

Somerset West and Taunton Council

Executive – 16 December 2020

2020/21 Financial Monitoring as at Quarter 2 (30 September 2020)

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 30 September 2020).
- 1.2 The position this year is significantly affected by COVID – both in terms of large additional sums spent on issuing financial assistance to local businesses and council tax payers, and direct impact on the Council's service costs and income. Financial pressures are reported, which is partly offset by emergency grant funding from Government but has also required the Council to reprioritise funds and support the annual budget from reserves. Despite this, the Council remains financially resilient and continues to forecast adequate reserve balances.
- 1.3 The current forecast is summarised below:

General Fund Revenue	Projected £551k overspend (£625k relating to COVID and an underspend of £74k for non-COVID)
Housing Revenue Account	Projected £140k overspend

2 Recommendations

- 2.1 The Executive reviews and notes the Council's forecast financial performance and projected reserves position for 2020/21 financial year as at 30 September 2020.

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 9 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 30 September 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. Budget Holders, with support and advice from their accountants, update their forecasts on a monthly basis based on currently available information and knowledge of service requirements for the remainder of the year. As with any forecast there is always a risk that some unforeseen changes could influence the position at the year-end, and a number of risks and uncertainties are highlighted within this report. However, the following forecast is considered to be reasonable based on current information.
- 4.4 Budgets have now all been allocated out to the relevant Directors.

5 General Fund Revenue Budget – 2020/21 Forecast Outturn

- 5.1 The Council is currently forecasting an overall net overspend of £551k (2.6% 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 £625k of the overspend. A recommendation to Full Council was included in the Month 4 forecast report to approve a supplementary estimate of £657k from General Reserves for COVID-related pressures. This is due to be considered by Council on 15 December 2020.
- 5.2 The forecast remains volatile and subject to change. It includes a significant number of assumptions about demand for services and the timing of planned spend to meet service objectives. The level of uncertainty is 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 in the first half of the year, and Government has introduced new national lockdown measures in November which will further impact on services and income. The Government has so far provided emergency additional funding of £2.4m – including an additional £504k announced on 22 October. Additional new burdens funding has also been received towards the administration of grants, and we are also able to claim grant to partly offset

the loss of income from fees and charges.

5.3 As previously reported, 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	Total Forecast Variance £'000 %	
Development and Place	1,188	1,298	148	-38	110	9.3
External Operations and Climate Change	7,754	13,728	5,767	207	5,974	77.7
Housing	2,603	2,588	0	-15	-15	-0.6
Internal Operations	8,787	9,286	625	-126	499	5.7
Senior Management Team	663	696	0	33	33	5.0
Net Cost of Services	20,995	27,596	6,540	61	6,601	31.4
COVID Grant Income	0	-5,047	-5,047	0	-5,047	
Interest and Investment Income	-2,008	-2,011	132	-135	-3	0.5
Net Transfers to Earmarked Reserves	3,534	2,534	-1,000	0	-1,000	-28.3
Transfers to General Reserves	282	282	0	0	0	0.0
Capital and Other Adjustments	-1,781	-1,781	0	0	0	0.0
Net Budget	21,022	21,573	625	-74	551	2.6
Funding	-21,022	-21,022	0	0	0	0.0
Variance	0	551	625	-74	551	2.6

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

Table 2a - Summary of COVID Related Forecast Variances for the Year

Budget heading	Directorate	Variance £'000	Comments
Economic Development	D&P	27	COVID response costs in Minehead including a footfall counter and signage with the Minehead Bid Company, together with regional COVID signage and stickering costs.
Land Charges	D&P	121	Reduction in income due to COVID
Harbours	EO&CC	16	Reduction in mooring and rental income.
Bereavement Services	EO&CC	184	Labour and machinery to expand the capacity of the cemetery, additional crematorium equipment and PPE costs.
Major Contracts	EO&CC	1,469	This includes the assistance package agreed during the first national lockdown period to support SLM so that they could

Budget heading	Directorate	Variance £'000	Comments
			safely open leisure facilities at earliest opportunity in line with Government guidance, and additional waste contract costs incurred by the Somerset Waste Partnership due to additional recycling volume and a delay in the roll out of Recycle More.
Parking	EO&CC	3,984	Reduction in income due to the provision of free parking in the early part of the year 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.
Licensing	EO&CC	57	Levels of income (including Taxi-Licensing) are down due to COVID. The licensing service recover income from application charges. The staffing costs are fixed and an in year under recovery has occurred due to the significant reduction in applications.
Open Spaces	EO&CC	8	Additional PPE and hire of vehicles.
Central Overheads	EO&CC	49	Additional costs relating to using an external supplier for printing and postage due to COVID restrictions.
Visitor Centre	IO	40	A shortfall in income resulting from COVID. The income sales budget totals £280k for the year. Money will be saved on not having to purchase tickets to resell, but we lose the additional commission income we would ordinarily receive. With a further lockdown now being announced in November it is highly unlikely that we will derive any income from sales this year.
Council Tax Collection	IO	339	The variance largely relates to court costs income, which has been affected by COVID. We budgeted to raise £355k in court costs. To date in view of the COVID restrictions we have not been able to issue any summonses for Council Tax or Business Rates and consequently cannot charge costs. The Courts are dealing with a backlog and have yet to advise us when we will be able to issue summonses. With the further lockdown it is looking unlikely that we will be able to issue any significant number of summonses during this financial year. This position may change if and when we come out of lockdown and the courts are happy for us to issue summonses in large volumes.
Council Tax Support	IO	27	Additional Staffing Costs relating to extra work due to COVID to process additional workload for benefits resulting from COVID related changes to benefits e.g. the £150 support grants.
Comms and Engagement	IO	65	Additional staffing requirements were required 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, H & S, symptoms, shielding. Caring responsibilities working arrangements etc. Also ensuring wellbeing was supported during a time when the working environment changed overnight.

Budget heading	Directorate	Variance £'000	Comments
			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
Internal Change	IO	20	SWT has incurred additional staff costs as a result of the COVID situation. This was to ensure the transition of the technology solution to Microsoft Team 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
ICT	IO	134	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.
Interest Receivable	Gen	132	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.
Sub-Total – Net Financial Pressures		6,672	Estimated net pressure from exceptional additional expenditure and income reductions.
COVID Emergency Grants and New Burdens Grants	Gen	-5,047	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 4 tranches of emergency grant since April, totalling £2.39m. 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 include in the forecast based on our estimates of relevant income losses, totalling £2.49m. The Council has received £1.2m in November towards income shortfall for the period April to July 2020.
Transfer from earmarked reserves	Gen	-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		625	NB – Full Council requested to approve £657k additional allocation from General Reserves to mitigate net financial pressures due to COVID

Table 2b - Summary of non-COVID Related Forecast Variances for the Year

Budget heading	Directorate	Variance £'000	Comments
Major and Special Projects and Garden Town	D&P	-38	The savings is due to vacancies in the Major Programmes department net of the cost of agency staff in the Planning department to cover the Planning Enforcement posts.
Parks and Open Spaces	EO&CC	388	Income budget not altered to reflect non-renewal of external contracts.
Street Cleansing Partnership	EO&CC	109	Budget realigned to contracted costs.
Parking Enforcement	EO&CC	-136	Budget realigned with actual costs.
Waste Partnership	EO&CC	-61	Increase in recycling credits.
Park and Ride	EO&CC	-30	Budget realigned with actual costs.
Asset Management	EO&CC	-60	Income is predicted to be higher than budgeted – this may continue to alter as we realign income to investment properties.
EO&CC Salaries	EO&CC	-95	Various salary underspends across the Directorate due to active vacancy management.
Pollution Control	EO&CC	21	Private Sector Water sampling was not include within the budget therefore the costs are higher than the budget
Welfare Funerals	EO&CC	52	This forecast is based on a greater reliance on the service so far this year (compared with last year) and less recovery of costs from the deceased's estate.
Licensing	EO&CC	42	Budget realigned with actual income
Other minor underspends	EO&CC	-23	Various minor underspends across the Directorate.
Revenues and Benefits	IO	-41	Overall there are some pressure in the budget but the grant funding towards operational costs for this year is greater than anticipated.
IO Salaries	IO	-85	There are various salary overspends and underspend within the Directorate which have been identified. The Deane Helpline salaries budget is not sufficient to cover the current staffing costs, whilst other services such as the Income Team, Customer Services, ICT Infrastructure Team, Internal Change, HR and the Governance Team have had various vacancies throughout the year. The staffing budget within Internal Operations overall is predicted to underspend as whole this year and any changes to the budget moving forward will be managed as part of the budget setting process.
Homelessness	Housing	-15	The service have recently undertaken a thorough review of its homelessness spend and is currently predicting a net underspend of £15k mainly relating to B&B costs, though there is still a lot of uncertainty with regards to COVID.
Senior Management Team	SMT	33	Pay award costs above the budget that could not be offset by other salary savings.
Interest payable	Gen	-135	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

Budget heading	Direct- orate	Variance £'000	Comments
			business grants and council tax hardship and early receipt of other grant funding such as New Homes Bonus
TOTAL – over / (-)underspend		-74	

General Fund (GF) Reserves

- 5.6 The opening reserves balance as at 1 April 2020 is £4.522m, subject to the final audit of the accounts being completed.
- 5.7 Following approved/proposed transfers to and from reserves, the revised overspend and prudent contingency due to COVID and underspend due to non-COVID variances the projected General Fund reserve uncommitted balance this year is £7.871m. As part of the financial strategy agreed by the Executive in October, £3.5m of current reserves are planned to be used to soften the budget gap in the next two financial years, reducing the projected uncommitted balance to £4.371m.

Table 3 – GF General Reserve Balance

	Approval	£k
Balance 1 April 2020		4,522
2020/21 Original Budget Transfer to Reserve	Council - 19/2/20	300
Approved - From Earmarked Reserves review	Exec 28/10/20	1,218
Proposed - From NHB reserve	Council - 15/12/20	3,949
Proposed - From BR Volatility reserve	Council - 15/12/20	1,000
Approved - Town Centre Recovery	Council - 29/9/20	-500
Approved - Unitary Programme Delivery Funds	Exec - 23/9/20	-249
Approved - Climate Change Fund	Council – 26/10/20	-500
Approved - Tree Planting	Officer – 23/09/20	-18
Proposed - 2020/21 COVID overspend	Council – 15/12/20	-657
Projected Balance after current commitments		9,065
Projected Outturn - COVID (Month 6 forecast) (657-625)		32
Projected Outturn - Non-COVID (Month 6 forecast)		74
COVID Contingency (plan to reassess Dec 2020)		-1,300
Projected Balance 31 March 2021		7,871
MTFP Planned use of reserves 2021/22		-2,250
MTFP Planned use of reserves 2022/23		-1,250
Projected uncommitted balance		4,371
Recommended Minimum Balance		2,400

- 5.8 The projected balance remains above both the minimum requirement. It is prudent to continue to hold reserves above the minimum at this stage as risks remain higher than normal due to COVID and the Council may need additional resources to deliver service efficiency and improvement, and to implement structural change if local government unitarisation is approved by Government next year.

Earmarked Reserves

5.9 The General Fund Earmarked Reserves brought forward balance for 2020/21 is £20.586m. The budgeted transfers to earmarked reserves in 2020/21 are £2.448m. The following transfers from reserves have been approved: 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.

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

Table 4 – General Fund Earmarked Reserves

	Balance 1 April 2020	2020/21 Budgeted Transfers	Approved Return to General Reserves	Financial Strategy /COVID Emergency Funding	Projected Balance 31 March 2021
	£'000	£'000	£'000	£'000	£'000
Business Rates Volatility	3,303	2,031		-1,000	4,334
Investment Risk	3,500	0			3,500
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
Total	20,586	3,249	-1,218	-5,949	16,668

*ring-fenced grant

5.11 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.

6 COVID Financial Support – Business Grants

6.1 The Government earlier this year 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. In May the Government also provided additional flexibilities to introduce a local discretionary grant scheme with a total allocation of up to £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. These schemes closed by September 2020 and the final totals are summarised below. The cost of the local discretionary grants is covered within the initial £46m grant received.

Table 5a – Business Grants

	Number of grants issued	£	£
Grant Funding Received from Government			46,626,000
Small Business Grants of £10,000	2,635	26,350,000	
Retail Hospitality and Leisure Grants of £10,000	487	4,870,000	
Retail Hospitality and Leisure Grants of £25,000	427	10,675,000	
Local Discretionary Grants	353	2,127,500	
Total Paid Out	3,902		44,022,500
Balance To Be Returned to Government			2,603,500
Percentage of Funding Spent			94.4%

- 6.2 Following the reintroduction of national lockdown measures in November 2020, further grant funding has been allocated to provide additional support to local businesses. The grant totals are summarised below, and at the time of writing this report officers are working on the necessary policies and processes to quickly be able to issue grants to eligible businesses.

Table 5b – Local Restrictions Grants

	£
Local Restrictions Support Grants (Closed)	3,517,164
Additional Restrictions Support Grants	3,102,300
Total	6,619,464

7 **COVID Financial Support – Business Rates Holiday 2020/21**

- 7.1 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 Forecast

	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

- 7.2 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 – with S31 grant received in 2020/21 which will be needed to offset the resulting deficit in the Collection Fund (which accounts for income from rate payers but not S31 grant) in 2021/22.

8 COVID Financial Support – Hardship Funding

- 8.1 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 4 November 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 4 November 2020	8,875	1,178,242
Balance of Funding remaining		203,760
Percentage of Funding Spent to date		85%

9 General Fund - Risk and Uncertainty

- 9.1 Budgets and forecasts are based on known information and the best estimates of the Council's future spending and income. Income and expenditure over the 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.
- 9.2 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. Within 2020/21 these costs are expected to be covered by earmarked reserves though if any costs above the approved budgets/earmarked reserves are identified these will be reported in future financial reports.

10 General Fund Capital Programme

- 10.1 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. At the start of the year £2.23m was approved for Firepool. Following a review by the leadership team and approval by the Executive the month 4 report recommended that Full Council in December return £1.37m of capital budgets relating to existing schemes and approve a new budget of £0.5m for Toneworks. A supplementary budget of £0.02m for IT was approved. These all bring the total capital programme budget to £98.44m
- 10.2 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.

Growth Programme – New Homes Bonus Funded Schemes

10.3 The amount of New Homes Bonus funding available to support the Capital Programme for the period 2019/20 to 2021/22 is £3.56m. Following the Month 4 report a recommendation is being presented to Full Council in December to approve the 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
TOTALS	836	1,689	1,035	3,560

10.4 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

10.5 A review of the CIL Principles was included in the Financial Strategy approved in October. 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.

10.6 Following the review of the CIL programme, and the planned reductions in use of New Homes Bonus to finance the capital programme, it was recommended in the Month 4

report 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
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.

10.7 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.

10.8 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

10.9 Budget Holders and their accountants have prioritised the monitoring of the revenue spend for quarter 2. Therefore a light touch approach for monitoring the capital programme has been applied for quarter 2 and any further updates on slippage will be reported in future reports. Only one potential overspend for the Crematorium Waiting Room has been identified and officers are looking at the funding options for this within the current capital programme. The spend to date for quarter 2 is £22.2m and it is

estimated that £31.7m of the budget will be required to be carried forward at the end of the year into 2021/22.

10.10 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 £85.6m 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
 - £3m for Firepool
 - £4m Education provision as the SWT contribution to the Staplegrove development that will be funded by CIL.
- b) External Operations has a budget of £9.9m which includes:
 - £3.7m Disabled Facilities Grants
 - £1.5m capital loan facility of £1.5m to the Onion Collective for their development at the East Quay (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
 - £0.6m Stogursey Victory Hall
 - £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 of £1.7m is mainly for Grants to Registered Social Landlords (RSL's) funded out of S106 and capital receipts.

11 Housing Revenue Account (HRA)

- 11.1 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.
- 11.2 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.
- 11.3 The current year end forecast outturn position for the Housing Revenue Account for 2020/21 is on budget a net over spend of £140k. 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

	Current Budget £'000	Forecast Outturn for the Year £'000	Forecast Variance COVID £'000	Forecast Variance non COVID £'000	Total Forecast Variance	
					£'000	%
Gross Income	-26,773	-27,024	0	-251	-251	-0.94%
Service Expenditure	15,026	15,296	0	270	270	1.80%
Other Expenditure	11,746	11,867	0	121	121	1.03%
Total	0	140	0	140	140	0.52%

11.4 The table below provides more detail on the significant variances forecast for the year:

Table 11 - Summary of non-COVID Related Forecast Variances for the Year

Budget heading	Variance £'000	Comments
Income	-251	The outturn forecast is an over recovery of income of £251k. This relates in part to dwelling rents where more income is estimated to be recovered than predicted when setting the budget and providing an allowance for voids. This also relates to leaseholder service charges where the budget is set prior to the associated costs being incurred and then billed in arrears.
Service Expenditure	59	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.
Depreciation	121	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.
Landlord Property Compliance	211	A review of all compliance areas against every property for which Somerset West and Taunton Council has landlord property compliance responsibility is being undertaken. The review has so far identified that approximately £211k of additional costs will need to be incurred this financial year over and above existing budgets.
TOTAL – over/ (-) underspend	140	

HRA - Risk and Uncertainty

11.5 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.

11.6 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.

11.7 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) **Repairs & Maintenance:** Overall this is a very demand led and reactive service based on the needs of the tenants. There are also a number of uncontrollable variables associated with this service such as the weather (e.g. cold winters causing burst pipes, roof leaks, etc), condition of properties when returned (e.g. void refurbishments), consumer demand on minor internal / external repairs (e.g. broken door or fence) and the type of repair work required.
- c) **RTB Receipts:** The RTB scheme is a government scheme that enables tenants to purchase their homes at a discount, subject to meeting qualifying criteria. The receipts allowed to be retained by the Council can fund up to 30% of new social housing costs and must be used within three years of receipt. To date, the Council has successfully spent all of their retained 1-4-1 receipts resulting in no returns being made to the Treasury/MHCLG.

On the 31 Dec 202 the government issued a temporary relaxation of the rules in response to the COVID situation, to give authorities until 31 December 2020 to catch up with their spending plans. This did not provide any benefit to us as we had already exceeded our spend requirements through the purchase of new build properties at Pyrland Fields.

Whilst projected spend and additional purchases are being sought by the service there is a risk that the quarter 3 spend requirements will not be met and may result in funds being return to MHCLD / Treasury. This is a direct result of COVID delaying progress on new build and purchasing houses on the open market.

12 HRA Capital Programme

12.1 The HRA approved Capital Programme is £41m. This consists of £15.9m of new schemes approved for 2020/21 plus £15.8m of slippage from prior years and £9.3m supplementary budget approval for the Zero Carbon Affordable Homes Pilot scheme. The Capital Programme relates to schemes which will be completed over the next five years.

12.2 The Council is supporting this investment through the use of the Major Repairs Reserve, Capital Receipts, Revenue Funding and Borrowing.

12.3 The capital programme can be split into three distinct areas:

- 12.4 **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 an underspend in this area within the year.
- 12.5 **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.
- 12.6 **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. A supplementary budget of £9.3m was approved by Full Council on 7 July 2020 for the Zero Carbon Affordable Homes Pilot scheme. In the current year £1.1m has been spent in buy backs.

13 HRA Earmarked Reserves

- 13.1 The HRA Earmarked Reserves (EMR) at the beginning of 2020/21 were £1.648m (see **Table 12** 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 12: 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
HRA Total	1,648

14 HRA General Reserves

- 14.1 The HRA reserves at the start of the year were £2.701m. This is £901k above the minimum recommended reserve level of £1.800m.
- 14.2 **Forecast Outturn** - The current outturn position is forecast to be an under spend of £71k. If this is the position at year end then this will be returned to general balances, increasing them to £2.742m.

Table 13: HRA Reserve Balance

	£k
Balance Brought Forward 1 April 2020	2,701
Forecast Outturn 2020/21 (as at 31 Aug 2020)	71
Forecast Balance Carried Forward 31 March 2020	2,742
Operational Minimum Balance	2,400
Financial Resilience Minimum Balance	1,800

15 Links to Corporate Aims / Priorities

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

16 Partnership Implications

- 16.1 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.

17 Other Implications

- 17.1 None for the purpose of this report.

18 Scrutiny Comments / Recommendations

- 18.1 This report was considered by the Scrutiny Committee on 2 December. The Committee supported the report and the printed recommendations.
- 18.2 During the debate a number of questions were asked of which some were addressed at the meeting:
- a) What is the current debt for the HRA and does the rent cover the cost of Debt – the debt is circa £100m, summary information will be provided, and yes the rent covers the cost. Affordability is measured as part of the business planning process.
 - b) The Age of the housing stock – summary information will be provided.
 - c) What is the NHB Capital Programme being spent on – the report provides summary information and officers will provide more detail.
 - d) Why is the Employment and Innovation capital budget reducing by £220k – The budget was reprioritised as part of the review of the capital programme leading to releasing £3.95m of NHB to general reserves in view of the COVID risks. During this year £535k of earmarked reserves have been prioritised towards town centre economic recovery this year and a further £500k into Economic Development productivity budget.
 - e) How much has been spent on the Unitary budget – officers to provide an update.

- f) What steps are being taken to reduce the overspend and what is the headcount and costs for the last 3 years – a response to follow.
- g) What is the future strategy for car parking – a response to follow.
- h) Can we ensure the review of the loan to the Onion Collection is undertaken – officers to note and respond.

Democratic Path:

- **Scrutiny – 2 December 2020**
- **Executive – 16 December 2020**
- **Full Council – no**

Reporting Frequency: Quarterly

List of Appendices

Appendix A	Capital Programme
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