

# Somerset West and Taunton Council

## Executive – 15 December 2021

### 2021/22 General Fund Financial Monitoring as at Quarter 2 (30 September 2021)

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

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#### 1 Executive Summary

- 1.1 This report provides an update on the projected outturn financial position of the Council's General Fund (GF) for the financial year 2021/22 (as at 30 September 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; and is relying heavily on the reserves prudently set aside to mitigate budget volatility and risk. A thorough analysis of additional risks and uncertainties facing the Council have been identified and careful monitoring of these will continue for early indications of emerging financial pressures.
- 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 (see 1.8 below).
- 1.4 The General Fund **Revenue Budget** forecast is a currently projecting an underspend of £437k for the current year.
- 1.5 Although services are now projecting some underspends within the General Fund there are items that budget holders have identified where the budget is still required but the work will slip into 2022/23. Therefore £437k of budget carry forwards are proposed and if these are approved the underspend would reduce to a nil variance.
- 1.6 The total approved **Capital Budget** is £164.1m. Of this, the profiled budget spend for 2021/22 is £78.5m with a current forecast net underspend of £242k being reported.
- 1.7 The unearmarked **General Reserves** balance is currently £5.793m. If the underspend remains as currently projected and the proposed carry forwards are approved the projected uncommitted balance at year end would remain at £5.793m. The 2022/23 budget proposals include a contribution of £1m leaving an uncommitted balance of £4.793m, which is £2.393m above the current recommended minimum balance.

1.8 As set out within the General Fund Budget Update report included in this meeting's agenda there are expected to be additional costs related to implementation of the new unitary council for Somerset. The estimate will be finalised and included within the 2022/23 Final Budget report to Full Council in February, but at this state Members are advised that an indicative £1.375m may be required from General Reserves to meet this cost.

1.9 The General Fund **Earmarked Reserves** closing balance is currently projected to be approximately £21m.

## **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 30 September 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.

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 30 September 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 £437k (2.3% of £18.7m Net Budget). The main reasons for this are shown in table 2 below. The forecast shows an improved financial position compared to the Q1 forecast which was an overspend of £237k, after withdrawing £1.145m from the Budget Volatility and Risk Reserve. The forecast net expenditure has therefore reduced by £674k since Q1.
- 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. The Government has so far provided emergency additional funding of £813k, which is included in our budget. We are also able to claim 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**

	Current Budget	Outturn Forecast	Variance	
	£'000	£'000	£'000	%
Development and Place	3,051	2,624	-427	-14.0%
External Operations & Climate Change	9,570	10,286	716	7.5%
Housing & Communities	3,273	3,289	16	0.5%
Internal Operations	9,922	9,946	25	0.2%
Senior Management Team	554	558	4	0.7%
Provision for staff pay award (not yet agreed)	0	303	303	100.0%
<b>Net Cost of Services</b>	<b>26,370</b>	<b>27,006</b>	<b>636</b>	<b>2.4%</b>
COVID General Grants	0	-550	-550	0.0%
Investment Properties	-4,662	-4,602	60	-1.3%
Interest and Investment Income	243	22	-221	-90.9%
Expected Credit Losses	0	0	0	0.0%
Transfers from Earmarked Reserves	355	-162	-517	145.5%
Transfers from General Reserves	-2,071	-2,071	0	0.0%
Capital and Other Adjustments	-1,522	-1,328	194	-12.7%
<b>Net Budget</b>	<b>18,714</b>	<b>18,316</b>	<b>-398</b>	<b>-2.1%</b>

	Current Budget	Outturn Forecast	Variance	
	£'000	£'000	£'000	%
Funding	-18,714	-18,753	-39	0.2%
<b>Variance</b>	<b>0</b>	<b>-437</b>	<b>-437</b>	<b>-2.3%</b>
<b>Proposed Carry Forwards (Not yet approved) – See Section 6</b>			<b>437</b>	
<b>Forecast Variance Net of Proposed Carry Forwards</b>			<b>0</b>	

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 net expenditure budget of £3.051m in 2021/22, which plans to deliver a range of services and projects including:

- Strategy and policy development
- Planning services including Local Plan development, planning applications processing and enforcement
- Economic development
- Town centre regeneration
- Heritage 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's budget volatility and forecast has been managed via robust contract and financial / budget management by budget holders. The directorate is currently forecasting a net underspend of £427k for the year.

**Table 2: Development & Place Forecast Variances as at Q2**

Department Notes	Q2 Variance £000	Q1 Variance £000
<b>Strategy and Policy:</b> Primarily driven by £95k of local plan fee underspend (spend budgeted for in 22/23), £22.4k fees/hired services underspend, £50.4k vacancy savings and £0.4k of subsistence/subscriptions underspends. Partially offset by unbudgeted spend/forecast spend of £6.3k on job adverts, £4.5k on IT equipment for new starters, £2.5k for professional subscriptions.	-155	-55
<b>Planning Obligations:</b> CIL Contributions received higher than budgeted.	-100	
<b>Phosphates:</b> Savings due to 2 x FTC staff employment c6 months into the budget period. One vacancy in the process of being resourced. The remainder of the 3 contract costs are budgeted in 22/23.	-82	

Department Notes	Q2 Variance £000	Q1 Variance £000
<b>Planning:</b> The service has struggled to recruit to vacant posts resulting in higher agency backfill costs (£50k). 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).	90	59
<b>Major &amp; Special Projects:</b> Following a review of establishment, vacancy savings have been included in the forecast of £83.6k. In addition, there are expected consultancy fee savings of £57.3k. This has been partially offset by spend on Heritage boards of £0.8k, purchase of IT equipment for new staff £0.9k, legal fees of £0.4k, general staff costs of £0.3k and premises insurance £0.8k.	-138	
<b>Other Minor Variances</b>	-42	-7
<b>Total</b>	<b>-427</b>	<b>-3</b>

### External Operations and Climate Change:

- 5.8 The External Operations and Climate Change directorate has reported net expenditure budget of £9.57m 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
- 5.9 The directorate has reported a current forecast net overspend for the year of £716k as at the end of quarter 2.
- 5.10 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. The net position would be an underspend of £1.27m. As a team we continue to manage our workforce and ensure we adapt to provide resources at the point of need. The Directorate Plan for 2021/22 is both a reflection of new ambition for the year and a catch up from a pandemic hit 2020/21; that programme of work will inevitably draw on our ability to take on new tasks. As we better understand our legacy assets, we better understand our financial liabilities. Those liabilities will manifest in year and in future years as new costs.
- 5.11 The overspend position is created by car parking usage continuing to fall well below historic budgeted levels, with income projected to be almost £2m below budget. This

budget line was kept at previous levels when the Council approved the 2021/22 budget in February 2021. However, it was also recognised that there was a high risk that income would remain low and there was limited additional government grant support, which was reflected in the Budget through the provision of a £2.4m Budget Volatility and Risk Reserve for the year. The Executive agreed to allocate £1.145m from this reserve through the Q1 report (shown against the earmarked reserves budget). The Q2 position assumes that only £517k of this is needed and that the remainder of the car park income loss can be covered from in-year underspends across the authority. There is also £390k of parking income loss funding included within the COVID General Grants forecast, which further offsets the projected income shortfall.

- 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 Q2**

<b>Department Notes</b>	<b>Q2 Variance £000</b>	<b>Q1 Variance £000</b>
<b>Major Contracts:</b> The underspend relates to the introduction of a new fleet contract and a thorough audit of all fleet costs. This saving is for 2021/22 only and review of future years is currently being undertaken.	-147	0
<b>Street Scene / Open Spaces:</b> Cost savings within the service such as a reduction in budget required for contractor costs and a predicted reduction in fuel. A budget carry forward of £100k was approved for Hankridge Pond. Works have been programmed, however cannot take place during winter meaning that the spend will fall into next financial year.	-306	-47
<b>Asset Management:</b> This favourable variance includes additional income, new lettings and completion of leases earlier than expected. Due to an ongoing audit of legacy budgets, and the review of the maintenance programme, there is a forecast underspend across several budget headings.	-598	-247
<b>Public Health:</b> A budget carry forward of £15k was approved for the Seagull Control programme for 2021/22 however this has been postponed for a further year creating an underspend. The cost of staff re-directed (and not backfilled) onto COVID-19 activities has been fully funded through the Community Outbreak Management fund creating an underspend.	-35	-54
<b>Licensing:</b> Updated projections for income evidence related to both general and taxi licensing have identified a likely shortfall for this year.	47	47
<b>Bereavement Services:</b> This is a demand led service where the income budget is estimated each year. The current forecast shows better than budgeted levels of income.	-151	-184

Department Notes	Q2 Variance £000	Q1 Variance £000
<b>Parking:</b> 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 is £1.989m. This has been calculated using both 2020/21 and 2019/20 data and reflects a 30% reduction in income. We have claimed £390k through the COVID Income Compensation Scheme for 71% of losses for April to June 2021. The Executive also supported withdrawing £1.145m from the Budget Volatility and Risk Earmarked Reserve through the Q1 report to help mitigate the shortfall. The Q2 position assumes that only £517k of this is needed and that the rest can be offset from corporate underspends.	1,911	1,937
<b>Other Minor Variances</b>	-5	46
<b>Total</b>	<b>716</b>	<b>1,498</b>

### Housing & Communities:

- 5.13 The Housing and Communities directorate has a net expenditure budget of £3.273m 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 overspend of £16k at the end of quarter 2.
- 5.15 Whilst we are currently reporting a very small variance, 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 Q2**

Department Notes	Q2 Variance £000	Q1 Variance £000
<b>Minor Variances</b>	<b>16</b>	<b>5</b>

<b>Total</b>	<b>16</b>	<b>5</b>
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### **Internal Operations:**

- 5.16 The Internal Operations directorate has a net expenditure budget of £9.922m 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 £146k at the end of quarter 2. This includes additional resources identified as needed to meet service requirements over and above existing approved budgets.
- 5.18 The organisation is facing significant change through the implementation of Unitary. Governance & Democratic Services and supporting our staff will be fundamental. It is anticipated additional costs will be funded through savings and in year vacancies where possible. However, it should be noted that pressures on all services will grow as the unitary transition plan comes into force and full budget savings may not be possible giving rise to the potential need to seek approval for additional allocation from reserves. Monthly budget monitoring through the Directorate Performance Board will ensure close monitoring and identification of savings.
- 5.19 There may be opportunities to mitigate some of this reported pressure, for example through:
- Surplus balances if released from the review of earmarked reserves
  - In year receipt of new burdens grant funding
  - Vacancy savings exceeding expectations
  - Capitalising IT equipment costs
  - Managed control of spend in remainder of the year.

**Table 5: Internal Operations Forecast Variances as at Q2**



Department Notes	Q2 Variance £000	Q1 Variance £000
<p><b>ICT:</b> The service has managed to identify savings of c£29k to date from rationalising ICT network circuits at the West Somerset House site, replacement of equipment and removing third party support costs and migration of the Mobile Device Management solution. In addition salary savings due to in year vacancies and further underspends have been identified where budget allocations are not required in the current financial year. This position takes into account that we have already incurred non budgeted £20k spend due to new starters above existing establishment (at approximately £1k per starter for laptop, licences etc) and have estimated another £10k until a system is in place for these costs to be picked up by the relevant service.</p>	-99	-53
<p><b>Benefits:</b> The position at the end of Q1 is showing a potential underspend at year-end. This underspend largely results from receiving a greater amount of administration grant from DWP for administering Housing Benefit than we had originally budgeted for. The grant from DWP is to ensure we have sufficient funding to adequately resource the administration of Benefits on their behalf. DWP are also requiring us to undertake an increased amount of review work on claims this year. We may need to utilise some or all of this budget later in the year to ensure that we have sufficient resourcing to deliver to the required DWP standards.</p>	-134	-87
<p><b>Revenues:</b> Due to the pandemic we tailored our approach to recovery and no court hearing took place in the 2020/21 financial year. Not issuing court summonses meant that no court costs (£67 per account) were raised last year. By contrast in 2021/22 we have summonsed both this year and last year's caseload to catch up hence an increase in revenue generated from the raising of in year court costs.</p>	-125	0
<p><b>Governance:</b> The service has requested to draw upon in-year underspends to fund the Community Governance Review for Taunton and additional staffing to cover a significant increase in workload.</p>	87	266
<p><b>Customer Services:</b> We're forecasting a £60k overspend across the Customer Services areas. This is due to a correction in enhancement payments to staff in Deane Helpline following a review of their entitlements. This is partially offset by an increase in income of £10k. The Customer Services function is due to meet budget. The Agency costs to cover additional call volumes due to the Waste disruption and the increase in demand due to Recycle More has been covered by existing vacancies. The Taunton Visitor Centre has experienced a significant reduction in income over the last six months. As this is based on commission sales this loss in income comes with a corresponding reduction in expenditure.</p>	60	0

<b>Department Notes</b>	<b>Q2 Variance £000</b>	<b>Q1 Variance £000</b>
<b>People / HR:</b> The base budget had an expectation of a £100k vacancy saving target. Whilst this is for vacancies across all directorates the budget is held within HR but with various vacancy savings being reported in various staff budgets. As the scale of forecast vacancy savings has increased since Q1 it is anticipated that the savings target will be dispersed across services for the Q3 report.	73	92
<b>Shared Support Service Charges:</b> the proportion of shared support staff servicing the Housing Revenue Account (HRA) has been reviewed and updated to reflect current allocation of time.	170	0
<b>Other Minor Variances</b>	-7	-9
<b>Total</b>	<b>25</b>	<b>209</b>

### **Senior Management Team (SMT)**

- 5.20 The SMT has a 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.
- 5.21 A very minor variance to budget is forecast at the end of quarter 2.

### **Pay Award 2021**

- 5.22 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**

- 5.23 As well as budgets allocated to directorates for the delivery of services, several budgets are reported 'below the line' as centrally held/corporate items.
- 5.24 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

5.25 A net underspend / income surplus of £1.073m is currently forecast as at the end of quarter 2, predominantly due to proposed transfers from reserves and estimated income loss grant funding from Government.

**Table 6: Forecast Variances as at Q2**

<b>Department Notes</b>	<b>Q2 Variance £000</b>	<b>Q1 Variance £000</b>
<b>COVID General Grants:</b> It is recommended that £135k from this grant is carried forward to fund the leisure contract budget pressure in 2022/23 due to COVID-19. Therefore, this is showing as an underspend of £135k against the full grant of £813k. The Sales, Fees & Charges (SFC) compensation is only running until end of June 2021. The claim has been submitted and the estimated compensation from income loss is £415k.	-550	-430
<b>Investment Properties:</b> Overspend relates to increased landlord repair costs relating to roofs / guttering etc and scaffolding requirements.	60	0
<b>Interest and Investment Income:</b> 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.	-221	-305
<b>Net Transfers from Earmarked Reserves:</b> The SFC Compensation from Government does not cover all of the expected loss for the financial year. Therefore, it is recommended that the car parking income shortfall is funded in part from the Budget and Risk Volatility Reserve. This was supported by the Executive through the Q1 report.	-517	-1,145
<b>Capital and Other Adjustments:</b> An additional revenue contribution is planned to fund the finance system contract renewal license.	194	80
<b>Other Minor Variances</b>	-39	25
<b>Total</b>	<b>-1,073</b>	<b>-1,775</b>

5.26 As part of the approved Budget for 2021/22 the Council approved a prudent £2.4m contingency to be held in the Budget Volatility and Risk Reserve. This is in place to underwrite key risks against volatile costs and income lines such as parking income where the budget was maintained at pre-COVID levels but with intent to monitor trend

to inform future years budgets. Although the Executive supported the potential to use £1.145m of this reserve based on the Q1 forecast, updates to variances reported in Q2 mean that the estimated need to use the reserve in 2021/22 is significantly reduced to £517k. This position will continue to be monitored through the rest of the year and reassess the likely need to use the contingency at Q3 and year end.

- 5.27 On current forecast there is the prospect of c£1.9m being held in the reserve at year end, which would provide SMT, the S151 Officer and the Executive (in consultation with the Joint Committee / Implementation Executive for unitary) with the opportunity to review and potentially reprioritise some or all of this balance. It will be sensible to consider this initially as part of budget setting in February 2022.

## **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 £437k. If 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 £798k.

**Table 7: Potential Carry Forwards**

	<b>£'000</b>
<b>Hankridge Pond Work:</b> 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
<b>Leisure Contract:</b> To fund forecast 22/23 budget pressure due to COVID-19 from the remaining COVID grant in 21/22	135
<b>Seagull Control Programme:</b> 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
<b>Local Plan Feasibility:</b> 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 2020/21 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.	95
<b>Phosphates:</b> 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.	82
<b>Total</b>	<b>437</b>

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

## **7 General Fund (GF) Reserves**

### **Unearmarked Reserves**

- 7.1 The opening general reserves balance as at 1 April 2021 is £7.914m.
- 7.2 As part of the budget proposals to Full Council on 18 February 2021 and the Financial Strategy agreed by the Executive in July 2021, £2.160m of current reserves are planned to be used to soften the budget gap across two financial years (£1.16m in 21/22 and £1m in 22/23). Further approved allocations from general reserves are shown in the table below.

**Table 8: GF General Reserve Balance**

	<b>Approval</b>	<b>£000</b>
<b>Balance Brought Forward 1 April 2021</b>		<b>7,914</b>
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 - Business Intelligence Capacity	SMT – 23/06/21	-50
Supplementary Budget - Project Management Resources	Director/S151 – 15/07/21	-19
<b>Current Balance</b>		<b>5,793</b>
Forecast - Q2 Projected Underspend net of Proposed Carry Forwards		0
<b>Projected Balance 31 March 2022</b>		<b>5,793</b>
Planned Use of Reserve in 2022/23 for Base Budget		-1,000
<b>Projected Balance 1 April 2022</b>		<b>4,793</b>
Recommended Minimum Balance		2,400
Projected Balance above Minimum Reserve Balance		2,393

- 7.3 The projected balance remains above the minimum adequate reserves requirement as assessed by the S151 Officer. It is prudent to continue to hold reserves above the minimum at this stage as in-year budget risks remain higher than normal due to COVID, and the Council will need to contribute towards costs of implementing a new unitary council structure in Somerset.
- 7.4 As set out within the General Fund Budget Update report included in this meeting's agenda there are expected to be additional costs related to implementation of the new unitary council for Somerset. The estimate will be finalised and included within the 2022/23 Final Budget report to Full Council in February, but at this state Members are advised that an indicative £1.375m may be required from General Reserves to meet this cost.

### **Earmarked Reserves**

- 7.5 The General Fund Earmarked Reserves brought forward balance for 2021/22 is £33.844m. 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 and planned transfers from earmarked reserves in 2021/22 is currently £12.416m.

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

**Table 9: General Fund Earmarked Reserves**

	<b>Opening Balance 1 April 2021 £000</b>	<b>Budgeted/ Planned Transfers £000</b>	<b>Closing Balance 31 March 2022 £000</b>
2020/21 Business Rate Holiday S31 Grant	11,695	-11,118	577
2020/21 Business Rate Losses S31 Grant	3,081	-999	2,083
Business Rates Volatility	5,375	415	7,040
Investment Risk	3,673		3,673
Budget Volatility & Risk	2,400	-517	1,883
Commercial Investment Financing Fund	0	2,000	2,000
General Carry Forwards	2,112	-2,112	0
Garden Town Fund	870	-68	802
Economic Development Initiatives	769		769
Asset Management	687		687
Community Housing Grant (ring-fenced)	533		533
Other Smaller Balances	2,648	-18	2,630
<b>Total</b>	<b>33,844</b>	<b>-12,416</b>	<b>21,427</b>

## **8 General Fund (GF) Capital Programme**

- 8.1 The current Capital Programme Budget is £164.148m 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 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, £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. In addition, the following were approved under delegated authority: £150k for electrical vehicle charging points, £80k for Finance System licences and £50k for Watchet Cleeve Hill.
- 8.3 There are also capital works of £702k under S106 obligations mainly consisting of Norton Fitzwarren play pitches and play areas (£523k of which £25k is forecast to be spent in 2021/22). The Section 151 Officer has approved supplementary capital budgets for each of the S106 schemes to represent the spend commitment and match funding held.

- 8.4 The Council plans to finance this investment through Capital Receipts, Capital Grants, Revenue Funding and Borrowing (see **Appendix B**).
- 8.5 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**.
- 8.6 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 net underspend against profiled budget for 2021/22 of £242k.
- 8.7 **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), off set by higher than expected CIL funded purchase of the Comeytrowe Primary School site, and higher flood alleviation costs on Firepool.
- 8.8 **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 £252k on the Fleet Contract, and a slight overspend of £93k mainly on the East Quay wall and Watchet Splashpoint Hole.
- 8.9 **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.
- 8.10 **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.
- 8.11 **Hinkley:** The Hinkley funded projects saving related to projects that are complete.
- 8.12 **S106 Schemes:** The S106 projects relate to schemes on which costs have been incurred in the current year as per the obligations under the S106 agreements.

## 9 General Fund - Risk and Uncertainty

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

9.2 The following general risks and uncertainties have been identified:

- a) **Year-end Adjustments:** There are certain items that are not determined or finalised until the financial year-end. For example, the final assessment of provisions required for bad debts and final allocations of support service recharges. These can result in potentially significant differences to current forecasts.
- b) **COVID 19:** Although work continues to identify as much as we can the impacts of COVID, there could still be short, medium and long term impacts to both income and expenditure which have not yet been identified.
- c) **Unitary Council:** The Secretary of State has announced his decision on the future of local government in Somerset and has chosen the "One Somerset" option put forward by the County Council. This means there will be one new council for Somerset replacing the existing five councils in April 2023. The costs of implementation will be significant and will bring significant additional demand on officers to support the process with potential additional capacity required.
- d) **Fluctuation in demand for services:** We operate a number of demand-led services and the levels of demand do not always follow a recognisable trend. We therefore have to caveat the forecasts in these areas to account for fluctuations.
- e) **Forecasting Assumptions:** It is conceivable that, whilst budget holders are optimistic that they will spend all their budget, experience shows an increase in underspends often reported in the last quarter of the financial year. The pace of spending may also reduce as capacity and delivery of priorities is affected by local government structural change.
- f) **Job Costing Charges via Open Contractor (OC):** The project lead is thoroughly reviewing and improving the efficient and accurate operational use of OC. The ability of affected services to accurately forecast their outturn position on job costs apportioned via OC remains at risk until improvements are fully implemented, although officers are working through ways to mitigate this issue in the interim.
- g) **Pay Award:** The budgets have been set based on 0% pay award for 2021/22 following the Government's announcement in respect of public sector pay restraint. However pay negotiations for local government are still being undertaken. The current forecast estimates a 1.75% pay award increasing direct staffing costs by c£478k (£303k GF / £175k HRA).
- h) **Landlord Property Compliance:** A review of all compliance areas against every property for which Somerset West and Taunton Council is responsible has largely been undertaken. The compliance works required following this review are currently being planned and procured. Whilst additional budget provision has been



added for 2021/22 the full extent of the financial pressure remains uncertain as more information is gathered.

- i) **Asset Management:** The budgets for maintaining our assets do not hold any contingency for significant unforeseen repairs or improvement works. The Asset Management plan is evolving but progress has been, in part, been slowed by staff turnover. Significant budget carry forwards and earmarked reserves supplement the 2021/22 budgets in this area. An example of this would be North Hill, Minehead.
- j) **Homelessness:** This is a demand led service supporting a variety of complex needs. This service has received further Homelessness Prevention Grant and Rough Sleeper Initiative Government funding in 2021/22. The position needs to be kept under review pending the delivery of the Homelessness Strategy including the planned decant from the Canonsgrove site.
- k) **Revenues & Benefits:** The position on rent allowances/rent rebates could change significantly (approximately £200-£300k) as a result of the recoupment and debt impairment adjustments. We can calculate these at a given point in time but are unable to reliably forecast what these will be at year end as the financial implications are volatile.
- l) **IT:** There is a risk around the cost of BT charges for Deane Helpline due to a new redirect service. Negotiations are being made with BT to reduce the cost per call down however if this is unsuccessful there could be increased costs of £63k above the current projection.
- m) **New Burdens:** SWT is expected to receive more New Burdens Grant Funding during the year which will increase our revenue income, but the amount is not yet known.
- n) **Interest and Investment Income:** There are two aspects impacting on investment returns. The first relates to cashflows, particularly in a year when substantial capital purchases are due to be made which, in turn, adds high risk of variations to budget because of the timing of transactions. Careful management of liquidity and borrowing decisions can, to some degree, mitigate this and produce favourable investment returns and in-year cost of borrowing. The second aspect relates to non-property investment performance. After a volatile and difficult year for investment performance shaped by the pandemic, recovery has been excellent. SWT's good performance is from strategic investments. We have received 4.5% income from strategic pooled funds in year. It means the income return from the total investment portfolio is 1.5% which, in terms of current money market investment returns, is particularly healthy.
- o) **Business Rates (Risk):** There are inherent risks and uncertainties within the Business Rates Retention system. The Council's share of business rates funding is directly linked to the total amount of business rates due and collected in the area, which can fluctuate throughout the year and be affected by the result of Rateable Value changes e.g. as a result of Appeals. The highest value risk applies to Hinkley Point B nuclear power station which accounts for almost 20% of the tax base within SWT area. The power station was temporarily shut down for the majority of 2020/21 resulting in a large refund and is currently due to commence decommissioning no later than July 2022. Any earlier shut down or decommissioning could have a material impact on funding.
- p) **Business Rates (Issue):** The Government's calculator for Tax Income Guarantee grant included an error. A corrected version was issued after the 2020/21 accounts were closed. The impact of the error is that we over-accrued business rates, TIG

income and BRR Pooling Gain by £244,850, which will adversely affect funding in 2021/22 when corrected. This will need to be offset by a transfer from the Business Rates Volatility Reserve.

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

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

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

## **11 Partnership Implications**

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

## **12 Scrutiny Comments / Recommendations**

- 12.1 The report was considered by the Corporate Scrutiny Committee on 1 December and the recommendation supported.

- 12.2 The main comments and questions were:

- a) Can we claim for further losses than the 71% for the first quarter for loss of income due to COVID? The government sales, fees and charges (SFC) compensation scheme is only available for April -June 2021 for this financial year and the amounts we are able to claim are set out within the scheme.
- b) The ring-fencing of carparking income was discussed and clarity requested on what the income from off-street car parking can be spent on. A Car Parking review report will be presented to the community scrutiny committee early next year.
- c) What does the overspend for Commercial Investments relate to? This relates to the increased landlord repair costs for the legacy commercial properties that the Council holds.
- d) How are we doing with Asset Management compared to previous years? There is an underspend but the performance tracker on page 34 is showing as red for Voids? The Voids relates to the HRA and the extra income within this report is for General Fund Asset Management.
- e) What does the carry forward of £135k reading leisure relate to? This is a prudent amount to set aside subject to ongoing negotiations following the impact of COVID to

ensure we have some financial resilience in our budget. This is not linked to any committed payments.

- f) Why is there an overspend in section 5.9 but an underspend in section 5.10 for the External Operations and Climate Change Directorate? There is an overall overspend within the Directorate which is shown in section 5.9 and this includes the loss in car parking income. Section 5.10 is referring to what the position would be without the loss of car parking income for the Directorate.
- g) Is there any funding from Central Government for leisure in respect of COVID? There was some funding from Sport England which was pass-ported over to the contractor.
- h) The general reserves position will be lower after taking into consideration the proposal to use £1.375m to fund the LGR transition costs.

#### Democratic Path:

- **Corporate Scrutiny - 1 December 2021**
- **Executive - 15 December 2021**
- **Full Council - No**

**Reporting Frequency: Quarterly**

#### List of Appendices

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

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## Appendix A: General Fund Approved Capital Budget

SWT Capital Programme	Prior Year Slippage	Approved Supplements not loaded into e5	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 Virements	Current year Supplements	Current year Returns	Revised Current year Approved Capital Budget
Development and Place	28,088,143	112,341,907	275,000	300,000	141,005,050	0	4,258,000	0	145,263,050
External Operations and Climate Change	6,986,727	-	1,735,360	532,360	9,254,447	0	200,000	0	9,454,447
Housing & Communities	4,110,423	-	896,620	896,620	5,903,663	0	380,000	(522,098)	5,761,565
Internal Operations	1,515,070	-	210,000	305,000	2,030,070	0	80,000	0	2,110,070
Hinkley Capital Schemes	856,875	-	-	-	856,875	0	0	0	856,875
S106 Capital Schemes	-	-	-	-	-	0	702,125	0	702,125
<b>Total GF</b>	<b>41,557,237</b>	<b>112,341,907</b>	<b>3,116,980</b>	<b>2,033,980</b>	<b>159,050,104</b>	<b>0</b>	<b>5,620,125</b>	<b>(522,098)</b>	<b>164,148,131</b>

## Appendix B: Capital Financing of Total Approved Budget

SWT Capital Programme	TOTAL CAPITAL FINANCING	Capital Grants CIL	Capital Grants Other	Section 106 Agreements	Capital Receipts	Unallocated Capital resources	General Fund RCCO	New Homes Bonus Reserve	Capital Funding Reserve	Other Earmarked Reserves	Borrowing
Development and Place	145,263,050	13,165,992	14,157,386	631,767	745,000	-	-	-	-	-	116,562,905
External Operations and Climate Change	9,454,447	-	5,043,461	-	2,153,720	-	195,000	-	-	-	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	702,126	-	-	702,126	-	-	-	-	-	-	-
<b>Total GF</b>	<b>164,148,132</b>	<b>13,165,992</b>	<b>24,869,656</b>	<b>1,789,575</b>	<b>4,466,066</b>	<b>-</b>	<b>195,000</b>	<b>-</b>	<b>128,502</b>	<b>-</b>	<b>119,533,341</b>

### 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	145,263,050	68,260,734	31,309,203	37,754,966	7,938,146
External Operations and Climate Change	9,454,447	5,613,860	3,840,586	-	-
Housing & Communities	5,761,565	2,202,601	1,785,029	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	702,125	203,295	498,831	-	-
<b>Total GF</b>	<b>164,148,131</b>	<b>78,817,782</b>	<b>37,863,301</b>	<b>38,843,966</b>	<b>8,997,146</b>

### 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	- Underspend + Overspend
Development and Place	68,260,734	26,938,862	65,412,086	(2,848,648)	2,848,648	0
External Operations and Climate Change	5,613,860	2,325,170	5,455,042	(158,818)	(252,000)	93,182
Housing & Communities	2,202,601	107,469	1,794,009	(408,592)	408,592	0
Internal Operations	1,680,418	1,301,893	1,581,414	(99,004)	(6,303)	(105,307)
Hinkley Capital Schemes	856,875	233,000	526,575	(330,300)	100,000	(230,300)
S106 Capital Schemes	203,295	172,290	204,081	786	(786)	0
<b>Total GF</b>	<b>78,817,782</b>	<b>31,078,683</b>	<b>74,973,207</b>	<b>(3,844,576)</b>	<b>3,098,151</b>	<b>(242,424)</b>