

# Somerset West and Taunton Council

## Corporate Scrutiny – 7 September 2022

### Executive – 21 September 2022

#### 2022/23 General Fund Financial Monitoring as at Quarter 1 (30 June 2022)

This matter is the responsibility of Executive Councillor Benet Allen, Portfolio Holder for Communication and 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 2022/23 (as at 30 June 2022 forecast).

1.2 It is well reported that the economic situation is challenging with the cost-of-living crisis, high inflation, and rising interest rates. These factors will hit our communities and businesses, and the Council is also not immune as seen in the latest forecasts. The risks to day-to-day service costs are seen with inflationary pressures of c£750-£850k with rising costs of utilities, energy, fuel etc and a provision for potential staff pay award exceeding budget.

1.3 The headline estimates for **revenue costs** are:

Revenue Budget	£0.326m forecast overspend	Red
General Reserves	£6m forecast balance = favourable compared to £2.4m minimum requirement	Green
Earmarked Reserves	£28m at start of year, forecast to reduce to £12m by year end as funds are used as planned.	Green

1.4 The projected overspend of £0.326m is significant, driven mainly by inflationary pressures. However, it is important to note that this is the first, early forecast for the year with 9 months remaining until year end and it is anticipated that management will control the overall position to remain within budget at outturn. This will be carefully monitored with updates reported to Members on a quarterly basis. The level of General Reserves provides significant resilience to mitigate the risk of overspend if required.

1.5 The current total approved **Capital Budget** is £63.540m and relates to the Capital Programme for continuing and new schemes approved for 2022/23. The budget is profiled with estimated spend totalling £25.195m in this financial year and £38.346 in later years. A net underspend of £0.124m is currently projected against the total budget. Whilst there is an ongoing inflation risk to works not yet under contract, budget managers are not yet forecasting significant pressures for General Fund schemes – this will be kept under review throughout the year.

## **2 Recommendations**

- 2.1 Executive to note the Council's forecast financial performance and projected reserves position for 2022/23 financial year as of 30 June 2022.
- 2.2 Executive to approve budget transfers ("virement") of:
  - a) £473,420 to realign budgets in both Bereavement Services and Grounds Maintenance reflecting the accounting change of the service level agreement.
  - b) £302,040 to realign budgets across Commercial Services to mitigate the forecast pressure on car parking income.
- 2.3 Executive to approve a transfer of £1,200,000 from the Business Rates Volatility Reserve with £1,000,000 to the Investment Risk Reserve and £200,000 to the Investment Sinking Fund.

## **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 inflation being experienced in the current economic operating environment and based on experience it is feasible the year end position could change. It is common for underspends to emerge during the year, reflecting an optimism bias within previous forecasting. 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 30 June 2022.
- 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 monthly 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 2022/23 Forecast Outturn

- 5.1 The Council's General Fund is currently forecasting an overall net overspend of £326k (1.9% of £17.018m Net Budget). The main reasons for this are shown in tables 1 to 6 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. Rising inflation and interest rates adds to uncertainty and risk. There has been an immediate impact on service costs and income, for example a rise in the cost of materials, gas, electric and fuel.
- 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.
- 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 2022/23**

	Original Budget £'000	Approved Changes £'000	Current Budget £'000	Outturn Forecast £'000	Variance	
					£'000	%
Development and Place	4,044	117	4,161	4,324	163	3.9%
External Operations & Climate Change	10,037	928	10,965	10,763	-202	-1.8%
Housing & Communities	3,234	0	3,234	3,186	-48	-1.5%
Internal Operations	9,750	103	9,853	10,083	230	2.3%
Senior Management	594	-14	580	583	3	0.6%
Local Government Reorganisation	1,375	0	1,375	1,375	0	0.0%
Provision: Pay Award Shortfall	0	0	0	564	564	100.0%
<b>Net Cost of Services</b>	<b>29,034</b>	<b>1,134</b>	<b>30,168</b>	<b>30,878</b>	<b>710</b>	<b>2.4%</b>
COVID General Grants	0	0	0	0	0	0.0%
Investment Properties	-4,490	0	-4,490	-4,490	0	0.0%
Interest and Investment Income	-516	0	-516	-900	-384	74.3%
Expected Credit Losses	0	0	0	0	0	0.0%
Transfers to Earmarked Reserves	-5,387	-1,234	-6,621	-6,621	0	0.0%
Transfers from General Reserves	-1,375	0	-1,375	-1,375	0	0.0%

	Original Budget £'000	Approved Changes £'000	Current Budget £'000	Outturn Forecast £'000	Variance	
					£'000	%
Capital and Other Adjustments	-248	110	-138	-138	0	0.0%
<b>Net Budget</b>	<b>17,018</b>	<b>10</b>	<b>17,028</b>	<b>17,354</b>	<b>326</b>	<b>1.9%</b>
Funding	-17,018	-10	-17,028	-17,028	0	0.0%
<b>Variance</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>326</b>	<b>326</b>	<b>1.9%</b>

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

#### Development & Place:

The Development and Place directorate has a current net expenditure budget of £4.161m in 2022/23, which plans to deliver a range of services and projects including:

- Strategy, policy development including the Local Plan and implementation of infrastructure projects.
- Planning services Development Management – pre-application advice, applications processing and enforcement and implementation of interim phosphate measures
- Economic development, culture & arts
- 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')

5.6 The directorate is currently forecasting a net overspend of £163k for the year, largely derived from the use of agency staff due to the difficulty in recruiting to key roles, particularly in Development Management.

5.7 The current inflationary pressure does not have any significant impact on the directorate as there are few premises or transport related costs.

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**

Department Notes	Q1 Variance £'000
<p><b>Planning:</b> Variance driven by the expectation that staff vacancies will be covered by agency c£118k for the remainder of the year and additional supplementary agency support c£77k. In addition, there are also unbudgeted IT costs relating to the Acolaid infrastructure of £9k. There are potential further cost pressures due to legal fees, which at this stage cannot be quantified.</p> <p>Fee income for Q1 was lower than the budgeted run rate but has been forecast to budget as it historically has been volatile. A portion of planning fee income</p>	166

Department Notes	Q1 Variance £'000
relating to undetermined applications was carried forward from 21/22 to this year. The opportunity may exist to release some of this to offset any shortfall in Q1 income, however, this cannot be confirmed until later in the year. There is a reserve of £50k that can be used to pay for specialist technical advice. This has been fully utilised.	
<b>Other Minor Variances</b>	-3
<b>Total</b>	163

### External Operations and Climate Change:

The External Operations and Climate Change directorate has a current net expenditure budget of £10.965m in 2022/23, 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

- 5.9 The directorate is currently forecasting a net underspend of £202k for the year. This underspend is largely derived from increased income across Assets, active management of costs and the successfulness of the Environment Enforcement Litter Scheme.
- 5.10 Rising inflation is placing financial risk on the council as it sees an increase in the cost of supplies such as utilities and materials. The Directorate has reviewed the pressure placed on its services and included best estimates as part of the quarterly budget review.
- 5.11 The Executive is requested to approve a budget virement of £473,420. It is requested to move the Grounds Maintenance staffing, vehicle and equipment budgets allocated in Bereavement Services to Grounds Maintenance. An internal recharge will then be processed to reflect the Service Level Agreement between Grounds Maintenance and Bereavement Services. Budgets in both areas remain the same.

	<b>22/23 Current Budget Bereavement Services £</b>	<b>22/23 Revised Budget Bereavement Services £</b>	<b>22/23 Current Budget Grounds Maintenance £</b>	<b>22/23 Revised Budget Grounds Maintenance £</b>
<b>Employee</b>	184,470	0	0	184,470

<b>Transport</b>	22,700	0	0	22,700
<b>Equipment</b>	29,540	0	0	29,540
<b>Internal Recharge</b>		236,710		-236,710

5.12 Car Parking: As part of the 22/23 budget setting process, the income budget for car parking was reduced by 25%, £1,476m. During the quarter 1 budget monitoring process, savings have been identified across the Directorate and budgets realigned to further reduce the car parking income budget by £302k. Therefore, in total a £1.778m budget reduction from 2021/22. This is in line with the forecast reduction and changes in usage that the council is seeing across its car parks following COVID-19. The Executive is requested to approve a budget virement of £302,040.

5.13 The directorate is planning to carry forward a budget underspend in the range of £400k to £500k to meet significant commitments to key Climate Change projects that will run into next financial year. The budget for Climate Change will need to be agreed by the new Unitary Council as part of the 23/24 budget setting process.

**Table 3: External Operations and Climate Change Forecast Variances**

<b>Department Notes</b>	<b>Q1 Variance £'000</b>
<b>Major Contracts:</b> A £60k contingency budget was allocated for the Environment Enforcement Litter Scheme, this budget is currently not required as the income from the Fixed Penalty Notices is offsetting costs. Capitalising salary costs for the Car Park Improvement Scheme has created an underspend of £70k.	-125
<b>Asset Management:</b> There is a forecast increase in income of £277k. This is owing to; new lettings which were unknown at budget setting time £70k, delayed vacation of tenants £75k, transfer of units at Coal Orchard £90k and proactive recovery of proportionate costs, £42k At budget setting time it was assumed that the income and expenditure would balance out for Coal Orchard, however due to the delay in site handover the void costs are forecast to be higher than anticipated, c£140k. Assumptions have been made on the timing of tenant occupancy, therefore this forecast overspend could reduce. Forecast increase in electricity costs across all buildings, £95k. A budget of £50k was identified for bad debt provision, it is predicted that this budget is no longer required. Other minor underspends across maintenance budget lines £30k.	-121
<b>Other Minor Variances</b>	44
<b>Total</b>	<b>-202</b>

**Housing & Communities:**

5.14 The Housing and Communities directorate has a current net expenditure budget of £3.234m in 2022/23, which plans to deliver a range of services and projects including:

- Housing options include accommodation and support for homelessness and rough sleepers
- 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.

5.15 The directorate is currently reporting a forecast net underspend of £48k.

5.16 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. Aside from this, there is increasing demand from the Homes for Ukraine scheme with many placements due to end from September that will present to the Homelessness Service as well as the relocation of refugees (largely from Syria and Afghanistan) under the government's Resettlement Scheme for Refugees. This is all within the context of substantial pressure on our resources to deliver our ambitions for single homeless customers and our need to decant the Canonsgrove facility, which makes financial certainty challenging.

5.17 The inflationary pressure within this Directorate is minimal and will mainly relate to the cost of materials, contracts and staffing costs to deliver services within the Homelessness function.

**Table 4: Housing & Communities Forecast Variances**

<b>Department Notes</b>	<b>Q1 Variance £'000</b>
<b>Community Resilience:</b> This underspend is attributable to a number of staffing changes including a secondment that was not backfilled.	-56
<b>Other Minor Variances</b>	8
<b>Total</b>	<b>-48</b>

**Internal Operations:**

5.18 The Internal Operations directorate has a current net expenditure budget of £9.853m in 2022/23. This delivers a range of support services and corporate projects, as well as budgets for a range of centrally held corporate costs and corporate savings targets. 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

- Administration of COVID and other hardship grant schemes
- 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

5.19 The directorate is currently forecasting a net overspend of £230k for the year. This comprises £30k projected net overspend with respect to the Directorate's operational areas. The net position includes additional income from grant for Housing Benefit administration and new burdens funding which exceeds the original budget. Service-related cost pressures include project management costs and projected overspend in the Taunton Visitor Centre and Deane Helpline. In addition, £200k relates to the corporate efficiency savings target where the programme is in progress, but we will report delivered cashable savings against this target as the year progresses. These points are explained further below.

5.20 Within Internal Operations there are not many utility or transport costs and hence the main impact of inflation is within IT. Within the current forecast, where contract figures are unknown, we have estimated the increase at 6%. However, some of the known increases to date have been 7 – 8.5%. If this was the case for all currently unknown contract figures, then there would be a further cost pressure of £15-20k.

**Table 5: Internal Operations Forecast Variances**

Department Notes	Q1 Variance £'000
<b>Internal Change:</b> Forecast variance mainly due to Service Efficiency and Improvement Programme (SEIP) project management costs to December. Funding options are being explored to mitigate this cost.	78
<b>Benefits:</b> £73k of this underspend results from receiving a greater amount of administration grant, Verify Earnings and Pensions (VEP) and new burdens than budgeted for. 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 addition, there is a £28k staff underspend due to reduction in some contracted hours and reduced pension contributions.	-100
<b>Customer Services:</b> The visitor centre is forecast at £31k overspent. We don't know how much the market will bounce back yet. Based on last year's income we're estimating we will recover 50% of our target budget, which corresponds with a 50% expected spend on items for resale. Electricity prices are rising quickly, we've estimated our spend but this could be higher due to the expected increase in October. The	116



<b>Department Notes</b>	<b>Q1 Variance £'000</b>
Deane Helpline is forecast at £81k overspent (Staffing £72k). Some of the allowances agreed for one part of the team together with all the additional payments for holiday pay were agreed after budget setting and therefore some of the additional costs were not included in the budget for 22/23. The rest of the potential staffing overspend is being looked at in more detail.	
<b>Finance:</b> Centrally funded pension costs projected £30k below budget and staff savings £29k.	-69
<b>Other Minor Variances</b>	5
<b>Total</b>	<b>30</b>

5.21 Reported within Internal Operations are corporate savings budgets regarding staff vacancies and service efficiencies.

### **Savings Targets**

<b>Department Notes</b>	<b>Q1 Variance £'000</b>
<b>Efficiency Savings:</b> Whilst significant efficiencies are being delivered the budget requires cashable savings to be realised, which are currently below target. This will continue to be targeted through the programme to reduce this variance.	200
<b>Total</b>	<b>200</b>

### **Senior Management Team (SMT)**

5.22 The SMT has a current net expenditure budget of £580k in 2022/23. This budget line holds the costs of the senior leadership team (Chief Executive and Directors) plus a small contingency to support strategic priorities arising in-year. A very minor variance to budget is forecast at the end of Quarter 1.

### **Local Government Reorganisation (LGR)**

5.23 This one-off budget of £1.375m provides for SWTC costs related to LGR in Somerset. This includes £1m for a contribution to the LGR Implementation held by Somerset County Council (£912k budgeted contribution plus £88k contingency) plus £375k to provide for additional capacity to support transition costs incurred by SWTC because of the programme. This is currently forecasting to budget.

### **Pay Award 2022**

5.24 The 2022/23 approved budget assumed a 2% pay award. The forecast outturn position provided by services (reported above) include this 2% assumption.

5.25 A further financial pressure based on an additional 3% pay award has been estimated at £564k for the General Fund, recognising recent pay settlements in the public sector all exceeding 2% (teachers, police, NHS). Local Government pay is subject to

negotiation between the employers' associations and unions – this process is ongoing. This provisional forecast based on an average 5% is a prudent finance officer's 'best guess' for financial forecasting purposes, without prejudice to these ongoing negotiations.

5.26 Actual costs will be reflected across all service budgets once settlement is reached and implemented.

### Other Costs, Income and Reserve Transfers

5.27 As well as budgets allocated to directorates for the delivery of services, several budgets are reported 'below the line' as centrally held/corporate items. This area 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)
- Transfers to and from general and earmarked revenue reserves
- Capital accounting adjustments including capital debt repayment, revenue financing of capital costs, and transfers to and from capital reserves

5.28 A net underspend / income surplus of £384k is currently being forecast for the year, predominantly due to a more favourable interest payable and investment income position.

5.29 Investment Properties are forecasting a shortfall in income due to voids £103k, which has largely been offset by a reduced interest cost with the balance of £17k to be made up from the risk reserve. On the Legacy Investment properties, repair and maintenance costs are forecast to be £30k higher than budget, and this will be funded from the risk reserve.

**Table 6: Forecast Variances**

Department Notes	Q1 Variance £'000
<b>Interest Payable and Investment Income:</b> Treasury management activities have generated some good value for money. Concerted action has been taken to mitigate treasury risks highlighted in earlier reports. So, whilst the cost of interest on borrowing has been contained by careful timing and profiling of new external borrowing, interest receivable on the investment of cashflow and contingency balances has benefitted from increasing money market interest rates and continued strong performance in longer-term investments. Close attention continues to be placed on markets and on cashflows, which remain susceptible to volatility, movements and changing circumstances. Any impacts will continue to be reported throughout the forthcoming financial year.	-384
<b>Total</b>	<b>-384</b>

### General Reserves

- 5.30 The opening general reserves balance as at 1 April 2022 is £7.592m, representing unearmarked reserves held to provide ongoing financial resilience and mitigation for unbudgeted financial risks.
- 5.31 As part of the budget setting proposals to Full Council on 24 February 2022 and the Financial Strategy agreed by the Executive in July 2021, £1.375m of current reserves will be used to fund a contribution towards the Local Government Reorganisation (LGR) costs. Further approved (or proposed) allocations to / from general reserves are shown in the table below.

**Table 7: General Reserve Balance**

	<b>Approval</b>	<b>£000</b>
<b>Balance Brought Forward 1 April 2022</b>		<b>7,592</b>
2022/23 Original Budget Transfers from Reserve	Council – 24/02/2022	-1,375
<b>Current Balance</b>		<b>6,217</b>
Transfer to Coal Orchard Warranty Earmarked Reserve	Council – 05/07/2022	-185
Released Earmarked Reserves	S151 / SMT – 10/08/22	197
<b>Balance After In-Year Approvals</b>		<b>6,229</b>
Forecast – 2022/23 Projected Overspend		-326
<b>Projected Balance 31 March 2023</b>		<b>5,903</b>
Recommended Minimum Balance		2,400
Projected Balance above Minimum Reserve Balance		3,503

- 5.32 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 for 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 the medium term, with any future use in the current financial year prioritised to any unavoidable and unfunded financial pressures only.

### **Earmarked Reserves**

- 5.33 The General Fund Earmarked Reserves brought forward balance for 2022/23 is £28m. This balance is forecast to reduce by c£16m this year as funds are utilised to offset the Business Rates Collection Fund Deficit; for capital financing purposes; and funding of service costs and grant-funded activities. A remaining balance at year end of c£12m is currently projected of which c£9m mitigates financial risks related to business rates funding and property investments.
- 5.34 The original net budgeted/approved and projected transfers from earmarked reserves in 2022/23 is £12.929m.
- 5.35 The following table details those reserves with balances greater than £500,000.

**Table 8: General Fund Earmarked Reserves**

	<i>Info: Budgeted Transfers £000</i>	<b>Balance 1 April 2022 £000</b>	<b>Transfers To Date £000</b>	<b>Forecast Transfers £000</b>	<b>Balance 31 March 2023 £000</b>
Business Rates Holiday S31 Grant	-6,645	5,811	0	-5,811	0
Business Rates Volatility	-718	5,353	-718	-2,034	2,601
Investment Risk	0	3,151	0	953	4,104
Business Rates Losses S31 Grant	-897	2,499	0	-897	1,602
Investment Financing Fund	-2,000	2,000	-2,000	0	0
Capital Funding	-738	1,413	-738	-76	599
<b>Sub-Total Risk Reserves</b>	<b>-10,998</b>	<b>20,227</b>	<b>-3,456</b>	<b>-7,865</b>	<b>8,906</b>
General Carry Forwards	-900	2,075	-900	-1,175	0
Garden Town Fund	-213	978	-213	-365	400
Economic Development Initiatives	-372	643	-372	-271	0
Homelessness Prevention	-113	564	-113	-60	391
Asset Management	-280	519	-280	-239	0
Investment Assets Sinking Fund	0	500	0	200	700
Other Smaller Balances	-53	2,484	-194	-701	1,589
<b>Sub-Total Other Reserves</b>	<b>-1,931</b>	<b>7,763</b>	<b>-2,072</b>	<b>-2,611</b>	<b>3,080</b>
<b>Total</b>	<b>-12,929</b>	<b>27,990</b>	<b>-5,528</b>	<b>-10,476</b>	<b>11,986</b>

5.36 Earmarked reserves are set aside for a specific purpose and are reviewed on a regular basis. This quarter £197k of earmarked reserves are proposed to be released and returned to General Reserves as they are no longer required for their original purpose. This relates to (1) £65k that was set aside in anticipation to fund Recycle More that has been fully funded by the Somerset Waste Partnership, (2) £50k for staff parking income previously set aside but now forms part of the base budget, and (3) £82k of carry forward items that had already been budgeted for in the 2022/23 base budget.

## **6 Business Rates and Investment Reserves**

6.1 Business rates reserves are held to manage risk and manage accounting timing differences between financial years that are a feature of the Business Rates Retention (BRR) funding system.

6.2 The S151 Officer has reviewed the recently update projected balance in the Business Rates Volatility Reserve compared with the risk of funding volatility now that SWT has reduced its BRR funding budget to the Safety Net. In this scenario the risk of adverse variance to budget is reduced. The S151 Officer therefore recommends that £1.2m is reallocated to increase resilience to investment risk and investment management costs with £1m added to the Investment Risk Reserve and £0.2m added to the Investment Assets Sinking Fund. This supports ongoing financial resilience and forms a further step in mitigating risk following the external auditor's recommendation in December 2021 relating to investment and borrowing risks. It also means the planned increases in transfers to these reserves over the next 3-4 years can be reduced thus reducing the

projected budget gap within the MTFP. These proposed transfers are reflected in the forecast column in Table 8 above.

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

- 7.1 The current Capital Programme Budget is £63.540m in total (see **Appendix A**). This consists of £60.977m of previously approved schemes from prior years and £1.715m of new schemes approved in February 2022, as well as in year approvals of £981k of supplementary budgets and £132k of budget returns.
- 7.2 In-year supplementary budgets include (1) Development & Place: £775k for Coal Orchard additional costs approved by Full Council on 5th July 2022, (2) External Operations: £40k for Litter Bins and £70k for Vivary Park Footpaths, both approved by the Deputy Chief Executive & Director Place and Climate Change and the Assistant Director - Finance (S151 Officer), as well as £262,280 for Blue Anchor Coast Protection, approved by Full Council on 5 July 2022, and (3) S106 funded projects that have commenced.
- 7.3 In-year budget returns include £132k in Internal Operations mainly with respect to change projects where there has been an underspend.
- 7.4 The current high inflation rate creates an inherent risk within the ongoing projects and those for which the budgets have been approved but have not yet commenced.
- 7.5 The Council plans to finance this investment through Capital Receipts, Capital Grants, Revenue Funding and Borrowing (see **Appendix B**).
- 7.6 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**.
- 7.7 Financial performance to date against this profiled spend for this financial year can be found in **Appendix D** with an update from each directorate provided below. Overall, the Council is currently not forecasting any carry forwards and is forecasting a net underspend against profiled budget for 2022/23 of £124k mainly due to the delay of IFRS16 and the requirement to capitalise vehicle lease contract. Year to date actual spend is 5% of the total budget mainly due to the Firepool Drainage and Levels contract award still in progress, works forecast to take place in quarter 3 for Blue Anchor and contract award still in progress for the Carpark capital improvements project.
- 7.8 **Development and Place:** The capital programme includes development and regeneration projects. These budgets are governed via the Directorate and Programme Boards before being reported to Full Council. The Coal Orchard project is expected to complete in the autumn, the Phosphate following land proposal is being reviewed by Legal and the Firepool Drainage & Levels contract award is currently in progress. Work continues on the Flood mitigation interventions on the left bank of the Tone River and at

Firepool Lock. The overspend relates to continuing contamination testing at the Lisieux Way site which need to continue into the summer of 2023.

- 7.9 **External Operations and Climate Change:** The capital programme spans a diverse range of activities that also, in part, span across two financial years. The Directorate has a robust programme management system to ensure the capital schemes are tracked and spent in a timely manner. There is a reported underspend of £137k which is mainly due to the implementation of a new accounting standard (IFRS16–Leases) being deferred, meaning the finance lease costs for the fleet contract will be accounted for in revenue.
- 7.10 **Housing and Communities:** The capital programme has been updated to reflect the Single Homelessness and Rough Sleeper Accommodation Strategy & Delivery Plan. 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.
- 7.11 **Internal Operations:** The capital programme relates to the annual PC refresh upgrades and alarms for the lifeline service are profiled here. The current forecast is to spend the budgets.
- 7.12 **Hinkley:** The Hinkley funded projects are expected to be completed in the current year.
- 7.13 **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.

## **8 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 2022/23 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:
- 8.3 **Pay Award:** As mentioned above in Section 5, the budgets have been set based on 2% pay award for 2022/23. In light of recent public sector pay award announcements, the forecast assumes an average of 5% i.e. 3% over budget. Each 1% increase costs approximately £190k to the General Fund. Pay negotiations for local government are in progress and it is feasible that costs may further exceed budget. The most recent offer

put forward by the National Employers, of an increase of £1925 on all NJC pay points 1 and above, would add a further £140k pressure to the General Fund.

- 8.4 **Inflation:** The current economic operating environment is placing financial risk on the Council in terms of rising inflation increasing the cost of supplies such as utilities and materials. The Council is seeing price increases on our corporate contracts of c60% on electricity, c80% on gas and c45% on fuel. However further variances may come to light during the year based on levels of usage in these areas. There is also uncertainty to the inflation to be seen on other contracts such as IT systems and maintenance works where contracts are still out to tender. Directors have undertaken an impact assessment of the inflationary pressure placed on their services and included best estimates as part of their quarterly review.
- 8.5 **Insurance Premiums:** The Council's insurance policies are due for renewal on 1 August 2022. Premiums are affected by inflation as well as risk, thus high inflation which may lead to an adverse variance to budget. The renewal falls just eight months ahead of the Unitary Vesting Day, with the risk that an additional premium may be payable for a shorter policy period. The position will be confirmed in the Q2 report.
- 8.6 **Recruitment:** There are a number of vacancies across the Council and assumptions have been made as to when these vacancies will be filled. The Council is experiencing recruitment issues (as seen country-wide) therefore assumptions and forecasts may change, in addition to higher agency costs to cover roles where permanent recruitment is not successful.
- 8.7 **Pensions:** Employers' obligation to review auto-enrolment to pension schemes is reviewed every three years with the next auto-enrolment due in October 2022. We will need to auto-enrol staff not currently in the pension scheme unless they opt out. This may lead to higher pension costs in the second half of the year.
- 8.8 **Unitary Council:** The transition to the new Unitary places a significant demand on management and staff. This may lead to additional costs to deliver the transition and ensure day to day services are maintained at satisfactory performance standards. It could also slow down spending in some areas as priorities and capacities adjust during the transition period.
- 8.9 **Fleet Contract / IFRS16 Leases:** CIPFA has delayed the implementation of IFRS16 however we could have chosen to adopt this early but due to the implementation of the Unitary Council all Somerset Councils have made the decision to delay adoption. Therefore, where SWT had budgeted for the lease as a capital cost these now fall to revenue. The services hope to absorb this cost through in-year underspends and delays in receiving new vehicles.
- 8.10 **Business Rates (Risk):** There are inherent risks and uncertainties within the Business Rates Retention system, both in terms of income volatility and accounting timing differences between financial years. The Council holds earmarked risk reserves to mitigate in year pressures. As the 2022/23 budget was reduced for the anticipated decommissioning of Hinkley Point B nuclear power station, which accounts for almost 20% of the current tax base, the risk should be reduced this year. The first reactor was

switched off in July and the second on 1 August 2022. The Valuation Office Agency will need to advise the resulting changes to the rateable value, and we will then assess the impact on our business rates retention funding estimates.

- 8.11 **Council Tax (Risk):** There are inherent risks and uncertainties within the Council Tax collection system, especially in light of the current economic climate and the risk of non-payment. An increased impairment allowance has been applied for 22/23 in light of this. This will have an impact on the Collection Fund for the General Fund budget in future years through the Surplus or Deficit recovery. Regular review of statistics will be undertaken to monitor the situation.
- 8.12 **Development Management:** Due to the volatility of planning income, which is significantly demand led, it is difficult to forecast the full year income impact accurately.
- 8.13 **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 2022/23. The position needs to be kept under review pending the delivery of the Homelessness Strategy including the planned decant from the Canonsgrove site.
- 8.14 **Revenues & Benefits:** The position on rent allowances/rent rebates could change significantly (approximately £200k-£300k either way) because of 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.
- 8.15 **New Burdens:** SWT is expected to receive more New Burdens Grant Funding during the year for example for the implementation of the energy rebate scheme. This will increase our revenue income, but final grant amounts are not yet known.
- 8.16 **Interest and Investment Income:** UK economic volatility will continue to present a risk of variations in interest receivable. In addition, cashflow forecasts remain difficult to predict with certainty in respect of the timing and progress of capital projects and in relation to the receipt and application of large grant funding. Careful daily monitoring and management of the Council's overall liquidity mitigate this risk as far as possible. Meanwhile, the risk of exposure to rising interest rates on borrowing, previously reported, has been contained for the current year leading up to the new Unitary Council.
- 8.17 **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.
- 8.18 **Fluctuation in demand for services:** We operate many demand-led services and the levels of demand do not always follow a recognisable trend, which may lead to fluctuations in costs and income compared with current forecasts.
- 8.19 **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.



## 9 Links to Corporate Strategy

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

## 10 Unitary Council Financial Implications and S24 Direction Implications

10.1 The main considerations within scope of this report is the impact of in-year financial performance on year end reserve balances that will transfer to the new unitary council on 1 April, and potential impact of variances on future budget estimates. Reserves are currently projected to remain above the minimum requirement. Finance officers and budget managers will feed in ongoing and future risks and implications through the budget setting process for 2023/24.

## 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 The report will be considered by Corporate Scrutiny on 7 September 2022. A summary of the comments and recommendations discussed will be provided here for the Executive to consider.

### Democratic Path:

- **Corporate Scrutiny – 7 September 2022**
- **Executive – 21 September 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 2022/23 Vs Forecast Capital Outturn for 2022/23

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### **Appendix A: General Fund Approved Capital Budget**

SWT Capital Programme	Prior Year Slippage	Current Year Approval Feb 2022 Budget Setting for 2022/23	Total Approved Budget	Current year Virements	Current Year Supplements	Current Year Returns	Revised Current Year Approved Capital Budget
Development and Place	48,843,459	0	48,843,459	0	775,006	0	49,618,465
External Operations and Climate Change	5,937,107	1,666,800	7,603,907	0	110,000	0	7,713,907
Housing & Communities	5,010,529	228,063	5,238,592	0	0	0	5,238,592
Internal Operations	557,231	(180,000)	377,231	0	0	(132,460)	244,771
Hinkley Capital Schemes	130,005	0	130,005	0	0	0	130,005
S106 Capital Schemes	498,603	0	498,603	0	96,051	0	594,654
<b>Total GF</b>	<b>60,976,934</b>	<b>1,714,863</b>	<b>62,691,797</b>	<b>0</b>	<b>981,057</b>	<b>(132,460)</b>	<b>63,540,394</b>

### **Appendix B: Capital Financing Plan of Total Approved Budget**

SWT Capital Programme	TOTAL CAPITAL FINANCING	Capital Grants CIL	Capital Grants	Section 106 Agreements	Capital Receipts	General Fund RCCO	Other Earmarked Reserves	Borrowing
Development and Place	49,618,465	12,286,578	13,018,025	1,986,000	1,186,099	50,000	98,400	20,993,364
External Operations and Climate Change	7,713,907	0	3,534,605	0	1,434,770	1,040,000	814,146	890,386
Housing & Communities	5,238,592	0	4,369,853	374,791	385,446	0	0	108,502
Internal Operations	244,771	0	0	0	244,768	0	0	4
Hinkley Capital Schemes	130,005	0	130,005	0	0	0	0	0
S106 Capital Schemes	594,654	0	0	594,654	0	0	0	0
<b>Total GF</b>	<b>63,540,394</b>	<b>12,286,578</b>	<b>21,052,488</b>	<b>2,955,445</b>	<b>3,251,082</b>	<b>1,090,000</b>	<b>912,546</b>	<b>21,992,255</b>

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

SWT Capital Programme	Total Approved Budget	Planned Capex 2022/23	Planned Capex 2023/24	Planned Capex 2024/25	Planned Capex 2025/26
Development and Place	49,618,465	15,895,788	17,021,402	10,631,942	6,069,333
External Operations and Climate Change	7,713,907	5,737,381	1,976,526	0	0
Housing & Communities	5,238,592	2,592,192	1,343,916	708,686	593,798
Internal Operations	244,771	244,768	0	0	0
Hinkley Capital Schemes	130,005	130,005	0	0	0
S106 Capital Schemes	594,654	594,654	0	0	0
<b>Total GF</b>	<b>63,540,394</b>	<b>25,194,787</b>	<b>20,341,844</b>	<b>11,340,628</b>	<b>6,663,131</b>

### Appendix D: Profiled Capital Budget for 2022/23 Vs Forecast Capital Outturn for 2022/23

SWT Capital Programme	Planned Capex Budget 2022/23	Expenditure YTD	Forecast Outturn 2022/23	Variance; - underspend + overspend	- Slippage c/f	In Year - Underspend + Overspend
Development and Place	15,895,788	663,483	<b>15,908,788</b>	13,000	(0)	13,000
External Operations and Climate Change	5,737,381	444,645	<b>5,600,544</b>	(136,837)	0	(136,837)
Housing & Communities	2,592,192	(17,676)	<b>2,592,192</b>	(0)	(0)	0
Internal Operations	244,768	7,359	<b>244,768</b>	(0)	0	(0)
Hinkley Capital Schemes	130,005	0	<b>130,005</b>	0	0	0
S106 Capital Schemes	594,654	97,911	<b>627,984</b>	1	1	0
<b>Total GF</b>	<b>25,194,787</b>	<b>1,195,722</b>	<b>25,104,280</b>	<b>(123,837)</b>	<b>0</b>	<b>(123,837)</b>