SWT Corporate Scrutiny Committee

Wednesday, 2nd March, 2022, 6.15 pm

The John Meikle Room - The Deane House

[SWT MEETING WEBCAST LINK]

Somerset West and Taunton

Members: **Gwil Wren (Chair), Nick Thwaites (Vice-Chair), Ian Aldridge, Benet Allen, Marcus Barr, Sue Buller, Norman Cavill, Simon Coles, Habib Farbahi, Ed Firmin, Barrie Hall, John Hassall, Libby Lisgo, Danny Wedderkopp and Loretta Whetlor**

Agenda

1. Apologies

To receive any apologies for absence.

2. Minutes of the previous Corporate Scrutiny Committee Meetings held on 26 January and 2 February 2022 (Pages 5 - 20)

To approve the minutes of the previous meeting of the Corporate Scrutiny Committee held on 2nd February 2022

To approve the minutes of the Special Budget Meeting of Corporate Scrutiny Committee held on the 26th January 2022.

3. 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.)

4. 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.

Temporary measures during the Coronavirus pandemic
Due to the temporary legislation (within the Coronavirus Act 2020, which allowed for use of virtual meetings) coming to an end on 6 May 2021, the council's committee meetings will now take place in the office buildings at the John Meikle Room, Deane House, Belvedere Road, Taunton. Unfortunately due to capacity requirements the Chamber at West Somerset House is not able to be used at this current moment.

Following the Government guidance on measures to reduce the transmission of coronavirus (COVID-19), the council meeting rooms will have very limited capacity. With this in mind, we will be requesting that members of the public who have registered to speak attend the meetings in person at the office buildings, if they wish. (We will still be offering to those members of the public that are not comfortable in attending, for their statements to be read out by a member of the Governance team). Please can we urge all members of the public who are only interested in listening to the debate to view our live webcasts from the safety of their own home to help prevent the transmission of coronavirus (COVID-19).

5. Corporate Scrutiny Request/Recommendation Trackers (Pages 21 - 44)

To update the Scrutiny Committee on the progress of resolutions and recommendations from previous meetings of the Committee.

6. Corporate Scrutiny Committee Forward Plan (Pages 45 - 46)

To receive items and review the Forward Plan.

7. Executive and Full Council Forward Plan (Pages 47 - 50)

To review the Forward Plans.

8. Corporate Scrutiny Chair's Annual Report (Pages 51 - 58)

This matter is the responsibility of the Chair of Corporate Scrutiny Committee, Councillor Gwil Wren.

To approve the Annual report of the Community Scrutiny Committee 2021/22 for consideration by Full Council. Article 6 of the SWT Constitution states that *"The Scrutiny Committees must report annually on their work".*

9. Corporate Performance Report as at Quarter 3 2021/22 (Pages 59 - 76)

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

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

10. General Fund Financial Performance Report for Quarter 3 of 2021/22 (31 December) (Pages 77 - 106)

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

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

11. Capital, Investment and Treasury Strategies 2022/23 to 2024/25 (Pages 107 - 176)

This matter is the responsibility of Executive Councillor Ross Henley

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

ANDREW PRITCHARD
CHIEF EXECUTIVE

Please note that this meeting will be recorded. You should be aware that the Council is a Data Controller under the Data Protection Act 2018. Data collected during the recording will be retained in accordance with the Council's policy. Therefore unless you are advised otherwise, by taking part in the Council Meeting during Public Participation you are consenting to being recorded and to the possible use of the sound recording for access via the website or for training purposes. If you have any queries regarding this please contact the officer as detailed above.

Following Government guidance on measures to reduce the transmission of coronavirus (COVID-19), we will be live webcasting our committee meetings and you are welcome to view and listen to the discussion. The link to each webcast will be available on the meeting webpage, but you can also access them on the Somerset West and Taunton webcasting website.

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 2 clear working days 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 Thursday prior to the meeting.

The Governance and Democracy Case Manager will take the details of your question or speech and will distribute them to the Committee prior to the meeting. The Chair will then invite you to speak at the beginning of the meeting under the agenda item Public Question Time, but speaking is limited to three 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.

Please see below for Temporary Measures during Coronavirus Pandemic and the changes we are making to public participation:-
Due to the temporary legislation (within the Coronavirus Act 2020, which allowed for use of virtual meetings) coming to an end on 6 May 2021, the council's committee meetings will now take place in the office buildings within the John Meikle Meeting Room at the Deane House, Belvedere Road, Taunton. Unfortunately due to capacity requirements, the Chamber at West Somerset House is not able to be used at this current moment.

Following the Government guidance on measures to reduce the transmission of coronavirus (COVID-19), the council meeting rooms will have very limited capacity. With this in mind, we will only be allowing those members of the public who have registered to speak to attend the meetings in person in the office buildings, if they wish (we will still be offering to those members of the public that are not comfortable in attending, for their statements to be read out by a Governance and Democracy Case Manager). Please can we urge all members of the public who are only interested in listening to the debate to view our live webcasts from the safety of their own home to help prevent the transmission of coronavirus (COVID-19).

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SWT Corporate Scrutiny Committee - 2 February 2022

Present:	Councillor Gwil Wren (Chair)
	Councillors Nick Thwaites, Ian Aldridge, Marcus Barr, Sue Buller, Norman Cavill, Habib Farbahi, Ed Firmin, John Hassall, Libby Lisgo and Loretta Whetlor
Officers:	Jessica Kemmish, Sam Murrell, Alison Blom-Cooper, Chris Hall and Joe Wharton
Also Present:	Councillors Marcus Kravis, Mike Rigby, Roger Habgood, Janet Lloyd, Vivienne Stock-Williams and Andrew Sully

(The meeting commenced at 6.17 pm)

1. **Apologies**

Apologies were received from councillors Danny Wedderkopp, Barrie Hall, Bennet Allen and Simon Coles.

2. **Minutes of the previous Corporate Scrutiny Committee**

The committee resolved to approve the minutes of the meeting held on 5th January 2022.

3. **Declarations of Interest**

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

Name	Minute No.	Description of Interest	Reason	Action Taken
Cllr M Barr	All Items	Wellington	Personal	Spoke and Voted
Cllr N Cavill	All Items	West Monkton	Personal	Spoke and Voted
Cllr S Coles	All Items	SCC & Taunton Charter Trustee	Personal	Spoke
Cllr L Lisgo	All Items	Taunton Charter Trustee	Personal	Spoke and Voted
Cllr J Lloyd	All Items	Wellington & Sampford Arundel	Personal	Spoke and Voted
Cllr M Rigby	All Items	SCC & Bishops Lydeard	Personal	Spoke
Cllr V Stock-Williams	All Items	Wellington	Personal	Spoke
Cllr N Thwaites	All Items	Dulverton	Personal	Spoke and Voted

Cllr L Whetlor	All Items	Watchet	Personal	Spoke and Voted
Cllr G Wren	All Items	Clerk to Milverton PC	Personal	Spoke and Voted

4. **Public Participation**

There was no public participation.

5. **Corporate Scrutiny Request/Recommendation Trackers**

The Chair noted the request and recommendation trackers.

6. **Corporate Scrutiny Committee Forward Plan**

The Chair noted the forward plan.

7. **Executive and Full Council Forward Plan**

The Chair noted the forward plans.

8. **To Consider Reports from Executive Councillors - Councillors M Kravis**

The Portfolio Holder for Economic Development & Asset Management provided an update on the status of the Coal Orchard Project. They updated the Committee that the company involved as the Council's contractor in the Coal Orchard Project, Midas, were filing for administration. This has been in the press and the Portfolio Holder had been interviewed on television and radio about it. Yesterday the Portfolio Holder met with local business surrounding Coal Orchard along with the Portfolio Holder for Transport and Planning. Officers had been working hard and all options were being considered.

The Assistant Director for Major and Special Projects added that Midas would have ten days to appoint an administrator as of Friday 28th January. Their staff had been asked not to come into work, so the Council had taken over the site and had appointed security to secure the site. The Council had already served a default notice on Midas last week due to poor performance. Officers would continue to work with Midas and have discussions, however, officers were also exploring alternatives to ensure that should Midas go into administration or default on the contract then Coal Orchard would still be completed.

During the debate the following points were raised:

- It was asked what could happen to Midas and the implications for the Coal Orchard Project. Officers responded that in terms of the project, if Midas went into administration then the Council would look at alternate options. These options included several contractual options such as employing another contractor, employing an independent project manager to manage the site whilst the Council employed sub-contractors directly or managing the site ourselves. All the options had different risks and benefits.

- It was asked how long it would take to complete Coal Orchard. Officers responded there was approximately three months of work left to complete on site so it would take three months from the remobilisation of the site for work to be completed.
- It was raised that the administration process could take a significant amount of time.
- It was asked if the contract with Midas was a fixed price contract. It was responded by officers that this was the case.
- It was asked if alternative options were being looked at before the administration process. Officers responded that they had begun to speak to sub-contractors who had been working on the site but that some of them had not been paid by Midas. Officers would continue to have conversations with sub-contractors to see if they would be willing to return to site. The contract with Midas would default at the end of this month due to poor performance.
- It was asked when the Council knew Midas was likely to apply for administration. The Portfolio Holder responded that they believed it was from Friday 28th January that the Council knew.
- It was raised that good progress had been made to secure the site and officers were thanked for this.
- It was asked if due diligence was conducted on Midas before the contract was awarded to them and during the contract. The contract award went through the standard two-stage procurement process and checks of Taunton Deane District Council. This process would have included due diligence. Officers
- Midas were meant to complete work on site in May 2021 and it was asked if the delay had not been an indication of issues. It was responded by officers that they whole industry had been impacted by Covid and the pandemic meant work took longer due to limited staff so the delay beyond May 2021 was not unexpected but from August 2021 explanations of delays given by Midas had become less reasonable which was why the default notice was ultimately served.
- It was asked if sub-contractors agreed that the Council owned all the materials if they had not been paid in full.
- It was asked if insurance cover would continue if the company became insolvent. It was responded by officers that the site was still currently owned by Midas as it was not yet in administration, but officers would contact insurers if Midas went into administration.
- It was asked about the notice that was served to Midas last week and whether this tipped Midas over the edge. Officers responded that there were issues across all of Midas's sites and that Midas filing for administration was unlikely to have been the result of the notice the Council served.
- The Portfolio Holder raised that the delay to the completion of the Coal Orchard Project was impacting upon businesses surrounding Coal Orchard and also those who had reserved flats which were being built as part of Coal Orchard. It was and would continue to be a priority to get the project finished as soon as possible.
- It was asked what the knock-on effect of the continuing delay on businesses near the site would be and how the Council was communicating with those businesses and whether the Council would be providing them with financial support. The portfolio holder responded that they had met with businesses last night and that they recognised the difficulties they faced.

- It was raised that the most important people to communicate with on this issue would be the businesses near the Coal Orchard Site and local councillors in Taunton. The Portfolio Holder responded that they would seek to ensure that councillors whose wards were within the Taunton area were kept up to date and businesses were communicated with.
- It was suggested similar support could be given to workers from Midas as was given to people who lost their jobs at the end of furlough if the company did fold.
- It was raised that there were losses made by Midas in 2021.
- Concerns were raised about the extent to which this was impacting local businesses.
- It was raised that prices had gone up which was likely why Midas were in trouble. It was suggested that the Council took the project in house to ensure the project was delivered. The Portfolio Holder responded that this was an option which officers were looking at.
- It was questioned about Midas still owning the site but the Council having put security in place on the site. It was responded by officers that as Midas were in administration, they no longer had any workers, including security workers, on site. The Council had therefore placed 24/7 security on site to secure it and ensure materials were not removed from site.
- It was asked if this would cost the Council any more money and if it did, whether it could be recovered through insurance or legal processes. It was asked what was being done to minimise losses. The Portfolio Holder responded that due to the increased labour costs if contractors other than Midas had to be used it would likely cost the Council more than initially planned as labour costs and material costs had increased since the fixed price contract was agreed with Midas. However, the project was in the end stages with only the finishing touches left to be done. Officers added that they were taking advice on what the Council could and could not do.
- It was asked if any payments to Midas from here on could be withheld if work was not completed. Officers responded that work was only paid for once completed, if no further work was done no further payments would be made.
- It was raised that there were very specific tax rules regarding contractors and that this would need to be considered if the Council took the project back in house.
- It was asked what the status of documents for safety checks which were the contractors responsibility were. Officers updated that certificates for checks had already been received for work that had been completed.
- It was asked about the quality of work completed thus far. It was responded by the Portfolio Holder that there had been no issues with the quality of the work completed thus far. Officers responded that quality of work was good.
- It was asked about inward investment and the plan mentioned in the report and whether this would be made accessible to councillors in full. The Portfolio Holder responded that the plan was currently a draft but would be made available to councillors when ready. A date would be provided to councillors after the meeting as well as information about the impact of any Levelling Up funding the Council may or may not get.
- It was asked about the Levelling Up white paper issued today by government. The government was looking to increase funding for research and development by 40%. It was asked how the Portfolio Holder intended to tap

into the extra 40% funding and how they sought to reduce the gap between top performing areas and Somerset West and Taunton. The Portfolio Holder responded that this was covered by the Council's Economic Development Strategy.

- It was asked why feasibility studies regarding innovation had focused only on certain geographic areas. The Portfolio Holder noted that this had been responded to previously. The Portfolio Holder raised that the Council were currently planning for the Innovation Conference to be held later in the year and looking to attract some funding for the conference so that good speakers and attendees would be interested in participating.
- Cllr Buller left the meeting at this point, 7:35pm.
- It was asked what the budget for Community Employment Hubs was and whether 34 live cases represented value for money or not. The Portfolio Holder responded that the work was valuable as it was changing lives and they would supply further information after the meeting.
- It was asked why only two of the twelve Community Employment Hubs were open. It was asked what the costs associated with this were. The Portfolio Holder would provide a response after the meeting.
- It was asked who was on the Innovation Group and who the lead officer was. It was responded by the Portfolio Holder that a strategy had been drawn up for the Innovation Group.
- It was asked what the cost of the Innovation Conference would be. The Portfolio Holder responded that there was money in the budget for the conference and that sponsorship would also be sought.
- It was asked about the West Somerset Employment Land report which was due to come to a meeting of the Scrutiny Committee. It was responded by the Portfolio Holder that the report had been delayed due to Local Government Reform and the need for decisions to be taken by the new Council. It was added by officers that both the issue of unitary and there being some outstanding work to be done meant the report could not proceed at the planned time. However, work was still continuing on the business case and once the governance arrangements were in place regarding unitary it could be brought forward.
- Concerns were raised about Employment Land being looked at in Minehead due to climate change. The portfolio holder responded that in regard to Employment Land consideration was and would be given to West Somerset as a whole, not just Minehead alone.
- An update was requested on the bus station. It was responded by the Portfolio Holder that the Council was still awaiting the Changing Places application outcome. Officers responded that Somerset County Council had put in a bid for funding to make the bus station a working bus station again. The outcome of this bid would not be known until April or May. Somerset West and Taunton were considering creating a car park on site, but this would depend on the bid outcome. Options for the buildings were also being considered.
- It was asked why a short-term lease to a business such as a restaurant had not been considered for the bus station building. It was responded by the Portfolio Holder that the building had not been in a lettable state when the Council took it back over.

- Using the bus station sites for car boot sales to generate temporary income was suggested. The Portfolio Holder assured the committee that uses for the bus station were being looked into.
- The Chair thanked the portfolio holder.

9. **To Consider Reports from Executive Councillors - Councillor M Rigby**

The Chair welcomed the Portfolio Holder for Planning and Transport.
During the debate the following points were raised:

- It was asked if there had been any progress on the car parking review and whether there was a possibility of buying more land for car parking in Watchet. It was responded by the portfolio holder that the review should be completed in a month's time. The overall parking strategy was also being reviewed.
- It was asked what the government was doing to resolve the phosphates issue. It was responded by the portfolio holder that the government had not done much to date but that the Council was lobbying the government. The Council had set aside £2m to help with phosphates solutions but that would only be sufficient to bring forward a fraction of the homes currently delayed by the phosphates issue.
- It was asked what solutions had come forward for the phosphates issue and what mitigations were potentially achievable. It was asked whether the Council was still looking at fallowing land and creation of wetland. It was asked what the estimated costs of phosphates solutions were and what it would do for local food production. It was responded by the Portfolio Holder that wetland creation was being looked at but that it would not provide sufficient credits for all developments as there was not enough land and using too much would impact agriculture and food production. A central government plan was needed. The levels and moors in the district had slipped into a bad condition over a period of time, and it would take decades for their condition to be improved. As a Council and local planning authority we need to ensure we do not make the problem worse, but cannot resolve it alone.
- It was asked if a charge could be levied per house to allow some development to go ahead. It was responded by the Portfolio Holder that this was being looked into but there were some legal matters being investigated to see if this was possible.
- The Portfolio Holder was thanked for their support and work on the Lidl built in Wellington and the train station which would be built in Wellington.
- It was asked if barriers could be removed from car parks. The Portfolio Holder acknowledged that the system had some flaws but added that changing the system ahead of the new unitary council being in place when the new council may look to make car parks uniform across Somerset, would not be worthwhile.
- It was asked why a blanket increase in parking charges across all cars parks was implemented rather than targeted charges. Officers noted that some car parks were free and maintained from the money which was raised from other car parks so charging only based on maintenance costs of an individual car park would not allow for free car parks.

- The poor condition of some car parks was raised. The Portfolio Holder responded that there would be money invested in the coming year to improve the condition of some car parks.
- It was asked what the life expectancy of phosphate mitigation wetland sites were. The Portfolio Holder responded that they believed Natural England were expecting the sites to be maintained for 100 years. Officers responded that there would have to be management of the site and that whoever owned the site would be expected to maintain the site for 80-120 years to ensure the credits remained viable. Natural England expressed that they would expect the local planning authority to regularly check on the management of such sites to ensure the credits remained viable.
- It was raised that the pay machines were difficult to use in some car parks when it was dark due to lack of lighting. The Portfolio Holder responded that they would look into this.
- It was asked what the membership of the Community Liaison Forum was in regard to the A358. The Portfolio Holder said that they would provide a response after the meeting.
- It was asked why the A358 was being prioritised over other roads where there was greater congestion. The Portfolio Holder responded that this was not within the Council's control.
- Thanks were expressed for the support from the Portfolio Holder for the Taunton to Wellington cycle route. It was responded by the portfolio holder that they were hoping to complete as much work as possible on the cycle routes.
- It was asked what was happening with Wellington Station and whether the group working on the project were still meeting regularly. It was responded by the Portfolio Holder that everyone working on the project was still committed to it and that the station should be opened in the next few years. The Portfolio Holder would seek to further publicise the work on the train station.
- It was raised that work should be done to consider car parking ahead of the new unitary authority coming into being. The Portfolio Holder responded that work would be done ahead of vesting day, but it would not be possible to complete everything before then.
- Further information about the Town Centre Health Checks was requested. It was responded by the Portfolio Holder that town centres had been struggling for some time with the decline of high street shopping and made worse by Covid. The Health Checks were designed to give an idea of how towns in the district were doing through figures such as how many shop vacancies there are so this could be considered in future planning.

10. **Access to Information - Exclusion of the Press and Public**

The Committee resolved that under Section 100A(4) of the Local Government Act 1972 the public be excluded from part of Agenda Item 9, To Consider Reports from Executive Councillors - Councillor M Rigby, on the grounds that it involved the likely disclosure of exempt information as defined in paragraph 3 respectively of Part 1 of Schedule 12A of the Act, namely information relating to the financial or business affairs of any particular person (including the authority holding that information).

The Chair proposed that the meeting be extended by 30 minutes which was duly seconded and carried.

(The Meeting ended at 9.21 pm)

SWT Corporate Scrutiny Committee - 26 January 2022

Present:	Councillor Gwil Wren (Chair) Councillors Ian Aldridge, Benet Allen, Sue Buller, Habib Farbahi, Ed Firmin, John Hassall, Libby Lisgo and Loretta Whetlor
Officers:	Sam Murrell, Jessica Kemmish, Paul Fitzgerald, Emily Collacott, James Barrah, Chris Hall and Alison North
Also Present:	Councillors Ross Henley

(The meeting commenced at 6.17 pm)

85. **Apologies**

Apologies were received from councillors Nick Thwaites, Danny Wedderkopp and Barrie Hall. Councillors Simon Coles and Ross Henley also sent their apologies and joined the meeting via Zoom.

86. **Declarations of Interest**

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

Name	Minute No.	Description of Interest	Reason	Action Taken
Cllr S Coles	All Items	SCC & Taunton Charter Trustee	Personal	Spoke
Cllr L Lisgo	All Items	Taunton Charter Trustee	Personal	Spoke and Voted
Cllr L Whetlor	All Items	Watchet	Personal	Spoke and Voted
Cllr G Wren	All Items	Clerk to Milverton PC	Personal	Spoke and Voted

87. **Public Participation**

The Chair invited Mr House to speak.

Mr House made the following statement and asked the following question with regard to agenda item Draft General Fund Revenue Budget and Capital Estimates 2022/23.

> The Victoria Park Action Group has been campaigning for improvements to our Park Pavilion and safer external public toilets since 2015. The current toilets have been closed but the council are trying to reopen. The key issue is becoming a need to create perhaps two safe and maintainable public external park toilets like those appear on the side of the Coach

Building to serve the Park and Sports Facilities. This would allow space within pavilion south pyramid to be upgraded to form a proper Community Hall minimum 75 sq m area, perhaps as an objective of a future town council.

Elsewhere in the town centre there are currently closed or demolished toilets that will require to be replaced if we wish to attract more visitors to support shops and hospitality venues.
At Fire pool an amphitheatre has been proposed, at Coal Orchard a waterside boating feature is being built and at the bus station a proposal for a first changing rooms toilet for Taunton, a higher standard toilet to benefit arrange of people with disabilities and their Carers. I could make a similar case for funding to replace the produce market house on Firepool which in 1974 was thriving.

Since I asked this question last year we are now firmly set to have a new Somerset Unitary Council from April 2023 who will wish to transfer all expenditure on the non-statutory provision of public toilets to a Taunton Town Council.

From the experience of the Unitary changes in Dorset effecting the new Weymouth Town Council in the January meetings before their inception in April 2019:
Work was underway by the outgoing Weymouth and Portland Borough Council to construct new seafront toilets at Weymouth for the new Town council to operate once finished after the due transfer date. So a useful precedent for our park and town centre public toilets.
That month the Dorset Shadow Unitary Council meeting reports show by this time six donor council capital programmes had been merged into one. A task the newly elected Somerset Unitary Councillors will do next year in lieu of a SWT budget process.

This year is the last chance to include district wide funding for rebuilding our public toilets. The new Weymouth Council had to increase its first precept by 10% for the first two years in order to build up its new capital reserves. A similar case for Taunton Town will restrict it from raising capital funds for Toilets at the outset.

Appendix C - Can the Capitol budget line Community Development showing £500,000 allowance from CIL receipts be allocated to Taunton Public Toilets, clearly a third tier council responsibility, so that funding can be established and pass-ported through to help our Park and perhaps other schemes. Can Scrutiny consider if this month is the last chance for local funding schemes to be set and advise the next Council Executive meeting so.

The Portfolio Holder advised that they would provide a full written response to Mr House after the meeting. Chris Hall, the Director of Development and Place responded that all the CIL allocations were currently made to strategic infrastructure projects so the CIL line seen in the budget was fully allocated and therefore from that particular budget there would be no available resources. The service area had also updated that there is currently no plan or live bid for capital resources for the expansion or large-scale refurbishment of public toilet facilities. A full and in-depth response would be provided in writing.

The following written response was provided to Mr House after the meeting.

> *In response to your request for CIL funding to support improvements to the Victoria Park toilet facilities it is important to set out the existing infrastructure funding commitments and future infrastructure funding challenge. At present Somerset West and Taunton has approved CIL allocations totalling £16,262,100 to provide match funding to support infrastructure delivery, this includes the new primary school at Comeytrowe, cycle and pedestrian improvements, flood protection measures, Taunton town centre regeneration and the provision of new community facilities and green infrastructure projects. These CIL allocations can only be honoured if sufficient CIL receipts are collected for the period to 2025/26.*
>
> *To date the Council holds £10,460,000 in CIL receipts for strategic infrastructure and the neighbourhood proportion has provided £2,395,000 to local communities. Projected CIL income for the Council was estimated to be in the region of £55m between now and 2032, although given the impact the phosphates issue is having on planning applications and site delivery, these projections and timescales may not be achieved in the timeframe initially hoped.*
>
> *There are many infrastructure funding calls on what is a limited strategic CIL pot, including the significant infrastructure cost associated with the delivery of new schools to support the quantum of housing growth in Taunton and the critical need to improve strategic flood defences, in view of the Climate Emergency. In this challenging infrastructure funding context it is unlikely that Strategic CIL funds will be available to support improvements to the Victoria Park toilet facilities. There are currently no allocations made to Victoria Park toilets from the CIL receipts and all money held and anticipated is already allocated.*
>
> *Community Infrastructure Levy is charged on all new dwellings (with the exception of self-build and affordable housing) and Somerset West and Taunton Council is required to pass on a proportion of CIL receipts collected in each parish to the relevant parish council. In the case of the Taunton Unparished Area a total of £121,770.93 CIL funds have been collected to date and are held in the Taunton Unparished Area CIL fund. At present the Taunton Chartered Trustees have supported the allocation of £107,062.07 CIL funds towards the provision of cycle and pedestrian improvements within the town centre. The balance of CIL receipts in the Taunton Unparished Area CIL fund (£14,708.86) are the only funds that could be bid against for the project you have highlighted.*

Outside of the CIL budget there are no plans within the service, or capital bids approved, for replacement or large scale capital alterations to public toilets.

88. **Corporate Scrutiny Committee Forward Plan**

Councillor Firmin suggested inviting a representative of Somerset County Cricket Club to provide an update on how the Cricket Club are using funding supplied to them by the Council. The Chair asked officers to make contact with Somerset County Cricket Club.

The Chair noted the forward plan.

89. **Draft General Fund Revenue Budget and Capital Estimates 2022/23**

The Portfolio Holder introduced the report:

- Received details of the financial settlement from central government just before Christmas. The Settlement was not brilliant and resulted in a reduction in year-on-year funding of £1.5m, however, the Council had been prepared for receiving less funding.
- There was a significant reduction in car park income, and this was anticipated to continue. This had been built into the budget.
- There would be a decrease in business rates due to Hinkley Point B being decommissioned.
- The Commercial Investment Strategy had been successful and would provide income for the Council next year and help to counteract the impact of increased costs.
- The budget provided for the additional costs of the implementation of a unitary council next year whilst minimising impact on services.

During the debate the following points and questions were raised:

- More information was requested on how internal borrowing worked as opposed to how external borrowing worked. Officers responded that internal borrowing was a treasury management tool to manage risk. The Council had cash balances, cash to invest and borrowing needs. These needs were balanced to minimise risk. As part of the treasury strategy, a certain amount of liquid cash was held at any given time but any funds above that could be used for internal borrowing. Internal borrowing could be better than investing as it could reduce risk and reduce the need for additional external borrowing.
- It was asked who sets the interest rate if money was leant to an internal project and why external investment would not be done instead if a higher interest rate and investment return could be made. Officers responded that it was a way of managing risk and that there was a treasury management report coming to the committee in March which would address these issues in greater detail.

- It was asked whether the reserves the Council was holding would be seen as being too great by the auditors. Officers responded that they did not foresee that being the case.
- Support was given for providing public toilets in Taunton. It was asked about the need for a settlement if a new town council was set up in Taunton and concerns were raised that this did not appear to have been planned for in the budget. Any new town council would need a budget to be able to provide services such as public toilets. Officers responded that there was no capital provision for providing public toilets but there was revenue support built into the budget to provide public toilets. Regarding funding provision for a new town council for Taunton officers agreed to provide a full answer to the committee after the meeting and before the Full Council budget setting meeting.
- A set up payment to a town council in Taunton would be paid for by everyone across the district whereas in all parishes, parishioners have to pay for facilities that are provided in their area through the precept they pay. Providing a set up payment for a new Taunton town council was not favourable for this reason and instead it was suggested the new town council should pay for its services through a precept.
- It was raised that Somerset County Council had a commercial investment budget of £100m but had so far spent none of it whereas Somerset West and Taunton Council benefitted from its commercial investments.
- It was asked why just over £1m was allocated for the contingency fund for Local Government Reform (LGR) in Somerset given that Somerset West and Taunton's contribution based on population should be £815,000. Officers responded that it was agreed that Somerset County Council would pick up most of the cost, with the districts covering the remaining 20%. Somerset West and Taunton's share of that was based on population and calculated at £912,000 in round numbers, it had been rounded to £1m in the budget to allow for contingency in the budget.
- It was asked how many staff would be taken out of providing other services whilst local government organisation occurred and what would be the impact on current services. Officers responded that it was difficult to predict what resourcing would be needed for LGR, but resourcing was being tracked to try to keep the balance right. Some projects had been stopped to allow for staff time to be spent on LGR. Members would be regularly updated on the number of staff working on LGR.
- The income is £460,000 currently from the commercial investment income and is predicted to be the same next year. It was raised that this continuation at the same level was unusual and asked why it was predicted. Officers responded that the prediction was based upon the same income continuing under the lease arrangements which were in place.
- The fleet reduction cost was welcome, it was asked if that had been due to a change in provider. Officers responded that there was a new fleet provision contract in place and as a result there was a reduction in maintenance costs due to having fewer and newer vehicles.
- It was questioned what the enabling innovation funding mentioned it the report was for. Officers responded that a response would be given after the meeting.

- On page 37-38 there was reference to a grant from MHCLG of £1.450m. Last year this was referred to as a loan to East Quay, now it was recorded as a grant, can clarification be given. The figure shown in the report was the remaining amount of the £5m grant provided by MHCLG to East Quay. We were the body that held that and released it when the Onion Collective drew it down in compliance with MHCLGs rules and the figure in the report is the final amount which was paid to the Onion Collective. Officers responded that they were separate items, the loan and grant were separate, the loan was never required and drawn down. There was an error in last year's report where an item was assigned to the wrong code.
- It was asked what was being done to help provide gypsy sites and if a site had been found. Officers responded that a response would be given after the meeting.
- An update on Taunton Bus Station was requested. Officers responded that a response would be given after the meeting.
- It was asked what progress had been made on superfast broadband. Officers responded that a response would be given after the meeting.
- It was questioned how realistic the estimates in the budget were. It was responded by officers that the budget was an estimate and that budgets did change during the year, however, there were mechanisms to ensure the budget was as accurate as possible.
- It was raised that maintaining services was important but that there was a reduction in income from business rates.
- It was requested that funds were found within the budget for public toilets in Taunton.
- It was requested that in the coming year's quarterly reports information on whether spending was on track or not compared to forecasts be included. Officers responded that the quarterly monitoring reports the committee received included forecasts for the given year against budget with explanations for variances. However, there had been changes to the structure of the organisation which had made providing a clear year on year review difficult.
- It was raised that there were grants available for toilets at bus stations which could be looked into.
- It was requested that if there were grants given to other organisations where it was not the Council's money but instead the Council was holding funds as the responsible authority that it be indicated in the finance spreadsheets more clearly.
- Further information about the funds set aside for the Blue Anchor coastal scheme and for Cleeve Hill were requested. Officers responded that the Blue Anchor project had been funded by external bodies including the environment agency, but the Council had offered to lead on the project. Cleeve Hill the Council had also offered to lead on but as part of the Cleeve Hill scheme the road would need to be moved and so Somerset County Council, as the highways authority, decided to lead the project themselves. The Cleeve Hill scheme was not only about moving the road but a coastal protection scheme which reached down into the town itself so was of a very significant scale.
- It was asked if there was a safety net in place to help reduce the impact of a significant loss of business rates for a local authority. It was asked how much Hinkley Point B contributed in business rates to the Council. Officers

responded that the decommission of Hinkley Point B would result in a £2m decrease in business rates. The Hinkley Point B rates made up around 18% of the Council's business rates. The Council was currently in a pooling arrangement with the other authorities in Somerset but would be leaving it next year due to the risk. However, Somerset West and Taunton would continue to receive some funds from the pool even after leaving. Central government would top up business rates for the Council as there was a safety net level which if a local authority fell beneath the central government would provide the funding instead to reduce the impact.

- It was asked if there would be an increase in business rates for the new unitary once Hinkley Point C went live. Officers responded that if nothing changed in terms of mechanics then the local authority in Somerset should benefit from Hinkley Point C going live.
- It was asked if the pool extended beyond the geographical boundary of what would be the new Somerset Council. Officers responded that it did not extend beyond the boundaries of the new Somerset Council.
- It was asked why the Shop Mobility contributions were no longer required and if this was the Taunton Shop Mobility. It was responded by officers that this was an overprovision of budget, and therefore it would not affect the core service delivery in the funding arrangements from the Council to Compass disability so there would be no impact on service delivery.

The Chair summarised the comments made by the committee:

- Clarity about the funding for Taunton Town Council and whether there was possibility for any provision for it in the budget setting given the rules and regulations was needed.
- Progress reports for the bus station and the broadband were requested.
- Consideration of funding for toilets in Taunton town centre was encouraged.

The Corporate Scrutiny Committee resolved to note the recommendations from the report;

2.1 The Executive recommends Full Council approve the Revenue Budget, Council Tax Rate and Capital Programme for 2022/23 and Supplementary Budget in 2021/22 including:

2.1.1 Draft Revenue Net Budget of £16.716m for 2022/23.

2.1.2 The basic Somerset West and Taunton Band D Council Tax rate of £174.63 for 2022/23.

2.1.3 General Fund 2022/23 Capital Programme additions totalling £1.158m and 2022/23 Capital Programme Revisions of -£0.181m for previously approved schemes for 2022/23, as set out in Table 18.

2.1.4 A Supplementary Budget in 2021/22 of £1m for additional capital debt repayment funded from General Reserves.

2.2 The Executive recommends delegating authority to the S151 Officer to approve the CIL capital grants budgets to reflect in-year CIL capital receipts passed to town and parishes in line with the CIL policy.

(The Meeting ended at 7.57 pm)

SOMERSET WEST AND TAUNTON COUNCIL

CORPORATE SCRUTINY COMMITTEE RECOMMENDATION TRACKER 2021/22

Date of Cttee	Scrutiny Recommendation	Decision Maker /Directorate Responsible	Final Decision/ Response to recommendation/	Date of response	Implemented?	Officer Comments/Update
01/12/21	**Recommended:-** The Corporate Scrutiny Committee recommended to the Executive; 1) Clarify why a small part of the district with little infrastructure is taking precedent to the County Town of Somerset. 2) Clearly identify the costs both in terms of revenue and capital associated with these feasibility studies or business case studies in Minehead and West Somerset and future ones before January 2022. 3) Which sites in Minehead and West Somerset are being considered and where will it fit within the overarching plans for Somerset West and Taunton.	The Executive	In consultation with the Portfolio Holder, Chris Hall (Director of Development and Place) prepared a set of responses which are as follows:- 1) Clarify why a small part of the district with little infrastructure is taking precedent to the County Town of Somerset. Response – Specific activity around the Minehead and West Somerset geography has evolved in response to known demand and a long standing issue in finding available employment land opportunities. In particular, finding space to support local businesses seeking to grow, create new jobs and remain in the area. The 2021 Somerset West and Taunton Economic Development Needs Assessment report highlighted that between 2009 and 2018 little employment land was developed in West Somerset.	15th December 2021		

			This action was incorporated into the annual plan approved by Full Council, this establishes areas of particular focus that services are then held accountable for the delivery of. The development of commercial units on Seaway Way, by the Council's development team, further evidenced the need for additional units and provides an opportunity for the Council to invest and therefore have a direct impact on employment land options, and opportunities. The activity identified in the plan is in recognition of the difficulties faced by these areas, these are not the same across all areas of the district, but this is not an either or scenario, none of this work to build a development business case is detrimental to Taunton or other areas of the district. This delivery business case should also not be confused with any high level feasibility work on innovation district matters. This business case is specific with options for investment and potential returns to the Council. Overall, the project fits with the strategic ambitions of the SWT Economic Development			

			Strategy 2021-24, which specifically identified the need for new employment land sites across the district as one of eight key priorities to resolve going forward. 2) Clearly identify the costs both in terms of revenue and capital associated with these feasibility studies or business case studies in Minehead and West Somerset and future ones before January 2022. Response - The cost of developing the WS Employment Feasibility Study was £27,450, and paid for using Hinkley Point C S106 allocations to support businesses in the West Somerset area. A second phase of work was then carried out recently to explore each site in detail. This involved looking at key engineering issues (e.g., land clearance, construction, planning, highways, utilities), developing layouts and concept designs, and starting landowner discussions. This led to a comprehensive understanding of costs and the development of financially viable business cases.			

			£45k was made available to support this second phase of work from allocation towards employment site enabling schemes, which was recommended by Scrutiny in November 2020. To date £18,341.25 has been invoiced for by contractors working on the project. This will lead to business cases for two potential employment land opportunities involving both pre-lets and speculative units for 11 businesses, delivering 65,000 square feet of premises and 175 new or safeguarded jobs. Future costs will depend on any business case being brought through the democratic process for approval. Any report on this would be provided to Members on a confidential basis as it will contain land acquisition and development cost options. 3) Which sites in Minehead and West Somerset are being considered and where will it fit within the overarching plans for Somerset West and Taunton. Response - We are not able to disclose this whilst commercial			

			negotiations are underway as this may prejudice those negotiations and impact on our ability to secure either than land or a development contract at an affordable rate. Current land negotiation are off market. When the business case is ready to be presented, and we have a clear decision making route in light of the financial impact on Somerset Council, this will be provided to Members as a commercially confidential paper.			
03/11/21	**Recommended:-** SWT Corporate Scrutiny Committee Recommended to the Executive that; A feasibility study is undertaken for the provision of an innovation hub based in Taunton and that the Council brings the results of such a study back through the democratic path when completed. The funding for this proposal is to be found within existing 2021/22 budgets where possible.	The Executive	Executive – 17th November 2021 2.1 That the Executive resolve to progress the work identified in the 'Developing the Innovation Ecosystem in Somerset West and Taunton – Framework for Action' report and not to carry out an additional feasibility study for an innovation hub in Taunton, however, 2.2. As part of SWT's role as an enabler to deliver the space necessary for research and innovation within the district, the council will as part of the work of enabling the development of innovation assets to the next level, will finance and host a R&I conference in Taunton by or during the summer 2022, bringing together business, academia,	17th November 2021		

			developers, investors and the wider industries in order to progress development of R&I assets in Taunton and the wider district			
2/06/21	**Recommended:-** The Corporate Scrutiny Committee reviewed performance against the Commercial Property Investment Strategy (CPIS) and supported the following recommendations to the Executive; 1. For transparency, gross and net income from the commercial investments to be made more readily available from the six monthly reviews with a link to be provided in future reports to the SWT website where this information is posted. 2. The communications underpinning the CPIS both internally and externally need to be improved upon considerably, as it was considered important that people understood what the Council	Full Council - Cllr R Henley – PFH Corporate Resources	Full Council – 7th September 2021 – The Corporate Scrutiny Committee reviewed performance against the Commercial Property Investment Strategy (CPIS) and supported the following recommendations to the Executive; [NB this paper did not go to the Executive - therefore these recommendations will be considered by the Commercial Investment Board] For transparency, gross and net income from the commercial investments to be made more readily available from the six monthly reviews with a link to be provided in future reports to the SWT website where this information is posted. The communications underpinning the CPIS both internally and externally need to be improved upon considerably, as it was considered important that people understood what the Council was trying to do and why, and how this work inter-linked with the Corporate Priorities of the Council. The Corporate Scrutiny Committee was pleased to be informed that the legacy commercial properties will be incorporated in the next scheduled review paper that is to go to Full Council in December, but in	7th September 2021	Not clear if CIB has considered these recommendations have been adopted.	Report not planned to go to Executive – response to be reported in Full Council report and in introduction by PFH which has indicated the recommendations will be considered by the Commercial Investment Board in due course.

	was trying to do and why, and how this work inter-linked with the Corporate Priorities of the Council. 3. The Corporate Scrutiny Committee was pleased to be informed that the legacy commercial properties will be incorporated in the next scheduled review paper that is to go to Full Council in December, but in advance of this, a light-touch document is requested to be circulated to the Committee.		advance of this, a light-touch document is requested to be circulated to the Committee.			

Total Recommendations for 21/22:

Agreed:

Agreed in Part:

Not Agreed:

TBD:

SOMERSET WEST AND TAUNTON COUNCIL

CORPORATE SCRUTINY COMMITTEE WRITTEN ANSWERS TRACKER 2021/22

Date of Cttee	**Scrutiny Cttee Request for information**	**Decision Maker /Directorate Responsible**	**Response to request for information**	**Date of response**	**Scrutiny Officer Comments/Update**
07/07/21	*Q) Outturn Report - Can the Finance team provide a comparison with this year's outturn and last years on debts written off?*	Cllr Ross Henley/Finance			Understood this information can be provided.
07/07/21	*Q) Performance Report – Extensions to Planning applications due to phosphates – further detail on how many had had multiple extensions?*	Cllr Mike Rigby / Planning	We don't hold that information and I am not clear of the relevance of whether they have had multiple extensions. The more pertinent information is the number of applications which are currently held in abeyance due to the need to provide measures to mitigate the impact of development on the Somerset Levels and Moors Ramsar site. As Rebecca reported to Planning Committee we currently have approximately 100 applications equating to approximately	01/09/21	A verbal update was given to the Corporate Scrutiny Committee by Alison Blom-Cooper during the committee meeting on 3/11/21.

			2,300 dwellings and 13 sites awaiting the discharge of conditions equating to approximately 450 dwellings.		
01/09/21	*2021/22 General Fund Financial Monitoring as at Qtr1* Q) Collation of parking income was requested along with the projected shortfall with comparison to pre pandemic levels.	Cllr R Henley & Cllr M Rigby / Finance/ Parking	Awaiting response. *(Check details of Qtr2 monitoring)*	10/11/21	Finance Business Partner currently checking with Stuart Noyce (may be a delay due to leave commitments)
01/09/21	*2021/22 General Fund Financial Monitoring as at Qtr1* – Q) Appendix A compared to the budget agreed in February was considered, with a requested for further information in comparison to the detail of the variances.	Cllr R Henley / Finance	Paul Maclean has asked Cllr Buller to contact him direct so that he can fully understand the query and provide a satisfactory response. - First email was 07/09/21 - To be followed up.		Paul Maclean – can provide a detailed written response. Email fwd on. Emily Collacott and Paul Maclean.
01/09/21	*2021/22 – HRA Financial Monitoring as at Q1* - There had been a revenue forecast overspend of £610k, with the recommendation setting out £869k, information relating to the variance in the figures was requested.	Cllr F Smith / Housing	The amount of £869k has been moved from HRA earmarked reserves to the HRA general reserves therefore increases the level of general reserves – this figure is not included in the Q1 year-end forecast	10/11/21	Information provided by Emily Collacott and confirmed by Kerry Prisco. Email dated 10/11/21

3/11/21	*Innovation District Update* – A request was made for the full report from the EIBC study. During the meeting Chris Hall agreed to supply a redacted version due to commercial sensitivity.	Cllr M Kravis/ Development & Place	Chris Hall will redact the report and then make it available to members.	8/11/21	The redacted version of the report was published as part of the Executive Committee report for the Executive meeting held on 17th November.
01/12/21	*Corporate Performance Report Q2* – QA) It was questioned whether an ecologist had been appointed to work on phosphates. QB) It was questioned how soon it is possible for an incoming call to be answered whether the wait time for calls to be answered included the automatic messaging at the start of the call.	Cllr R Henley / Various Officers	We advertised and failed to fill the agreed post of Nutrient Neutrality Officer and so we have a secondee from Arup on a part-time basis on a years contract to support the phosphates project. She is an ecologist. We do not currently include the time taken to listen to the messages and options at the beginning of the call. The benchmarking undertaken when the team was created found that most other organisations measure answering times from the same point (as all have statements about calls being recorded, GDPR etc). For SWT, the average time spent in the call routing process is around 80 seconds but this	10/12/21	Questions sourced as part of the Qtr 2 performance report by Malcolm Riches

			depends on the customer's choices on each call.		
	QC) It was questioned how many quality employment opportunities had the Council attracted in the last few years, in terms of productivity what was the percentage increase and in which sectors.		*Awaiting updated response from Lisa Tuck*		
	QD) It was questioned whether the average relet time of 44 days under homes and communities was normal.		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. In practice, meeting this target has been an enormous challenge both for us and across the Housing sector and we are currently falling short, as are most other Housing Providers. To illustrate this, 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	04/01/2021	Simon Lewis

			increase this year). Key factors that have affected turnaround time in this financial year have been: • Loss of trades-staff due to Covid • Trades staff being re-prioritised onto repairs work to clear the backlog built up during Covid lockdown (when we only undertook emergency repairs to minimise the risk of transmission and in line with government guidance). • Inability to recruit skilled trades staff, due to a very competitive market, including the impact of the Hinkley project attracting workers to EDF. • Delays in receiving a range of materials to complete Voids works, due to Covid, Brexit and other external factors. This issue is not unique to SWT Council and is being experienced right across the Housing Sector. The Housing Directorate has an established		

			plan to improve our Voids turnaround times that focuses on a number of areas of potential improvement and we are meeting regularly to ensure that progress is made on bringing average times down. As a Housing Management team, we also review our performance indicators as part of a wider suite to give us a rounded view of performance with respect to letting of properties. The Pulse statistical data for September 2021 does show 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.	04/01/2021 04/01/2021	Malcolm Riches Malcolm Riches

	QE) It was asked whether the asset management and completion of leases earlier than expected could be elaborated upon and clarification given. QF) Fly tipping was raised as being a big issue and it was questioned what was being done to address this.		This relates to the General Fund monitoring report, Table 3 on p52. It is an improved position on asset management income compared to last year by c£150k. This is due to leases completing earlier than expected for units at Seaward Way and Lisieux Way. At the end of September, performance for the year-to-date is 81% which is exceeding the target of 80%. Fly-tipping is dealt with by an external contactor and performance has improved during the year. Following a drop in performance in the first few months of this year, partly driven by a rise in the amount of fly-tipping, we continue to work closely with the contractor to closely monitor performance and drive improvement. It is important to note that the target relates to the speed of response rather than a failure to respond.	04/01/2021	Malcolm Riches

	QG) Planning applications had been delayed due to phosphates, there were over 120 applications waiting to be decided so why does the report claim a high level of success. It was asked if officers could give a date for when these applications would be coming forward and say how many of the applications waiting were likely to go forward.	Cllr Mike Rigby	The national performance indicator which looks at the Council's performance in determining planning applications (major, minor and other) looks at the speed with which applications are dealt with within the statutory time period or an agreed extended period. Those applications which are held in abeyance as a result of the need to provide mitigation to ensure nutrient neutrality and ensure there is no impact on the Somerset Levels and Moors Ramsar site have not yet been determined and so would not be included in these figures. Most of these applications have an agreed extension of time so if they are determined in line with this agreement they will meet the targets.		Chris Hall issued response in consultation with the PFH – Marcus Kravis
	QH) It was raised that a feasibility study for Employment Land in West Somerset was mentioned in the report, and it was asked why a feasibility for the whole of the district was not being	Cllr Marcus Kravis	*Answer listed under Recommendation Tracker as taken to Executive on 15 December 2021*		

	undertaken. It was asked where the budget for this study was coming from and whether it was revenue or capital funds.				
01/12/21	*2021-22 General Fund Financial Monitoring as at Q2* - Q) An update was requested on how well asset management under External Operations and Climate Change was performing compared to previous years.	Cllr R Henley / External Operations			
05/1/22	*Infrastructure Funding Statement* Q) Officers agreed to update members after the meeting regarding what would happen to CIL funds if parish councils were taken over or split as part of a new town or parish council was formed and whether the CIL funds could be ringfenced to be spent on certain projects. More detailed information within the IFS on the locations of the projects where S106 have been spent.	Cllr M Rigby / Development and Place	*This issue is still being investigated with Shape Legal. As soon as an answer is received the Committee will be updated.* The planning obligations team will enter the parish name at the	21/02/2022 21/02/2022	Rebecca Staddon, CILCommunity Engagement Officer Rebecca Staddon, CILCommunity Engagement Officer

	Guidance for Councillors on CIL and S106 so they can see the differences between the different funding types		front of the project descriptions going forward. Information sheets on CIL and S106 have been created and will be distributed to members.	21/02/2022	Rebecca Staddon, CILCommunity Engagement Officer
26/01/22	*Draft General Fund Revenue Budget and Capital Estimates 2022/23* *Community Governance Review and Funding for a town council for Taunton* Q) It was asked about the need for a settlement if a new town council was set up in Taunton and concerns were raised that this did not appear to have been planned for in the budget. Any new town council would need a budget to be able to provide services such as public toilets. Officers agreed to provide a full answer to the committee after the meeting and before the Full Council budget setting meeting.	Cllr Ross Henley/ Internal Operations			

26/01/22	*Draft General Fund Revenue Budget and Capital Estimates 2022/23* *Enabling Innovation* Q) It was questioned what the enabling innovation funding mentioned it the budget report was for. Officers responded that a response would be given after the meeting.	Cllr Marcus Kravis/ Development & Place			
26/01/22	*Draft General Fund Revenue Budget and Capital Estimates 2022/23* *Gypsy Site* Q) It was asked what was being done to help provide gypsy sites and if a site had been found. Officers responded that a response would be given after the meeting.	Cllr Fran Smith/ Housing & Communities	A capital sum was allocated to Taunton Deane Borough Council to identify and then procure a suitable and sustainable gypsy and traveller site. Work took place to identify a suitable site however this proved difficult and none was agreed. This challenge has since been picked up by a County wide group that considers all public sector owned land in Somerset to find suitable sites to meet the needs of the travelling	31/01/2022	Simon Lewis, Assistant Director of Housing and Communities.

			community across the county. The group has not yet concluded and presented its findings. The capital has been ringfenced for this purpose and will roll forward to contribute towards required funding, once this is resolved.		
26/01/22	*Draft General Fund Revenue Budget and Capital Estimates 2022/23* *Bus Station* Q) An update on Taunton Bus Station was requested. Officers responded that a response would be given after the meeting.	Cllr Mike Rigby/ Development & Place			
26/01/22	*Draft General Fund Revenue Budget and Capital Estimates 2022/23* *Broadband* Q) It was asked what progress had been made on superfast broadband. Officers	Cllr Marcus Kravis/ Development & Place			

	responded that a response would be given after the meeting.				
03/2/22	*Community Engagement Hubs* Q) What is the budget for the community engagement Hubs? How does SWT assess value for money? Is 34 live cases good or bad? Was there ever a target set? Are the live cases only linked to the two open sites?	Cllr Marcus Kravis / Economic Development			

03/2/22	*Innovation Centre / Team* Q) Who is on the Innovation Team? Who is the SWT Officer Lead?	Cllr Marcus Kravis / Economic Development			
03/2/22	*A358 Dualling Scheme* Q) Who is on the community liaison forum? Is there a way to involve some of those Members who currently represent the unparished area of Taunton?	Cllr Mike Rigby / Development and Place	National Highways are responsible for organising the Community Liaison Forum meetings on the A358. These are essentially public consultation events with previous meetings held on 23 June, 7 October 2021 and recently the 15 February 2022. A list of parish councils invited to attend has been provided to members. National Highways will be asked if any presentations made at recent meetings can be uploaded to the SWT website. The lead officer on this at SWT is John Burton.	03/02/22	Alison Blom Cooper, Assistant Director Strategic Place and Planning.

03/2/22	*Town Centre Health Checks* Q) Can SWT ensure that Stantec who are undertaking this work engage with the Chambers of Commerce, ward members and traders as part of the Town Centre Healthchecks?	Cllr Marcus Kravis / Economic Development	This has been passed on and these persons/organisations will be included in the list of stakeholders to be involved in the project.	03/02/22	Alison Blom Cooper, Assistant Director Strategic Place and Planning.
03/2/22	*Car Parking / Lighting* Q) Can SWT improve the pedestrian link/lighting between Cannon St Car Park and Middle Street? Q) Can better lighting be provided at the ticket machines in Cannon St Car Park.	Cllr Mike Rigby / Development and Place			

	CORPORATE SCRUTINY		
Meeting	**Draft Agenda Items**	**Lead PFH/ Lead Officer**	**Exec Report?**
2nd March 2022	Financial Performance 2021/22 Q3	Cllr R Henley / Kerry Prisco	Yes
SRD = 18 February	Capital Investment and Treasury Strategy 2022/23	Cllr R Henley / John Dyson	Yes
Exec RD = 4 March	Corporate Performance Report Q3	Cllr R Henley / M.Riches	Yes
Informal Exec RD = 1 Feb	Corporate Scrutiny Chair's Annual Report	Chair of the Committee	
SMT RD = 19 January			
6th April 2022	Public Transport Task and Finish Report	Cllr L Whetlor / M Prouse	
SRD = 25 March	Green Space Aquisition (Confidential)	Cllr Rigby / Jo Wharton	Yes
Exec RD = 6 April			
Informal Exec RD = 8 March			
SMT RD = 23 February			
4th May 2022			
SRD - 21 April (BH)			
Exec RD - 6 May			
Informal Exec RD - 5 April			
SMT RD - 23 March			
1st June 2022	GF Financial Performance 2021/22 Q4	Emily Collacott	Yes
SRD - 20 May	Corporate Performance Report Q4	Malcolm Riches	Yes
Exec RD - 3 June			
Informal Exec RD - 4 May			
SMT RD - 20 April			
6 July 2022			
SRD - 24 June			
Exec RD - 8 July			
Informal Exec RD - 7 June			
SMT RD - 25 May			

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
	NO MORE ITEMS	
20 April 2022	Wellington Green Space Acquisition (confidential)	Jo O'Hara
venue =		
Exec RD = 6 April		
Informal Exec RD = 8 March		
SMT RD = 23 February		
18 May 2022		
venue =		
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		
20 July 2022		
venue =		
Exec RD = 8 July		
Informal Exec RD = 7 June		
SMT RD = 25 May		

FULL COUNCIL

Meeting	Report Deadline	Draft Agenda Items	Lead Officer
24 February 2022	**14 February 2022**	General Fund Revenue Budget and Capital Estimates 2022/23	Paul Fitzgerald
Budget Only		Council Tax Setting 2022/23	Paul Fitzgerald
Special Meeting		Business Rates Retention Pooling 2022/23	Paul Fitzgerald
		Commercial Investment/Asset Management Strategies	Chris Hall/Joe Wharton
		NO MORE ITEMS	
3 March 2022	**21 February 2022**	Community Governance Review - Options	Kevin Williams
Special Meeting		**NO MORE ITEMS**	
29 March 2022	**17 March 2022**	Capital, Investment and Treasury Strategy 2022/23	John Dyson
		Wellington and Cullompton Stations - project governance arrangements	Sarah Povall
		SWT Pay Policy	Nicky Rendell
		Decision taken under the urgency rule in realtion to ARG Payments	Gordon Dwyer
		Wordsworth Drive and Coleridge Crescent Regeneration	James Barrah/Chris Brown
		Scrutiny Annual Reports x 2	
		Audit Annual Report	
		No PFH Reports - due to purdah	
		NO MORE ITEMS - Purdah (21.03.2022)	
10 May 2022	**27 April 2022**	**Annual Council Meeting**	
		Council Committees for 2021/2022 and their Terms of Reference	Amy Tregellas
		Appointment of Representatives on Outside Bodies	Amy Tregellas
		To authorise the sealing or signing of documents to give effect to any decisions taken	Amy Tregellas
		NO MORE ITEMS - Purdah (21.03.2022)	
05 July 2022	**23 June 2022**	CCTV	Sally Parry/Scott Weetch
		PFH Reports	
		Wellington Green Space Acquisition (confidential)	Jo O'Hara
06 September 2022	**24 August 2022**	PFH Reports	

Full Council Meeting 29 March 2022

Corporate Scrutiny Committee Annual Report 2021/22

Foreword

Following the decision to split the Council's scrutiny function into two committees I was honoured to appointed as Chair of the Corporate Scrutiny Committee at the Annual General Meeting of Council in May last year.

The decision to split into two committees had been made in part to cover the extensive workload and allow a more focussed approach to scrutiny of corporate and community matters. This also enabled both committees time to invite the Leader and Executive for extended sessions where their responsibilities could be examined in more depth than Full Council meetings allowed.

The Government's reluctance to renew legislation permitting remote meetings meant that all this year's meetings have been held in person. However, space limitations meant that non committee Councillors and some officers had to attend and contribute by zoom. After some early technical issues this arrangement has worked reasonably well.

In 2019 the Government published new Guidance for Scrutiny Committees aiming to clarify and broaden their role and influence. Both myself and the Vice-Chair have worked hard to ensure that Scrutiny Councillors gained a greater oversight of their work programme using pre meetings to identify issues. This has allowed us to alert officers and ensure that responses were given at the public meeting rather than through a subsequent written answer. This gave us a stronger voice over the Executive reports we wished to look at in detail and enable maximum influence to be exerted.

Even with the limitations presented by Covid we also wanted to be more proactive and investigate external matters which had a bearing on the residents of our area.

The Leader of the Council continued to encourage transparency and the involvement of members and the programme of Briefings to provide information and background on Council business was able to continue successfully online. This allowed these matters to be aired and questioned without impinging on the committee process where time is limited.

As a Corporate Scrutiny Committee formulating our programme of work and getting updates on our suggestions and recommendations is a keyway that this Council can demonstrate the transparency and accountability that the residents of Somerset West and Taunton expect from their decision-makers. Scrutiny's role as critical friend of the Executive is vital in ensuring that the voice of the community is heard and should result in more inclusive decision-making.

2. Professional Development

2.1 We planned to hold a Scrutiny Cafe to follow up our 2020 'Away day' but unfortunately the Covid pandemic made face to face meetings extremely challenging and it was agreed to defer this until it could be held safely.

2.2 We continued to focus on:

- improving the involvement of outsiders and third parties to help deliver better outcomes.
- Ensuring we were aware of issues early enough to be able to make a positive contribution particularly in policy development.

- Improving the way that questions and issues raised in Committee were tracked and followed up.
- Having better communication with Executive members

2.3 Accordingly our Top Priority Tasks were:
1) Financial Monitoring
2) Policy Making
3) Holding Exec to Account/Critical Friend – check and balance
4) Evidence gathering
5) Policy Review – looking back

3. 2021/22 Programme
3.1 Overall the last year has been an extremely busy one for the Committee. We have discussed many and varied issues of community interest and concern such as:

- Distribution of Community Infrastructure Levy monies,
- The Commercial Investment Strategy,
- Innovation
- Phosphate in Watercourses and the impact on developments,
- Unitary Proposals

We also considered the Quarterly reports on Corporate Performance and Budgeting. (More details are in Appendix 1)

3.2 We have also instituted regular slots to question Executive Councillors. Not only does this offer Committee members a greater opportunity for extended questioning than is possible in normal meetings of the Full Council but it also offers Executive Members the chance to expand on their roles and responsibilities.

3.3 On a personal note I have been involved in several urgent decisions that require sign off by the Chair of Corporate Scrutiny. These often involved financial decisions and especially the urgent need to roll out grants to local businesses hit by the Covid pandemic. I was also involved in the interview process for both the new Chief Executive and Director of Development and Place.

3.4 As the current Municipal Year ends the Council enters its last year of existence it seems clear that some of our work will be subject to the demands of the emerging Unitary. However, as a sovereign Council, we still must ensure that we maintain our service levels and financial prudence meaning that the role of the Scrutiny Committee will be more important than ever.

3.5 In conclusion I would like to thank the Officers for all their support during a very challenging period. I believe the Committee has made significant progress this year despite the unusual circumstances and that we have a strong foundation going forward.

This Report is the responsibility of Councillor Gwilym Wren – Chair of the Scrutiny Committee and has been compiled in collaboration with the Vice Chair, Councillor Nick Thwaites.

Somerset West and Taunton Scrutiny Committee 2021/22*
***As constituted at Annual Council on 4th May 2021**















1. Councillor Gwilym Wren (Chair)
2. Councillor Nick Thwaites (Vice-Chair)
3. Councillor Ian Aldridge
4. Councillor Benet Allen
5. Councillor Marcus Barr
6. Councillor Sue Buller
7. Councillor Norman Cavill
8. Councillor Simon Coles
9. Councillor Habib Farbahi
10. Councillor Ed Firmin
11. Councillor Barrie Hall
12. Councillor John Hassell
13. Councillor Libby Lisgo
14. Councillor Danny Weddercopp
15. Councillor Loretta Whetlor

APPENDIX 1
Topics considered By SWT Scrutiny Committee this year:

May 2021
Corporate Risk Management Update
In considering this report the Committee made the following key points:

- The risk assessment process in staff operations was considered inadequate and the seriousness of implications were encouraged to be considered in further detail.
- The issues log had 3 red indicators; it was questioned if these had been resolved.
- Preparation of risks in advance of the creation of the Unitary Council was encouraged
- IT processing and logging issues and cyber security risks were considered
- Gaps in training, including Health and Safety training in the workforce were identified. Assurance was given these training gaps would be addressed.

June 2021
Executive Cllr PFH Session - Portfolio Holder for Culture Cllr Caroline Ellis
Cllr Ellis engaged in a very open and informative session discussing her ambitions for improving the cultural offer across the district. The Committee made the following key points:

- Adverting the cultural offer from areas outside of Taunton was encouraged. Cllr Ellis was compiling a database of all arts and cultural organisations and groups both large and small.
- An update around the Regal Theatre was requested. There had been a new roof and ventilation system installed. The dialogue had been positive, members of the Committee were reminded this did not receive Council funding.
- Encouraging participation for all members of society as parts of the local arts and culture offering was emphasised.
- The future of the cultural offering in Taunton was considered alongside a new venue and the future of the Brewhouse.

Review of the Commercial Property Investment Activity and Performance Report
During the debate the following comments and questions were raised by the Committee:

- The risk around receiving income based on rents was questioned.
- Discussion took place around why the target related properties and notional figures differed.
- In questioning the income flow it was explained that some rent payments had been received in advance, this related to the period of the end of this financial year. The incomes had been delayed reflecting the period, and this was common for tenants who paid in advance.
- It was questioned if agents were used for the tenants and further information was requested on rent defaults and future rent increases.
- The future market demand for commercial buildings was considered, the impact on the long-term commercial market was understandably uncertain in the long term.
- Concerns over interest rates were questioned, this was a recognised risk however the market remained strong. Potential revisions in anticipated income were always possible in the future depending on the recovery and market demand.
- The Committee considered that communications underpinning the strategy needed to be reconsidered, allowing for the large sums of money involved and the risks of the circumstances
- The commercial legacy of properties would be incorporated at the December meeting.

July 2021
The July meeting considered the Year End financial reports for 2020/21 including:

- Financial Monitoring - Outturn Position 2020/21

- Financial Strategy 2021/22 to 2022/23
- Corporate Performance Report, Quarter 4 and Outturn, 2020/21

The Committee sought clarity on the following points:

- Can the Finance team provide a comparison with this year's outturn and last years on debts written off?
- Performance Report – Extensions to Planning applications due to phosphates – further detail on how many had had multiple extensions? As reported to Planning Committee there were currently approximately 100 applications, equating to 2,300 dwellings with 13 sites awaiting the discharge of conditions equating to approximately 450 dwellings NB A verbal update was given to the Corporate Scrutiny Committee by Alison Blom-Cooper during the committee meeting on 3/11/21.

August 2021
In August the Committee considered the Innovation Report and a confidential Levelling Up bid. Some Committee members were not happy with the Innovation Report and the subject came before the Committee again in November.

September 2021
The September meeting considered the Quarter 1 2021/22 General Fund Financial Monitoring, the Quarter 1 2021/22 Housing Revenue Account Financial Monitoring and the Corporate Performance Report

Among the issues raised were:

- Collation of parking income was requested along with the projected shortfall with comparison to pre pandemic levels. In response income was consistently 30% lower on pre Covid levels and was not expected to increase this financial year.
- Comparison with the budget agreed in February was considered, with a request for further information in comparison to the detail of the variances.
- HRA Financial Monitoring as at Q1 - There had been a revenue forecast overspend of £610k, with the recommendation setting out £869k, information relating to the variance in the figures was requested.

October 2021
Due to a lack of business the October meeting was cancelled.

November 2021
Executive Cllr PFH Session: leader of the Council and Communications Portfolio Holder - Cllr Federica Smith Roberts
A very useful session concentrated on the forthcoming arrangements for transition to the new Somerset Council. The Committee sought assurance that District and particularly SWT interests would be protected particularly in more remote areas and that we would play a full part in the ongoing process. A lot of concern was raised about the organisation and nature of the proposed Local Community Networks.

There were also questions about arrangements to create a Taunton Town Council.
There were again comments about improving internal communications especially for elected members.

Innovation District Update
The Committee questioned whether there were strategic aims in place yet from the Innovation District for improving innovation and if so what the details of those aims were.
In particular:

- Encouraging more young people to stay in or move to the area would be important in enabling innovation and development.

- Concerns were raised about poor broadband and digital infrastructure in the district hindering innovation and development.
- Setting up strategic partnerships was encouraged.
- The evidence and reasoning for not pursuing a science park in Somerset West and Taunton was questioned and discussed.
- Concerns were raised that the terms of reference for the study were not followed in the EIBC study, and it was questioned why this was the case. Concerns were also raised about members having not been provided with the full report. Officers informed the Committee that the release of the full report was not possible due to the confidentiality agreements originally made with businesses who participated in the study. However, the committee was informed that a redacted version would be issued to members.
- It was questioned why the report mentioned an additional employment space review being undertaken for West Somerset to identify more employment land whilst elsewhere in the report it mentions 54,000 square feet of potential land.
- The planned ratio between manufacturing and service industries as part of innovation and development was questioned and it was asked how sustainable employment opportunities would be created.
- Concerns were raised about the suggestion that an Innovation Centre be built in Watchet given the poor transport links in West Somerset. It was questioned whether the aim was to create new employment or attract jobs from elsewhere into the area.
- It was questioned whether a different approach is needed in Somerset West and Taunton or whether instead lessons could be learned, and ideas taken from areas where innovation has been successful.
- It was discussed whether an innovation hub would be better than an innovation district and that having an innovation hub in Taunton initially and then expanding innovation across the district afterwards may be better than immediately looking to establish an innovation district. It was suggested that businesses may initially be more attracted to Taunton due to its proximity to the motorway.
- It was suggested that a feasibility study for an innovation hub in Taunton be undertaken

In conclusion the Committee Recommended to the Executive that:
A feasibility study is undertaken for the provision of an innovation hub based in Taunton and that the Council brings the results of such a study back through the democratic path when completed. The funding for this proposal is to be found within existing 2021/22 budgets where possible.

In response the Executive resolved to progress the work identified in the 'Developing the Innovation Ecosystem in Somerset West and Taunton – Framework for Action' report and not to carry out an additional feasibility study for an innovation hub in Taunton, however as part of SWT's role as an enabler to deliver the space necessary for research and innovation within the district, the council will finance and host a R&I conference in Taunton by or during the summer 2022.

December 2021
The December meeting considered the Quarter 2 Corporate Performance Report, the Quarter 2 General Fund Financial Monitoring and the Draft 2022-23 General Fund Budget Update.

As part of the scrutiny of these reports the Committee queried:

- Why West Somerset was apparently being prioritised for infrastructure? This is to resolve long standing issues in Minehead and W Somerset. In response there is a need for economic support and employment land.

- Whether the average relet time of 44 days under homes and communities was normal? In response this target was set under Covid conditions and benchmarked against other District Council performance
- Fly tipping was raised as being a big issue and it was questioned what was being done to address this. In response at the end of September, performance for the year-to date is 81% which is exceeding the target of 80%. Fly-tipping is dealt with by an external contactor and performance has improved during the year.
- What is the current Phosphate progress? In response the Council had difficulty in recruiting to essential posts, but this was now in hand.
- It was reported that car parking losses had been partially covered by Covid grants and funds have been taken from the Emergency Risk fund. The change in parking behaviours was having an impact on income and a Car Parking Review was being proposed.

January 2022 (Meeting 1)
The Committee considered:
The Annual Infrastructure Funding Statement with questions about CIL especially going forward into Unitary. The Committee also felt that a review of CIL in the District was needed. In addition, the council had to ensure that all funds held were advertised and spent in a timely manner.

The confidential Commercial Property Investment Strategy, Six Monthly Performance Review and Asset Management Strategy was also considered.

January 2022 (Meeting 2)
At the end of January, the Committee scrutinised the Budget proposals for 2022/23.

February 2022
The Committee held sessions with two Executive Portfolio holders.

Councillor Marcus Kravis – Economic Development & Asset Management
Topics covered included:
- The Coal Orchard development and the difficulties facing the contractors
- The future of Taunton Bus Station
- West Somerset Employment land
- The Innovation Committee

Councillor Mike Rigby – Planning and Transport
Topics covered included:
- Progress on resolving the Phosphate planning delays
- Car parking and the Parking review.
- The Local Plan review.
- District Housing supply.

Report Number: SWT 27/22

Somerset West and Taunton Council
Corporate Scrutiny Committee – 2nd 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: ☐ **Once only** ☐ **Ad-hoc** Y **Quarterly**

☐ **Twice-yearly** ☐ **Annually**

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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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	+£498k	↑				
	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	£2.564m	↑				
	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 current figures appear well below target, but these are cumulative totals.

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

APPENDIX 2

Average Call Waiting Times

Background

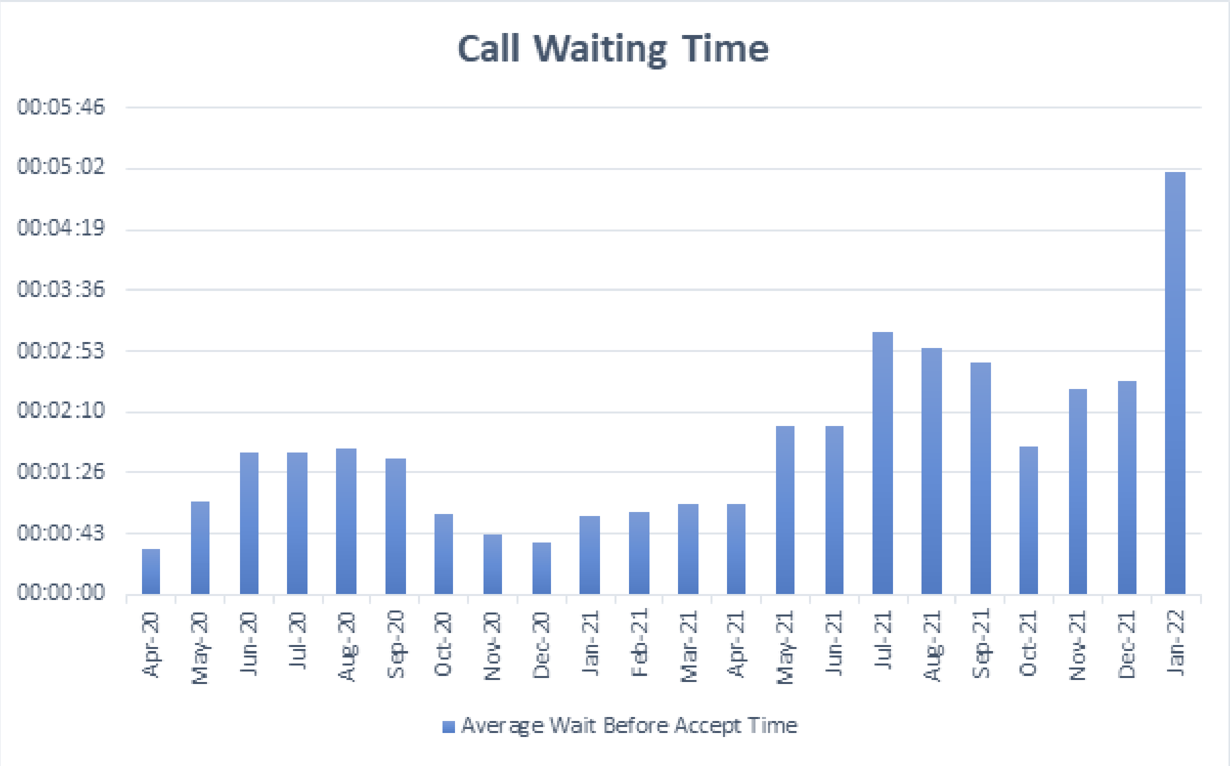
The indicator measures the length of time it takes one of our Customer Services Team to answer a call once the customer has listened to the initial recorded options and selected an appropriate queue.

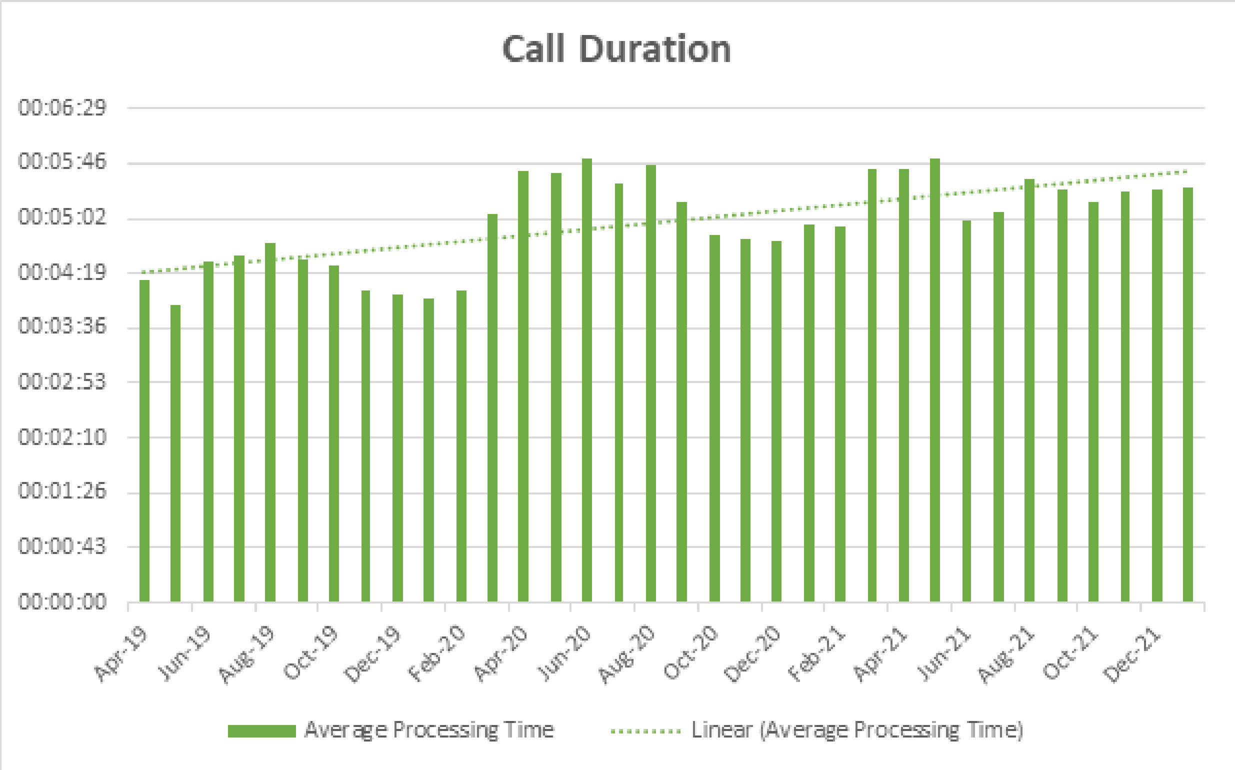
Our target is to answer all calls within 60 seconds. This is an ambitious target when compared with many other organisations where it is not uncommon to be waiting longer than 5 minutes. There is a clear relationship between the number and length of calls and the levels of staff resourcing required to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

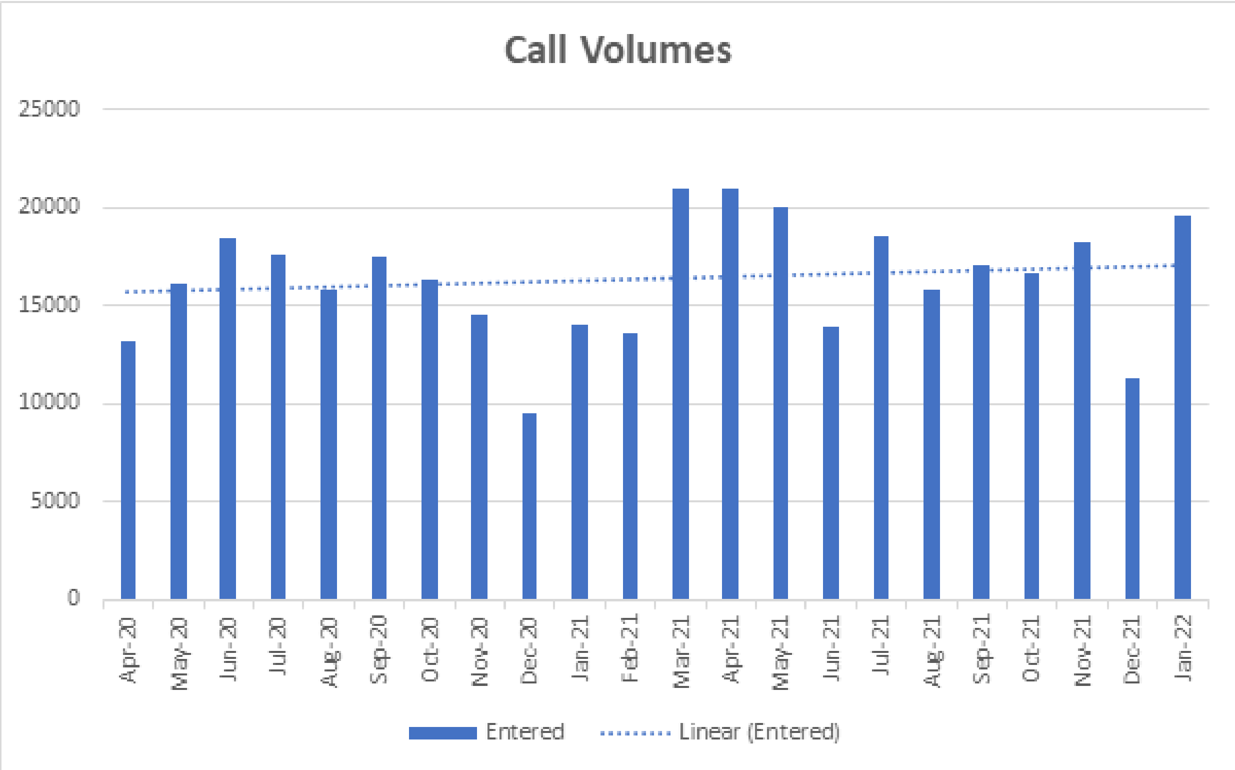
The current position

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 certa	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 26/22

Somerset West and Taunton Council

Corporate Scrutiny Committee – 2 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 of 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%
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%

	Original Budget	Virement	Current Budget	Outturn Forecast	Variance	
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**%**
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	-128	-134	-87

Department Notes	Q3	Q2	Q1
	Variance £'000		
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.			
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	-843	-550	-430

Department Notes	Q3	Q2	Q1
	Variance £'000		
mainly relates to carparking. New burdens grant of £120k was received in December 2021.			
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 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.	0	60	0
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 West 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

	£'000
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
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 most 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 <u>General Fund (GF) Reserves</u>

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, offset by higher than expected CIL funded purchase of the Comeytrowe Primary School site. The underspend is primarily because 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 must 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) because 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 To be added following the Corporate Scrutiny meeting.

Democratic Path:

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

Reporting Frequency: Quarterly

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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)**

Somerset West and Taunton Council

Corporate Scrutiny Committee – 2 March 2021

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 is 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 Budges 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 will be finalised after this report is 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.

Democratic Path:

- Corporate Scrutiny Committee – 2 March 2021
- Audit and Governance Committee – 14 March 2021
- Executive – 16 March 2021
- Full Council – 29 March 2021

Reporting Frequency: Annually

List of Appendices

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

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Somerset West and Taunton

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.

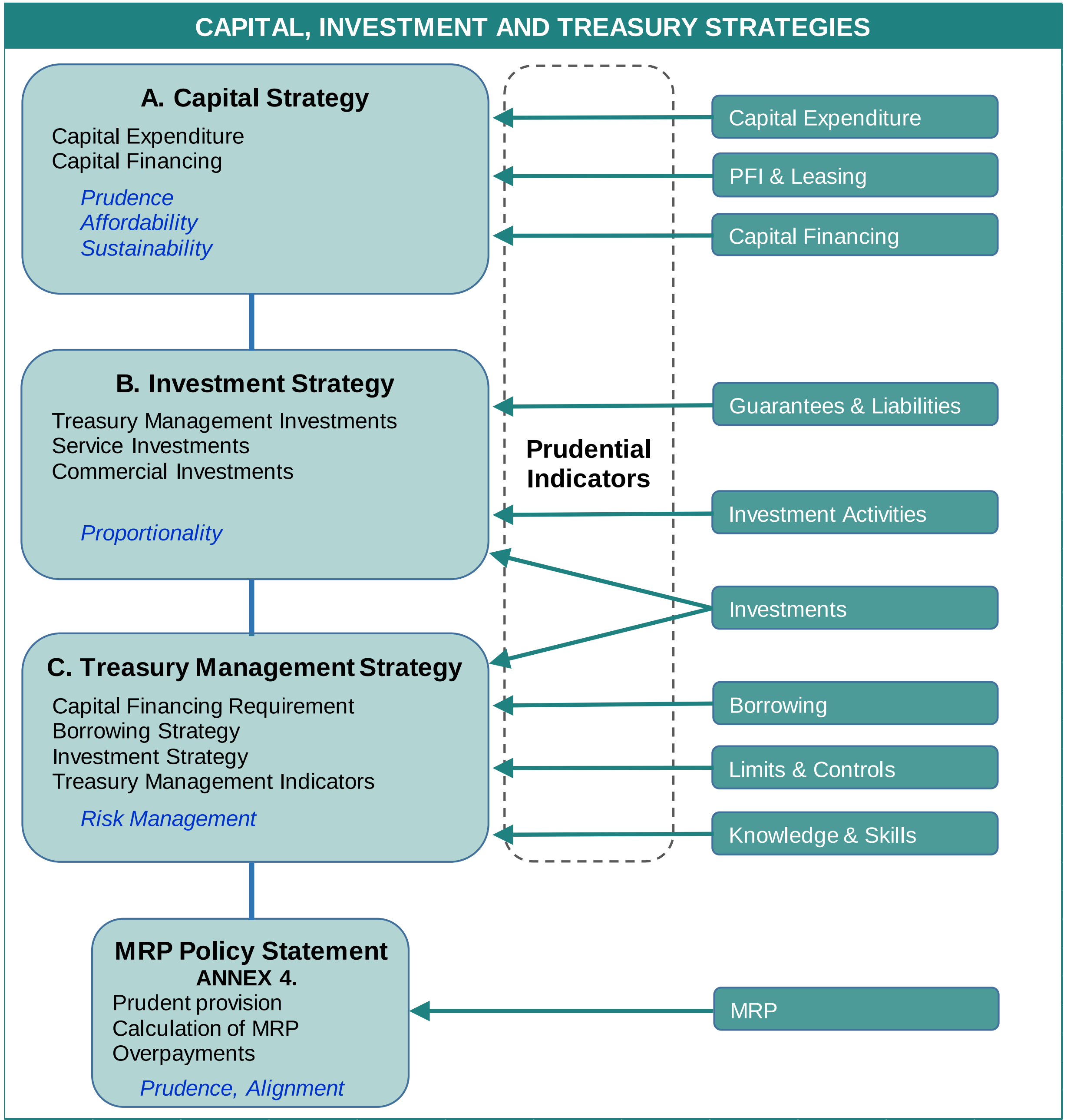
1.8 The Code’s revised reporting requirements include changes to the capital strategy, prudential indicators and investment reporting. The requirements of the revised Prudential Code applied with immediate effect following publication; in particular this includes the stipulation that an authority must 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
Capital Expenditure
Capital Financing
Prudence
Affordability
Sustainability
B. Investment Strategy
Treasury Management Investments
Service Investments
Commercial Investments
Proportionality
C. Treasury Management Strategy
Capital Financing Requirement
Borrowing Strategy
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Treasury Management Indicators
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ANNEX 4.
Prudent provision
Calculation of MRP
Overpayments
Prudence, Alignment
Prudential Indicators
Capital Expenditure
PFI & Leasing
Capital Financing
Guarantees & Liabilities
Investment Activities
Investments
Borrowing
Limits & Controls
Knowledge & Skills
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	304*	1,507	0	0	1,811
subtotal - Internal	**9,574**	**15,253**	**17,446**	**11,566**	**10,668**	**54,933**
Debt						
Loans taken out HRA	3,470	4,142	17,135	20,578	19,285	61,140
Loans taken out GF	50,730	71,083*	13,915	26,597	7,938	119,533
Loans taken out subtotal	54,200	75,225	31,050	47,175	27,223	180,673
Leases	0	0	279	361	379	1,019
subtotal - Debt	**54,200**	**75,225**	**31,329**	**47,536**	**27,602**	**181,692**
TOTAL	**72,480**	**96,290**	**70,239**	**71,349**	**39,329**	**277,207**

<u>* NOTE to Table 2:</u> Table 2 does not reflect the recommendation to be made to Full Council for the transfer of £2million from General Reserves to fund a supplementary increase in the Revenue Contribution to Capital Outlay budget for the financing of capital expenditure in 2021/22. The impact of this recommendation would be to increase “Revenue contribution & reserves” line in 2021/22 from £304,000 to £2,304,000 and to reduce the “Loans taken out GF” line from £71,083,000 to £69,083,000.

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

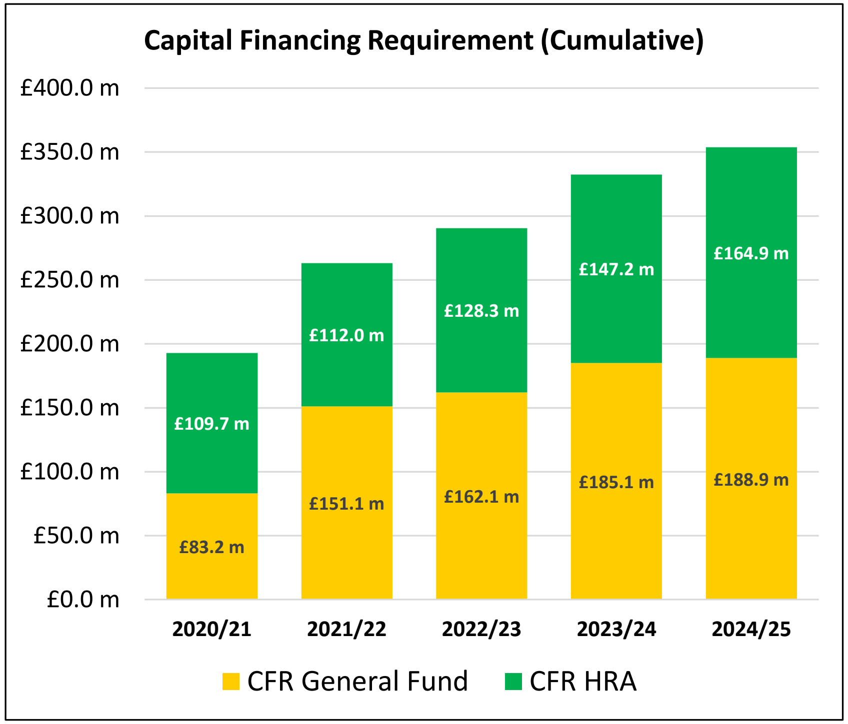
3.7 The Council's cumulative amount of debt finance is measured by the Capital Financing Requirement (CFR). This is an important measure that determines the maximum borrowing requirement of the Council over the course of years that Council assets may be employed for the delivery of services. The basic 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 £27.33million during 2022/23 (comprising £11.06million 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, 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	151,089	161,530	184,435
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	-3,876	-4,309
Capital receipts used	-740	-1,797	-2,668	0	0
Grants and contributions	-11,952	-5,588	-23,586	-12,247	-1,059
GF CFR balance c/fwd	**83,203**	**151,089**	**161,530**	**184,435**	**188,260**
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**	**263,127**	**289,837**	**331,675**	**353,147**

NOTE to Table 3: Similarly as noted with Table 2, Table 3 does not reflect the recommendation to be made to Full Council to apply £2million General Reserves to fund capital expenditure in 2021/22. The impact of this recommendation would be to add a new line with £-2m RCCO which, in turn, would reduce the cumulative CFR totals by £2m.

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	£5.56m	£5.99m
Proportion of net revenue stream	6.76%	21.53%	23.10%	38.25%	38.76%

4.2 The percentage of financing costs to net revenue stream increases significantly 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. The following table 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.'

Other Property Investment Matters

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 (see note below).

NOTE: TABLE 14 – Balance Sheet Summary and Forecast – this table is not currently included because emerging changes made to the proposed revenue budgets need to be incorporated into the forecasts and estimates for the Balance Sheet and CFR. Officers are currently constructing the effect of these changes, although their outcomes are not proportionally significant.

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.

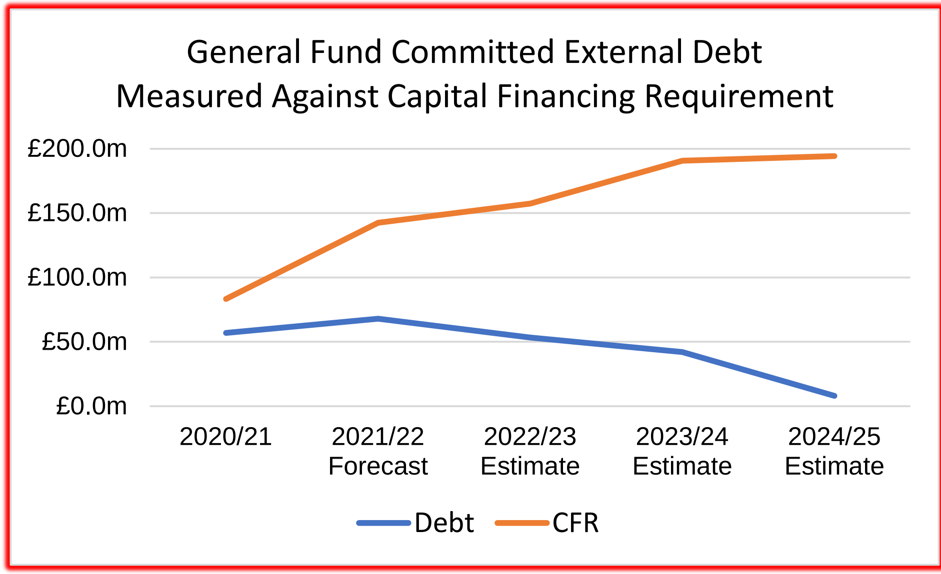
3.4 The Council has an increasing CFR due to annual additions to the Capital Programme. The full impact of investment property acquisitions has also been built in during 2020/21 and 2021/22. The trend of increased capital expenditure and forecast repayments of external borrowing indicates new borrowing capacity of up to £188million over the forecast period.

3.5 Table 14 shows that the Council expects to comply with this recommendation over the medium term.

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, below, 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 short-term nature of debt currently committed to, which drops away sharply, with an increasing CFR reflecting the addition of borrowing needed to finance future capital programmes. This will require maturing debt to be replaced. 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.



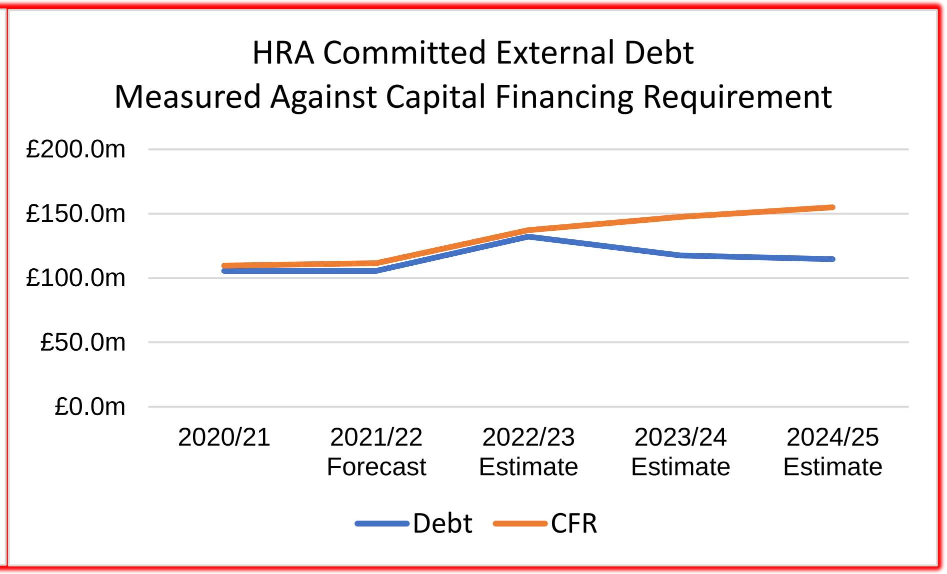


TABLE 15	**Prudential indicator - Gross debt and the CFR**				
	2020/21 Actual £'000	**2021/22 Forecast £'000**	**2022/23 Estimate £'000**	**2023/24 Estimate £'000**	**2024/25 Estimate £'000**
General Fund Debt	57,000	68,000	82,039	108,820	116,954
HRA debt	105,500	105,500	122,790	143,544	163,012
Total Debt	**162,500**	**173,500**	**204,829**	**252,364**	**279,966**
General Fund CFR	83,203	151,089	162,145	185,050	188,875
HRA CFR	109,717	112,038	128,307	147,240	164,887
Total CFR	**192,920**	**263,127**	**290,452**	**332,290**	**353,762**

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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.

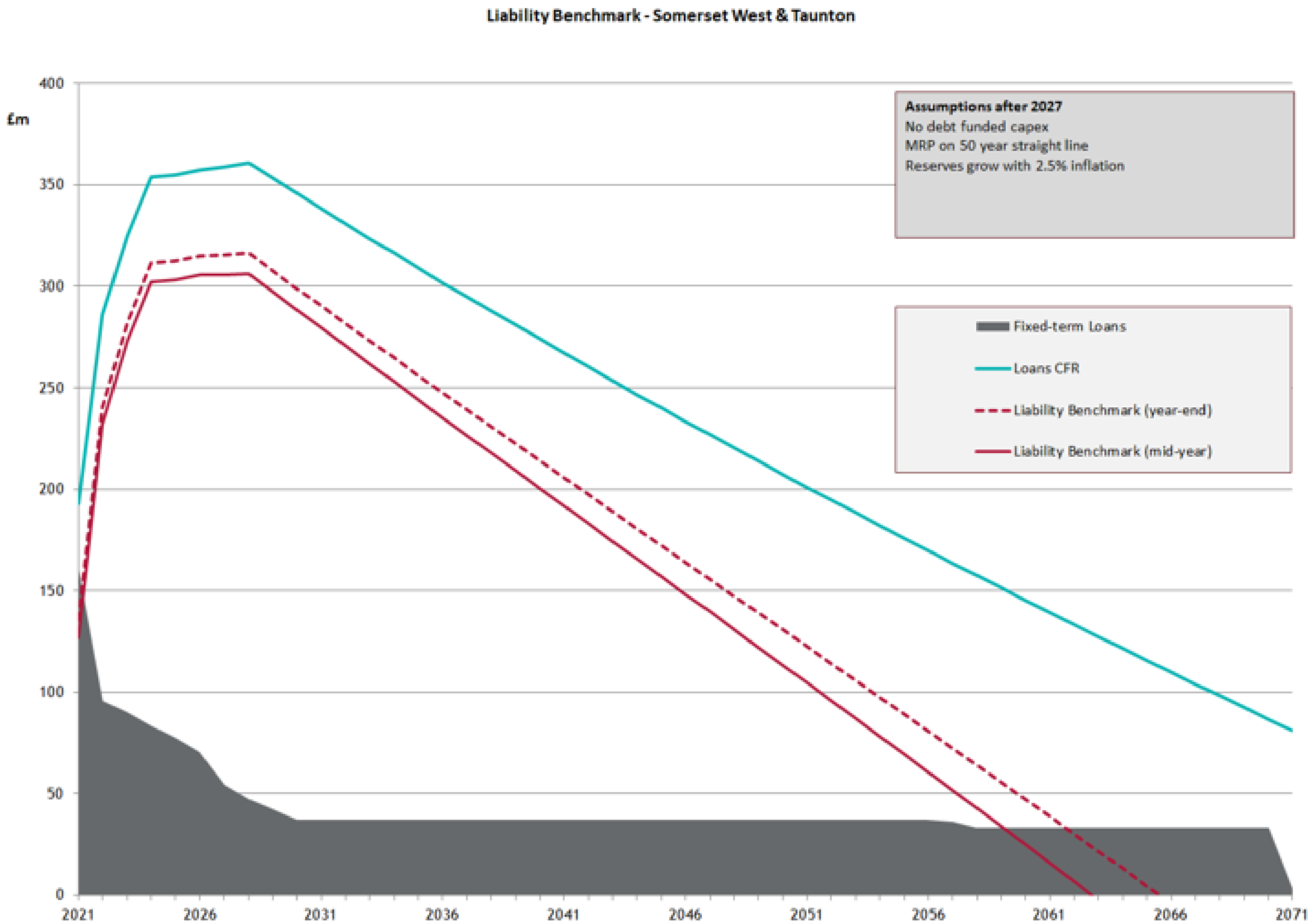
4.11 A more-comprehensive measure is given by the Liability Benchmark. The Liability Benchmark is a measure of how well the existing loans portfolio matches the authority's planned borrowing needs. It stems from projections of the Council's balance sheet in future years. The Liability Benchmark is effectively 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 table that follows (Table 16) 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 £217.5m in 2021/22 and is forecast to rise to a maximum of £312.5m by 2024/25.

NOTE: TABLE 16 – Balance Sheet Summary and Forecast – this table is not currently included because emerging changes made to the proposed revenue budgets need to be incorporated into the forecasts and estimates for the Balance Sheet and CFR. Officers are currently constructing the effect of these changes, although their outcomes are not proportionally significant.

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; any years where actual loans outstanding exceed the benchmark represent an overborrowed position, which will result in excess cash requiring investment, which was the case by the end of the in 2020/21 financial year as we took advantage of internal borrowing. Clearly, scope for internal borrowing will now drop out.

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:



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 5, overleaf:

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

<u>NOTE to Table:</u> 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