

# Somerset West and Taunton Council

## Executive – 16 March 2022

### 2021/22 General Fund Financial Monitoring as at Quarter 3 (31 December 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 31 December 2021 forecast).
- 1.2 The position this year continues to be significantly affected by the ongoing impact of COVID and the pace of economic recovery. This is particularly noticeable with parking income which is projected to remain £2m below the base budget for this year. The economic situation is also affecting the pace of delivery in some areas, which is resulting in deferred costs into next financial year. Despite the financial pressures, through management of spend and an increase in reported underspends this quarter it now appears it will not be necessary to utilise the budget volatility reserve set aside to underwrite risk this year. Officers continue to monitor risks and uncertainties but present the latest projections as reasonable forecast assumptions at this stage.
- 1.3 The Council remains financially resilient and continues to forecast adequate reserve balances at this stage. This is important as reserves provide added security when risks are high, the financial strategy relies on reserves to help balance the budget in 2022/23, and further financial pressures are expected in respect of the transition to a unitary authority as reflected in the proposed 2022/23 budget.
- 1.4 The General Fund **Revenue Budget** forecast is currently projecting an underspend of £3.204m for the current year, but with proposed budget carry forwards of £2.014m for costs slipping into next financial year and a transfer to capital financing of £570k. Taking these into account the net underspend is projected to be £620k. It is prudent to utilise such an underspend if still reported at year end to reduce the contribution from General Reserves to fund 2021/22 costs, which is currently budgeted to be £2m.
- 1.5 The total approved **Capital Budget** is £165.016m. Of this, the profiled budget spend for 2021/22 is £79.4m with a current forecast net underspend of £1.729m being reported. We are projecting £8.3m of slippage into next year mainly due to £2.9m on regeneration site delayed due to Phosphate remediation issues, £0.9m on Coal Orchard due to

materials and labour shortages, £1.5m on Firepool as a result of phosphate issues together with the rescheduling of the Trenchard Way intersection by Somerset County Council Highways, £0.5m due to delays on the SWP depot works and £0.7m on car park improvements now scheduled for 2022/23.

- 1.6 The unearmarked **General Reserves** balance is currently £5.843m. The projected balance at year end is £5.863m which will reduce to £4.488m based on future commitments, which is £1.661m above the current recommended minimum balance.
- 1.7 The General Fund **Earmarked Reserves** closing balance is currently projected to be approximately £27m. This is projected to reduce to £14m by March 2023 based on commitments for next year.

## **2 Recommendations**

- 2.1 This report is to be noted as the Council's forecast financial performance and projected reserves position for 2021/22 financial year as at 31 December 2021.

## **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. Managers have already significantly revised forecasts during Q3 which should reduce the likelihood of further material variances being reported at year end. However, experience shows that managers' optimism on spending assumptions can be overstated. There may also be matters beyond the Council's control that affect the final outturn position.
- 3.2 Salient in year budget risks are summarised in section 9 in this report. The Council manages financial risk in several ways including setting prudent budgets, carrying out appropriate monitoring and control of spend, operating robust financial procedures, and so on. The Council also holds both general and earmarked reserves which include contingencies to manage budget risk.

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

- 4.1 This report provides the Council's General Fund forecast end of year financial position in March 2022 for revenue and capital expenditure, as at 31 December 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 underspend of £3.204m (17.1% of £18.7m Net Budget). The main reasons for this are shown in table 2 below. The forecast shows a significant increase in the forecast underspend reported at Quarter 2 which was an underspend, before carry forwards, of £437k. The forecast net expenditure has therefore reduced by £2.767m since Q2 and the detail is included 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 and sustained changes in usage. The Government has so far provided emergency additional funding of £813k, which is included in our budget. We have also claimed 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**

	Original Budget	Virement	Current Budget	Outturn Forecast	Variance	
	£'000	£'000	£'000	£'000	£'000	%
Development and Place	2,230	1,040	3,271	2,743	-528	-16.1%
External Operations & Climate Change	8,282	2,347	10,629	9,229	-1,399	-13.2%
Housing & Communities	3,028	233	3,261	3,113	-87	-2.7%
Internal Operations	9,324	868	10,192	9,980	-212	-2.1%
Senior Management Team	544	0	554	563	9	1.62%
Provision for staff pay award (not yet agreed)	0	0	0	303	303	100.0%

	Original Budget	Virement	Current Budget	Outturn Forecast	Variance	
	£'000	£'000	£'000	£'000	£'000	%
<b>Net Cost of Services</b>	<b>23,419</b>	<b>4,488</b>	<b>27,907</b>	<b>25,994</b>	<b>-1,913</b>	<b>-6.9%</b>
COVID General Grants	0	-506	-506	-1,349	-843	166.6%
Investment Properties	3,407	-1,254	-4,662	-4,662	0	0.0%
Interest and Investment Income	-202	445	243	-360	-603	-248.0%
Expected Credit Losses	0	0	0	0	0	0.0%
Transfers to Earmarked Reserves	1,665	-1,265	400	400	0	0.0%
Transfers from General Reserves	-1,160	-912	-2,071	-2,071	0	0.0%
Capital and Other Adjustments	-1,602	-951	-2,553	-2,359	194	-7.6%
<b>Net Budget</b>	<b>-18,714</b>	<b>-45</b>	<b>18,759</b>	<b>15,593</b>	<b>-3,165</b>	<b>-16.9%</b>
Funding	-18,714	-45	-18,759	-18,798	-39	0.2%
<b>Variance</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>-3,204</b>	<b>-3,204</b>	<b>-17.1%</b>
<b>Proposed Carry Forwards (Not yet approved) – See Section 6</b>					<b>2,014</b>	
<b>Proposed Transfer to Capital Financing Reserves (Full Council 24 February 2022)</b>					<b>570</b>	
<b>Forecast Variance Net of Proposed Carry Forwards/Transfer to Capital Financing</b>					<b>-620</b>	

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

#### **Development & Place:**

5.6 The Development and Place directorate has a current net expenditure budget of £3.271m in 2021/22, which plans to deliver a range of services and projects including:

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

5.7 The directorate is currently forecasting a net underspend of £528k for the year, largely derived from vacancies and a difficulty in recruiting to key roles.

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

**Table 2: Development & Place Forecast Variances as at Q3**

Department Notes	Q3	Q2	Q1
	Variance £'000		
<b>Strategy and Policy:</b> Primarily driven by £166k of local plan fee budget release (spend expected to be in 22/23), £40.5k planning policy fees/hired services budget release, £49.6k vacancy savings and £20k of Wellington Station funding (spend expected in 22/23), £1k of subsistence/subscriptions/mileage budget releases. Partially offset by unbudgeted spend/forecast spend of £6.4k on job adverts, £2.2k on IT equipment for new starters, £2.5k for professional subscriptions.	-265	-155	-55
<b>Planning Obligations:</b> Vacancy savings	-9	-100	0
<b>Phosphates:</b> Savings due to 2 x FTC staff employment c9 months into the budget period. The remainder of the contract costs are budgeted in 22/23. Due to the issues with recruitment the operating cost budget will not be fully spend in 21/22 so £100k has been requested for carry forward to 22/23.	-182	-82	0
<b>Planning:</b> The service has struggled to recruit to vacant posts resulting in higher agency backfill costs (£39k). This variance also relates to budgeted grant income (£20k) that is not expected and other overspends on operational costs (mainly IT equipment & licences and Somerset Ecology fees (£32k)).	96	90	59
<b>Major &amp; Special Projects:</b> Following a review of establishment, vacancy savings have been included in the forecast of £81k. In addition, feasibility consultancy fee budgets of £57.3k have been released. This has been partially offset by spend on Heritage of £3.7k (boards/site inspection fees/legals), legal fees of £0.5k, general staff costs of £0.3k and premises insurance £0.8k.	-133	-138	0
<b>Other Minor Variances</b>	-35	-42	-7
<b>Total</b>	<b>-528</b>	<b>-427</b>	<b>-3</b>

### External Operations and Climate Change:

5.9 The External Operations and Climate Change directorate has reported current net expenditure budget of £10.629m 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

- 5.10 The directorate has reported a current forecast net underspend for the year of £1,399k as at the end of quarter 3.
- 5.11 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. This Q3 report shows a significant movement in forecast position, which is linked in part to reconciling those planned works which will be delivered in 2021/22 and those which fall into 2022/23. The nature of large-scale works.
- 5.12 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 known activity for 2021/22.

**Table 3: External Operations and Climate Change Forecast Variances as at Q3**

Department Notes	Q3	Q2	Q1
	Variance £'000		
<b>Major Contracts:</b> Major Contracts includes the following areas; Leisure, Waste, Building Control, Street Cleansing and Fleet Management. Following a fleet review and the introduction of a new fleet contract, the service is forecasting a £220k underspend. There is £370k in maintenance which has been ear marked for the replacement roof at Wellington Sports Centre. This work has been programmed for 2022/23. Waste contract costs are forecast to be less than budget. This contract is exposed to cost volatility and therefore the budget is set with some risk.	-721	-147	0
<b>Street Scene / Open Spaces:</b> It is requested to carry forward £100k for works to Hankridge Pond due to weather conditions delaying the project. £100k for the works to the bandstand in Vivary Park and £30k for Vivary Park footpath project. These were 2021/22 supplementary budgets funded from reserves. These works have been programmed for 2022/23. Forecast savings across fees and hired services and vehicle fuel. Salary savings due to active vacancy management.	-451	-306	-47
<b>Asset Management:</b> Forecast underspend across building costs and maintenance. This is due to reduced usage of council buildings and the service being unable to deliver all the programmed maintenance works. It is requested to carry forward £100k for the maintenance at Stogursey Wall and £14,250 for the installation of energy efficient heating in Market House. These were 2021/22 supplementary budgets funded from reserves and works have now been programmed for 2022/23. New lettings, completion of leases earlier than expected and proactive recovery of proportionate costs had led to an increase in income levels. This variance is subject to some risk from outstanding allocation of costs via the Open	-1,003	-598	-247

Department Notes	Q3	Q2	Q1
	Variance £'000		
Contractor system. Budgets across Assets are being realigned accordingly following another iteration of budget setting.			
<b>Public Health:</b> This variance is due to the cost of staff re-directed (and not backfilled) onto COVID-19 activities being fully funded through the Community Outbreak Management fund creating an underspend. There are also salary savings across the service due to staff vacancies. It is requested to carry forward £15k for the seagull control programme work. This was a 2021/22 supplementary budget funded from reserves. Due to change in legislation work was delayed, meaning that the spend will likely fall into next financial year.	-75	-35	-54
<b>Licensing:</b> Updated projections for income evidence related to both general and taxi licensing have identified a likely shortfall for this year.	62	47	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.	-262	-151	-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 £2.107m. This has been calculated using both 2020/21 and 2019/20 data and reflects a forecast 36% reduction in income. £390k has been claimed through the COVID Income Compensation Scheme for 71% of losses for April to June 2021. £155k from the COVID grant has also been allocated to help offset this income loss. The remainder can be offset from directorate and corporate underspends. £230k maintenance ear marked for the car park improvement project, programmed to take place in 2022/23.	1,599	1,911	1,937
<b>Climate Change:</b> Full Council agreed a one-off budget for 21/22 for further tree planting across the district. The Climate Change Team are working with a partner organisation to identify suitable areas for planting. It is forecast that the majority of planting will take place in next financial year, therefore it is requested to c/fwd £100k. There is also a forecast £480k c/fwd request from the CNCR budget, this is to meet some significant commitments to key projects that will run into next financial year. Some assumptions have been made when calculating this figure, therefore the carry forward request is subject to change.	-580	0	0
<b>Private Sector Housing:</b> Variance is due to a forecast loss in HMO licence income. Project work has been delayed.	75	47	28
<b>Other Minor Variances</b>	-43	-52	18
<b>Total</b>	<b>-1,399</b>	<b>716</b>	<b>1,498</b>

### Housing & Communities:

5.13 The Housing and Communities directorate has a current net expenditure budget of £3.261m 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.

5.14 The directorate has reported a current forecast net underspend of £87k at the end of quarter 3.

5.15 Whilst we are currently reporting some variances, 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 using 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 Q3**

Department Notes	Q3	Q2	Q1
	Variance £'000		
<b>Community Resilience:</b> This underspend relates to members of staff who have been seconded with no backfill and the completion of the final audit of the Cuckoo Meadow scheme has identified that funds (c£25k) were not drawn down in prior years to cover costs incurred by authority.	-55	0	0
<b>Minor Variances</b>	-31	16	5
<b>Total</b>	<b>-87</b>	<b>16</b>	<b>5</b>

**Internal Operations:**

5.16 The Internal Operations directorate has a current net expenditure budget of £10.192m 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

5.17 The directorate is currently forecasting a net underspend of £212k at the end of quarter achieved through vacancy savings and ICT operational service management efficiencies. A large proportion of the underspend has been generated by greater administration grant for Housing Benefit administration something which is outside of the control of officer forecasting.

5.18 The Revenues underspend includes the late start of the enforcement project due to other operational pressures. This underspend will be carried forward to complete the project. The delay resulted from our having to hold back the secondment of two staff from the Customer Services team to enable them to continue to provide support in call answering through the rollout of Recycle More.

**Table 5: Internal Operations Forecast Variances as at Q3**

Department Notes	Q3	Q2	Q1
	Variance £'000		
<b>ICT:</b> There is a £21k underspend identified in salaries due to in year vacancies. In addition, the service has managed to identify savings of c£29k to date by rationalising ICT network circuits, replacement of equipment and removing third party support costs. There has been a risk around the BT charges for Deane Helpline - due to a new redirect service which has incurred additional costs. Negotiations were made with BT to reduce the cost per call down, which has now been implemented. However, until this was agreed we continued to incur the higher charges.	-71	-99	-53
<b>Benefits:</b> This underspend results from receiving a greater amount of administration grant for administering Housing Benefit and Council Tax Support than we had originally budgeted for. The grant is to ensure we have sufficient funding to adequately resource the administration of Benefits behalf of the DWP. The DWP require us to undertake an increased amount of review work on claims this year. We may need to utilise some of this budget underspend later in the year to ensure we have sufficient resourcing to deliver to the required DWP standards. In additional the Benefits team have administered and received separate funding outside of the Benefits budget to deliver the Test & Trace payments scheme. We have transferred some staffing costs to be covered by the Test and Trace funding. Due to in year efficiencies through automation we have managed to keep abreast with most of the benefits administration work and the Test & Trace work hence the underspend forecast prediction.	-128	-134	-87

Department Notes	Q3	Q2	Q1
	Variance £'000		
<b>Revenues:</b> Part of the underspend is due to over recovery on court cost income due to catching up from last year. Bulk debt write off over 10 years is currently being done. There is a risk this may affect court cost income. The 2022/23 budget assumes that £99k is carried forward to fund the enforcement project as it didn't start until November 21. An additional £22k has now been requested due to further project slippage.	-245	-125	0
<b>Governance:</b> There are additional costs of £100k for the deputy monitoring officer together with costs of a T&P Liaison and Scrutiny Officer post plus an estimate of £20k for Community governance review offset by other staff underspends due to in year vacancies.	128	87	266
<b>Customer Services:</b> We are forecasting a £66k overspend across the Visitor Centre, Deane Helpline and Customer Services areas. This is predominantly due to a one off correction in historical payments to some members of staff following a review of their anti-social hours enhancement entitlements. This is partially offset by an increase in income of £10k. The Customer Services function is due to meet budget. Additional Agency costs required to cover additional call volumes due to the Waste disruption over the summer and the expected increase in demand due to the launch of Recycle More has been covered by existing vacancies. The Taunton Visitor Centre has experienced a significant reduction in events and travel bookings over the last six months. As the visitor centre income is based on commission sales this loss in income comes with a corresponding reduction in expenditure.	66	60	0
<b>People / HR:</b> The £100k vacancy saving target has now been allocated across directorates against staff underspends. There are staffing and training budget savings within the HR service that are being offset by overspends due to legal costs, compensation payments and additional iTrent costs.	65	73	92
<b>Shared Support Service Charges:</b> the proportion of shared support staff servicing the Housing Revenue Account (HRA) has been reviewed and updated to reflect current allocation of time and this has now been allocated out to the services it relates to for the Qtr3 position.	0	170	0
<b>Other Minor Variances</b>	-27	-7	-9
<b>Total</b>	<b>-212</b>	<b>25</b>	<b>209</b>

### Senior Management Team (SMT)

- 5.19 The SMT has a current net expenditure budget of £554k 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.
- 5.20 A very minor variance to budget is forecast at the end of quarter 3.

## Pay Award 2021

5.21 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%. Following feedback at Corporate Scrutiny Committee on the Q1 report this has now been shown as a separate line (rather than against SMT) in the summary table 1 above, and will be reflected across all service budgets once settlement is reached and implemented.

## Other Costs, Income and Reserve Transfers

5.22 As well as budgets allocated to directorates for the delivery of services, several budgets are reported 'below the line' as centrally held/corporate items.

5.23 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

5.24 A net underspend / income surplus of £1.291m is currently forecast as at the end of quarter 3, predominantly due to estimated income loss grant funding from Government and a more favourable interest payable and investment income position.

**Table 6: Forecast Variances as at Q3**

Department Notes	Q3	Q2	Q1
	Variance £'000		
<b>COVID General Grants:</b> £507k of the current COVID grant budget of £813k is being used to offset overspends on Leisure and Waste Services leaving £307k of this grant unallocated in 2021/22. A carry forward request has been put forward for £135k to fund the leisure contract deferred savings and £172k to fund the waste contract pressures in 22/23 due to COVID 19. The SFC compensation is only running until end of June 2021. The claim has been submitted and the estimated compensation from income loss is £415k, this mainly relates to carparking. New burdens grant of £120k was received in December 2021.	-843	-550	-430
<b>Investment Properties:</b> Commercial Investment income expected to be £69k higher than budgeted on new properties as per 24th Feb Council Report. This is offset by income from legacy properties	0	60	0

Department Notes	Q3	Q2	Q1
	Variance £'000		
being £69k lower than budgeted due to a £15k rent shortfall and increased landlord repair costs relating to rooves/gutters etc and scaffolding requirements plus a £9k provision for deposit refunds.			
<b>Interest Payable and Investment Income:</b> After a volatile and difficult year for treasury 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. Advantage has been taken of internal borrowing (available from cashflows used for unspent monies for service-delivery, balances for emergency and contingency reserves and monies from other commitments with a time lag before payments are made). Commercial Investments have occurred later than originally forecast together with slippage in other capital expenditure, which has reduced the borrowing periods within the current financial year. Attention has leaned more towards taking short-term borrowing in place of longer-term borrowing, creating greater flexibility on the approach to a new Somerset unitary authority. Meanwhile, current economic indicators (e.g. inflation) and market interest rate expectations remain particularly volatile, so substantial variations should be expected in the final outturn on borrowing costs.	-603	-221	-305
<b>Net Transfers from Earmarked Reserves:</b> The budget volatility and risk reserve is not required in year.	0	-517	-1,145
<b>Capital and Other Adjustments:</b> The overspend of £194k relates to an increase in the minimum revenue provision compared to original budget estimate.	194	194	80
<b>Other Minor Variances</b>	-39	-39	25
<b>Total</b>	<b>-1,291</b>	<b>-1,073</b>	<b>-1,775</b>

5.25 The Budget Volatility and Risk Reserve was created to underwrite the higher than usual risks within budget estimates. For example, the parking income base budget was not reduced in 2021/22 but the risk was known and covered by this reserve. The current outturn forecast for this year indicates that the expected shortfall of c£2m in parking income has been covered in part by grants from Government and then fully offset by other in-year underspend/savings. The S151 Officer recommends that the £2.4m is reprioritised as in-year budget risk is now vastly reduced (a) with £2m used towards financing the 2021/22 capital programme through additional revenue contribution (RCCO) and (b) £0.4m being transferred to General Reserves. Using £2m for capital financing represents a prudent measure to support financial sustainability by reducing future MRP and interest costs and reducing debt refinancing risk. The General Fund Revenue Budget and Capital Estimates 2022-23 report being presented to Full Council on 24 February 2022 includes this recommendation.

## 6 General Fund Proposed Carry Forwards

6.1 Whilst reviewing the predicted outturn position the following potential carry forwards of budget have been identified totalling £2.584m. Of these £982k relates to carry forwards that have been assumed in the 2022/23 budget proposal being presented to Full Council on 24 February 2022. If all of the carry forwards approved at the end of the financial year this would effectively roll forward this spending approval into next financial year, leaving a net underspend of £620k.

**Table 7a: Carry Forward Requests included within the 22/23 Budget Proposals**

	£'000
<b>Local Plan Feasibility:</b> As a result of team vacancies and Unitary the spend in this area has been delayed. Interviewing has been completed to fill roles and this will mean some spend will be incurred in 2021/22 but not as much as was anticipated. In addition, we are awaiting the Draft Order for Local Reorganisation which will set out the timeline for the adoption of a local plan for the new authority. This c/f is anticipated to fund budget pressures in the 2022/23 budget setting report.	94
<b>Phosphates:</b> Part of the costs relating to the 21/22 supplementary budget funded from reserves/carry forwards from 20/21 will fall into 22/23 due to a delay in recruitment. This c/f is anticipated to fund budget pressures in the 2022/23 budget setting report.	82
<b>Revenues Enforcement Project:</b> This project start date was delayed until Nov 21. Budget required for staffing in 22/23.	99
<b>Leisure Contract:</b> To fund a forecast 22/23 budget pressure arising due to COVID-19 and to be funded from the remaining COVID grant in 21/22.	135
<b>Wellington Sports Centre:</b> A new roof replacement has been programmed during 2022/23. This budget will be used to fund the capital cost of this so that further borrowing is not required.	370
<b>Somerset Waste Partnership:</b> to fund forecast 22/23 budget pressure due to COVID-19 from the remaining COVID grant in 21/22.	172
<b>Footpath Maintenance:</b> Works programmed to continue into 22/23.	30
<b>Sub-Total</b>	<b>982</b>

**Table 7b: Further requests to carry forward not currently included in the 22/23 budget proposals**

	£'000
<b>Local Plan Feasibility:</b> An initial £94k was flagged to be carried forward to the 22/23 budget, this is remaining spend within the same budget and is recommended to also be carried forward.	71
<b>Phosphates Consultancy:</b> This was a 21/22 supplementary budget funded from carry forwards from 20/21. Due to the evolving nature of the phosphates work and the fact that there has been a delay in recruiting staff (roles filled in late Nov) budget spend has been delayed with the requirement to role further funds forward to 22/23.	100
<b>Revenues Enforcement Project:</b> This project start date was delayed further which means more cost will slip into 22/23 that wasn't included in the 22/23 staffing budget	22
<b>Seagull Control Programme:</b> This was a 21/22 supplementary budget funded from reserves. Due to changes in legislation this work will be delayed and will fall into next financial year.	15

	£'000
<b>Tree Planting:</b> This was a one-off budget for 21/22 to further tree planting across the district. The Climate Change Team are working with a partner organisation to identify suitable areas for planting. It is forecast that the majority of the planting will take place in next financial year.	100
<b>Market House:</b> The heating repair and maintenance works have been delayed due to listed building consent being required.	14
<b>Hankridge Pond Work:</b> This was a 21/22 supplementary budget funded from reserves. Works have been delayed and cannot take place during winter meaning that the spend will fall into next financial year.	100
<b>Vivary Park Bandstand:</b> There are some subsidence issues requiring structural investigation works which will delay actual refurbishment works into 22/23.	100
<b>Stogursey Wall:</b> Work is in progress and will continue into 22/23.	100
<b>CNCR:</b> To meet significant commitments to key projects that will run into next year, such as Phase 2 of EV charging point strategy, nature recovery projects, installation of solar PV.	390
<b>Sub-Total</b>	<b>1,012</b>

**Table 7c: Request for new Item**

	£'000
<b>Wellington Station Feasibility:</b> Work to date has been paid for by SWT & Mid Devon as well as part funded by DfT. The overall project will now be funded by Network Rail, but there is the likely requirement for additional feasibility works by SWT in Mar/Apr 22. There is funding in 21/22 to facilitate this work, which is requested to be carried forward.	20

**Table 7d: Request to transfer to capital financing**

	£'000
<b>Car Park Improvement Project:</b> Car park and Asset maintenance underspend. Identified revenue contribution to capital, to help fund the Car Park Capital Improvement Project of £480k. With a further £90k from the CNCR budget.	570

6.2 Carry Forwards for items up to £150k can be approved by the S151 Officer, which would follow consultation with SMT and portfolio holders. Carry Forwards for items above £150k require Executive Committee approval.

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

### **Unearmarked Reserves**

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

7.2 Approved allocations from general reserves are shown in the table below. Within the 2022/23 budget setting report is it recommended that a supplementary budget in 2021/22 of £1m for additional debt repayment budget; return £0.4m from the Budget Volatility and Risk Earmarked Reserve in 2021/22 and the 2022/23 budget proposals include a contribution of £1.375m for LGR costs.

7.3 The net underspend position after the carry forward requests is £620k. The expectation is that this amount would be returned to General Reserve hence reducing the amount required towards the 2021/22 budget.

**Table 8: 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 - Project Management Resources	Director/S151 – 15/07/21	-19
<b>Current Balance</b>		<b>5,843</b>
Recommended Supplementary Budget – Debt Repayment (subject to approval Full Council 24/2/2022)	Full Council – 24/2/22	-1,000
Recommended Return from the Budget Volatility and Risk Earmarked Reserve (subject to approval Full Council 24/2/2022)	Full Council – 24/2/22	400
<b>Balance After Approvals</b>		<b>5,243</b>
Forecast – Q3 Projected Underspend net of Proposed Carry Forwards and Reserve Transfers		620
<b>Projected Balance 31 March 2022</b>		<b>5,863</b>
Planned Use of Reserve in 2022/23 for LGR		-1,375
<b>Projected uncommitted balance</b>		<b>4,488</b>
Recommended Minimum Balance		2,400
Projected Balance above Minimum Reserve Balance		2,088

7.4 Although reserves are currently projected to be above the minimum reserves balance, Members are advised that significant financial risks remain not least the transition to the unitary council and the need to ongoing financial sustainability measures in future. It is strongly recommended by the S151 Officer that reserves are maintained above the recommended minimum to provide flexibility and resilience in this context.

### **Earmarked Reserves**

7.5 The General Fund Earmarked Reserves brought forward balance for 2021/22 is £33.8m. 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 predominantly but also the spread of deficit over 3 years where required. The net budgeted/approved and projected transfers from earmarked reserves in 2021/22 is currently £6.525m.

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

**Table 9: General Fund Earmarked Reserves**

	<b>Opening Balance 1 April 2021 £'000</b>	<b>Budgeted/ Approved Transfers £'000</b>	<b>Projected Transfers £'000</b>	<b>Closing Balance 31 March 2022 £'000</b>
2020/21 Business Rate Holiday S31 Grant	11,695	-11,118	4,905	5,482
2020/21 Business Rate Losses S31 Grant	3,081	-999	0	2,082
Covid Additional Relief Fund (CARF) S31 Grant	0	0	1,162	1,162
Business Rates Volatility	5,375	415	0	5,790
Investment Risk	3,673	-673	0	3,000
Investment Assets Sinking Fund	0	500	0	500
Budget Volatility & Risk (transfer subject to approval Full Council 24/2/2022)	2,400	0	-2,400	2,400
Commercial Investment Financing Fund	0	2,173	0	2,173
General Carry Forwards	2,112	-2,112	1,308	738
Garden Town Fund	870	-68	0	802
Economic Development Initiatives	769	0	0	769
Asset Management	687	0	400	1,087
Community Housing Grant (ring-fenced)	533	0	0	533
Other Smaller Balances	2,648	-18	0	2,630
<b>Total</b>	<b>33,844</b>	<b>-11,900</b>	<b>5,375</b>	<b>27,318</b>

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

- 8.1 The current Capital Programme Budget is £165.016m in total (see **Appendix A**). This consists of £5.151m of new schemes approved in February 2021 (for £3.117m in 2021/22 and £2.034m in 2022/23), plus £153.899m of previously approved schemes from prior years.
- 8.2 This also includes in-year supplementary budgets for Development & Place of £2.258m for Future High Street schemes approved by Full Council on 7 September 2021, £2.0m for Phosphates approved by Full Council on 5 October 2021 and £400k restoration to Toneworks fully funded by a Historic England grant approved September 2021.
- 8.3 For Housing & Communities a supplementary budget of £380k for the Single Homeless Strategy approved by Full Council on 5 October 2021 and a return of £522k to realign funding to match budget for the disabled facilities grants as approved by the Executive on the 15 September 2021.
- 8.4 In addition, the following were approved under delegated authority: £433k CIL payments to Parishes, £150k for electrical vehicle charging points, £80k for Finance System licences and £50k for Watchet Cleeve Hill.
- 8.5 There are also capital works of £821k under S106 obligations mainly consisting of Norton Fitzwarren play pitches and play areas. The Section 151 Officer has approved

supplementary capital budgets for each of the S106 schemes to represent the spend commitment and match funding held.

- 8.6 The Council plans to finance this investment through Capital Receipts, Capital Grants, Revenue Funding and Borrowing (see **Appendix B**).
- 8.7 The General Fund Capital Budget relates to schemes which are estimated to be completed over the next four years. The current annual profiling of approved budget is summarised in **Appendix C**.
- 8.8 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 carry forwards of £8.337k and net underspend against profiled budget for 2021/22 of £1.729k.
- 8.9 **Development and Place:** Capital Funding is provided for Development activity and Property Investment Activity. These budgets are governed via the Directorate and Programme Boards before being reported to Full Council. The slippage is mainly as a result of the phosphate related planning issues preventing progress on a proposed development site (£2.9m), Coal Orchard delayed by supply and labour shortages, and Phosphate related revision to the development plan on Firepool, off set by higher than expected CIL funded purchase of the Comeytrove Primary School site. The underspend is primarily as a result of a saving on the Commercial Investment programme which completed £1.056k under budget.
- 8.10 **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 slippage of £1.793k which is due to cost of depot works for Recycle More likely to fall into 2022/23, Car Park improvements programmed into 2022/23, new Fleet Contract, delays on Blue Anchor in obtaining approval from the Marine Management Organisation and on the Wellington Leisure Centre quotations for works higher than budget resulting in re-assessment of the options. The underspend of £310k is mainly related to savings on the Fleet contract and Compliance costs being revenue and not capital costs.
- 8.11 **Housing and Communities:** The capital programme has been updated to reflect the Single Homelessness and Rough Sleeper Accommodation Strategy & Delivery Plan passed by full council on 5th October. The strategy identifies the demand for additional accommodation, splits this down by specific need, and puts in place an end-to-end process of interventions, from early help through to tenancy support. The delivery plan looks at the accommodation and support requirements and identifies how these may best be delivered, whether that is through partner providers (preferred) or whether this is through direct intervention by SWT. RSAP grants are front-loaded and therefore we plan to use this first and our Better Care Fund has slipped to next year

- 8.12 **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.
- 8.13 **Hinkley:** The Hinkley funded projects saving related to projects that are complete.
- 8.14 **S106 Schemes:** The S106 projects relate to schemes on which costs have been incurred in the current year as per the obligations under the S106 agreements.

## **9 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 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.
- 9.2 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):** The project lead is thoroughly reviewing and improving the efficient and accurate operational use of OC. The ability of affected services to accurately forecast their outturn position on job costs apportioned via 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) **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, procured and delivered. Whilst additional budget provision has been added for 2021/22 the full extent of the financial pressure remains uncertain as more information is gathered.
- i) **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.
- j) **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.
- k) **Revenues & Benefits:** The position on rent allowances/rent rebates could change significantly (approximately £200-£300k) as a result of the recoupment and debt impairment adjustments. We can calculate these at a given point in time but are unable to reliably forecast what these will be at year end as the financial implications are volatile.
- l) **IT:** There is a risk around the cost of BT charges for Deane Helpline due to a new redirect service. Negotiations are being made with BT to reduce the cost per call down however if this is unsuccessful there could be increased costs of £63k above the current projection.
- 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. The highest value risk applies to Hinkley Point B nuclear power station which accounts for almost 20% of the tax base within SWT area. The power station was temporarily shut down for the majority of 2020/21 resulting in a large refund and is currently due to commence decommissioning no later than July 2022. Any earlier shut down or decommissioning could have a material impact on funding.
- 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 Collection Fund in the current year and future years, which would impact on the General Fund budget in future years through the Surplus or Deficit recovery. Regular review of statistics will be undertaken to monitor the situation.

## 10 Links to Corporate Aims / Priorities

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

## 11 Partnership Implications

- 11.1 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.

## 12 Scrutiny Comments / Recommendations

12.1 This report was considered, and the recommendations supported by the Community Scrutiny Committee on 2 March 2022.

12.2 The main comments and questions were related to:

- (a) A number of comments were made about the operation of the car parks including broken barriers, the loss of income including causes of this and usage seen in different car park locations and how the income is used.

In response to how car parking income, it is important to differentiate between on-street and off-street car parking. On-street parking income (charged by the county council) usage is restricted to expenses such as parking management and enforcement, highways management and environmental improvements. Off-street parking income arises from traffic management, and driver usage and compliance. The income is used to cover the costs of providing and managing off-street parking services. This is not ring-fenced income however and if ultimately a surplus arises this can be used for the purposes of any lawful General Fund expenditure. Equally if a deficit arises this must be made good by the General Fund.”

- (b) A request was made for the total amount of government grants received over the last two years. Officers propose to collate this information at year end to include all grants for 20/21 and 21/22.
- (c) A comment was made about the timing and content of the Q3 report vs the Budget Setting Report.
- (d) A comment was made with regards to the change in variances presented in the quarterly reports during the year and the trends seen year on year.
- (e) Councillors expressed their gratitude to the S151 Officer and the Finance Team for supporting the authority in managing the budgets through difficult and constantly changing circumstances. Councillors also expressed their gratitude to the officers involved investing in commercial assets that are realising c£4m net income.

### Democratic Path:

- **Corporate Scrutiny – 2 March 2022**
- **Executive – 16 March 2022**
- **Full Council - No**

**Reporting Frequency: Quarterly**

### List of Appendices

Appendix A	Approved Capital Budget
Appendix B	Capital Financing of Total Approved Budget
Appendix C	Annual Profiling of Approved Capital Budget

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