

Somerset West and Taunton Council

Full Council – 15 December 2020

2020/21 In Year Revenue and Capital Budget Approvals

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

Report Author: Emily Collacott (Lead Finance Business Partner & Deputy S151 Officer)

1 Executive Summary

- 1.1 COVID-19 has had a wide ranging impact on the financial risks, costs and income for this Council this year. The picture has evolved during the year with the implementation of emergency financial assistance to businesses and council tax payers. In addition, the Council has experienced additional costs of service delivery and a significant reduction in income particularly from fees and charges. The Senior Management Team (SMT) and Finance Officers have closely monitored developments through the year to ensure the financial implications and risks are effectively managed.
- 1.2 The forecast impact on the General Fund has been extremely volatile during the year, however a reasonable degree of confidence in the forecast position at the time was reflected in the Month 4 Financial Performance Report presented to Scrutiny Committee on 30 September and the Executive on 28 October 2020. This included an estimated net financial pressure this year of £657,000 due to COVID impact.
- 1.3 In addition to assessing the immediate financial implications, the SMT and S151 Officer have reviewed and updated the Financial Strategy in light of these risks, both in terms of managing short term costs, and updating the forecast longer term budget requirement where the implications of COVID is likely to have a lasting effect on costs and income.
- 1.4 The strategy included updated proposals around financing of the capital programme and use of revenue reserves, and was reported to Scrutiny and the Executive at the same time as the Month 4 report.
- 1.5 This reports seeks approval from Full Council for the recommended changes to the Revenue Budget, Capital Programme and Reserves from the above reports.

2 Recommendations

- 2.1 Full Council approves a supplementary estimate of £657k from General Reserves to fund the estimated overspend related to COVID.

- 2.2 Full Council approves the realignment of budgets for COVID related income and expenditure to offset the reported variances that net off to zero when including the £657k in 2.1 above. In addition, Council also approves delegated authority to the CEO and S151 Officer to further realign affected budgets during the year in view of potential volatility in forecasts due to COVID.
- 2.3 Full Council approves the reallocation of reserves to provide increased resilience and flexibility to mitigate COVID related financial pressures, and to support the Revenue Budget in the medium term, as follows:
- (a) To transfer £3.949m of New Homes Bonus reserve to General Reserves, and agree alternative financing for relevant capital schemes through Community Infrastructure Levy and borrowing as set out in para 7.5.
 - (b) To transfer £1.0m from the Business Rates Volatility Reserve to General Reserves.
- 2.4 Full Council approves amended Community Infrastructure Levy (CIL) Allocation Principles as set out in paragraph 7.9.
- 2.5 Full Council approves changes to the General Fund Capital Programme by a total of - £1.370m for the following headings as referred in para 7.3:
- a) £295,000 reduction to Major Transport Schemes budget from NHB-funded programme
 - b) £375,000 reduction to remove budget for Creech Castle Road Improvements contribution from NHB-funded programme
 - c) £200,000 reduction to Employment Site Enabling schemes budget from NHB-funded programme
 - d) £1,000,000 reduction to Public Transport Improvements budget from NHB-funded programme as Housing Infrastructure Fund bid not successful
 - e) £500,000 increase to Education Provision budget funded by Community Infrastructure Levy.
- 2.6 Full Council approves the revised Budget Total for the Growth Programme of £3.56m to be funded by New Homes Bonus as set out in para 7.6 Table 3, and CIL-funded Infrastructure Capital Programme totalling £16.262m as set out in para 7.10 Table 4.
- 2.7 Full Council approves a supplementary estimate to the Capital Programme, in 2020/21, for grant-funded repairs at Toneworks in Wellington up to £500k, which is the maximum value of the grant funding applied for from the Historic England.

3 Risk Assessment

- 3.1 The Council is exposed to increased financial risks both within the current financial year and in its Medium Term Financial Plan forecasts and assumptions, due to the impact of COVID-19 on service demand, income reduction, and wider impact on the economy and our communities. The Senior Management Team and S151 Officer have continued to monitor and assess the scale of risk, and reflected this both within financial control and financial planning assumptions. Decisions have been made since March which focus on

maintaining the financial health of the Council whilst delivering essential support to local businesses and vulnerable residents.

- 3.2 The forecasts included in the Month 4 budget monitoring report presented to the Executive Committee on 28 October 2020 are considered reasonable given the extra element of risk around COVID, and based on experience it is feasible the year end position could change. It is common for underspends to emerge during the last quarter, reflecting an optimism bias within previous forecasting as well as new information. Salient in year budget risks were included in sections 8 and 11 of the Month 4 report. The Council manages financial risk in a number of 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.
- 3.3 The financial strategy and medium term financial plan reflect known risks and assumptions regarding future service costs and income. COVID impact increases the risk of these varying to budget estimates to a greater degree than under pre-COVID conditions.

4 Background and Full details of the Report

- 4.1 The full details of the budget monitoring forecasts and the financial strategy are set out in detail in the reports to Scrutiny Committee on 30 September and Executive Committee on 28 October. This report summarises the salient points from those reports to support the recommendations to Full Council for approvals.

5 General Fund Revenue Budget – Proposed In Year Changes Due to COVID

- 5.1 As at Month 4 the Council forecast an overall net overspend of just over £1m (4.8% of £21m Net Budget). This pressure has been analysed between:
- £657k pressures relating to COVID additional costs and income reductions (see Table 1 below).
 - £355k early forecast variances from 'normal' course of business. SMT aims to manage and contain this pressure by the end of the financial year.
- 5.2 Overall forecast financial pressures in the current financial year are significant at an estimated £4.8m. This is reduced by £3.2m actual and projected emergency funding from Government and an early initial allocation of £1m from the Council's earmarked reserves. It is proposed to allocate £657k from General Reserves to update the budget and offset the projected residual pressure.
- 5.3 The impact of COVID remains a potential area of volatility throughout the year (and beyond), as demonstrated by the implementation of a further national lockdown in November and move to the system of tiered restrictions before and after then. It is therefore proposed to request the Council approves a delegation to the CEO and S151 Officer to adjust the allocation of budgets as appropriate within the new total budget this year to reflect updated information through the remainder of the year.

Table 1 - Summary of COVID Related Forecast Variances for the Year

Budget heading	£'000	Revised Comment
D&P - Economic Development	80	Consultancy with Hardisty Jones in the development of a new strategy and plans to deliver economic recovery following the huge impact of COVID and lockdown on the local economy and High Street Recovery initiative. The output from this work will be an economic recovery and growth plan for the whole of Somerset to 2030 and beyond, built around the three themes of housing, economy and environmental sustainability. It is anticipated that the cost will be shared by the four Councils.
EO&CC - Bereavement Services	167	Labour and machinery to expand the capacity of the cemetery, additional crematorium equipment and PPE costs.
EO&CC - Major Contracts	1,326	This includes the assistance package to support SLM to enable safe opening of leisure facilities at earliest opportunity after initial lockdown in line with Government guidance, and additional waste contract costs incurred by the Somerset Waste Partnership due to the delay in roll out of Recycle More and increased capacity needed due to increased recyclable materials arising during lockdown.
EO&CC – Parking Services	2,798	Reduction in income due to the provision of free parking April to August 2020 and the expectation that parking income may be diluted to the end of the financial year due to a reduction in usage of the car parks due to the ongoing COVID situation.
H&C - Homelessness	132	The Council incurred significant up-front costs in the set-up and initial operation of Canonsgrove, following the Government's "everyone in" requirement. At time of reporting, income from government grants was uncertain and without this income we were projecting an overspend of £132k. [Note - We have since had grant income confirmed from MHCLG, plus payment from SCC (also from MHCLG grants) which largely offsets this overspend, however other pressures have emerged as reported in Month 6 budget monitoring.]
IO - Comms and Engagement	65	Additional staffing requirements to support our response to COVID both customers and staff as follows: 1. Increased internal communications capacity supporting the senior management team and managers. Keeping staff up to date with vital information and instructions re home schooling, Health & Safety, symptoms, shielding. Caring responsibilities working arrangements etc. Also ensuring wellbeing was supported during changes to working arrangements to ensure safety of staff and customers. 2. Increase of hours for external communications lead to full time to ensure full availability for cross partner communications cells, press responses and coordination of vital messages to the public.

Budget heading	£'000	Revised Comment
IO - Internal Change	20	Additional staff costs needed as a result of the COVID situation to ensure the transition of the technology solution to Microsoft Teams for staff was done as quickly as possible. The team accelerated a 6 month delivery programme into two weeks and we needed this additional resource to make that happen.
IO - ICT	101	SWT incurred additional costs due to upgrading the Civica software to administer the business grants and the discounts for the Council tax hardship allowance. The implementation of Microsoft 365 was accelerated at an additional cost, specifically to provide Teams to support working from home / remotely as staff self-isolate.
Senior Management Team	130	This is the cost of the expanded leadership team capacity to drive forward economic recovery and provide the facility to contribute to the County-wide Strategy, as well as lead the COVID emergency and ongoing response.
Gen - Interest Receivable	200	Due to the economic climate this is expected to be below budget, with a reduction in income from investment funds and short term treasury cash balances.
Gen - Interest Payable	-158	We have not had to externally borrow for everything that was budgeted for and therefore there is a saving in interest costs. This has benefitted in part by the receipt of cash through Government funding in advance of making payments e.g. for business grants and council tax hardship and early receipt of other grant funding such as New Homes Bonus.
Sub-Total – Net Financial Pressures	4,861	Estimated Pressures as at Month 4 forecast
Gen - COVID Emergency Grants and New Burdens Grants	-3,204	The Government has provided additional funding to local authorities to assist with immediate COVID response and related impact on General Fund service costs and income losses. This grant has not been ring-fenced, providing local flexibility to decide how best to direct the funds. The Council had received 3 tranches of emergency grant since April, totalling £1.882m when the Month 4 report was prepared. New Burdens Grant of £170k has also been received towards the costs of administering the business grants schemes for small businesses and the retail, hospitality and leisure sector. Government has also announced a scheme to compensate some losses through reduced sales, fees and charges income. A reasonable estimate of additional grant income had been included in the forecast based on our understanding of the outline of the scheme at the time. Any changes to these assumptions are included in the next budget monitoring report.
Gen - Transfer from earmarked reserves	-1,000	Agreed contribution from the NHB reserve to mitigate COVID-related financial pressure, approved by the Leader and CEO using emergency powers in March 2020.
Net Overspend	657	

Budget heading	£'000	Revised Comment
Proposed allocation from General Reserves	-657	Allocation from reserves to revise the budget for estimated net costs of COVID not covered by external funding and reallocated earmarked reserves

Key:

D&P = Development and Place Directorate

EO&CC = External Operations and Climate Change Directorate

H&C = Housing and Communities Directorate

IO = Internal Operations Directorate

Gen = General Costs and Income

6 Reallocation of Reserves

6.1 The impact and financial risks in respect of COVID rapidly increased around the turn of the financial year, with the country moving into national lockdown mid-March 2020. The Council set its budget for 2020/21 in February which did not anticipate a national pandemic shortly after then. During the period March to June SMT and the S151 Officer considered the rapidly increasing scale of financial risks, and undertook a range of actions aimed at strengthening the Council's financial resilience and flexibility to reprioritise resources to respond to the emergency situation. These actions included:

- Fully allocating the reported 2019/20 underspend to general reserves, with no carry forwards of underspend to commit to individual services expenditure this year.
- Reviewing earmarked reserves to identify scope for releasing balances to general reserves, to provide flexibility to meet and underwrite financial pressures this year.
- Reviewing capital programme priorities and financing arrangements, with some legacy schemes being removed, and some schemes funded by Community Infrastructure Levy and borrowing instead of New Homes Bonus (NHB) reserves.

6.2 Among the changes proposed, the Executive has supported a recommendation to Council to reallocate £3.949m from NHB reserves (in addition to £1m reprioritised under emergency decision from this reserve at the start of the year), and £1m from Business Rates Volatility Reserve, to increase general reserves.

6.3 These proposals were set in the context of estimated costs this year, particularly before Government announced the majority of its emergency grant funding to councils, but also with the view to providing flexibility to support the budget for services in the next 2-3 years. Various allocations have been made from reserves this year as approved by officers, the Executive or Council according to delegated authority. As at the Month 4 forecast, included the recommended transfers on 6.2 above, the projected General Reserves balance is estimated to be £8.7m, with earmarked reserves reducing to £16.7m. These figures are updated in subsequent budget monitoring reports to Scrutiny and the Executive.

7 General Fund Capital Programme Changes

7.1 The original capital budget for 2020/21 was £66.49m and £30.57m has been carried forward from 2019/20 giving a total budget of £97.06m. At the start of the year £2.23m

was approved for Firepool. A supplementary budget of £0.02m for IT was approved by officers.

7.2 The leadership team has undertaken a review of the capital programme budgets earlier this year, primarily with the objectives of:

- a) clearing legacy budget approvals that have rolled forward from the predecessor councils and no firm commitments are currently defined,
- b) identifying opportunities to consider alternative financing arrangements to reduce the requirement for New Homes Bonus for capital purposes so that it can be reallocated to meet revenue costs.

7.3 The outcome of this review is that a number of changes are recommended to reduce or remove budgets for a number of capital schemes. These are summarised as follows:

Table 2 – Proposed Changes to Capital Budget Approvals

£	Description
-295,000	Major Transport Schemes – reduction in general budget allocation due to less New Homes Bonus income being available. Leaves £580,000 budget within the Growth Programme for major transport schemes, proposed to be funded through borrowing instead of New Homes Bonus.
-375,000	Creech Castle improvements anticipated capital contribution from historic commitments made several years ago, not currently required, reducing requirement for New Homes Bonus funding.
-200,000	Employment site enabling – lower provisional budget allocation for innovation centres as no clear commitments to use this proportion of funding, reducing requirement for New Homes Bonus funding.
-1,000,000	Public Transport Improvements allocated contribution to SCC scheme no longer required as Housing Infrastructure Fund bid not successful.
500,000	Increase in allocation to CIL-funded education provision, related to Staplegrove urban extension.
-1,370,000	Total Budget Reduction for 2020/21 Capital Programme

7.4 The leadership team has also developed and proposed some changes to the planned financing of the Growth Programme and Community Infrastructure Programme. This is in line with one of the objectives set out in the updated Financial Strategy, enabling the release of New Homes Bonus (NHB) funds to support revenue costs, recognising that NHB funding is expected to reduce to zero in the Medium Term Financial Plan, and there is an opportunity to utilise more of the projected Community Infrastructure Levy (CIL) for growth and infrastructure schemes.

7.5 Full Council is therefore recommended to approve updated medium term plans for growth and infrastructure programmes and funding as set out below. The main changes are:

- a) The planned financing of the Flood Alleviation budget of £6m is amended to remove £2.762m from NHB Reserve and use CIL instead.

- b) The planned financing of £2.08m Major Transport Schemes contributions to Junction 25 (£1.5m) and Toneway Corridor (£0.58m) improvements from borrowing instead of NHB.

Growth Programme – New Homes Bonus Funded Schemes

- 7.6 In view of the above changes, the amount of New Homes Bonus funding available to support the Capital Programme for the period 2019/20 to 2021/22 is £3.56m. It is recommended that Full Council approves this revised allocation per theme, with allocations to individual projects continuing to be confirmed under agreed delegations.

Table 3 – Growth Programme Funded by NHB

	Actual 2019/20 £k	Estimate 2020/21 £k	Estimate 2021/22 £k	Totals 2022/23 £k
Major Transport Schemes	98	60	0	158
Town Centre Regeneration	724	1,124	985	2,883
Employment Site Enabling and Innovation	0	505	0	505
Flood Alleviation	14	0	0	14
TOTALS	836	1,689	1,035	3,560

- 7.7 The main projects planned to be funded within these themes include:
- Major transport schemes – is the contribution to the Park & Ride and there is provision for SWT to contribute to the costs of the SCC led feasibility study at Wellington Station.
 - Town Centre Regeneration – mainly consists of the Firepool development costs, NHB funding of the Coal Orchard project as per the approved business case, and an allocation to support the Heritage sites.
 - Employment enabling sites – is the SWT contribution to the SCC led development of an Innovation Centre and the SWT contribution to the Broadband SEP project.
 - Flood alleviation – is the residual cost of the Phase 2 project to determine the flood intervention strategy, incurred last year.

Infrastructure Programme – CIL Funded Schemes

- 7.8 Included within the Financial Strategy is a review of the CIL Principles. These include the delegations for approving schemes. The main change in terms of planned spending principles is to enhance the exceptions to the thresholds – of maximum CIL funding per scheme of £3.5m and maximum of 50% of scheme costs – to include flood schemes and education provision.
- 7.9 The proposed revisions to the **CIL Allocation Principles** are as follows:

- 1) A business case for infrastructure project funding should be provided to the Director for External Operations Head of Strategy and relevant Portfolio Holder

for Asset Management and Economic Development outlining the required CIL funds for a specific infrastructure project (within the limits approved by Council outlined in Table X above)

- 2) The overall CIL allocation for each infrastructure project, includes the value of any land required for the project and taken as payment in lieu of CIL cash. For example if land for a new school is provided by a developer this is netted off against their CIL liability. In this instance the value will be netted off against or included in the proposed CIL allocations for education outlined in Table 16.
- 3) No more than 50% of the total cost of an infrastructure project, to a maximum allocation of £3.5m, will be allocated for any one project.
- 4) The only exceptions to the 50% of cost and £3.5m threshold, is the strategic flood alleviation scheme and new school builds. This project serves a much wider infrastructure function for the benefit of all Taunton residents and businesses and therefore at present the overall CIL cap for this project is proposed to be set at £10m.
- 5) To ensure project delivery, strategic CIL funding will only be committed to infrastructure projects where the balance of the funding has been identified.
- 6) Indicative CIL allocations can be made for years 2-5 on a rolling programme to provide infrastructure delivery partners some certainty and to assist external infrastructure funding applications. CIL funding will only be committed to infrastructure projects when the CIL funding has been received and subject to Director of External Operations and, where required, Head of Strategy and relevant portfolio holder approval.
- 7) Committed CIL funds will remain available for a period of 2 years and then will be subject to review.
- 8) The profile of spending shown is indicative and with the approval of the Director of External Operations Head of Strategy and relevant Portfolio Holder for Asset Management and Economic Development (in consultation with the S151 officer), spend may fall outside of the indicative years shown, but within the overall sum allocated by infrastructure type and subject to sufficient CIL funding being available.
- 9) Any committed CIL funds will be published in the Weekly Bulletin and be subject to the usual 'call in' process.

7.10 Following the review of the CIL programme, and the planned reductions in use of New Homes Bonus to finance the capital programme, it is recommended that a revised capital programme for CIL-funded schemes is approved. The following table sets out an updated Programme commencing in 2020/21, which has increased from £15.5m to £16.262m.

Table 4 – Community Infrastructure Levy Projects and Infrastructure Budget

	2020/21 £	2021/22 £	2022/23 £	2023/24 £	2024/25 £	2025/26 Onwards £	Totals £
Funding Forecast:							
Balance 1 April 2020	5,034,532						5,034,532
Projected Net CIL Income	1,861,240	1,711,240	1,711,240	1,461,240	1,461,240		8,206,200
Additional CIL requirement to meet expenditure plans					21,368	3,000,000	3,021,368
Total Income Projection	6,895,772	1,711,240	1,711,240	1,461,240	1,482,608	3,000,000	16,262,100
Capital Expenditure:							
Cycle and Pedestrian Improvements	500,000			1,000,000			1,500,000
Education Provision	1,000,000		1,000,000	1,000,000	1,000,000	3,000,000	7,000,000
Public Transport Improvement							0
Taunton Town Centre Regeneration	500,000	1,000,000					1,500,000
Surface Water and Flood Risk Mitigation*	2,262,100	2,500,000		1,000,000			5,762,100
Community Development				500,000			500,000
Total Expenditure	4,262,100	3,500,000	1,000,000	3,500,000	1,000,000	3,000,000	16,262,100
Projected Funding Balance	2,633,672	844,912	1,556,152	-482,608	0	0	0

*The total budget approved by Council for Surface Water and Flood Risk Mitigation schemes is £6m, with the balance of funding allocated from S106 income.

7.11 As the table shows, the current projected CIL income for the period to 2024/25 is c£13.2m. This is driven by the scale and pace of development within the areas that CIL applies. The intent is to seek approval for the £16.626m commitment in principle, subject to annual review, which effectively prioritises the currently projected CIL income and further CIL income that arises up to the new total. The timing of this will depend on the pace and scale of relevant growth.

7.12 The total allocation for infrastructure investment funded by CIL has increased by a net £762k. This reflects a reduction of £2m for public transport as the related HIF Forward Fund bid was not successful for strategic infrastructure in Taunton (Rapid Bus Link etc), and an increase of £2.762m related to funding of Surface Water and Flood Risk Mitigation.

Heritage Assets Repair Grant

7.13 Somerset West and Taunton have applied for a Repair Grant of £300k (with possible extension to £500k) for building works at Toneworks in Wellington. This grant is funded by Historic England. If successful the grant can only be used for the purpose of restoration of this heritage asset and will need to be spent by the end of the financial year. It is recommended that a supplementary budget is added to the Capital Programme for the building works at Toneworks of £500k, which is the maximum grant available. The total amount of building works spend will reflect the successful amount of the grant received.

8 Links to Corporate Aims / Priorities

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

9 Partnership Implications

- 9.1 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.

10 Scrutiny Comments / Recommendations

- 10.1 Scrutiny comments related to both the Month 4 Financial Performance and Financial Strategy reports were considered by the Executive on 28 October. Salient comments from those, related to the recommendations within this report, are included below.
- 10.2 In the light of the recent adoption by Council of policy on an Affordable Employment Land Local Development Order, the Scrutiny Committee recommend to the Executive a new fund of £575,000 is allocated towards Employment Site enabling schemes to support that policy. SMT and the Executive will explore this proposal as part of the budget and medium term financial plan preparation.
- 10.3 During the debate at Scrutiny a number of clarification questions were addressed. The following comments also arose during the discussion:
- 10.4 The view was provided that creating more employment in the district was where finance needed to be directed. Further support was needed for businesses to address the Covid-19 impact.
- 10.5 Covid-19 funding from central government was discussed at Scrutiny, and the Committee was advised that not all costs and loss of income incurred by Councils would be covered by central government. The situation remains volatile but the Covid-19 expenditure would be monitored.
- 10.6 The Committee supported the Financial Strategy report and recommendations as printed. During the debate a number of clarification questions were addressed. Salient comments noted included:
- a) The budget gap looks challenging in particular due to significant reductions in projected funding. The savings targets as set out in the report were highlighted, which focus on the 2nd and 3rd year of the 3-year strategy. This included modernisation, efficiencies and sharing services expecting to deliver 10%-15% savings. The scale of uncertainty makes longer term planning more difficult, with later years' targets to be considered in future reports.
 - b) Members noted the ongoing risk to business rates in respect of NHS Foundation Trusts, which is subject to ongoing legal process and not likely to be resolved this financial year. The Council holds a business rates volatility reserve which seeks to

mitigate potential losses.

- c) CIL funding was discussed. Members were advised that whilst CIL provides essential funding towards infrastructure costs needed to support local development, it provides only a fraction of the funding needed. Spending of CIL through the Capital Programme is prioritised to meet impact of development as far as possible, usually as part of a wider match-funding arrangement.

Democratic Path:

- **Scrutiny – 30 September 2020**
- **Executive – 28 October 2020**
- **Full Council – 15 December 2020**

Reporting Frequency: Once Off

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