Somerset West and Taunton

Taunton Deane and West Somerset Councils working together

SOMERSET WEST AND TAUNTON SHADOW COUNCIL

Meeting of the Shadow Executive

Date: 26th September 2018

Time: 4.30pm

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

AGENDA

1. Apologies for Absence

2. Minutes of the previous meeting of the Shadow Executive held on 5 July 2018 (to follow)

3. Public Participation

The Chairman to advise of any items on the agenda which members of the public have requested to speak.

4. Declaration of Interests

To receive declarations of Disclosable Pecuniary Interests or personal or prejudicial interests, in accordance with the Code of Conduct, in relation to items on the agenda. Such interests need to be declared even if they have already been recorded in the Register of Interests. The personal interests of Councillors who are County Councillors or Town or Parish Councillors will automatically be recorded in the minutes.

5. Draft Financial Strategy and Medium Term Financial Plan 2019/20 (attached)

This report provides Members with an update on producing a 2019/20 budget for the new Somerset West and Taunton Council including a Medium Term Financial Plan and overall Financial Strategy.

6. Forward Plan

To consider items to be added to the Shadow Executive's Forward Plan.

7. Date of next meeting

The date of the next meeting has been scheduled for Thursday 15 November 2018.

and spending commitment of Somerset West and Taunton. The most recent forecasts of investment spend and projected funding available from New Homes Bonus is shown below:-

	2016/17 Actual £k	2017/18 Actual £k	2018/19 Indicative £k	2019/20 Indicative £k	2020/21 Indicative £k	Totals £k
Capital schemes:						
Taunton Strategic Flood Alleviation		152	483	500	3,865	**5,000**
Major transport schemes		117	1,050	2,375	408	**3,950**
Town Centre regeneration	14	(64)	1,274	1,641	185	**3,050**
Employment site enabling and innovation to promote Growth		16	85	2,036	1,363	**3,500**
New Garden Communities					500	**500**
Revenue costs:						
Marketing Promotion and Inward Investment	102	110	100	88	100	**500**
Preparation of LDO's	59			41		**100**
Total Investment	**175**	**331**	**2,992**	**6,681**	**6,421**	**16,600**

Indicative Funding for Growth and Infrastructure Investment

	TDBC			SWAT		
	2016/17 Actual £k	2017/18 Actual £k	2018/19 Indicative £k	2019/20 Indicative £k	2020/21 Indicative £k	Totals £k
Funding Available:						
NHB Balance brought forward	4,162	4,231	7,614	7,625	3,663	4,162
Projected NHB Income	3,883	4,035	3,961	3,559	3,716	19,154
Less: NHB Allocated to Revenue Budget	(392)	(392)	(788)	(720)	(600)	(2,892)
NHB Funding Available	**7,653**	**7,874**	**10,787**	**10,464**	**6,779**	**20,424**
Funding Required:						
Previous commitments	3,163	(36)				3,127
Car Parks		(300)				(300)
NHB allocated to resourcing	84	265	170	120	120	759
£16.6m Growth Programme	175	331	2,992	6,681	6,421	16,600
Funding Required	**3,422**	**260**	**3,162**	**6,801**	**6,541**	**20,186**
Cumulative Funding Surplus / Shortfall(-)	**4,231**	**7,614**	**7,625**	**3,663**	**238**	**238**

9.2 The table shows that based on the current forecast there is an estimated surplus of £238k in projected NHB to support the programme. However, as already indicated above, it is the Government's intention to review NHB and its means to incentivise housing growth, and therefore from 2020/21 onwards funding is by no means certain.

9.3 In addition to funding the growth programme, it has previously been agreed to underwrite capital receipts needed for transformation from New Homes Bonus. This may mean the availability of NHB is less than shown above, increasing the likelihood that other funding options will be required for growth and infrastructure or costs deferred until adequate grant receipts are accumulated beyond 2020/21. This will be kept under review throughout the financial planning period.

9.4 WSC has received significant funding by way of s106 contributions and Community Impact Migration funds in respect of the Hinkley C development. This funding has been and continues to be used to fund a number of projects in the West Somerset Area. This funding is currently managed outside the General Fund budget process and it is proposed to adopt a similar planning and reporting arrangement as previously used by WSC.

10 Financing and Investment Costs and Income

Revenue Costs of Capital

10.1 The Council's capital investment is funded from a variety of sources which can have a direct or indirect impact on the revenue budget. The main 'capital financing costs' relate to repayments of borrowing and interest plus direct revenue contributions to capital ("RCCO") to fund capital spending.

10.2 Repayment of capital borrowing is known as Minimum Revenue Provision (MRP). Both TDBC and WSC previously used the weighted average approach to determine the annual MRP by calculating the charge based on an equal instalment method using weighted average asset life. It is proposed that this approach is adopted for Somerset West and Taunton.

10.3 The Council's General Fund capital debt is currently planned to be financed entirely through 'internal borrowing' for the foreseeable future therefore there is no forecast budget requirement for interest costs for the duration of the current MTFP. However this will be kept under review in the event it is necessary to externalise debt as capital spending is undertaken.

10.4 The Council also has plans to fund a number of recurring annual capital budgets through direct Revenue Contributions to Capital ("RCCO"). The current MTFP includes an annual RCCO budget requirement of £340,500 from 2019/20.

Interest Income

10.5 Both TDBC and WSC currently have significant cash surpluses through income collected in advance of spending and held in reserve (£34m and £16.4m respectively as at 31 March 2018). It is therefore certain that Somerset West and Taunton will also initially have significant cash sums available for investment. Due to recent economic downturn interest rates remain historically low and this trend is not expected to significantly change. With advice from Arlingclose, our treasury advisors, we will continue to review opportunities to improve investment returns whilst minimising risk to capital and liquidity. The investment income budget will be reviewed during the coming months, but initial estimates within the MTFP assume the income will be £473k in 2019/20.

11 Capital Funding and Reserves

Capital Receipts

11.1 Both TDBD and WSC have both committed a significant amount of their general capital receipts reserves to fund approved capital schemes up to and including the 2018/19 capital programme. Availability of capital receipts will be updated through the budget process.

Capital Earmarked Reserve

11.2 TDBC currently has a sum of £676k held in earmarked reserves towards funding of approved schemes within the Capital Programme.

Revenue Contributions to Capital ("RCCO")

11.3 The Council's future funding strategy includes the principle that recurring annual operational capital budgets are funded from revenue budget contributions. The annual RCCO budget requirement for 2019/20 and subsequent years is currently estimated at £340,500, providing funding for

- IT hardware annual replacement programme
- New and replacement waste and recycling containers (provided via the Waste Partnership)
- Leisure capital grants and play equipment replacement
- DLO vehicles, plant and equipment replacement programme

11.4 Currently the MTFP forecasts this annual budget requirement will remain static for the period to 2023/24.

External Grants and Contributions

11.5 The Council has committed plans to finance some of its capital investment requirement from external grants and contributions. This will include:

- S106 planning obligations income from developers
- Community Infrastructure Levy
- Better Care Fund grant from Somerset County Council for Disabled Facilities Grants

11.6 Although Central Government grant funding is limited due to the squeeze on public spending, the Council will work with local authority partners to secured major infrastructure investment funding.

Community Infrastructure Levy (CIL)

11.7 CIL is a tariff in the form of a standard charge on certain types of development, which in Taunton Deane is currently set by TDBC to help the funding of infrastructure. The principle behind CIL is that most development has some impact on infrastructure and the developer should contribute to the cost of providing or improving it. CIL applies to new floor space and charges are based on the size, type and location of the new development.

11.8 A separate report regarding CIL and future allocations for 2019/20 to 2022/23 is being considered by Scrutiny Committee in September. The projected balance of CIL receipts as at 31 March 2019 is anticipated to be £4m. The report details proposed CIL allocations of £15.5m for the period 2019/20-2022/23 for member consideration. The proposed CIL allocations are for infrastructure categories associated with the delivery of infrastructure projects for the Taunton Garden Town and are in addition to the £16.6m New Homes Bonus already committed to delivering the Council's growth agenda.

Borrowing

11.9 The Council will prioritise the use of surplus capital reserves and revenue resources where available, including NHB, to fund the General Fund capital programme. Borrowing as a method of financing will be considered as appropriate and in accordance with the capital strategy. The current policy is to borrow internally and avoid external borrowing if possible, as this is the cheaper option whilst interest rates on investments are low compared to the interest rates for borrowing. However new borrowing will be considered for material capital projects where the business need can be established.

11.10 The current and projected borrowing balances are summarised below:

General Fund Capital Financing Requirement

	2018/19 £k	2019/20 £k	2020/21 £k
Capital Borrowing (CFR) Opening Balance	12,252	23,338	25,634
Estimated New Borrowing	11,629	2,839	0
Minimum Revenue Provision	(543)	(543)	(619)
Capital Borrowing (CFR) Closing Balance	23,338	25,634	25,015

12 Capital Investment and Financing

12.1 The capital programme of Somerset West and Taunton will initially be a combination of the existing capital programmes of TDBC and WSC. The currently approved programme for TDBC is £52.5m of which £13.4m is forecast to be spent during 2018/19 and the amount projected to be spent in future years is £38.9m. The current capital programme budget for WSC is £11.5m of which £3.4m is forecast to be spent during 2018/19 and the amount projected to be spent in future years is £8.1m.

12.2 New capital spending requirements for 2019/20 and beyond will be developed through the annual budget planning process and linked to corporate priorities.

13 Financial Planning Risks and Uncertainty

13.1 The funding projections within the financial plan are based on the current multi-year Finance Settlement which covers the four year period to 2019/20. There is significant uncertainty beyond then:

a) **Spending Review 2019 (SR19)** – the Government will undertake its next Spending Review next year, which will influence future funding made available to local government. It is not known at this stage whether SR19 will cover one or more years, but will be reflected in the **2020/21 Finance Settlement**. An important context for the review is the recent projections for public finances by the Office of Budget Responsibility which show a growing deficit over the next decade as service demand increases are not matched by increasing tax revenues, together with the currently unfunded commitment to increase spending on the NHS by £20 billion per year.
b) **Fair Funding Review** – identifying the "need" for funding that will influence the distribution of funds between authorities in the **2020/21 Finance Settlement**.
c) **Business Rates Retention Reset** – the Business Rates Retention system is due to be "Reset" in 2020, so that growth in business rates is redistributed between local authorities through the target, baseline and tariff mechanism. This will be included in the **2020/21 Finance Settlement**.
d) **Business Rates Revaluations** – indications are the next Revaluation will be implemented in 2021, then be undertaken every three years rather current arrangement every five years.
e) **75% Business Rates Retention** – recent consultation indicates that Government propose to "roll in" or devolve Revenue Support Grant (RSG), Rural Services Delivery Grant (RSDG), the Greater London Authority (GLA) Transport Grant and the Public Health Grant (PHG) to local government when the new system commences. The scheme design for 75% BRR remains under development, and this is planned to be implemented within the **2020/21 Finance Settlement**.
f) **New Homes Bonus** – the housing growth baseline (the rate of housing growth that does not attract NHB Grant) is currently 0.4% but is expected to increase in 2019/20. The increase will be set out in the **2019/20 Finance Settlement**. In addition, in respect of 2020 onwards the Government has indicated its intention to "explore how to incentivise housing growth most effectively, for example by using the Housing Delivery Test results to reward delivery or incentivising plans that meet or exceed local housing need." Government will consult widely on any changes prior to implementation, and it is assumed this will be implemented within the **2020/21 Finance Settlement**.

13.2 All of the above indicates that the Council's funding position in 2020/21 and beyond is impossible to predict with certainty, which brings added risk to our financial planning. The financial strategy addresses this uncertainty by:

a) Prudent assumptions used for future funding forecasts
b) Maintenance of sufficient balances and reserves

13.3 Other main areas of risk and uncertainty within the financial plan are:

a) Inflation – rising inflation could place additional pressure on pay settlements and prices for purchases of goods and services

b) Demand volatility – fluctuation in costs and income as a result of changes in demand led services and usage (e.g. planning, building control, parking, garden waste)

c) Delivery of savings – the MTFP includes transformation savings rising to £1.9m per year by 2019/20 within the General Fund (savings also arise in the HRA). Confidence is high that these savings will be delivered but this remains a risk at this stage. If these savings are not realised either in total and/or within the planned timescales this will increase the budget gap

d) Business Rates Retention – forecasts under BRR are notoriously difficult to predict with accuracy and can therefore change from year to year (e.g. for appeals, reliefs, etc.)

e) Economic slowdown – impact on business rates and NHB as well as income from fees and charges

f) Brexit – impact on services, investment performance, funding, etc.

14 Legal Implications

14.1 15.1 The Council is required by law to set a balanced budget and failure to do so would result in serious financial and service implications and lead to Government intervention.

15 Environmental Impact Implications

15.1 None for the purposes of this report.

16 Safeguarding and/or Community Safety Implications

16.1 None for the purposes of this report.

17 Equality and Diversity Implications

17.1 None for the purposes of this report. The specific proposals that develop through the budgeting and service planning processes will require equalities impact assessments to be completed and, where relevant, action plans to understand impacts and mitigations for the protected characteristic groups.

18 Social Value Implications

18.1 None for the purposes of this report.

19 Partnership Implications

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

20 Health and Wellbeing Implications

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

21 Asset Management Implications

21.1 None directly for the purposes of this report. The financial implications associated with asset management will be reflected within the Council's corporate and financial planning arrangements.

22 Consultation Implications

22.1 None for the purposes of this report.

23 Scrutiny Comments / Recommendation(s)

23.1 These will be tabled separately at the meeting.

Democratic Path:

- **Shadow Scrutiny Committee – Yes (18 September 2018)**
- **Executive – Yes (26 September 2018)**
- **Full Council – No**

Reporting Frequency: **Annually** (with further reports through the budget process)

Contact Officers

Name	Paul Fitzgerald	Name	Andy stark
Direct Dial	01823 257557	Direct Dial	01823 219480
Email	p.fitzgerald@tauntondeane.gov.uk	Email	a.stark@tauntondeane.gov.uk

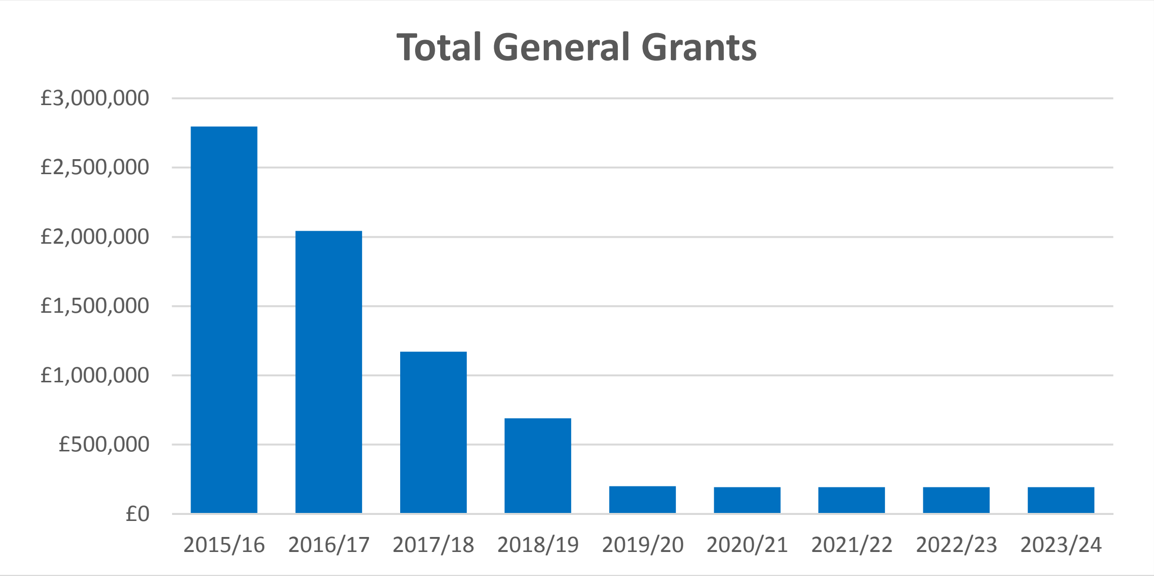
Appendix A – Additional Funding Information

1 General Government Grant

1.1 Included within the four year funding settlement offered by government, commencing in 2016/17, are three general revenue grants. The table and chart below show the reduction in this grants year on year. The figures assume Government will mitigate negative RSG in 2019/20 and beyond, however this won't be confirmed until the Provisional Settlement in published in December 2018.

General Revenue Grants

	TDBC/ WSC 2015/16 Actual £k	TDBC/ WSC 2016/17 Actual £k	TDBC/ WSC 2017/18 Actual £k	TDBC/ SWC 2018/19 Estimate £k	SWAT 2019/20 Estimate £k
Revenue Support Grant	2,796.8	1,785.4	961.7	450.0	6.0
Transitional Grant	0.0	16.9	16.9	0.0	0.0
Rural Services Delivery Grant	0.0	240.0	193.7	241.5	193.8
Total General Grant Funding	**2,796.8**	**2,042.3**	**1,172.3**	**691.5**	**199.8**



2 Business Rates Retention (BRR)

2.1 The approach to funding for local authorities changed in April 2013 with a move away from needs-based formula grant to a system that incentivises growth. This included the introduction of Business Rates Retention (BRR). The BRR scheme is based on 50% of business rates collected in the local area being retained by the Local Authorities (40% District, 9% County, 1% Fire).

2.2 Each Local Authority was allocated a Business Rates Funding Baseline by the Government based on the level of funding needed under the previous formula scheme. Under BRR, SSDC receives a "standard share" of 40% of business rates collected. However, because this a greater amount than the Baseline "need" we pay a Tariff to redistribute part of the funds to Top Up authorities whose standard share is below the Baseline "need". Any income collected over and above the baseline figure has a levy of 50% which is paid to Government with the other 50% retained by TDBC and WSC.

2.3 The BRR system is quite complex, and is susceptible to volatility and fluctuation based on inflation, rate of growth, appeals and refunds, bad debt, and changes in Government policy. Since the inception of the scheme the biggest area of risk, uncertainty and volatility relates to appeals and refunds. The Council will mitigate this risk through a combination of:

- prudent forecasting through analysis of past trends, and future risks and opportunities
- budgeting for a provision for funding reductions in respect of appeals and refunds
- maintaining an earmarked "BRR Smoothing" reserve to guard against large reductions in funding for services and also address accounting timing differences.

2.4 The initial BRR estimates for 2019/20 assume net funding growth is in line with inflation, with growth in rating income being offset by appeals and other reductions. These assumptions will be reviewed during the budget process.

2.5 In addition, there is significant budget risk regarding the impact of the planned Reset of the rating income target, baseline and tariff which is due to be implemented in April 2020. This will be the first Reset under the BRR system, and it is not known at this stage what the true impact will be. A prudent contingency for a reduction in business rates from April 2020 has been included in the MTFP estimates pending further information being issued by Government.

Business Rates Retention Estimates

	2019/20 £k	2020/21 £k	2021/22 £k	2022/23 £k	2023/24 £k
40% Share of BR Income	22,382	22,837	23,292	23,747	24,202
100% Renewable Energy BR Income	205	209	213	217	222
S31 Grant Income for Government-funded reliefs	1,987	2,022	2,052	2,077	2,098
Tariff	-18,087	-18,454	-18,822	-19,190	-19,557
Levy cost	-948	-967	-986	-1,005	-1,025
Contingency for Reset impact	0	-750	-750	-750	-750
Net Retained Business Rates Funding	5,539	4,897	4,999	5,096	5,189

3 New Homes Bonus

3.1 The New Homes Bonus (NHB) Grant is a grant from the Government which 'rewards' housing growth. The NHB Grant is not ring-fenced, which means the Council is free to decide how to use it based on local priorities.

3.2 The calculation of the grant has changed from 2017/18 onwards, as the government has redirected funding available under NHB to the Better Care

Fund in support of social care funding pressures. The scheme was originally designed such that each year of housing growth attracted funding for 6 years; therefore in 2016/17 we received 6 years' worth of grants. As part of the Finance Settlement for 2017/18 the Government confirmed this would reduce to 5 years' worth in 2017/18 and then 4 years' worth from 2018/19. In addition, a new growth baseline was introduced in 2018/19 with no grant due on the first 0.4% of Band D equivalent growth. Our estimates assume this baseline will increase in 2019/20 to 0.5%.

3.3 The table below summarises the grant calculations and estimates from 2016/17 onwards, and the following graph also includes the total grant received since the NHB grant was introduced in 2011/12. This is then shown in graph format, followed by a projection of the MTFP Support Fund balances.

New Homes Bonus Projection

	Actuals TDBC/SWC		**Estimates Somerset West and Taunton**					
Allocations in respect of:	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
	£k	£k	£k	£k	£k	£k	£k	£k
2011/12	483.3							
2012/13	795.0							
2013/14	832.3	832.3						
2014/15	635.9	635.9						
2015/16	1,003.2	1,003.2	1,003.2					
2016/17	849.7	841.5	841.5	841.5				
2017/18		1,267.3	1,258.4	1,258.4	1,258.4			
2018/19			857.9	857.9	857.9	857.9		
2019/20				601.6	601.6	601.6	601.6	
2020/21					998.3	998.3	998.3	998.3
2021/22						906.0	906.0	906.0
2022/23							726.7	726.7
2023/24								726.6
Total	**4,599.4**	**4,580.2**	**3,961.0**	**3,559.4**	**3,716.2**	**3,363.8**	**3,232.6**	**3,357.6**
NHB in MTFP	**1,108.0**	**937.4**	**788.4**	**720.0**	**600.0**	**550.0**	**500.0**	**500.0**

4 Council Tax Base and Council Tax Band D Rate

4.1 The Council Tax Base on which the Council generates its local tax revenue is the number of residential properties expressed as Band D equivalents. It reflects adjustments for reductions including Single Person Discount and Local Council Tax Support as well as assumptions around net growth and collection rates. The Tax Base has been forecast to increase each year by 1.4%. The actual tax base for 2019/20 will be determined in December 2018.

4.2 The combined Council Tax Base of TDBC and WSC for 2018/19 is 55,574.2 Band D Equivalent properties. The 2018/19 Band D tax rates are currently £152.88 for TDBC and £155.56 for WSC respectively. The forecast tax base for 2019/20 is 56,352.2

4.3 A 1% increase equates to approximately £90k additional income.

4.4 An assumed £5 increase in 2019/20 to the TDBC (£152.88 council tax level) equates to 3.27%, and together with the estimated tax base increase has added £363k additional income within the current MTFP estimates for 2019/20.

4.5 The following table summarises the projected Council Tax Base and income budget estimates within the Plan (including SRA precept).

	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
Council Tax Base					
Increase %	1.4%	1.4%	1.4%	1.4%	1.4%
Increase in Band D Equivalents	778.0	788.9	800.0	811.2	822.5
Tax Base	**56,352.2**	**57,141.1**	**57,941.1**	**58,752.3**	**59,574.8**
Council Tax Rate					
Increase % (MTFP assumption)	3.27%	2.99%	2.99%	2.99%	2.99%
Increase £	5.00	4.72	4.86	5.00	5.15
Band D Rate £	**157.88**	**162.60**	**167.46**	**172.46**	**177.61**
Council Tax Income					
Increase due to Tax Base £k	-119	-124	-130	-136	-142
Increase due to Tax Rate £k	-244	-270	-282	-294	-307
Total Council Tax Precept £k	**-8,897**	**-9,291**	**-9,703**	**-10,132**	**-10,581**

5 Somerset Rivers Authority Precept

5.1 The Somerset Rivers Authority (SRA) was created following the severe flooding that hit the area in the winter of 2013/14. It has developed a 20 Year Flood Action Plan which will target long term investment to develop improved flood prevention and resilience when flooding is unavoidable. In 2015/16 through a combination of Government funding and contributions from local authorities in Somerset, the SRA had a budget of £2.7m to progress the Action Plan. In future the SRA will be able to set its own Precept to raise Council Tax income to help deliver the Plan.

5.2 In 2016/17 the County Council and the five district Councils in Somerset had the opportunity to raise additional council tax funding, based on 1.25% of the 2015/16 Council Tax rate, to raise funding for the Somerset Rivers Authority pending its establishment as a precepting body. For Somerset west and Taunton this equates to £1.74 a year on a Band D. In 2018/19 the Council Tax raised and passed on to the SRA is £97k.

5.3 The Government has previously committed to implementing the necessary legislation to allow the SRA to precept in its own right. The timing of this is uncertain, and the MTFP assumes the current arrangements remain in place for the foreseeable future.

SHADOW EXECUTIVE FORWARD PLAN 2018-19

Meeting	DRAFT AGENDA ITEMS	LEAD OFFICER
23 August 2018		
26 September 2018	• Draft Financial Strategy for 2019/2020	Andrew Stark
15 November 2018	• Business rates discretionary policy • North Taunton Woolaway Project • Income and Arrears Management Policy • Council Tax Support Scheme for Somerset West and Taunton Council for 2019/2020 • Draft 2019/2020 Budget Progress Report and Initial Budget Options • Draft 2019/2020 Fees and Charges • Strategy, Performance and Governance Workstream Update	Dean Emery Jo Humble and Rachel Searle Steve Perkins Heather Tiso Andrew Stark Andrew Stark Nick Bryant
17 December 2018	• Social Strategic Housing Framework (and Delivery Plan) • Assets of Community Value Process	Mark Leeman Matt Parr
22 January 2019	• Leisure Operator Procurement Project	Steve Hughes
11 February 2019	• 2019/2020 Treasury Strategy, Investment Strategy, Prudential Indicators, Minimum Revenue Provision Policy • 2019/2020 Capital Strategy • 2019/2020 General Revenue Budget and Capital Programme • 2019/2020 Housing Revenue Account Budget and Capital Programme, including Housing Rents	Andrew Stark Andrew Stark Andrew Stark Andrew Stark
26 March 2019	• Social Value – Revised Policy and Procedures	Mark Leeman
23 April 2019		