

Somerset West and Taunton Council

Executive – 20 July 2022

General Fund Financial Monitoring – Outturn Position 2021/22

This matter is the responsibility of Executive Councillor Benet Allen, Portfolio Holder for Communication and Corporate Resources

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1 Executive Summary / Purpose of the Report

- 1.1 This report contains information related to Somerset West and Taunton Council's (SWT) financial performance for the 2021/22 financial year. The outturn figures included are provisional subject to the completion of the external audit of the statutory financial statements. The audit is due to be completed between July and September with the findings due to be reported to the Audit and Governance Committee on 27th September this year.
- 1.2 A balanced and robust budget for 2021/22 was prepared in the context of increased economic uncertainty. This included the use of temporary funding from reserves to soften the budget gap in the face of current service demands and funding uncertainty, along with specific reserves set aside to mitigate the risk of in-year budget volatility. Despite this the Council entered 2021/22 carrying a high level of financial risk.
- 1.3 During 2021/22, the Council has been impacted by and has had to adapt to many challenges in light of the number of economic events affecting the UK during the last 12 months. These include, but are not limited to, the COVID-19 pandemic, struggling worldwide supply chains, price inflation, rising interest rates, global conflicts (particularly in Ukraine), and the continuing adjustments needed to adapt to Brexit.
- 1.4 The Council has successfully managed its financial risks during the year through continued effective budget control and using in-year underspends to absorb financial pressures within budget, whilst maintaining a healthy reserves position.
- 1.5 Planned spend of just over £2m has been rolled into 2022/23 with budget carry forwards mainly representing delays in delivering activity due to circumstances such as procurement and contractor delays, availability of in-house resources and contractors, and lead time on building supplies.
- 1.6 The overall net underspend represents a combination of improved performance across corporate contracts, income generation, efficiency savings, additional income from COVID grants, and treasury investments; as well as active management of contractor spend and delays in activity due to COVID reducing costs.
- 1.7 The **revenue outturn position** for the financial year 2021/22 is as follows:
 - a) The General Fund (GF) Revenue Outturn position for 2021/22 is a net underspend of £2.349m (-12.5% of net budget). This is net of £2.075m of budget carried forward to 2022/23 for deferred / delayed costs.

1.8 The **capital outturn position** for 2021/22 is as follows:

- a) The total approved General Fund Capital Programme budget in place as at 31 March 2022, including schemes brought forward from previous years, was £165.327m (see **Appendix C**). This relates to a combination of schemes to be delivered in 2021/22 and 2022/23 and some longer-term projects that will continue further into later years.
- b) The actual capital spend during 2021/22 was £69.722m. There are overspends totalling £683k against some schemes, budget returns of £35.312m and a carry forward proposed of £60.977m for schemes in 2022/23 and future years.

1.9 The **reserves position** for 2021/22 is as follows:

- a) The **unearmarked reserves** are projected to be £7.591m which is £5.191m above the recommended minimum balance of £2.4m.
- b) The **earmarked reserves** are projected to be £27.990m of which c£13.7m relates to S31 business rates grant and volatility reserves.

2 Recommendations

2.1 The Executive is recommended to:

- a) Note the reported General Fund Revenue Budget underspend of £2.349m in 2021/22 and the General Reserves Balance of £7.592m as at 31 March 2022.
- b) Note the S151 has approved General Fund Revenue Budget carry forwards totalling £735,400 as detailed in **Appendix A**.
- c) Approve an additional General Fund Revenue Budget carry forward of £1,339,320 for items greater than £150,000 as detailed in Section 7.
- d) Approve the transfer of £455,764, with respect to S106 monies, to the Capital Funding earmarked reserve to be available to finance capital projects in 2022/23.
- e) Note the Capital Outturn position.
- f) Approve the proposed reductions to the Capital Programme Budget of £35.312m for underspends on schemes where budget is no longer required, and the continuation of £60.977m approved budget rolled forward for the 2022/23 General Fund Capital Programme. Please see **Appendix C** and **confidential Appendix F**.
- g) Recommend Full Council approves a reduction of £35m to the Approved Borrowing Limit in the Capital, Investment and Treasury Management Strategies reflecting reduction in capital financing requirement for expenditure no longer required.

3 Risk Assessment

3.1 This is a retrospective report therefore no risk assessment has been completed. Risk assessments regarding budget monitoring were carried out during the year and included with these reports. Financial risks and uncertainties are included in budget setting and budget monitoring reports presented to Members.

3.2 The Council has managed significant financial risks during the past financial year, notably due to the volatility in costs and income continuing due to COVID and economic recovery. Through financial control and in-year underspends we have

managed to absorb financial pressures within budget and have not required the use of £2.4m budget contingency, which was released from earmarked reserves when Council approved the annual budget report in February 2022.

4 Background and Full details of the Report

- 4.1 This report informs Members of SWT's financial outturn (a comparison of net spending against the budget for the year) for revenue and capital budgets in 2021/22 for the Council's General Fund (GF).
- 4.2 Corporate Scrutiny and the Executive have received quarterly budget monitoring reports throughout the year which have highlighted variances from budgets and comments from the budget holders, as well as summarising the main risks and uncertainties as explained above. The forecast position has fluctuated during the year.
- 4.3 The outturn figures contained in this report are provisional at this stage. The financial outturn has been taken into account when preparing the Council's Draft Statement of Accounts, which is due to be approved by the Assistant Director – Finance (S151 Officer) by the end of June, and is subject to review by the Council's External Auditor. Should the External Auditor identify the need for any changes to the Accounts these will be reported to the Audit and Governance Committee on 27th September this year.

5 2021/22 Financial Performance

- 5.1 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 certain items that are not finalised until year end. The budget monitoring process involves a regular review of all budgets. Budget Holders, with support and advice from their finance business partners, review the position, and update their forecasts 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 assumptions and estimates will differ from the eventual outcome, and several risks and uncertainties have been highlighted in previous budget monitoring reports.
- 5.2 The Council has continued to operate within the framework of its Financial Strategy and the overall financial standing at the end of the financial year is sound. The Reserve balances for the General Fund are above their respective recommended minimums, which provides added financial resilience which is prudent given the scale of risk and uncertainty. The Medium Term Financial Plan incorporates planned use of reserves to support the 2022/23 budget, and the current reserves balance is sufficient to support this approach.

6 Budget Outturn Summary

- 6.1 The General Fund Revenue Outturn position for 2021/22 is a net underspend of £2.349m (-12.5% of Net Budget). This is net of £2.075m of budget carried forward to meet expenditure now planned to be delivered in 2022/23.

Table 1: General Fund Revenue Outturn Summary

General Fund Outturn 2021/22	Current Budget Net of Carry Forwards £000	Outturn £000	Variance	
			£000	%
Development & Place	2,735	2,759	24	0.9%
External Operations & Climate Change	8,578	7,996	-582	-6.8%
Housing & Communities	3,321	2,928	-393	-11.8%
Internal Operations	10,172	9,483	-689	-6.8%
Senior Management Team	554	473	-81	-14.7%
Net Cost of Services	25,360	23,638	-1,721	-6.8%
COVID General Grants	-813	-1,432	-620	76.2%
Investment Properties	-4,137	-4,155	-19	0.5%
Interest and Investment Income	-282	-832	-551	195.3%
Somerset Rivers Authority Contribution	98	98	0	0.00%
Expected Credit Losses	0	-138	-138	0.0%
Net Transfers from (-) / to Earmarked Reserves	419	-159	-578	-138.0%
Net Transfers to General Reserves	-2,671	-2,671	0	0.0%
Capital and Other Adjustments	785	2,969	2,185	278.5%
Net Budget	18,759	17,317	-1,441	-7.7%
Funding	-18,759	-19,666	-908	4.8%
Variance	0	-2,349	-2,349	-12.5%

Note: Negative figures represent income / underspend.

Variances are calculated after deduction of carry forwards.

- 6.2 The Forecast Outturn as at Quarter 3 (December 2021) was a projected £3.204m net underspend within the General Fund Revenue Budget, reflecting known differences reported at that stage and budget holders' plans and assumptions about the costs and income anticipated in the remainder of the year. There were proposed carry forwards of £2.014m for costs slipping into 2022/23 at year end and a transfer to capital financing of £570k, which reduced the projected underspend to £620k.
- 6.3 The variances reported at the end of the financial year indicate some changes since that time, reflecting more recent information and a degree of caution and/or optimism in previous forecasts. This also includes any carry forward requests agreed by the Section 151 Officer under delegated powers of authority.
- 6.4 A summary of the outturn position, and the differences between the reported variances at Quarter 3 and the year-end Outturn, are summarised per directorate below.
- 6.5 **Development & Place:**
- a) The Development and Place directorate has reported net expenditure of £2.759m in 2021/22, which has delivered 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')
- b) The directorate has reported a net overspend of £24k at the end of the financial year, after taking into account £366k of budget carried forward (see **Appendix A**) to 2022/23 financial year.
- c) The outturn for the year reflects an underspend in staffing due to vacancies and difficulty in recruiting to key roles. This is offset by the deferral of planning income on significant undetermined applications and a refund provision for those approaching the 'Planning Guarantee' date with no signed extension which is largely Phosphate driven. The Director & S151 Officer approved transfer £101k of savings as RCCO to fund additional costs following the administration of the Principal Contractor on the Coal Orchard regeneration project.
- d) The Quarter 3 to Outturn movement for Development and Place has come about due to a review of costs and re-profiling of when the related services can realistically be delivered given current staffing and operational constraints. It also includes the transfer of savings reported in c) above and an adjustment following completion of the CIL reconciliation.

**Table 2: Development & Place
Main Differences between Quarter 3 and Outturn Variances**

Department Notes	Q3 £000	Movement £000	Outturn After Carry Forwards £000
Strategy and Policy: A budget carry forward request of £185k is pending approval by the Executive which has reduced the outturn to £74k underspend which is a shared service variance partially offset by the receipt of a bio diversity grant.	-265	191	-74
Phosphates: A budget carry forward request of £182k is pending approval by the Executive which has reduced the outturn to £25k underspend of staff vacancy savings.	-182	157	-25
Economic Development: The underspend of £62k relates to higher than expected staff recharges (HPC/SCC/DWP*), lower cost relating to Comms & Engagement activities and the refund of costs incurred in 2020/21 by SCC partially offsetting an earlier than anticipated Innovation District contribution and increased grant funding.	-34	-28	-62
Planning (Development Management): Principally driven by an assessment at year end for the deferral of planning income on applications not fully determined as well as a provision for refunds for applications approaching the 'Planning Guarantee' date but with no signed extension notice.	96	88	184

Department Notes	Q3 £000	Movement £000	Outturn After Carry Forwards £000
Major and Special Projects: Mainly relates to the RCCO budget transfer of £101k of in-year savings to fund additional costs on the Coal Orchard project following the administration of the Principal Contractor, net of underspend due to staff vacancies	-133	92	-41
Planning obligations: Vacancy savings net of adjustment to clear the Community Infrastructure Levy (CIL) reconciliation and move this item to from red to amber on the Corporate Risk Register. Currently being reviewed by internal and external audit.	-10	52	42
Total	-528	552	24

*HPC = Hinkley Point C, SCC = Somerset County Council, DWP = Department for Work and Pensions

6.6 External Operations and Climate Change:

- a) The External Operations and Climate Change directorate has reported net expenditure of £7.996m in 2021/22, which has delivered 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
- b) The directorate has reported a net underspend of £582k at the end of the financial year, after taking into account £1.587m of budget carried forward (see **Appendix A**) to 2022/23 financial year.
- c) The headlines for the Directorate look beyond the car park income figures to improved performance in most of the other business areas of the Directorate. Specifically, income from the Assets Team, introduction of a new fleet contract, active management of contractor spend and income in Bereavement Services.
- d) As reflected across the construction sector, COVID has impacted on in house resources as well as contractor availability and lead times on building supplies. That is reflected in the level of budget carry forward planned from 2021/22 into 2022/23. It is work we need to do, and it will be added to the planned activity described in the Directorate Plan for 2022/23.

- e) The budgets for the Directorate have evolved post Transformation. With each iteration costs are challenged, assumptions unpicked, and efficiencies delivered. This is an iterative process that will continue through 2022/23 to support budget setting for the Somerset Council for 2023/24 and beyond.

**Table 3: External Operations and Climate Change
Main Differences between Quarter 3 and Outturn Variances**

Department Notes	Q3 £000	Movement £000	Outturn After Carry Forwards £000
<p>Major Contracts: This includes the following areas: Leisure Partnership, Building Control, Street Cleansing and Fleet Management.</p> <p>There is a £209k saving following a fleet review and the introduction of a new fleet contract. Waste contract inflationary increase less than budget £103k and garden waste income above budget £115k.</p> <p>Reduction in public convenience maintenance £57k.</p> <p>The movement is the approval of a carry forward of £370k, offset by insurance savings previously reported corporately and garden waste income.</p>	-721	215	-506
<p>Street Scene/Open Spaces: This underspend is derived from: vehicle running costs £115k, salaries £40k due to vacant posts, reduction in use of contractors £90k, additional income in the Nursery £26k and reduction in responsive maintenance for buildings across Parks and Open Spaces £37k.</p> <p>The movement is the approval of carry forwards of £230k, offset by insurance savings previously reported corporately and additional income and cost savings.</p>	-451	143	-308
<p>Asset Management: There is an overall underspend across building costs and planned maintenance of £287k. Business rates revaluations has led to an underspend of £116k.</p> <p>New lettings, completion of leases earlier than expected and proactive recovery of proportionate costs has led to an increase in income levels of £531k.</p> <p>The movement is the approval of carry forwards £114,250, offset by maintenance works delayed and costs now falling into 2022/23.</p>	-1,003	69	-934
<p>Licensing: This variance represents an under recovery on income that was anticipated by the budget holder for the whole year. The end of year transfers to reserves have been accounted for in the movement of reserves cost centre.</p>	62	-15	47
<p>Bereavement Services: This is a demand led service where the income budget is estimated each year.</p> <p>There is an over recovery on income of £163k a reduction in maintenance and servicing of buildings £63k, and other minor cost savings.</p>	-262	19	-243
<p>Parking: The parking income baseline budgets were maintained at historic levels as part of the budget</p>	1,599	43	1,642

Department Notes	Q3 £000	Movement £000	Outturn After Carry Forwards £000
setting process, with a known risk. The income loss for the year due to ongoing fall in demand, following COVID is £1.982m. Of this, £155k COVID grant has been allocated to help offset this income loss with the remainder being offset by £390k COVID compensation claim and underspends across the Directorate. The movement is the approval of a carry forward request of £230k which has been part offset by £155k COVID grant allocated in month 10 and an improved position on income.			
Climate Change: A carry forward request of £450,860, which is the total underspend against the CNCR budget, is pending approval by the Executive.	-580	527	-53
Floods and Harbours: £70k was set aside for the procurement of the design for slope stabilisation works at North Hill, Minehead. Despite best efforts the work and payment will fall into 2022/23. The Council received a commuted sum for future coastal maintenance work at Blue Anchor, £94k. This has been transferred to an earmarked reserve and is accounted for in the movement in reserves cost centre.	-11	-162	-173
Other Minor Variances	-32	-22	-54
Total	-1,399	817	-582

6.7 Housing & Communities:

- a) The Housing and Communities directorate has reported net expenditure of £2.928m in 2021/22, which has delivered 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.
- b) The directorate has reported a net underspend of £393k at the end of the financial year. The reason for this variance is explained in the table below.

**Table 4: Housing and Communities
Main Differences between Quarter 3 and Outturn Variances**

	Q3 £000	Movement £000	Outturn After Carry Forwards £000
Department Notes			
Community Resilience: This underspend relates to a one-off rebate on the CCTV maintenance sinking fund offset in part by spend on CCTV maintenance in the old West Somerset area.	-55	-95	-150
Homelessness: The service had budgeted for an overspend on staffing to be offset by underspend on other budgets, however we received significant additional government grant in year, which ultimately led to an overall underspend. The staffing overspend included additional management to drive our improvement plan and resolve Canonsgrove as well as costs incurred through higher levels of agency staff. It should be noted that it is very difficult to accurately forecast homelessness demand and the costs related to this.	0	-198	-198
Other Minor Variances	-31	-14	-45
Total	-86	-307	-393

6.8 Internal Operations:

- a) The Internal Operations directorate has reported net expenditure of £9.483m 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
- b) The directorate has reported a net underspend of just £689k at the end of the financial year, after taking into account £121k of budget carried forward to 2022/23 financial year.
- c) Overall, the directorate has maintained service delivery against planned budget. Key areas of variances are due to fixed points of annual reconciliation within revenues

and benefits which are beyond our control. Reprofitting of accrued costs specifically in ICT have also contributed to the variance.

- d) Efficiencies have continued to be delivered in ICT infrastructure, equipment, and compliance costs. Where services have required additional capacity to meet customer demand, additional spend has been allocated leading to an overspend for example in Customer Services where key campaigns have increased call volumes.

**Table 5: Internal Operations
Main Differences between Quarter 3 and Outturn Variances**

	Q3 £000	Movement £000	Outturn After Carry Forwards £000
Department Notes			
IT : The accounting exercise carried out in early 21/22 anticipated a number of costs that had previously been paid in the 20/21 financial year. Having received the invoices for the costs stated below and noting the period they covered, they were not paid from the 21/22 budget but have been paid from the 22/23 budget as that is the correct period covered. Also there has been an increased underspend in the ICT staffing budget.	-71	-108	-179
Governance: The movement between Q3 and Outturn is mainly non pay savings in elections, community governance review (due to 2nd stage of CGR consultancy not needed) and members. There was also no spend required on fraud investigation services contract £30k.	128	-112	16
Benefits: This is a high risk area within the authority. The year-end position is very difficult to predict for these budgets and the variance only represents a small proportion of the overall budget of £29m. The variance represents the difference between the benefit payments we make to claimants and the money we receive in subsidy and is due to many factors. These include meeting local costs towards War Pensions, Subsidy errors, Rent Officer shortfalls, and contributions to Supported and Temporary housing which are not covered in full by the DWP. These costs are monitored and challenged but many of these shortfalls are out of our control and we are legislatively bound to meet the costs, as are all other administering local authorities.	-128	149	21
Revenues: The 'underspend' results from the amount of court cost income being higher than budgeted for. This results from our catching up with arrears cases from the previous (Covid) year, where court action was delayed. In addition, we received a refund of £87k in overpaid court fees from the Ministry of Justice. The movement is due to £121k relating to the budget for the ongoing	-245	131	-114

	Q3 £000	Movement £000	Outturn After Carry Forwards £000
Department Notes			
Enforcement Project being transferred to the 2022/23 budget thereby reducing the underspend in 2021/22.			
Customer Services: The overspend 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. The 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 movement between Q3 and Outturn results from Visitor Centre income received in 2021/22 being accrued into 2022/23. In addition, further adjustments to anti-social hours entitlements were identified in Q4.	66	82	148
Finance/Corporate Management: The underspend is due to the insurance position now being shown across services (£46k), new burdens funding of £32k received late in March, higher than anticipated income from the HRA for shared staff £16k, plus adjustments relating to resolving and clearing items of £50k.	1	-179	-178
S106: A comprehensive review of Developer Contributions held on the Balance Sheet has identified historical receipts to be transferred to the General Fund. This £456k favourable variance, accumulated during earlier financial years in which spending obligations had been financed from other sources, has been offset below the line by a planned transfer to earmarked reserves.	0	-456	-456
Other Minor Variances	37	16	53
Total	-212	-477	-689

6.9 Senior Management Team:

- a) This budget line holds the costs of the Chief Executive and four directors. Net costs totalled £473k and resulted in a small underspend of £81k at the end of the financial year.

**Table 6: Senior Management Team
Main Differences between Quarter 3 and Outturn Variances**

	Q3 £000	Movement £000	Outturn After Carry Forwards £000
Department Notes			
An estimate of the costs of the 21/22 pay award was temporarily put here before the actual costs	312	-393	-81

	Q3 £000	Movement £000	Outturn After Carry Forwards £000
Department Notes			
were allocated to the actual staff costs across the services			

6.10 Other Costs, Income and Reserve Transfers:

- a) As well as budgets allocated to directorates for the delivery of services, a number of budgets are reported 'below the line' as centrally held/corporate items.
- b) For 2021/22 this includes accounting for additional COVID grant funding that has been received to mitigate additional costs and income losses. This area also includes items such as:
- Investment properties income
 - Other interest costs and income
 - Accounting provisions for Expected Credit Losses (commonly known as bad debt provisions)
 - Capital accounting adjustments including debt repayment, revenue financing of capital costs, and transfers to and from capital reserves
 - Transfers to and from general and earmarked revenue reserves
- c) In summary, the overall position against budget for these items is a net underspend/income of £628k. The reasons for this variance are explained in the table below.

Table 7: Other Costs, Income and Reserve Transfers ('below the line')
Main Differences between Quarter 3 and Outturn Variances

	Q3 £000	Movement £000	Outturn After Carry Forwards £000
Department Notes			
COVID General Grants: £415k was received from the Sales Fees and Charges compensation claim which ran until the end of June 2021. This is offsetting income losses across the council, mainly relating to carparking. New burdens grant of £205k was received, £85k of which was received after quarter 3 reporting. Carry forwards of £135k to fund the leisure contract deferred savings and £172k to fund waste contract pressures were agreed after quarter 3 reporting.	-843	223	-620
Investment Properties: Commercial Investment income higher than budgeted. This is partially offset by net income from legacy properties being £50k lower than budgeted.	0	-19	-19
Interest and Investment Income: After a volatile and difficult year for non-property based investment performance shaped by the pandemic, recovery has been excellent. SWT's good performance is from strategic investments.	-603	52	-551

	Q3 £000	Movement £000	Outturn After Carry Forwards £000
Department Notes			
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.			
Expected Credit Losses: This represents a reduction in the provision for Sundry Debtors and housing benefit bad debts / credit losses, despite a more cautious allowance for risk of losses due to COVID / economic pressures on customers.	0	-138	-138
Transfers from Earmarked Reserves: The movement relates to items processed at the end of the year including: A contribution of £456k to the Capital Financing earmarked reserves related to S106 (see table 5). A contribution from reserves of for capital funding. Contributions to/from reserves for year end services adjustments. A contribution from the Business Rates Volatility Reserve of £432k.	0	-578	-578
Capital and Other Adjustments: This relates to a slight increase from budget in the MRP charge of £43k. The remaining movement is in respect of funding of capital from earmarked reserves and a further RCCO contribution of £1.347m utilising business rates pooling surplus (see section 8.3)	194	1,991	2,185
Funding: Additional grant of £44k towards council tax discounts and losses received at end of year. Pooling gain income of £1.347m above budget (see section 8.3). A net deficit position on the S31 Funding and Business Rates income funded from the Business Rates Volatility Reserve	-39	-869	-908
Total	-1,291	662	-629

7 Revenue Budget Carry Forwards

- 7.1 Budget carry forward requests are where a budget holder wishes to retain an underspend for use by the service in the following year. It is usual practice to consider requests for budget carry forwards at the year end, however this year the requests for budget carry forwards were established as part of the quarter 3 budget monitoring process (see Financial Monitoring report presented to the Executive 16 March 2022).
- 7.2 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.
- 7.3 As per **Appendix A** there are £2,074,720 of carry forward requests being put forward by SMT and the S151 Officer. This is based on the information proved in the Quarter

3 report with only a minor adjustment to reflect changes in the Climate Change Budget. Of these £982k relates to carry forwards that are already reflected in planned expenditure profiled in the 2022/23 budget approved by Full Council on 24 February 2022. The S151 Officer, in consultation with SMT, has approved carry forwards totalling £735,400 for those under £150k.

7.4 Five of the carry forwards were agreed in principle and are recommended to the Executive for approval as they are individually over £150k. These total £1,339,320 and are as follows:

- **Climate Change for £451k:** A budget of £500k and the principle of any under spend to be carried forward was approved at full Council on 26 October 2020.
- **Leisure Maintenance - Wellington Sports Centre for £370k:** A new roof replacement has been programmed during 2022/23. This budget underspend will be used to help finance the capital cost of this, so that further borrowing is not required.
- **COVID Contingency – Somerset Waste Partnership for £172k:** To fund forecast 2022/23 budget pressure due to COVID-19 from the remaining COVID grant received in 2021-22.
- **Phosphates for £182k:** Due to the evolving nature of the phosphates work and resourcing delay to the project there is a requirement to role the funds forward and continue the work in 2022/23.
- **Strategy & Policy - Local Plan Feasibility for £165k:** As a result of team vacancies and local government reorganisation, the spend in this area has been delayed. Roles have now been filled but minimal spend was incurred in 2021/22. 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.

8 Business Rates

8.1 The Business Rates Retention (BRR) funding system is both challenging and volatile, with the Council facing significant risks particularly in respect of appeals against rateable values by rate payers. The required accounting arrangements also result in some 'timing differences' which can skew the funding position across financial years. SWTC's standard share of net rates income is 40%.

8.2 During 2021/22 SWT, together with Somerset County Council, Mendip, Sedgemoor and South Somerset district councils, operate as a business rates pool, enabling a higher proportion of business rates growth to be retained by the Councils.

8.3 **Business Rates Retention Pooling Gain:** The Council receives a share of gains from the Somerset Business Rates Pool arrangement when business rates income is above the baseline target set by Government. The budget for the gain in 2021/22 is £150,000, which was cautiously set reflecting risks around Hinkley B and wider economic effects of COVID and Brexit. Based on forecasts prior to finalising the NNDR3 collection fund outturn statement an estimated gain of £1.497m has been accrued for 2021/22, presenting a surplus income of £1.347m for the year. In consultation with the Leader, Portfolio Holder for finance, and SMT the S151 Officer has prudently used this surplus towards financing of capital expenditure in 2021/22 thus reducing the requirement for borrowing. This supports measures to reduce risk around investment and borrowing in response to the recommendation from our

external auditor as reported in December 2021 (see Investment Properties commentary in this report).

- 8.4 The following table summarises the net position in respect of retained business rates funding for SWT in 2021/22 based on required accounting entries.

Table 8: Business Rates Funding Outturn 2021/22

	Budget £000	Outturn £000	Variance £000
40% Share of Business Rates Income (per original budget)	-23,446	-23,446	0
Tariff to Government (fixed amount)	18,395	18,395	0
Section 31 Grant funding for enhanced Small Business Rates Relief/Flooding Relief/Retail Reliefs	-2,608	-7,822	-5,214
Renewable Energy Rates – 100% retained by SWT	-205	-549	-344
50% Levy Payment	1,682	1,949	267
Adjustment For TIG/Levy/Pooling Gain	145	-208	-353
Total Retained Business Rates Funding 2021/22	-6,037	-11,681	-5,644
Previous Year's Collection Fund Deficit	12,556	12,556	0

- 8.5 The Council maintains a Business Rates Volatility Reserve, which enables the council to 'smooth out' accounting timing differences within the BRR system, and provide a prudent contingency to protect the revenue budget from large reductions in business rates income – e.g. through larger than estimated appeal refunds and large variances in S31 grant income – and collection fund deficits.
- 8.6 Separate earmarked reserves have been created to hold the S31 grants received in respect of business rates discounts due to COVID. One grant relates to the business rates holiday, and this is needed to fund the resulting Collection Fund Deficit repayment in 2021/22 and 2022/23. £11.7m has been transferred from the earmarked reserve in 21/22 towards the previous year's deficit and £5.23m transferred into the earmarked reserve for 2022/23. There is also a transfer of £998k from the earmarked reserves for the tax income guarantee.

9 Investment Properties / Capital Financing:

- 9.1 In the Annual Auditor's Report presented to the Audit and Governance Committee in December 2021, a key recommendation was made by our external auditor in respect of the risks related to the Council's investment in property for yield and the related borrowing requirements. A full update on the response to the auditor's recommendation will be reported to the Audit and Governance Committee on the 27th September 2022.
- 9.2 One of the measures to reduce risk includes reducing the level of borrowing needed to support the strategy. To this end we have an established policy of reducing debt through the annual Minimum Revenue Provision (MRP) and have, through the budget and outturn, made further steps to accelerate debt repayment. This includes using additional business rates funding surplus as highlighted in this report. The funding position for the investment fund can be summarised below.

Table 9: Investment Properties Fund Summary 2021/22

	2020/21 £000	2021/22 £000	2022/23 £000	Cumulative £000
Capital Expenditure	44,084	54,881	0	98,965

<i>Financing:</i>				
Annual MRP per policy (proportion related to investment properties)	0	-882	-1,888	-2,770
Cumulative borrowing requirement balance before additional measures	44,084	98,083	96,195	96,195
<i>Accelerated Financing Measures:</i>				
MRP overpayments – Per Budget Report Feb 2022 for 2021/22	0	-1,000	-112	-1,112
Revenue Funding (“RCCO”) – per Budget Report Feb 2022	0	-2,000	0	-2,000
Revenue Funding (“RCCO”) – Investment Financing Reserve surplus	0	-173	0	-173
Revenue Funding (“RCCO”) – 2021/22 outturn using Pooling Gain surplus	0	-1,347	0	-1,347
Sub-total: Accelerated funding to reduce borrowing requirement	0	-4,520	-112	-4,632
Cumulative borrowing requirement balance after additional measures	0	93,563	91,563	91,563
Debt as % of Total Capital Expenditure	100%	94.5%	92.5%	92.5%

9.3 The table shows that the borrowing requirement will have been reduced by over £4.6m due to accelerated financing of the up-front spend since the auditor’s recommendation. The total amount of debt repayment (MRP) plus revenue financing is planned to be £7.402m by 31 March 2023 leaving a borrowing requirement balance of £91.563m with 7.5% of the upfront investment fully financed. The acceleration of financing reduces debt costs and refinancing risks.

10 Debt Write Off

- 10.1 The total write-offs during 2021/22 amount to £2,009,001. Of this £524,094 is SWT’s share of the loss. The fact that SWT’s share of the loss is less than the total reflects the fact that for Council Tax and Business Rates we collect on behalf of other organisations and for Housing Benefits we receive a subsidy.
- 10.2 The table below provides a breakdown of debts written off between the General Fund and the Collection Fund. Of this there were four individual customers where individual debts greater than £25,000 were written off (please see confidential **Appendix E**).
- 10.3 The table also provides the corresponding figures for the previous financial year (2020/21) for comparison.
- 10.4 The amounts written off in respect of Council Tax and Business Rates have increased since the previous financial year. During 2021/22 we commenced a project and provided additional resourcing to tackle our backlog of Council Tax (33,000 accounts) and Business Rate (1,262 accounts) arrears totalling £9.6m and £3.3m respectively,

as at mid November 2021. These arrears stretch back over a number of financial years. The approach to tackling the arrears is twofold:

- a) To identify cases where we can take action to recover the debt and commence action. Since starting the project in November 2021 we have collected a total of £1.4m of arrears. Of this figure we estimate that £749k relates directly to the project of which we retain £240k.
 - b) To undertake a 'housekeeping' exercise to identify and write-off cases that are essentially irrecoverable either because of the age of the debt, our not knowing the current address of the debtor, insolvency, all enforcement options being exhausted or because the balance due is uneconomic to pursue.
- 10.5 Whilst the amount written off is a high number we do make an Expected Credit Loss provision within each year's Council Tax for a small proportion of the debt to be written off. Consequently, this amount is already budgeted for. Overall, our collection rates for Council Tax and Business Rates remain high and in excess of 97% of the debt raised.

Table 10: Value of Debts Written Off

	2020/21		2021/22	
	Total £	SWT share of loss £	Total £	SWT share of loss £
General Fund:				
Sundry Debts	21,763	21,763	15,061	15,061
Housing Benefits	22,253	13,352	100,140	60,084
Collection Fund:				
Council Tax	163,963	18,692	1,081,474	124,019
Business Rates	104,957	41,983	812,326	324,930
Total	312,936	95,790	2,009,001	524,094

11 General Fund Earmarked Reserves

- 11.1 The Council sets aside funds for specific purposes in earmarked reserves to be used in future years to meet planned spend on services not yet incurred, and specific contingencies for material financial risks.
- 11.2 **Appendix B** provides a summary of the earmarked reserves and their movement during the year. The total balance of General Fund earmarked reserves at the end of the financial year is £27.990m. The balance is skewed again this year end with the significant transfers of S31 grant received in 2020/21 and 2021/22 for business rates discounts through Government policy leading to funding losses that will hit the General Fund in 2021/22 and 2022/23 and tax income guarantee in 2021/22 to 2023/24 (see section 8 above).

12 General Fund Unearmarked Reserves

- 12.1 The following table summarises the movement on the General Reserves Balance during the year, representing the balance of uncommitted funds held to mitigate unexpected financial pressures and service demands.

Table 11: General Reserve Balance

	£000
Balance Brought Forward 1 April 2021	7,914
Use of Reserves for 2021/22 Base Budget	-1,160
Approved Transfers in 2021/22 for Services	-912
Approved Transfers in 2021/22 for Debt Repayment	-1,000
Approved Returns in 2021/22	400
Outturn 2021/22 revenue budget underspend	2,349
Balance Carried Forward 31 March 2022	7,591
Future Use of Reserve in 2022/23 for LGR	-1,375
Projected Balance	6,216
Recommended Minimum Balance	2,400
Balance above recommended minimum	3,816

- 12.2 The reserve balance as at 31 March 2022 (subject to audit) is £7.591m. This provides sufficient capacity to support the Medium Term Financial Plan which incorporates the planned use of £1.375m of reserves to support the 2022/23 budget.
- 12.3 This leaves a projected balance of £6.216m of uncommitted reserves which is above the risk-assessed adequate minimum balance of £2.4m. In the current circumstances, it is prudent to maintain this headroom to enhance financial resilience and to provide flexibility for any in year pressures such as unforeseen cost increases and income reductions, and to hold funds that are likely to be needed to support transition to and implementation of local government restructuring.

13 Land Charges, Licensing and Taxi Licensing

- 13.1 Under regulations the Council needs to report how its Licencing and Land Charges services perform in the financial year. These services set fees and charges based on estimated reasonable costs and aim to break even each year. However, due to fluctuations in demand and costs the services may report an under- or over-recovery in any one year and the Council therefore transfers any surplus/deficit to a self-financing reserve.
- 13.2 **Land Charges:** During 2021/22 the Council has over-recovered its costs adjusting the self-financing reserve to a year end credit balance of £124,284. During the next round of fees and charges setting adjustments will be made with the view achieving a break-even position on a three-year rolling basis.
- 13.3 **Licencing:** During 2021/22 income targets were realigned for the Licensing Act 2003 fees and unrecoverable costs. Overall, the self-financing reserve has reduced by £59,906 to give a year end debit balance of £8,905. During the next round of fees and charges setting adjustments will be made with the view to achieving a break-even position on a three-year rolling basis.
- 13.4 **Taxi Licencing:** During 2021/22 income targets were realigned to reflect updated volumes and the reserve was adjusted. Overall, the self-financing reserve has reduced by £6,775 to give a year end debit balance of £34,067. During the next round of fees and charges setting, adjustments will be made with the view to achieving a break-even position on a three-year rolling basis.

Table 12: Licensing and Land Charges Self-Financing Reserves

	Balance Brought Forward £	Net Reserve Transfers £	Balance Carried Forward £
Land Charges	-10,737	-113,547	-124,284
Licensing	68,811	-59,906	8,905
Taxi-Licensing	40,842	-6,775	34,067

Note: minus (-) = funds in hand

14 Taunton Unparished Area Fund (Special Expenses)

- 14.1 In previous years the Council set an annual budget for the Unparished Area of Taunton, which was funded through a “Special Expenses” Council Tax charge to households in the area plus funding provided towards the impact of Council Tax Support on the Unparished area tax base. The Council agreed to transfer the management of these funds to the Charter Trustees in 2019/20. The following table summarises the income and expenditure for the Fund in 2021/22.

Table 13: Unparished Area Fund Income and Expenditure

	£	£
Fund balance brought forward 1 April 2021		-57,801
Special Expenses Precept 2021/22		-29,090
<i>Expenditure funded in the year:</i>		
6 bins: Ramshorn Green, Holley Close, Killams (2), Sycamore (2)	5,430	
1 Bench - Blackbrook	947	
Notice Board - Eaton Crescent	515	
Devon and Somerset Fire - Course at Taunton Academy	2,500	
Huish Tigers – grant for equipment	3,973	
Friends of Longrun Meadow – grant for equipment	800	
COACH - grant for defibrillator	500	
Taunton Street Pastors – grant for radio use	648	
Bath Place Traders Association – shopfronts repainting	5,400	
Unlocking Potential Somerset – grant for work in schools in Taunton	24,000	
Southern Sinfonia Orchestra – grant for care home concerts in Taunton	2,600	
GoCreate CIC Corgi Trail	2,000	
Somerset Armed Forces Day – grant towards event	2,000	
Crimestoppers in the West Country – grant for what would you do? programme	2,000	
Total Expenditure		53,313
Fund Balance in hand carried forward 31 March 2022		-33,578

Note: minus (-) = funds in hand

- 14.2 The Fund was generally used to support minor works, worthwhile community activities and individual projects. The balance of funds at the end of the year remains held by the Council. For 2021/22, the Charter Trustees has raised its own precept for civic and mayoralty costs, and the Council has continued to raise special expenses for supporting initiatives and projects in the unparished area. These funds are distinct from the Charter Trustees’ precept.

15 General Fund Capital Programme

- 15.1 The **approved General Fund Capital Programme** at the end of 2021/22 is £165.327m (see **Appendix C**). This consists of £153.899m of prior year approvals plus new budgets approved by Full Council on 18 February 2021 for 2021/22 of £3.117m and for 2022/23 of £2.034m. There were also supplementary budgets of £6.949m approved during the year and £672k of approved budget reductions where budget was no longer required.
- 15.2 The General Fund approved Capital Programme relates to in-year works and longer-term regeneration schemes that will be completed over the next four years. The Council is financing this investment through the Community Infrastructure Levy (CIL) receipts, Capital Receipts, Capital Grants, Revenue Funding and Borrowing.
- 15.3 The **actual spend** on the General Fund Capital Programme during 2021/22 was £69.722m (see **Appendix C**). The major areas of investment related to (a) the completion of the Commercial Investment portfolio (£54.9m), (b) continuing regeneration projects such as Firepool (£1.7m) and Coal Orchard (£2.1m), (c) Coastal Communities Fund grants towards Watchet East Quay development (£1.4m) and (d) a contribution to the cost of M5 Junction 25 major highways improvements (£1.5m). As well as grants to parishes and investment in infrastructure and equipment. The expenditure has been financed using a combination of Capital Grants, Capital Receipts, CIL funding and borrowing.
- 15.4 The capital outturn position includes overspends totalling £683k across a number of schemes (see **Appendix C**).
- 15.5 However, it is also proposed to reduce the approved capital programme budget for reported underspends totalling some £35.312m (see **Appendix C**). Of this £1m was on the Commercial Investment portfolio and £252k on vehicle acquisitions. In addition, in September 2020 Full Council through a confidential report approved a large capital investment of over £33m for town centre regeneration development in Taunton. Agreement for land acquisition was not concluded with the owners for a variety of reasons including purchase and development costs, and the impact of phosphates on new schemes that incorporate overnight accommodation. We are no longer in an active negotiation on the purchase of the site and conclude that the capital programme should be updated to reflect the removal of this scheme (please see **confidential Appendix F** for further information).
- 15.6 Given the recommended reduction in the overall capital programme for budget allocations no longer required it is recommended that Full Council approves a reduction of £35m in the Approved Borrowing Limit within the Capital, Investment and Treasury Management Strategies that were approved by Council in March 2022.
- 15.7 The total capital programme budget to be continued into 2022/23 and future years is £60.977m, before net additions approved by Council in February 2022 (see **Appendix C**). Full Council on 24th February 2022 approved additions of £1.896m that were prioritised on the grounds that they remedy health and safety risk, deliver essential maintenance and essential assets for service delivery; and a reduction of previously approved 2022/23 scheme allocations of £181k, to give an additional net increase in capital budget for 2022/23 of £1.715m. This gives a residual total approved capital budget of £62.692m to be spent in 2022/23 and future years.

16 Links to Corporate Strategy

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

17 Corporate Scrutiny Comments / Recommendations

17.1 This report was considered and the recommendations supported by Corporate Scrutiny on 6 July 2022. The main comments and / or questions related to:

17.2 Further information was requested on the Economic Development Initiatives earmarked reserve. A written response will be provided.

17.3 Further information was requested on individual capital schemes (Taunton Bus Station, Regeneration Project, Employment Land Scheme, Phosphates and Williton Shooting Club). An update was provided by the Deputy Chief Executive & Director Place and Climate Change, with a written response to be provided for two of the schemes.

17.4 The committee went into “private session” to discuss Appendix E and a confidential capital scheme. The report has been updated for the Executive to include an additional confidential Appendix F to provide further confidential information with regards to a budget return.

17.5 The commercial investment portfolio and the source of the funding for the accelerated debt repayment seen in 2021/22.

17.6 A request for information related to the amount spent on consultancy costs during 2021/22. A written response will be provided.

17.7 An explanation of the S31 grants.

Democratic Path:

- Corporate Scrutiny – 6 July 2022
- Executive – 20 July 2022

Reporting Frequency: Annually

List of Appendices

Appendix A	GF List of Carry Forward Requests
Appendix B	GF Summary of Movement in Earmarked Reserves
Appendix C	GF Capital Outturn Position 2021/22
Appendix D	GF Original v Current Budget Position
Appendix E	Confidential - Write Offs Over £25k
Appendix F	Confidential - Supporting Information for Recommendation 2.1f

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