

## Somerset West and Taunton Council

**Informal Executive – 08 February 2023**

**Corporate Scrutiny – 01 March 2023**

**Executive – 15 March 2023**

**2022/23 General Fund Financial Monitoring as at Quarter 3 (31 December 2022)**

**This matter is the responsibility of Executive Councillor Benet Allen, Portfolio Holder for Communication and Corporate Resources**

**Report Author: Kerry Prisco, Management Accounting and Reporting Lead**

### 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 31 December 2022 forecast).

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

Revenue Budget	£0.169m forecast underspend	Green
General Reserves	£9.8m forecast balance = favourable compared to £2.4m minimum requirement	Green
Earmarked Reserves	£28m at start of year, forecast to reduce to £11m by year end as funds are used as planned.	Green

1.3 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.

1.4 The Q1 forecast outturn position reported an overspend of £326k. In response to this variance the Senior Management Team undertook a thorough and in-depth review of all budgets, updated projections based on mid-year information, requested services to manage inflationary pressures within services where possible (e.g., pay award, utilities and material costs) and driven a focus on essential spend only where possible in order to bring the position back to budget. There were also some contractual delays on delivering capital schemes pushing spend into future years and a need increase reserve balances this year to provide budget flexibility and financial resilience in 2023/24 on the face of significant financial pressures. This resulted in an improved position reported at Q2 of an underspend of £219k.

1.5 The updated projected outturn position is reporting an underspend of £169k. Whilst forecasts have been updated and management continue to control the overall position to remain within budget, the final outturn position may still present further underspends or variances to budget. This will be carefully monitored over the next few months by management and the final outturn position will be reported to Members. The level of

General Reserves provides significant resilience to mitigate the risk of overspend if required.

- 1.6 The current total approved **Capital Budget** is £78.801m and relates to the Capital Programme for continuing and new schemes approved for 2022/23. The budget is profiled with estimated spend totalling £26.150m in this financial year and £52.651m in later years.
- 1.7 The Council is currently forecasting a capital outturn of £13.599m. A net underspend of £12.551m is currently projected against the total profiled capital budget for 2022/23 of which £11.637m is slippage into future years and £0.914m is actual underspend against the total programme.
- 1.8 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 31 December 2022.
- 2.2 Executive to approve the transfer of £1.507m of surplus business rates funding to be returned to General Reserves.
- 2.3 Executive to approve a capital budget return of £200k for Brewhouse Theatre Roof works.
- 2.4 Executive to approve a transfer of £250k from the Climate Change budget to a capital financing earmarked reserve for the decarbonisation project at both Wellington Sports Centre and Alcombe Children's Centre.

## **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 of 31 December 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 underspend of £169k (1. % of £17.025m Net Budget). The main reasons for this are shown in tables 1 to 6 below.
- 5.2 The forecast remains 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	Approved Changes	Current Budget	Outturn Forecast	Variance	
	£'000	£'000	£'000	£'000	£'000	%
Development and Place	4,044	190	4,234	4,319	85	2.0%
External Operations & Climate Change	10,037	86	10,124	9,508	-617	-6.1%
Housing & Communities	3,234	28	3,262	3,562	300	9.2%

	Original Budget £'000	Approved Changes £'000	Current Budget £'000	Outturn Forecast £'000	Variance	
					£'000	%
Internal Operations	9,750	224	9,973	10,368	395	4.0%
Senior Management	594	-129	464	411	-53	-11.4%
Local Government Reorganisation	1,375	-216	1,159	1,159	0	0.0%
<b>Net Cost of Services</b>	<b>29,034</b>	<b>183</b>	<b>29,217</b>	<b>29,328</b>	<b>111</b>	<b>0.4%</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	-500	-1,016	-1,012	4	-0.4%
Expected Credit Losses	0	0	0	0	0	0.0%
Transfers to Earmarked Reserves	-5,387	-2,265	-7,652	-7,931	-279	3.6%
Transfers from General Reserves	-1,375	3,459	2,084	2,084	0	0.0%
Capital and Other Adjustments	-248	-869	-1,117	-1,117	0	0.0%
<b>Net Budget</b>	<b>17,018</b>	<b>7</b>	<b>17,025</b>	<b>16,863</b>	<b>-163</b>	<b>-1.0%</b>
Funding	-17,018	-7	-17,025	-17,032	-7	0.0%
<b>Variance</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>-169</b>	<b>-169</b>	<b>-1.0%</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 £4.234m 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 including 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')

5.7 The directorate is currently forecasting a net overspend of £85k for the year. This is largely derived from the use of agency staff in Development Management due to the difficulty in recruiting to key roles plus the impact of the pay rise, as well as an enforcement action that has been initiated. This has been offset in part by 2021/22 deferred income on planning applications that have now been determined and small payroll savings across the other departments.

- 5.8 The Environment & Leisure Improvement Fund (ELIF) initiative is currently being delivered, and of the £600k approved budget:
- a. £130k has been used to resurface the Vivary Park pathways and areas around the water feature and fountain, and as a contribution to the Coal Orchard public realm.
  - b. £412k is committed to numerous town centre projects including the Changing Places facility on Tower Street, a contribution to the Taunton Town centre highways repairs, numerous public realm work projects around Taunton including the Somerset Dragon sculpture, tree restoration, pathway repairs & re-setting, and an allocation to the Minehead Town Council maintenance programme.
  - c. £58k has been allocated to various initiatives including dredging Vivary Park pond and Foundry Lane/St James St bin stores.
- 5.9 The current inflationary pressure does not have any significant impact on the directorate as there are few premises or transport related costs.
- 5.10 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	Q2 Variance £'000	Q3 Variance £'000
<b>Development Management/Planning:</b> the movement of £69k from the Q2 forecast of £28k overspend is due mainly to the inclusion of potential cost for clearance of Muddy Acre site £59k, additional legal costs of £6k, payroll of £2.6k and planning application refunds of £1.8k.	166	28	97
<b>Other Minor Variances</b> mainly driven by savings in payroll across the Strategy & Policy, Economic Development and Major Projects departments	-3	13	-12
<b>Total</b>	163	41	85

**External Operations and Climate Change:**

- 5.11 The External Operations and Climate Change directorate has a current net expenditure budget of £10.124m 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

- 5.12 The directorate is currently forecasting a net underspend of £617k for the year. This is derived from an underspend against the Climate Change budget, increased income across both Assets and Parking and an overall active management of costs.
- 5.13 **Decarbonisation Project:** The Council was successful in its bid for external grant funding for the decarbonisation project at both Wellington Sports Centre and Alcombe Children's Centre. The project includes the replacement of end-of-life gas heating with Air Source Heat Pumps, new water systems, Solar PV panels, as well as LED lighting, glazing and insulation upgrades. This meets the Council's commitment to decarbonising its own buildings.
- 5.14 The conditions of the external grant funding require the Council to provide match funding. Various options are being explored to identify match funding for this capital scheme. The Executive is requested to use £250k from existing unallocated Climate Change funding towards this project. The decarbonisation project is still subject to final approval by the new Somerset Council, due to the timing of the start date and delivery of the project this proposal was made after the Q3 figures were produced and therefore isn't reflected in Table 1 above and Table 3 below.
- 5.15 **Somerset Waste Partnership:** The council pays a fixed amount to Somerset County Council each year and contract savings has led to a forecast surplus. On the 21 December 2022 Executive approved a transfer to earmarked reserves for the forecast surplus of £440k. This transfer has been processed and is reflected in Table 3 below. A further forecast saving of £34k is now reported, the final adjusted amount will be transferred at year-end.
- 5.16 **Car Parking:** On the 21 September 2022 the Executive approved a budget virement of £302,040 to further reduce the car parking income budget. This was in line with the forecast reduction and change in usage that the council is seeing across its car parks following COVID-19. The income position has improved and against the revised budget an over recovery of £78k is now reported. This is included in Table 3.
- 5.17 Rising inflation is placing financial risk on the council as it sees an increase in the cost of supplies such as utilities and materials. Across the Directorate it is forecast that electricity will be c£155k above budget and gas c£50k. The Directorate has reviewed the pressure placed on its services and is currently mitigating this through proactive budget management.

5.18 Table 3: External Operations and Climate Change Forecast Variances

Department Notes	Q1 Variance £'000	Q2 Variance £'000	Q3 Variance £'000
<p><b>Major Contracts:</b> Major Contracts includes the following areas: Leisure, Waste, Building Control, Street Cleansing and Fleet Management.</p> <p>The current variance includes (a) increase to forecast saving reported at Q2 for the Somerset Waste Partnership £34k. As at Q2 the reported saving was £440k, as at Q3 it is £474k (see paragraph 5.13 above), (b) the capitalisation of salary costs of the Project Officer for the Car Park Improvement Scheme has created an underspend of £45k, (c) £10k overspend on the Environmental Enforcement Litter 12-month trial as no longer forecasting to be cost neutral due a reduction in the fixed penalty noticed being issues. Decision on enforcement will be made post vesting day by the new authority. The contingency budget was reduced earlier in the year by £45k, and (d) vacant post in Leisure and maintenance underspend £50k.</p>	-125	-507	-117
<p><b>Street Scene/Open Spaces:</b> A 2021/22 carry forward budget of £100k was approved for the maintenance works to Vivary Park Bandstand. This was an estimated figure and actual costs have come in £60k less than budget. Vacancies across the service has led to a £36k salary underspend, this has been part offset by increase in utility costs £25k.</p>	6	-61	-64
<p><b>Asset Management:</b> There is a forecast increase in income of £317k. This is owing to (a) new lettings which were unknown at budget setting time £70k, (b) delayed vacation of tenants £75k, (c) transfer of units at Coal Orchard £90k, and (d) proactive recovery of proportionate costs, £82k.</p> <p>At budget setting 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£150k.</p> <p>Forecast increase in electricity costs across all buildings, £50k.</p> <p>A budget of £50k was identified for bad debt provision, it is predicted that this is no longer required.</p> <p>Active management of budgets and costs has led to an overall saving of £75k across various budget lines.</p>	-121	-195	-278

Department Notes	Q1 Variance £'000	Q2 Variance £'000	Q3 Variance £'000
Allocation of salary costs to Commercial Investment Properties £39k.			
<b>Facilities Management:</b> A continued decrease in pool car usage and the introduction of two electric pool cars has led to a forecast saving on fuel of £21k. Delay in receiving new vehicles due to national manufacturer issues has resulted in a saving on lease costs of £25k.	-17	-24	-50
<b>Climate Change:</b> There will be no budget carry forwards into next financial year. This forecast underspend represents budget which was set aside to meet future commitments to key Climate Change projects, which have now been captured as a budget growth as part of the budget setting process for the new Unitary Council.	0	-150	-150
<b>Public Health:</b> £15k was carried forward from 2021/22 for the Seagull Control Programme. The council did not receive the necessary evidence to carry this out in January, therefore this budget is no longer required. This saving has now been offset by allowing £25k for additional contractor spend to help clear backlog of food inspections ahead of Unitary and £54k for systems upgrades (CIVICA and Northgate). This is to ensure data is safe and secure going into Unitary and all efforts will be made to deliver the work before year-end.	0	-12	61
<b>Private Sector Housing:</b> The third-party data used at budget setting time to identify potentially unlicensed Housing Multiple Occupation properties projected too high a number and therefore artificially inflating the income target. Since Q2 this has now been part offset by salary underspends due to vacant posts £15k.	3	80	64
<b>Bereavement Services:</b> This is a demand led service and the forecast position on income at Q2 was c£100k above budget. Due to essential electrical compliance works, which led to reduced services offered to just 3 days per week, income dropped significantly in Q3. The revised forecast is now an under recovery of £9k. Increase in utility costs, electric £16k and gas £14k.	7	-73	38
<b>Parking:</b> please refer to paragraph 1.4 above. The current forecast against the revised income budget is an over recovery of £78k. The overall variance also includes an overspend on bank charges due to a rise in the number of card transactions taken at the P&D machines £37k, forecast increase in electricity costs £13k, part offset by enforcement costs coming in less than budgeted £42k.	44	40	-71
<b>Other Minor Variances</b>	1	-12	-50



Department Notes	Q1 Variance £'000	Q2 Variance £'000	Q3 Variance £'000
<b>Total</b>	<b>-202</b>	<b>-914</b>	<b>-617</b>

### Housing & Communities:

5.19 The Housing and Communities directorate has a current net expenditure budget of £3.262m 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.

5.20 The directorate is currently reporting a forecast net overspend of £300k.

5.21 We are expecting some volatility particularly in our homelessness service as a legacy of the COVID restrictions, the cost of living crisis 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 some placements now ending as well as expected 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.

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

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

Department Notes	Q1 Variance £'000	Q2 Variance £'000	Q3 Variance £'000
<b>Community Resilience:</b> A contribution to the Somerset Community Foundation as a Cost of Living donation of £50k offsets underspends for numerous	-56	-23	17

staffing changes, including a secondment that was not backfilled.			
<b>Homelessness:</b> The Homelessness Service is experiencing high levels of demand this year with B&B costs exceeding budget. The service is also facing recruitment and retention pressures that are driving up staffing costs. Furthermore, there are costs associated with the return of Canonsgrove and the final decant of tenants to alternative accommodation. Despite receiving government funding the service is predicting an overspend which it is currently able to be mitigated through existing levels of earmarked reserves (see Table 6).	0	239	332
<b>Maintenance:</b> The Corporate Property Team has been relocated to the Repairs & Maintenance Trade Team, filling vacant posts within the HRA. Pay awards have now been applied to service lines, hence the negative impact of £70k from the prior quarter.	0	-112	-42
<b>Other Minor Variances</b>	8	-5	-7
<b>Total</b>	<b>-48</b>	<b>99</b>	<b>300</b>

### Internal Operations:

5.23 The Internal Operations directorate has a current net expenditure budget of £9.973m 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

5.24 The directorate is currently forecasting a net overspend against budget of £395k for the year. This is an improvement on the Q2 forecast where the projected overspend for the year was £617k.

- 5.25 The forecast outturn position is driven significantly by two larger variances: a £380k adjustment following the completion of a thorough review of the non-staff related cost apportionments between the General Fund and Housing Revenue Account (HRA), to ensure this reflects the up to date position and reasonable assumptions around the relative use of resources; and a £200k variance regarding the operational cashable savings target applicable to the Service Improvement and Efficiency Programme which is not now likely to be achieved.
- 5.26 The remaining £185k projected net underspend relates to a range of variances across the Directorate's main operational areas. Cost pressures and investment in service priorities such as change management, health and safety, customer services and Deane Helpline as well as pay award costs are now more than offset by staff vacancies, control of costs and managed savings for example in publicity and promotion costs. There has also been additional income from the release of the balance of test and trace administration grant.
- 5.27 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 £5-10k. In addition, the pay award adds to inflationary cost pressures exceeding original budget estimates, with an average cost of 5.6% versus 2% allowed within the budget.
- 5.28 Although not reported within the Internal Operations service budgets, the service is responsible for treasury management operations. This is performing very well against budget as highlighted later in this report, which helps to mitigate the net overspend reported for Internal Operations service costs.

**Table 5: Internal Operations Forecast Variances**

Department Notes	Q1 Variance £'000	Q2 Variance £'000	Q3 Variance £'000
<b>Comms and Engagement:</b> This is savings in staff costs through a vacancy and not backfilling a maternity leave, plus managed in year savings primarily reducing costs of publicity and promotions identified in quarter 2.	-15	-70	-75
<b>Governance:</b> This is due to vacant posts and the SHAPE legal services contract costing less than budgeted. There are less costs than anticipated for Community Governance Review (CGR) due to these costs being absorbed in other budgets.	-2	-108	-120
<b>Internal Change:</b> Forecast variance due to Service Efficiency and Improvement Programme (SEIP) and similar project management costs. This programme has delivered many improvements and non-cashable efficiencies despite the impact of LGR on capacity and	78	175	134

available focus areas. Funding options are being explored to mitigate this cost. Since Q1 the increased cost of the pay award, and a Health and Safety project have been mitigated by reduced forecasts for Data Protection services and paper records.			
<b>ICT:</b> The underspend is due to staff vacancies with non-pay being managed to budget.	3	-22	-46
<b>Benefits:</b> £73k of this underspend results from receiving a greater amount of administration grant, Verify Earnings and Pensions (VEP) and new burdens grant than budgeted for. £60k is due to the release of the balance of test and trace administration grant in Q3. In addition, staff have been seconded to LGR without backfill and no spend is now forecast on the POWS contract.	-100	-86	-176
<b>Customer Contact:</b> Staff costs are projected to exceed budget due to the pay award. SMT have agreed two posts above establishments providing resilience to a higher rate of staff turnover within this service. Most of the cost will be covered within the existing budget with any remainder managed within the wider Internal Operations budget.	4	43	21
<b>Visitor Centre:</b> Electricity prices are rising quickly and the visitor centre also pays for the electricity used by Tone FM. Income from sales remain unpredictable. Both purchases and sales are projected around 70% of budget which broadly offsets in the forecast outturn. Whilst below budget this still represents a doubling of last year's sales performance. £10k relates to an income budget duplication where the income and a corresponding budget for this amount is shown under another cost centre.	31	28	29
<b>Deane Helpline:</b> £58k of the projected overspend relates to the pay award exceeding budget estimates. Some of the additional cost of allowances for one part of the team together with all the additional payments for holiday pay were agreed after budget setting and therefore exceeds the budget for 22/23. The cost of overtime to cover holiday and other absences also adds to cost pressures. The service is recruiting additional relief staff to minimise overtime costs in the future.	81	140	108
<b>Finance:</b> Centrally funded pension costs is projected £30k below budget and overall staff savings are projected to be £15k after absorbing higher pay award costs. There are savings of £48k in non-pay (finance, corporate management and insurance).	-69	-65	-93

<b>HRA Recharges:</b> A thorough review of the non-staff related cost apportionments between the General Fund and Housing Revenue Account (HRA) has been completed, to ensure this reflects the up-to-date position and reasonable assumptions around the relative use of resources. A couple of residual elements were finalised in Q3.	0	320	380
<b>Other Minor Variances</b>	19	62	33
<b>Total</b>	<b>30</b>	<b>417</b>	<b>195</b>

5.29 Reported within Internal Operations are corporate savings budgets regarding staff vacancies and service efficiencies. The vacancy savings budget of £100k has been fully dispersed to services in the first half of the year. Additional vacancy savings are reflected within individual service cost projections.

### Savings Targets

Department Notes	Q1 Variance £'000	Q2 Variance £'000	Q3 Variance £'000
<b>Efficiency Savings:</b> Whilst significant efficiencies are being delivered the budget requires cashable savings to be realised, which are currently below target. This programme has delivered many improvements and non-cashable efficiencies despite the impact of LGR on capacity and available focus areas. It is now anticipated that cashable savings are unlikely to be delivered this year, with future efficiency and transformation being a key part of the LGR programme.	200	200	200
<b>Total</b>	<b>200</b>	<b>200</b>	<b>200</b>

### Senior Management Team (SMT)

5.30 The SMT has a current net expenditure budget of £464k 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 variance to budget is forecast at the end of Quarter 3 due to this contingency not currently being allocated.

### Local Government Reorganisation (LGR)

5.31 This one-off budget of £1.375m provides for SWTC costs related to LGR in Somerset. It includes £1m for LGR Implementation (£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. At this stage it is considered unlikely that SWT will be asked to contribute more than £912k, therefore the Director of Internal Operations and S151 Officer propose to allocate the £88k contingency to provide budget capacity for set up costs incurred this year

related to a new town council for Taunton. This removes the need to allocate funds from General Reserves for this purpose, which Council has agreed in principle.

### Pay Award 2022

5.32 The 2022/23 approved budget assumed a 2% pay award. The Pay Award has now been agreed at £1925 per scale point which equates to an average increase of approximately 5.6% across the staff base. This assumption has been included within the forecast outturn position provided by services (reported above).

### Other Costs, Income and Reserve Transfers

5.33 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

5.34 A net underspend of £274k is currently being forecast for the year and represents anticipated year end transfers from Earmarked Reserves to offset costs within services.

5.35 Investment Properties are forecasting a shortfall in income due to voids £103k, which has 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	Q2 Variance £'000	Q3 Variance £'000
<p><b>Interest Payable and Investment Income:</b> Interest Payable - In a complex and volatile economic environment, the risk of interest cost variations has continued to be highlighted to Members. A blend of taking well-timed early opportunities for new borrowing during 2021/22, utilising internal balances in lieu of external borrowing and the scaling down of the General Fund capital programme have, together, generated a positive variance to the budget estimate. The nature of borrowing taken (i.e. fixed term loans) should substantially reduce the risk of further variations in year.</p>	-384	-706	4

<p>Interest Receivable - The Council holds a portfolio of investments that comprise a combination of contingency balances (reserves) cashflow (e.g. funding from grants and contributions received in advance) and liquidity balances (to provide for immediate payments as they become due). A combination of market interest rate increases and good performance in the Council's investment portfolio have generated a positive variance to the budget estimate. With continued economic volatility, further variations should be expected as the year progresses.</p> <p>The Executive approved the transfer of £500k of these Treasury Management surpluses to general reserves in Q2 which explains the movement from last quarter.</p>			
<p><b>Transfers to and from Earmarked Reserves:</b> This variance relates to anticipated year-end adjustments for (a) £20k for licensing, (b) £34k transferred to the Somerset Waste Partnership reserve, and (c) the use of £332k of Homelessness reserves to offset their forecast overspend.</p>	0	140	-279
<p><b>Transfers to and from General Reserves:</b> The movement relates to approved transfers by the Executive in Q2 including (a) £60k of released earmarked reserves, (b) £500k of Treasury Management surpluses, and (c) £1.294m of revenue funded capital financing released to general reserves.</p>	0	1,855	0
<p><b>Capital and Other Adjustments:</b> In order to increase reserve balances this year to provide budget flexibility and financial resilience in 2023/24 on the face of significant financial pressures, and in light of the reduced capital programme, £1.294m of revenue funded capital financing has been released and transferred to general reserves (Executive 21 December 2022).</p>	0	-1,344	0
<b>Total</b>	<b>-384</b>	<b>-55</b>	<b>-274</b>

### General Reserves

- 5.36 The opening general reserves balance as of 1 April 2022 is £7.592m, representing unearmarked reserves held to provide ongoing financial resilience and mitigation for unbudgeted financial risks.
- 5.37 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 in Q1	S151 / SMT – 10/08/22	197
Released Surplus Contingency for Litter Enforcement	S151 – 27/10/22	45
Released Earmarked Reserves in Q2	S151 / SMT – 09/11/22	61
Transfer of Treasury Management surpluses to reserves	Executive - 21/12/22	500
Transfer of RCCO surplus to reserves	Executive - 21/12/22	1,295
Released Test & Trace Earmarked Reserve	S151 – 14/11/22	39
<b>Balance After In-Year Approvals</b>		<b>8,130</b>
Proposed Transfer of Tax Income Guarantee (TIG) Surplus released from earmarked reserves (see below)		706
Proposed Transfer of Business Rates Surplus released from earmarked reserves (see below)		801
Forecast – 2022/23 Projected Underspend as at Q3		169
<b>Projected Balance 31 March 2023</b>		<b>9,806</b>
Recommended Minimum Balance		2,400
Projected Balance above recommended minimum		7,406

5.38 As well as managing the adequate level of reserves to mitigate financial risks for SWT, the S151 Officer has discussed the reserves strategy with SMT and the other S151 officers in Somerset in the context of financial strategy and MTFP for the new Somerset Council. It is prudent to maintain and ideally increase reserve balances this year to provide budget flexibility and financial resilience in 2023/24 on the face of significant financial pressures.

### **Earmarked Reserves**

5.39 The General Fund Earmarked Reserves brought forward balance for 2022/23 is £28m. This balance is forecast to reduce by c£17m 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£11m is currently projected of which c£8m mitigates financial risks related to business rates funding and property investments.

5.40 The original net budgeted/approved and projected transfers from earmarked reserves in 2022/23 is £12.929m.

5.41 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	-5,811	0	0
Business Rates Volatility	-718	5,353	-2,752	0	2,601
Investment Risk	0	3,151	1,000	-7	4,144
Business Rates Losses S31 Grant	-897	2,499	-1,602	0	897
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>-11,903</b>	<b>-83</b>	<b>8,241</b>
General Carry Forwards	-900	2,075	-2,075	0	0
Garden Town Fund	-213	978	-213	-525	240
Economic Development Initiatives	-372	643	-372	-271	0
Homelessness Prevention	-113	564	-113	-332	119
Asset Management	-280	519	-280	-239	0
Investment Assets Sinking Fund	0	500	200	0	700
Other Smaller Balances	-53	2,484	395	-822	2,057
<b>Sub-Total Other Reserves</b>	<b>-1,931</b>	<b>7,763</b>	<b>-2,458</b>	<b>-2,189</b>	<b>3,116</b>
<b>Total</b>	<b>-12,929</b>	<b>27,990</b>	<b>-14,361</b>	<b>-2,272</b>	<b>11,357</b>

5.42 Earmarked reserves are set aside for a specific purpose and are reviewed on a regular basis. As reported in the Q1 report, £197k of earmarked reserves have been released and returned to General Reserves as they were no longer required for their original purpose. In addition, in Q1 the Executive agreed to transfer £1.2m from the Business Rates Volatility reserve, with £1m to the Investment Risk Reserve and £200k to the Investment Assets Sinking Fund.

5.43 As reported in the Q2 report, a further £61k of earmarked reserves have been released and returned to General Reserves as they were no longer required for their original purpose, as well as a further £39k approved by the S151 Officer.

5.44 Funds have been held in reserve in respect of Business Rates Retention and Tax Income Guarantee grant overpayments in previous years pending final reconciliation. The Government has now confirmed these accounts are fully settled therefore funds can be released from earmarked reserves. The S151 Officer has consulted SMT, the Leader, and Portfolio Folder for Finance and agreed surplus funds amounting to £1.5m should be returned to General Reserves as shown in Table 7 above. The Executive is recommended to approve a budget virement crediting Transfers from Earmarked Reserves and debiting Transfers to General Reserves to reflect this updated position.

## **6 Debt Write Off**

6.1 As per the Financial Procedure Rules, any write off per debtor greater than £25,000 in any year will be reported to the Executive for information. During Q3 there was one

individual customer where individual debts greater than £25,000 were written off (please see **confidential Appendix F**).

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

7.1 The current Capital Programme Budget is £78.801m in total (see Appendix A). This consists of £75.193m of previously approved schemes from prior years (£60.977m as reported in Q2 plus £14.216m added as explained below) and £1.715m of new schemes approved in February 2022, as well as in year approvals of £2.519m of supplementary budgets and £625k of budget returns.

7.2 The prior year slippage has been adjusted to include a £14.216m supplementary budget approved by Full Council on the 1 December 2020 to enter into loan agreements with Developers to develop the Staplegrove / North Taunton spine road and associated infrastructure. A brief update:

- This is fully funded by Homes England Housing Infrastructure Funding (HIF).
- To date none of the funding has been drawn down.
- No developer has yet been confirmed for Staplegrove East.
- In late 2022 a land deal was complete with Bloor as the developer in Staplegrove West.
- Outline planning permission was granted in 2019, but the development has only recently received a resolution to grant planning permission for an offsite wetland phosphate mitigation scheme which will enable the housing to come forward.
- SWT will not be able to enable the spend of the funds before 31<sup>st</sup> March 2023.
- Homes England are being requested to extend the funding availability to March 2024

7.3 In-year supplementary budgets include:

(a) Development & Place: £775k for Coal Orchard additional costs approved by Full Council on 5th July 2022, £207k Heritage works at Toneworks fully funded by Historic England and £279k half yearly CIL grants paid to parishes.

(b) External Operations: £51k for Litter Bins, £70k for Vivary Park Footpaths, £75k for Wellington Leisure Centre Air Handling Units, £120k for Taunton Green Pavilion and £125,000 for Paul St Car Park works have all been approved by the Deputy Chief Executive & Director Place and Climate Change and the Assistant Director - Finance (S151 Officer). £262,280 for Blue Anchor Coast Protection, approved by Full Council on 5 July 2022.

(c) S106 funded projects that have commenced.

7.4 In-year budget returns include:

(a) Internal Operations: £128k for a variety of change projects where there has been an underspend.

- (b) External Operations: £125k for new vehicles where lease costs are currently charged to revenue and £50k for Closed Churchyards where maintenance works are no longer required.
- (c) A further budget return of £200k for Brewhouse Theatre which requires Executive approval (see paragraph 2.3 above). Immediate works were done at a smaller cost to make the roof watertight and serviceable; any further works will now form part of the wider decarbonisation project under the new Unitary Council.

- 7.5 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.
- 7.6 The Council plans to finance this investment through Capital Receipts, Capital Grants, Revenue Funding and Borrowing (see **Appendix B**).
- 7.7 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**.
- 7.8 Financial performance to date against this profiled spend for this financial year can be found in **Appendix D**. Overall, the Council is currently forecasting a capital outturn of £13.599m, with carry forwards of £11.637m and a net underspend of £0.914m against profiled budget for 2022/23. The reasons for the forecast carry forward and underspend are detailed in the Directorate updates below.
- 7.9 The current forecast capital outturn financing position is shown in **Appendix E**. This is being funded by CIL and S106 grants, and other capital grants being mainly for the Active Travel, Firepool, Flood Alleviation, Heritage at Risk and Coastal Protection projects.
- 7.10 **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 main reasons for the £7.8m carry forward and the £286k underspend include:
  - a) The Future High Street funded works on Firepool is forecast to carry forward £2.4m due to delays in awarding the Drainage & Levels contract, Highways rescheduling the work on the Trenchard Way access and the Planning application for the Southern Boulevard still in progress.
  - b) A Phosphates carry forward of £1.98m due to the ongoing negotiation of the Fallowing Land solution. This is expected to be billed and collected via S106 prior to purchasing any credits with the cost of purchasing the credits expected to slip into next year.
  - c) The Active Travel project, funded by the Future High Street Fund, is forecast to carry forward £558k together with the related CIL funded Cycle and Pedestrian (£500k) and Town Centre Regeneration (£500k) projects.

- d) There is a carry forward of £600k CIL funded Education contribution to Orchard Grove school in Comeytrowe which is not expected to be called on by SCC this financial year. SCC can substantiate £500k cost in the current year.
- e) There is a £1.2m carry forward on the Taunton Flood Alleviation projects as the work has not progressed at the rate anticipated when the budget phasing was done. This project is fully funded via Grant and CIL funding.
- f) The Coal Orchard project is expected to complete in the autumn and is currently forecast to overspend by £216k against a total approved budget of £15.3m. This may reduce once the current open purchase orders are reviewed and closed on completion of the project.
- g) The completion and exchange of the residential units at Coal Orchard commenced this quarter, so the current year costs will be funded from those capital receipts and the excess capital receipts will be applied to borrowings as per the business plan. The capital receipts forecast excluding Coal Orchard are sufficient to cover the projects they have been allocated to them.
- h) There is forecast underspend of £482k on Firepool budgets approved prior to the Future High Street Funding (FHSF) award, as those works will now be included in the fully funded project.

7.11 **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.

7.12 There is an overall forecast in year underspend of £39k, which is mainly derived from container costs for the rollout of Recycle More being less than budgeted.

7.13 Overall slippage is £3.5m: £2.4m relates to the Blue Anchor Coastal Protection works, the project has encountered delays due to vessels being unavailable, meaning spend will fall into next financial year and £1,026m for the Crescent Car Park project which will now be completed in next financial year.

7.14 **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 Housing Service is supporting the Homeless service in delivering the plan for example the purchase of 6 acquired units and 6 of its own units for a Housing First approach. These costs will emerge in the capital programme spend over the four quarters. The Better Care Fund has incurred slippage and the programme is being reviewed to align to existing and future unitary requirements.

- 7.15 **Internal Operations:** The capital programme relates to the annual PC refresh upgrades and alarms for the lifeline service. There has been a £10k overspend against budget on the PC Refresh Project.
- 7.16 **Hinkley:** One of the Hinkley funded projects is expected to be completed in the 2023/24 year.
- 7.17 **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 **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.
- 8.4 **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.
- 8.5 **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.
- 8.6 **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.

- 8.7 **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.
- 8.8 **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.
- 8.9 **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.
- 8.10 **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. As mentioned above, the current forecast overspend can be managed within the services existing earmarked reserves, however if the overspend increases this will impact on the overall corporate outturn position.
- 8.11 **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.
- 8.12 **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.
- 8.13 **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.

8.14 **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.

8.15 **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 This report will be considered by Corporate Scrutiny on 1 March 2023. A summary of the comments and recommendations discussed will be provided here for the Executive to consider.

### **Democratic Path:**

- **Corporate Scrutiny – 1 March 2023**
- **Executive – 15 March 2023**
- **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
Appendix E	Financing of Forecast Capital Outturn for 2022/23
Appendix F	CONFIDENTIAL - Write Offs Over £25k

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