Report Number: SWT 167/22

Somerset West and Taunton Council

Executive – 21 December 2022

2022/23 General Fund Financial Monitoring as at Quarter 2 (30 September 2022)

This matter is the responsibility of Executive Councillor Benet Allen, Portfolio Holder for Communication and 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 2022/23 (as at 30 September 2022 forecast).

1.2 The headline estimates for **revenue costs** are:

Revenue Budget	£0.219m forecast underspend	Green
General Reserves	£8m forecast balance = favourable compared to £2.4m minimum requirement	Green
Earmarked Reserves	£28m at start of year, forecast to reduce to £12m by year end as funds are used as planned.	Green

1.3 It is well reported that the economic situation is challenging with the cost of living crisis, high inflation, and rising interest rates. These factors will hit our communities and businesses, and the Council is also not immune as seen in the latest forecasts.

1.4 The Q1 forecast outturn position reported an overspend of £326k. The Senior Management Team have since undertaken a thorough and in-depth review of all budgets, updated projections based on mid-year information, requested services to manage inflationary pressures within services where possible (e.g. pay award, utilities and material costs) and driven a focus on essential spend only where possible in order to bring the position back to budget. There have also been some contractual delays on delivering capital schemes pushing spend into future years and a need increase reserve balances this year to provide budget flexibility and financial resilience in 2023/24 on the face of significant financial pressures.

1.5 The updated projected outturn position is reporting an underspend of £219k. However, it is important to note that this is mid-year forecast for the year with 6 months remaining until year end and whilst management will control the overall position to remain within budget the final outturn position may still present further underspends or variances to budget. This will be carefully monitored with updates reported to Members on a quarterly basis. The level of General Reserves provides significant resilience to mitigate the risk of overspend if required.

1.6 The current total approved **Capital Budget** is £64.085m and relates to the Capital Programme for continuing and new schemes approved for 2022/23. The budget is profiled with estimated spend totalling £25.465m in this financial year and £38.620m in later years. A net underspend of £10.414m is currently projected against the total profiled capital budget for 2022/23 of which £9.148m is slippage into future years and £1.266m is actual underspend against the total programme. Whilst there is an ongoing inflation risk to works not yet under contract, budget managers are not yet forecasting significant pressures for General Fund schemes – this will be kept under review throughout the year.

2 Recommendations

2.1 Executive to note the Council's forecast financial performance and projected reserves position for 2022/23 financial year as of 30 September 2022.

2.2 Executive to approve the transfer of £1.294m of revenue funds previously planned to finance the capital programme in 2022/23 to be returned to General Reserves reflecting updated capital financing plans.

2.3 Executive to approve the transfer of £500k Treasury Management surpluses to general reserves.

2.4 Executive to approve the transfer of £440k to the Somerset Waste Partnership Earmarked Reserve, and delegate authority to the S151 Officer to adjust the amount transferred at year end based on final outturn for the SWP surplus.

2.5 Executive to approve a virement between funds for the Covid Additional Relief Fund (CARF) scheme that was not implemented.

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 inflation being experienced in the current economic operating environment and based on experience it is feasible the year end position could change. It is common for underspends to emerge during the year, reflecting an optimism bias within previous forecasting. There may also be matters beyond the Council's control that affect the final outturn position.

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

4 Background and Full details of the Report

4.1 This report provides the Council's General Fund forecast end of year financial position in March 2022 for revenue and capital expenditure, as at 30 September 2022.

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 monthly based on currently available information and knowledge of service requirements for the remainder of the year. As with any forecast there is always a risk that some unforeseen changes could influence the position at the year-end, and several risks and uncertainties are highlighted within this report. However, the following forecast is reasonable based on current information.

5 General Fund Revenue Budget 2022/23 Forecast Outturn

5.1 The Council's General Fund is currently forecasting an overall net underspend of £219k (1.3% of £17.018m Net Budget). The main reasons for this are shown in tables 1 to 6 below.

5.2 The forecast remains volatile and subject to change. It includes a significant number of assumptions about demand for services and the timing of planned spend to meet service objectives. Rising inflation and interest rates adds to uncertainty and risk. There has been an immediate impact on service costs and income, for example a rise in the cost of materials, gas, electric and fuel.

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.

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 2022/23

	Original Budget £'000	Approved Changes £'000	Current Budget £'000	Outturn Forecast £'000	Variance £'000	Variance %
Development and Place	4,044	90	4,134	4,175	41	1.0%
External Operations & Climate Change	10,037	640	10,678	9,764	-914	-8.6%
Housing & Communities	3,234	0	3,234	3,333	99	3.1%

	Original Budget £'000	Approved Changes £'000	Current Budget £'000	Outturn Forecast £'000	Variance £'000	%
Internal Operations	9,750	194	9,944	10,561	617	6.2%
Senior Management	594	-129	464	457	-7	-1.5%
Local Government Reorganisation	1,375	0	1,375	1,375	0	0.0%
Net Cost of Services	**29,034**	**795**	**29,829**	**29,665**	**-163**	**-0.5%**
COVID General Grants	0	0	0	0	0	0.0%
Investment Properties	-4,490	0	-4,490	-4,490	0	0.0%
Interest and Investment Income	-516	0	-516	-1,222	-706	136.7%
Expected Credit Losses	0	0	0	0	0	0.0%
Transfers to Earmarked Reserves	-5,387	-1,246	-6,634	-6,494	140	-2.1%
Transfers from General Reserves	-1,375	12	-1,363	492	1,855	-136.1%
Capital and Other Adjustments	-248	450	202	-1,142	-1,344	-666.5%
Net Budget	**17,018**	**10**	**17,028**	**16,809**	**-219**	**-1.3%**
Funding	-17,018	-10	-17,028	-17,028	0	0.0%
Variance	**0**	**0**	**0**	**-219**	**-219**	**-1.3%**

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

Development & Place:

5.6 The Development and Place directorate has a current net expenditure budget of £4.134m in 2022/23, which plans to deliver a range of services and projects including:

- Strategy, policy development including the Local Plan and implementation of infrastructure projects.
- Planning services including Development Management pre-application advice, applications processing and enforcement, and implementation of interim phosphate measures
- Economic development, culture & arts
- Town centre regeneration
- Heritage at Risk projects
- Major Capital Projects for regeneration purposes and where possible to generate a return to the Council
- Commercial investment (investment properties budget is reported 'below the line')

5.7 The directorate is currently forecasting a net overspend of £41k for the year, largely derived from the use of agency staff in Development Management due to the difficultly in recruiting to key roles plus the impact of the pay rise. This has been offset in part by 2021/22 deferred income on planning applications that have now been determined.

5.8 The Environment & Leisure Improvement Fund (ELIF) initiative is currently being delivered, and of the £600k approved budget:

a. £130k has been used to resurface the Vivary Park pathways and areas around the water feature and fountain, and as a contribution to the Coal Orchard public realm.
b. £247k is committed to numerous town centre projects including the Changing Places facility on Tower Street, Crescent Car Park public realm works and the Minehead Town Council maintenance programme.
c. £223k has been allocated to various initiatives including dredging Vivary Park pond and Taunton Town centre highways and public realm works.

5.9 The current inflationary pressure does not have any significant impact on the directorate as there are few premises or transport related costs.

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

Table 2: Development & Place Forecast Variances

Department Notes	**Q1 Variance £'000**	**Q2 Variance £'000**
Development Management/Planning: The current variance is driven by the expectation that staff vacancies will be covered by agency staff costing c£150k for the remainder of the year, as well as additional supplementary agency support c£63k, illness cover of £22k and pay increase of £36k. In addition, there are also unbudgeted IT support costs relating to the Acolaid infrastructure of £9k and £58k estimated for legal fees. This has been partially offset by contributions from reserves and additional income of £73k. The Q2 current year fee income rate is tracking to budget and has been forecast as such. A carried forward of the planning fee income related to undetermined applications from 21/22 is in place. Of this carry forward £242k has been determined and released to income this year. There is a further amount of £133k that will be released to income upon those applications being determined; this is not included in the forecast as it cannot be guaranteed at this stage.	166	28
Other Minor Variances	-3	13
Total	163	41

External Operations and Climate Change:

5.11 The External Operations and Climate Change directorate has a current net expenditure budget of £10.678m in 2022/23, 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

5.12 The directorate is currently forecasting a net underspend of £914k for the year. This underspend is largely derived from Somerset Waste Partnership savings, and underspend against the Climate Change budget, increased income across both Assets and Bereavement and an overall active management of costs.

5.13 Somerset Waste Partnership: The council pays a fixed amount to Somerset County Council each year. Contract savings has led to a forecast surplus of £440k, meaning there will be an underspend against budget. The Executive is requested to endorse a transfer to earmarked reserves for the forecast surplus of £440k.

5.14 Car Parking: On the 21st of September 2022 the Executive approved a budget virement of £302,040 to further reduce the car parking income budget. This was in line with the forecast reduction and change in usage that the council is seeing across its car parks following COVID-19. The current forecast position is a minor variance against the revised income budget and therefore not included in table 3 below.

5.15 Rising inflation is placing financial risk on the council as it sees an increase in the cost of supplies such as utilities and materials. Across the Directorate it is forecast that electricity will be c£140k above budget and gas c£40k. The Directorate has reviewed the pressure placed on its services and is currently mitigating this through proactive budget management.

5.16 **Table 3: External Operations and Climate Change Forecast Variances**

Department Notes	Q1 Variance £'000	Q2 Variance £'000
Major Contracts: Major Contracts includes the following areas: Leisure, Waste, Building Control, Street Cleansing and Fleet Management. The current variance mainly includes (a) £440k for the Somerset Waste Partnership underspend (see paragraph 5.13 above), (b) a £60k contingency budget was allocated for the Environment Enforcement Litter Scheme, this budget is currently not required as the income from the Fixed Penalty Notices is offsetting costs. It has therefore been agreed to transfer £45k back to General Fund Reserves, and (c) the capitalisation of salary costs of the Project Officer for the Car Park Improvement Scheme has created an underspend of £45k.	-125	-507
Street Scene/Open Spaces: A 2021/22 carry forward budget of £100k was approved for the maintenance works to Vivary Park	6	-61

Bandstand. This was an estimated figure and actual costs have come in £50k less than budget.		
Asset Management: There is a forecast increase in income of £287k. This is owing to (a) new lettings which were unknown at budget setting time £70k, (b) delayed vacation of tenants £75k, (c) transfer of units at Coal Orchard £90k, and (d) proactive recovery of proportionate costs, £42k. At budget setting time it was assumed that the income and expenditure would balance out for Coal Orchard, however due to the delay in site handover the void costs are forecast to be higher than anticipated, c£160k. Assumptions have been made on the timing of tenant occupancy, therefore this forecast overspend could change. Forecast increase in electricity costs across all buildings, £85k. A budget of £50k was identified for bad debt provision, it is predicted that this is no longer required. Active management of budgets and costs has led to an overall saving of £65k across various budget lines. Allocation of salary costs to Commercial Investment Properties £39k.	-121	-195
Climate Change: There will be no budget carry forwards into next financial year. This forecast underspend represents budget which was set aside to meet future commitments to key Climate Change projects, which have now been captured as a budget growth as part of the budget setting process for the new Unitary Council.	0	-150
Private Sector Housing: The third-party data used at budget setting time to identify potentially unlicensed Housing Multiple Occupation properties projected too high a number and therefore artificially inflating the income target.	0	80
Bereavement Services: This is a demand led service and the current forecast position on income is c£100k above budget. This is part offset by a forecast increase in utility costs, electric £16k and gas £24k. There is also an £11k forecast underspend on maintenance costs.	7	-73
Other Minor Variances	31	-8
Total	**-202**	**-914**

Housing & Communities:

5.17 The Housing and Communities directorate has a current net expenditure budget of £3.234m in 2022/23, which plans to deliver a range of services and projects including:

- Housing options include accommodation and support for homelessness and rough sleepers
- 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.

5.18 The directorate is currently reporting a forecast net overspend of £99k.

5.19 We are expecting some volatility particularly in our homelessness service as a legacy of the COVID restrictions, the cost of living crisis 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. Aside from this, there is increasing demand from the Homes for Ukraine scheme with some placements now ending as well as expected relocation of refugees (largely from Syria and Afghanistan) under the government's Resettlement Scheme for Refugees. This is all within the context of substantial pressure on our resources to deliver our ambitions for single homeless customers and our need to decant the Canonsgrove facility, which makes financial certainty challenging.

5.20 The inflationary pressure within this Directorate is minimal and will mainly relate to the cost of materials, contracts and staffing costs to deliver services within the Homelessness function.

Table 4: Housing & Communities Forecast Variances

Department Notes	**Q1 Variance £'000**	**Q2 Variance £'000**
Community Resilience: This underspend is attributable to a number of staffing changes, including a secondment that was not backfilled.	-56	-23
Homelessness: The Homelessness Service is experiencing high levels of demand this year with B&B costs exceeding budget. The service is also facing recruitment and retention pressures that are driving up staffing costs. Furthermore there are costs associated with the return of Canonsgrove and the final decant of tenants to alternative accommodation. Despite receiving government funding the service is predicting an overspend which it is currently able to mitigate through existing levels of earmarked reserves (see Table 6).	0	239
Maintenance: The Corporate Property Team has been relocated to the Repairs & Maintenance Trade Team, filling vacant posts within the HRA.	0	-112
Other Minor Variances	8	-5
Total	**-48**	**99**

Internal Operations:

5.21 The Internal Operations directorate has a current net expenditure budget of £9.944m in 2022/23. This delivers a range of support services and corporate projects, as well as budgets for a range of centrally held corporate costs and corporate savings targets. 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
- Administration of COVID and other hardship grant schemes
- 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

5.22 The directorate is currently forecasting a net overspend against budget of £617k for the year. The figures are somewhat distorted by larger variances against two 'corporate' items:- A £320k adjustment following the completion of a thorough review of the non-staff related cost apportionments between the General Fund and Housing Revenue Account (HRA), to ensure this reflects the up to date position and reasonable assumptions around the relative use of resources. A £200k variance regarding the operational cashable savings target applicable to the Service Improvement and Efficiency Programme which is not now likely to be achieved.

5.23 The remaining £97k projected net overspend relates to a range of variances across the Directorate's main operational areas. Cost pressures and investment in service priorities such as change management, health and safety, customer services and Deane Helpline as well as pay award costs are offset to a degree by staff vacancies, control of costs and managed savings for example in publicity and promotion costs.

5.24 Within Internal Operations there are not many utility or transport costs and hence the main impact of inflation is within IT. Within the current forecast, where contract figures are unknown, we have estimated the increase at 6%. However, some of the known increases to date have been 7 – 8.5%. If this was the case for all currently unknown contract figures, then there would be a further cost pressure of £10-15k. In addition, the pay award adds to inflationary cost pressures exceeding original budget estimates, with an average cost of 5.6% versus 2% allowed within the budget.

5.25 Although not reported within the Internal Operations service budgets, the service is responsible for treasury management operations. This is performing very well against budget as highlighted later in this report, which helps to mitigate the net overspend reported for Internal Operations service costs.

Table 5: Internal Operations Forecast Variances

Department Notes	Q1 Variance £'000	Q2 Variance £'000
Comms and Engagement: This is savings in staff costs through a vacancy and not backfilling a maternity leave, plus managed in year savings primarily reducing costs of publicity and promotions identified in quarter 2.	-15	-70
Governance: This is due to vacant posts and the SHAPE legal services contract costing less than budgeted. There are less costs than anticipated for Community Governance Review (CGR) due to these costs being absorbed in other budgets.	-2	-108
Internal Change: Forecast variance mainly due to Service Efficiency and Improvement Programme (SEIP) and similar project management costs to December. This programme has delivered many improvements and non-cashable efficiencies despite the impact of LGR on capacity and available focus areas. Funding options are being explored to mitigate this cost. Since Q1 there has been increased cost of the pay award, a Health and Safety project and Data Protection Services.	78	175
Benefits: £73k of this underspend results from receiving a greater amount of administration grant, Verify Earnings and Pensions (VEP) and new burdens grant than budgeted for. We may need to utilise some of this budget underspend later in the year to ensure we have sufficient resourcing to deliver to the required DWP standards.	-100	-86
Customer Contact: Staff costs are projected to exceed budget due to the pay award. Two supernumerary posts have been agreed with SMT above establishments providing resilience to a higher rate of staff turnover within this service. Most of the cost will be covered within the existing budget with any remainder managed within the wider Internal Operations budget.	4	43
Visitor Centre: Electricity prices are rising quickly, the visitor centre also pays for the electricity used by Tone FM. We've estimated our spend but this could be higher due to the expected increase in October. Income from sales remain unpredictable. Both purchases and sales are projected around 50% of budget which broadly offsets in the forecast outturn, and whilst below budget represents doubling of last year's sales performance. £10k relates to an income budget duplication where the income and a corresponding budget for this amount is shown under another cost centre.	31	28
Deane Helpline: £58k of the projected overspend relates to the pay award exceeding budget estimates. Some of the additional cost of allowances for one part of the team together with all the additional payments for holiday pay were agreed after budget setting and therefore exceeds the budget for 22/23. The cost of overtime to cover	81	140

Department Notes	Q1 Variance £'000	Q2 Variance £'000
holiday and other absences also adds to cost pressures. The service is recruiting additional relief staff to minimise overtime costs in the future.		
Finance: Centrally funded pension costs is projected £30k below budget and overall staff savings are projected to be £39k after absorbing higher pay award costs.	-69	-65
HRA Recharges: A thorough review of the non-staff related cost apportionments between the General Fund and Housing Revenue Account (HRA) has been mostly completed, to ensure this reflects the up to date position and reasonable assumptions around the relative use of resources. A couple of residual elements will be finalised and reported in Q3 but this reflects the current best estimates.	0	320
Other Minor Variances	22	40
Total	**30**	**417**

5.26 Reported within Internal Operations are corporate savings budgets regarding staff vacancies and service efficiencies. The vacancy savings budget of £100k has been fully dispersed to services in the first half of the year. Additional vacancy savings are reflected within individual service cost projections.

Savings Targets

Department Notes	Q1 Variance £'000	Q2 Variance £'000
Efficiency Savings: Whilst significant efficiencies are being delivered the budget requires cashable savings to be realised, which are currently below target. This programme has delivered many improvements and non-cashable efficiencies despite the impact of LGR on capacity and available focus areas. It is now anticipated that cashable savings are unlikely to be delivered this year, with future efficiency and transformation being a key part of the LGR programme.	200	200
Total	**200**	**200**

Senior Management Team (SMT)

5.27 The SMT has a current net expenditure budget of £464k in 2022/23. This budget line holds the costs of the senior leadership team (Chief Executive and Directors) plus a small contingency to support strategic priorities arising in-year. A very minor variance to budget is forecast at the end of Quarter 2.

Local Government Reorganisation (LGR)

5.28 This one-off budget of £1.375m provides for SWTC costs related to LGR in Somerset. It includes £1m for LGR Implementation (£912k budgeted contribution plus £88k contingency) plus £375k to provide for additional capacity to support transition costs incurred by SWTC because of the programme. This is currently forecasting to budget. At this stage it is considered unlikely that SWT will be asked to contribute more than £912k, therefore the Director of Internal Operations and S151 Officer propose to allocate the £88k contingency to provide budget capacity for set up costs incurred this year related to a new town council for Taunton. This removes the need to allocate funds from General Reserves for this purpose, which Council has agreed in principle.

Pay Award 2022

5.29 The 2022/23 approved budget assumed a 2% pay award. The Pay Award has now been agreed at £1925 per scale point. This assumption has been included within the forecast outturn position provided by services (reported above).

Other Costs, Income and Reserve Transfers

5.30 As well as budgets allocated to directorates for the delivery of services, several budgets are reported 'below the line' as centrally held/corporate items. This area 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)
- Transfers to and from general and earmarked revenue reserves
- Capital accounting adjustments including capital debt repayment, revenue financing of capital costs, and transfers to and from capital reserves

5.31 A net underspend / income surplus of £55k is currently being forecast for the year, predominantly due to a more favourable interest payable and investment income position.

5.32 Investment Properties are forecasting a shortfall in income due to voids £103k, which has largely been offset by a reduced interest cost with the balance of £17k to be made up from the risk reserve. On the Legacy Investment properties, repair and maintenance costs are forecast to be £30k higher than budget, and this will be funded from the risk reserve.

Table 6: Forecast Variances

Department Notes	Q1 Variance £'000	Q2 Variance £'000
Interest Payable and Investment Income: Interest Payable - In a complex and volatile economic environment, the risk of interest cost variations has continued to be highlighted to Members. A blend of taking well-timed early opportunities for new borrowing during 2021/22, utilising internal balances in lieu of external borrowing and the scaling down of the General Fund capital programme have, together, generated a positive variance to	-384	-706

the budget estimate. The nature of borrowing taken (i.e. fixed term loans) should substantially reduce the risk of further variations in year. Interest Receivable - The Council holds a portfolio of investments that comprise a combination of contingency balances (reserves) cashflow (e.g. funding from grants and contributions received in advance) and liquidity balances (to provide for immediate payments as they become due). A combination of market interest rate increases and good performance in the Council's investment portfolio have generated a positive variance to the budget estimate. With continued economic volatility, further variations should be expected as the year progresses. The Executive are requested to approve the transfer of £500k of these Treasury Management surpluses to general reserves.		
Transfers to and from Earmarked Reserves: This variance relates to (a) £60k of released earmarked reserves in Q2, (b) £440k transferred to the Somerset Waste Partnership reserve, and (c) the use of £239k of Homelessness reserves to offset their forecast overspend.	0	140
Transfers to and from General Reserves: This variance relates to (a) £60k of released earmarked reserves in Q2, (b) £500k of Treasury Management surpluses proposed to be transferred to general reserves, and (c) £1.294m of revenue funded capital financing released to general reserves.	0	1,855
Capital and Other Adjustments: In order to increase reserve balances this year to provide budget flexibility and financial resilience in 2023/24 on the face of significant financial pressures, and in light of the reduced capital programme, £1.294m of revenue funded capital financing is being proposed to be released and transferred to general reserves. The remaining £50k is revenue funded capital financing not required for Closed Churchyards capital scheme.	0	-1,344
Total	**-384**	**-55**

General Reserves

5.33 The opening general reserves balance as at 1 April 2022 is £7.592m, representing unearmarked reserves held to provide ongoing financial resilience and mitigation for unbudgeted financial risks.

5.34 As part of the budget setting proposals to Full Council on 24 February 2022 and the Financial Strategy agreed by the Executive in July 2021, £1.375m of current reserves will be used to fund a contribution towards the Local Government Reorganisation (LGR) costs. Further approved (or proposed) allocations to / from general reserves are shown in the table below.

Table 7: General Reserve Balance

	Approval	£000
Balance Brought Forward 1 April 2022		**7,592**
2022/23 Original Budget Transfers from Reserve	Council – 24/02/2022	-1,375
Current Balance		**6,217**
Transfer to Coal Orchard Warranty Earmarked Reserve	Council – 05/07/2022	-185
Released Earmarked Reserves in Q1	S151 / SMT – 10/08/22	197
Release Surplus Contingency for Litter Enforcement	S151 – 27/10/22	45
Balance After In-Year Approvals		**6,274**
Proposed Earmarked Reserves released in Q2		61
Proposed transfer of Treasury Management surpluses to reserves		500
Proposed transfer of RCCO surplus to reserves		1,294
Forecast – 2022/23 Projected Underspend as at Q2		219
Projected Balance 31 March 2023		**8,348**
Recommended Minimum Balance		2,400
Projected Balance above recommended minimum		5,948

5.35 As well as managing the adequate level of reserves to mitigate financial risks for SWT, the S151 Officer has discussed the reserves strategy with SMT and the other S151 officers in Somerset in the context of financial strategy and MTFP for the new Somerset Council. It is prudent to maintain and ideally increase reserve balances this year to provide budget flexibility and financial resilience in 2023/24 on the face of significant financial pressures.

5.36 In support of this the Executive is asked to endorse the following measures which are reflected in the forecasts above:

- The transfer of surplus earmarked reserves to general reserves (see below)
- The release of revenue funds previously planned to finance the capital programme in 2022/23, which can be replaced by borrowing with marginal impact on the overall level of borrowing due to underspends within the capital programme.
- The transfer of Treasury Management surpluses to general reserves.

Earmarked Reserves

5.37 The General Fund Earmarked Reserves brought forward balance for 2022/23 is £28m. This balance is forecast to reduce by c£16m this year as funds are utilised to offset the Business Rates Collection Fund Deficit; for capital financing purposes; and funding of service costs and grant-funded activities. A remaining balance at year end of c£12m is currently projected of which c£9m mitigates financial risks related to business rates funding and property investments.

5.38 The original net budgeted/approved and projected transfers from earmarked reserves in 2022/23 is £12.929m.

5.39 Following reviews during Q2 the following earmarked reserve balances are proposed to be released and recommended to be transferred to general reserves. This is reflected in the Q2 forecast (Table 1) and the Forecast Transfers column in Table 8 below.

Reserve	**Amount £000**
Council Tax Income Guarantee (TIG) grant	34
Preventing repossessions grant	27
Total	**61**

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

Table 8: General Fund Earmarked Reserves

	Info: Budgeted Transfers £000	**Balance 1 April 2022 £000**	**Transfers To Date £000**	**Forecast Transfers £000**	**Balance 31 March 2023 £000**
Business Rates Holiday S31 Grant	*-6,645*	5,811	-5,811	0	0
Business Rates Volatility	*-718*	5,353	-1,552	-1,200	2,601
Investment Risk	*0*	3,151	0	992	4,143
Business Rates Losses S31 Grant	*-897*	2,499	-897	0	1,602
Investment Financing Fund	*-2,000*	2,000	-2,000	0	0
Capital Funding	*-738*	1,413	-738	-76	599
Sub-Total Risk Reserves	***-10,998***	**20,227**	**-10,998**	**-284**	**8,945**
General Carry Forwards	*-900*	2,075	-2,075	0	0
Garden Town Fund	*-213*	978	-213	-524	241
Economic Development Initiatives	*-372*	643	-372	-271	0
Homelessness Prevention	*-113*	564	-113	-60	391
Asset Management	*-280*	519	-280	-239	0
Investment Assets Sinking Fund	*0*	500	0	200	700
Other Smaller Balances	*-53*	2,484	-152	-808	1,524
Sub-Total Other Reserves	***-1,931***	**7,763**	**-3,205**	**-1,702**	**2,856**
Total	***-12,929***	**27,990**	**-14,203**	**-1,986**	**11,801**

5.41 Earmarked reserves are set aside for a specific purpose and are reviewed on a regular basis. As reported in the Q1 report, £197k of earmarked reserves have been released and returned to General Reserves as they were no longer required for their original purpose. In addition, in Q1 the Executive agreed to transfer £1.2m from the Business Rates Volatility reserve, with £1m to the Investment Risk Reserve and £200k to the Investment Assets Sinking Fund.

6 Business Rates

6.1 The Executive is requested to approve a virement, which is purely presentational in nature, to adjust for the Covid Additional Relief Fund (CARF) scheme that was anticipated at budget setting but subsequently was not implemented.

	Original Budget	Virement	Revised Budget
M0032 CARF S31 Grant	(1,162,050)	1,162,050	0
M0030 Business Rates Holiday Grant	(5,482,790)	(328,690)	(5,811,480)
M0025 Transfers To / From EMR*	(5,378,050)	(833,360)	(6,211,410)

*Note: other virements may have taken place during the year of a different nature affecting the revised budget on this account.

7 Debt Write Off

7.1 As per the Financial Procedure Rules, any write off per debtor greater than £25,000 in any year will be reported to the Executive for information. During Q2 there was one individual customer where individual debts greater than £25,000 were written off (please see **confidential Appendix F**).

8 <u>General Fund (GF) Capital Programme</u>

8.1 The current Capital Programme Budget is £64.085m in total (see Appendix A). This consists of £60.977m of previously approved schemes from prior years and £1.715m of new schemes approved in February 2022, as well as in year approvals of £1.521m of supplementary budgets and £128k of budget returns.

8.2 In-year supplementary budgets include:

(a) Development & Place: £775k for Coal Orchard additional costs approved by Full Council on 5th July 2022.

(b) External Operations: £40k for Litter Bins, £70k for Vivary Park Footpaths, £75k for Wellington Leisure Centre Air Handling units and £120k for Taunton Green Pavillion have all been approved by the Deputy Chief Executive & Director Place and Climate Change and the Assistant Director - Finance (S151 Officer). £262,280 for Blue Anchor Coast Protection, approved by Full Council on 5 July 2022.

(c) S106 funded projects that have commenced.

8.3 In-year budget returns include £128k in Internal Operations mainly with respect to change projects where there has been an underspend.

8.4 The current high inflation rate creates an inherent risk within the ongoing projects and those for which the budgets have been approved but have not yet commenced.

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

8.6 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.**

8.7 Financial performance to date against this profiled spend for this financial year can be found in **Appendix D.** Overall, the Council is currently forecasting a capital outturn of £15.015m, with carry forwards of £9.148m and a net underspend of £1.266m against profiled budget for 2022/23. The reasons for the forecast carry forward and underspend are detailed in the Directorate updates below.

8.8 The current forecast capital outturn financing position is shown in **Appendix E**. This is being funded by CIL and S106 grants, and other capital grants being mainly for the Active Travel, Firepool, Flood Alleviation, Heritage at Risk and Coastal Protection projects.

8.9 The completion and exchange of the residential units at Coal Orchard commenced this quarter, so the current year costs will be funded from those capital receipts and the excess capital receipts will be applied to borrowings as per the business plan. The capital receipts forecast excluding Coal Orchard are sufficient to cover the projects they have been allocated to them.

8.10 In addition, as mentioned above, in order to increase reserve balances this year, £1.294m of revenue funded capital financing is being proposed to be released and transferred to general reserves.

8.11 **Development and Place:** The capital programme includes development and regeneration projects. These budgets are governed via the Directorate and Programme Boards before being reported to Full Council. The main reasons for the £7.8m carry forward and the £350k underspend include:

a) The Future High Street funded works on Firepool is forecast to carry forward £2.4m due to delays in awarding the Drainage & Levels contract, Highways rescheduling the work on the Trenchard Way access and the Planning application for the Southern Boulevard still in progress.

b) Phosphates carry forward of £1.8m due to the ongoing negotiation of the Fallowing Land solution. This is expected to be billed and collected via S106 prior to purchasing any credits with the cost of purchasing the credits expected to slip into next year.

c) The Active Travel project, funded by the Future High Street Fund, is forecast to carry forward £558k together with the related CIL funded Cycle and Pedestrian (£500k) and Town Centre Regeneration (£500k) projects.

d) There is a carry forward of £1.1m CIL funded Education contribution to Orchard Grove school in Comeytrowe which is not expected to be called on by SCC this financial year.

e) There is a £910k carry forward on the Taunton Flood Alleviation projects as the work has not progressed at the rate anticipated when the budget phasing was done. This project is fully funded via Grant and CIL funding.

f) The Coal Orchard project is expected to complete in the autumn and is currently forecast to overspend by £104k against a total approved budget of £15.3m. This may reduce once the current open purchase orders are reviewed and closed on completion of the project.

g) There is forecast underspend of £482k on Firepool budgets approved prior to the Future High Street Funding (FHSF) award, as those works will now be included in the fully funded project.

8.12 **External Operations and Climate Change:** The capital programme spans a diverse range of activities that also, in part, span across two financial years. The Directorate has a robust programme management system to ensure the capital schemes are tracked and spent in a timely manner. There is a reported underspend of £193k, this is mainly due to the implementation of a new accounting standard (IFRS16–Leases) being deferred, meaning that the finance lease costs for the fleet contract will be accounted for in revenue £125k, and the budget for Closed Churchyards no longer being required £50k. It has been agreed to return both budgets, this will be reflected in the Q3 budget monitoring report. Slippage of £1,035m relates to the Blue Anchor Coastal Protection works, the project has encountered delays due to vessels being unavailable, meaning spend will fall into next financial year.

8.13 **Housing and Communities:** The capital programme has been updated to reflect the Single Homelessness and Rough Sleeper Accommodation Strategy & Delivery Plan. 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 Housing Service is supporting the Homeless service in delivering the plan for example the purchase of 6 acquired units and 6 of its own units for a Housing First approach. These costs will emerge in the capital programme spend over the four quarters. The Better Care Fund has incurred slippage and the programme is being reviewed to align to existing and future unitary requirements.

8.14 **Internal Operations:** The capital programme relates to the annual PC refresh upgrades and alarms for the lifeline service. Of this £122k of the IT capital budgets have been returned as no longer required.

8.15 **Hinkley:** One of the Hinkley funded projects is expected to be completed in the 2023/24 year.

8.16 **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 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 2022/23 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:

9.3 **Inflation:** The current economic operating environment is placing financial risk on the Council in terms of rising inflation increasing the cost of supplies such as utilities and materials. The Council is seeing price increases on our corporate contracts of c60% on electricity, c80% on gas and c45% on fuel. However further variances may come to light during the year based on levels of usage in these areas. There is also uncertainty to the inflation to be seen on other contracts such as IT systems and maintenance works where contracts are still out to tender. Directors have undertaken an impact assessment of the inflationary pressure placed on their services and included best estimates as part of their quarterly review.

9.4 **Insurance Premiums:** The Council's insurance policies are due for renewal on 1 August 2022. Premiums are affected by inflation as well as risk, thus high inflation which may lead to an adverse variance to budget. The renewal falls just eight months ahead of the Unitary Vesting Day, with the risk that an additional premium may be payable for a shorter policy period. Whilst the invoices have now been received these were received too late to be updated within the Q2 forecasts therefore an update will be provided in the Q3 report.

9.5 **Recruitment:** There are a number of vacancies across the Council and assumptions have been made as to when these vacancies will be filled. The Council is experiencing recruitment issues (as seen country-wide) therefore assumptions and forecasts may change, in addition to higher agency costs to cover roles where permanent recruitment is not successful.

9.6 **Unitary Council:** The transition to the new Unitary places a significant demand on management and staff. This may lead to additional costs to deliver the transition and ensure day to day services are maintained at satisfactory performance standards. It could also slow down spending in some areas as priorities and capacities adjust during the transition period.

9.7 **Fleet Contract / IFRS16 Leases:** CIPFA has delayed the implementation of IFRS16 however we could have chosen to adopt this early but due to the implementation of the Unitary Council all Somerset Councils have made the decision to delay adoption. Therefore, where SWT had budgeted for the lease as a capital cost these now fall to revenue. The services hope to absorb this cost through in-year underspends and delays in receiving new vehicles.

9.8 **Business Rates (Risk):** There are inherent risks and uncertainties within the Business Rates Retention system, both in terms of income volatility and accounting timing differences between financial years. The Council holds earmarked risk reserves to mitigate in year pressures. As the 2022/23 budget was reduced for the anticipated decommissioning of Hinkley Point B nuclear power station, which accounts for almost 20% of the current tax base, the risk should be reduced this year. The first reactor was switched off in July and the second on 1 August 2022. The Valuation Office Agency will need to advise the resulting changes to the rateable value, and we will then assess the impact on our business rates retention funding estimates.

9.9 **Council Tax (Risk):** There are inherent risks and uncertainties within the Council Tax collection system, especially in light of the current economic climate and the risk of non-payment. An increased impairment allowance has been applied for 22/23 in light of this. This will have an impact on the Collection Fund for the General Fund budget in future years through the Surplus or Deficit recovery. Regular review of statistics will be undertaken to monitor the situation.

9.10 **Development Management:** Due to the volatility of planning income, which is significantly demand led, it is difficult to forecast the full year income impact accurately.

9.11 **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 2022/23. The position needs to be kept under review pending the delivery of the Homelessness Strategy including the planned decant from the Canonsgrove site. As mentioned above, the current forecast overspend can by managed within the services existing earmarked reserves, however if the overspend increases this will impact on the overall corporate outturn position.

9.12 **Revenues & Benefits:** The position on rent allowances/rent rebates could change significantly (approximately £200k-£300k either way) because of 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.

9.13 **Interest and Investment Income**: UK economic volatility will continue to present a risk of variations in interest receivable. In addition, cashflow forecasts remain difficult to predict with certainty in respect of the timing and progress of capital projects and in relation to the receipt and application of large grant funding. Careful daily monitoring and management of the Council's overall liquidity mitigate this risk as far as possible. Meanwhile, the risk of exposure to rising interest rates on borrowing, previously reported, has been contained for the current year leading up to the new Unitary Council.

9.14 **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.

9.15 **Fluctuation in demand for services:** We operate many demand-led services and the levels of demand do not always follow a recognisable trend, which may lead to fluctuations in costs and income compared with current forecasts.

9.16 **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.

10 Links to Corporate Strategy

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

11 Unitary Council Financial Implications and S24 Direction Implications

11.1 The main considerations within scope of this report is the impact of in-year financial performance on year end reserve balances that will transfer to the new unitary council on 1 April, and potential impact of variances on future budget estimates. Reserves are currently projected to remain above the minimum requirement. Finance officers and budget managers will feed in ongoing and future risks and implications through the budget setting process for 2023/24.

12 Partnership Implications

12.1 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.

13 Scrutiny Comments / Recommendations

13.1 This report was considered by Corporate Scrutiny on 7 December 2022. A summary of the comments and recommendations discussed are provided here for the Executive to consider.

13.2 Clarification was provided on the relationship between the General Fund and Housing Revenue Account for shared costs which are recharged between the funds, with revised recharge calculations in year reducing costs for the HRA with an equal increase in costs to the General Fund.

Democratic Path:

- **Corporate Scrutiny – 7 December 2022**
- **Executive – 21 December 2022**
- **Full Council - No**

Reporting Frequency: **Quarterly**

List of Appendices

Appendix A	Approved Capital Budget
Appendix B	Capital Financing of Total Approved Budget
Appendix C	Annual Profiling of Approved Capital Budget
Appendix D	Profiled Capital Budget for 2022/23 Vs Forecast Capital Outturn for 2022/23

Appendix E	Financing of Forecast Capital Outturn for 2022/23
Appendix F	CONFIDENTIAL - Write Offs Over £25k

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