5	11.5	12.5	13.5	14.5	15.5	16.5	17.5	18.5	19.5	20.5
	43	3.0	4.0	5.0	6.0	7.0	8.0	9.0	10.0	11.0	12.0	13.0	14.0	15.0	16.0	17.0	18.0	19.0	20.0	21.0

Age	Years Service																		
	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
44	3.0	4.5	5.5	6.5	7.5	8.5	9.5	10.5	11.5	12.5	13.5	14.5	15.5	16.5	17.5	18.5	19.5	20.5	21.5
45	3.0	4.5	6.0	7.0	8.0	9.0	10.0	11.0	12.0	13.0	14.0	15.0	16.0	17.0	18.0	19.0	20.0	21.0	22.0
46	3.0	4.5	6.0	7.5	8.5	9.5	10.5	11.5	12.5	13.5	14.5	15.5	16.5	17.5	18.5	19.5	20.5	21.5	22.5
47	3.0	4.5	6.0	7.5	9.0	10.0	11.0	12.0	13.0	14.0	15.0	16.0	17.0	18.0	19.0	20.0	21.0	22.0	23.0
48	3.0	4.5	6.0	7.5	9.0	10.5	11.5	12.5	13.5	14.5	15.5	16.5	17.5	18.5	19.5	20.5	21.5	22.5	23.5
49	3.0	4.5	6.0	7.5	9.0	10.5	12.0	13.0	14.0	15.0	16.0	17.0	18.0	19.0	20.0	21.0	22.0	23.0	24.0
50	3.0	4.5	6.0	7.5	9.0	10.5	12.0	13.5	14.5	15.5	16.5	17.5	18.5	19.5	20.5	21.5	22.5	23.5	24.5
51	3.0	4.5	6.0	7.5	9.0	10.5	12.0	13.5	15.0	16.0	17.0	18.0	19.0	20.0	21.0	22.0	23.0	24.0	25.0
52	3.0	4.5	6.0	7.5	9.0	10.5	12.0	13.5	15.0	16.5	17.5	18.5	19.5	20.5	21.5	22.5	23.5	24.5	25.5
53	3.0	4.5	6.0	7.5	9.0	10.5	12.0	13.5	15.0	16.5	18.0	19.0	20.0	21.0	22.0	23.0	24.0	25.0	26.0
54	3.0	4.5	6.0	7.5	9.0	10.5	12.0	13.5	15.0	16.5	18.0	19.5	20.5	21.5	22.5	23.5	24.5	25.5	26.5
55	3.0	4.5	6.0	7.5	9.0	10.5	12.0	13.5	15.0	16.5	18.0	19.5	21.0	22.0	23.0	24.0	25.0	26.0	27.0
56	3.0	4.5	6.0	7.5	9.0	10.5	12.0	13.5	15.0	16.5	18.0	19.5	21.0	22.5	23.5	24.5	25.5	26.5	27.5
57	3.0	4.5	6.0	7.5	9.0	10.5	12.0	13.5	15.0	16.5	18.0	19.5	21.0	22.5	24.0	25.0	26.0	27.0	28.0
58	3.0	4.5	6.0	7.5	9.0	10.5	12.0	13.5	15.0	16.5	18.0	19.5	21.0	22.5	24.0	25.5	26.5	27.5	28.5
59	3.0	4.5	6.0	7.5	9.0	10.5	12.0	13.5	15.0	16.5	18.0	19.5	21.0	22.5	24.0	25.5	27.0	28.0	29.0
60	3.0	4.5	6.0	7.5	9.0	10.5	12.0	13.5	15.0	16.5	18.0	19.5	21.0	22.5	24.0	25.5	27.0	28.5	29.5
61	3.0	4.5	6.0	7.5	9.0	10.5	12.0	13.5	15.0	16.5	18.0	19.5	21.0	22.5	24.0	25.5	27.0	28.5	30.0
62	3.0	4.5	6.0	7.5	9.0	10.5	12.0	13.5	15.0	16.5	18.0	19.5	21.0	22.5	24.0	25.5	27.0	28.5	30.0
63	3.0	4.5	6.0	7.5	9.0	10.5	12.0	13.5	15.0	16.5	18.0	19.5	21.0	22.5	24.0	25.5	27.0	28.5	30.0
64	3.0	4.5	6.0	7.5	9.0	10.5	12.0	13.5	15.0	16.5	18.0	19.5	21.0	22.5	24.0	25.5	27.0	28.5	30.0

Appendix E: Somerset West and Taunton Council - Compensation Policy

1. The Council operates a discretionary enhanced payment scheme as compensation for the loss ofemployment of redundancy grounds. The details of the Scheme are for information and may be amended from time to time at the discretion of the Council and after consultation with the Union. Please note the severance payments scheme is not legally binding.

2. Redundancy compensation will only be paid to staff with two or more years of service.

3. The Council exercises discretion under the Local Government (Early Termination of Employment) (Discretionary Compensation) Regulations 2006, to make compensatory payments to employees being made redundant based on a multiplier of **one and a half times** the number of weeks an employee would be entitled to under the statutory redundancy formula, inclusive of any statutory redundancy payment, up to a maximum of 45 weeks' pay. For the purposes of these calculations, aweek's pay is defined as the employee's actual weekly pay, which is averaged over a twelve-week period for employees whose earnings for basic hours (excluding overtime) varies from week to week. The maximum number of year's continuous service that can be counted for statutory redundancy payments is twenty years.

4. The Council requires that the full cost of any redundancies is recovered within a period notexceeding five years or by the normal retirement age, whichever is sooner.

5. Employees who are eligible to be paid a compensation payment on being made redundant, andwho are members of the Local Government Pension Scheme, are given the option of converting their compensation payment (excluding the statutory redundancy payment) into augmented pensionable service. <u>Augmentation is not an option where the compensation payment (excludingthe statutory redundancy payment) purchases more pensionable service than the maximum allowable at age 65.</u> If taken as a cash lump sum the first £30k is tax-free.

6. No compensation payments are made to employees who are allowed to retire early on the grounds of interests of efficiency of the service, irrespective of whether a voluntary request has been madeby the employee or instigated by management.

7. The expression 'early retirement in the interests of the efficiency of the service' is difficult to definebut the application of this scheme can be justified because: -

    (a) it facilitates/encourages internal restructuring
    (b) it allows for the retirement of an employee who is unable to match up to the changedrequirements of his/her job
    (c) The Local Government (Early Termination of Employment) (Discretionary Payments) (England and Wales) Regulations 2006 allow local authorities to use their discretion in theinterests of the efficient exercise of that authority's functions.

8. If you retire in the interests of efficiency, you will be entitled to a lump-sum payment calculated usingyour actual week's pay and equating to the equivalent of the statutory number of weeks payable for redundancy, however you will not be entitled to receive a redundancy payment from the Council. It is not possible to augment your Pension if you retire in the interests of the efficiency of the service.

9. Employees aged fifty-five years or over who are members of the Local Government PensionScheme will receive payment of early pension retirement benefits.

Appendix F – Somerset West & Taunton Council Flexible Retirement Policy

1. Employees aged 55 who are members of the Local Government Pension Scheme are able to request payment of early retirement benefits whilst remaining in the Council's employment onreduced hours or a lower grade.

2. This right does not apply to employees who are in receipt of a redundancy payment and early pension benefits or who have taken early retirement in the interests of the efficiency of the service.

3. As a guide, a business case for flexible retirement where any reduction is minimal (e.g. less than20% either in terms of reduced hours or lower grade) may be difficult to objectively justify.

4. Requests for flexible working may be instigated by employees who meet the criteria set out in 1above at any time but will only be able to make one request in any 12-month period.

5. An employee should, in the first instance, approach their line manager with a request for reducedhours, more flexible working patterns by putting their request in writing.

6. The manager will notify the HR/People Team and a meeting will be arranged within 21 days todiscuss the request from the employee.

7. At this point the HR/People Team will request an estimate of early retirement benefits from the Peninsula Pensions which will be provided to the employee and be used to complete the FlexibleRetirement Approval Request Form.

8. The meeting between the employee, manager and a member of the HR/People Team will discussthe request and business case and will only be referred for approval if it is operationally viable.

9. If the request is referred for approval this will be considered by the relevant Director and a memberof HR.

10. It should be noted that employees who are retiring in this way before their normal retirement age willsuffer an actuarial reduction in their benefits to reflect early payment. In exceptional compassionatecircumstances the Council has the right to waive this actuarial reduction.

11. If the request is not referred for approval this will be confirmed to the employee in writing to the employee within 14 days of the meeting. The employee would have the right of appeal against thisdecision which should be made in writing to the HR Specialist within 10 days of receipt of the reason for refusal of the request or refusal to waive the actuarial reduction on compassionate grounds where the request is approved.

12. Appeals will be heard by a Director advised by a member of the HR Team.

Somerset West and Taunton Council

Executive – 16 March 2022

Capital, Investment and Treasury Strategies 2022/23 to 2024/25

This matter is the responsibility of Executive Councillor Ross Henley

Report Author: John Dyson, Corporate Finance Manager (Interim)

1 Executive Summary / Purpose of the Report

1.1 The purpose of this report is to bring to Members three recommended strategies covering Capital, Investment and Treasury Management (CIT Strategies) for their consideration and adoption.

1.2 Appendix A to this report combines three Strategies together with the Council's Minimum Revenue Provision (MRP) Statement. Its format has been developed to meet the requirements of statutory guidance issued under Part 1 of the Local Government Act 2003, with particular reference to CIPFA's Prudential Code of Practice and Treasury Management Code of Practice.

2 Recommendations

2.1 Full Council be recommended to approve the CIT Strategies and MRP Statement for adoption with effect from 1 April 2022.

3 Background and Full Details of the Report

3.1 In line with regulatory guidance, the Council is required to produce a Capital Strategy, and Investment Strategy and a Treasury Management Strategy annually. These have again been combined into a draft consolidated document as Appendix A to this report. Appendix A also contains the Minimum Revenue Provision (MRP) Statement, which is also an annual requirement to be set by the Council.

3.2 It is recognised this is a large document that contains complex information and draws from a multitude of information sources. Most notably, the Strategies combine with and sit alongside the annual Revenue Budgets and Capital Programme for the General Fund and the Housing Revenue Account.

3.3 The report is also expanded to include a range of graphs and charts that may make some of this information more accessible to a wider audience. Whilst the Assistant Director – Finance (S151 Officer) has explored potential to make this report and future iterations into a condensed strategy document, new and lengthy Code updates (published in late December 2021, with parts released as late as February 2022) have signalled greater emphasis on the need to prepare robust and detailed Capital, Investment and Treasury Strategies by local authorities.

3.4 The capital programme for the Housing Revenue Account (HRA) was approved by Council on 8 February. The Executive agreed the recommended capital programme for the General Fund, with amendment, on 9 February with the General Fund full Budget Report presented to Council for approval at its meeting on 24 February 2022. A minority of aspects of this Draft strategy document have been finalised after this report was published for Scrutiny.

3.5 Aligned with the Council's approved programme of investment in Commercial Properties with a view to generating yield, HM Treasury and CIPFA have been instrumental in their expectations for local authorities ceasing making these types of investment after publication of the new CIPFA Prudential Code in December 2021. Central government had already announced changes with effect from 26 November 2020 that prevents use of PWLB (Public Works Loans Board) borrowing for financing commercial property acquisitions.

3.6 The impact of these substantial developments is covered in detail within the Strategies in Appendix A.

3.7 Meanwhile, the Council has still been able to deliver its CIT Strategies without breaching any of the parameters of the revised Codes of Practice, and ongoing financing of capital investment remains fully achievable.

4 Links to Corporate Aims / Priorities

4.1 The Capital, Investment and Treasury Management strategies support the delivery of all Corporate Aims.

5 Finance / Resource Implications

5.1 Any financial / resource implications are contained within the Appendix to this covering report.

6 Legal Implications

6.1 None in respect of this report.

7 Scrutiny Comments / Recommendation(s)

7.1 The report was considered by the Corporate Scrutiny Committee on 2 March 2022. The recommendation was supported.

7.2 The Committee identified that, within the Capital Strategy, Paragraph 3.8 contains an error in the typing following updated figures. The first sentence of text in that paragraph is to be substituted with:

3.8 The CFR is expected to increase by £26.71million during 2022/23 (comprising £10.44million for the General Fund and £16.27million for the HRA).

7.3 The main comments/ discussion points were:

a) The level of qualifications (in particular CIPFA qualification) possessed by the Finance team was examined; this Council's Finance team carries a high coverage of professional accountancy qualifications, including CIPFA.

b) The importance of managing the Risk Register was raised, reflecting the speed at which volatility and uncertainty is creeping into economic markets; officers reported that, the Risk Register is managed on an ongoing basis across the authority. In relation to Treasury Management, the approach taken pays great attention to the management of risk, spreading risk through the composition and management of treasury portfolios and drawing upon the expertise of the Council's appointed external treasury advisors.

c) The drop in net income from Commercial Investments (Table 9) from £4.49m in 2022/23 to £3.36m in 2023/24 and into 2024/25 was queried. Officers reported that the budget has made allowance for increasing costs from potential interest rate rises, building in the worst-case outcome (at the time of reporting) for those costs. The risk of yet further rate interest increases is recognised, and estimates are updated as we follow the markets; also, each year, the Council does reduce debt by setting aside proper provision.

d) Members asked for an indication of the split between short-term borrowing and long-term borrowing; the current portfolio was briefly examined and identified that 28% of borrowing is short-term (below one-year to maturity), 72% is long-term (duration of one-year and over). The substantial portion of long-term loans relates to HRA loans.

e) Members considered that the report differentiates between short- and long-term borrowing, but that medium-term borrowing is not quite so obvious to identify. The merits of considering medium-term borrowing opportunities were positively regarded by Members. In response, officers identified that medium-term borrowing opportunities have been taken, whilst all loan durations remain under consideration. A balance is being drawn between the legacy of debt that may be handed across to the new Unitary Council and providing opportunities for the new authority to ascertain its future direction of travel in respect of capital investment and financing. Meanwhile, Members were advised that year-end reporting of this Council's treasury portfolios is planned to provide clearer analysis of short- medium- and long-term borrowing.

f) Aligned with the additional recommendation concerning the correction of Paragraph 3.8 of the Capital Strategy, the Committee wished to draw to the attention of the Executive that there needs to be a clear understanding of when the figures are current and when they change.

g) Members highlighted that, in the Capital Strategy, Table 4 depicts spending of 21.53% of the Council's 2021/22 budget on interest, increasing each year thereafter to 38.76% in 2024/25. This raises concern regarding long-term sustainability. Officers explained that compilation of the existing table follows CIPFA definitions; in the case of this Council's finances, measuring the cost of borrowing against a low-value net revenue stream over-emphasises the level of risk. A better alternative is to measure the financing costs as a proportion of Turnover, which places the risk into context against total income. (This alternative Table 4 has now been incorporated into this report to the Executive).

h) Other queries and comments raised by the Committee covered the following issues:

- Protecting against hyperinflation.

- More-stringent reporting rules likely (from CIPFA, HM Treasury, etc).
- The Council faces greater year-end probity by external auditors.
- There is clearly added complexity in borrowing arrangements with a growing impact on officer time; the high degree of responsive management and due care does, in turn, benefit the Council in terms of controlling both cost and risk.
- The Committee would like to receive further updates on Treasury Management activities, particularly on the approach to formation of the new Unitary Council.

Democratic Path:

- Corporate Scrutiny Committee – 2 March 2022
- Audit and Governance Committee – 14 March 2022
- Executive – 16 March 2022
- Full Council – 29 March 2022

Reporting Frequency: Annually

List of Appendices

Appendix A	Capital, Investment and Treasury Strategies 2022/23 to 2024/25

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APPENDIX A

Somerset West and Taunton Council

Capital, Investment and Treasury Strategies 2022/23 to 2024/25

1 Introduction and Background – The CIPFA Prudential Code

1.1 In a significant move by the Government in 2004, local authorities were given substantial freedoms to borrow for the purposes of "Capital Investment." This followed many years of restrictions on borrowing for capital expenditure. Regardless of those freedoms, statute requires local authorities to follow professional codes of practice.

1.2 The Chartered Institute of Public Finance and Accountancy (CIPFA), acting on behalf of the Government, introduced the Prudential Code of Practice to accompany these new freedoms. Authorities in England and Wales are required by regulation to have regard to the CIPFA Prudential Code for Capital Finance in Local Authorities when carrying out their duties under Part 1 of the Local Government Act 2003. Throughout this document we shall refer to this code as the Prudential Code.

1.3 The Prudential Code underpins the system of capital finance. It has continuously placed responsibilities on councils and their Members to ensure that a range of mechanisms are in place for defining, monitoring and controlling capital, investment and borrowing activities. One key aspect of the mechanism was the setting of prudential indicators. Set locally, prudential indicators measure and control the impact of capital expenditure, borrowing costs and investment risks on local authorities.

1.4 The CIPFA Prudential Code sits alongside a second code, the CIPFA Treasury Management Code of Practice. Acting in tandem, the two Codes broadly oblige authorities to exercise transparency and accountability and to allocate responsibility for capital investment and treasury management decisions. Authorities must follow both codes of practice.

1.5 Some nationally significant events have occurred since the Prudential Code was first published. Widely publicised in the media, each of these events have led to tightening of the Code over the years. In recent years one such aspect has caught the attention of the Government, that being the substantial increase in local authority borrowing that correlates with an increase in commercial investment. A recent report by the National Audit Office ('Local Authority Investment in Commercial Property') established that, since 2016, there had been a rapid expansion in authorities acquiring commercial property outside their geographical areas for the purposes of generating yield. These 'investments' usually relied on borrowing to finance their cost, with substantial sums made up of borrowing from the government through the Public Works Loan Board (PWLB).

1.6 In response, the Treasury withdrew availability of new borrowing from PWLB by local authorities that invested in commercial property after 26 November 2020.

1.7 Subsequently, the Government's concerns led to revisions to the Prudential Code and a new edition was published on 20 December 2021.

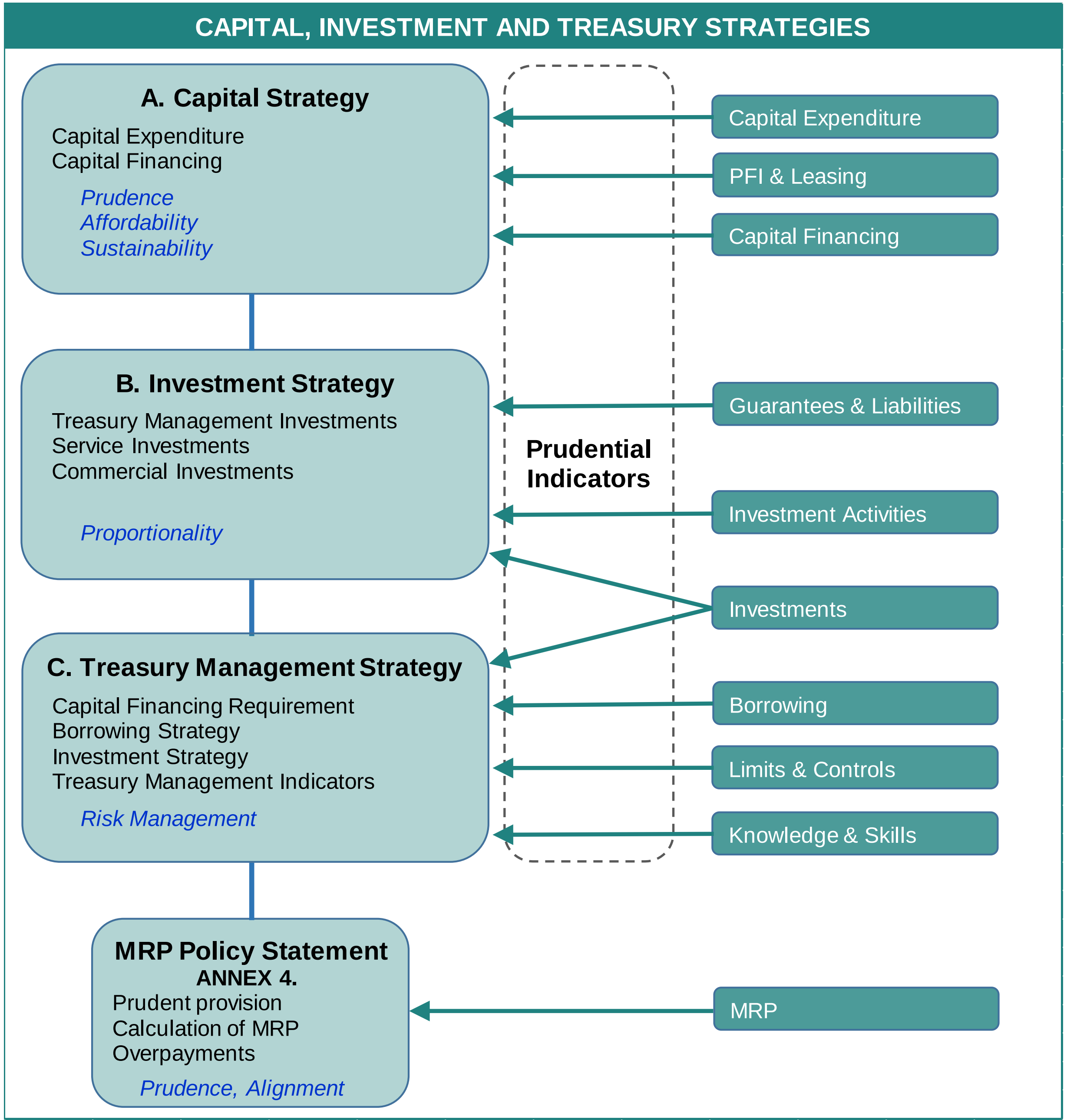
1.8 The Code's revised reporting requirements include changes to the capital strategy, prudential indicators and investment reporting. The requirements of the revised Prudential Code applied with immediate effect following publication; in particular this includes the stipulation that an authority must no longer borrow to invest primarily for a financial return. The only aspect that authorities may choose to defer are the revised reporting requirements set out by the Code. This deferral recognises the timing of the revised Code's publication and the limited time available for authorities to respond in developing reporting mechanisms. The reporting changes may be deferred until the 2023/24 financial year although, in updating the three Strategies contained in this document, we have introduced some of the new elements where data is available.

1.9 Shaped by the Prudential Code, this collection of Capital, Investment and Treasury Strategies for 2022/23 to 2024/25 complement with each other. This collection of Strategies also supports, and is supported by, the Revenue and Capital Budgets for the General Fund and Housing Revenue Account, both for next financial year (2022/23) and in the Medium-Term Financial Plan. Contained within them are the tools demonstrating that affordability, sustainability and prudence have been exercised in the setting of those budgets.

1.10 **It is important to take into account that, whilst the tables, charts, Prudential Indicators and data referred to in the following strategies relate to and support the Council's budget and Medium-Term Financial Plan (to be presented to Full Council in February 2022), continually changing circumstances will result in revisions to the forecasts and estimates contained throughout this document.** The document, as a general rule, draws upon and aligns with the estimates contained in the budgets reported.

1.11 To accommodate the merger of the County and District Councils in Somerset into one Unitary Council on 1 April 2023, the Prudential Indicators, and most of the data sets in this collection of Strategies, cover actual results for 2020/21, forecasts for 2021/22 and estimates for the three-year period 2022/23 to 2024/25. This contrasts with earlier years' reports, which extended as far forward as five years. Estimates for financial years beyond 2022/23 (after which the Unitary Council commences) are included because the Prudential Code requires indicators for prudence to be set over a minimum three-year rolling period. The indicators are set out as though Somerset West and Taunton Council were to continue with its present objectives.

1.12 The diagram overleaf illustrates how the three Strategies are laid out in this document, along with the Council's Minimum Revenue Provision (MRP) Statement.


CAPITAL, INVESTMENT AND TREASURY STRATEGIES
A. Capital Strategy
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Capital Financing
Prudence
Affordability
Sustainability
B. Investment Strategy
Treasury Management Investments
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MRP

A. Capital Strategy

1 Introduction

1.1 This capital strategy report gives a high-level overview of how capital expenditure and capital financing that contribute to the provision of local public services.

1.2 Decisions made this year on capital and treasury management will have financial consequences for the Council for many years into the future. They are therefore subject to both a national regulatory framework and to local policy framework summarised throughout the three Strategies contained within this document.

1.3 Somerset West and Taunton was created on 1 April 2019, with its assets, its liabilities and functions transferred from the predecessor councils – Taunton Deane Borough Council and West Somerset District Council. Both Councils transferred a legacy borrowing requirement in respect of General Fund services which represented a small proportion of the value of capital assets transferred. In respect of its Housing services, Taunton Deane Borough Council transferred its Housing stock assets and associated borrowing requirement to the new Council. Plans to meet the costs of the legacy borrowing requirement are embedded in both General Fund and Housing Revenue Account budgets and respective ongoing medium- and long-term financial plans.

2 Capital Expenditure

Governance arrangements for developing the Capital Programme

2.1 New capital schemes and projects are added to the capital programme as part of the annual budget setting process. However, the Council's governance arrangements allow for new schemes and projects to be added to, or removed from, the programme during the year, subject to appropriate officer and Member approvals and review by the Members' Scrutiny process.

2.2 The annual programme is developed where managers bid in September/ October for projects to be considered, with an outline scheme appraisal and specific funding proposals where required (namely for capital projects that are not on-going programmes of work). Bids are collated within the Finance department to summarise the potential expenditure requirement (including one-off capital costs and ongoing revenue costs). Bids should also identify the capital financing options, including setting aside monies from the revenue account in future years to recognise the cost of any borrowing needed for capital investment. The process of setting aside monies is referred to as Minimum Revenue Provision, or MRP. The Council's Asset Management Strategy and Plan also inform the programme, as well as strategic development and improvement programmes.

2.3 The draft programme is presented initially to the Senior Management Team and priority proposals are then taken forward to Scrutiny Committee for review and comment. The Executive will then consider and recommend the final draft Capital Programme to Full Council. Here the Programme is considered for approval alongside the annual revenue budgets in February. The complete process ensures that affordable projects support delivery of future service objectives. Capital investment should be proportionate to the capacity of the Council,s short-term and long-term resources.

Capital Programme

2.4 The Capital Programme is a primary record of all approved capital projects in which the Council plans to invest. Covering each of the Council's directorates, it sets out the Council's commitment to continue to invest in its operational asset portfolio and wider investment to support housing, economy and place-shaping priorities. It undergoes a major review annually so that the resources required to deliver the capital programme may be recognised in the revenue budgets, taking into account the availability of capital resources and the financing cost implications.

2.5 Progress against the Capital programme is also monitored regularly throughout each financial year. Cumulative expenditure is updated monthly, and spending departments informed. Formal reporting to senior management and the Council's Audit and Scrutiny Committee occurs every quarter, alongside revenue budget monitoring. Therefore, the Council's governance arrangements provide scope for new schemes and projects to be added to or removed from the programme during the course of a financial year in response to changing needs and resources.

Capital Expenditure Estimates

2.6 Capital expenditure is incurred where the Council spends money on constructing or acquiring assets such as land and buildings, including housing, vehicles, plant and equipment, all of which will be used for more than one year, as well as larger-scale maintenance works that extend the life of, or enhance, the Council's existing assets. In local government capital expenditure can also include supporting the acquisition of assets by other bodies; in such cases, the Council may provide service loans and grants to local organisations enabling them to buy assets that contribute to achievement of the Council's corporate objectives or service provision. The Council is largely constrained in what it may deem as capital expenditure, with allowable items needing to meet the definitions set within capital regulations. Items that fail to meet these definitions must be charged as revenue expenditure in the year. The Council's policies also determine that assets costing below

£10,000 will not be capitalised and are similarly charged as revenue expenditure. This is reflected in the Council's Statement of Accounts each year.

2.7 The information included in the table below shows totals for the Council's actual capital spend in 2020/21, together with budgets and estimates for the financial years 2021/22 onwards:

TABLE 1	ACTUAL AND ESTIMATES OF CAPITAL EXPENDITURE					
CAPITAL PROGRAMME	2020/21 Actual £000	2021/22 Forecast £000	2022/23 Estimate £000	2023/24 Estimate £000	2024/25 Estimate £000	2021-25 Totals £000
General Fund Services	19,260	23,593	39,554	38,844	8,997	110,988
Capital Property Investments	44,074	54,875	0	0	0	54,875
Housing services (HRA)	9,146	17,822	30,406	32,144	29,953	110,325
Lease Liabilities (accounting change)	0	0	279	361	379	1,019
Totals	**72,480**	**96,290**	**70,239**	**71,349**	**39,329**	**277,207**

Capital Investment relating to the General Fund

2.8 The main General Fund capital projects relating to mainstream services focus on investment in new and existing operational assets and on issuing capital grants to support the delivery of the Council's services and strategic priorities. This includes schemes such as technology, regeneration and infrastructure projects, contributions to major transport and flood alleviation projects, and grants for accessibility adaptations and equipment to support independent living. The most-substantial projects contained within the capital programme, including both mainstream and commercial properties, with expenditure between 2021/22 and 2024/25 include the following:

Major General Fund Schemes - Estimated total Capital Expenditure from 2021/22 to 2024/25	£million
Investment Properties	55.930
Other Regeneration Schemes/ Projects	33.484
Firepool Block 1 Construction	13.427
Firepool Phase 1 Carparks	10.352
Projects supported by Community Infrastructure Levy	7.404
Flooding Alleviation	6.000
Firepool Phase 1 infrastructure	5.156
Blue Anchor Coast Protection	3.528
Coal Orchard Construction	2.723
Active Travel	2.258

Commercial Property Investments

2.9 The Commercial Property Investment Strategy was developed to invest £100million between 2020/21 and 2021/22 to create a diversified, cross-sector, institutional grade property portfolio which will bring in gross additional income to the General Fund. The Strategy follows a reduction in Council income streams and increasing volatility around other funding sources, requiring Somerset West and Taunton Council to generate new sources of additional revenue to support front line services. Acquisition of the Council's capital investment portfolio of commercial properties was successfully completed on 17 December 2021. The Council has no plans to extend its investment in this field any further. The Council's Commercial Property Investments are covered in detail within the Investment Strategy, Section B of this document.

Capital Investment relating to the Housing Revenue Account

2.10 The Housing Revenue Account (HRA) is a ring-fenced, self-financing, account used to manage the Council's housing stock of some 5,700 properties. The Council acts as the Landlord to the tenants of those properties. The HRA has its own ring-fenced revenue account, capital programme and reserves. This ensures that council housing neither subsidises, nor is itself subsidised by, Council Tax payers.

2.11 The HRA Capital Programme's main purpose is to invest in the housing portfolio to replace major components periodically, to ensure that the decent homes standard and warmer homes standards are maintained and that fire safety regulations are adhered to.

2.12 The programme also includes major works to related assets such as garages, meeting/ community halls and shops, and home aids and adaptations in tenants' homes where there are mobility issues. The introduction of a new accounting standard (IFRS 16) requires the Council to recognise lease costs as capital expenditure so that assets are recoggnised on the Council's balance sheet. This is envisaged to occur from 1 April 2022.

2.13 The current capital programme also includes a significant investment in social housing development. There is the North Taunton Woolaway Project which is a regeneration scheme to replace properties that were coming to the end of their useful life. Part of this project will also increase the housing stock portfolio, along with other schemes such as Seaward Way, Oxford Inn and the Zero Carbon Pilot, to deliver vital additional affordable homes.

2.14 The HRA Capital Programme is funded from an appropriate combination of Major Repairs Reserves (accumulated from depreciation), revenue contributions, capital receipts, capital grants and borrowing.

Asset Management

2.15 Asset Management falls within the responsibilities of both the External Operations and Climate Change Directorate and the Housing and Communities Directorate. The Council also manages the commercial property investment portfolio through the Commercial Property Investment Board and the Major and Special Projects team within the Development and Place Directorate, with access to the Council's internal specialists and appointed managing agents.

2.16 The Council has a core team of qualified property professionals who advise on acquisitions, disposals and day-to-day management and condition of all Council assets.

2.17 The property specialists continually assess maintenance and work programmes to preserve the Council's properties so that they may retain their functionality for providing services, meeting the Council's responsibilities and complying with health and safety requirements. Such responsive work feeds into the Capital Programme where investment in or upgrading of assets is required, or into revenue budgets where maintenance of assets is needed.

2.18 The assets already within the Council's ownership are actively managed on a day-to-day basis to minimise costs and risks and to maximise any receipts and income potential, adopting the principles of Value for Money. An important aspect will be the identification of expenses and receipts to specific property assets to enable non-performing investments or properties with excessive costs to be identified and considered for disposal

2.19 In proactively managing the Council's diverse portfolio of properties, the asset management teams make recommendations to the Council's Senior Management Team, Executive, and Council both at a strategic level and as part of day-to-day operations.

2.20 The Investment Properties portfolio is managed under special governance arrangements contained within the Council's Commercial Investment Property Strategy, approved December 2019 and revised January 2022. Further details of the portfolio are set out in the Investment Strategy, Section B of this document.

2.21 In line with the revised requirements of HM Treasury and the CIPFA Prudential Code, disposals will be closely considered on an on-going basis.

3 Capital Financing

3.1 All capital expenditure must be financed, and there are a range of potential funding sources the Council may use, including its own resources or financing available from external sources. The main headings for the options available to finance capital expenditure include the following:

- Capital receipts from asset disposals and repayments of loans to external organisations,
- Capital grants, mainly originating from the Government or other local authorities,
- Contributions from other bodies, such as Section 106 (s106) contributions and Community Infrastructure Levy (CIL),
- Revenue Contributions to Capital, comprising sums applied from the Revenue Budget or Revenue Reserves,

and any expenditure not financed by the above items is added to the Council's Capital Financing Requirement (CFR) and will be financed from:

- Debt financing, such as borrowing, capital market bonds, leasing, etc.

Capital Financing Plan

3.2 The planned financing of the capital expenditure (sumarised in Table 1, above) is illustrated in Table 2 (overleaf):

TABLE 2	CAPITAL FINANCING PLAN					
	2020/21 Actual £000	**2021/22 Forecast £000**	**2022/23 Estimate £000**	**2023/24 Estimate £000**	**2024/25 Estimate £000**	**2021/25 Totals £000**
External sources:						
Grants and contributions	5,411	3,462	18,502	1,847	1,059	24,870
S106	2,369	1,535	1,011	0	0	2,546
CIL	926	815	1,951	10,400	0	13,166
subtotal - External	**8,706**	**5,812**	**21,464**	**12,247**	**1,059**	**40,582**
Internal sources:						
Capital receipts	2,097	2,799	5,987	3,670	2,535	14,991
Major Repairs Reserve	4,361	12,150	9,952	7,896	8,133	38,131
Revenue contribns & reserves	3,116	2,304	1,507	0	0	3,811
subtotal - Internal	**9,574**	**17,253**	**17,446**	**11,566**	**10,668**	**56,933**
Debt						
Loans taken out HRA	3,470	4,142	17,135	20,578	19,285	61,140
Loans taken out GF	50,730	69,083	13,915	26,597	7,938	117,533
Loans taken out subtotal	54,200	73,225	31,050	47,175	27,223	178,673
Leases	0	0	279	361	379	1,019
subtotal - Debt	**54,200**	**73,225**	**31,329**	**47,536**	**27,602**	**179,692**
TOTAL	**72,480**	**96,290**	**70,239**	**71,349**	**39,329**	**277,207**

3.3 The allocation of resources does vary over time. For example, additional income may be available through asset sales (which generate capital receipts) or by obtaining new external grant funding. The Capital Financing Plan set out in Table 2 is a snapshot that aligns with the Council's budget, tabled for consideration in February 2022. However, as stated above, the financing of capital expenditure is a dynamic process. With regular changes in financing sources, it is overseen by the Council's s151 Officer to optimise financing arrangements on an ongoing basis. Therefore, the estimated Plan does not commit the Council to particular methods of financing. The s151 Officer will determine the actual financing of capital expenditure incurred at the end of the financial year based on the resources that became available during the year. The outcomes are reported to and considered by Members of the Scrutiny Committees and by the Audit and Governance Committee as well as by the external audit process.

3.4 The mechanics of financing capital expenditure from borrowing are determined by capital regulations and Codes of Practice, which ensure that such expenditure is spread across future years to reflect that their benefits stretch across future years; this is a protection against spikes in Council Tax and Housing Rent payments so that large capital investment sums are not charged immediately.

3.5 The Council may defer the timing of external borrowing on a short- to medium-term by using temporary cash resources held in reserves and balances. This practice is referred to as 'internal borrowing.' It neither reduces the magnitude of borrowing required nor the level of funds held in reserves and balances. The practice simply utilises cashflow balances in the short-term until they are required for their intended purposes, which often represents good value for money and reduces investment risks. This is because, when 'surplus' cashflow is available, adding externally borrowed sums to that 'surplus' cashflow would require higher investment balances to be held in institutions which, in turn, are subject to risk of market failure (however slight those risks may be). More attention to investment risk is set out in the Treasury Management Strategy, Section C of this document.

3.6 Naturally, debt in the form of loans and leases must be repaid. Although borrowing from external sources may, for example, require repayment of the borrowed sum at the end of a loan period, regulations require the Council to set aside amounts annually so that financial capacity is available to repay the borrowing when it is due. This method of setting amounts aside occurs over a period of years, mainly by financing from revenue using the mechanism of Minimum Revenue Provision (MRP) or from voluntary overpayments (voluntary revenue provision), which may release revenue budgets from ongoing financial strain. Alternatively, capital receipts may be used as an alternative to taking out new borrowing, and hence remains a locally determined alternative source of capital financing.

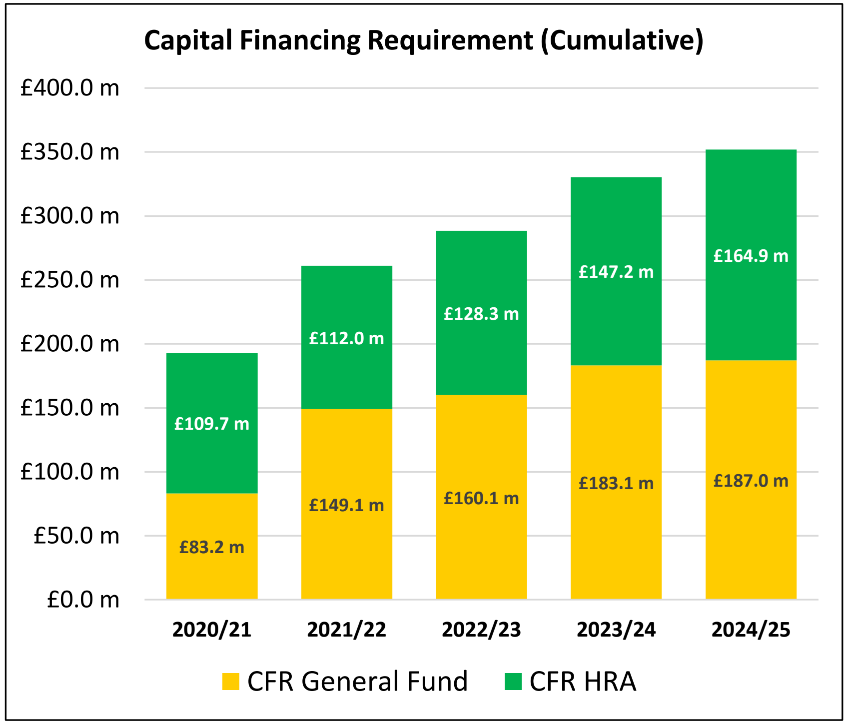
Capital Financing Requirement

3.7 The Council's cumulative amount of debt finance is measured by the Capital Financing Requirement (CFR). This is an important measure that determines the maximum borrowing requirement of the Council over the course of years that Council assets may be employed for the delivery of services. The basic mechanism behind the CFR involves a cumulative value that increases over time with new unfinanced capital expenditure met from borrowing (i.e. cannot be financed from grants, capital receipts, etc); the CFR then reduces each year by MRP repayments and voluntary overpayments.

3.8 The CFR is expected to increase by £26.71million during 2022/23 (comprising £10.44million for the General Fund and £16.27million for the HRA). Based on the above annual forecasts for capital expenditure and the profile of capital financing (Tables 1 and 2) the Council's estimated cumulative CFR for 2021/22 to 2024/25 is shown below in Table 3 (overleaf), alongside the actual results from the final accounts for 2020/21:

TABLE 3	ACTUAL AND ESTIMATED CAPITAL FINANCING REQUIREMENT				
	2020/21 Actual £000	2021/22 Forecast £000	2022/23 Estimate £000	2023/24 Estimate £000	2024/25 Estimate £000
General Fund					
CFR balance b/fwd	33,955	83,203	149,089	160,145	183,090
Expenditure	63,335	78,468	39,554	38,844	8,997
Accounting adj - Leases	0	0	124	184	196
MRP/VRP	-1,395	-3,197	-2,983	-3,836	-4,271
Capital receipts used	-740	-1,797	-2,668	0	0
Grants and contributions	-11,952	-7,588	-22,971	-12,247	-1,059
GF CFR balance c/fwd	**83,203**	**149,089**	**160,145**	**183,090**	**186,953**
HRA					
CFR balance b/fwd	107,981	109,717	112,038	128,307	147,240
Expenditure	9,146	17,822	30,406	32,144	29,953
Accounting adj - Leases	0	0	155	176	183
MRP	-1,821	-1,821	-1,021	-1,821	-1,821
Capital receipts used	-1,357	-1,002	-3,319	-3,670	-2,535
Grants and contributions	-4,232	-12,678	-9,952	-7,896	-8,133
HRA CFR balance c/fwd	**109,717**	**112,038**	**128,307**	**147,240**	**164,887**
Total CFR balance c/fwd	**192,920**	**261,127**	**288,452**	**330,330**	**351,840**

3.9 Table 3 shows that the Council's proposed capital strategy and capital investment plans are expected to increase the overall indebtedness position over the next 3 years (2022/23 to 2024/25) for both the General Fund and the Housing Revenue Account. The outcome for CFR is also illustrated in the graph, overleaf, which separates out the General Fund and HRA.



3.10 It is important to ensure capital plans are affordable and the Council can meet the costs of this debt over both the short- and long-term. The Council's Medium Term Financial Plan is therefore an important monitor because it includes the impact of debt financing costs on revenue budgets in future years. This is supported by the appraisal process for capital schemes over the life of the assets being acquired. In relation to Housing Revenue Account assets, which are predominantly of high value and long life, the HRA Business Plan sets out the impact of capital expenditure over a 30-year period. Other measures of affordability are contained within the prudential indicators set out in the Treasury Management Strategy, Section C of this document.

3.11 From the graph, we see a significant increase in the General Fund CFR from 2020/21 to 21/22 as a result of the final year of investment in commercial properties. A less-pronounced spike occurs in 2023/24 as a result of investment in regeneration, flood alleviation and development of the Firepool scheme.

3.12 Taking on borrowing and other forms of debt should follow a planned approach, taking account of economic conditions that influence interest rates, ensuring the Council is protected from risks (e.g. by spreading maturity dates to protect against interest rate volatility), and requiring a range of skills, controls and procedures. The Treasury Management and Borrowing Strategy is set out in Section C of this document. Setting out the Council's Borrowing Strategy, it also takes forward the link between the CFR and borrowing.

3.13 Meanwhile, having access to alternative sources to finance capital expenditure reduces dependence on borrowing. Details of the alternative sources of capital financing are provided in Annex 1 to this document.

4 Revenue Budget Implications

4.1 Although capital expenditure is not charged directly to the revenue budget, interest payable on loans/ leases and capital debt repayment provisions are charged to revenue, offset by any investment income receivable. The net annual charge is referred to 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 4	**General Fund Proportion of financing costs to revenue stream**				
	2020/21 Actual £'000	**2021/22 Forecast £'000**	**2022/23 Estimate £'000**	**2023/24 Estimate £'000**	**2024/25 Estimate £'000**
Financing costs	£1.51m	£4.03m	£3.93m	£5.52m	£5.95m
Proportion of turnover	1.24%	4.02%	5.04%	6.93%	7.33%

NOTE TO TABLE 4 – Whilst this table has previously reported financing costs as a proportion of net revenue stream, this was found to substantially overstate the level of risk for the authority's budgets. The measure has been updated to keep the impact of financing costs in perspective with the Council's turnover, which presents a more-meaningful measure.

4.2 The percentage of financing costs to turnover increases noticeably over the medium term. This is through a combination of increased capital investment – predominantly for commercial and regeneration purposes – and the expected reduction in funding primarily related to business rates, new homes bonus and Government support for Covid. Although this indicator identifies increased risk, the majority of increased financing costs are planned to be offset by income from commercial and regeneration investment. Through prudent investment, it is anticipated that investment income will be less volatile and more predictable than other financing income such as business rates and government grants. This is reflected in the financial strategy and medium term financial plan.

4.3 Similarly for the Housing Revenue Account, Table 5 shows how the financing costs may be set out as a proportion of the HRA revenue stream, primarily comprising rents and service charges.

TABLE 5	HRA Proportion of financing costs to revenue stream				
	2020/21 Actual £'000	2021/22 Forecast £'000	2022/23 Estimate £'000	2023/24 Estimate £'000	2024/25 Estimate £'000
Financing costs	£4.26m	£4.49m	£3.90m	£5.13m	£5.39m
Proportion of net revenue stream	15.78%	16.23%	13.74%	17.25%	17.10%

4.4 All capital investment must be sustainable in the long-term through revenue support by the Council or its partners. All capital investment decisions consider the revenue implications both in terms of servicing the finance and running costs of the new assets. The impact of the revenue implications is a significant factor in determining approval of projects. The use of capital resources has been incorporated into the Council's MTFP.

5 Liabilities

5.1 In addition to capital debt as detailed above, the Council is committed to making future payments to cover its pension deficit, which was valued at £140.2m as at 31 March 2021. This balance is due to be paid over a 20-year period, and the deficit and annual contributions are revalued every three years. It has also set aside £0.945m to cover provisions for probable costs. As with all local councils, SWT Council will always remain at risk of having to set aside sums for contingent liabilities, but has not identified any need to set aside monies at the time of writing; however, payment remains contingent on, as yet, unknown events occurring which will be incorporated into the Council's annual Statement of Accounts, in accordance with proper accounting practice.

6 Sustainability

6.1 Due to the 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 Capital Programme, proposed as part of the 2022 budget approval process, is prudent, affordable and sustainable because:

- the Council has adequate means of financing and repaying any required borrowing, which is profiled across varying time periods to reduce risks of cost spikes arising from acute economic events.
- the Council maintains a balanced budget that can adequately fund the expenditure with sufficient contingency reserves and balances to accommodate emergencies and unexpected events.
- Continued development of the Capital Programme links to the Annual Plan.
- Regular capital monitoring and scrutiny processes ensure the performance of capital investment against the approved Capital Programme.
- Whole Life Appraisal – a systematic assessment of all relevant expenses, income and performance associated with the acquisition, procurement, ownership, refurbishment and potential disposal of an asset over its life thus allowing the Council to plan our medium- and long-term financial commitments. Projects are assessed for how they meet specific service needs, generate savings or an income stream to the Council, and how they mitigate risks.

B. Investment Strategy

1 Introduction

1.1 The Council invests funds that it holds for four broad purposes:

i) **treasury management investments** - surplus cash resulting from its day-to-day receipts and payments activities, for example when income is received in advance of expenditure.

ii) **service investments -** to support local public services by lending to or buying shares in other organisations.

iii) **commercial investments** to earn investment income to meet the wider needs of the Council.

iv) **regeneration investments -** to realise the Council's key objective to stimulating change in the local community and business environment that would be unlikely if left solely to market activity.

1.2 Treasury investment balances 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.

1.3 The Council's policy on treasury investments is to **prioritise security and liquidity over yield**, therefore the Council's primary focus is 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. Whilst yield is not the primary objective, it is important 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 investments to buy; the Council may request its money back at relatively short notice in accordance with individual funds' requirements.

1.4 As part of the Council's financial strategy, the aim is to evolve the balance within the investment portfolio to improve the net income available through treasury management to fund services, whilst maintaining a prudent balance between **security, liquidity and yield, in that order of priority**. The yield curve has reduced in the last 12 months to such an extent that returns through long-term treasury investment are minimal. It is therefore anticipated that investment will remain in the near term, maximising security and liquidity/ flexibility. The assessment of adequate general reserves also incorporates an element of risk to investment income assumptions.

TABLE 6	Treasury Management Investments				
	2020/21 Actual £'000	**2021/22 Forecast £'000**	**2022/23 Estimate £'000**	**2023/24 Estimate £'000**	**2024/25 Estimate £'000**
Near term investments	44,761	30,500	30,000	20,000	20,000
Long term investments	3	3	3	3	3
Total	**44,764**	**30,503**	**30,003**	**20,003**	**20,003**

1.5 Further details of existing treasury investments can be found in the Treasury Management Strategy, Section C, below.

1.6 **Risk Management -** The effective management and control of risk is a prime objective of the Council's treasury management activity. The Treasury Management Strategy sets out various indicators and limits to constrain the risk of unexpected losses and details the extent to which financial derivatives may be used to manage treasury risks.

1.7 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 and Governance Committee mid-year and at year-end. In line with the new Prudential Code, the reporting arrangements will increase this frequency to quarterly with effect from 2023/24.

2 Treasury Management Investments

2.1 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 £20m and £50m at the extreme, and depending upon major cashflow movements during the 2022/23 financial year.

2.2 The contribution that these investments make to the objectives of the Council is to support effective treasury management activities.

2.3 Full details of the Council's policies and its plan for 2022/23 for treasury management investments are covered in the treasury management strategy later in this document.

3 Service Investments – Loans

3.1 The Council lends money to local businesses, local charities, other local authority partnerships, and local residents to support local public services and priorities, and to stimulate local economic growth. Currently the Council has loans invested with:

- Somerset County Cricket Club – delivering the new Pavilion and bringing international cricket to Somerset.
- Hestercombe House and Gardens – enabling loan for development feasibility work
- Somerset Waste Partnership – for waste vehicles, with added benefit of keeping waste contract costs down
- Residents – housing related mortgages
- Centre for Outdoor Activity and Community Hub (COACH) – purpose-built community centre including a café, conference suite, changing rooms, boat store and home to five community sports clubs.

3.2 The Council has included provision in its Capital Programme to provide further loan finance to the Somerset Waste Partnership for new vehicles in 2021/22 and for waste containers in 2022/23 towards delivery against the Recycle More scheme under the new waste contract.

3.3 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 (see overleaf):

TABLE 7	Loans for Service Purposes			
	Actual as at 31 March 2021			2022/23
	Balance Owing £'000	Loss Allowance £'000	Net figure in accounts £'000	Approved Limit £'000
Category of borrower:			0	
Businesses	1,573	-71	1,502	1,600
Charity / Community	28	-1	27	28
Local Authorities	4,280	0	4,280	6,800
Residents	377	-15	362	1,200
Total	**6,258**	**-87**	**6,171**	**9,628**

3.4 Accounting standards require the Council to set aside a loss allowance for loans, reflecting the likelihood of non-payment. The figures for loans in the Council's statement of accounts 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 repayments.

3.5 The Council assesses the risk of loss before entering into this type of service loans arrangement by working up a robust business case and applying due diligence to all requests for service loans, carrying out proportionate monitoring of credit risk of borrowers. For example, with loans to key businesses, the Council's finance specialist team (qualified accountants) will review financial statements whilst service officers will maintain communication with the borrower in order that emerging risks are identified promptly. The Council will use credit rating information where available, and will use external specialist advisors if appropriate.

3.6 In view 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 positive investment return after all costs are covered, and decisions upon granting such loans are made on the basis that repayment to the Council remains a firm and realistic commitment.

3.7 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 by Committee or through delegated powers as part of the capital programme.

Investment and Regeneration Activities

3.8 Local authorities have a key role in facilitating the long-term regeneration and economic growth of their local areas and they may wish to hold investments to facilitate this. When determining whether to acquire, the Council needs to recognise the contribution the asset will make. The contribution could be classified as direct service delivery and/or place-making, for example economic growth, business rates growth, responding to market failure or sustainability of certain asset classifications. Further details of the Council's regeneration schemes are contained in Annex 2 of thise document.

4 Service Investments – Shares

4.1 The Council does not currently hold any direct investment in the shares of subsidiaries, its suppliers or local businesses.

5 Commercial Investments – Property

5.1 The Council invests in a diverse investment property portfolio both locally and nationally with the intention of generating surplus income that will be spent on local public services delivered within the district.

5.2 The Council holds some assets that were initially acquired for service purposes such as benefitting the local economy but these have since been reclassified as investment properties. They are now established and the main purpose for holding the assets is for rental income. Table 8 (overleaf) summarises the commercial property investment programme and, for completeness, shows local investment properties held as part of the Council's mainstream support to aid local regeneration and business within the SWT District:

TABLE 8	Properties held for investment purposes £'000
Commercial Properties held for yield (acquired during 2020/21 and 2021/22)	
Aztec West	9,573
The Range	5,781
B&Q	6,998
Wickes	9,819
JLR	6,130
Quinton Business Park	5,766
Audi, Cardiff	7,190
Coast Road Retail Park	12,585
Fenick House	4,783
Reflex, Barwell	5,425
Reflex, Ossett	2,624
Steelite	22,270
Subtotal, Commercial Investments	**98,944**
Investment Properties held to support local business and regeneration	
Land at Brunel Way	265
The Arcade (Formerly The Carousel or K's)	297
Roughmoor Enterprise Centre (Employment Workspace)	1,404
Blackdown Business Park, Wellington (4 Units)	1,344
Gaumont Theatre (Mecca Bingo), Corporation Street, Taunton	1,530
Other properties with values below £250k	1,141
Total all properties	**104,925**

5.3 With central government financial support for local public services declining, the Council established a programme of investing in commercial property for the purpose of generating a financial gain that ensures the continuation of the Council's services to the local community and local businesses. Acquisition of the Council's capital investment portfolio of commercial properties was successfully completed on 17 December 2021. The Council has no plans to extend its investment in this field any further. Total commercial investments hold a purchase value of £98.9million. Table 9, below, shows the forecast net income contributions between 2021/22 and 2024/25. These levels of return have been prudently set, taking account of the risk of higher interest rates for borrowing in the latter years, as well as setting aside sums for debt repayment and to add to reserves.

TABLE 9	**Net income from commercial and service investments to net revenue stream**			
	2021/22 Forecast	**2022/23 Estimate**	**2023/24 Estimate**	**2024/25 Estimate**
Net income from commercial investments	£3.72m	£4.49m	£3.36m	£3.36m
Proportion of net revenue stream	19.84%	26.38%	23.11%	21.76%

5.4 With financial return being the main objective, the Council accepts higher risk on commercial investment than with treasury investments. The principal risk exposures are summarised as follows:

- The commercial investment net income is underpinned by very strong governance and due diligence, which helps to minimise risks. The Council finalised its planned investment in December 2021, with the budget estimates reflecting the completed portfolio. The risks associated with this investment include market and economic risks as well as potential volatility in income, financing, and management costs. This is mitigated through prudent budgeting and earmarked investment risk reserves.
- The Government's decision to restrict access to PWLB means alternative sources of long-term borrowing may be needed in future. There are competitive alternatives available, as evidenced by financing having already been secured from other local authorities, however this represents a risk in terms of estimating future borrowing costs.
- Property investment income: Whilst income volatility is expected to be low, no investment is risk-free. For financial planning sensitivity analysis purposes, 5% adverse volatility would impact income by c£360k. This risk is mitigated through the Investment Risk Reserve.
- Risk of rising interest rates and the wider economy may impact on investment income and borrowing costs.

5.5 As an overriding approach to mitigate the above, a uniformly prudent approach to budget estimates and debt repayment has been taken, with adequate funds held in an investment risk reserve. An assessment of the consolidated cash flows, investment and borrowing requirements will be completed through the LGR Finance Workstream. This will inform the development of longer treasury management strategies including borrowing and refinancing requirements.

5.6 Decisions on commercial investments are delegated by the Council to the Investment Board in line with the criteria and limits approved by Full Council in December 2019, and refreshed in December 2020. Property and most other commercial investments are also capital expenditure and purchases have been reported as part of the Council's capital programme. Performance of the investment portfolio are reported to the Executive and also incorporated within the overall financial monitoring reports throughout the year.

5.7 The Investment Properties portfolio is managed in line governance arrangements contained within the Council's Commercial Investment Property Strategy, approved December 2019 and revised January 2022. The original Strategy formed the basis upon which an intricate process of due diligence, review and accountability has been employed in building the investment property portfolio, all of which have been actively achieved throughout the acquisition process. The revised Strategy focuses on ongoing management, including how property will be managed during the transition phase to a new Unitary Council for Somerset. Management of the Investment Properties extends to monitoring deliverables, risks, performance, asset values and ongoing value for money.

5.8 Further to publication of the latest CIPFA Prudential Code in December 2021, Somerset West and Taunton Council fully recognises that the Prudential Code has brought about changes to how local authorities invest primarily for financial return and, forthwith, the Council is committed to adhering to the Prudential Code's determination that:

- 'In order to comply with the Prudential Code, an authority must not borrow to invest primarily for financial return.

- It is not prudent for local authorities to make any investment or spending decision that will increase the capital financing requirement, and so may lead to new borrowing, unless directly and primarily related to the functions of the authority and where any financial returns are either related to the financial viability of the project in question or otherwise incidental to the primary purpose.'

<u>Other Property Investment Matters</u>

5.9 **Security**: In accordance with government guidance, the Council considers a property investment to be secure if its accounting valuation is at or higher than its purchase cost including taxes and transaction costs. The Council also recognises that asset values may increase or decrease over the course of time due to conditions in the property market; as a pre-requisite for all investments aligned with property, it is necessary to take a long-term perspective on performance, valuation and security, enforcing the assumption that capital values are likely to hold or grow over the life of these assets.

5.10 As an integral part of the preparation of the Council's annual accounts for 2021/22, a fair value assessment of the Council's investment property portfolio is to be taken by the Council's valuers, in line with proper accounting practice. Should the

2021/22 year-end accounts value these properties below their purchase cost, then an update will be reported to Full Council detailing the impact of the loss on the security of investments and any revenue consequences arising therefrom.

5.11 **Risk assessment**: The Council has conducted detailed assessment of the risks of loss before entering into purchases of its property investment portfolio by undertaking considerable due diligence, including commissioning surveys and specialist property valuation advice and proactively challenging findings and assumptions along the way. This will have included considerations of the strength of local market conditions to give confidence on future re-letting, the financial strength of business tenants and also considers possible alternative uses, if appropriate. The Council, through its Investment Board, actively monitors the portfolio to ensure tenant obligations for maintaining assets are fulfilled.

5.12 **Liquidity**: Compared with other investment types, property is relatively difficult to sell and convert to cash at short notice. It can take a considerable period to sell in certain adverse market conditions. To ensure that the invested funds can be accessed when they are needed, for example to repay capital borrowed, the Council actively manages cash flow through its treasury management arrangements and plans to under-borrow against its CFR so that it can temporarily borrow at short notice if required.

6 Regeneration Schemes

6.1 Some of the key schemes under development are briefly described in Annex 2 to this document, and their progress is regularly reported to the Senior Management Team and to Members of the Council.

7 Financial Guarantees

7.1 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.

7.2 The following guarantees were transferred to the Council from TDBC and WSC on 1 April 2019:

- South West Audit Partnership Limited Pension Liability £0.268m (as at 31 March 2019)
- Somerset Waste Partnership Pension Liability (minimal)

8 Proportionality

8.1 The Council is dependent on income generating investment activity to achieve a balanced revenue budget. Table 10 below shows how the Council is dependent on achieving the expected net income from investments over the lifecycle of the Medium Term Financial Plan. Should it fail to achieve the expected net income, the Council's contingency plans for continuing to provide these services include holding adequate funds in an earmarked Investment Risk Reserve as well as carrying adequate General Reserves. Budget estimates are also set using prudent assumptions about net income from the portfolio including an allowance for voids / non-collection.

TABLE 10	**Proportionality of Investments**				
	2020/21 Actual £'000	**2021/22 Forecast £'000**	**2022/23 Estimate £'000**	**2023/24 Estimate £'000**	**2024/25 Estimate £'000**
Gross Service expenditure	90,862	100,286	103,295	106,393	109,585
Investment income	-860	-4,578	-5,205	-4,065	-4,065
Proportion of income to expenditure	0.9%	4.6%	5.0%	3.8%	3.7%

NOTES to Table 10:
i) Investment income, in this table, includes both treasury investments and commercial investments.
ii) Gross service expenditure is indicative and based on a 3% inflationary increase from 2022/23 onwards, so is not linked to formal MTFP projections for the General Fund and HRA.

8.2 Investment income shown in the above table is the gross income included in the budget estimates, disregarding asset management and capital financing costs. The falling proportion % illustrates a decreasing level of investment balances which, in turn, places pressure on funding services as other funding sources diminish, in particular government grants and the risk of business rates volatility.

9 Investment Indicators

9.1 The Council has set the following quantitative indicators to allow elected Members and the public to assess the Council's total risk exposure from its investment decisions.

Total investment exposure:

9.2 This indicator shows the Council's total exposure to potential investment losses. It includes amounts the Council is contractually committed to lend but has yet to draw down, as well as guarantees the Council has issued.

TABLE 11	**Total Investment Exposure**				
All values at year end	**2020/21 Actual £'000**	**2021/22 Forecast £'000**	**2022/23 Estimate £'000**	**2023/24 Estimate £'000**	**2024/25 Estimate £'000**
Treasury Management Investments:					
Strategic Funds	17,000	17,000	17,000	17,000	17,000
Other	27,761	13,500	13,000	13,000	13,000
Service investments - loans	5,642	6,342	6,294	5,656	5,083
Commercial investments	44,063	99,123	97,141	95,198	93,294
Total investments	**94,466**	**135,965**	**133,435**	**130,854**	**128,377**
Commitments to lend	0	1,274	0	300	300
Guarantees on pension liabilities	268	268	268	268	268
Total commitments and guarantees	**268**	**1,542**	**268**	**568**	**568**
Total Exposure	**94,734**	**137,507**	**133,703**	**131,422**	**128,945**

How investments are funded:

9.3 Government guidance is that these indicators should include how investments are funded. Conversely, capital regulations specify that the Council should not normally associate individual assets with individual liabilities, therefore it is difficult to comply in complete terms with the funding indicator. However, the following investments could be regarded as having been funded by borrowing. The remainder of the Council's investments are funded by usable reserves and income received just prior to need.

TABLE 12	Investments funded by borrowing				
	2020/21 Actual £'000	**2021/22 Forecast £'000**	**2022/23 Estimate £'000**	**2023/24 Estimate £'000**	**2024/25 Estimate £'000**
Service investments - loans	5,642	6,342	6,294	5,656	5,083
Commercial investments - property	44,063	99,123	97,141	95,198	93,294
Commitments to lend	0	0	0	0	0
Total funded by borrowing	**49,705**	**105,465**	**103,435**	**100,854**	**98,377**

NOTE to Table 12: Similarly as noted with Tables 2 and 3 above, Table 12 does not reflect the recommendation to be made to Full Council to apply £2million General Reserves to fund capital expenditure in 2021/22 and a proposal to apply a Voluntary Overprovision (VRP) of £1m. The impact of this would be to reduce the “Commercial investments - property” line by £3m in each year from 2021/22 onwards. These adjustments will be incorporated at the point of Full Council meeting on 24 February 2022.

Rate of return received:

9.4 The Council seeks to achieve a commensurate rate of return in line with this investment objectives and risk appetite. For service loans, the rate of return will be set with the aim of covering financing costs (or opportunity costs) plus a premium for risk. The acquired portfolio of property investments for yield is budgeted to return 7% gross.

C. Treasury Management Strategy

1 Introduction

1.1 Treasury management is the management of the Council's cash flows, borrowing and investments and the associated risks. The Council has borrowed and 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 finical risk are, therefore, central to the Council's prudent financial management.

1.2 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 2021 Edition (the CIPFA Code) which requires the Council to approve a Capital Strategy, Investment Strategy and Treasury Management Strategy before the start of each financial year. This combined document fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.

1.3 Investments held for service purposes and for commercial income generation are considered in the Investment Strategy, set out above within this document, Section B.

2 External Context

2.1 The treasury strategy appropriately considers the wider economic picture. The Council's treasury advisor, Arlingclose, has provided a summary commentary on this wider context and their own interest rate forecasts, and is provided in Annex 2. to this document.

3 Local Context

3.1 On 31 December 2021, the Council held £170.5million of borrowing, (£105.5million long-term and £65.0million short-term) and £39.2m of treasury investments. These balances are summarised in Table 13 below.

TABLE 13	Existing Investment & Debt Portfolio Position as at 31 December 2021	
	Actual Portfolio £m	**Average Rate £m**
External Borrowing		
Public Works Loan Board	102.5	2.62%
Banks	3.0	4.25%
Local Authorities	65.0	0.08%
Total gross external debt	**170.5**	1.68%
Treasury Investments		
Banks (unsecured)	-1.3	0.01%
Money Market Funds	-15.6	0.07%
Strategic Pooled Funds	-17.0	3.11%
Other investments	-5.3	3.29%
Total treasury investments	**-39.2**	1.82%
Net Debt	**131.3**	

3.2 Forecast changes in these sums are shown in the balance sheet analysis in Table 14 (overleaf).

TABLE 14	Balance Sheet Summary and Forecast				
	2020/21 Actual £'000	2021/22 Revised £'000	2022/23 Estimate £'000	2023/24 Estimate £'000	2024/25 Estimate £'000
Capital Financing Requirement (CFR)					
General Fund	39,129	49,966	63,004	87,892	93,659
HRA	109,717	112,038	128,307	147,240	164,887
Investments	44,074	99,123	97,141	95,198	93,294
Total CFR	**192,920**	**261,127**	**288,452**	**330,330**	**351,840**
Less: External Borrowing	-162,500	-173,500	-204,829	-252,364	-279,966
Less: Other debt liabilities (leases)	-	0	-279	-361	-379
Internal Borrowing	**30,420**	**87,627**	**83,344**	**77,605**	**71,495**
Less: Usable reserves	-85,578	-75,150	-62,544	-43,829	-44,898
Working capital (surplus) / deficit	7,422	7,422	7,422	7,422	7,422
Total Treasury (Investments)/new borrowing	**-47,736**	**19,899**	**28,222**	**41,198**	**34,019**

3.3 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.

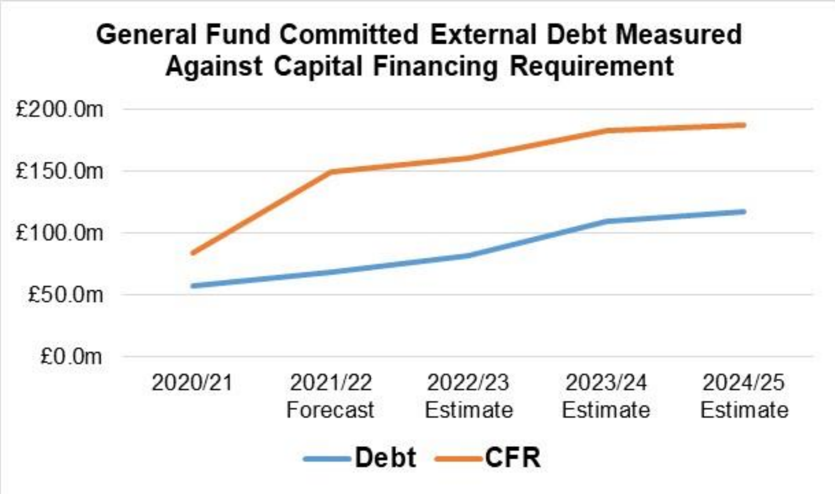
3.4 The Council has an increasing CFR due to annual additions to the Capital Programme. The full impact of investment property acquisitions has been completed during 2021/22. The trend of increased capital expenditure and forecast repayments of external borrowing indicates new borrowing capacity of up to £123million over the forecast period.

3.5 Table 14 shows that the Council expects to comply with maintaining external borrowing below the estimated CFR.

Total Debt Position

3.6 A local authority should not exceed its CFR, except in the short-term. 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. Projected levels of the Council's total outstanding external debt compared with the CFR are shown in the two graphs, below. As can be seen from both graphs and Table 15, overleaf, the Council expects to comply with this in the medium term for both the General Fund and the Housing Revenue Account.

3.7 The two graphs look markedly different. For the General Fund, the graph illustrates the shorter-term nature of the current debt portfolio, continued reliance on internal borrowing, with an increasing CFR reflecting future capital programmes. This shorter-term debt will need to be replaced as loans mature and further new external borrowing is envisaged. For the HRA, the gap remains much smaller because the portfolio of HRA borrowing has been committed to for much longer periods of time. Once again, the CFR increases with future years' borrowing needs.



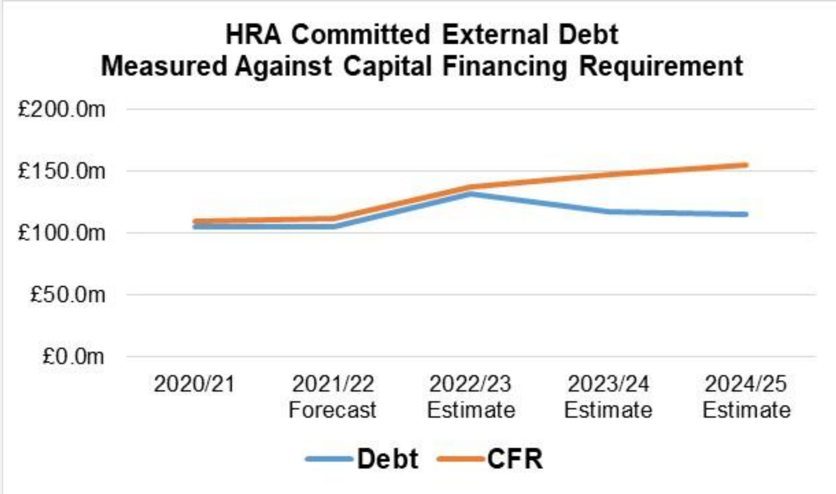


TABLE 15	**Prudential indicator - Gross debt and the CFR**				
	2020/21 Actual £'000	**2021/22 Forecast £'000**	**2022/23 Estimate £'000**	**2023/24 Estimate £'000**	**2024/25 Estimate £'000**
General Fund Debt	57,000	68,000	82,039	108,820	116,954
HRA debt	105,500	105,500	122,790	143,544	163,012
Total Debt	**162,500**	**173,500**	**204,829**	**252,364**	**279,966**
General Fund CFR	83,203	149,089	160,145	183,090	186,953
HRA CFR	109,717	112,038	128,307	147,240	164,887
Total CFR	**192,920**	**261,127**	**288,452**	**330,330**	**351,840**

4 Borrowing Strategy

4.1 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 need.

4.2 Due to previous spending and financing decisions prior to the amalgamation of authorities into Somerset West and Taunton Council, £79.5million of external PWLB borrowing was transferred to the Council on 1 April 2019. This stemmed from the Government's directive for local councils with an HRA to borrow funds in respect of the housing assets they owned at that time (a process called Self Financing). By 1 April 2021, the portfolio of external long-term borrowing was £162.5million at an average interest rate of 1.78%. Treasury and cash investments as at 1 April 2021 amounted to £54.1million.

4.3 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, particularly with the forthcoming transfer to a single Unitary Council on 1 April 2023. Interest on short-term borrowing has been extremely attractive in recent years and the opportunity to minimise the cost of new borrowing has been fully utilised during 2021/22. Meanwhile, long-term borrowing remains available at historically low rates of interest too. Therefore, being responsive to interest rate movements (particularly with increasing levels of inflation), the optimum balance between long-term and short-term debt will be sought for any new borrowing required to finance the Capital Programme. For example, as short-term rates are trending upwards at the time of writing, the benefit of longer-term fixed rates will begin to take precedence since they provide future certainty, diluting the risk associated with future upward interest rate movements in a complex economy.

4.4 Substantial flexibility will also be applied to borrowing on the approach to formation of the new Somerset Unitary Council. This is because the borrowing and investment balances and cashflow of the County and District councils, when consolidated, will require a new borrowing strategy that defines the longer-term approach. For this reason, except for HRA loan renewals and HRA debt aligned with long-term assets, such as new housing, longer-term borrowing will tend to be confined to a debt below 10-years' duration.

4.5 A combination of cashflow balances, cashflow movements into and out of the Council and the need for sufficient levels of liquidity, both to absorb payment commitments and to act as contingency funds to finance unforeseen emergencies, will require an ongoing level of cash and investment balances. For these reasons, it is intended that investment and cashflow balances will be retained at a level that is generally above £30million (that sum including sums on loan to external organisations, being £5.2million, and pooled investments, being approximately £17million). More details on investments are set out in section 8 of this document, further below.

4.6 Putting this into context, the interest rates currently observed in the markets (early February 2022) for the Council's borrowing vary between cheaper short-term loans (currently available at around 0.5%) and long-term fixed rate loans where the future cost is more certain but higher (currently 1.5%-2.5%). By contrast, with cashflow investments envisaged to be earning between 0.0% and 0.28% (current year to February 2022), internal borrowing will be used as far as practically possible, with the added advantage that the risk of potential investment losses from bank defaults (albeit a minimal risk) is minimised with this approach.

Public Works Loans Board (PWLB)

4.7 A common source of borrowing for local authorities is the Treasury, through the Debt Management Office, which took over the responsibilities of the previous Public Works Loans Board (although the term PWLB is still commonly used). There are several advantages to using the PWLB as a source of borrowing, such as:

- Funds can be accessed quickly – usually within five-days' notice.
- It is relatively simple to arrange, although the application process has become more-lengthy because HM Treasury seeks to examine applying authorities' applications closely to confirm that the borrowing need is sound, affordable and is unrelated to past or future investment in property for the purposes of yield.
- The Council does not require a credit rating, and
- Borrowing is not linked to any specific asset, but it can provide the resources needed to meet the overall capital financing requirement.

4.8 To discourage borrowing for property assets primarily for yield, the government issued a revised procedure for accessing PWLB loans in November 2020. This reduced the cost of loans but also demanded a commitment from the borrowing Council's Chief Financial Officer that there would be no use of PWLB funds towards property assets primarily for yield after 26 November 2020.

4.9 Because SWT Council has undertaken investment in properties with the objective of generating a yield, the Council is currently unable to access new borrowing from PWLB. However, the Council's Treasury Team has observed considerable availability of funds to borrow from other Local Authorities, which is set to continue. In practical terms, this has provided a sound and affordable source of borrowing and provides a certain basis for new borrowing in the foreseeable future. The Council is also able to renew any borrowing with the PWLB that comes to maturity, and advantage will be taken of that source too. Other potential options do exist such as the Municipal Bond Agency, which provides a pool of short-term borrowing.

4.10 Guidance from HM Treasury indicates that PWLB may still be used to refinance historic borrowing even if the Council is actively investing in property assets primarily for yield. This is likely to be a preferable treasury option, for example regarding existing HRA loans that mature over the next 10 years that will need to be refinanced to meet the current HRA Business Plan.

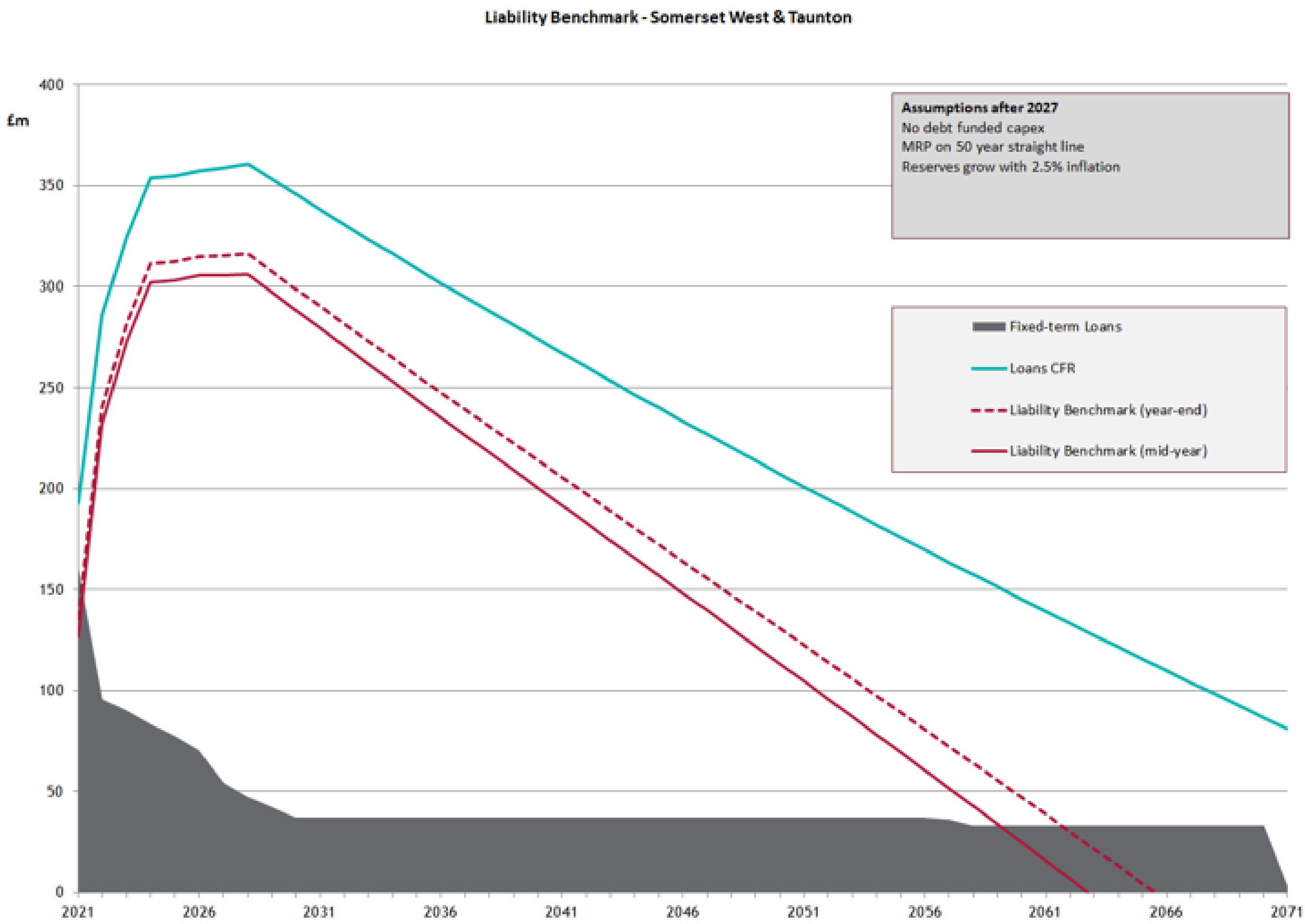
4.11 A more-comprehensive measure is given by the Liability Benchmark. The Liability Benchmark is a measure of how well the existing loans portfolio matches the authority's planned borrowing needs. It stems from projections of the Council's balance sheet in future years. The Liability Benchmark is effectively the net borrowing requirement of a local authority plus an allowance for cashflow liquidity. In its simplest form, it is calculated by deducting the amount of investable resources available on the balance sheet (usable reserves and cash flow balances) from the amount of outstanding external debt and then adding the minimum level of investments necessary to manage day-to-day cash flow requirements.

4.12 The Liability Benchmark assumes that cash and investment balances are kept to a minimum level of £17.0m initially, increasing to £20.0m towards the end of the four-year period of review . This benchmark is anticipated to be £215.5m in 2021/22 and is forecast to rise to a maximum of £310.5m by 2024/25.

NOTE: TABLE 16 – Balance Sheet Summary and Forecast – this table is not currently included, pending a detailed Balance Sheet review at the 2021/22 financial year-end. As an interim measure, the Liability Benchmark graph as at 31 March 2021 is shown overleaf.

4.13 Any years where actual loans are lower than the benchmark indicate a future borrowing requirement, which is seen to occur from 2021/22 onwards, and reflects new borrowing activity by the Council, primarily for Commercial Property Investments and Housing projects. Scope for internal borrowing will now drop out and be replaced by external borrowing.

4.14 Depicting the borrowing path over a longer period of time, the Council's treasury management advisors, Arlingclose, have prepared a graphical illustration (using data as at 31 March 2021) of the borrowing position, as follows:


Liability Benchmark - Somerset West & Taunton
£m
400
350
300
250
200
150
100
50
0
2021
2026
2031
2036
2041
2046
2051
2056
2061
2066
2071
Assumptions after 2027
No debt funded capex
MRP on 50 year straight line
Reserves grow with 2.5% inflation
Fixed-term Loans
Loans CFR
Liability Benchmark (year-end)
Liability Benchmark (mid-year)

5 Borrowing In Advance of Need

5.1 Local authorities are not permitted to borrow more than or in advance of their needs purely in order to profit from the investment of the extra sums borrowed. However, the Prudential Code does specify that "Treasury investments may… include the investment of borrowing proceeds where it has been prudent for an organisation to borrow in advance of the need for cash, eg in order to reduce financing and interest rate risks." The Council's policy adopts and complies with these stipulations and it shall not borrow in advance of need, unless in the short-term in respect of near-term approved capital projects in order to ensure the adequacy of liquidity and to manage investment rate risks.

Affordable Borrowing Limit

5.2 This is a particularly important indicator. 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 point should debt approach this limit. The Operational Boundary has been calculated based on the forecast CFR plus a tolerance for variations in spending plans during the year and possible volatility in availability of internal and external resources.

TABLE 17	**Authorised limit & Operational boundary for external debt**				
	2020/21 Actual £'000	**2021/22 Forecast £'000**	**2022/23 Estimate £'000**	**2023/24 Estimate £'000**	**2024/25 Estimate £'000**
Operational Boundary:					
Borrowing	212,000	280,000	300,000	350,000	370,000
Leases	0	0	10,000	10,000	10,000
Total Operational Boundary	**212,000**	**280,000**	**310,000**	**360,000**	**380,000**
Authorised limit:					
Borrowing	280,000	320,000	350,000	350,000	370,000
Leases	0	0	20,000	20,000	20,000
Total Authorised limit	**280,000**	**320,000**	**370,000**	**370,000**	**390,000**

5.3 The total borrowing limit applies to the combined borrowing requirement for the General Fund and the Housing Revenue Account. Although borrowing is managed on the basis that individual borrowing pools exist for the General Fund and Housing Revenue Account, for cash flow purposes the above limits relate to the whole-Council position.

5.4 Borrowing levels are expected to grow; this is regarded as affordable on the basis that the majority of the costs of debt are offset by income growth within the Council's financial strategy, either through return on investment in property, which provides a net surplus to fund services, or through investment in regeneration schemes, which may also generate income, or through service loans, which will are all anticipated to be repaid.

5.5 The Council currently holds £170.5million of loans (including short term) as at 31 December 2021, compared to £162.5million on 1 April 2021, as part of its strategy for funding previous years' capital programmes (Table 17). The balance sheet forecast in Table 16 shows that the Council expects to hold external borrowing of up to £204.8million in 2022/23. The Council may also borrow additional sums to pre-fund future years' requirements, providing

i. this does not exceed the authorised limit for borrowing of £340.0million, and

ii. This remains within the allowable parameters of the CIPFA Prudential Code (namely up to two years prior to approved expenditure need).

5.6 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 funds are required. The flexibility to renegotiate loans, should the Council's long-term plans change, is a secondary objective; the preference is to avoid this possibility, especially in the event that an interest premium or penalty may be applied by the lender.

5.7 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. Whilst short-term interest rates have begun to follow an upward trend since mid-December 2021, they currently remain lower than long-term rates. In these conditions, it would be more cost effective in the short term to either use internal resources, or to borrow short term loans instead. However, with cashflow balances substantially reduced following the significant investments as part of the capital programme in 2020/21 and 2021/22, there is a growing need to source external borrowing. A balance will be made between long-term and short-term borrowing. In relation to short-term borrowing, the emphasis has now shifted on extending that towards the one-year period to protect against further interest rate rises forecast during 2022/23. This adds stability to the interest costs leading up to the Unitary Council formation in April 2023. Further external borrowing will take advantage of any medium-term borrowing opportunities so that the risk of interest rate volatility may be cushioned; this will apply to General Fund borrowing, and paves the way for the new Unitary Council to reshape its borrowing strategy into future years. For HRA borrowing, advantage is envisaged to be taken of historically low long-term borrowing rates, with maturity dates more commensurate with life of the housing assets being developed.

5.8 Internal borrowing has been used to good effect during 2021/22, realising interest cost savings as a result. A further benefit has been to reduce overall treasury risk because levels of investments have been contained, thus eliminating exposure to investment losses that may have occurred in the event of the failure of financial institutions. The Treasury Management Strategy, in part, shapes the timing of external borrowing and the balance of external / internal borrowing, whilst money market conditions form another influencing factor alongside the Council's liquidity and cashflow position.

5.9 The Council (and its predecessor councils) has previously raised the majority of its long-term borrowing from the PWLB. Where it remains possible to renew existing debt through the PWLB (new loans no longer being available to SWT because of its property investments) and, if that option presents better value for money, loan renewals from PWLB will be employed.

5.10 The Council will also consider loans from other sources including banks, pension funds and other local authorities. Local authority to Local Authority lending has represented a particularly viable option for this Council in taking new borrowing and considerable use has been made of this market during 2021/22 with very reasonable rates of interest payable. Innovative methods of securing borrowing from other local authorities have ensured good value for money has been achieved in brokerage costs too.

5.11 Beyond these options, the Council will, if necessary, investigate the possibility of utilising the Municipal Bonds Agency, or issuing bonds and similar instruments, in order to lower interest costs and reduce over-reliance on one source of funding.

5.12 Alternatively, the Council may arrange forward starting loans, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period (although forward loan interest rates will usually factor in an allowance for interest rate risk during the intervening period).

5.13 Additionally, the Council may borrow further short-term loans to cover unplanned cash flow shortages.

5.14 The approved sources of long-term and short-term borrowing are:

- HM Treasury's PWLB lending facility (formerly the Public Works Loan Board), but only for loan renewals
- Any institution approved for investments (see below), including Local Authorities
- 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

5.15 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
- Sale and leaseback

5.16 **Municipal Bonds Agency**: UK Municipal Bonds Agency plc was established in 2014 by the Local Government Association as an alternative to the PWLB. It issues issue bonds on the capital markets and lends the proceeds to local authorities. This is a more complicated source of finance than the PWLB for two reasons: borrowing authorities will be required to provide bond investors with a guarantee to refund their investment in the event that the agency is unable to for any reason; and there will be a lead time of several months between committing to borrowing and knowing the interest rate payable. Any decision to borrow from the Agency will therefore be the subject of a separate report to the Council's Audit and Governance Committee or Full Council (depending upon the timescale of meetings and needing to apply for borrowing).

5.17 **Short-term and variable rate loans**: These loans leave the Authority 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. Financial derivatives may be used to manage this interest rate risk (see section below).

5.18 **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.

6 Treasury Investment Strategy

6.1 The Council holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. In the first six months of 2020/21 to 30th September 2021, the Council's investment balance ranged between £30.157m and £73.287m, although investment levels are anticipated to remain at the lower end of this range in the forthcoming year following extensive capital investment and application of plus repayment of government Covid grants.

6.2 **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 to or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested.

6.3 **Negative interest rates**: The COVID-19 pandemic increased the risk of the Bank of England setting its Bank Rate at or below zero. Prior to the two recent increase increases in Base Rate (December 2021 and February 2022), this risk has passed in the short to medium term at least. In the event of negative rates, however, since investments cannot pay "negative income", negative rates will be instead be applied by reducing the value of investments. In this event, security will be measured as receiving the contractually agreed amount at maturity, even though this may be less than the amount originally invested.

6.4 **Strategy**: Given the increasing risk and very low returns from short-term unsecured bank investments, the Council aims to maintain current investment levels in secure and/or higher yielding asset classes during 2022/23. The majority of the Council's surplus cash is currently invested in short-term unsecured bank deposits, money market funds, whilst deposits have also previously been held with other local authorities. This diversification will represent a continuation of the strategy adopted in earlier years, with an enhanced opportunity to utilise strategic investment pooled funds as a means of adding a level of diversity and long-term value to the investment portfolio.

6.5 **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.

Approved Counterparties

6.6 The Council may invest its surplus funds with any of the counterparty types in Table 18, below. These deposits are subject to the cash limits indicated (per counterparty) and the time limits shown.

TABLE 18	Treasury investment counterparties and limits		
	Time limit	Counterparty limit	Sector Limit
The UK Government	50 years	Unlimited	N/A
Local authorities and other government entities	25 years	£7million	Unlimited
Secured investments	25 years	£7million	Unlimited
Banks (unsecured)	13 months	£7million	Unlimited
Building societies (unsecured)	13 months	£7million	£7million
Registered providers (unsecured)	5 years	£7million	£20million
Money market funds	N/A	£7million	Unlimited
Strategic pooled funds	N/A	£7million	Combined £18million initial investment
Real estate investment trusts	N/A	£7million	
Other investments	5 years	£5million	£7million

6.7 **Minimum Credit rating**: (*) Treasury investments in the sectors marked with an asterisk will only be made with entities whose lowest published long-term credit rating is no lower than A-. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit 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.

6.8 **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.

6.9 **Secured investments**: Investments secured on the borrower's assets, which limits the potential losses in the event of insolvency. The amount and quality of the security will be a key factor in the investment decision. Covered bonds and reverse repurchase agreements with banks and building societies 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. The combined secured and unsecured investments with any one counterparty will not exceed the cash limit for secured investments.

6.10 **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.

6.11 **Registered providers (unsecured)**: 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), the Scottish Housing Regulator, the Welsh Government and the Department for Communities (in Northern Ireland). As providers of public services, they retain the likelihood of receiving government support if needed.

6.12 **Money market funds**: Pooled funds that offer same-day or short notice liquidity and very low or no price volatility by investing in short-term money markets. They have the advantage over bank accounts of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a small fee. Although no sector limit applies to money market funds, the Authority will take care to diversify its liquid investments over a variety of providers to ensure access to cash at all times.

6.13 **Strategic Pooled funds**: Bond, equity and property funds that offer enhanced returns over the longer term but are more volatile in the short term. These allow the Authority 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 Authority's investment objectives will be monitored regularly.

6.14 **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.

6.15 **Other investments**: This category covers treasury investments not listed above, for example unsecured corporate bonds and company loans. Non-bank companies cannot be bailed-in but can become insolvent placing the Authority's investment at risk.

6.16 **Operational bank accounts**: In so far as the UK bank appointed to supply the Council with its main banking services maintains a credit rating not lower than BBB- and with assets in excess of £25billion, the aggregate level of balances held with the bank shall equate with the counterparty limit set for individual unsecured bank deposits (namely £7million). This includes both operational group balances and investment account balances, but excludes Head Office Collection accounts, merchant accounts and cash in transit.

6.17 In times of banking stress, and in the event that the appointed bank's credit rating falls below BBB-, the Council may incur operational exposures, for example though current accounts, collection accounts and merchant acquiring services supplied by its appointed bank. Whilst balances held at the appointed bank are not classed as investments, they remain subject to the risk of a bank bail-in. Nevertheless, in the event of such an eventuality, in order to provide a suitable platform for the Council to conduct its day-to-day banking transactions and receive remittances, a threshold of £1,200,000 will be applied to the daily bank balance, above which balances should not be held after concluding each day's treasury and dealing activities. This threshold will be the subject of review at least twice each year in such circumstances, to coincide with annual Treasury Management reporting to Members. At his/her discretion, the Assistant Director Finance (S151 Officer) may introduce a reduction to this threshold if circumstances in the banking sector indicate the need.

6.18 **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

6.19 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.

6.20 **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.

6.21 When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2020, 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.

Investment Limits

6.22 The Council's usable revenue reserves available to cover investment losses are forecast to be £72.6million on 31 March 2022. In order that no more than 10% 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 £7million. A group of banks under the same ownership will be treated as a single organisation for limit purposes.

6.23 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.

Investment Limits	Cash Limit
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	£7m per country

6.24 **Liquidity management**: The Council uses an in-house spreadsheet based cash flow forecasting model 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.

6.25 The Council will spread its liquid cash over more than one provider (e.g. bank accounts and money market funds) to ensure that access to cash is maintained in the event of operational difficulties encountered with any one provider.

7 Treasury Management Indicators

7.1 The Council measures and manages its exposures to treasury management risks using the following indicators.

Security

7.2 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)	e.g. A-

Liquidity

7.3 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	£20m

Interest Rate Risk

7.4 The borrowing and investment strategies employed during the acquisition of commercial properties have protected the Council’s position whereby internal borrowing has been adopted in preference to obtaining now borrowing from the money markets. The two primary benefits have been to minimise net interest costs for the Council in the short-term and reducing the risk of Council potential exposure to “bail-in”, that being the loss of capital investment because of the recovery processes employed in the event of a financial institution’s failure. With the completion of the commercial investment portfolio, cashflows has reduced and the dominating level of cashflow investments will switch to borrowing. As a result, risks aligned with movements in investment returns will substantially reduce with lower investment balances. To quantify this, we forecast (at the time of writing) that the remaining investments held during 2022/23 would carry a combined risk of variation in capital value and interest yield of approximately +/- £132k for a 1% movement in interest rates. These investment sums, which total approximately £17million, will be held as a contingency measure for unexpected cashflow movements and emergencies. Further liquid sums will also be held to accommodate the cashflow movements throughout the year; these attract a very low yield, so present negligible levels of interest rate volatility. Meanwhile, the Council's investment strategy and treasury operations do focus on preserving security, liquidity and yield as a basis for risk limitation.

Maturity Structure of Borrowing

7.5 This indicator is set to control the Council's exposure to refinancing risk. The limits set for each category within this indicator is wide since the indicator is only to cover the risk of replacement loans being unavailable, not interest rate risk. 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. 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%

Principal Sums Invested For Periods Longer Than a Year

7.6 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	2022/23	2023/24	2024/25
Limit on principal invested beyond year end	£25m	£25m	£25m

8 Related Matters

8.1 **Financial Derivatives**: Local councils 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).

8.2 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.

8.3 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.

8.4 In line with the CIPFA Code, the Council will seek external advice and will consider that advice before entering into financial derivatives to ensure that it fully understands the implications.

8.5 **Housing Revenue Account**: On 1 April 2012, the Council's predecessor (TDBC) 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. The General Fund pool will be further divided between mainstream borrowing and borrowing for commercial investments. 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.

8.6 **Markets in Financial Instruments Directive**: The Council has opted up to professional client status 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 Assistant Director Finance (S151 Officer) believes this to be the most appropriate status.

9 Capacity, Knowledge and Skills

9.1 Officers involved in making decisions on borrowing and investment processes are governed by internal procedures and processes and external statutory guidance in the form of the CIPFA Treasury Management Code, the CIPFA Prudential Code and HM Treasury Investment guidance. Internally limits are set in the annual Treasury Management Strategy Statement and the overriding Treasury Management Practices. The Council team dealing with investment assessments and management are professionally qualified and experienced in their field of property, finance and legal work, with access to training as required. Whilst internal skills are commensurate with the authority's risk appetite and activities, specialist advice will also be obtained for complex and non-traditional issues, as required.

9.2 Training for officers is encouraged and actively subscribed to. Elected Members also benefit from targeted training and updates on Treasury Management matters, economic and market news and on how to perform their functions in decision-making, scrutiny and challenge. The Council uses a combination of internal expertise and external specialists to provide training, advice and information.

9.3 The Council employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. For example, the Assistant Director Finance (s151 Officer) is a qualified accountant with many years' relevant experience. There are several other professionally qualified Finance Business Partners and Specialists within the Council's Finance Team, and the Council pays towards staff to study towards relevant qualifications including AAT and CCAB/CIMA. All officers involved in the treasury and investment management function have access to relevant technical guidance and training events to enable them to acquire and maintain the appropriate level of expertise, knowledge and skills to undertake their duties and responsibilities.

9.4 The Council also employs qualified property specialists / surveyors to manage land and property assets, and to contribute to key asset decisions.

9.5 Legal specialist advice is provided to the Council through the SHAPE legal partnership.

9.6 Where Council staff do not have the knowledge and skills required, use is made of external advisers and consultants who are specialists in their field. The Council currently employs Arlingclose Limited as treasury management advisers and various property consultants as required. This cost-effective approach ensures that the Council has access to knowledge and skills commensurate with its risk appetite.

9.7 Those charged with governance (Members of the Audit and Governance Committee and the Executive) recognise their individual responsibility to ensure that they have the necessary skills to complete their role effectively. The Section 151 Officer will ensure that elected Members tasked with treasury management responsibilities, including those responsible for scrutiny, have access to training relevant to their needs, responsibilities and understanding of sometimes complex issues.

10 Financial Implications

10.1 The budget for treasury investment income and debt interest in 2022/23 is summarised as follows:

TABLE 19	**Interest income and costs**		
	2022/23		
	Forecast Investment Income £'000	**Forecast Interest cost £'000**	**Forecast Net income or cost £'000**
General Fund	-714.5	948.2	233.7
HRA	-82.8	2,883.0	2,800.2
Total	-797.3	3,831.2	3,033.9

10.2 If actual levels of investments and borrowing, or actual interest rates differ from those forecast, performance against budget will be correspondingly different. Significant variances will be identified in budget monitoring reports to the Senior Management Team and the Executive.

11 Other Options Considered

11.1 The CIPFA Code does not prescribe any particular treasury management strategy for local authorities to adopt. The Assistant Director Finance (S151 Officer), having consulted the Portfolio Holder for Corporate Resources, believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed below.

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

Sources of Capital Finance other than Borrowing/ Debt

The Capital Strategy identifies the main sources of capital financing. Whilst borrowing is used once all other allocated sources have been applied, those other souces comprise the following options.

1. Grants and Contributions

1.1. The Council will seek to access external funding towards its capital investment plans where funds are available and our capital schemes are within scope of such grant funding conditions. Grants may include Government schemes, two examples of which have in previous years included the Housing Infrastructure Fund and the Future High Streets Fund. We also receive contributions from other bodies such as developers in the form of S106 contributions, and Community Infrastructure Levy paid by local developments to support local infrastructure (see below). It is often the case that the Council will need to put some of its own resources towards a scheme so that it may attract the external funding. This can be effective in levering in funds to enable larger infrastructure investments to progress and where the Council's own resources cannot adequately finance the costs.

1.2. The balance of capital grants unapplied held by SWT on 31 March 2021 was £14.659m. The General Fund 2022/23 Budget report includes financing from capital grants amounting to £24.870m (excluding Community Infrastructure Levy and s106 contributions) towards the current approved Capital Programme covering 2022/23 to 2024/25. Grant bids are usually a competitive process therefore expenditure is usually only built into the approved capital programme once the funding has been confirmed.

2. Section 106 Contributions (s106)

2.1. S106 contributions are paid across to the Council by other bodies, mainly including developers, and are made under planning agreements towards certain obligations. Contributions that related to district council services within SWT are paid to the Council. There are usually restrictions on the nature of costs that the funds can be used for, such as public art, play areas and equipment and affordable housing provision. S106 contributions can be used to fund both revenue and capital costs and are therefore allocated to capital and revenue budgets accordingly.

2.2. Under the planning agreement for the development of Hinkley Point C nuclear power station, significant mitigation funds have been paid by EDF to the Council as the planning authority. These s106 contributions are used to contribute to enhanced service costs and may also be used for capital projects.

2.3. Decisions regarding the allocation of funds may be taken under thresholds determined within the Council Financial Procedure Rules. The allocation of funds to specific projects funded by the Hinkley Point C s106 contribution are considered by the Hinkley Point Planning Obligations Board, who will make recommendations to the Executive for schemes up to £250k, and by Full Council for other larger sums.

3. Community Infrastructure Levy (CIL)

3.1. The Council operates an approved CIL policy, with the levy payable on development in certain areas within the District. CIL is recognised as capital income and therefore provides resources to contribute to eligible infrastructure investment such as transport and roads, education, town centre regeneration and flood alleviation schemes. 15% (or 25% with an adopted Neighbourhood Plan) of CIL income is passed to town or parish councils, and 5% is allocated to fund administration costs.

3.2. The Policy is approved by Council and implemented by Officers. Council determines the allocation of CIL income to investment themes as part of the annual capital programme approval process.

4. Capital Receipts from Asset Disposals

4.1. 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 to repay debt. Repayments of capital grants, loans and investments also generate capital receipts income.

4.2. The Council estimates it will receive £4.96million of capital receipts in the coming financial year, 2022/23; for the period 2021/22 to 2024/25, anticipated capital receipts are set out in Table 20, below:

TABLE 20	**Capital receipts income estimates**				
	2020/21 Actual £'000	**2021/22 Forecast £'000**	**2022/23 Estimate £'000**	**2023/24 Estimate £'000**	**2024/25 Estimate £'000**
General Fund:					
Asset Disposals	1,085	675	1,295	0	0
General Fund Total	**1,085**	**675**	**1,295**	**0**	**0**
HRA:					
Right to buy sales	2,824	1,002	3,319	3,670	2,535
Other	46	589	350	350	350
HRA Total	**2,870**	**1,591**	**3,669**	**4,020**	**2,885**
Total Receipts	**3,955**	**2,266**	**4,964**	**4,020**	**2,885**

4.3. The generation of capital receipts will be driven in part by the Asset Management Strategy, where the Council proposes a programme of proactive disposal of assets that are not performing to an acceptable level or are identified as surplus to requirements. Further decisions for the disposal of assets will either occur as a result of ongoing assessment of how properties are performing in support of services and as a result of demand for the purchase of Right To Buy council houses.

5. Revenue Contributions to Capital

5.1. The Council proposes to support the financing of part of the Capital Programme through direct contributions of revenue funding. Annual contributions are determined through the setting of Capital Programme priorities and affordability within the Revenue Budget. Revenue contributions are predominantly directed towards recurring annual investments, with the advantage of reducing debt financing costs. Revenue Contributions are included in the Revenue MTFP and the Capital Programme financing plan, as summarised in Table 2 above.

5.2. Within the budget considerations for 2022/23, bids adding to £1.592million have been added to the General Fund Capital Programme for the financial year. £1.364million of the additional expenditure is expected to be financed directly by an in-year revenue contribution, the balance being met from s106 contributions. The intention of this strategy is to contain the Council's borrowing requirement, which will benefit future years' budgets by reducing the cost of financing borrowing (debt repayments and interest).

5.3. The Housing Revenue Account does not currently have capacity to utilise revenue resources to finance capital expenditure although, given the low interest rates currently applied to long-term borrowing, cost benefits are anticipated into the longer-term by taking advantage of this interest rate opportunity.

Regeneration Schemes

The Council has a vision for a Garden Town. The Garden Town is symbolic of Taunton's ambitions to be flourishing, distinctive, and healthy. In developing its plans for the town, involving the communities is at the heart of the Council's approach. This will help shape the approach to creating a healthy, vibrant and attractive place to live and work. This vision is realised through a range of forward-thinking regeneration schemes.

Some of the key schemes under development by the Council are briefly described belowTheir progress is regularly reported to the Senior Management Team and to Members of the Council.

- **Coal Orchard Re-Development**
  The Coal Orchard is a mixed use commercial and residential scheme based on a brown field site with river frontage in the heart of Taunton town centre, immediately adjacent to the Brewhouse Theatre and former Coal Orchard car park. All the land for this development is owned by the Council. The overall project is largely complete, with remaining works programmed for completion during 2022/23. Development of this important regeneration site has been progressed by the Council because planning restrictions may have prevented any commercial entity making progress. The outcomes will ensure building density and height is curtailed whilst ensuring a significant public realm contribution is achieved to link up existing pedestrian and cycle ways, opening up the river frontage and creating a new sense of place.

- **Firepool Re-Development**
  As a part of the wider 2040 Garden Town Vision, the approved for Firepool Development and Infrastructure exceeds £2.2million. The Masterplan includes mixed residential, retail and office accommodation, whilst blending in a landmark boulevard with water gardens, an amphitheatre and dedicated cycle and pedestrian access in a high-quality environment. It also provides a highly sustainable solution that will be as close to zero carbon as practicable. The intention is that this supports the Town Centre by encouraging new and longer visits to the Town. It is a regeneration site that may also offer income earning opportunities. Whilst planning permission has been delayed due to the county-wide Phosphates issues, this has fortuitously allowed SWT to use a part of the site to accommodate a vaccination centre, successfully supporting the Somerset COVID vaccination programme.

- **Social Housing Development**
  The HRA has four pre-approved social housing development schemes (North Taunton Regeneration Project, Seaward Way, Oxford Inn and Zero Carbon Pilot) supported by a government social housing financing scheme and its “1-4-1 Agreement”.

The current approved budget is £100m to be spent over the next 10 years. Under the programme 347 new low carbon affordable homes will be delivered between 2023 and 2031. All homes will provide significantly lower fuel bills to customers than with other similar sized homes.

- **North Taunton Woolaway Project**
  With this major redevelopment scheme, the Council plans to transform the North Taunton Woolaway Project area and build quality, energy efficient new homes where people will want to live. Not only will the regeneration of North Taunton Woolaway bring more new homes, it aims to support growth within the local economy, offering health, environmental and employment opportunities. The project offers the Council the opportunity to maximise the social investment for the benefit of the community now and in the future. Comprising several building phases, including one refurbishment phase, the first home will be let in 2022.

- **Seaward Way, Minehead**
  This is a zero carbon affordable housing scheme. The council has a contractor appointed who is currently working under a pre contract services agreement (PCSA). The PCSA will allow the council and contractor to agree a price for the scheme and move into start on site (estimated January 2022). The scheme and tenants will benefit from a high standard of insulation, photovoltaic panels, air source heat pumps and battery storage. The scheme is complex, typically because of issues involving flooding and drainage that make the scheme relatively expensive, particularly the common infrastructure necessary to mitigate these issues, and the engineering necessary in the ground to raise levels and provide retaining structures to the residential development where required. These challenges resulted in a lengthy planning approval process for the project.

Common to all development projects in the county of Somerset, there is a common risk for all regeneration activity relating to the actual and potential presence of phosphates in the ground. The Environment Agency has identified that current amounts indicate contamination and there needs to be mitigation going forward. The nature of the problem and mitigation needed are likely to cause elapsed time beyond the originally anticipated timetables, plus added costs. This issue forms a major part of consideration for all new development projects, each one taken on a case-by-case basis.

External Context

The Council's external Treasury Management advisors, Arlingclose, provide a range of services to support the Treasury Management function. This includes specialist advice, economic and market data, guidance, technical material and training. They are also instrumental in providing commentary to support the Treasury Management Strategy, based on their own expert views. Naturally, global and domestic events, as well as the release of economic data, all influence markets and views will change and need updating. The views set out below are those of Arlingclose as at December 2021.

Economic Background: The ongoing impact on the UK from coronavirus, together with higher inflation, higher interest rates, and the country's trade position post-Brexit, will be major influences on the Authority's treasury management strategy for 2022/23.

The Bank of England (BoE) increased Bank Rate to 0.25% in December 2021 while maintaining its Quantitative Easing programme at £895 billion. The Monetary Policy Committee (MPC) voted 8-1 in favour of raising rates, and unanimously to maintain the asset purchase programme.

Within the announcement the MPC noted that the pace of the global recovery was broadly in line with its November Monetary Policy Report. Prior to the emergence of the Omicron coronavirus variant, the Bank also considered the UK economy to be evolving in line with expectations, however the increased uncertainty and risk to activity the new variant presents, the Bank revised down its estimates for Q4 GDP growth to 0.6% from 1.0%. Inflation was projected to be higher than previously forecast, with CPI likely to remain above 5% throughout the winter and peak at 6% in April 2022. The labour market was generally performing better than previously forecast and the BoE now expects the unemployment rate to fall to 4% compared to 4.5% forecast previously, however notes that Omicron could weaken the demand for labour.

UK CPI for November 2021 registered 5.1% year on year, up from 4.2% in the previous month. Core inflation, which excludes the more volatile components, rose to 4.0% y/y from 3.4%. The most recent labour market data for the three months to October 2021 showed the unemployment rate fell to 4.2% while the employment rate rose to 75.5%.

In October 2021, the headline 3-month average annual growth rate for wages were 4.9% for total pay and 4.3% for regular pay. In real terms, after adjusting for inflation, total pay growth was up 1.7% while regular pay was up 1.0%. The change in pay growth has been affected by a change in composition of employee jobs, where there has been a fall in the number and proportion of lower paid jobs.

Gross domestic product (GDP) grew by 1.3% in the third calendar quarter of 2021 according to the initial estimate, compared to a gain of 5.5% q/q in the previous quarter, with the annual rate slowing to 6.6% from 23.6%. The Q3 gain was modestly below the consensus forecast of a 1.5% q/q rise. During the quarter activity measures were boosted by sectors that reopened following pandemic restrictions, suggesting that wider spending was flat. Looking ahead, while monthly GDP readings suggest there had been some increase in momentum in the latter part of Q3, Q4 growth is expected to be soft.

GDP growth in the euro zone increased by 2.2% in calendar Q3 2021 following a gain of 2.1% in the second quarter and a decline of -0.3% in the first. Headline inflation has been strong, with CPI registering 4.9% year-on-year in November, the fifth successive month of inflation. Core CPI inflation was 2.6% y/y in November, the fourth month of successive increases from July's 0.7% y/y. At these levels, inflation is above the European Central Bank's target of 'below, but close to 2%', putting some pressure on its long-term stance of holding its main interest rate of 0%.

The US economy expanded at an annualised rate of 2.1% in Q3 2021, slowing sharply from gains of 6.7% and 6.3% in the previous two quarters. In its December 2021 interest rate announcement, the Federal Reserve continue to maintain the Fed Funds rate at between 0% and 0.25% but outlined its plan to reduce its asset purchase programme earlier than previously stated and signalled they are in favour of tightening interest rates at a faster pace in 2022, with three 0.25% movements now expected.

Credit outlook: Since the start of 2021, relatively benign credit conditions have led to credit default swap (CDS) prices for the larger UK banks to remain low and had steadily edged down throughout the year up until mid-November when the emergence of Omicron has caused them to rise modestly. However, the generally improved economic outlook during 2021 helped bank profitability and reduced the level of impairments many had made as provisions for bad loans. However, the relatively recent removal of coronavirus-related business support measures by the government means the full impact on bank balance sheets may not be known for some time.

The improved economic picture during 2021 led the credit rating agencies to reflect this in their assessment of the outlook for the UK sovereign as well as several financial institutions, revising them from negative to stable and even making a handful of rating upgrades.

Looking ahead, while there is still the chance of bank losses from bad loans as government and central bank support is removed, the institutions on the Authority's counterparty list are well-capitalised and general credit conditions across the sector are expected to remain benign. Duration limits for counterparties on the Authority's lending list are under regular review and will continue to reflect economic conditions and the credit outlook.

Interest rate forecast: The Council's treasury management adviser Arlingclose is forecasting that Bank Rate will continue to rise in calendar Q1 2022 to subdue inflationary pressures and the perceived desire by the BoE to move away from emergency levels of interest rates.

Investors continue to price in multiple rises in Bank Rate over the next forecast horizon, and Arlingclose believes that although interest rates will rise again, the increases will not be to the extent predicted by financial markets. In the near-term, the risks around Arlingclose's central case are to the upside while over the medium-term the risks become more balanced.
Yields are expected to remain broadly at current levels over the medium-term, with the 5, 10 and 20 year gilt yields expected to average around 0.65%, 0.90%, and 1.15% respectively. The risks around for short and medium-term yields are initially to the upside but shifts lower later, while for long-term yields the risk is to the upside. However, as ever there will almost certainly be short-term volatility due to economic and political uncertainty and events.

To complement the above economic background, Arlingclose has provided the following supplementary information:

Arlingclose Economic & Interest Rate Forecast – December 2021

Underlying assumptions:

- The global recovery from the pandemic has entered a more challenging phase. The resurgence in demand has led to the expected rise in inflationary pressure, but disrupted factors of supply are amplifying the effects, increasing the likelihood of lower growth rates ahead. The advent of the Omicron variant of coronavirus is affecting activity and is also a reminder of the potential downside risks.
- Despite relatively buoyant activity survey data, official GDP data indicates that growth was weakening into Q4 2021. Other data, however, suggested continued momentum, particularly for November. Retail sales volumes rose 1.4%, PMIs increased, and the labour market continued to strengthen. The end of furlough did not appear to have had a significant impact on unemployment. Wage growth is elevated.
- The CPI inflation rate rose to 5.1% for November and will rise higher in the near term. While the transitory factors affecting inflation are expected to unwind over time, policymakers' concern is persistent medium term price pressure.
- These factors prompted the MPC to raise Bank Rate to 0.25% at the December meeting. Short term interest rate expectations remain elevated.
- The outlook, however, appears weaker. Household spending faces pressures from a combination of higher prices and tax rises. In the immediate term, the Omicron variant has already affected growth – Q4 and Q1 activity could be weak at best.

- Longer-term government bond yields remain relatively low despite the more hawkish signals from the BoE and the Federal Reserve. Investors are concerned that significant policy tightening in the near term will slow growth and prompt the need for looser policy later. Geo-political and coronavirus risks are also driving safe haven buying. The result is a much flatter yield curve, as short-term yields rise even as long-term yields fall.
- The rise in Bank Rate despite the Omicron variant signals that the MPC will act to bring inflation down whatever the environment. It has also made clear its intentions to tighten policy further. While the economic outlook will be challenging, the signals from policymakers suggest their preference is to tighten policy unless data indicates a more severe slowdown.

Forecast:

- The MPC will want to build on the strong message it delivered this month by tightening policy despite Omicron uncertainty.
- Arlingclose therefore expects Bank Rate to rise to 0.50% in Q1 2022, but then remain there. Risks to the forecast are initially weighted to the upside, however becoming more balanced over time. The Arlingclose central forecast remains below the market forward curve.
- Gilt yields will remain broadly flat from current levels. Yields have fallen sharply at the longer end of the yield curve, but expectations of a rise in Bank Rate have maintained short term gilt yields at higher levels.
- Easing expectations for Bank Rate over time could prompt the yield curve to steepen, as investors build in higher inflation expectations.
- The risks around the gilt yield forecasts vary. The risk for short and medium term yields is initially on the upside but shifts lower later. The risk for long-term yields is weighted to the upside.

	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
Official Bank Rate													
Upside risk	0.00	0.00	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Arlingclose Central Case	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Downside risk	0.00	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25
3-month money market ra													
Upside risk	0.05	0.05	0.25	0.35	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Arlingclose Central Case	0.25	0.55	0.55	0.60	0.60	0.60	0.60	0.65	0.65	0.65	0.65	0.65	0.65
Downside risk	0.00	-0.25	-0.25	-0.30	-0.30	-0.30	-0.30	-0.35	-0.35	-0.35	-0.35	-0.35	-0.35
5yr gilt yield													
Upside risk	0.00	0.35	0.45	0.55	0.55	0.55	0.55	0.55	0.55	0.50	0.50	0.45	0.45
Arlingclose Central Case	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.65	0.70	0.75	0.75
Downside risk	-0.10	-0.20	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.30	-0.35	-0.40	-0.40
10yr gilt yield													
Upside risk	0.10	0.25	0.35	0.40	0.45	0.50	0.50	0.50	0.50	0.50	0.55	0.55	0.55
Arlingclose Central Case	0.80	0.85	0.85	0.85	0.85	0.85	0.85	0.85	0.85	0.90	0.90	0.95	0.95
Downside risk	-0.10	-0.25	-0.30	-0.35	-0.35	-0.35	-0.35	-0.35	-0.35	-0.40	-0.40	-0.40	-0.40
20yr gilt yield													
Upside risk	0.30	0.40	0.45	0.45	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Arlingclose Central Case	1.00	1.05	1.10	1.10	1.10	1.10	1.15	1.15	1.15	1.20	1.20	1.20	1.20
Downside risk	-0.15	-0.30	-0.35	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.45	-0.45	-0.45	-0.45
50yr gilt yield													
Upside risk	0.25	0.30	0.40	0.45	0.45	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Arlingclose Central Case	0.70	0.75	0.80	0.85	0.90	0.95	1.00	1.05	1.05	1.10	1.10	1.15	1.15
Downside risk	-0.15	-0.30	-0.35	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.45	-0.45	-0.45	-0.45

PWLB Standard Rate (Maturity Loans) = Gilt yield + 1.00%
PWLB Certainty Rate (Maturity Loans) = Gilt yield + 0.80%
PWLB Infrastructure Rate (Maturity Loans) = Gilt yield + 0.60%

Minimum Revenue Provision (MRP) Statement

1 Policy Statement

1.1 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 former Ministry of Housing, Communities and Local Government's Guidance on Minimum Revenue Provision (the HM Treasury Guidance) most recently issued in 2018.

1.2 The broad aim of the Treasury Guidance is to ensure that capital expenditure is financed 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.

1.3 The Treasury 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 following statement incorporates options recommended in the Guidance as well as locally determined prudent methods.

1.4 The predecessor Councils (TDBC and WSC) both adopted an MRP calculation method which spread the total Capital Financing Requirement over the weighted average useful life of each Council's asset base on a straight line basis. The calculation 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.

1.5 Following the creation of the Somerset West and Taunton Council on 1 April 2019, it was proposed to apply the same methodology for the opening balance General Fund CFR using the combined weighted average useful life of the consolidated asset base transferred to SWTC on 1 April. This is considered a prudent approach to charging for the legacy CFR transferred to SWTC from its predecessor Councils.

1.6 For capital expenditure incurred since 1 April 2021, the proposed methods for calculating MRP are as follows:

- For Property Plant and Equipment (PPE) assets, MRP will be calculated over the weighted average useful life of each Council's asset base at the start of each financial year on a straight line basis.

- For assets acquired by leases or the Private Finance, MRP will be determined as being equal to the element of the rent or charge that goes to write down the balance sheet liability.

- For capital grants and contributions to third parties MRP will be calculated on a straight-line basis over 25 years from the 1 April following the year in which the grants or contributions are incurred.

- 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 the principal repayments to reduce the capital financing requirement in respect of those loans. 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, including where appropriate, delaying MRP until the year after the assets become operational. While this is not one of the options in the Treasury Guidance, it is thought to be a prudent approach since it ensures that the capital expenditure incurred in the loan is fully funded over the life of the assets.

- For Investment Properties, MRP will be calculated over 50 years, or over the professionally assessed useful life of the asset if lower than 50 years. MRP may be calculated using either annuity or straight-line basis as determined by the Assistant Director Finance (S151 Officer).

1.7 MRP is charged based on the opening balance CFR carried forward from the previous year. Therefore Capital expenditure incurred during 2022/23 will not be subject to a MRP charge until 2023/24.

2 Capital Financing Requirement and MRP Estimates

2.1 Based on the Council's latest estimate of its capital financing requirement (CFR) on 31 March 2022, the budget estimate for MRP has been set as follows:

3 MRP Overpayments

3.1 **Overpayments:** In earlier years, the Council has made no voluntary overpayments of MRP that are available to reduce the revenue charges in later years. It is not planned to make an overpayment in 2021/22 or 2022/23 for the General Fund, however the Assistant Director Finance (S151 Officer) may determine such an overpayment during the year and report this through the Outturn Report. Meanwhile, the MRP for 2022/23 is forecast as follows:

Capital Financing Requirement (CFR) and Minimum Revenue Provision (MRP)	31-Mar-22 CFR (Revised) £000	2022/23 MRP Estimate £000
General Fund	151,089	2,983

NOTE to Table: This table does not reflect the recommendation to be made to Full Council to apply £2million General Reserves to fund capital expenditure in 2021/22 and a proposal to apply a Voluntary Overprovision (VRP) of £1m. The impact of this would be to reduce the “CFR (Revised)” by £2m and to add £1m Voluntary Overpayment in addition to the MRP Estimate of £2.983m. These adjustments will be incorporated at the point of Full Council meeting on 24 February.

3.2 In 2022/23, a voluntary overpayment will be applied from the HRA, as shown below:

Capital Financing Requirement (CFR) and Voluntary Overpayments	31-Mar-22 CFR (Revised) £000	2022/23 Voluntary Over-payments Estimate £000
Housing Revenue Account	112,038	1,021

Report Number: SWT 43/22

Somerset West and Taunton Council

Executive – 16 March 2022

Wellington and Cullompton Railway Station Project – Approval of Revised Project Governance Arrangements

This matter is the responsibility of Executive Councillor Mike Rigby

Report Author: Sarah Povall, Principal Planning Policy Officer

1 Executive Summary/Purpose of the Report

1.1 The purpose of this report is to seek approval of the project governance arrangements for the next phase of the Wellington and Cullompton Railway Station Project, for which the end product will be a Final Business Case (FBC). This will establish clear lines of decision-making and reporting for the project going forward following the agreement with the Department for Transport that Network Rail will be leading on the project from this point onwards.

1.2 The current Steering Group will be seeking endorsement of the arrangements from the Devon and Somerset Metro Group, which has the role of Project Board for this project, and formal sign-off from the promoters Somerset West and Taunton Council (through Executive Committee) and Mid Devon District Council (through Cabinet).

2 Recommendations

2.1 It is recommended that the Executive resolves to endorse the governance arrangements set out in Appendix A.

3 Risk Assessment (if appropriate)

3.1 Robust, suitable and appropriate governance arrangements for the new stations project are necessary to drive the project progress, allow it to operate efficiently and to build relationships with stakeholders. Effective governance arrangements will also ensure that best use is made of funding opportunities. The governance arrangements provide a structure within which the project will develop and be accountable.

3.2 Risks will be owned by Network Rail, as project sponsor, from this point forwards and constantly reviewed as the project develops.

4 Background and Full details of the Report

4.1 The intention of the project is to restore rail access to Wellington and Cullompton. It is considered that this can be part of a more general enhancement to the rail service between Bristol and Exeter. A key driver for delivering these projects is that both areas are subject to major housing expansion and regeneration activity, along with being proximate to other significant planned growth.

4.2 The vision for Wellington in the Adopted Taunton Deane Core Strategy 2011-2028 sets out the potential to reopen Wellington Station later in the Core Strategy period, bringing wider sustainability benefits and representing the aspiration of the community.

4.3 A number of studies have been undertaken so far, to support the development of the project. These include:

- Network Strategy and Capacity Planning: Capability and Capacity Analysis. Devon Metro Phase 2 Cullompton and Wellington Report (Network Rail, April 2017);
- The Cullompton and Wellington Initial Station Assessment (WSP, January 2019);
- Cullompton Wellington Rail Stations Appraisal (Devon County Council, 2014);
- Cullompton Wellington Rail Stations Appraisal Summary (Devon County Council, 2017); and
- Strategic Outline Business Case (WSP, 2021)

4.4 This project was successful in Ideas Fund Round 1 and submitted its SOBC in January 2021 which has subsequently been approved.

4.5 The SOBC produced by the two proposers (Mid Devon and Somerset West & Taunton Councils) with support from Network Rail, Department for Transport and Great Western Railway sets out the case for the opening of new stations at the growing towns of Wellington and Cullompton in Somerset and Devon respectively.

4.6 This SOBC is aligned with the best practice guidance for a Strategic Outline Business Case as described in “The Transport Business Cases” (DfT, January 2013). The SOBC has examined non-rail options including highway investment and improved bus services, and concluded that, in view of existing highway congestion and its impact on road journey times, a rail solution is the most effective way of connecting communities and supporting growth. The SOBC confirms that re-opening the two railway stations has a strong value for money case.

4.7 Following the funding announcement in the autumn budget statement in October 2021, the Steering Group have been working closely with Network Rail and the Department for Transport (DfT) to finalise next steps in relation to the new stations at Wellington and Cullompton.

4.8 The £5 million of funding announced will enable the project to advance significantly through the next two stages of project development and design, following the submission of the Strategic Outline Business Case at the beginning of 2021. The £5m will be administered by Network Rail as part of the Restoring Your Railway, Rail Network Enhancements budget with specific outputs and milestones agreed between DfT and Network Rail.

4.9 The promoters, Somerset West and Taunton Council (SWT) and Mid Devon District Council (MDDC), have agreed with DfT that Network Rail will lead on the project from this point onwards, with support from their alliance partner Great Western Railway. It is felt that this will bring significant benefits to the project.

4.10 Network Rail has committed to working collaboratively with the promoters to ensure wider land-use, access, masterplanning and community issues can be looked at holistically. The following set of revised governance arrangements aims to reflect this and the change in project lead.

4.11 The proposed governance structure is set up to oversee the development of the Final Business Case (FBC) and complete PACE 1, 2 and some elements of PACE enabling deliverables. PACE refers to Network Rail's rail investment framework, "Project Acceleration in a Controlled Environment".

4.12 The governance structure will be reviewed with all parties on commencement of the Construction stage.

4.13 The proposed governance structure seeks to continue some aspects of the current arrangements, but importantly it also looks to adapt to Network Rail's new role in leading the project from this moment forward. This proposal is considered to provide an appropriate basis for robust decision-making and project co-ordination to take the project through the next stages of its development. These governance arrangements are consistent with established project management good practice.

4.14 The various elements are explained in Appendix A.

5 Links to Corporate Strategy

5.1 "Theme 1: Our Environment and Economy" of the Corporate Strategy sets out the objective to, "encourage wealth creation and economic growth throughout the District by attracting inward investment, enabling research and innovation, improving the skills of the local workforce and seeking to ensure the provision of adequate and affordable employment land to meet different business needs."

5.2 The purpose of this project is to encourage wealth creation and economic activity through improved connectivity.

5.3 "Theme 3: Homes and Communities" of the Corporate Strategy sets out the objective to, "offer a choice of good quality homes for our residents, whatever their age and income, in communities where support is available for those who need it.”

5.4 The aim of this project is to improve connectivity and access to services, facilities and jobs.

6 Finance/Resource Implications

6.1 Funding for developing the project from this point onwards is being received by Network Rail from DfT, from the Restoring Your Railways Fund.

6.2 Ongoing participation in the Working Group, Steering Group and Senior Stakeholders Group will be met through existing budgets.

7 Legal Implications

7.1 No legal implications are associated with the proposed governance structure.

8 Climate and Sustainability Implications

8.1 The development aims to have a positive impact on promoting active travel and reducing traffic and associated across the District.

9 Safeguarding and/or Community Safety Implications

9.1 None identified.

10 Equality and Diversity Implications

10.1 No equality and diversity issues are identified for this report at this stage. As the project goes forward it will need to consider the views from representatives from protected groups that the project has the potential to impact upon.

11 Social Value Implications

11.1 This project is intended to have a high social value, by promoting the connectivity between places in an environmentally conscious way.

12 Partnership Implications

12.1 The governance arrangements in Appendix A set these out in greater detail.

13 Health and Wellbeing Implications

13.1 None identified.

14 Asset Management Implications

14.1 A new station in Wellington will encourage a modal shift and as a consequence of reducing the number of vehicles on the road, will also help to improve air quality.

15 Scrutiny/Executive Comments / Recommendation(s)

15.1 None identified.

Democratic Path:

- **Scrutiny/Audit and Governance Committee – No**
- **Executive – 16 March 2022**
- **Full Council – No**

Reporting Frequency: Once only

List of Appendices (background papers to the report) (delete if not applicable)

Appendix A	Draft Project Governance Arrangements

Contact Officers

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APPENDIX A

Draft Project Governance Arrangements
Wellington and Cullompton Railway Station Project

Version 6

Jointly prepared by: Somerset West and Taunton Council; Mid Devon District Council; Somerset County Council; Devon County Council; Network Rail; Great Western Railway; and Heart of the South West LEP

February 2022

Background

This paper proposes governance arrangements for the next phase of the Wellington and Cullompton Railway Station Project, for which the end product will be a Final Business Case (FBC).

For this project the Governance will need to consider the criticality of this project to the promoters and also for the Department of Transport (DfT) the funder of this phase of work. The Governance plan will need to comply with the requirements of all parties.

Agreed governance arrangements would also assist in establishing a consensus over the approach to the project in terms of: respective roles and responsibilities for key aspects of the project, general project management, together with stakeholder engagement.

In 2019, the Devon and Somerset Metro Group agreed that Somerset West and Taunton Council (SWT) and Mid Devon District Council (MDDC) would take on the role of project sponsor. This was to recognise that Devon County Council and Somerset County Council were unable to commit time and resources required to fulfil this role.

Following the funding announcement in the autumn budget statement in October 2021, the Steering Group have been working closely with Network Rail and the Department for Transport (DfT) to finalise next steps in relation to the new stations at Wellington and Cullompton.

The £5 million of funding announced will enable the project to advance significantly through the next two stages of project development and design, following the submission of the Strategic Outline Business Case at the beginning of 2021. The £5m will be administered by Network Rail as part of the Restoring Your Railway, Rail Network Enhancements budget with specific outputs and milestones agreed between DfT and Network Rail.

The promoters, Somerset West and Taunton Council (SWT) and Mid Devon District Council (MDDC), have agreed with DfT that Network Rail will lead on the project from this point onwards, with support from their alliance partner Great Western Railway. It is felt that this will bring significant benefits to the project.

Network Rail has committed to working collaboratively with the promoters to ensure wider land-use, access, masterplanning and community issues can be looked at holistically. The following set of revised governance arrangements aims to reflect this and the change in project lead.

Note:
In July 2021, the Secretary of State approved a proposal for a new single unitary council to be formed in Somerset, to replace Somerset's current five councils. Somerset's County and District Councils are now working together to deliver the new council for Somerset that will bring together existing council services. The five councils will also work with partners, city, town and parish councils and residents to create a new council which delivers for everyone. The new council will officially come into being in April 2023. Until then, services will continue to be provided by the four district councils - Mendip, Sedgemoor, Somerset West and Taunton and South Somerset along with Somerset County Council.

Governance Proposal

The proposed governance structure (Appendix 5) is set up to oversee the development of the Final Business Case (FBC) and complete PACE 1, 2 and some elements of PACE 3 enabling deliverables. PACE refers to Network Rail's rail investment framework, "Project Acceleration in a Controlled Environment" (see Appendix 1).

The governance structure will be reviewed with all parties on commencement of the Construction stage/PACE 3.

The proposed governance structure seeks to continue some aspects of the current arrangements, but importantly it also looks to adapt to Network Rail's new role in leading the project from this moment forward. This proposal is considered to provide an appropriate basis for robust decision-making and project co-ordination to take the project through the next stages of its development. These governance arrangements are consistent with established project management good practice.

The various elements are explained in more detail below.

DfT Governance

This project will follow DfT Governance as detailed within the Remit Letter between Network Rail and DfT and as prescribed for all RyR funded projects (see Appendix 2).

Network Rail Governance

Network Rail will manage this project in line with all Investment Regulations Guidance (see Appendix 3).

Great Western Railway Decision-Making Processes

See Appendix 4.

The Senior Stakeholder Forum (held every 3 periods)

Roles and Responsibilities
The Devon and Somerset Metro Board, acting as the Senior Stakeholder Forum, will provide strategic direction and oversight in the development of the Final Business Case (FBC) for the project. It is likely that the Senior Stakeholder Forum will be required to meet Quarterly (every 3 periods) to enable it to be well informed of progress and issues. Key roles and responsibilities are listed below:

- Champion the new stations initiative, its delivery and reporting to respective corporate management teams and elected members to ensure corporate support and buy-in;
- Facilitate and promote joined up delivery and to engage with and secure support at a strategic level from key stakeholders and partners;
- Endorse the overall direction of the project whilst working within the framework of Restoring your Railway principles;
- Provide a point of escalation for the Steering Group should this be needed for matters outside the railway boundary;
- Make decisions/recommendations on strategic issues and resolve showstoppers; and
- Provide 'upwards' high-level liaison into Government bodies.

Composition/Membership of the Devon and Somerset Metro Board
The composition of the Devon and Somerset Metro Board, in fulfilling this role as the Senior Stakeholder Forum, would continue with the following existing representatives:

- Somerset West and Taunton Council (SWT) Leader/Portfolio Holder
- Mid Devon District Council (MDDC) Leader/Portfolio Holder
- SWT/MDDC Senior Officers
- Somerset County Council (SCC) Senior Officer/Portfolio Holder
- Devon County Council (DCC) Senior Officer/Portfolio Holder
- Heart of the South West LEP representative
- Rail Operators
- Passenger Representative
- Network Rail
- Local MPs
- Representative from Wellington Town Council
- Representative from Cullompton Town Council

Steering Group (held every period)

Roles and Responsibilities

The Steering Group will be the forum where formal decisions are made, providing promoter/cross industry leadership and oversight for the development and delivery of two new railway stations at Wellington and Cullompton

The Steering Group will implement the Project Plan and focus on the day-to-day project management of the continuing development of the PACE objectives and driving forward the OBC. It will identify and oversee the project working groups and to do so effectively is likely to need to meet at least once every 4 weeks to generate and maintain momentum in the project.

The Steering Group will report to the Senior Stakeholder Forum. Key roles and responsibilities are listed below:

- Oversee the project development (including the work undertaken by either consultants or contractors) work up to the end of PACE 2 and enabling elements of PACE 3. This work will include matters such as resourcing, programme and budget;
- Review and monitor the project progress against the milestones agreed with DfT;
- Review and monitor project cost against forecast and authorised change control in line with proposed change control process;
- Review and monitor the land strategy plan and progress to programme. Provide a forum for discussion of any material input from any of the stakeholders represented, for example related to land use planning, transportation, rail industry standards, etc;
- Review and monitor risk and opportunities and detail where support may be needed to progress forward;
- Co-ordination of input from partner organisations and drawing in technical expertise as required;
- Review and endorse the 4-weekly update to the DfT New Station Board;
- Consider, identify and progress any potential of further funding opportunities;
- Prepare agendas for the Devon and Somerset Metro Board and agree any points of escalation the Steering Group may need;
- Review the need for external communications; and
- Be an escalation point for scope decisions.

Composition/Membership of the Steering Group

The composition of the Steering Group would be very similar to the current officer group. It is proposed that the Membership would include the following representatives:

- Network Rail
- Rail Operators
- SWT Officers
- MDDC Officers

- Heart of the South West LEP transport representative
- DCC and SCC Officers
- DfT

Project Working Group (2 weekly)

To ensure the project delivers its ambitions and remit, it is anticipated that the current 2-weekly steering group is converted into a working group, 2-weekly, to track progress and work through tactical and technical issues and to be format for decision making. This working group will include members of Network Rail, Rail Operators, SWT officers, MDDC officers, SCC officers, DCC officers, Heart of the South West LEP and would call in assistance from other technical experts as required.

Stakeholder Engagement

The steering group will need to call on others to help develop the project. This will include a range of technical experts and stakeholders. Likely stakeholders would include:

- Technical Rail/Transport Advisors
- Freight Operators and other Train Operators
- Western Power
- Environment Agency
- Health & Safety Executive
- Homes England
- Highways England
- Historic England
- Transport Forum (including representatives from business, transport, Sustrans and passenger/road user representatives)
- Landowners

The nature of this engagement will evolve as the projects develop.

Project Sign Off

Network Rail will need to seek approval on key decisions through their corporate processes.

Proposed Project Meetings Timetable

Week	Working Group	Steering Group	Project Board
1	x		
2		x	
3	x		
4			
5	x		
6		x	
7	x		
8			
9	x		
10		x	
11	x		
12			x

APPENDIX 1

Project Acceleration in a Controlled Environment (PACE)

Project Acceleration in a Controlled Environment (PACE) describes how Network Rail manages and controls investment projects on the rail network.

Network Rail has developed this approach to managing projects in order to minimise and mitigate the risks associated with project development and delivery.

The approach is based on best practice within comparable industries that undertake major investment projects.

Implementation of this standard will reduce the reputational and financial risk related to the delivery of complex projects.

PACE provides a more flexible control framework enabling Sponsors and Project Managers to tailor the controls herein to better meet the requirements of their project.

APPENDIX 2

Department for Transport
Restoring Your Railway Governance Arrangements

The funding for the first phase of works will be under the overall governance of Wales and Western Programme Board panel which is chaired DfT as the Client for the project. Should papers need to be endorsed to other boards (such as Portfolio Board) it is Programme Board that support this process.

Changes to programme funding (cashflow agreed) and material changes to anything else (programme, budget) should be flagged to this session whilst confirming at the 4 weekly RyR (national) review group and the Programme Steering Group the plan to do this. Network Rail sponsor will lead this activity and coordinate with all key stakeholders as needed.

This is standard process for all enhancement projects for which DfT is the funder. The detail of how the required Change Control process will work is detailed in the Remit Letter between Network Rail and DfT.

APPENDIX 3

Investment Regulations (IR01) – Network Rail

Authority to Investment must be obtained in accordance with these regulations before any commitment is made to provide finance or any other resource to an investment project. Sufficient investment authority must be in place before:

a) Committing to a principal agreement with a customer (in this case DfT)
b) Committing internal (to Network Rail) resources to provide support for completing anything other than early work, such as Output Definition

For this project, the Authority to Investment is obtained from the Wales and Western Regional Investment Panel, which sits periodically. An Investment Paper is drafted by the Sponsor, with support from the Project Manager. This outline: what the project aims to achieve; the timescales; the costs; key risks and mitigations; other relevant information.

The Network Rail sponsor is accountable for management of the governance; supported by Network Rail delivery and commercial colleagues. Governance must be always maintained.

Wales and Western Regional Investment panel will approve:

a) Scope;
b) Budget (amount and annualised spend);
c) Delivery phase (such as PACE 1-3 in the case of this project);
d) Signing of any Principal Client agreement (subject to Corporate Commercial colleagues agreeing "authority to contract").

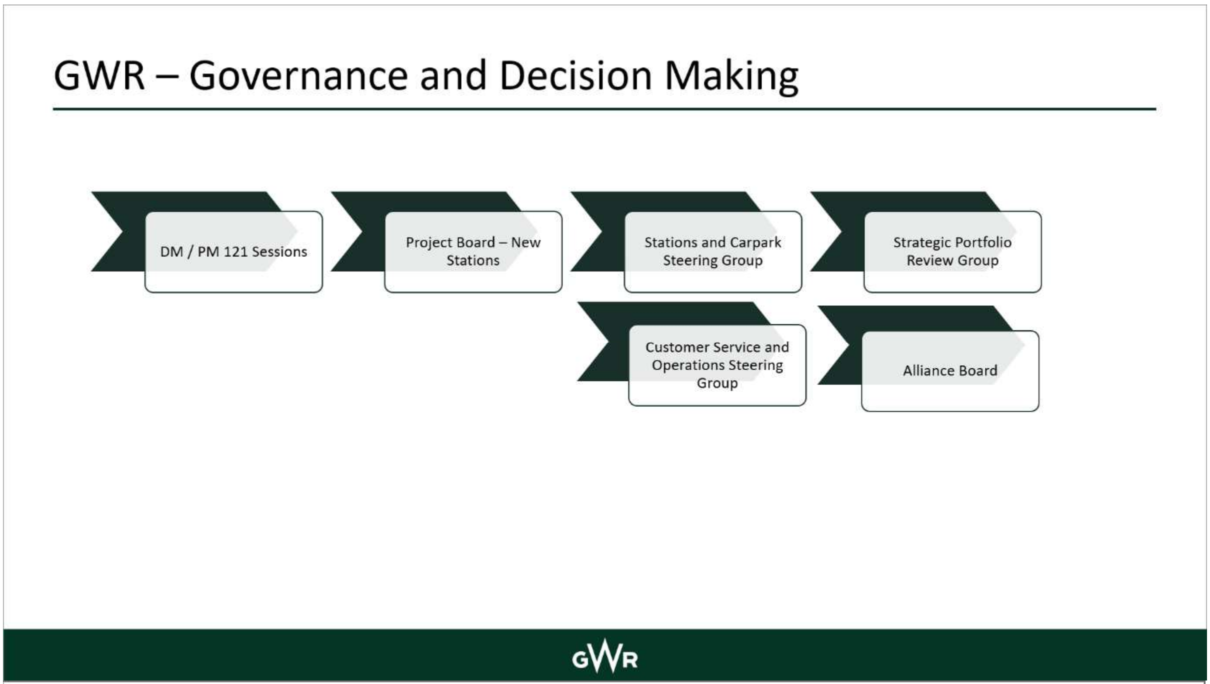
Any change in what has been authorised (at Regional Investment Panel) would need the sponsor to revert to this authorising panel to detail that change. It could be

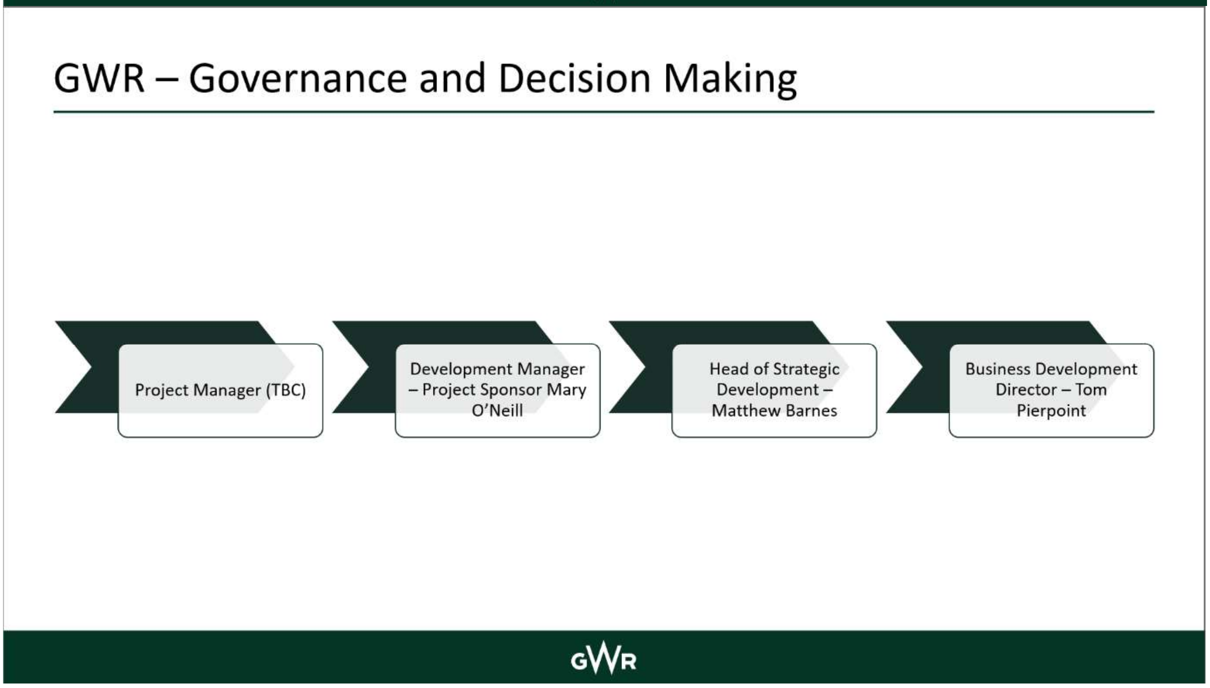
a) Material scope change
b) Changes which could impact the existing budget/programme/reputational issues or another other matters that the sponsor determines needs to be sighted to the authorising panel.

It should be noted that Network Rail will always work within Network Rail and DfT governance. The sponsor will lead this work and manage the governance.

APPENDIX 4

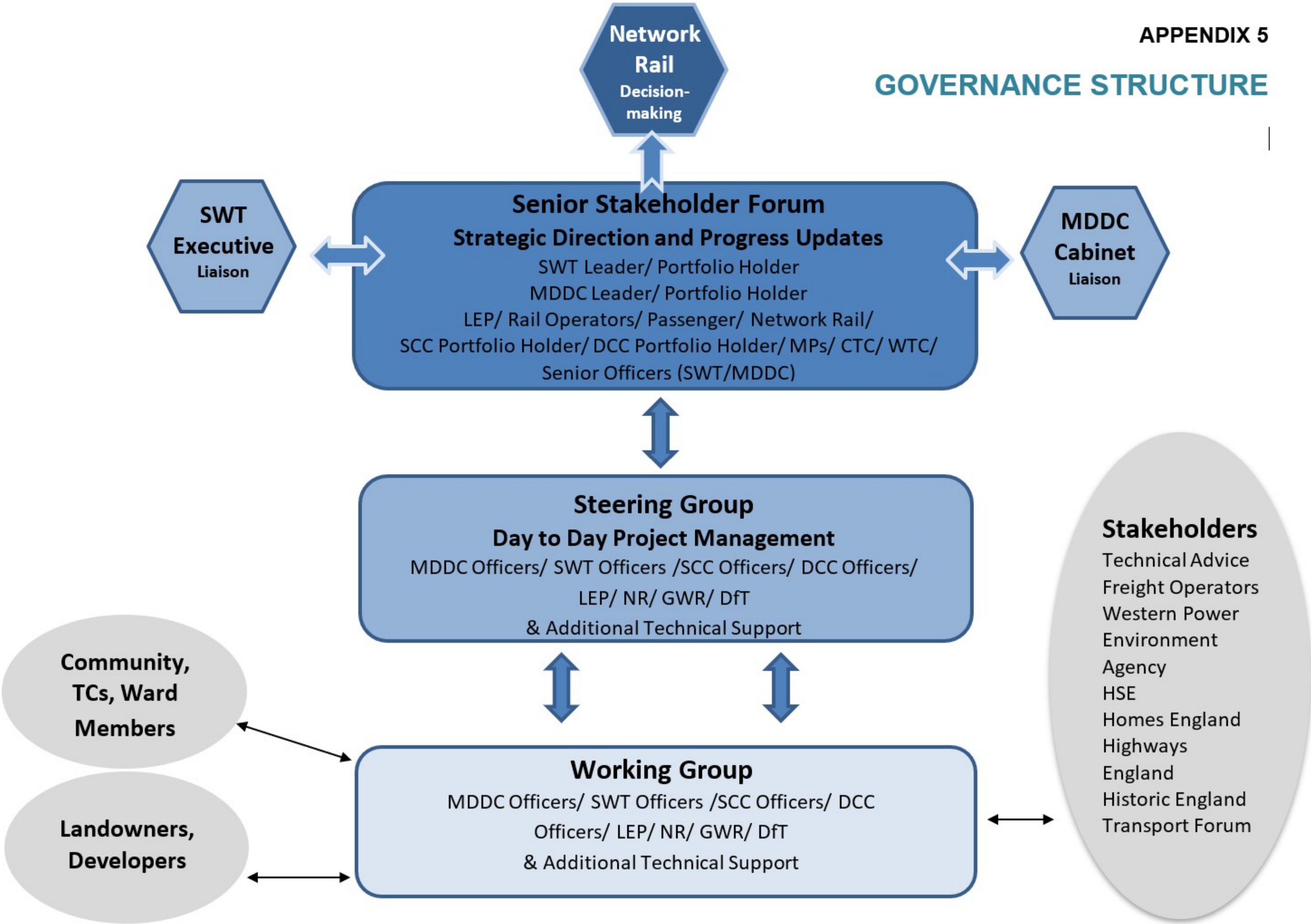
Great Western Railway Decision-Making Processes





APPENDIX 5

GOVERNANCE STRUCTURE



Report Number: SWT 44/22

Somerset West and Taunton Council

Executive – 16 March 2022

Wordsworth Drive and Coleridge Crescent Flats Regeneration, Taunton

This matter is the responsibility of Executive Councillor Member Councillor Francesca Smith

Report Author: Chris Brown, Assistant Director Development & Regeneration, Ian Shoemark, Project Manager

1. Executive Summary / Purpose of the Report

1.1 Wordsworth Drive and Coleridge Crescent Flats Regeneration (WD&CC) includes two SWT blocks of flats and an SWT owned garage site. Wordsworth Drive Flats contains a shop, 11x2 bed SWT apartments and a private leasehold apartment. Coleridge Crescent contains 4x2 bed SWT apartments. There are 13 garages on the site. A map of the regeneration can be found at Appendix A.

1.2 The report proposes that the WD&CC flats no longer provide the quality of accommodation, in terms of decency and thermal efficiency, which SWT tenants should expect and which the Council strive to provide.

1.3 SWT considered four investment options before concluding that the two blocks have reached the end of their life and costs to the Council's Housing Revenue Account (HRA) to bring the two blocks to an appropriate standard for the next sixty years does not provide reasonable value to the Council (HRA Business plan).

1.4 The report recommends the decanting of the Wordsworth Drive Flats should commence in April 2022 with the award of Homefinder gold band status to the ten tenants. The awarding of gold band status to tenants will maximise the rehousing opportunities available to the tenants through Homefinder and maximise the opportunities open to the tenants through SWTs Decant Policy. In addition, the negotiation and purchase of one leasehold property will progress and agreement will be reached with the shop for its closure.

1.5 The report recommends the decanting of Coleridge Crescent Flats commences in April 2023 with the awarding of Homefinder gold band to the four tenants.

1.6 The Tenants Strategic Group considered and supported this report at their meeting 24th January 2022

1.7 The report proposes that the properties/blocks are secured and then demolished to minimise any blight or nuisance to residents. The Housing Directorate currently believe that the garages can remain and continue to be let until an alternative use for the site is agreed.

2. Recommendations

2.1 The Community Scrutiny Committee is asked to consider the following recommendations prior to the reports progression to the Executive Committee :

(a) To approve the decanting of tenants from Wordsworth Drive Flats with the awarding of gold band status in April 2022. Gold band status will support tenants secure alternative suitable accommodation.

(b) To approve the decanting of tenants from Coleridge Crescent Flats with the awarding of gold band status at a time to be determined by the Director of Housing and Communities in conjunction with the portfolio holder for Housing.

(c) To approve the purchase through mutual consent one leasehold property at Wordswoth Drive flats and compensate the owner in line with statutory compensation requirements.

(d) To make available to the leaseholder the opportunity of a SWT Equity Loan to help secure alternative private accommodation.

(e) To note officers will agree the closure date and compensation with the shop leasee to ensure Wordsworth block is available for demolition.

(f) To approve the demolition of Wordswoth Drive and Coleridge Crescent Flats at a time to be determined by the Director of Housing and Communities in conjunction with the portfolio holder for Housing.

(g) Officers to return to the Council with options for the future use of the site.

(h) To approve a supplementary budget of £1,111,700 and to delegate the funding of the scheme to the Section 151 Officer.

3. Risk Assessment

3.1 Below are the main risks relating to the proposal:

Risk	Score out of 25 based on probability x impact	Mitigation
Poor consultation may result in resistance and disconnection from tenants	10	Careful planning is required and consultation with all parties simultaneously (tenants, leaseholders, shop leasee). Keep residents and stakeholder informed
Limited alternative accommodation for tenants	10	Officers have analysed the availability of alternative accommodation to support the decanting of tenants. 2 bed properties are in high demand however there is thought to be sufficient turnover of homes to allow for decanting customers within 12 months of them being awarded gold band. Officers are conducting housing needs assessments to understand the needs of

Risk	Score out of 25 based on probability x impact	Mitigation
		customers and to explore any preferences or opportunities for downsizing or alternative accommodation for example sheltered housing.
The structural quality of the block deteriorates faster than anticipated.	6	An agreed monitoring regime has been agreed with specialist engineers to ensure the structure of the block is considered and any changes identified. A number of additional surveys are taking place and investment in barriers and garage access are taking place. A third-party fire safety assessment has been commissioned.
Tenants experience a substandard service (non decent homes poor thermal efficiency) as they await to be decanted	10	Tenants' will continue to benefit from SWTs comprehensive compliance, repair and maintenance service as they await a new home. It is recognised that that the properties thermal efficiency combined with electric heating means some customers are in fuel poverty. It is proposed that the directorate introduce a winter payment for tenants to reduce the impact of heating costs as they await decanting. A contract for damp and mould cleaning will be let to help manage any problems which arise.
Loss of rent revenue for SWT	15	The decanting of the two blocks will reduce the income from rent to the HRA. The HRA business plan has calculated and reflected the loss of rent and the cost of decant and demolition within its December 2021 review. It is assumed the garages will remain let until a new purpose for the site is agreed. The decanting of the two blocks will be phased to manage rent loss. The site will provide an opportunity for income through sale or new rental income.
Inability to purchase the leasehold unit	6	The Council is experienced at negotiating the purchase of owner occupier properties in regeneration schemes. Should purchase through mutual consent not be possible officers will return to the Council with proposals requesting the commencement of a compulsory purchase order (CPO). Officers do not currently believe a CPO will be required and currently enjoy a positive dialogue with the leaseholder.

Risk	Score out of 25 based on probability x impact	Mitigation
Inability to resolve the shop lease	8	SWT is in dialogue with the shop leasee and are progressing through the corporate asset management team the ending of the lease and compensation. It is assumed that the shop closure will increase the vulnerability of the building and the security plan will reflect this challenge.
Site security before, during or after decanting	15	A number of mitigation measures will need to be agreed to ensure the site is secured and the community remain safe. Regular inspections of the site will need to be maintained and good communication with tenants and the community to help them report any concerns will be important. The demolition of the flats at the earliest opportunity is seen as important to reduce blight and limit any potential anti-social behaviour. Following demolition, a management regime will be put in place to maintain the space prior to sale or redevelopment.
Covid, Brexit, market uncertainty	10	There are a number of external factors which continue to create difficulties when delivering projects in a timely way. SWT and other landlords have experienced challenges in securing contractors and materials to deliver projects in the most timely and economic way. This scheme requires a significant amount of resources from within the authority and therefore is reliant on internal capacity being available.

4.0 Background and full details of the report

4.1 The properties have been recognised as poor quality for a number of years and this has led to a series of reports being commissioned to understand the most appropriate investment option.

4.2 Kendal Kingscott completed a report in March 2021 following an initial stock condition survey report from Curtin's. The report was inconclusive about the quality of the structure and unable to make a recommendation as to the best way forward.

4.3 The Kendal Kingscott report suggested commissioning a detailed appraisal of the condition and life expectancy of the concrete frame and associated elements, including testing the concrete condition.

4.4 The Curtain's concrete analysis report was received November 2021. The report has highlighted a number of concerns relating to the quality of the concrete and the condition and limited volume of streel reinforcement. As a result of the Curtin's report the building is deemed safe however as the engineers were unable to confirm a 20-

year life for the building it is considered that the building is close to the end of its expected life. SWT has put in place a number of actions to monitor the building until demolition is undertaken.

4.5 Prior to receiving the most recent engineer's report officers had hoped that an investment option may be possible, and these properties were place in the Wave 1 Social Housing Decarbonisation Fund (SHDF) bid to attract subsidy for the investment. However, as the properties will not be retained Officers are working to prepare alternative properties to substitute in the Wave 1 programme should the council be awarded the fund.

4.6 <u>Options considered for the blocks</u>

4.7 Following Curtin's concrete report in November 2021 Officers carried out an option appraising which included the following alternative options:

- Do Nothing
- Retention and investment (7 -60 years)
- Phased decant of the blocks over two years without capital investment.
- Phased decant of the blocks over seven years with capital investment.

4.8 Officers concluded that a phased decant of the blocks over two years without capital investment is the preferred option both on economic and safety grounds.

4.9 The phase decant of the blocks over two years will require resources to:

- Carry out a limited amount of additional surveying and remediation work plus an inspection regime.
- Decant fifteen (15) tenants
- Support boarding up/security, disconnections, additional cleaning regime and additional tenancy support.
- Purchased one leasehold property and make available the equity loan scheme as applied at NTWP, see appendix C.
- Provide compensation to the shop lease as a result of being unable to extend the shops lease
- Support a limited winter fuel payment for SWT customers due to inadequate thermal efficiencies, electric heating systems and the lack of an investment solution to create an affordable solution.
- Demolition costs

4.10 The HRA business plan has recognised the loss of rental income within its December 2021 review.

4.11 The housing service is working on the understanding that the garages can continue to be let until an alternative proposal for the sites use is brought forward.

4.12 The Tenants Strategic Group considered and approved this Report at its meeting 24th January 2022. The TSG identified benefits and value in the support approach provided to customers by SWT officers at NTWP as they decanted and were affected by regeneration. They requested the same level of support be extended to tenants affected at the WD&CC scheme. The TSG also asked if there were opportunities to use new homes at NTWP to support the decanting.

4.13 Officers confirm that the support to tenants and residents at NTWP will be mirrored, as closely as possible, at WD&CC. In relation to an offer of NTWP new homes to WD&CC tenants officers do not feel a commitment is appropriate or necessary as it would add an additional layer of complication. The complication would be due to the uncertainty of new unit completions, the speed at which WD&CC tenants would wish to move and the priority of the Council to minimise vulnerability on the WD&CC scheme as it decants. Officers are conducting housing needs assessments with residents which will identify their preferred location(s) for their forever home. The Gold Banding Status will allow a good degree of priority within the Homefinder pool of available properties and this could include new build council homes at NTWP and elsewhere depending on the timing of their bids and the completion of new build homes.

4.14 Officers will work with the leaseholder with the aim of agreeing purchase by mutual consent. The housing service has a equity loan scheme which is being successfully used in the NTWP regeneration. The scheme allows owners who are asked to leave their home by the council access to additional funds to allow them to compete in the market for an alternative home. The Council in simple terms takes a stake in the property to the value of the equity loan and benefits from any uplift in house price inflation when the loan period ends. The owner does not pay interest on the council equity loan. Please see appendix C for more information. A benefit of this scheme is that it retain customers in the owner occupied sector and reduces the likelihood that owner occupiers will require affordable rented accommodation.

5 Links to Corporate Strategy

5.1 In 2019, the Council declared a climate emergency and committed to working towards achieving carbon neutrality and climate resilience by 2030.

5.2 WD&CC flats cannot achieve low or zero carbon standards without excessive financial pressures being placed on the HRA Business Plan. The additional investment in the structure of the homes means that demolition is a more effective means to support the Council’s strategic objective.

5.3 In 2023 the District will be adsorbed into one Unitary Somerset Authority. The Council and the Housing Service remains responsible for its statutory duties and therefore the decisions in response to this reports recommendations are within the responsibilities of the Council, Portfolio Holder for Housing and Director of Homes and Communities.

6 Finance / Resource Implications

6.1 Members are being asked to approve a supplementary capital budget of £1,111,700 to fund the WD&CC Regeneration scheme. This capital budget will be fully funded through borrowing as there is currently no subsidy identified for this scheme. The final funding for this scheme will be determined and approved by the Section 151 Officer.

6.2 The funding will be used to decant and demolish the site until a future use is identified for the land. The estimated spend profile for this scheme is as per the table below.

Financial Year		**£**
2021/22		55,300
2022/23		437,500
2023/24		132,700
2024/25		491,500
Total		**1,111,700**

6.3 Revenue Impact: This scheme will require the decanting and demolition of 15 x 2 bed apartments that are currently generating (general needs) rental income of c£69k per annum (based on 2021/22 weekly rents). The phased decant proposes that 11 properties will be decanted during early 2022/23 and 4 properties during early 2023/24. The HRA Budget Setting Report for 2022/23 currently assumes rental income from these properties during the year and therefore this scheme will create a budget pressure of c£53k. This will be offset in part by the reduced estimated cost of £1k per property for annual repairs and maintenance, and £5k per property for annual major repairs.

6.4 The scheme also encompasses the decant and demolition of one shop (owned by SWT) that is expected to generate rental income of £14k per annum in 2022/23. Therefore, this will create a further budget pressure of £14k in 2022/23 for the HRA.

6.5 There are garage units on this site generating rental income of c£6k per annum. The proposal is to create a new entrance allowing these to remain in operation and to continue generating rental income during 2022/23 and onwards.

6.6 This capital budget will be fully funded through borrowing as there is currently no subsidy identified for this scheme. This will increase the cost of borrowing for the HRA by c£22k (assuming 2% borrowing) per annum by the end of the scheme. This will be managed through forecasting of the capital financing requirement for the HRA as a whole and treasury management strategies.

6.7 A thorough investment appraisal of this project has been undertaken and the costs associated with the decanting and demolition of these two blocks as well as the ongoing reduction in rental income, reduction in estimated cost of repairs and increase in cost of borrowing has been reflected in the HRA Business Plan review December 2021.

6.8 The December 2021 Business Plan review has received independent professional advice to provide further assurance that the regeneration project is deliverable within the overall 30-year business plan.

7 Legal Implications

7.1 No legal issues to report.

8 Climate and Sustainability Implications

8.1 WD&CC flats cannot achieve low or zero carbon standards without excessive financial pressures being placed on the HRA Business Plan. The additional investment in the structure of the homes means that demolition is a more effective means to support the Council's strategic climate change objective.

8.2 The properties were assessed as EPC E and therefore in the 10% worst performing SWT council homes as measured against SAP/EPC criteria.

9. Safeguarding and/or Community Safety Implications (if any)

9.1 There are no safeguarding or community implications.

10. Equality and Diversity Implications

10.1 An Equality Impact Assessment can be found at appendix B (To Follow).

11 Social Value Implications

11.1 The procurement process will consider the benefit contractors can contribute in terms of social value in particular local labour, use of local contractors and supply chain.

12. Partnership Implications

12.1 No partnership implications identified.

13. Health and Wellbeing Implications

13.1 Very low carbon homes which are well insulated, have good levels of airtightness and use ventilation systems are considered healthy homes. The properties at WD&CC do not possess low carbon qualities and the construction techniques continue to encourage cold bridging which is a significant contributory factor for damp and mould in homes.

14. Asset Management Implications

14.1 The regeneration through the demolition of the flats is seen as the best value for the Councils assets. The creation of a development site provides the Council with an opportunity to improve its assets or receive a capital receipt.

15. Data Protection Implications (if any)

15.1 No data protection considerations.

16. Consultation Implications (if any)

16.1 Consultation has begun with the tenants, leaseholder, shop leasee and the Ward Members. There has been some support and very little concern raised from tenants to the loss of their current accommodation and tenants have welcomed the chance to consider alternative affordable housing through Homefinder. Currently the Council enjoy a good relationship with the leaseholder and both parties are keen to pursue purchase by mutual consent. The shop leasee has been surprised by the Council's position and discussions continue to talk place over the date and timing of the lease end.

16.2 Communication will tenants and all other parties will continue to be critical as the regeneration proposals are progressed.

16.3 The Tenants Strategic Group has requested that the support for tenants and residents mirrors that of the NTWP and the service will work hard to provide this level of support at WD&CC.

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

17.1 The Community Scrutiny committee considered the report and gave their unanimous support at their meeting 23rd February 2022

17.2 The Committee gave support to the principle of a new clauses which has been inserted at 2.1(d) in this paper. The clause did not appear on the Scrutiny Committee papers and was reported verbally. The new clause permits access, should the owner wish, to a Council equity loan. This scheme has been used successfully at NTWP for owners being asked to leave their home as a result of council regeneration proposals. A new appendix has been provided to this report to clarify how the scheme works.

17.3 The Committee felt that the ideal situation would be to bring the land back into use for housing at the earliest possible moment. They felt a period of the cleared site being left vacant was a missed opportunity to provide replacement affordable homes or more affordable hoes which are needed in the District.

17.4 The Committee discussed whether the homefinder system and Gold banding status was sufficient to provide decanting residents with sufficient priority and choice. The Committee was given reassurance that the phased approach and use of the system was appropriate.

Democratic Path:

- Tenants Strategic Group – 24th January 2022
- Scrutiny / Corporate Governance or Audit Committees – 23rd February 2022
- Cabinet/Executive – 16th March 2022
- Full Council – 29th March 2022

Reporting Frequency: ☐ Once only ☐ Ad-hoc ☐ Quarterly

☐ Twice-yearly ☐ Annually

List of Appendices

Appendix A	Map of the Regeneration Area
Appendix B	Equality Impact Assessment
Appendix C	SWT Equity Loan scheme for owner occupiers during regeneration

Contact Officers

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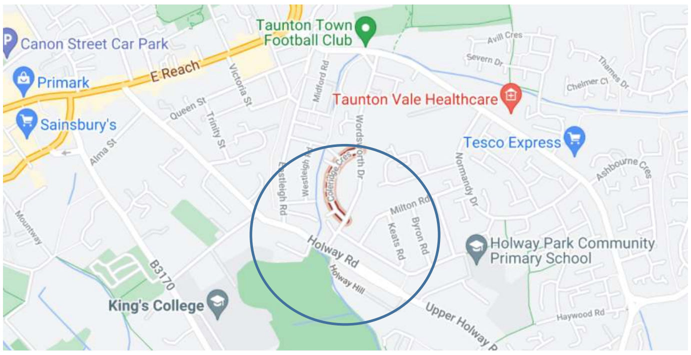
Map of the Wordsworth Drive and Coleridge Crescent Flats Regeneration Area, Taunton.



Somerset Equality Impact Assessment

The EIA guidance notes will help you complete this assessment.
If you need help or advice please contact Paul Harding. P.harding@somersetwestandtaunton.gov.uk

Organisation prepared for	**Somerset West and Taunton Council**		
Version	**1**	**Date Completed**	**11th February 2021**
Description of what proposed change or policy is being impact assessed			
Wordsworth Drive and Coleridge Crescent Flat Regeneration			
Evidence			
What data/information have you used to assess how this policy/service might impact on protected groups? Sources such as the Office of National Statistics, Somerset Intelligence Partnership, Somerset's Joint Strategic Needs Analysis (JSNA), Staff and/ or area profiles,, should be detailed here			
Committee on Fuel Poverty Annual Report October 2021 2015 Fuel Poverty Strategy Annual Fuel Poverty Statistic in England 2021, Low Income Low Energy efficiency (LILEE statistics) Project Initiation Document (PID) Wordsworth Drive and Coleridge Crescent Regeneration Low Carbon Standards and Fuel Poverty Decent Homes Standard Stock condition Data surveys x 3 Low carbon and fuel analysis of the building via specialist energy assessors VOR Group			

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

SWT Housing Management
SWT One team
SWT NTWP
Customers – Tenants of Wordsworth Drive and Coleridge Tenants via door knocking and Housing Needs Assessments.
Homefinder Somerset
An assessment of these sources of information illustrate that there are a range of customer with different levels of vulnerability and some tenants who are not vulnerable in relation to housing conditions and housing circumstances. For example (the following list is not exhaustive):

- Age: for the elderly - trips and falls, dementia, cold homes, lack of accessible/adapted properties, incidence of Fuel poverty.
- Disability: lack of accessible/adapted properties for physical and mental disabilities.

Analysis of impact on protected groups

The Public Sector Equality Duty requires us to eliminate discrimination, advance equality of opportunity and foster good relations with protected groups. Consider how this policy/service will achieve these aims. In the table below, using the evidence outlined above and your own understanding, detail what considerations and potential impacts against each of the three aims of the Public Sector Equality Duty. Based on this information, make an assessment of the likely outcome, before you have implemented any mitigation.

Protected group	Summary of impact	Negative outcome	Neutral outcome	Positive outcome
Age	• Tenants will be provided Gold Band Status which will allow priority within the Homefinder Somerset system. Housing Needs Assessments will be carried out to help inform officers of customers' needs and advise tenants of accommodation options which may better suit their circumstances. Tenants will have control of which properties they bid for on a like for like basis. However, if customer felt a smaller property would benefit their	☐	☐	☒

	circumstances this option would be available to them. Likewise, if customers felt a sheltered property more suitable then this would be available to them. SWTs decant policy and disturbance arrangements recognises additional support for vulnerable customers.			
Disability	• Tenants will be provided Gold Band Status which will allow priority within the Homefinder Somerset system. Housing Needs Assessments will be carried out to help inform officers of customers' needs and advise tenants of accommodation options which may better suit their circumstances. As part of the Housing Needs Assessment tenant's health needs will be recorded as well as any adaptations they currently have or require. SWT will ensure the customers new home have the adaptions they require. SWTs decant policy and disturbance arrangements recognises additional support for vulnerable customers. If customer felt a smaller property would benefit their circumstances this option would be available to them.	☐	☐	☒
Gender reassignment	• No specific additional outcomes identified. However, SWTs decant policy seeks to support all affected tenants in moving to a new home. The policy aims to maximise options available to tenants regardless of gender and gender choices.	☐	☒	☐
Marriage and civil partnership	• No specific additional outcomes identified. However, SWTs decant policy seeks to support all affected tenants in moving to a new home. The policy aims to maximise options available to tenants regardless of marital or civil partnership status.	☐	☒	☐
Pregnancy and maternity	• No specific additional outcomes identified. However, SWTs decant policy seeks to support all affected tenants and their families in moving to a new home.	☐	☒	☐

Race and ethnicity	• No specific additional outcomes identified. However, SWTs decant policy seeks to support all affected tenants in moving to a new home. The policy aims to maximise options available to tenants regardless of their Race or Ethnicity.	☐	☒	☐
Religion or belief	• No specific additional outcomes identified. However, SWTs decant policy seeks to support all affected tenants in moving to a new home. The policy aims to maximise options available to tenants regardless of their Religion or belief.	☐	☒	☐
Sex	• No specific additional outcomes identified. However, SWTs decant policy seeks to support all affected tenants in moving to a new home. The policy aims to maximise options available to tenants regardless of their sex.	☐	☒	☐
Sexual orientation	• No specific additional outcomes identified. However, SWTs decant policy seeks to support all affected tenants in moving to a new home. The policy aims to maximise options available to tenants regardless of their sexual orientation.	☐	☒	☐
Other, e.g. carers, veterans, homeless, low income, rurality/isolation, etc.	• Customers who are on low incomes will be able to benefit by moving to a home with improved thermal efficiency and could chose to bid for a property which has a cheaper source of fuel than the electric systems currently at Wordsworth Drive and Coleridge Crescent Flats. If a customer moves to an EPC rated property with gas heating they would currently save in the region of £15 per week during the winter months. Please note that customers use their heating differently and may have different tariffs which affect their fuel costs.	☐	☐	☒

Negative outcomes action plan Where you have ascertained that there will potentially be negative outcomes, you are required to mitigate the impact of these. Please detail below the actions that you intend to take.				
Action taken/to be taken	**Date**	**Person responsible**	**How will it be monitored?**	**Action complete**
Tenants at Wordsworth Drive and Coleridge Crescent Flats will receive a winter fuel payment of £18 pw during for up to 16 weeks during the winter period December – March until they decant to a new home. This payment will compensate customers for unreasonable fuel costs prior to moving to a new home. The properties are EPC E with direct electric heating and the thermal efficiency of the flats will not improve until the tenant moves to a new home.	01/12/2021	Assistant Director Development & Regeneration	Customers have been informed by letter of the offer. The housing service will monitor the payments made under the fund	☐
Housing Needs Surveys will be completed for all tenants and reviewed every 18 months until the tenant is decanted	21/02/2022	Assistant Director Development & Regeneration	HSMT, Housing Programme Board	☐
SWT Housing Service will propose a Low Carbon Retrofit Strategy and Delivery plan to Full Council by April 2023. The strategy will clarify how the council's investment will reduce the likelihood of tenants experiencing fuel poverty (as per the LILEE definition). A household is considered to be fuel poor if: they are living in a home below band C and were they to spend the required amount on fuel costs for the home, they would be left with a residual income below the official poverty line.	Select date	Assistant Director Development & Regeneration	HSMT, Housing Programme Board	☐
	Select date			☐

If negative impacts remain, please provide an explanation below.	
Completed by:	**Chris Brown**
Date	**11th February 2022**
Signed off by:	
Date	
Equality Lead/Manager sign off date:	
To be reviewed by: (officer name)	
Review date:	

Appendix C

Summary of SWT Equity Loan for owner occupiers available when SWT is purchasing private homes during regeneration

During Council led housing regeneration schemes it is sometimes required to purchase back properties purchased from the council through the Right to Buy. This is currently happening at NTWP.

The government sets statutory compensation for property owners providing homeloss compensation at market value plus 10%. However, in some cases the compensation is insufficient to purchase a similar property on the open market.

The Equity Loan is designed to provide additional finance to allow the owner to relocate in the private. Equity loans have been used successfully at NTWP to make moving as easy as possible for the owners. The Equity Loan is an added incentive for owners to seek accusation by mutual consent and reduce the risk of the Council pursuing compulsory purchase order powers.

How does the Equality loan scheme work?

The Council will contribute part of the purchase price of an alternative property and this will be secured by way of a first mortgage where the property is free of funding from a mortgage lender or otherwise a second mortgage may be considered.

The Equity Loan is provided to a homeowner which will be secured against the new home being purchased as a percentage of the market value rather than a fixed sum with interest.

The loan paid back may be different from the initial loan as it is a percentage of the property value. If the property has increased in value, the loan value will also increase. For example, if the house was worth £200,000 and the homeowner took out an equity loan of £40,000 (20%). When the property is sold, it is now worth £250,000, so 20% of the market value would be £50,000.

Eligibility for the Loan:

Home Owners (Owner/occupiers) affected by regeneration and have been informed by the Council that they wish to purchase their home to enable the regeneration scheme (currently NTWP phase A-D and Wordsworth Drive and Coleridge Crescent Regeneration) AND be unable to afford to purchase an alternative similar sized property on the open market.

The Loan will only be available to the registered owners of the properties that the Council will purchase and no additional purchasers such as spouses or children.

Only one Loan per property being purchased by the Council.

The Loan is not available for private landlords/private investors or non-resident homeowners.

Loan Limit:
There is a cap on the lending of 25% of the market value of the house being purchased on the basis of the deflated value of the Woolaway properties to a maximum of £70K.

Maximum Age Limit:
There is no maximum age limit, but the owner must be over 18 years of age.

The maximum term of the loan:
30 years.

Interest be charged on the Loan:
The Loan will be interest free provided that the terms of the mortgage are complied with. Whilst interest would incentivise those who take up the offer to repay sooner if in receipt of a windfall, there was concern that those who would potentially be interested in the loan would be put off.

Securing the Loan:
The Equity Loan will be secured by a Charge on the property. The initial preference is First Charge. The Council's Charge can be registered as a Second Charge, with the First Charge being the principal lender (Bank or Building Society). The Council will ensure the principle lender keeps the Council appraised of any attempt to take a further advance via appropriate wording via a covenant in the Mortgage Deed.

If another mortgage is taken out this will rank in priority below the Council's mortgage unless the Council agrees to a postponement of its' loan. The question of loan to value will be relevant where another lender will have priority and the Council will need to be certain that there is sufficient equity in the property to provide adequate security from all monies that are secured on the property. This will be considered on a case by case basis.

Repayment of the Equity Loan:
The Equity Loan is repayable on death, sale of the property, end of term (maximum term is 30 years) whichever is the earlier OR upon failure to comply with the mortgage terms. The Borrower would also be free to repay the loan early if they wish.

On repayment, the Council will receive either the amount that it has advanced **or** the sum that is an equivalent percentage of equity value which its investment represents in the gross sale price, whichever is the greater. If it lends 25% loan to value, it will receive 25% gross sale price so that in a strong property market there will be some return for its investment. If the prices fall, the Council will remain entitled to the amount that it has advanced and there may be no or a small return. There will be no contribution by the Council towards the costs associated with the sale of the replacement property as it will have paid all costs in connection with the acquisition of the property.

There is no ability to transfer the equity loan to another property, the loan is repayable upon sale of the property or any of the events mention in 3.9 above.

Chris Brown
Assistant Director Development and Regeneration