

# Somerset West and Taunton Council

## Corporate Scrutiny – 1 September 2021 Executive – 15 September 2021

### 2021/22 General Fund Financial Monitoring as at Quarter 1 (30 June 2021)

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's General Fund (GF) for the financial year 2021/22 (as at 30 June 2021).
- 1.2 The position this year continues to be significantly affected by the ongoing impact of COVID and the pace of economic recovery; and is relying heavily on the reserves prudently set aside to mitigate business volatility and risk. A thorough analysis of additional risks and uncertainties facing the Council have been identified and careful monitoring of these will continue for early indications of emerging financial pressures.
- 1.3 Whilst there is currently headroom in general reserves to cover new in-year pressures this may fall to minimum levels as estimated costs to implement a unitary council start to develop. It is prudent to retain funding for what will inevitably be unavoidable costs of structural change not currently within budget. This is the first reported forecast to Members at an early stage in the financial year, and whilst best endeavours are used to forecast with as much accuracy as possible, we have previously experienced change in forecasts each quarter and to year end. Despite this, the Council remains financially resilient and continues to forecast adequate reserve balances at this stage.
- 1.4 The **Revenue Budget** forecast is a currently projecting an overspend of £237k.
- 1.5 The total approved **Capital Budget** is £158.7m. The profiled budget spend for 2021/22 is £76.6m and this is currently forecasting a net overspend of £158k.
- 1.6 The **unearmarked reserves** are projected to be £5.556m which is £3.156m above the recommended minimum balance.
- 1.7 The **earmarked reserves** closing balance is projected to be £23m.

#### 2 Recommendations

- 2.1 The Executive Committee is recommended to:

- a) review and note the Council's forecast financial performance and projected reserves position for 2021/22 financial year as at 30 June 2021.
- b) support the transfer of £1.145m from the Budget Volatility and Risk Earmarked Reserve to contribute towards the estimated shortfall in parking income.
- c) approve a budget virement to realign Capital Budgets funded by Better Care Fund grant income.

### **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 section 9 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 General Fund forecast end of year financial position in March 2022 for revenue and capital expenditure, as at 30 June 2021.
- 4.2 The regular monitoring of financial information is a key element in the Council's Performance Management Framework. Crucially it enables remedial action to be taken in response to significant budget variances, some of which may be unavoidable. It also provides the opportunity to assess any consequent impact on reserves and the Council's Medium Term Financial Plan.
- 4.3 Members will be aware from previous experience that the position can change between 'in-year' projections and the final outturn position, mainly due to demand-led service costs and income levels and where actual costs and income can vary from initial estimates and assumptions. The budget monitoring process involves a detailed review of the more volatile budgets and a proportionate review of low risk/low volatility budget areas. Budget Holders, with support and advice from their finance business partners, update their forecasts 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 several risks and uncertainties are highlighted within this report. However, the following forecast is reasonable based on current information.

### **5 General Fund Revenue Budget 2021/22 Forecast Outturn**

- 5.1 The Council's General Fund is currently forecasting an overall net overspend of £237k

(1.3% of £18.7m Net Budget), as summarised below. The main reasons for this are shown in table 2 below.

- 5.2 The forecast remains volatile and subject to change. It includes a significant number of assumptions about demand for services and the timing of planned spend to meet service objectives. The level of uncertainty is still increased this year as the continuing impact of COVID and the pace of economic recovery is not yet certain. There has been an immediate impact on service costs and income, for example a significant reduction in parking income due to lock down measures. The Government has so far provided emergency additional funding of £813k, which is included in our budget. We are also able to claim grant to partly offset the loss of income from fees and charges for the first quarter of the year.
- 5.3 As previously reported, despite the reported pressures and uncertainties summarised in this report, the Council is currently resilient to estimated losses this year. This financial strength is a direct result of the being able to reallocate reserves last year to support economic recovery in this financial year.
- 5.4 The following table presents a summary of the revenue budget and current forecast outturn for the year by directorate.

**Table 1 - General Fund Revenue Outturn Summary 2021/22**

	Current Budget	Outturn Forecast	Variance	
	£'000	£'000	£'000	%
Development and Place	2,598	2,595	-3	-0.1%
External Operations & Climate Change	9,228	10,726	1,498	16.2%
Housing & Communities	3,348	3,353	5	0.2%
Internal Operations	9,770	9,980	210	2.1%
Senior Management Team	640	943	303	47.3%
<b>Net Cost of Services</b>	<b>25,584</b>	<b>27,597</b>	<b>2,013</b>	<b>7.9%</b>
COVID General Grants	0	-431	-431	0.0%
Investment Properties Net Income	-3,407	-3,382	25	-0.7%
Interest and Investment Income	-202	-507	-305	150.9%
Expected Credit Losses	0	0	0	0.0%
Net Transfers to / from Earmarked Reserves	-414	-1,559	-1,145	276.4%
Transfers from General Reserves	-1,246	-1,246	0	0.0%
Capital and Other Adjustments	-1,602	-1,522	80	-5.0%
<b>Net Budget</b>	<b>18,714</b>	<b>18,951</b>	<b>237</b>	<b>1.3%</b>
Funding	-18,714	-18,714	0	0.0%
<b>Variance</b>	<b>0</b>	<b>237</b>	<b>237</b>	<b>1.3%</b>

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

5.6 **Development & Place:**

5.7 The Development and Place directorate has a net expenditure budget of £2.598m in 2021/22, which plans to deliver a range of services and projects including:

- Strategy and policy development
- Planning services including Local Plan development, planning applications processing and enforcement
- Economic development
- Town centre regeneration
- Heritage projects
- Major Capital Projects for regeneration purposes and where possible to generate a return to the Council
- Commercial investment (investment properties budget is reported 'below the line')

5.8 The directorate's budget volatility and forecast has been managed via robust contract and financial / budget management by budget holders. The directorate is currently forecasting a net underspend of £3k for the year, therefore essentially on target.

**Table 2: Development & Place Forecast Variances as at Q1**

Department Notes	Q1 Variance £000
<b>Strategy and Policy:</b> This relates to staff vacancies which are in the process of recruitment.	-55
<b>Planning:</b> The service has struggled to recruit to vacant posts resulting in higher agency backfill costs. This variance also relates to budgeted grant income that is not expected and other minor overspend on operational costs. The budget holder hopes to be able to offset any overspend including supporting our Planning Guarantee requirements, staff funding and additional legal advice using existing earmarked reserves.	59
<b>Other Minor Variances</b>	-7
<b>Total</b>	<b>-3</b>

5.9 **External Operations and Climate Change:**

5.10 The External Operations and Climate Change directorate has reported net expenditure budget of £9.228m in 2021/22, which plans to deliver a range of services and projects including:

- Climate change strategy development and Carbon Neutrality and Climate Resilience (CNCR) action plan implementation
- Asset and property management for general fund assets
- Regulatory services such as environmental health and licensing
- Service resilience and emergency planning
- Open spaces and street scene
- Client for major contracts including waste, building control, leisure, street cleansing
- Harbours, coastal protection, and flood management
- Cemeteries and crematorium
- Car parks

- 5.11 The directorate has reported a current forecast net overspend for the year of £1.498m as at the end of quarter 1.
- 5.12 The current forecast assumes that c£450k of directorate underspends will help to support the parking income loss. However, there are possible future pressures emerging particularly around asset management that could further increase the net overspend if agreed and implemented. Most of the projected parking income shortfall not covered by COVID grant is currently planned to be mitigated through the Budget Volatility and Risk Earmarked Reserve. Further updates will be provided in the quarter 2 financial monitoring report.
- 5.13 The headline for the Directorate is to look beyond the car park income figure to the improved performance in most of the other business areas of the Directorate. Specifically, income from the Assets team and Bereavement services. As a team we continue to manage our workforce and ensure we adapt to provide resources at the point of need. The Directorate Plan for 2021/22 is both a reflection of new ambition for the year and a catch up from a pandemic hit 2020/21; that programme of work will inevitably draw on our ability to take on new tasks. As we better understand our legacy assets, we better understand our financial liabilities. Those liabilities will manifest in year and in future years as new costs.
- 5.14 Car Parking income is significantly down on the 2019/20 pre-pandemic level used to benchmark the income figure for 2021/22. In tracking income, it is broadly one third down on where it was pre-pandemic. That activity will be tracked through the year, in setting a budget for 2022/23 the income figure for car parking will need to reflect the know activity for 2021/22.

**Table 3: External Operations and Climate Change Forecast Variances as at Q1**

Department Notes	Q1 Variance £000
<b>Street Scene / Open Spaces:</b> This is a combination of a net loss of income of £16k from the loss of the NHS open spaces contract offset by other cost savings within the service such as a predicted reduction in fuel costs for the year.	-47
<b>Asset Management:</b> This favourable variance is mainly due to additional income, new lettings and completion of leases earlier than expected. As a result of these new lettings the council may incur additional building costs, which would then offset in part this favourable variance.	-247
<b>Public Health:</b> A budget carry forward of £15k was approved for the Seagull Culling programme for 2021/22 however this has been postponed for a further year creating an underspend. The cost of staff re-directed (and not backfilled) onto COVID-19 activities has been fully funded through the Community Outbreak Management fund creating an underspend of c£39k.	-54
<b>Licensing:</b> updated projections for income evidence related to both general and taxi licensing have identified a possible shortfall for this year.	47

<b>Bereavement Services:</b> This is a demand led service where the income budget is estimated each year. The current forecast is an over recovery on income.	-184
<b>Parking:</b> The parking income baseline budgets were maintained at historic levels as part of budget process, with a known risk. The current forecast income loss for the year due to ongoing fall in demand, mainly due to COVID-19 lockdown restrictions, is £1.997m. This has been calculated using both 2020/21 and 2019/20 data and reflects a 30% reduction in income. It is estimated we can claim £402k through the COVID Income Compensation Scheme for 71% of losses for April to June 2021. It is assumed any further losses will have to be funded locally. The Leadership Team proposes withdrawing £1.145m from the Budget Volatility and Risk Earmarked Reserve. This assumes the rest can be offset from directorate underspends (c£450k).	1,937
<b>Other Minor Variances</b>	46
<b>Total</b>	<b>1,498</b>

#### 5.15 Housing & Communities:

5.16 The Housing and Communities directorate has a net expenditure budget of £3.348m in 2021/22, which plans to deliver a range of services and projects including:

- Housing options include accommodation and support for homelessness and rough sleepers including the 'everyone in' priority due to COVID
- Housing strategy development
- Housing enabling, including affordable and rural housing
- Community resilience services such as CCTV, public safety and community engagement
- The service also manages council housing and supported housing services through the Housing Revenue Account which is accounted for separately.

5.17 The directorate has reported a current forecast net overspend of £5k at the end of quarter 1.

5.18 Whilst we are currently reporting a very small variance, we are expecting some volatility particularly in our homelessness service as a legacy of the covid restrictions and in the knowledge that patterns of substantial community hardship are already starting to become apparent. We have some ability to manage the financial impacts of this by the use of some earmarked reserves of specific Government funding, however we will need to keep this under close review. There is also substantial pressure on our resources to deliver our ambitions for single homeless customers and our need to decant the Canonsgrove facility.

**Table 4: Housing & Communities Forecast Variances as at Q1**

Department Notes	Q1 Variance £000
<b>Minor Variances</b>	5
<b>Total</b>	<b>5</b>

**5.19 Internal Operations:**

5.20 The Internal Operations directorate has a net expenditure budget of £9.770m in 2021/22. This delivers a range of support services and corporate projects, as well as budgets for a range of centrally held corporate costs. The main services and projects delivered within this directorate include:

- Customer Services including call-handling, front of house, Deane Helpline and Emergency Response Team
- Council Tax and Business Rates administration and income collection services
- Housing benefits and local council tax support administration
- Income control and collection from customers ('Accounts Receivable')
- Payments to suppliers ('Accounts Payable')
- Corporate strategy, corporate performance, and business intelligence
- Operational support and digital mailroom
- Finance and procurement services
- Corporate Services including Communications and Engagement, People Management including HR and Payroll, Corporate Health and Safety, ICT services
- Corporate governance including Committee administration and Elections services
- Internal Change programmes and projects

5.21 The directorate is currently forecasting a net overspend of £209k at the end of quarter 1. This includes additional resources identified as needed to meet service requirements over and above existing approved budgets.

5.22 The organisation is facing significant change through the implementation of Unitary. Governance & Democratic Services and supporting our staff will be fundamental. It is anticipated additional costs will be funded through savings and in year vacancies where possible. However, it should be noted that pressures on all services will grow as the unitary transition plan comes into force and full budget savings may not be possible giving rise to the potential need to seek approval for additional allocation from reserves. Monthly budget monitoring through the Directorate Performance Board will ensure close monitoring and identification of savings.

5.23 There may be opportunities to mitigate some of this reported pressure, for example through:

- Surplus balances if released from the review of earmarked reserves
- In year receipt of new burdens grant funding
- Vacancy savings exceeding expectations
- Capitalising IT equipment costs
- Managed control of spend in remainder of the year.

**Table 5: Internal Operations Forecast Variances as at Q1**

Department Notes	Q1 Variance £000
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<p><b>ICT:</b> The service has managed to identify savings of c£29k to date from rationalising ICT network circuits at the West Somerset House site, replacement of equipment and removing third party support costs and migration of the Mobile Device Management solution.</p> <p>A further underspend of £31k has been identified where budget allocations are not required in the current financial year. This position takes into account that we have already incurred non budgeted £20k spend due to new starters above existing establishment (at approximately £1k per starter for laptop, licences etc) and have estimated another £10k until a system is in place for these costs to be picked up by the relevant service.</p>	-53
<p><b>Benefits:</b> The position at the end of Q1 is showing a potential 'underspend' at year-end. This underspend largely results from receiving a greater amount of administration grant from DWP for administering Housing Benefit than we had originally budgeted for. The grant from DWP is to ensure we have sufficient funding to adequately resource the administration of Benefits on their behalf. DWP are also requiring us to undertake an increased amount of review work on claims this year. We may need to utilise some or all of this budget later in the year to ensure that we have sufficient resourcing to deliver to the required DWP standards.</p>	-87
<p><b>Governance:</b> The service has requested to draw upon in-year underspends to fund £50k for the Community Governance Review for the Unparished Area of Taunton and £216k of additional staffing to cover a significant increase in workload.</p>	266
<p><b>People / HR:</b> The base budget had an expectation of a £100k vacancy saving target. This is currently not considered by the Leadership Team to be achievable due to ongoing and expected operational staffing pressures across services.</p>	92
<p><b>Other Minor Variances</b></p>	-9
<p><b>Total</b></p>	<b>209</b>

#### 5.24 Senior Management Team (SMT)

5.25 The SMT has a net expenditure budget of £640k in 2021/22. This budget line holds the costs of the Chief Executive and four directors, a contingency to support strategic priorities in-year, and funding approved to support Stronger Somerset business case development and related costs.

5.26 The directorate has not reported a variance to budget at the end of quarter 1.

5.27 The staff pay award has been estimated at 1.75%, reflecting the employers' final offer. The pay award has not yet been accepted by the unions, and therefore not yet implemented. The 2021/22 approved budget assumed a 0% pay award, consistent with the Government's proposals for civil service pay, therefore any pay increase presents a budget pressure in year. A provision for estimated costs of £303k across General Fund services based on 1.75% is currently presented within SMT but will be reflected across all service budgets once settlement is reached and implemented.

#### 5.28 Other Costs, Income and Reserve Transfers:

- 5.29 As well as budgets allocated to directorates for the delivery of services, several budgets are reported 'below the line' as centrally held/corporate items.
- 5.30 For 2021/22 this includes accounting for additional emergency COVID grant funding that has been received to mitigate additional costs and income losses due to national and local restrictions. This area also includes items such as:
- Investment properties net income
  - Other interest costs and income
  - Accounting provisions for Expected Credit Losses (commonly known as bad debt provisions)
  - Capital accounting adjustments including capital debt repayment, revenue financing of capital costs, and transfers to and from capital reserves
  - Transfers to and from general and earmarked revenue reserves
- 5.31 A net underspend / income surplus of £1.775m is currently forecast as at the end of quarter 1, predominantly due to proposed transfers from reserves and estimated income loss grant funding from Government.

**Table 6: Forecast Variances as at Q1**

Department Notes	Q1 Variance £000
<p><b>COVID General Grants:</b> The current COVID grant budget of £813k is not yet allocated in full, however it is assumed it will be and commitments against this will be tracked monthly by SMT.</p> <p>The SFC compensation is only running until end of June 2021. The estimated income from this scheme is £402k for parking and £28k leisure income loss.</p>	-430
<p><b>Interest and Investment Income:</b> After a volatile and difficult year for non-property based investment performance shaped by the pandemic, recovery has been excellent. SWT's good performance is from strategic investments. We have received 4.5% income from strategic pooled funds in year. It means the income return from the total investment portfolio is 1.5% which, in terms of current money market investment returns, is particularly healthy.</p>	-305
<p><b>Net Transfers from Earmarked Reserves:</b> The SFC Compensation from Government does not cover all of the expected loss for the financial year. Therefore it is recommended for the car parking income shortfall to be funded in part from the Budget and Risk Volatility Reserve.</p>	-1,145
<p><b>Capital and Other Adjustments:</b> An additional revenue contribution is planned to fund the finance system contract renewal license.</p>	80
<b>Other Minor Variances</b>	25
<b>Total</b>	<b>1,775</b>

## 6 General Fund (GF) Reserves

### Unearmarked Reserves

- 6.1 The opening general reserves balance as at 1 April 2021 is £7.914m.

6.2 As part of the budget proposals to Full Council on 18 February 2021 and the Financial Strategy agreed by the Executive in July 2021, £2.160m of current reserves are planned to be used to soften the budget gap across two financial years (£1.16m in 21/22 and £1m in 22/23). Further draw down from general reserves are shown in the table below.

**Table 7 – GF General Reserve Balance**

	<b>Approval</b>	<b>£000</b>
<b>Balance Brought Forward 1 April 2021</b>		<b>7,914</b>
2021/22 Original Budget Transfer From Reserve	Council – 18/02/21	-1,160
Supplementary Budget - Local Poll	Council – 04/05/21	-86
Supplementary Budget - Phosphates	Executive – 21/07/21	-200
Supplementary Budget - Health & Safety	Executive – 21/07/21	-126
Supplementary Budget - Parks & Open Spaces	Executive – 21/07/21	-100
Supplementary Budget - Asset Management	Executive – 21/07/21	-150
Supplementary Budget - Asset Management Compliance	Executive – 21/07/21	-100
Supplementary Budget - Revenues Service Capacity	Executive – 21/07/21	-130
Supplementary Budget - Business Intelligence Capacity	SMT – 23/06/21	-50
Supplementary Budget - Project Management Resources	Director/S151 – 15/07/21	-19
<b>Current Balance</b>		<b>5,793</b>
Forecast - Q1 Projected Overspend		-237
<b>Projected Balance 31 March 2022</b>		<b>5,556</b>
Planned Use of Reserve in 2022/23 for Base Budget		-1,000
<b>Projected Balance 1 April 2022</b>		<b>4,556</b>
Recommended Minimum Balance		2,400
Projected Balance above Minimum Reserve Balance		2,156

6.3 The projected balance remains above the minimum adequate reserves requirement as assessed by the S151 Officer. It is prudent to continue to hold reserves above the minimum at this stage as in-year budget risks remain higher than normal due to COVID, and the Council will need to contribute towards costs of implementing a new unitary council structure in Somerset. **There is a high probability that all the projected ‘headroom’ identified above will be needed for this purpose.**

### **Earmarked Reserves**

6.4 The General Fund Earmarked Reserves brought forward balance for 2021/22 is £33.844m. This includes a £14.8m Business Rates S31 Grant reserve created in 2020/21 to set aside grant from Government that will be needed to mitigate the Collection Fund Deficit in the 2021/22 budget. The current budgeted transfers to earmarked reserves in 2021/22 are £10.537m.

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

**Table 8 – General Fund Earmarked Reserves**

	<b>Opening Balance 1 April 2021 £000</b>	<b>Budgeted Transfers £000</b>	<b>Closing Balance 31 March 2022 £000</b>
2020/21 Business Rate Holiday S31 Grant	11,695	-11,118	577
2020/21 Business Rate Losses S31 Grant	3,081	-999	2,083
Business Rates Volatility	5,375	1,665	7,040
Investment Risk	3,673		3,673
Budget Volatility & Risk	2,400		2,400
General Carry Forwards	2,112		2,112
Garden Town Fund	870	-68	802
Economic Development Initiatives	769		769
Asset Management	687		687
Community Housing Grant (ring-fenced)	533		533
Other Smaller Balances	2,648	-18	2,630
<b>Total</b>	<b>33,844</b>	<b>-10,537</b>	<b>23,306</b>

- 6.6 Earmarked reserves are reviewed during the year. This is 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.
- 6.7 The current forecast proposes to utilise £1.145m if the Budget Volatility and Risk Reserve to mitigate the loss of car Parking income due to COVID. If approved by the Executive this would reduce projected reserves to £22.1m.

## **7 General Fund (GF) Capital Programme**

- 7.1 The current Capital Programme Budget is £158.702m in total. This consists of £5.151m of new schemes approved in February 2021 (for £3.116m in 2021/22 and £2.034m in 2022/23), plus £153.551m of previously approved schemes from prior years (see **Appendix A**).
- 7.2 The Council plans to finance this investment through Capital Receipts, Capital Grants, Revenue Funding and Borrowing (see **Appendix B**).
- 7.3 The General Fund Capital Budget relates to schemes which are estimated to be completed over the next four years. The current annual profiling of approved budget is summarised in **Appendix C**.
- 7.4 Financial performance to date against this profiled spend for this financial year can be found below and in **Appendix D** with an update from each directorate provided below. Overall the Council is currently forecasting a net underspend against profiled budget for 2021/22 of £158k.
- 7.5 **Development and Place:** Capital Funding is provided for Development activity and Property Investment Activity. These budgets are governed via the Programme Board

before being reported to Full Council. The Hinkley funded projects have been delayed by the COVID pandemic but are expected to be completed in the current financial year. The current forecast for this financial year is an overspend of £179k.

**7.6 External Operations and Climate Change:** The Capital programme spans a diverse range of activities that in part span several financial years. The Directorate has a robust programme management system to ensure the capital spend is tracked and drawn down in a timely manner. The current forecast for this financial year is a slight overspend of £26k.

**7.7 Housing and Communities:** The Directorate is proposing the realignment of the Better Care Fund grant to support areas of greatest need and demand. The grant income from the Better Care Fund will be used to assist vulnerable clients to live independently through the delivery of a number of schemes. The Executive is requested to approve a virement of the approved capital budget so that this is realigned to match planned service delivery, as shown in **Table 9** below. The Section 151 Officer has approved a budget reduction of £522k to offset a historic over-provision of approved budget compared to the total Better Care Fund income held.

**Table 9 – Realignment of Capital Budgets Funded By The Better Care Fund**

	Total Approved Budget	Capital Spend 2021/22	Capital Spend 2022/23	Capital Spend 2023/24	Capital Spend 2024/25	Un-allocated	Revised Approved Budget	Return	Virement
Disabled Facilities Grant	2,960,793	464,000	464,000	464,000	464,000	1,318,033	2,651,935	-522,098	213,240
IAC Staffing and Support	-	102,000	102,000	102,000	102,000	-	408,000		408,000
North Taunton Equity loans	1,000,000	-	-	300,000	300,000	-	600,000		- 400,000
Energy Efficiency Grants	182,000	92,000	92,000	92,000	92,000	-	368,000		186,000
Home Maintenance	320,000	57,000	57,000	57,000	57,000	-	228,000		- 92,000
Prevention Grants	491,240	44,000	44,000	44,000	44,000	-	176,000		- 315,240
<b>Total Capital Budget</b>	<b>4,954,033</b>	<b>759,000</b>	<b>759,000</b>	<b>1,059,000</b>	<b>1,059,000</b>	<b>1,318,033</b>	<b>4,431,935</b>	<b>-522,098</b>	<b>- 0</b>
<b>Net Receipts</b>	<b>4,431,935</b>								
<b>Budget Return</b>	<b>522,098</b>								

**7.8** The unallocated amount of £1.3m is currently earmarked to fund costs as detailed within the Single Homelessness and Rough Sleeper Accommodation Strategy & Delivery Plan report (Community Scrutiny – 29th July 2021). If approved by Members, this capital budget (and Better Care Funding) will be reallocated in part towards the capital grant and also towards revenue costs to deliver this strategy. The latter will need a reclassification of the Better Care Funding as revenue income and a reduction in capital budget from the unallocated balance in Table 9 above.

**7.9 Internal Operations:** Capital funding is profiled against technology projects including infrastructure upgrades to support cyber security improvements, finance system upgrades. Annual PC refresh upgrades and alarms for the lifeline service are also profiled here. Capital funding has also been allocated to support change programmes that have realigned the digital delivery programme and service improvement & efficiency programmes. The current forecast is an underspend of £105k for budgets that are no longer required.

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

- 8.1 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 2021/22 financial year are estimated by budget holders and then reported through the budget monitoring process. During this process risks and uncertainties are identified which could impact on the financial projections, but for which the likelihood, and/or amount are uncertain. The Council carries protection against risk and uncertainty in several ways, such as insurances and maintaining reserves. This is a prudent approach and helps to mitigate unforeseen pressures.
- 8.2 The following general risks and uncertainties have been identified:
- a) **Year-end Adjustments:** There are certain items that are not determined or finalised until the financial year-end. For example, the final assessment of provisions required for bad debts and final allocations of support service recharges. These can result in potentially significant differences to current forecasts.
  - b) **COVID 19:** Although work continues to identify as much as we can the impacts of COVID, there could still be short, medium and long term impacts to both income and expenditure which have not yet been identified.
  - c) **Unitary Council:** The Secretary of State has announced his decision on the future of local government in Somerset and has chosen the "One Somerset" option put forward by the County Council. This means there will be one new council for Somerset replacing the existing five councils in April 2023. The costs of implementation will be significant and will bring significant additional demand on officers to support the process with potential additional capacity required.
  - d) **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.
  - e) **Forecasting Assumptions:** It is conceivable that, whilst budget holders are optimistic that they will spend all their budget, experience shows an increase in underspends often reported in the last quarter of the financial year. The pace of spending may also reduce as capacity and delivery of priorities is affected by local government structural change.
  - f) **Job Costing Charges via Open Contractor (OC):** A project lead is now in post to thoroughly review and improve the efficient and accurate operational use of OC. The ability of affected services to accurately forecast their outturn position on job costs coming from OC remains at risk until improvements are fully implemented, although officers are working through ways to mitigate this issue in the interim.
  - g) **Pay Award:** The budgets have been set based on 0% pay award for 2021/22 following the Government's announcement in respect of public sector pay restraint. However pay negotiations for local government are still being undertaken. The current forecast estimates a 1.75% pay award increasing direct staffing costs by c£478k (£303k GF / £175k HRA).

- h) **Fleet Contract:** From the 1st October 2021, the Council is entering into a new contract for the maintenance and supply of its fleet. Actual vehicle requirements for each service area are being finalised. Once this work is complete then costs and budgets can be realigned and updated forecasts reported. Therefore, for Q1 the fleet maintenance costs have been forecast to budget until a more accurate forecast can be calculated. It is not anticipated that costs will be higher than budget. The contract will deliver year on year savings.
- i) **Landlord Property Compliance:** A review of all compliance areas against every property for which Somerset West and Taunton Council is responsible has largely been undertaken. The compliance works required following this review are currently being planned and procured. Whilst additional budget provision has been added for 2021/22 the full extent of the financial pressure remains uncertain as more information is gathered.
- j) **Asset Management:** The budgets for maintaining our assets do not hold any contingency for significant unforeseen repairs or improvement works. The Asset Management plan is evolving but progress has been, in part, been slowed by staff turnover. Significant budget carry forwards and earmarked reserves supplement the 2021/22 budgets in this area. An example of this would be North Hill, Minehead.
- k) **Homelessness:** This is a demand led service supporting a variety of complex needs. This service has received further Homelessness Prevention Grant and Rough Sleeper Initiative Government funding in 2021/22. The position needs to be kept under review pending the delivery of the Homelessness Strategy including the planned decant from the Canonsgrove site.
- l) **Revenues & Benefits:** The position on rent allowances/rent rebates could change significantly as a result of the recoument and debt impairment adjustments. We can calculate these at a given point in time but are unable to reliably forecast what these will be at year end as the financial implications are volatile.
- m) **New Burdens:** SWT is expected to receive more New Burdens Grant Funding during the year which will increase our revenue income, but the amount is not yet known.
- n) **Interest and Investment Income:** There are two aspects impacting on investment returns. The first relates to cashflows, particularly in a year when substantial capital purchases are due to be made which, in turn, adds high risk of variations to budget because of the timing of transactions. Careful management of liquidity and borrowing decisions can, to some degree, mitigate this and produce favourable investment returns and in-year cost of borrowing. The second aspect relates to non-property investment performance. After a volatile and difficult year for investment performance shaped by the pandemic, recovery has been excellent. SWT's good performance is from strategic investments. We have received 4.5% income from strategic pooled funds in year. It means the income return from the total investment portfolio is 1.5% which, in terms of current money market investment returns, is particularly healthy.

- o) **Business Rates (Risk):** 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.
- p) **Business Rates (Issue):** The Government's calculator for Tax Income Guarantee grant included an error. A corrected version was issued after the 2020/21 accounts were closed. The impact of the error is that we over-accrued business rates, TIG income and BRR Pooling Gain by £244,850, which will adversely affect funding in 2021/22 when corrected. This will need to be offset by a transfer from the Business Rates Volatility Reserve.
- q) **Council Tax:** This income is under pressure due to the increase in discounts being issued. This will have an impact on the current year and future years. Regular review of statistics will be undertaken to monitor the situation.

## 9 Links to Corporate Aims / Priorities

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

## 10 Partnership Implications

- 10.1 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.

## 11 Scrutiny Comments / Recommendations

- 11.1 This report was considered by the Corporate Scrutiny Committee on 1 September. *To be updated following the committee.*

- 11.2 The main comments and questions were *(to be updated following the committee):*

- a) *[To Be Confirmed]*

### Democratic Path:

- **Corporate Scrutiny - 1 September 2021**
- **Executive - 15 September 2021**
- **Full Council - No**

**Reporting Frequency: Quarterly**

### List of Appendices

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Appendix B	Capital Financing of Total Approved Budget
Appendix C	Annual Profiling of Approved Capital Budget
Appendix D	Profiled Capital Budget for 2021/22 Vs Forecast Capital Outturn for 2021/22

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## Appendix A: General Fund Approved Capital Budget

SWT Capital Programme	Prior Year Slippage	Approved Supplements not yet loaded into e5	Current Year Approval Feb 2021 Budget Setting	Total Approved Budget	Current year Virements	Current year Supplements	Current year Returns	Revised Current year Approved Capital Budget
Development and Place	28,088,143	111,993,577	575,000	140,656,720	-	-	-	140,656,720
External Operations and Climate Change	6,986,727	-	2,358,720	9,345,447	91,000	-	-	9,254,447
Housing & Communities	4,110,423	-	1,702,240	5,812,663	91,000	-	-	5,903,663
Internal Operations	1,515,070	-	515,000	2,030,070	-	-	-	2,030,070
Hinkley Capital Schemes	856,875	-	-	856,875	-	-	-	856,875
S106 Capital Schemes	-	-	-	-	-	-	-	-
<b>Total GF</b>	<b>41,557,237</b>	<b>111,993,577</b>	<b>5,150,960</b>	<b>158,701,774</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>158,701,774</b>

## Appendix B: Capital Financing of Total Approved Budget

SWT Capital Programme	TOTAL CAPITAL FINANCING	Capital Grants CIL	Capital Grants	Section 106 Agreements	Capital Receipts	Unallocated Capital resources	General Fund RCCO	New Homes Bonus Reserve	Capital Funding Reserve	Other Earmarked Reserves	Borrowing
Development and Place	140,656,720	13,165,992	11,899,386	283,437	745,000	-	-	-	-	-	114,562,905
External Operations and Climate Change	9,254,447	-	4,993,461	-	2,153,720	-	45,000	-	-	-	2,062,266
Housing & Communities	5,903,663	-	4,954,033	455,682	385,446	-	-	-	108,502	-	-
Internal Operations	2,030,070	-	-	-	1,101,900	-	-	-	20,000	-	908,170
Hinkley Capital Schemes	856,875	-	856,875	-	-	-	-	-	-	-	-
S106 Capital Schemes	-	-	-	-	-	-	-	-	-	-	-
<b>Total GF</b>	<b>158,701,774</b>	<b>13,165,992</b>	<b>22,703,754</b>	<b>739,119</b>	<b>4,386,066</b>	<b>-</b>	<b>45,000</b>	<b>-</b>	<b>128,502</b>	<b>-</b>	<b>117,533,341</b>

### **Appendix C: General Fund Annual Profiling of Approved Capital Budget**

SWT Capital Programme	Total Approved Budget	Capital Spend 2021/22	Capital Spend 2022/23	Capital Spend 2023/24	Capital Spend 2024/25	Capital Spend 2025/26	Capital Spend 2026/27	Capital Spend 2027/28	Capital Spend 2028/29
Development and Place	140,656,720	67,512,404	28,209,203	36,996,966	7,938,146	-	-	-	-
External Operations and Climate Change	9,254,447	5,191,860	4,062,586	-	-	-	-	-	-
Housing & Communities	5,903,663	1,502,601	965,029	1,059,000	1,059,000	1,318,033	-	-	-
Internal Operations	2,030,070	1,600,418	429,652	-	-	-	-	-	-
Hinkley Capital Schemes	856,875	856,875	-	-	-	-	-	-	-
S106 Capital Schemes	-	-	-	-	-	-	-	-	-
<b>Total GF</b>	<b>158,701,774</b>	<b>76,664,158</b>	<b>33,666,470</b>	<b>38,055,966</b>	<b>8,997,146</b>	<b>1,318,033</b>	<b>-</b>	<b>-</b>	<b>-</b>

### **Appendix D: Profiled Capital Budget for 2021/22 Vs Forecast Capital Outturn for 2021/22**

SWT Capital Programme	Profiled Capex Budget 2021/22	Expenditure YTD	Forecast Outturn 2021/22	Variance; - underspend + overspend
Development and Place	67,512,404	26,104,415	67,691,514	179,110
External Operations and Climate Change	5,191,860	1,642,496	5,217,798	25,938
Housing & Communities	1,502,601	91,757	1,502,601	-
Internal Operations	1,600,418	1,058,280	1,495,111	- 105,307
Hinkley Capital Schemes	856,875	93,000	856,875	0
S106 Capital Schemes	-	58,331	58,331	58,331
<b>Total GF</b>	<b>76,664,158</b>	<b>29,048,279</b>	<b>76,822,230</b>	<b>158,072</b>