

# **Somerset West and Taunton Council**

## **Scrutiny – 30 September 2020**

### **2020/21 Financial Monitoring as at Month 4, ended 31 July 2020, and In Year COVID Budget Changes**

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

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#### **1      Executive Summary**

- 1.1 This report provides an update on the projected outturn financial position of the Council for the financial year 2020/21 (as at 31 July 2020).
- 1.2 Monitoring the budget is an important part of the Council's performance management framework. Reporting is undertaken monthly to the Senior Leadership Team, with quarterly reporting to Scrutiny and the Executive Committee. Reporting is primarily 'by exception' and focusses on the forecast position for the year as a whole compared to the Annual Budget. Forecasts are compiled by budget holders, with support and advice as appropriate from finance specialists (accountants) and case officers. Forecasts will take into account known / committed items as well as assumptions about future performance and demand.
- 1.3 The primary focus for this first 4 months has been around the impact of COVID-19 on the Council's costs, and the mitigation available through the receipt of emergency grant funding from Government towards additional costs and loss of income. The report also summarises the position on 'pass through' funding where the Council has provided significant financial assistance to local businesses and council tax payers funded by Government.
- 1.4 The current revenue forecast outturn for the financial year 2020/21 is summarised as follows. These are the best estimates at month 4 of the financial year based on information currently available:
  - a) General Fund (GF) Revenue Budget = forecast net overspend of £1,012k
    - (1) £657k relates to COVID and it is recommended that a supplementary budget is approved to fund this from General Reserves. The full extent of COVID is still being monitored and therefore these figures could change and will be updated in future reports.
    - (2) The remaining £355k is due to other pressures which will continue to be monitored throughout the year.

- b) Housing Revenue Account (HRA) Revenue Budget = forecast net overspend of £180k.
- 1.5 There is £30.6m of budget rolled forward with the GF capital programme from 2019/20 to 2020/20 and it is proposed to reduce the 2020/21 programme by £1.370m for budgets no longer required, bringing the total proposed budget for 2020/21 to £95.4m. There are currently no forecast variances to report at this early stage in the financial year.
- 1.6 There is £15.8m of budget rolled forward within the HRA Capital Programme from 2019/20 to 2020/21 bringing the total budget for 2020/21 to £31.7m. There are currently no variances to report for the HRA capital programme.

## **2 Recommendations**

Scrutiny Committee is requested to review the report and support the following proposed recommendations to the Executive and Full Council:

- 2.1 The Executive reviews the Council's forecast financial performance and projected reserves position for 2020/21 financial year as at 31 July 2020.
- 2.2 The Executive recommends that Full Council approve a supplementary estimate of £657k from General Reserves to fund the estimated overspend related to COVID.
- 2.3 The Executive recommends that 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 2.2 above.
- 2.4 The Executive recommends that Full Council approve changes to the General Fund Capital Programme by a total of -£1.370m for the following headings as referred in para 11.3:
  - a) £295,000 reduction to Major Transport Schemes budget
  - b) £375,000 reduction to remove budget for Creech Castle Road Improvements contribution
  - c) £200,000 reduction to Employment Site Enabling schemes budget
  - d) £1,000,000 reduction to Public Transport Improvements budget as Housing Infrastructure Fund bid not successful
  - e) £500,000 increase to Education Provision budget funded by Community Infrastructure Levy.
- 2.5 The Executive recommends that Full Council approve the revised Budget Total for the Growth Programme of £3.56m to be funded by New Homes Bonus as set out in para 11.7 Table 8, and CIL-funded Infrastructure Capital Programme totalling £16.262m as set out in para 11.10 Table 9.

## **3 Risk Assessment**

- 3.1 Financial forecasts are based on known information and projections based on assumptions. As such any forecast carries an element of risk. The current forecasts included in this report are considered reasonable given the extra element of risk around

COVID, and based on experience it is feasible the year end position could change. It is common for underspends to emerge during the last quarter, reflecting an optimism bias within previous forecasting.

- 3.2 Salient in year budget risks are summarised in sections 8 and 11 in this 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.

#### **4 Background and Full details of the Report**

- 4.1 This report provides the Council's forecast end of year financial position for revenue and capital expenditure as at 31 July 2020 for the Council's General Fund (GF) and Housing Revenue Account (HRA).
- 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. The budget monitoring process involves a detailed review of the more volatile budgets and a proportionate review of low risk/low volatility budget areas. The main focus for the first 4 months of this year has been around the impact of COVID.
- 4.4 Budget Holders, with support and advice from their accountants, regularly 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 some unforeseen changes could influence the position at the year-end, and a number of risks and uncertainties are highlighted within this report. However, the following forecast is considered to be reasonable based on current information.
- 4.5 Last year budgets were allocated to Headships and Finance has worked with the Senior Management Team to re-present the budgets in the Directorate structure. There are a small amount of budgets (shown in table 1 as other) which still need to allocate to the Directorates.

#### **5 General Fund Revenue Budget – 2020/21 Forecast Outturn**

- 5.1 The Council is currently forecasting an overall net overspend of £1,012k (4.8% of £21m Net Budget), as summarised below. The main reasons for this are due to pressures relating to COVID additional cost and income reductions accounting for £657k of the overspend. It is recommended that Full Council approve a supplementary estimate from General Reserves for this pressure.

- 5.2 The forecast at this early stage in the financial year includes a significant number of assumptions about demand for services and the timing of planned spend to meet service objectives. The level of uncertainty is increased this year as the full extent of the impact of COVID is not yet known. There has been an immediate impact on service costs and income, for example a significant reduction in parking income due to lock down. The Government has provided additional funding in three tranches so far. Details of a further scheme to offset some income losses has been issued by MHCLG and impact of this is currently being worked through.
- 5.3 Despite the reported pressures and uncertainties summarised in this report, the Council is in a strong position financially to withstand losses this year and remain financially resilient. This financial strength also provides opportunity to allocate reserves to support economic recovery. The scale of flexibility is however still reliant on the receipt of emergency funding, and the sector is continuing to lobby Government to ensure local authorities are adequately funded for the impact of COVID.
- 5.4 The following table presents a summary of the revenue budget and current forecast outturn for the year by directorate. The forecast variances have been presented to provide a distinction between those primarily as a consequence of COVID impact, and those primarily related to normal operations.

**Table 1 - General Fund Revenue Outturn Summary 2020/21**

	Current Budget £'000	Forecast Outturn for the Year £'000	Forecast Variance COVID £'000	Forecast Variance non COVID £'000	Forecast Variance £'000	%
Development and Place	2,224	2,256	55	-23	32	0.2
External Operations and Climate Change	7,793	12,362	4,316	253	4,569	21.7
Housing	2,214	2,257	132	0	132	0.6
Internal Operations	7,967	8,153	186	0	186	0.9
Senior Management Team	663	793	130	0	130	0.6
Other	205	330	0	125	125	0.6
<b>Net Cost of Services</b>	<b>20,977</b>	<b>26,150</b>	<b>4,819</b>	<b>355</b>	<b>5,174</b>	<b>24.6</b>
COVID Grant Income	0	-3,204	-3,204	0	-3,204	-15.2
Interest and Investment Income	-2,008	-1,966	42	0	42	0.2
Net Transfers to Earmarked Reserves	3,535	2,535	-1,000	0	-1,000	-4.8
Transfers to General Reserves	300	300	0	0	0	0
Capital and Other Adjustments	-1,781	-1,781	0	0	0	0
<b>Net Budget</b>	<b>21,022</b>	<b>22,034</b>	<b>657</b>	<b>355</b>	<b>1,012</b>	<b>4.8</b>
Funding	-21,022	-21,022	0	0	0	0
<b>Variance</b>	<b>0</b>	<b>1,012</b>	<b>657</b>	<b>355</b>	<b>1,012</b>	<b>4.8</b>

- 5.5 The table below provides more detail on the significant variances forecast for the year.

**Table 2 - Summary of Significant Forecast Variances for the Year**

Budget heading	Directorate	COVID £'000	Non COVID £'000	Total £'000
Major and Special Projects and Garden Town	Dev and Place		-36	-36

Economic Development	Dev and Place	80	17	97
Other Development & Place	Dev and Place		-4	-4
Asset Management	Ext Ops and Climate		171	171
Harbours	Ext Ops and Climate		153	153
Bereavement Services	Ext Ops and Climate	167	63	230
Major Contracts	Ext Ops and Climate	1,326	-23	1,303
Parking	Ext Ops and Climate	2,798	7	2,805
Public Health	Ext Ops and Climate		-99	-99
Private Sector Housing	Ext Ops and Climate		-26	-26
Other External Operations	Ext Ops and Climate		7	7
Homelessness	Housing	132		132
Comms and Engagement	Int Ops	65		65
Internal Change	Int Ops	20		20
ICT	Int Ops	101		101
Senior Management Team	SMT	130		130
Pay Award	General		125	125
COVID Emergency Grants and New Burdens Grants	General	-3,204		-3,204
Interest Receivable	General	200		200
Interest payable	General	-158		-158
Transfer from NHB earmarked reserves	General	-1,000		-1,000
<b>TOTAL – over / (-)underspend</b>		<b>657</b>	<b>355</b>	<b>1,012</b>

5.6 The main non COVID variances to budget are explained as follows:

- a) **Major and Special Projects and Garden Town:** Savings due to staff vacancies for 2 months in the Major Projects department.
- b) **Economic Development:** This is due to an overspend against business rates for the Farmers Market and the first floor of Market House.
- c) **Asset Management:** This is due to additional agency staff to cover permanent vacancies in the surveying department together with costs of security staff at West Somerset House and legal and valuation costs
- d) **Climate Change:** The overspend is due to the costs of additional agency staff to support the repair and reconstruction at the Watchet Marina and the legal fees regarding the challenge by SWT relating to the lease for Watchet Marina.
- e) **Bereavement Services:** This is due to additional crematorium maintenance and compliance costs.
- f) **Major contracts:** There is an underspend on permanent staff due to unfilled vacancies which has only been partially offset by agency costs.
- g) **Public Health:** There is an underspend on permanent staff due to vacancies which has only been partially offset by agency costs to cover vacancies

- h) **Private Sector Housing:** There is an underspend on permanent staff which has only been partially offset by consultancy fees.
- i) An estimated 2% pay award was included within the budget approved by Full Council in February 2020. The actual pay award has now been agreed at 2.75% meaning an increase in costs to the General Fund of £125k.

5.7 The main COVID variances to Budget are explained as follows

- a) **Economic Development:** 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 and High Street Recovery initiative
- b) **Bereavement Services:** Labour and machinery to expand the capacity of the cemetery, additional crematorium equipment and PPE costs.
- c) **Major contracts:** This includes the SLM assistance package to support SLM so that they can safely open leisure facilities at earliest opportunity in line with Gov guidance and, SWT will also be required to contribute to 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.
- d) **Parking:** reduction in income due to the provision of free parking and there is 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.
- e) **Homelessness:** SWT has been supporting the homeless community by providing provisions and accommodation during the lockdown at the Canonsgrove hostel and in hotels which include the Beach Hotel and The Royal Ashton.
- f) **Comms and Engagement:** SWT has incurred additional staffing and advertising costs as a result of the COVID situation.
- g) **Internal Change:** SWT has incurred additional staff costs as a result of the COVID situation.
- h) **ICT:** 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.
- i) **Senior Management Team:** 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.

- j) **Interest Receivable:** 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.
- k) **Interest Payable:** 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.
- l) **COVID Emergency Funding and New Burdens Grant:** 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 has received 3 tranches of emergency grant since April, totalling £1.882m. 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 income has been included in the forecast based on our understanding of the outline of the scheme. We are currently working through the details of the full scheme and will include any changes to these assumptions in the next budget monitoring report.

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

- 6.1 The opening reserves balance as at 1 April 2020 is £4.522m, subject to the final audit of the accounts being completed.
- 6.2 The Leadership team has undertaken a robust review of earmarked reserves with a particular focus on mitigating the current year cost pressures due to COVID, and to provide leadership with flexibility to manage short- to medium-term cost pressures within the medium term financial plan. Following a detailed review of earmarked reserve balances at the end of the last financial year, it is recommended (within the 2019/20 Outturn Report) that £1.218m of earmarked reserves be returned to General Reserves. The financial strategy report being presented to this meeting also recommends that £3.949m from the NHB Reserve and £1m from the BR Volatility Reserve are also transferred to General Reserves. After these transfers and the in-year budgeted contribution of £300k the General Fund reserve balance is £10.989m.
- 6.3 Following the proposal also being presented to this committee on 16 September 2020 to allocate £500k towards the Town Centre and Neighbourhood Service Centre Recovery Fund; on 23 September to allocate £249k to Unitary Programme delivery; on 20 October to allocate £500k for Climate Change; allocating £657k for the projected overspend due to COVID and taking into account the projected non-COVID related items, the total projected balance on the GF General Reserves as at 31 March 2021 is £8.728m.

**Table 3 – GF General Reserve Balance**

	£k
<b>Balance 1 April 2020</b>	<b>4,522</b>
2020/21 Original Budget Transfer to Reserve	300
Proposed transfers from earmarked reserves review	1,218
Proposed transfer from NHB Reserve	3,949
Proposed transfer from BR Volatility Reserve	1,000
Proposed allocation to Town Centre and Neighbourhood Service Centre Recovery Fund (Executive 16/9/2020)	-500
Proposed allocation to Unitary Programme Delivery Funds (Executive 23/9/2020)	-249
Proposed allocation to Climate Strategy (Executive 20/10/2020)	-500
Proposed supplementary estimate for 2020/21 COVID overspend	-657
Projected 2020/21 overspend for other pressures	-355
<b>Projected Balance 31 March 2021</b>	<b>8,728</b>
<b>Adequate Minimum Reserves Balance (Financial Resilience Assessment)</b>	<b>2,400</b>
<b>Operational Target for Reserves (Financial Planning Assessment)</b>	<b>3,000</b>

- 6.4 The projected balance remains above both the minimum requirement for financial resilience and operational purposes. Please see section 13 of the Financial Strategy report on this agenda for more detail regarding the proposed use of reserves in the medium term.

### Earmarked Reserves

- 6.5 The General Fund Earmarked Reserves brought forward balance for 2020/21 is £20.586m. The budgeted transfers to earmarked reserves in 2020/21 are £3.248m. It is recommended to return £6.167m to General Reserves (£1m from the Business Rates Volatility Reserve, £3.949m from NHB and £1.218m identified surpluses from a range of other reserves). Under emergency powers in March the Chief Executive also approved a contribution of £1m from the NHB reserve towards funding COVID pressures, and this is included within the forecast for this year.
- 6.6 The following table details those reserves with balances greater than £500,000.

**Table 4 – General Fund Earmarked Reserves**

	<b>Balance 1 April 2020</b> <b>£'000</b>	<b>2020/21 Budgeted Transfers</b> <b>£'000</b>	<b>Proposed Return to General Reserves</b> <b>£'000</b>	<b>Financial Strategy /COVID Emergency Funding</b> <b>£'000</b>	<b>Projected Balance 31 March 2021</b> <b>£'000</b>
Business Rates Volatility	3,303	2,031		-1,000	4,334
Investment Risk	3,500	800			4,300
NHB	6,860	591		-4,949	2,502
Garden Town	814	-65			749
Asset Management	687				687
Economic Development Initiatives	1,268				1,268
Community Housing	569				569
Other Smaller Balances	3,585	-108	-1,218		2,259
<b>Total</b>	<b>20,586</b>	<b>3,249</b>	<b>-1,218</b>	<b>-5,949</b>	<b>16,668</b>

6.7 Earmarked reserves are reviewed during the year. This is in order to confirm they align to current priorities, and to identify any surplus balances that can be redirected to mitigate in-year financial risks or be returned to general reserves. The Assistant Director Finance has reviewed the level of prudent balance needed for the Investment Risk Reserve (see Financial Strategy report). If the overall level of budgeted investment income is achieved there is an option to reverse some or all of the £800k planned transfer above, and use this to reduce the impact of COVID pressures in the current year. This will be kept under review and considered as an option as we get closer to the year end and investment income levels are confirmed.

## **7 COVID Financial Support – Business Grants**

- 7.1 The Government has launched a range of grant schemes to provide financial assistance to businesses with fixed property costs that have been affected by COVID. This includes grants to small businesses and to businesses in the retail, hospitality and leisure sector. The Council received grant funding of £46,626,000 on 1 April 2020 to provide us with the cash upfront to meet the costs of the scheme. A weekly data return to Government has completed since April to report progress with the schemes. In May the Government also provided additional flexibilities to introduce a local discretionary grant scheme with a total allocation of £2,128,250, which extended eligibility to some businesses that were outside the scope of the initial schemes such as market traders and small businesses in shared spaces that pay no business rates. Based on take up of the initial schemes it is anticipated the cost of the local discretionary grants will be covered within the initial £46m grant received.
- 7.2 As at 17 September 2020 the following amounts have been paid out.

**Table 5 – Business Grants**

	<b>£</b>	<b>£</b>
Grant Funding Received from Government		46,626,000

Small Business Grants - £10,000 each	26,300,000	
Retail Hospitality and Leisure Grants - £10,000 each	4,900,000	
Retail Hospitality and Leisure Grants - £25,000 each	10,725,000	
Local Discretionary Grants	2,127,500	
Total Paid Out as at 10 August 2020		44,052,500
Balance Remaining		2,573,500
Total Number of Grants Issued	3,899	
Percentage of Funding Spent to date		94%

- 7.3 The Government has announced the grant schemes will formally close on the 31 August 2020. Residual discretionary grant applications must be paid by 30 September. If after this there is a balance remaining of the £46.626m this must be repaid to Government.

## **8 COVID Financial Support – Business Rates Holiday 2020/21**

- 8.1 In March 2020 the Government also announced a Business Rates Holiday for 2020/21 – expanding the previously announced 50% retail discount to 100%, and including retail, hospitality and leisure property; and adding Early Years nurseries. The Revenues team worked very quickly to apply the discounts to business rates accounts before the 1 April, so that direct debits due on 1 April would exclude eligible property. Discounts totalling £24.5m had been awarded at that stage, and this has increased subsequently to £28.766m as at 13 September 2020 – representing approximately half of the total business rates due to be collected for the year.

Table 6 – Business Rates Holiday 2020/21

	Number of accounts	Rateable Values £	Total Discount £
Expanded Retail Discount	1,388	58,989,590	28,661,458
Nurseries	21	325,275	105,477
Totals	1,409		28,766,935

- 8.2 The discount awarded clearly affects the total amount received from ratepayers, which impacts on the amount of business rates available to distribute through the Business Rates Retention system. The Government will provide additional S31 Grant to SWTC to fully compensate its 40% share of the reduction in rates income. This does result in a skew in the accounting for business rates retention funding – this impact is summarised within the Financial Strategy report.

## **9 COVID Financial Support – Hardship Funding**

- 9.1 As well as providing financial support to businesses, the Government has also provided grant funding of £1,382,002 as a Hardship Support fund to support households with council tax costs. Whilst this is discretionary funding the Government set out its expectation that the funding would be used to reduce council tax bills for those in receipt of Local Council Tax Support by £150 (or reduced to nil if the net bill after other discounts is less than £150). As at 3 September the total hardship discount awarded is £1.126m. There is no requirement to repay any grant not used for the £150 discount scheme,

however it is considered likely the funding will be fully allocated by the end of this financial year as new claims for LCTS are made.

Table 7 – Hardship Funding

	Number of Accounts	£
Grant Funding Received from Government		1,382,002
Total hardship discounts awarded to 28 July 2020	8,211	1,126,359
Balance of Funding remaining		255,643
Percentage of Funding Spent to date		82%

## **10 General Fund - Risk and Uncertainty**

- 10.1 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 2020/21 financial year is 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 a number of ways, such as insurances and maintaining reserves. This is a prudent approach and helps to mitigate unforeseen pressures.
- 10.2 The following general risks and uncertainties have been identified:
- a) **COVID 19:** Although work has been undertaken to identify as much as we can the impacts there could still be short, medium and long term impacts to both income and expenditure which have not yet been identified.
  - b) **Fluctuation in demand for services:** We operate a number of demand-led services and the levels of demand do not always follow a recognisable trend. We therefore have to caveat the forecasts in these areas to account for fluctuations.
  - c) **Forecasting Assumptions:** It is conceivable that, whilst budget holders are optimistic that they will spend all of their budget, experience shows we could see underspends of £250k-£500k by year-end caused by the cumulative effect of minor underspends in a number of service areas. There is also uncertainty around delivery of service which can vary from operational planning assumptions and impact on the timing of spend.
  - d) **Year-end Adjustments:** Certain items 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.
  - e) **Business Rates:** There are inherent risks and uncertainties within the Business Rates Retention system. The Council's share of business rates funding is directly linked to the total amount of business rates due and collected in the area, which can fluctuate throughout the year and be affected by the result of Rateable Value

changes e.g. as a result of Appeals.

- f) **Recruitment costs:** There is a risk of no savings within salary budgets to take into account these costs – these costs are normally covered by vacancy savings in-year.
- g) **Interest receivable:** Due to COVID the forecast have been based on the best current information that we have. Interest rates are unpredictable and there is a risk that interest rates could decrease further, and investment fund performance is susceptible to financial markets.
- h) **Asset Management:** The budgets for maintaining our assets do not hold any contingency for significant unforeseen repairs or improvement works.
- i) **Landlord Property Compliance:** A review of all compliance areas against every property for which Somerset West and Taunton Council has landlord property compliance responsibility is being undertaken. Following this review there may be additional cost implications over the approved budgets that the Council needs to bear, these will be identified and reported in future financial reports.

## **11 General Fund Capital Programme**

- 11.1 The original capital budget for 2020/21 was £66.5m. Following the outturn position for 2019/20 £30.6m has been carried forward bringing the revised 2020/21 capital programme total budget to £97.1m at the start of the year.
- 11.2 The leadership team has undertaken a review of the capital programme budgets, primarily with the objectives of:
  - a) clearing legacy budget approvals that have rolled forward from the predecessor councils
  - 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
- 11.3 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:

£	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, no longer required, reducing requirement for New Homes Bonus funding.

-200,000	Employment site enabling – lower provisional budget allocation required for innovation centres, 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 education provision, related to Staplegrove urban extension.
-1,370,000	Total Budget Reduction for 2020/21 Capital Programme

- 11.4 Subject to Full Council approval, this will reduce the total approved Capital Programme budget to £95.4m.
- 11.5 The Leadership 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.
- 11.6 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

- 11.7 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 8 – 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
<b>TOTALS</b>	<b>836</b>	<b>1,689</b>	<b>1,035</b>	<b>3,560</b>

- 11.8 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 the Innovation centres 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.

### **Infrastructure Programme – CIL Funded Schemes**

- 11.9 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.
- 11.10 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 9 – Community Infrastructure Levy Projects and Infrastructure Budget

	2020/21 £	2021/22 £	2022/23 £	2023/24 £	2024/25 £	2025/26 Onwards £	Totals £
Funding Available							
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
<b>Total Income Projection</b>	<b>6,895,772</b>	<b>1,711,240</b>	<b>1,711,240</b>	<b>1,461,240</b>	<b>1,482,608</b>	<b>3,000,000</b>	<b>16,262,100</b>
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
<b>Total Expenditure</b>	<b>4,262,100</b>	<b>3,500,000</b>	<b>1,000,000</b>	<b>3,500,000</b>	<b>1,000,000</b>	<b>3,000,000</b>	<b>16,262,100</b>
<b>Projected Funding Balance</b>	<b>2,633,672</b>	<b>844,912</b>	<b>1,556,152</b>	<b>-482,608</b>	<b>0</b>	<b>0</b>	<b>0</b>

\*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.

11.11 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.

11.12 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.

### Capital Outturn Forecast

11.13 No potential overspends have been identified at this early stage in the financial year.

11.14 In line with the new Directorate structure applied to the Revenue Budget, the capital budget has also been allocated by Directorate. The detailed capital programme is set out in Appendix A. The main areas of capital investment are summarised below:

- a) Development and Place has a budget of £82.5m which includes:
  - £50m Commercial Investments
  - £10.4m for Coal Orchard construction, development and marketing

- £6.0m Flood alleviation and mitigation schemes
- £5m capital loan facility to GWR for the re-development of Taunton Train Station
- £2.1m for completion of Seaward Way Industrial units
- £4m Education provision as the SWT contribution to the Staplegrove development that will be funded by CIL.
- b) External Operations has a budget of £9.6m which includes:
  - £3.7m Disabled Facilities Grants
  - £1.5m capital loan facility of £1.5m to the Onion Collective for their development at the Watchet Marina (this is now unlikely to be needed and the budget requirement will be reviewed in December this year)
  - £0.7m Watchet Splashpoint repairs
  - £0.8m Watchet East Quay wall improvements
  - £1m for leisure facilities
- c) Internal Operations has a capital budget of £1.2m focussing mainly on the change programme
- d) Housing and Communities budget mainly for Grants to Registered Social Landlords (RSL's) funded out of S106 and capital receipts.

11.15 To the end of Q1 the main capital expenditure has been on Coal Orchard £2.3m and Seaward Way £0.4m.

## **12 Housing Revenue Account (HRA)**

- 12.1 The HRA is a ring fenced, self-financing, account used to manage the Council's housing stock of some 5,700 properties, with the Council acting as the Landlord.
- 12.2 The Council retains all rental income to meet the costs of managing and maintaining the housing stock, as well as meeting the interest payments and repayment of capital debt.
- 12.3 The current year end forecast outturn position for the Housing Revenue Account for 2020/21 is on budget a net overspend of £180k. It is early in the financial year and management has time to plan to mitigate this during the year, although there are other financial risks that will also need to be managed such as any difficulties collecting rent income due to the potential impact of economic downturn on household income.

**Table 10: HRA Outturn Summary**

	Budget	Outturn	Variance	
	£'000	£'000	£'000	%
Gross Income	-26,773	-26,773	0	0
Service Expenditure	13,780	13,839	59	0.43
Other Expenditure	12,437	12,558	121	0.97
Total	0	180	180	0.69

### **12.4 Main variances:**

- a) **Depreciation:** Following the closedown of the 2019/20 accounts a variance on the depreciation charge, which is transferred to the Major Repairs Reserve (MRR) to fund the capital programme and/or repay capital debt. Due to this being calculated at the end

of the financial year the 2020/21 budgets were not adjusted for this and therefore there will be an overspend of £121k. The budget for 2021/22 will be updated to reflect the latest estimates for this.

- b) An estimated 2% pay award was included within the budget approved by Full Council in February 2020. The actual pay award has now been agreed at 2.75% meaning an increase in costs to the HRA of £59k

### **HRA - Risk and Uncertainty**

- 12.5 Budgets and forecasts are based on known information and the best estimates of the Council's future income and expenditure activity. Income and expenditure over the financial year is estimated by budget holders and then reported through the budget monitoring process. During this process any risks and uncertainties are identified which could impact financial projections, but for which the likelihood and/or amount are uncertain.
- 12.6 There are also a number of areas where the financial impact is not known until the end of the financial year such as depreciation charges and change in provision for bad debt.
- 12.7 The current areas of risk and uncertainty being reported include:
  - a) Interest Payable: There is a risk that the HRA may need to externalise its internal borrowings from the general fund if the general fund needs to borrow internally from itself for any major schemes. The HRA may also need to take on more borrowing to finance capital schemes such as buybacks. As a consequence the interest payable may increase on any additional loans taken.
  - b) Landlord Property Compliance: A review of all compliance areas against every property for which Somerset West and Taunton Council has landlord property compliance responsibility is being undertaken. Following this review there may be additional cost implications over the approved budgets that the Council needs to bear, these will be identified and reported in future financial reports.

### **13 HRA Capital Programme**

- 13.1 The HRA approved Capital Programme is £31.7m. This consists of £15.9m of new schemes approved for 2020/21 plus £15.8m of slippage from prior years. The Capital Programme relates to schemes which will be completed over the next five years.
- 13.2 The Council is supporting this investment through the use of the Major Repairs Reserve, Capital Receipts, Revenue Funding and Borrowing.
- 13.3 The capital programme can be split into three distinct areas:
- 13.4 **Major Works:** The approved budget of £9.5m is funded by the Major Repairs Reserve and relates to spend on major works on existing dwellings such as kitchens, bathrooms, heating systems, roofs, doors and windows. New schemes approved for 2020/21 total

£6.5m with slippage from the prior year of £3.0m. It is likely that the impact of COVID will result in a underspend in this area within the year.

- 13.5 **Improvements:** The approved budget of £3.3m is funded by the Major Repairs Reserve and relates to spend on improvements such as disabled facilities adaptations, asbestos removal and environmental improvements. New schemes approved for 2020/21 total £2.4m with slippage from the prior year of £0.9m .
- 13.6 **Social Housing Development Programme:** The approved budget of £18.9m is for the provision of new housing through schemes such as Phases A-E for North Taunton Regeneration, Laxton Road and other buybacks to increase the Council's housing stock. Funding allocated for new schemes totals £6.9m with slippage from the prior year of £12m mainly being North Taunton and Laxton Road. In the current year £1.1m has been spent in buy backs.

#### **14 HRA Earmarked Reserves**

- 14.1 The HRA Earmarked Reserves (EMR) at the beginning of 2020/21 were £1.648m (see **Table 6** below). The Social Housing Development Fund will be used as required to fund social housing development feasibility studies and usage approved through the Housing Programme Board. The remainder of the earmarked reserves have been specifically committed to be spent within the next three financial years.

**Table 11: Balance of Earmarked Reserves held at 1 April 2020**

Description	Balance b/f (£'000)
HRA Employment and Skills Dev	102
HRA Asbestos Surveys	102
HRA One Teams	37
Social Housing Development Fund	1,232
HRA Contribution to Change	175
<b>HRA Total</b>	<b>1,648</b>

#### **15 HRA General Reserves**

- 15.1 The HRA reserves at the start of the year were £2.701m. This is £901k above the minimum recommended reserve level of £1.800m.
- 15.2 **Forecast Outturn** - The current outturn position is forecast to be an over spend of £180k. If this is the position at year end then this will be funded from general balances, decreasing them to £2.58m.

**Table 12: HRA Reserve Balance**

	£k
Balance Brought Forward 1 April 2020	2,701
Forecast Outturn 2020/21 (as at 31 July 2020)	-180
<b>Forecast Balance Carried Forward 31 March 2020</b>	<b>2,521</b>

	£k
Operational Minimum Balance	2,400
Financial Resilience Minimum Balance	1,800

## 16 Links to Corporate Aims / Priorities

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

## 17 Partnership Implications

- 17.1 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.

## 18 Other Implications

- 18.1 None for the purpose of this report.

## 19 Scrutiny Comments / Recommendations

- 19.1 To be added following the Scrutiny meeting

### Democratic Path:

- Scrutiny – 30 September 2020
- Executive – 28 October 2020
- Full Council – No

### Reporting Frequency: Quarterly

### List of Appendices

Appendix A	Capital Programme
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<u>Appendix A: Capital Programme</u>					
Description	19/20 budget carry forward	20/21 Approved budget	Proposed Adjustments to approved budget	Proposed 20/21 Budget	Q1 2020 Costs
	£	£	£	£	£
<b>Development &amp; Place: Dawn Adey</b>					
Investment Properties	0	50,000,000		50,000,000	
Taunton Bus Station	77,068	0		77,068	
Coal Orchard Construction	9,047,026			9,047,026	969,599
Coal Orchard Dev costs	1,303,598			1,303,598	2,911
Major Transport Schemes	0	875,000	(295,000)	580,000	
Creech Castle Improvement	375,000		(375,000)	0	
Emp Site Enabling Innova	0	300,000	(200,000)	100,000	
Superfast Broadband (Legacy TD)	380,000			380,000	
Superfast Broadband (Legacy WSC)	170,000			170,000	
Steam Coast Trail	102,185			102,186	
Seaward Way	2,056,314			2,056,314	110,368
Firepool Development	475,895			475,895	1,404
Firepool Master Planning	754,245			754,245	31,568
Great Western Railway Development Loan	5,000,000			5,000,000	
J25 Improvement Scheme Contribution	1,500,000			1,500,000	
Flooding Alleviation		6,000,000		6,000,000	
CIL - Cycle & Pedestrian Improvements		500,000		500,000	
CIL - Education Provision		3,500,000	500,000	4,000,000	
CIL - Public Transport Im		1,000,000	(1,000,000)	0	
CIL - Town centre regeneration		500,000		500,000	
Toneworks					70,000
S106 Various		0		0	0
S106 Hinkley Funded	318,237	0		318,237	0
<b>Total Development &amp; Place</b>	<b>21,559,568</b>	<b>62,675,000</b>	<b>(1,370,000)</b>	<b>82,864,569</b>	<b>1,185,850</b>
				0	
<b>External Operations: Andrew Pritchard</b>					
Unparished Area Grants	11,000			11,000	
Disabled Facilities Grant (DFG)	2,379,642	1,274,000		3,653,642	
DLO Vehicles Acquisition		152,000		152,000	
Waste Containers		100,000		100,000	25,374
Grants to Parishes Play		15,000		15,000	
Replacement Play Equipme		64,000		64,000	
SWP Waste Vehicle Loan	874,795			874,795	
DLO Plant		23,000		23,000	23,800
Waiting Room	30,000			30,000	
Watchet East Quay Development Loan (OC)	1,500,000			1,500,000	
Cuckoo Meadow Play Area	1,103			1,103	
Stogursey Victory Hall	637,896			637,896	85,635
Minehead Esplanade	15,147			15,147	

<u>Appendix A: Capital Programme</u>					
Description	19/20 budget carry forward	20/21 Approved budget	Proposed Adjustments to approved budget	Proposed 20/21 Budget	Q1 2020 Costs
Leisure	1,000,000			1,000,000	
Wellington Air Handling Units		253,000			
Watchet Splashpoint Hole	704,096		0	704,096	3,713
East Quay Wall	100,000	740,000		840,000	
Onion Collective Grant					537,516
<b>Total External Operations</b>	<b>7,253,679</b>	<b>2,621,000</b>	<b>0</b>	<b>9,621,679</b>	<b>676,038</b>
<b>Internal Operations: Alison North</b>					
Members IT Equipment		4,000		4,000	
Change Programme		774,000		774,000	35,882
Community Alarms		25,000		25,000	5,373
IT Server Refresh	20,000	30,000		50,000	
Resources for Change Programme		360,000		360,000	
<b>Total Internal Operations</b>	<b>20,000</b>	<b>1,193,000</b>	<b>0</b>	<b>1,213,000</b>	<b>41,255</b>
				0	
<b>Housing: James Barrah</b>					
Grants to Registered Social Landlords	1,625,381			1,625,381	
Gypsy Site	108,502			108,502	
<b>Total Housing</b>	<b>1,733,883</b>	<b>0</b>	<b>0</b>	<b>1,733,883</b>	<b>0</b>
				0	
<b>General Fund Total</b>	<b>30,567,130</b>	<b>66,489,000</b>	<b>(1,370,000)</b>	<b>95,433,131</b>	<b>1,903,143</b>
<b>Housing Revenue Account: James Barrah</b>					
<b>Major Works</b>					
HRA C Major Repairs Capital Programme	2,974,300	0	0	2,974,300	
HRA C Major Repairs & Improvem	0	0	0	0	
HRA C Kitchens	0	100,000	0	100,000	
HRA C Bathrooms	0	100,000	0	100,000	
HRA C Roofing	0	50,000	0	50,000	
HRA C Windows	0	1,000,000	0	1,000,000	
HRA C Heating Improvements	0	1,050,000	0	1,050,000	
HRA C Doors	0	100,000	0	100,000	
HRA C Fire Safety Works Commun	0	2,150,000	0	2,150,000	1,138
HRA C Cladding	0	0	0	0	
HRA C Fascias and Soffits	0	750,000	0	750,000	
HRA C Air Source Heat Pumps	0	262,000	0	262,000	1,566
HRA C Door Entry Systems	0	400,000	0	400,000	
HRA C Community Alarms	0	0	0	0	

<u>Appendix A: Capital Programme</u>					
Description	19/20 budget carry forward	20/21 Approved budget	Proposed Adjustments to approved budget	Proposed 20/21 Budget	Q1 2020 Costs
HRA C Insulation	0	388,000	0	388,000	
HRA C Ventilation	0	0	0	0	1,812
HRA C Kitchen rep'd due to dam	0	75,000	0	75,000	
HRA C Bathroom rep'd due to da	0	75,000	0	75,000	
HRA C Underground Drainage	0	50,000	0	50,000	
<b>Total Major Works</b>	<b>2,974,300</b>	<b>6,550,000</b>	<b>0</b>	<b>9,524,300</b>	<b>4,515</b>
<b>Improvements</b>					
HRA C Building Services Vehicl	226,800	121,000	0	347,800	
HRA C Environmental Improvemen	0	0	0	0	13,095
HRA C Extensions	0	0	0	0	
HRA C Electrical Testing	0	0	0	0	6,313
HRA C Parks	0	0	0	0	
HRA C Meeting Halls	0	10,000	0	10,000	
HRA C Garages	0	90,000	0	90,000	
HRA C Sewerage Treatment Plant	0	0	0	0	
HRA C Unadopted Areas	0	0	0	0	
HRA C Related Assets	0	0	0	0	
HRA C Scaffolding	0	979,000	0	979,000	
HRA C Asbestos Works	0	350,000	0	350,000	
HRA C Aids and Adaptations	58,800	150,000	0	208,800	
HRA C DFGs	270,290	150,000	0	420,290	
HRA C IT Development	309,110	546,000	0	855,110	7,339
<b>Total Improvements</b>	<b>865,000</b>	<b>2,396,000</b>	<b>0</b>	<b>3,261,000</b>	<b>26,747</b>
<b>Social Housing Development Programme</b>					
HRA C Social Housing Developme	0	6,898,000	0	6,898,000	
HRA C Creechbarrow Road	0		0	0	
HRA C Buybacks	0		0	0	1,104,597
HRA C Buybacks Refurbishment	0		0	0	
HRA C Weavers Arms	47,000		0	47,000	
HRA C North Taunton Phase A	7,338,960		0	7,338,960	131,041
HRA C North Taunton Phases B-E	3,884,060		0	3,884,060	7,486
HRA C 12 Moorland Close	0		0	0	
HRA C Outer Circle	500		0	500	
HRA C Laxton Road	711,970		0	711,970	30,503
HRA C Oake	0		0	0	
HRA Pyrland Fields	0		0	0	
<b>Total</b>	<b>11,982,490</b>	<b>6,898,000</b>	<b>0</b>	<b>18,880,490</b>	<b>1,273,627</b>
<b>Total HRA</b>	<b>15,821,790</b>	<b>15,844,000</b>	<b>0</b>	<b>31,665,790</b>	<b>1,304,889</b>