Public Document Pack

Cabinet
Monday 10 July 2017
10.00 am Luttrell Room - County Hall, Taunton

To: The Members of the Cabinet

Cllr D Fothergill (Chairman), Cllr D Hall (Vice-Chairman), Cllr A Groskop, Cllr D Huxtable, Cllr C Lawrence, Cllr F Nicholson and Cllr J Woodman

All Somerset County Council Members are invited to attend meetings of the Cabinet and Scrutiny Committees.

Issued By Julian Gale, Strategic Manager - Governance and Risk - 30 June 2017

For further information about the meeting, please contact Julia Jones or Scott Wooldridge or 01823 359027 or jjones@somerset.gov.uk / 01823 359043 or swooldridge@somerset.gov.uk

Guidance about procedures at the meeting follows the printed agenda.

This meeting will be open to the public and press, subject to the passing of any resolution under Regulation 4 of the Local Authorities (Executive Arrangements) (Meetings and Access to Information) (England) Regulations 2012.

This agenda and the attached reports and background papers are available on request prior to the meeting in large print, Braille, audio tape & disc and can be translated into different languages. They can also be accessed via the council's website on www.somerset.gov.uk/agendasandpapers

RNID typetalk

AGENDA

Item Cabinet - 10.00 am Monday 10 July 2017

**** Public Guidance notes contained in agenda annexe ****

1 **Apologies for Absence**

2 **Declarations of Interest**

Details of Cabinet Member interests in District, Town and Parish Councils will be displayed in the meeting room. The Statutory Register of Member's Interests can be inspected via the Community Governance team.

3 **Minutes from the meeting held on 14 June 2017** (Pages 5 - 12)

To agree any amendments and to sign the minutes of the meeting held on 14 June 2017

4 **Public Question Time**

The Chairman will allow members of the public to present a petition on any matter within the Cabinet's remit. Questions or statements about any matter on the agenda for this meeting may be taken at the time when each matter is considered.

5 **Somerset Energy Innovation Centre - Appointing a Construction Company** (Pages 13 - 28)

To consider the report

6 **Treasury Management End of Year Report 2016-17** (Pages 29 - 60)

To consider the report

7 **Revenue Budget Monitoring Reports End of May 2017/18** (Pages 61 - 68)

To consider the report

8 **Council Performance Report end of May 17/18** (Pages 69 - 74)

To consider the report

9 **Development of the Medium Term Financial Plan 2018/19** (Pages 75 - 82)

To consider the report

10 **Any other urgent items of business**

The Chairman may raise any items of urgent business.

THE MEETING – GUIDANCE NOTES

1 **Inspection of Papers or Statutory Register of Member's Interests**

Any person wishing to inspect reports or the background papers for any item on the agenda or inspect the Register of Member's Interests should contact Scott Wooldridge or Julia Jones on (01823) 359027 or 357628 or email jjones@somerset.gov.uk

2 **Notes of the Meeting**

Details of the issues discussed and decisions taken at the meeting will be set out in the Minutes, which the Cabinet will be asked to approve as a correct record at its next meeting. In the meantime, details of the decisions taken can be obtained from Scott Wooldridge or Julia Jones on (01823) 357628 or 357148 or email jjones@somerset.gov.uk

3 **Public Question Time**

At the Chairman's invitation you may ask questions and/or make statements or comments about **any matter on the Cabinet's agenda**. You may also present a petition on any matter within the Cabinet's remit. **The length of public question time will be no more than 30 minutes in total**.

A slot for Public Question Time is set aside near the beginning of the meeting, after the minutes of the previous meeting have been signed. However, questions or statements about any matter on the agenda for this meeting may be taken at the time when each matter is considered.

If you wish to speak at the meeting or submit a petition then you will need to submit your statement or question in writing to Julia Jones by 12.00pm on the Wednesday prior to the meeting. You can send an email to jjones@somerset.gov.uk or send post for attention of Julia Jones, Community Governance, County Hall, Taunton, TA1 4DY.

You must direct your questions and comments through the Chairman. You may not take direct part in the debate.

The Chairman will decide when public participation is to finish.

If there are many people present at the meeting for one particular item, the Chairman may adjourn the meeting to allow views to be expressed more freely.

If an item on the agenda is contentious, with a large number of people attending the meeting, a representative should be nominated to present the views of a group.

An issue will not be deferred because you cannot present at the meeting.

Remember that the amount of time you speak will be restricted normally to two minutes only.

4 **Hearing Aid Loop System**

To assist hearing aid users, the Luttrell Room has an infra-red audio transmission system. This works in conjunction with a hearing aid in the T position, but we also need to provide you with a small personal receiver. Please request one from the Committee Administrator and return at the end of the meeting.

5 **Emergency Evacuation Procedure**

In the event of the fire alarm sounding, members of the public are requested to leave the building via the signposted emergency exit, and proceed to the collection area outside Shire Hall. Officers and Members will be on hand to assist.

6 **Cabinet Forward Plan**

The latest published version of the Forward Plan is available for public inspection at County Hall or on the County Council web site at:
http://www.somerset.gov.uk/irj/public/council/futureplans/futureplan?rid=/guid/505e09a3-cd9b-2c10-89a0-b262ef879920.

Alternatively, copies can be obtained by telephoning (01823) 359027 or 357628.

7 **Excluding the Press and Public for part of the meeting**

There may occasionally be items on the agenda that cannot be debated in public for legal reasons (such as those involving confidential and exempt information) and these will be highlighted in the Forward Plan. In those circumstances, the public and press will be asked to leave the room while the Cabinet goes into Private Session.

8 **Recording of meetings**

The Council supports the principles of openness and transparency, it allows filming, recording and taking photographs at its meetings that are open to the public providing it is done in a non-disruptive manner. Members of the public may use Facebook and Twitter or other forms of social media to report on proceedings and a designated area will be provided for anyone who wishing to film part or all of the proceedings. No filming or recording will take place when the press and public are excluded for that part of the meeting. As a matter of courtesy to the public, anyone wishing to film or record proceedings is asked to provide reasonable notice to the Committee Administrator so that the relevant Chairman can inform those present at the start of the meeting.

We would ask that, as far as possible, members of the public aren't filmed unless they are playing an active role such as speaking within a meeting and there may be occasions when speaking members of the public request not to be filmed.

The Council will be undertaking audio recording of some of its meetings in County Hall as part of its investigation into a business case for the recording and potential webcasting of meetings in the future.

A copy of the Council’s Recording of Meetings Protocol should be on display at the meeting for inspection, alternatively contact the Committee Administrator for the meeting in advance.

THE CABINET

Minutes of a Meeting of the Cabinet held in the Luttrell Room, County Hall, Taunton, on Wednesday 14th June 2017 at 10am.

PRESENT

Cllr D Fothergill (in the Chair)

Cllr D Hall
Cllr D Huxtable
Cllr C Lawrence
Cllr F Nicholson
Cllr J Woodman

Junior Cabinet members:

Cllr C Aparicio Paul
Cllr G Verdon
Cllr F Purbrick

Other Members present: Cllrs S Coles, H Davies, J Hunt, T Lock, G Noel, B Revans, N Taylor, A Wedderkopp

Apologies for absence: Cllr A Groskop, Cllr Fraschini

1 **DECLARATIONS OF INTEREST** – agenda item 2

There were no declarations of interest.

The Leader took the opportunity to welcome everybody and introduce the Cabinet Members and Junior Cabinet Members. The Leader highlighted that only the Cabinet Members were the voting members of Cabinet and Junior Cabinet Members would contribute to the debate on the items at Cabinet.

He explained that following the publication of the agenda the Council had received an update from the latest Ofsted Monitoring Visit and the Director of Children's Services would be presenting a report for information to this meeting. He suggested that this report and the Children and Young People's Plan update report be considered after the public question time item. This was agreed by the Cabinet.

2 **MINUTES OF MEETINGS OF THE CABINET HELD ON 12 APRIL 2017** - agenda item 3

The Chairman asked for some clarity regarding minute 681 which stated that the Cabinet had delegated responsibility to sign the minutes of the last quadrennium to the Leader of the Council. The Governance Manager informed members that he had been unable to obtain a signature from the former Leader of the Council so the minutes were being brought to this Cabinet meeting for agreement.

The Cabinet agreed the minutes and the Chairman signed these as a correct record of the proceedings.

3 **PUBLIC QUESTION TIME (PQT)** – agenda item 4

There were no public questions.

4 **Update on Ofsted Monitoring Visit** - agenda item 7a

The Cabinet Member for Children and Families, Cllr Frances Nicholson, introduced the report which summarised the findings of the Ofsted Monitoring visit to the County Council on 2 and 3 May. She gave a summary of the background to this and the key findings.

Director of Children Services Julian Wooster explained this was the third in a series of monitoring visits which would culminate in a full re-inspection. The overall findings demonstrated that the Council was making adequate progress in improving services for children and young people in Somerset. However improvements were needed in improving consistency in social work practice, health assessments, mental health needs of young people, return to home interviews, absence from school of children looked after, and placement choices.

The Council was aware of weaknesses in the service and had put in a number of actions to drive improvements.

Further points discussed were:

- Continuing work with Children and Adolescent Mental Health Services
- Improving communication with Avon and Somerset Police
- There would be another big push on promoting foster care and recruitment of foster carers
- Further work was needed on recruitment and retention policies for social workers and this was being addressed in a number of ways. The focus going forward would be addressing retention.

The Chairman welcomed the report and acknowledged there were a number of issues which were improving and others which still needed further improvements. He was reassured this will be fed through Corporate Parenting Board and Scrutiny Committee.

He asked Cabinet Members and Junior Cabinet Members if they supported the approach and there was a consensus. He then moved the recommendations.

The Cabinet RESOLVED to welcome the confirmation from the Ofsted monitoring visit of the progress in improving services for children in need of help and protection, children looked after and care leavers, and noted the need for continuous improvement.

ALTERNATIVE OPTIONS CONSIDERED: As set out in the officer report

REASON FOR DECISION: As set out in the officer report

5 **CHILDREN'S SERVICES IMPROVEMENT - SOMERSET'S CHILDREN AND YOUNG PEOPLE'S PLAN 2016-19 PROGRESS** – agenda item 7

Cllr Nicholson introduced the report regarding the progress in year 1 of the Children and Young People's Plan (CYPP) 2016-19 which was originally approved by Cabinet in May 2016. The multi-agency plan reflected the commitment of strategic partners and the County Council for children's services to be good or better in three years. The plan was supported by through 7 improvement programmes. It was essential that partners worked together on this. The plan had been commended by Ofsted.

Philippa Granthier, Assistant Director Children's Services Commissioning, gave further information on the progress and impact of the CYPP. The main improvements were outlined in the table shown at 2.2 in the report. The Children's Trust Executive were pleased with the progress but recognised there was still a significant amount of work to do. Action plans for 2017/18 had been drawn up.

Further points raised in the debate included:

- On-going problems with some partner organisations around data sharing but solutions were being sought to address this.
- Scrutiny for Policies, Children and Families Committee to recruit 7 member champions for each improvement programme and this was suggested as an amendment to the recommendation which was agreed by Cabinet members.
- The role of the Scrutiny Committee to invite CAHMS to address any issues.
- Hospital admissions for children and young people shown on the CYPP dashboard on page 63 was shown red. This was being looked into further to analyse whether this was a data issue.

The Chairman asked if there were support for the proposal and both junior and cabinet members were in consensus.

Following consideration of the officer report, appendices and discussion, the Cabinet RESOLVED to acknowledge the significant work that has been undertaken to date and endorse the improvements and achievements in delivering the seven improvement programmes.

It also asked for the Scrutiny for Policies, Children and Families Committee to nominate a member champion for each of the 7 programmes as a matter of urgency.

ALTERNATIVE OPTIONS CONSIDERED: As set out in the officer report.

REASON FOR DECISION: As set out in the officer report.

6 **SOMERSET PREVENTION CHARTER** – agenda item 5

Cabinet Member for Public Health and Wellbeing Cllr Christine Lawrence introduced the report about the Somerset Prevention Charter which formed part of the work of the Somerset Sustainability and Transformation Plan (STP). The Charter provided a common understanding of prevention across many organisations, committing organisations to the vision and principles of prevention, and delivering with co-signatories and others the actions.

Director of Public Health Trudi Grant explained the charter had been formally endorsed and adopted by key STP and Health and Wellbeing Board partners.

Further points raised in the debate included:

- The use of data to move from prevention to predicting. It was hoped to do this more in the future.
- The use of the word prevention. This was used a lot in national documents and was meant to be used positively.
- The Somerset Information Network was highlighted as a valuable resource for members which should be promoted to them.
- The Health and Wellbeing Strategy was due to be refreshed this year.

There was a consensus of support from both Cabinet members and Junior Cabinet members for the proposal.

Cllr Lawrence moved the recommendation.

Following consideration of the officer report and discussion, the Cabinet RESOLVED to approve the adoption of the Somerset Prevention Charter on behalf of Somerset County Council.

ALTERNATIVE OPTIONS CONSIDERED: As set out in the officer report.

REASON FOR DECISION: As set out in the officer report.

7 **FRAMEWORK AGREEMENT FOR TRAVEL DEMAND MANAGEMENT** - agenda item 6

Cabinet Member for Resources and Economic Development Cllr David Hall introduced the report for a framework agreement for travel demand projects. Although this was being established to primarily deliver the Hinkley Point C related programme the framework could be used to procure any other travel programmes it may wish to deliver.

Strategic Manager for Major Programmes Andy Coupe explained that section 106 agreement money would be used to deal with the impacts of the project such as activities to support a reduction in traffic and road safety schemes.

Other points raised in the debate included:

- To ensure that parish councils were given enough notice regarding any work in their communities
- Councillors had a responsibility to their divisions to keep up to date what was happening and to communicate with their parishes
- Members were urged to seek the assistance of the major programmes team and to maximise any benefits
- Continual logging and recording of problems and work which has achieved good results to learn lessons for future major programmes
- Flexibility in the framework was welcomed

The Chairman summed up the debate and highlighted that due regard had been given to the impact assessment.

There was a consensus of support from both Cabinet members and Junior Cabinet members for the proposal.

Cllr Hall moved the recommendation.

Following consideration of the officer report, appendix, impact assessment and discussion, the Cabinet RESOLVED to:

- Agree to the appointment of the suppliers to the Lots identified in Appendix A following a competitive process for a Framework Agreement for Travel Demand Management that will have a maximum duration of four years.
- Agree the case for exempt information for Appendix A to be treated in confidence, as public disclosure of the commercially sensitive data contained within would prejudice the Council's position in ensuring competitiveness of future tender processes

ALTERNATIVE OPTIONS CONSIDERED: As set out in the officer report

REASON FOR DECISION: As set out in the officer report

8 **COUNCIL PERFORMANCE MONITORING REPORT Q4 2016-17** – agenda item 8

Strategic Manager for Performance Emma Plummer presented the report which provided an overview of the council's performance across the organisation. The performance summary was depicted in the table at 2.2. there were three red segments which were for consideration and further explanation was shown in appendix A.

The Chairman of Scrutiny for Policies and Place Cllr Tony Lock raised concerns about the importance of data being current to make meaningful recommendations. There was a balance between ensuring that data was also accurate. However this would be further considered.

Cllr Coles asked about ensuring slippages were addressed. He was informed the current segments showing a declining performance were due to natural variation between reporting points and the pre-election period restricting positive news coverage.

There was a consensus of support from both Cabinet members and Junior Cabinet members for the proposal.

The Chairman moved the recommendation.

Following consideration of the officer report, appendices and discussion, the Cabinet RESOLVED to:

1. Consider and comment on the information contained within this report specifically those areas identified as a potential concern under Section 3.0 of this report and the “issues for consideration” section of Appendix A.
2. Agree this report and Appendix A as the latest position for Somerset County Council against its County Plan.

ALTERNATIVE OPTIONS CONSIDERED: As set out in the officer report

REASON FOR DECISION: As set out in the officer report

9 **REVENUE BUDGET MONITORING REPORT Q4 2016-17** – agenda item 9

Cllr Hall introduced the report which outlined the Council’s Revenue Budget final outturn position for the 2016/17 financial year. He explained there were some challenges ahead and highlighted the under and overspend funding in table 2 shown at page 99. This was a good result considering the council’s position at the beginning of the year. He also drew member’s attention to the general reserve movements shown in table 5 on page 101 and the returns services had given back to general reserves.

Further points raised in the debate included:

- Collection Fund surplus figures were currently estimated
- The use of locum staff, costs involved and plans to reduce the number of temporary staff
- Further details regarding the savings that will deliver the 2017/18 agreed Medium Term Financial Plan would be made available to members as soon as possible by the Director of Finance and Performance.

The Chairman thanked officers for the report and was pleased this showed last year’s allegations of financial troubles at the Council as unfounded.

There was a consensus of support from both Cabinet members and Junior Cabinet members for the proposal.

Cllr Hall moved the recommendations.

Following consideration of the officer report, appendices and discussion, the Cabinet RESOLVED to:

Note the contents of this report and the outturn position for the year and approve:

1. Carry forward requests of £1.248m to be used against future commitments (Section 4);

2. Specific requests to write off overspends to the General Reserves totalling £15.033m and £0.179m (Section 2, Table 2 and appendices) and the future use of the reserves (Section 5, Table 4 and 5).

Note the transfer back to General Reserves of £6.915m from underspends (Section 2, Table 2 and Section 5, Table 5);
Note the treatment of the £19.527m Schools Budget balance, as approved by the Schools Forum (Section 3);

Note the Aged Debt Analysis as shown within Section 6

ALTERNATIVE OPTIONS CONSIDERED: As set out in the officer report

REASON FOR DECISION: As set out in the officer report

10 **CAPITAL BUDGET MONITORING REPORT Q4 2016-17** – agenda item 10

The Director of Finance and Performance, Kevin Nacey, presented the report outlining the Council's Capital Investment Programme outturn position for 2016/17 and updates on changes since the quarter 3 report presented in February. Appendix A provided examples of projects completed during the 2016/17 financial year, a number of good schemes had been carried out. Sufficient receipts had been generated to add to the capital programme.

Cllr Coles asked about the current status of the Northern Inner Distributor Road scheme and was informed that the Director of Commissioning and Lead Commissioner for ECI services, Paula Hewitt, would brief him.

The Chairman commented there had been some tremendous work during the past financial year.

There was a consensus of support from both Cabinet members and Junior Cabinet members for the proposal.

Cllr Hall moved the recommendations.

Following consideration of the officer report, appendices and discussion, the Cabinet RESOLVED to:

- Approve the various virements (£1.601m) and various supplements (£3.906m) as detailed in section 2.9.
- Note the contents of this report.

ALTERNATIVE OPTIONS CONSIDERED: As set out in the officer report

REASON FOR DECISION: As set out in the officer report

11 **ANY OTHER URGENT ITEMS OF BUSINESS** – agenda item 11

There was none.

(The meeting ended at 11.54 am)

CHAIRMAN

Decision Report – Cabinet Key decision
10th July 2017

Somerset Energy Innovation Centre (Phases 2 and 3)

Cabinet Member(s): Cllr David Hall (Cabinet Member for Resources and Economic Development)
Division and Local Member(s): Cllr David Hall Bridgwater East and Bawdrip
Lead Officer: Paula Hewitt, Lead Director for Economic and Community Infrastructure & Director of Commissioning
Author: John Carter, Economic Development Officer – Economy & Policy
Contact Details: 0797 668 9867 / 01823 359205

	Seen by:	Name	Date
	County Solicitor	Honor Clarke (delegated to Tom Woodhams)	19/06/2017
	Monitoring Officer	Julian Gale	14/06/2017
	Corporate Finance	Kevin Nacey	28/06/2017
	Human Resources	Chris Squire	20/06/2017
	Property / Procurement / ICT	Richard Williams	26/06/2017
	Senior Manager	Paula Hewitt	15/06/2017
	Local Member(s)	Cllr David Hall	26/06/2017
	Cabinet Members	Cllr David Hall (Cabinet Member for Resources and Economic Development)	26/06/2017
	Opposition Spokesperson	Cllr Simon Coles (Spokesperson for Resources and Economic Development)	27/06/2017
	Relevant Scrutiny Chairman	Cllr Tony Lock (Chairman for Scrutiny Place)	26/06/2017
Forward Plan Reference:	FP/17/05/06		
Summary:	Somerset County Council ("SCC") has successfully delivered phase 1 of the Somerset Energy Innovation Centre ("SEIC 1") located at Woodlands Business Park, Bridgwater. SEIC 1 opened in February 2016 and is currently 90% occupied. SCC is now in a position to: • proceed with the construction of phase 2 of the SEIC ("SEIC 2") which will deliver 2,000m^2 of flexible office, meeting and light industrial units; and		

	• develop the design of phase 3 of the SEIC development ("SEIC 3") to RIBA Stage 3. Definition of RIBA Stage 3 is: preparing the **'**developed design**,** including co-ordinated and updated proposals for structural design, building services systems, outline specifications, cost information and project strategies in accordance with the design programme.' Spatial coordination should be completed and change control procedures introduced, and typically landscape designs will be prepared and planning applications made. **SEIC 2:** The majority of funding for SEIC 2 is being sourced via the HotSW LEP's Growth Deal (funds 1 & 2) with smaller contributions planned from ERDF and SCC. Growth Deal funding has been confirmed and a separate Officer Key Decision is scheduled for 4th July 2017 to enter into the funding agreement. ERDF funding of £869,089 is subject to finalising the funding agreement with DCLG. However, to enable the construction of SEIC 2 to commence in line with the Growth Deal funding timescales, the ERDF funding has been underwritten from existing SCC funding allocations to the SEIC programme. Completion of the construction of SEIC 2 is due end-December 2018 with a formal opening of the Centre planned for April 2019. **SEIC 3:** Will deliver 2,000m^2 of flexible office, meeting/conference and collaborative innovation space (although the internal configuration may change subject to market demand). Completion of SEIC 3 is subject to SCC securing the full funding package to deliver the project. However, to do this it is necessary to develop the design of SEIC 3 to RIBA Stage 3 as this information is required in the funding applications. **This Decision Report is required to:** • appoint the construction works contractor to deliver SEIC 2; and • develop the design of SEIC 3 to RIBA Stage 3 to enable SCC to bid for and secure the full funding package to deliver this stage of the project.
Recommendations:	**That the Cabinet :-** • **Approves the appointment of the construction works**

	contractor Wilmott Dixon via the SCAPE Major Works Construction Framework for the construction of SEIC 2; and • **Authorise the development of the design for SEIC 3 to progress to RIBA Stage 3.**
Reasons for Recommendations:	During the construction of Hinkley Point C ("HPC"), EDF Energy has stated that they will place approximately 160 major contracts with Tier 1 suppliers, who in turn will place hundreds of contracts for goods and services with a range of lower tier suppliers. SEIC 2 will build on the success of SEIC 1 by providing the infrastructure, business support and networking environment to encourage innovation and collaboration between upper and lower tier suppliers. Some of these will be Somerset based and others will be national and international inward investors attracted to the County by the high quality of SEIC 2's facilities, the opportunities to develop a local supply chain and the close proximity of the Centre to HPC. The business support activity and collaboration opportunities will help Somerset's SMEs to develop and grow their businesses to enable them to win contracts and become part of the supply chain for HPC and other low carbon initiatives in the region. In addition, there will be a limited number of office and light industrial workspace available for businesses in other sectors (non-nuclear) with high growth potential. The purpose of the SEIC development is to generate jobs and the development of a low carbon energy supply chain cluster in Somerset and promote long-term structural change in the local economy including increasing SCC's local income base through the generation of additional business rate income. This supports the Council's ambition to ensure that the benefits of the development of HPC in Somerset are "reached out across the County" and will help deliver jobs, businesses and growth. **Approve the appointment of the construction works contractor Wilmott Dixon via the SCAPE Major Works Construction Framework for the construction of SEIC 2:** • The procurement of the construction services was carried out through the SCAPE – Major Works Framework and has been managed by SCC's Corporate Property Group and Procurement Team who have the necessary expertise and are experienced in using Frameworks. Use of a Framework Agreement will deliver time and cost savings to the procurement process, resulting in shorter timescales to contract delivery for time-sensitive work.

	• The SCAPE Framework was selected because it is the only Framework currently available to SCC that is compliant with ERDF Procurement Regulations. Compliance is a condition of the ERDF funding. • Wilmott Dixon bidder is the sole provider (for this size of project) on the Framework. SCC's Property Services and Procurement teams are satisfied with the Framework and have recommended the appointment of Wilmott Dixon. **Authorise the development of the design for SEIC 3 to progress to RIBA Stage 3:** • SEIC 3 will deliver the final stage of the current planned SEIC development. To deliver this stage, the Council will need to secure Growth Deal 3 funding. • The GD3 funding application require the full design drawings, build costs, planning permission etc. of all capital build projects. • Authorisation to develop the design for SEIC 3 to RIBA Stage 3 will provide this information and enable the Council to submit a strong, robust application to secure funding.

Links to Priorities and Impact on Service Plans:	The development of SEIC 2 and 3 links to the following Priorities and Impact on Service Plans as follows:
	
	• **The County Plan 2016-2020 by supporting the delivery of:**
	
	  ◦ Our **vision for Somerset** is simple. More jobs; more homes; more powers from government; more local co-operation; better health; better education and prospects; better roads, rail, broadband and mobile signal."
	
	  ◦ Our **ambition** for "A significant 'push' on energy initiatives. We want to be at the heart of discussions about solar power and tidal lagoons to make sure Somerset is in the vanguard of developments.
	
	• **Economic development targets:**
	
	  ◦ **Helping small businesses:** we will work with our partners to bring more start-ups and attract new business in to Somerset.
	
	  ◦ **Helping business succeed:** we will work with partners to deliver the benefits of the Somerset Growth Plan – more jobs, more enterprise centres, more homes, better education and increased productivity

	• **Economy and Planning Group Service Plan:** • The delivery of SEIC 2 and 3 projects are identified as key priorities within the Service Plan and fit with the Council's move from direct delivery to commissioning of services to deliver local economic development. • **Somerset Growth Plan:** • Supporting more jobs, more enterprise centres, more homes, better education and increased productivity • **The HotSW LEP Strategic Economic Plan**: • identifies nuclear as one of the transformational growth opportunities for the LEP area and the wider Low Carbon Energy Innovation and Collaboration Programme is a key initiative in the Hinkley Deal. • **SCC's Social Value Priority 4:** • "Creating opportunities for micro-providers / small and medium enterprises to be part of supply chains which support Somerset County Council priorities and service delivery."
Consultations and co-production undertaken:	The development of the SEIC development is the result of significant consultations and engagement with private sector organisations including EDF Energy, the Heart of the South West LEP, Government departments, RegenSW, Somerset businesses, further education and local authority partners. Businesses and organisations including those related to the low carbon energy sector have been consulted through two separate regional surveys and through the Planning and Business Planning stages of the project. SCC's Property Services team has been consulted and are providing support and advice about the capital aspects of the scheme. SCC's Procurement Team, Corporate Property Group and Legal Services Team have been involved in the delivery of SEIC 1 and are working closely with the Economy & Planning Group project team to deliver SEIC 2 and 3.
Financial Implications:	**The financial implications of the decision to "Approve the appointment of Wilmott Dixon via the SCAPE Major Works Construction Framework for the construction of SEIC 2 are:**

	• Developing SEIC 2 will enable the Council to leverage combined European and Government capital funding of £6.1 million into the County to develop high quality infrastructure to support business growth. • Construction costs will be met by ERDF and Growth Deal 1 and 2 funds. **The financial implications of the decision to "Authorise the development of the design for SEIC 3 to progress to RIBA Stage 3" are:** • The cost of the design of SEIC 3 will be met by SCC through previously approved SCC capital funding for the project. • The design of SEIC 3 to RIBA Stage 3 is a requirement of Growth Deal funding and is needed to produce a strong and robust application for funding. Without making this investment, SCC will not be able to leverage £2.75 million of GD 3 funding into the County and SEIC 3 will not go ahead. In addition there are further, positive long term financial implications for SCC generated through the uplift in business rates from the successful delivery of SEIC 2 and 3. The Director of Finance has replied that he is "happy with this decision"
Legal Implications:	The procurement of Wilmott Dixon for the construction works contract for SEIC 2 has been managed by the Council's Property Services and Procurement teams with support from legal colleagues as required. This is normal SCC practice for these projects. The contract awarded to the Design and Build Professional Services team includes the development of the design and build elements for both SEIC 2 and 3. However, the contract is set up to enable SCC to progress the design and build of both SEIC 2 and 3 in stages. Should we not secure the full funding package for SEIC 3, we will only be liable for the work carried out by the Design and Build Professional Services team to that point. Legal, Procurement and Property Services are experienced in contracting services in this way as for SEIC 1 which was delivered in two stages. There are cost and time savings in contracting in this way. In addition, colleagues from our Legal Services team are part of the SEIC Project Delivery Team and are informed and consulted about all aspects of the project.

	The County Solicitor has advised that he “doesn’t think it is necessary to add any more information here as the relevant points have been covered and the risk seems minimal.”
HR Implications:	There are no HR implications in taking these decisions. The project will continue to be managed by the existing resources in the Economy and Planning Group and SEIC is identified as a priority in the Economy and Planning Commissioning Intentions Plan. The appointment and management of the construction company Services Team will be managed by existing SCC staff and via the Design and Build services company, Capita, which has already been procured to provide project management and professional services. The Director of HR & OD reported that he was happy with the Decision Paper and had no additional comments to make.
Risk Implications:	There is a commercial (but not legal) risk in using the SCAPE major works framework as it will mean a direct award to one supplier. However, this risk is mitigated by the fact that the framework has already gone through a competitive process and is the only framework that is ERDF compliant that is currently available to the Council. In addition, the use of a Framework Agreement will deliver time and cost savings to the procurement process, resulting in shorter timescales to contract delivery for time-sensitive work. Risks will be mitigated through the management of the framework agreement by the Corporate Property Group and Commercial Procurement Team who have the necessary expertise and experience in using framework agreements and through the fact the supplier is required to seek multiple quotes within their supply chain to demonstrate value for money. There is a low risk that the ERDF application for funding will be unsuccessful. This risk has been mitigated through SCC agreeing to underwrite up to the maximum of £885,000 and the delivery of SEIC 3 can be scaled back accordingly, if required. There is a risk in developing the design for SEIC phase 3 to support the HotSW LEP Growth Deal 3 funding application, as SCC may not be successful in securing the full funding package. This risk has been mitigated since the development of the funding package to enable the delivery of SEIC phase 3 is already in place. SCC has developed the outline business case

<table>
<tr><td rowspan="2"></td><td colspan="6">for HotSW LEP Growth Deal 3, and has significant experience in putting together similar successful funding applications. In the circumstance where the underwrite of phase 2 from SCC were to be called upon, the building footprint of phase 3 would be reduced to remove financial exposure to SCC.</td></tr>
<tr><td>Likelihood</td><td>2</td><td>Impact</td><td>3</td><td>Risk Score</td><td>6</td></tr>
<tr><td>Other Implications (including due regard implications):</td><td colspan="6">Due regard considerations have been considered for the whole of this project and an impact assessment has been carried out.

<u>Equalities Implications</u>

<u>Equality and Diversity / Access</u><u>:</u> the Somerset Energy Innovation Centre will have the following positive impacts on protected characteristics identified in the Equality Act 2010:-

The Centre Operator for SEIC building 2 will positively promote equality of opportunity by ensuring that:
- They deliver services in line with an agreed and robust equalities policy
- All marketing and communication is both accessible and inclusive, being targeted at all diversity strands
- The premises are accessible

The contract with the construction works company (Willmott Dixon) will include the condition “to achieve tangible social community benefits alongside economic growth by creating skills and training opportunities in the local workplace, and the delivery of apprenticeships and local employment opportunities”

<u>Human rights</u><u>:</u> there are no human rights issues with accepting the HotSW LEP Growth Deal funding or appointing the construction company to construct phase 2 of the Centre or proceeding with the design of SEIC phase 3 to enable SCC to secure the full funding package

The Operator of the Centre will be contracted to meet SCC’s equalities and diversity policies

<u>Sustainability:</u> the Centre will actively promote the development of Somerset’s low carbon energy business sector by addressing current market failure. SEIC will support and encourage incubation, growth and collaboration; and will help to accelerate technological change in the low-carbon energy business sectors by driving the research, development and commercialisation of associated technologies.

In addition, SEIC will be delivered in line with BREEAM Excellent (high-quality environmental standards) in both the construction and operational phases.</td></tr>
</table>

	<u>Health and Safety:</u> the Centre will be designed and built in accordance with the CDM regulations and will therefore have a neutral impact on health and safety. **<u>Community Safety:</u>** there are no foreseeable Community Safety implications. The Centre will have a positive impact on economic prosperity, quality of life and well-being in Somerset. In addition the centre will be designed in conjunction with "secured by design" principles and guidance will be sought from the Police Architectural Liaison Officer in order to ensure that community safety is promoted. **<u>Privacy</u>** A Privacy Impact Assessment is not required in relation to this project. Any FoI requests received by SCC regarding this project will be responded to in accordance with FoI requirements and SCC policy. The SCC project team are aware of data protection issues and will comply with data protection rules. Once operational, the Operator of the Centre will comply with data protection rules. However, the Operator will need to evidence outputs achieved and may need to gather information on tenants or businesses receiving business support through the Centre. All businesses will be asked from the first engagement for their consent to use their information in this way.
Scrutiny comments / recommendation (if any):	Not applicable.

1. Background

1.1. *SEIC is a priority project for the Somerset Growth Plan and the Heart of the South West LEP Growth Plan.*

SEIC is being delivered in phases as SCC secures funding for each phase. This Decision Report is required to move the project forward and seeks authorisation to:

- ***Approve the appointment of Wilmott Dixon via the SCAPE Major Works Construction Framework for the construction of SEIC 2; and***

- ***Authorise the development of the design for SEIC 3 to progress to RIBA Stage 3.***

SEIC 2 will comprise of flexible office and light industrial space to enable Somerset and the South West's businesses to develop the capacity, capability and competitiveness required to win contracts in low carbon energy initiatives including HPC. The Centre will also include 400 sq m ERDF funded managed workspace on flexible terms for SMEs not connected to the nuclear supply chain with growth and high-value employment creation potential. A detailed planning application was been submitted to Sedgemoor District Council which was approved in December 2016.

SEIC 3 will deliver managed office, conferencing and collaborative innovation space (although this configuration may change due to market demand). Completion of SEIC 3 is subject to SCC securing the full funding package to deliver the project and a separate SCC Decision will be sought before progressing with the construction contract and to accept the external funding package.

There is a shortage of suitable available office space and development land in Bridgwater and according to local property agent, Alder King, "the construction of a new innovation centre at woodlands Business Park will increase supply significantly and is likely to capture demand from HPC supply companies".

2. Options considered and reasons for rejecting them

2.1. *To limit the development of SEIC 2 to 1,600 sq*
This option was considered and rejected because all the consultation and research that we have carried out suggests that the most successful innovation centres have a minimum of 2,000 sq m of flexible office, meeting and networking space. The focus of the Centre is on supporting the development of a local supply chain through business support and collaborative working with upper tier contractors and to support the creation of advanced capacities for products, services and development targeted at SMEs from a range of sectors that meet the ERDF eligibility criteria

2.2 *Not to proceed with SEIC 2 or 3*

This option was considered and rejected as the scale of demand envisaged for the Centre and its services will out-strip the provision in SEIC 1. If we are unable to meet the demand we will not be able to make the most of the economic benefits that will be presented by the Hinkley C development or support growth in a range of other sectors, and may not be able to fully realise the Council's key County Plan Priorities, and the priorities of HotSW LEP

3. Background Papers

(for copies of any of the background papers, please contact the report author)

3.1. Officer Non-Key Decision, 27th April 2015

"That the Director of Commissioning and Lead Commissioner for Economic and Community Infrastructure:
Authorises SCC acting as the applicant authority and submitting expressions of interest for ESIF funds for the CDS infrastructure delivery and phase 2 of the SEIC"

Cabinet Member Decision, 9th February 2017

'That the Cabinet Member for Business, Inward Investment and Policy approves

the commencement of the procurement process for construction of phases two and three of the Somerset Energy Innovation Centre (SEIC)

the underwriting of the proposed ERDF contribution to phase 2 of SEIC up to a maximum of £885,000 from existing SCC capital approvals allocated to SEIC'

Officer Key Decision, 17 March 2016

'That the Director of Commissioning and Lead Commissioner for Economic and Community Infrastructure approves the appointment of the preferred bidder to provide Professional Services (project management and design services) to SCC to enable the delivery of phases 2 and 3 of the Somerset Energy Innovation Centre'

3.2 Impact Assessment (shown below)

Equality Impact Assessment Form and Action Table 2015
(Expand the boxes as appropriate, please see guidance (www.somerset.gov.uk/impactassessment) to assist with completion)

"I shall try to explain what "due regard" means and how the courts interpret it. The courts have made it clear that having due regard is **more than having a cursory glance** at a document before arriving at a preconceived conclusion. Due regard requires public authorities, in formulating a policy, to give equality considerations the weight which is **proportionate in the circumstances**, given the potential impact of the policy on equality. It is not a question of box-ticking; it requires the equality impact to be **considered rigorously and with an open mind**." **Baroness Thornton, March 2010**			
What are you completing the Impact Assessment on (which policy, service, MTFP reference, cluster etc)?		Appointing the construction company will enable the delivery of phase 2 of the Somerset Energy Innovation Centre (SEIC). Proceeding with the design for SEIC phase 3 will assist in enabling SCC securing the full funding package to deliver the construction of SEIC phase 3	
Version	1	**Date**	5 June 2017
Section 1 – **Description** of what is being impact assessed			
SEIC located at Woodlands Business Park, Bridgwater is part of the Council's agreed Low Carbon Energy Innovation and Collaboration Programme (Cabinet, 6th Feb 2013) to: • Support the establishment and growth of new low carbon energy businesses in Somerset, including new starts, joint ventures and inward investors • Help existing local businesses access opportunities in the local, national and international nuclear and low carbon energy sectors from 2015 onwards • Support knowledge and technology transfer between HE/FE and businesses, through supporting businesses to develop collaborative innovation projects • Provide the infrastructure to enable these businesses to operate easily in Somerset and in close proximity to other businesses and stakeholders in the cluster • Secure a self-sustaining model of business incubation support through earned income streams that will continue to deliver the incubation scheme without further subsidy. Phase 1 has delivered 3,000 sq. m of flexible office, meeting and networking space Phase 2 will deliver 2,000 sq m of flexible office and light industrial space. Phase 3 will deliver 2,000 sq m of office, conferencing, meeting and collaborative innovation space (this configuration may change due to market demand) The construction of phase 2 should be completed and formally opened by April 2019; the construction of phase 3 is dependent on SCC securing the full funding package to deliver the project			
Section 2A – People or communities that are **targeted or could be affected** (taking particular note of the Protected Characteristic listed in action table)			
The Centre and its services specifically targets: • Local new-start-up businesses and existing SMEs who will benefit from focused business support and access to the innovation centre and its facilities. • Joint ventures and inward investors locating in Somerset as part of the Hinkley			

Point C and wider low carbon supply chain who will benefit from the support and infrastructure provided by the project, and who will in-turn employ local people and contribute towards Somerset's economic growth. • The residents of Somerset who will benefit from sustainable economic growth and high quality local employment opportunities. In addition, during the construction of phases 2 and 3 the appointed construction company will aim to achieve tangible social community benefits alongside economic growth by creating skills and training opportunities in the local workplace, and the delivery of apprenticeships and local employment opportunities.
Section 2B – People who are **delivering** the policy or service
The Economy and Planning Group, with the support of SCC's Procurement and Property Services Teams will procure the Service and will manage the Service. SCC owns the Centre but will appoint an Operator to manage phases 2 and 3 of the Centre. The governance/contract management of the Operator will be through the Economy and Planning Group directly with the Operator of the Centre. The appointed construction company will aim to achieve tangible social community benefits alongside economic growth by creating skills and training opportunities in the local workplace, and the delivery of apprenticeships and local employment opportunities.
Section 3 – **Evidence and data** used for the assessment (Attach documents where appropriate)
The Low Carbon Energy Innovation and Collaboration Programme is a key element of the 'low carbon economy framework', which forms part of EDF Energy's evidence for their Development Consent Order (DCO) application and has been agreed by Cabinet leads from SCC, West Somerset Council and Sedgemoor District Council. In developing the Programme, SCC has directly collaborated with EDF Energy, West Somerset Council, Sedgemoor District Council and Exmoor National Park Authority. In addition, SCC has consulted with other key stakeholders, including AREVA; Nuclear Advanced Manufacturing Research Centre; South West Energy Cluster; Somerset Chamber of Commerce and Industry; Bridgwater College; Heart of the South West Local Enterprise Partnership; and the Homes and Communities Agency and received their endorsement of the proposals.
Section 4 – **Conclusions** drawn about the equalities impact (positive or negative) of the proposed change or new service/policy (Please use **prompt sheet** in the guidance for help with what to consider):
Positive impacts regarding protected characteristics identified in the Equality Act 2010 include the following:- The Centre Operator will positively promote equality of opportunity by ensuring that: • They deliver services in line with an agreed and robust equalities policy; • All marketing and communication is both accessible and inclusive, being targeted at all diversity strands; • The innovation centre premises are accessible. It will also identify and communicate:

- Local childcare facilities and provision;
- A travel plan, with a focus on public transport accessibility

The construction of the Centre will follow these principles and the contract is let to the Operator on the basis of their following these and associated actions.

Somerset County Council will ensure that the above actions are achieved through regular contract monitoring and project highlight reports with the procured Centre Operator and construction company.

If you have identified any negative impacts you will need to consider how these can be mitigated to either reduce or remove them. In the table below let us know what mitigation you will take. (Please add rows where needed)			
Identified issue drawn from your conclusions	**Actions needed – can you mitigate the impacts? If you can how will you mitigate the impacts?**	**Who is responsible for the actions? When will the action be completed?**	**How will it be monitored? What is the expected outcome from the action?**
Age			
Disability			
Gender Reassignment			
Marriage and Civil Partnership			
Pregnancy and Maternity			
Race (including ethnicity or national origin, colour, nationality and Gypsies and Travellers)			
Religion and Belief			
Sex			
Sexual Orientation			
Other (including caring responsibilities, rurality, low income, Military Status etc)			

Section 6 - How will the assessment, consultation and outcomes be published and communicated? E.g. reflected in final strategy, published. What steps are in place to review the Impact Assessment

This decision paper (including the Impact Assessment) will be published on the SCC website. The Impact Assessment will be reviewed in a year's time as part of the project implementation and monitoring plan which will be managed by the Economy and Planning Group, with the support of SCC's Commercial Procurement and Property Services Teams.	
Completed by:	John Carter
Date	14 June 2017
Signed off by:	Paul Hickson
Date	14 June 2017
Compliance sign off Date	June 2017
To be reviewed by: (officer name)	John Carter
Review date:	14 June 2018

Somerset County Council

Cabinet
– 10th July 2017

Annual Treasury Management Outturn Report 2016-17

Cabinet Member: David Hall
Division and Local Member: All
Lead Officer: Kevin Nacey, Director of Finance & Performance
Author: Alan Sanford, Principal Investment Officer
Contact Details: (01823) 359585

Report Sign off	**Seen by:**	**Name**	**Date**
	County Solicitor	Honor Clarke	12/6
	Monitoring Officer	Julian Gale	13/6
	Corporate Finance	Stephen Morton	09/6
	Human Resources	Chris Squire	19/6
	Senior Manager	Kevin Nacey	12/6
	Cabinet Member	David Hall	
Forward Plan Reference:	FP/17/04/07		
Summary:	The Annual Treasury Management Outturn Report is a requirement of the CIPFA Treasury Management Code and covers the Treasury Management activity for 2016-17. This report: - ➢ Is prepared in accordance with the CIPFA Treasury Management Code and the Prudential Code. ➢ Gives details of the outturn position on treasury management transactions in 2016-17. ➢ Presents details of capital financing, borrowing, and investment activity. ➢ Reports on the risk implications of treasury decisions and transactions. ➢ Confirms compliance with treasury limits and Prudential Indicators or explains non-compliance.		
Recommendations:	This is a formal report and the Cabinet is asked to approve it and submit it to Full Council on 19th July 2017.		
Reasons for Recommendations:	The Local Government Act 2003 requires the Council to operate the overall treasury function with regard to the CIPFA Code of Practice for Treasury Management in the Public Services. The Code requires Full Council to receive as a minimum, an annual strategy and plan in advance of the year, a mid-year review, and an annual report after its close. This is the full-year review for 2016-17.		
Links to Priorities and Impact on Service Plans:	Effective Treasury Management provides support to the range of business and service level objectives that together help to deliver the Somerset County Plan.		

Consultations undertaken:	Not Applicable
Financial Implications:	None directly
Legal Implications:	None
HR Implications:	None
Risk Implications:	There are no specific risks associated with this outturn report. The risks associated with Treasury Management are dealt with in the Annual Treasury Management Strategy, Annual Investment Strategy, and Treasury Management Practice documents.
Other Implications (including due regard implications):	None
Scrutiny comments / recommendation (if any):	The Audit Committee is the nominated body to provide scrutiny for Treasury Management and this report will be sent to Audit Committee members.

1. Background

1.1. The Council's treasury management activities are regulated by a variety of professional codes, statutes and guidance. A more detailed outline of these, including the Treasury Management Framework and Policy is given at appendix A.

1.2. Somerset County Council (SCC) has adopted the CIPFA Code of Practice for Treasury Management in the Public Sector Revised 2011 Edition and operates its treasury management service in compliance with this Code and the requirements in appendix A. The Code requires as a minimum, a formal report on treasury activities and arrangements to Full Council mid-year and after the year-end. These reports enable those tasked with implementing policies and undertaking transactions to demonstrate they have properly fulfilled their responsibilities, and enable those with ultimate responsibility/governance of the treasury management function to scrutinise and assess its effectiveness and compliance with policies and objectives.

1.3. Whilst headline figures can be a useful guide to performance, they should not be viewed in isolation. It is important to also assess performance against the stated objectives and specific needs of SCC during the year, and to take a wider view in relation to timeframes and overall risk management. There are many factors and circumstances that affect treasury activity and performance that are not immediately apparent from statistical reports. Activities undertaken may be directly attributable to good risk management or preferred risk tolerances. Some limitations to purely statistical analysis are outlined in appendix B.

1.4. CIPFA Treasury Management Benchmarking Club produces detailed reports of

Local Authority performance, and also compares with other authorities. Whilst these headline figures have been a useful guide in assessing performance in the past, it has been equally important to assess performance against the stated objectives and specific needs of SCC during the year, and to take a wider view in relation to timeframes and overall risk management.

In view of the declining numbers that had been using the service, the increasing difficulty of straightforward comparison, and the cost of membership of the Benchmarking Club, it was decided not to participate from 2016-17 forward.

The number of Authorities using the benchmarking club has reduced over the past few years. In 2009-10 there were 136 participants, 95 in 2010-11, 84 in 2011-12, 68 in 2012-13, 50 in 2013-14, and 41 in 2014-15.

Many Authorities are using more esoteric means of 'investing' cash making it increasingly difficult to compare levels of risk tolerance, as well as returns.

2. Treasury Activity and Outturn

2.1. Summary of Performance

During the year, Council treasury management policies, practices, and activities remained compliant with relevant statutes and guidance, namely the CLG investment guidance issued under the Local Government Act 2003, the CIPFA Code of Practice for Treasury Management.

The Council can confirm that it has complied with its Prudential Indicators for 2016-17, with the exception of one band within the Maturity Structure of Borrowing Indicator. This is a technical breach as it was not due to Treasury activity, but was due to the fact that the £57.5m of Barclays LOBOs have become fixed-term loans. Prudential guidance treats this differently, and the loans have moved between bands intra-year. The higher limit on loans maturing between 30-40 years was set at 20%, but reached 26.3% in June as the £57.5m loans moved to that band.

All Capital projects were funded from Capital Receipts and Grant allowances from central Government, thereby eliminating the need to borrow in 2016-17.

The SCC weighted average rate paid on total borrowings was 4.66%, the same as 2015-16 as there was no change in portfolio.

Security of capital remained the Council's main investment objective. This was achieved by following the counterparty policy as set out in the Annual Investment Strategy, and by the approval method set out in the Treasury Management Practices. SCC has continuously monitored counterparties, and all ratings of proposed counterparties have been subject to verification on the day, immediately prior to investment.

Various indicators of credit risk reacted negatively to the result of the referendum on the UK's membership of the European Union. UK bank credit default swaps saw a modest rise but bank share prices fell sharply, on average by 20%, with UK-focused banks experiencing the largest falls. The negative effects soon unwound, meaning an even more risk-averse stance was not necessary.

However, new investments with Standard Chartered Bank were suspended in March 2016 due to its' relatively high credit default swap (CDS) level and disappointing 2015 financial results. The Council's two deposits with Standard Chartered at that time, matured in July and August 2016. Standard Chartered was reintroduced to the counterparty list in March 2017 following its strengthening financial position, and significant reduction in its' CDS price. An account of issues and any restrictions implemented throughout the year can be found in appendix G.

Liquidity. In keeping with the CLG guidance, the Council maintained a sufficient level of liquidity through the use of call accounts, Money Market Funds, and short-term deposits. SCC did not need to borrow short-term money during the year.

Yield. Total interest of £2.08m was earned during 2016-17. When compared to the average 6-month risk-free deposit rate of approximately 0.13% offered by the Government Debt Management Office (DMO) throughout the year, the benefit of the SCC investment strategy across the average SCC investment balance of £285.5m for the year was just over £1.7m (£1.57m in 2015-16).

Security and liquidity have been achieved with the return of 0.73% achieved for the year being 3 basis points above the average 12-month LIBID rate.

On 8th November 2016, SCC received a fourteenth dividend, £51,574.66 from Kaupthing, Singer & Friedlander. A total of £8,690,329.82 has been received to that date.

In total, as at 31st March 2017 £23,086,582.66 had been recovered on all Icelandic claims. More detail of the current position is in Appendix G.

2.2. Economic Background

Politically, 2016-17 was an extraordinary twelve month period which defied expectations when the UK voted to leave the European Union and Donald Trump was elected President of the USA. Uncertainty over the outcome of the US presidential election, the UK's future relationship with the EU and the slowdown witnessed in the Chinese economy in early 2016 all resulted in significant market volatility.

In addition to the political fallout, the referendum's outcome also prompted a sharp decline in household, business and investor sentiment. The repercussions on economic growth were judged by the Bank of England to be sufficiently severe to prompt its Monetary Policy Committee (MPC) to cut the Bank Rate to 0.25% in August and embark on further gilt and corporate bond purchases as well as provide cheap funding for banks via the Term Funding Scheme to maintain the supply of credit to the economy.

Despite growth forecasts being downgraded, economic activity was fairly buoyant and GDP grew 0.6%, 0.5% and 0.7% in the second, third and fourth calendar quarters of 2016. The labour market also proved resilient, with the ILO unemployment rate dropping to 4.7% in February, its lowest level in 11 years.

Following the referendum result, gilt yields fell sharply across the maturity spectrum on the view that Bank Rate would remain extremely low for the foreseeable future.

After recovering from an initial sharp drop in Quarter 2, equity markets rallied, although displaying some volatility at the beginning of November following the US presidential election result. The FTSE-100 and FTSE All Share indices closed at 7342 and 3996 respectively on 31st March, both up 18% over the year.

Lending rates for all periods moved significantly in August, in response to the unexpected bank base rate reduction. Average 3-month, 6-month and 12-month LIBID rates decreased by 0.14%, 0.15%, and 0.20% respectively during 2016-17, ending the year at 0.22%, 0.37% and 0.61% lower than in 2015-16.
A more detailed commentary on the year's events is in Appendix C.

2.3. The Portfolio Position as at 31st March 2017

The portfolio position as at 31st March 2017 and a comparison with the beginning of the year can be found in Appendix D.

2.4. Temporary Borrowing

Temporary borrowing has not been necessary at all during 2016-17. Further details can be found in Appendix E.

2.5. Long-Term Borrowing

The overall level of borrowing remained the same during the year, at £329.55m. The cost of rescheduling or repaying PWLB debt early varied significantly during the year as Gilt yields fell yet again. In March 2016 the total premium stood at £79m. During 2016-17, a year-high premium of £130m would have been payable in August, ending the year in March at £103m. Any decision to reschedule or repay debt would need to be taken in this dynamic environment. The weighted average rate paid on all debt was 4.66%. All details of long-term borrowing activity during the year can be found in Appendix F.

2.6. Cash managed on behalf of others

During 2016-17 SCC provided treasury management services to the Police and Crime Commissioner for Avon and Somerset, after winning a full competitive tender to provide Treasury Management services for 3 years from April 2015. Funds continue to be lent on a segregated basis, with PCC funds lent in its own name.

SCC continues to manage cash on behalf of other not-for-profit organisations including Exmoor National Park Authority (ENPA), and the South West Regional Board (SWRB) via service level agreements and the Comfund vehicle. These balances were just over £9.6m at year-end.

In addition, during 2016-17, SCC was retained to manage the Local Enterprise Partnership (LEP) Growth Deal Grant on behalf of the other Enterprise Partners. A grant of £56.7m was received on 11th April 2016.

All treasury management activities, including a fee for the management of the LEP money, brought in income and benefits of approximately £206,000 during the year.

2.7. Lending

The average daily balance of the Council's cash during 2016-17 was £285.5m, down £27.4m from the previous year.

The weighted investment return of 0.73% was 0.03% better than the average 12-Month LIBID rate for the financial year. A more detailed commentary on activity and analysis of performance for the year can be found in Appendix G.

2.8. Comparison against other Local Authorities clients of Arlingclose

2016-17 was the eighth complete year that SCC had the services of retained Treasury advisors, Arlingclose. It would therefore seem appropriate to look at SCC performance compared with other Authorities that use Arlingclose, i.e. that share much of the same investment advice, particularly regarding counterparties. However, many of the caveats mentioned in appendix B may apply. Furthermore, it has become apparent that many Authorities currently have exposure to Property Funds in their Treasury portfolios. With this in mind, a more equitable comparator, figures for internally managed investments only, has been used. The Arlingclose report compares quarter-end figures only, and comparisons can be seen below.

	Average Rate		Average Balance	
	SCC	Others	SCC	Others
June 2015	0.83%	0.69%	£299m	£65m
September 2015	0.73%	0.60%	£282m	£64m
December 2015	0.69%	0.52%	£242m	£62m
March 2016	0.68%	0.61%	£218m	£55m
Average	**0.73%**	**0.61%**	**£260m**	**£62m**

Using this methodology, SCC performance has been above that of comparators. This has been achieved with an average investment balance of more than 4 times that of the average for the universe.

From a risk perspective, both SCC and Other Authorities' average credit rating score was AA- throughout the year. (To give this some perspective, the United Kingdom Government is rated one notch above at AA). This performance relative to risk can be seen in two graphs along with more general detail in appendix G.

2.9. Prudential Indicators

The Council can confirm that it has complied with its Prudential Indicators for 2016-17, with the exception of one band within the Maturity Structure of Borrowing Indicator. This is a technical breach as it was not due to Treasury activity, but was due to the fact that the £57.5m of Barclays LOBOs have become fixed-term loans. Prudential guidance treats this differently, and the loans have moved between bands intra-year. The higher limit on loans maturing between 30-40 years was set at 20%, but reached 26.3% in June as the £57.5m loans moved to that band. Indicators that were set for the 2016-17 year, and the year-end position for each are set out in Appendix H.

2.10. Risk Management

SCC has continuously monitored counterparties, and all ratings of proposed counterparties have been subject to verification on the day, immediately prior to investment. Other indicators taken into account have been:-

- Credit Default Swaps and Government Bond Spreads.
- GDP and Net Debt as a Percentage of GDP for sovereign countries.
- Likelihood and strength of Parental Support.
- Banking resolution mechanisms for the restructure of failing financial institutions i.e. bail-in.

- Share Price.
- Market information on corporate developments and market sentiment towards the counterparties and sovereigns.

Various indicators of credit risk reacted negatively to the result of the referendum on the UK's membership of the European Union. UK bank credit default swaps saw a modest rise but bank share prices fell sharply, on average by 20%, with UK-focused banks experiencing the largest falls. Non-UK bank share prices were not immune, although the fall in their share prices was less pronounced.

Fitch and Standard & Poor's downgraded the UK's sovereign rating to AA. Fitch, S&P and Moody's have a negative outlook on the UK. Moody's has a negative outlook on those banks and building societies that it perceives to be exposed to a more challenging operating environment arising from the 'leave' outcome.

None of the banks on the Council's lending list failed the stress tests conducted by the European Banking Authority in July and by the Bank of England in November, the latter being designed with more challenging stress scenarios, although Royal Bank of Scotland was one of the weaker banks in both tests.

New investments with Standard Chartered Bank were suspended in March 2016 due to its' relatively high credit default swap (CDS) level and disappointing 2015 financial results. The Council's two deposits with Standard Chartered at that time, matured in July and August 2016. Standard Chartered was reintroduced to the counterparty list in March 2017 following its strengthening financial position, and significant reduction in its' CDS price.

At year-end maximum durations per counterparty were as follows: -

- Nat West & RBS – **35 days;**
- Barclays, Goldman Sachs International, and Standard Chartered – **100 days;**
- Nationwide BS, Santander UK, OP Corporate, Landesbank Hessen-Thuringen and all Australian banks – **6-months;**
- HSBC, Bank of Scotland, Lloyds, Nordea, Rabobank, Svenska Handelsbanken, and all Canadian and Singaporean banks – **13-months;**

There was no audit during 2016-17, so the Audit report dated 28th September 2015 was the last one. It awarded the best possible outcome, as quoted below.

> "I am able to offer substantial assurance as the areas reviewed were found to be adequately controlled. Internal controls are in place and operating effectively and risks against the achievement of objectives are well managed".

SCC has continuously proactively assessed and implemented mitigation for the risks that have materialised in the new investment environment. Controls/procedures are constantly being assessed and introduced/adapted where needed, and embedded into practices to further mitigate risks to SCC investment and borrowing portfolios. Details of risk management and governance can be found in Appendix I.

Arlingclose has been retained Treasury Advisors throughout the period.

During the year Treasury staff have continued to attend regular courses and seminars provided through its membership of the CIPFA Treasury Management Forum (TMF), its advisors, Arlingclose, and other ad hoc events including treasury software supplier forums.

3. Options considered and reasons for rejecting them

3.1. Not Applicable

4. Consultations undertaken

4.1. None

5. Financial, Legal, HR and Risk Implications

5.1. There are no direct financial implications arising from this paper. There are no Legal, HR, or other direct risk implications from this report.

6. Other Implications

6.1. None

7. Background papers

7.1. Treasury Management Strategy Statement 2016-17 and appendices. These were approved by Full Council at the meeting on 17th February 2016. The full papers can be found under the 8th February 2016 Cabinet meeting at

http://www1.somerset.gov.uk/council/board3d/Paper%20F%20Treasury%20Management%20Strategy.pdf

http://www1.somerset.gov.uk/council/board3d/Paper%20F%20Treasury%20Management%20Strategy%20Appendix%20A.pdf

http://www1.somerset.gov.uk/council/board3d/Paper%20F%20Treasury%20Management%20Strategy%20Appendix%20B.pdf

http://www1.somerset.gov.uk/council/board3d/Paper%20F%20Treasury%20Management%20Strategy%20Appendix%20C.pdf

http://www1.somerset.gov.uk/council/board3d/Paper%20F%20Treasury%20Management%20Strategy%20Appendix%20D.pdf

Appendix A

Overview

The Council's treasury management activities are regulated by a variety of professional codes, statutes and guidance:

- The Local Government Act 2003 (the Act), which provides the powers to borrow and invest as well as providing controls and limits on these activities.

- Statutory Instrument (SI) 3146 2003, as amended, develops the controls and powers within the Act.

- The SI requires the Council to undertake any borrowing activity with regard to the CIPFA Prudential Code for Capital Finance in Local Authorities. A Revised edition of this code was published in November 2011.

- The SI also requires the Council to operate the overall treasury function with regard to the CIPFA Code of Practice for Treasury Management in the Public Services. A Revised edition of this code was also published in November 2011.

- Under the Act the Communities and Local Government office (CLG) has issued Investment Guidance to structure and regulate the Council's investment activities. This was updated with effect from 1st April 2010, as a result of reports into Local Government investments by the Audit Commission and the Treasury Select Committee.

Treasury Management Policy Statement

<u>Introduction and Background</u>

1.1 The Council adopts the key recommendations of CIPFA's Treasury Management in the Public Services: Code of Practice (the code), as described in Section 5 of the Code

1.2 Accordingly, the Council will create and maintain, as the cornerstones for effective treasury management: -

- A treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury management activities.

- Suitable treasury management practices (TMPs), setting out the manner in which the organisation will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.

1.3 The Council (i.e. Full Council Members) will receive reports on its treasury management policies, practices and activities, including, as a minimum, an annual strategy and plan in advance of the year, a mid-year review, and an annual report after its close, in the form prescribed in its TMPs.

1.4 The Council delegates responsibility for the implementation and regular monitoring of its treasury management policies and practices to the Cabinet, and for the execution and administration of treasury management decisions to the Director of Finance & Performance as Section 151 Officer, who will act in accordance with the organisation's policy statement and TMPs and, if he/she is a CIPFA member, CIPFA's Standard of Professional Practice on Treasury Management.

1.5 The Council nominates the Audit Committee to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

Policies and Objectives of Treasury Management Activities

2.1 The Council defines its treasury management activities as: -

> *"The management of the organisation's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."*

2.2 The Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation, and any financial instruments entered into to manage these risks.

2.3 The Council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable performance measurement techniques, within the context of effective risk management.

2.4 The Council's borrowing will be affordable, sustainable and prudent and consideration will be given to the management of interest rate risk and refinancing risk. The source from which the borrowing is taken and the type of borrowing should allow the Council transparency and control over its debt.

2.5 The Council's primary objective in relation to investments remains the security of capital. The liquidity or accessibility of the Council's investments followed by the yield earned on investments remain important, but are secondary considerations.

Appendix B

CIPFA report limitations

As from 2016-17 SCC no longer subscribes to the CIPFA Treasury Management Benchmarking Club. CIPFA Treasury Management Benchmarking Club produces detailed reports of Local Authority performance, and also compares with other authorities. Whilst these headline figures have been a useful guide in assessing performance in the past, it has been equally important to assess performance against the stated objectives and specific needs of SCC during the year, and to take a wider view in relation to timeframes and overall risk management.

In view of the declining numbers that had been using the service, the increasing difficulty of straightforward comparison, and the cost of membership of the Benchmarking Club, it was decided not to participate from 2016-17 forward.

The number of Authorities using the benchmarking club has reduced over the past few years. In 2009-10 there were 136 participants, 95 in 2010-11, 84 in 2011-12, 68 in 2012-13, 50 in 2013-14, and 41 in 2014-15.

Many Authorities are using more esoteric means of ‘investing’ cash making it increasingly difficult to compare levels of risk tolerance, as well as returns. Some recent ‘investments’ by other Local Authorities include:-

- Investments in Solar Farms
- Loans to local Football Club
- Buy and Leaseback of BP Corporate HQ
- 33% Stake in new start-up bank
- Direct property investment

The many factors that affect treasury performance that were not apparent from the CIPFA reports, and thereby made direct comparison increasingly difficult included: -

- The CIPFA reports look at one year in isolation. With the introduction of the Prudential Code in 2004, Authorities have been able to invest for longer periods. Performance of investments in particular, needs to be viewed over a longer timeframe to see the full impact of decisions. A further issue regarding timeframes is that LOBOs can be taken and reported with a reduced rate initially, but with a big increase after an initial period that is not apparent in the reporting period.

- Each authority will have different needs during any given year. For example, a large capital requirement in a year when borrowing rates are high can have an enormous adverse affect on the overall portfolio performance for years to come. Conversely, a high rate loan that drops out of a small portfolio can make performance look extremely impressive in a year when no activity was undertaken, or if new borrowing is being undertaken in the present low rate environment.

- Individual decisions are taken to suit a Council's particular circumstances, return aspirations, overall policy, and risk tolerances, and these will affect outcomes. The techniques and tools used to achieve objectives, and as part of risk management will also have an effect. For example, District Councils with housing stock receipts can invest in longer-dated Government and Supranational Bonds, or place a greater percentage of investments with longer maturities.

- Investment returns compare rates achieved and give a general indication of length of deposits, but comparisons of the different levels of risk from counterparties and duration of loans is not available.

- The size of an Authority's cash balances will affect returns. An Authority with larger balances may be forced to use counterparties paying a lower rate to satisfy diversification needs and maintain minimum counterparty criteria.

- Use of Advisors. Authorities' lending lists will be heavily influenced by their Treasury advisors. Who each Authority's advisor is, and therefore their investment and counterparty advice, is not apparent from CIPFA reports.

- The number of Authorities using the benchmarking club has reduced over the past few years. In 2009-10 there were 136 participants, 95 in 2010-11, 84 in 2011-12, 68 in 2012-13, 50 in 2013-14, and 41 in 2014-15. There is anecdotal evidence that some Authorities have adopted an extremely risk-averse position, and at times for some, all deposits have been with the UK Government via the DMO. It is not beyond the realms of possibility that Authorities that follow extremely risk-averse strategies may be less inclined to measure and compare their outcomes.

Appendix C

The Economy and Events in 2016-17 including Market and PWLB Rates

Politically, 2016-17 was an extraordinary twelve month period which defied expectations when the UK voted to leave the European Union and Donald Trump was elected the 45th President of the USA. Uncertainty over the outcome of the US presidential election, the UK's future relationship with the EU and the slowdown witnessed in the Chinese economy in early 2016 all resulted in significant market volatility in 2016. Article 50, which set in motion the 2-year exit period from the EU, was triggered on 29th March 2017.

Inflation had been subdued in the first half of 2016 as a consequence of weak global price pressures, past movements in sterling and restrained domestic price growth. However the sharp fall in the Sterling exchange rate following the referendum had an impact on import prices which, together with rising energy prices, resulted in inflation rising from 0.3% year-on-year in April 2016 to 2.3% year-on-year in March 2017.

In addition to the political fallout, the referendum's outcome also prompted a sharp decline in household, business and investor sentiment. The repercussions on economic growth were judged by the Bank of England to be sufficiently severe to prompt its Monetary Policy Committee (MPC) to cut the Bank Rate to 0.25% in August and embark on further gilt and corporate bond purchases as well as provide cheap funding for banks via the Term Funding Scheme to maintain the supply of credit to the economy.

Despite growth forecasts being downgraded, economic activity was fairly buoyant and GDP grew 0.6%, 0.5% and 0.7% in the second, third and fourth calendar quarters of 2016. The labour market also proved resilient, with the ILO unemployment rate dropping to 4.7% in February, its lowest level in 11 years.

Following a strengthening labour market, in moves that were largely anticipated, the US Federal Reserve increased rates at its meetings in December 2016 and March 2017, taking the target range for official interest rates to between 0.75% and 1.00%.

Following the referendum result, gilt yields fell sharply across the maturity spectrum on the view that Bank Rate would remain extremely low for the foreseeable future. Since September there has been a reversal in longer dated gilt yields which have moved higher, largely due to the MPC revising its earlier forecast that Bank Rate would be dropping to near 0% by the end of 2016. The yield on the 10-year gilt rose from 0.75% at the end of September to 1.24% at the end of December, which is almost back at pre-referendum levels of 1.37% on 23rd June. 20- and 50-year gilt yields have also risen considerably in the third quarter to 1.76% and 1.70% respectively, however in the fourth quarter yields have remained flat at around 1.62% and 1.58% respectively.

After recovering from an initial sharp drop in Quarter 2, equity markets rallied, although displaying some volatility at the beginning of November following the US presidential election result. The FTSE-100 and FTSE All Share indices closed at 7342 and 3996 respectively on 31st March, both up 18% over the year. Commercial property values fell around 5% after the referendum, but had mostly recovered by the end of March.

Money market rates for overnight and one week remained low since Bank Rate was cut in August, at 0.10% and 0.13% respectively.

Lending rates for all periods moved significantly in August, in response to the unexpected bank base rate reduction, which was in response to the equally unexpected vote to leave the EU in June. 3-month, 6-month and 12-month LIBID rates had averaged 0.46%, 0.61% and 0.90% respectively during 2015-16, but decreased by 0.14%, 0.15%, and 0.20% respectively during 2016-17. 3-month, 6-month and 12-month LIBID rates ended the year at 0.22%, 0.37% and 0.61% respectively. An anomaly in the pricing of risk saw that the 2-year SWAP rate averaging 0.09% less than a 1-year deposit. A summary of PWLB and key benchmark rates is included below.

PWLB Rates 2016-17 (Maturity rates unless stated)

	1 Year	5 Year	5 Year EIP	10 Year	10 Year EIP	30 Year	50 Year
01/04/2016	1.33	1.82	1.50	2.51	1.86	3.33	3.15
30/04/2016	1.37	1.95	1.59	2.65	1.99	3.40	3.21
31/05/2016	1.36	1.93	1.58	2.56	1.97	3.26	3.07
30/06/2016	1.15	1.46	1.23	2.06	1.49	2.79	2.53
31/07/2016	1.07	1.31	1.13	1.84	1.34	2.65	2.44
31/08/2016	1.09	1.23	1.12	1.65	1.25	2.29	2.08
30/09/2016	1.03	1.21	1.06	1.72	1.23	2.45	2.30
31/10/2016	1.16	1.64	1.34	2.27	1.67	2.88	2.69
30/11/2016	1.01	1.66	1.26	2.43	1.70	3.00	2.77
31/12/2016	0.97	1.55	1.19	2.28	1.59	2.81	2.66
31/01/2017	1.08	1.74	1.34	2.50	1.79	3.07	2.88
28/02/2017	1.00	1.44	1.15	2.14	1.48	2.83	2.64
31/03/2017	1.03	1.44	1.16	2.11	1.48	2.76	2.54
Minimum	0.96	1.15	1.03	1.62	1.17	2.27	2.07
Average 2016-17	**1.13**	**1.56**	**1.28**	**2.21**	**1.60**	**2.89**	**2.69**
Maximum	1.40	2.00	1.63	2.71	2.04	3.46	3.28
Spread	0.44	0.85	0.60	1.09	0.87	1.19	1.21
Average 2015-16	**1.41**	**2.20**	**1.76**	**2.85**	**2.25**	**3.54**	**3.42**
Difference in average	**-0.28**	**-0.64**	**-0.48**	**-0.64**	**-0.65**	**-0.65**	**-0.73**

Money Market Rates 2016-17 (LIBID Source = BBA)

	O/N LIBID	7-Day LIBID	1-Month LIBID	3-Month LIBID	6-Month LIBID	12-Month LIBID	2-Yr SWAP
01/04/2016	0.36	0.36	0.39	0.46	0.61	0.88	0.78
30/04/2016	0.36	0.36	0.38	0.47	0.62	0.90	0.86
31/05/2016	0.35	0.37	0.39	0.46	0.61	0.89	0.82
30/06/2016	0.35	0.36	0.39	0.43	0.55	0.80	0.49
31/07/2016	0.35	0.34	0.31	0.37	0.46	0.68	0.47
31/08/2016	0.10	0.12	0.15	0.26	0.40	0.61	0.42
30/09/2016	0.10	0.12	0.14	0.26	0.41	0.63	0.43
31/10/2016	0.10	0.12	0.14	0.28	0.44	0.69	0.61
30/11/2016	0.10	0.13	0.14	0.26	0.43	0.67	0.65
31/12/2016	0.09	0.11	0.13	0.24	0.41	0.65	0.60
31/01/2017	0.10	0.12	0.14	0.23	0.41	0.65	0.69
28/02/2017	0.10	0.12	0.14	0.23	0.39	0.61	0.56
31/03/2017	0.10	0.11	0.13	0.22	0.37	0.61	0.61
Minimum	0.09	0.11	0.13	0.22	0.37	0.59	0.38
Average 2016-17	**0.19**	**0.20**	**0.22**	**0.32**	**0.46**	**0.70**	**0.61**
Maximum	0.36	0.37	0.39	0.47	0.62	0.90	0.88
Spread	0.27	0.26	0.26	0.25	0.25	0.31	0.50
Average 2015-16	**0.36**	**0.36**	**0.38**	**0.46**	**0.61**	**0.90**	**0.96**
Difference in average	**-0.17**	**-0.16**	**-0.16**	**-0.14**	**-0.15**	**-0.20**	**-0.35**

Appendix D

The Portfolio Position as at 31st March 2017 and a comparison with 2016 is set out below: -

	31st March 2016 £m	31st March 2017 £m	Change £m
Borrowing – Long-term			
Public Works Loan Board	159.05	159.05	0.00
Rate (%)	4.59	4.59	0.00
Market loans	170.5	170.5	0.00
Rate (%)	4.72	4.72	0.00
Sub-total	**329.55**	**329.55**	**0.00**
Rate (%)	**4.66**	**4.66**	**0.00**
Short-Term Borrowing			
External Borrowing	0.0	0.0	**0.0**
Total Borrowings	**329.55**	**329.55**	**0.0**
Cash Managed on behalf of others			
ENPA / SWRB	0.23	0.00	-0.23
Organisations in the Comfund	9.88	9.64	-0.24
Total	**10.11**	**9.64**	**-0.47**
Lending			
Revenue Lending	13.17	7.86	-5.31
Rate (%)	0.57	0.35	-0.22
Comfund Investment	254.36	211.31	-43.05
Rate (%)	0.86	0.69	-0.17
Total Lending	**267.53**	**219.17**	**-48.36**
Rate (%)	**0.85**	**0.68**	**-0.17**

The Council's need to borrow for capital purposes is determined by the Capital Programme and Capital Strategy. Council Members were aware of the major projects identified for 2016 to 2019. All Capital projects were to be funded from Capital Receipts and Grant allowances from central Government, thereby eliminating the need to borrow for 2016-17.

During 2016-17, there were no scheduled debt maturities. Both the PWLB and LOBO portfolios remained the same.

The cash managed on behalf of others includes that of Exmoor National Park Authority (ENPA) and the South West Regional Board (SWRB). SCC continues to manage revenue balances on their behalf, and under contractual arrangements sweeps their cash into the SCC account daily, from where it is lent into the market in the name of SCC. There are arrangements in place for the allocation of interest received on these amalgamated balances, and SCC should not be at a disadvantage as rates paid to ENPA and SWRB should always be less than those achieved by the investments.

The same principle holds for the Comfund external investors (a limited group of not-for-profit organisations with links to SCC) but here, the rate achieved is passed on to investors and an admin fee is charged.

In addition, during 2016-17, SCC was retained to manage the Local Enterprise Partnership (LEP) Growth Deal Grant on behalf of the other Enterprise Partners. A grant of £56.7m was received on 11th April 2016.

Revenue balances held on behalf of others at year-end decreased from £0.23m to £0.00m. Investment in the Comfund by external bodies decreased slightly, from £9.88m to £9.64m.

The Comfund investment of £211.31m was £43.05m lower, whilst revenue lending was also reduced by £5.31m, resulting in less cash earning a lesser rate of interest, as bank rate was cut to 0.25% in August.

Total lending as at 31st March 2017, including unspent LEP money, stood at over £219m, a decrease of £48m from 2016.

Appendix E

Temporary Borrowing

There were no temporary loans taken during 2016-17.

The nature of the deposit yield-curve throughout the year meant that the benefit of investing in shorter periods up to 2 or 3 months was marginal. The majority of revenue balances were therefore kept in Call Accounts and Constant Net Asset Value (CNAV) Money Market Funds. These not only reduced counterparty risk while providing returns superior to short-term deposits, but also provided minimal liquidity risk through instant access.

The benefits of not needing to borrow meant a year of zero interest paid on temporary loans.

Another benefit is nil temporary borrowing brokerage fees.

Appendix F

Long-Term Borrowing

The rate at which the Council can borrow from its main source, The PWLB, is directly affected by Market movements in Gilts (PWLB rates are set with a direct correlation to Gilt yields). They are set twice daily and fluctuate according to market sentiment.

UK Government Gilts are the main beneficiary when negative sentiment is felt (uncertainty in the lead up to the UK vote on whether to leave the EU, and the subsequent outcome, uncertainty over the US Presidential election, and doubts over European and Chinese growth). Greater demand = higher price = lower yield = lower PWLB rates. The opposite holds true, i.e. positive sentiment translates into higher yields.

Gilt yields across all durations ended the year lower than in March 2016, the third year of reducing yields. For maturity rates over 1-year, reductions were seen all along the curve, 5-year Gilts losing 0.45% and 50-year, 0.56%.

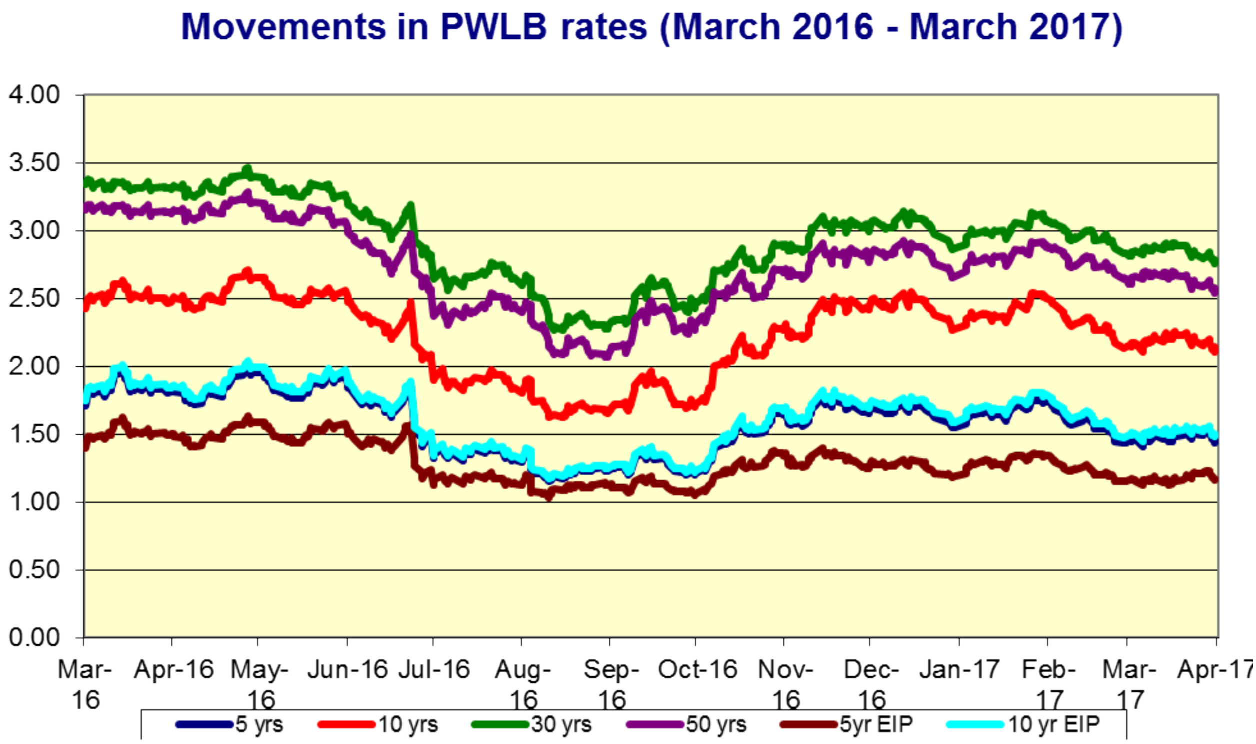
The PWLB 50-year maturity rate averaged 2.69% for the year, 0.73% down on 2015-16. The trend was repeated for 5, 10, and 30-year, where average yields reduced by 0.64%, 0.64%, 0.65% respectively. Spreads across all maturities over 5-years were volatile, the five-year Maturity rate showing a maximum of 2.00% and a minimum of 1.15%, and the 50-year Maturity rate a maximum of 3.28% and a minimum of 2.07%, producing volatile spreads of 0.85% and 1.21% respectively during the year.

When yields decline, it becomes more expensive to repay debt prematurely. To give an example, to repay the entire PWLB portfolio in March 2014 would have incurred a premium of £33.5m. By March 2015 this had increased to £73.8m as yields fell, and further to £79m by the end of March 2016. During 2016-17 with yields falling further, a year-high premium of £130m would have been payable in August, ending the year in March at £103m. Any decision to reschedule or repay debt would need to be taken in this dynamic environment.

The table and graph below summarise PWLB borrowing rates during the year.

PWLB Rates 2016-17 (Maturity rates unless stated)

	1 Year	5 Year	5 Year EIP	10 Year	10 Year EIP	30 Year	50 Year
01/04/2016	1.33	1.82	1.50	2.51	1.86	3.33	3.15
30/04/2016	1.37	1.95	1.59	2.65	1.99	3.40	3.21
31/05/2016	1.36	1.93	1.58	2.56	1.97	3.26	3.07
30/06/2016	1.15	1.46	1.23	2.06	1.49	2.79	2.53
31/07/2016	1.07	1.31	1.13	1.84	1.34	2.65	2.44
31/08/2016	1.09	1.23	1.12	1.65	1.25	2.29	2.08
30/09/2016	1.03	1.21	1.06	1.72	1.23	2.45	2.30
31/10/2016	1.16	1.64	1.34	2.27	1.67	2.88	2.69
30/11/2016	1.01	1.66	1.26	2.43	1.70	3.00	2.77
31/12/2016	0.97	1.55	1.19	2.28	1.59	2.81	2.66
31/01/2017	1.08	1.74	1.34	2.50	1.79	3.07	2.88
28/02/2017	1.00	1.44	1.15	2.14	1.48	2.83	2.64
31/03/2017	1.03	1.44	1.16	2.11	1.48	2.76	2.54
Minimum	0.96	1.15	1.03	1.62	1.17	2.27	2.07
Average 2016-17	**1.13**	**1.56**	**1.28**	**2.21**	**1.60**	**2.89**	**2.69**
Maximum	1.40	2.00	1.63	2.71	2.04	3.46	3.28
Spread	0.44	0.85	0.60	1.09	0.87	1.19	1.21
Average 2015-16	**1.41**	**2.20**	**1.76**	**2.85**	**2.25**	**3.54**	**3.42**
Difference in average	**-0.28**	**-0.64**	**-0.48**	**-0.64**	**-0.65**	**-0.65**	**-0.73**



During 2016-17, there were no scheduled debt maturities, and due to the elevated premiums, rescheduling of existing debt was not cost effective.

The year-end average rate of the PWLB portfolio remained at 4.59%.

The Council has £170.5m of loans that are LOBO loans (Lender's Option Borrower's Option) of which all but £25m were in their option state during 2016-17. None of the lenders exercised their option to request an increase in the rate applied. As stated in the 2016-17 Treasury Management Strategy Statement (point 2.5), it is SCC policy not to accept any option to pay a higher rate of interest on LOBO loans, and would invoke its own option to repay the loan.

In June, Barclays Bank announced that they had waived all their rights to the options on the LOBO loans that they made. This included the £57.5m held by SCC. These loans are now effectively long-term fixed loans. Whilst it may have been beneficial to SCC for the loans to be called in the present environment, the likelihood of this was extremely low. The forfeiture of options does give more certainty to the SCC Market Loan portfolio in the longer-term.

The weighted average LOBO rate for SCC for the year was 4.72%.

With no debt activity during the year, the weighted average term for SCC market loans at 31st March was 34.74 years, whilst the PWLB loans average was 27.2 years.

Appendix G

Lending

The Guidance on Local Government Investments in England gives priority to security and liquidity and the Council's aim is to achieve a yield commensurate with these principles.

Security: Security of capital remained the Council's main investment objective. This was maintained by following the counterparty policy as set out in the Annual Investment Strategy, and by the approval method set out in the Treasury Management Practices. Current approved counterparties are listed below. Those used during the year are denoted with a star.

Bank or Building Society		Bank or Building Society	
Australia & NZ Bank	*	Santander UK	*
Bank of Scotland	*	Standard Chartered Bank	*
Bank of Montreal	*	Svenska Handelsbanken	*
Bank of Nova Scotia		Toronto-Dominion Bank	*
Barclays Bank Plc		United Overseas Bank	*
Canadian Imperial Bank of Commerce			
Close Brothers Ltd	*		
Commonwealth Bank of Australia	*	**Sterling CNAV Money Market Funds**	
DBS Bank Ltd	*	Blackrock MMF	
Goldman Sachs International Bank	*	Goldman Sachs MMF	
HSBC Bank	*	Deutsche MMF	
Landesbank Hessen-Thuringen	*	Invesco Aim MMF	*
Lloyds Bank	*	Federated Prime MMF	*
National Australia Bank	*	JP Morgan MMF	*
National Westminster	*	Insight MMF	*
Nationwide BS	*	Standard Life MMF	*
Nordea Bank	*	LGIM MMF	*
OP Corporate Bank	*		
Oversea-Chinese Banking Corporation	*	**Other Counterparties**	
Rabobank	*	Other Local Authorities	*
Royal Bank of Scotland		Debt Management Office	

SCC has continuously monitored counterparties, and all ratings of proposed counterparties have been subject to verification on the day, immediately prior to investment. Other indicators taken into account have been:-

- Credit Default Swaps and Government Bond Spreads.
- GDP and Net Debt as a Percentage of GDP for sovereign countries.
- Likelihood and strength of Parental Support.
- Banking resolution mechanisms for the restructure of failing financial institutions i.e. bail-in.
- Share Price.
- Market information on corporate developments and market sentiment towards the counterparties and sovereigns.

Although the global financial situation continued to stabilise, there were still many events that affected the creditworthiness of financial institutions.

Various indicators of credit risk reacted negatively to the result of the referendum on the UK's membership of the European Union. UK bank credit default swaps saw a modest rise but bank share prices fell sharply, on average by 20%, with UK-focused banks experiencing the largest falls. Non-UK bank share prices were not immune, although the fall in their share prices was less pronounced.

Fitch and Standard & Poor's downgraded the UK's sovereign rating to AA. Fitch, S&P and Moody's have a negative outlook on the UK. Moody's has a negative outlook on those banks and building societies that it perceives to be exposed to a more challenging operating environment arising from the 'leave' outcome.

None of the banks on the Council's lending list failed the stress tests conducted by the European Banking Authority in July and by the Bank of England in November, the latter being designed with more challenging stress scenarios, although Royal Bank of Scotland was one of the weaker banks in both tests.

The tests were based on banks' financials as at 31st December 2015, 11 months out of date for most. As part of creditworthiness research and advice, analysis of relevant ratios - "total loss absorbing capacity" (TLAC) or "minimum requirement for eligible liabilities" (MREL) – is regularly received to determine whether there would be a bail-in of senior investors, such as local authority unsecured investments, in a stressed scenario.

New investments with Standard Chartered Bank were suspended in March 2016 due to its' relatively high credit default swap (CDS) level and disappointing 2015 financial results. The Council's two deposits with Standard Chartered at that time, matured in July and August 2016. Standard Chartered was reintroduced to the counterparty list in March 2017 following its strengthening financial position, and significant reduction in its' CDS price.

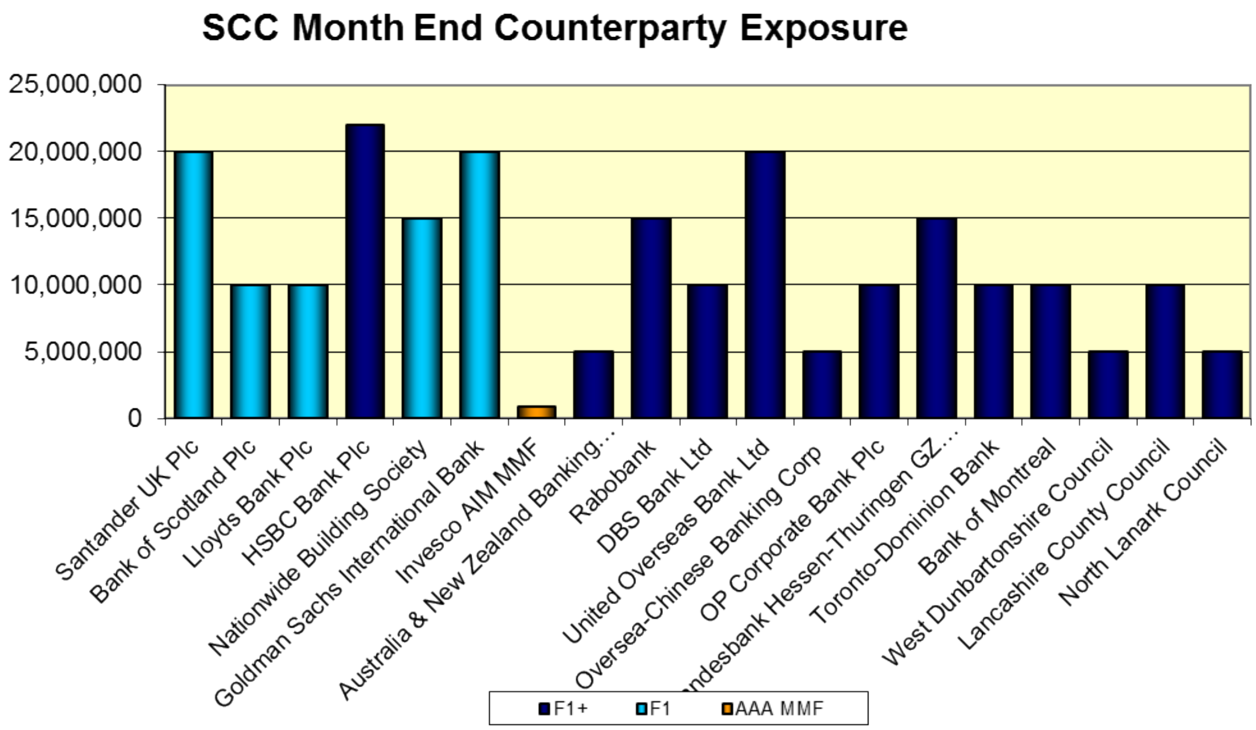
At year-end maximum durations per counterparty were as follows: -

- Nat West & RBS – **35 days;**
- Barclays, Goldman Sachs International, and Standard Chartered – **100 days;**
- Nationwide BS, Santander UK, OP Corporate, Landesbank Hessen-Thuringen and all Australian banks – **6-months;**
- HSBC, Bank of Scotland, Lloyds, Nordea, Rabobank, Svenska Handelsbanken, and all Canadian and Singaporean banks – **13-months;**

Another means of assessing inherent risk in an investment portfolio is to monitor the duration, the average weighted time to maturity of the portfolio. As the revenue element of lending is generally instant access or short-term lending, it is more appropriate to monitor the Comfund element of lending. The Comfund portfolio started the year with a duration of 154 days. This peaked in May and August at 169 days, and ended the year at 152 days. The average Comfund duration for the year was 163 days (146 in 2015-16).

In order to maintain diversification of the portfolio, some deposits were placed with UK Local Authorities. This allowed for longer-dated maturities with excellent creditworthiness and an appropriate yield.

The chart below shows the names of approved counterparties with deposit exposures as at 31st March 2017.



Liquidity: In keeping with the CLG guidance, the Council maintained a sufficient level of liquidity through the use of call accounts, money market funds (MMFs), and short-term deposits. Some call accounts and MMFs offered yields in excess of those on offer for time deposits up to 3-months, which meant that it was beneficial to use these facilities. This was beneficial not just for liquidity and yield, but in mitigating counterparty and interest rate risk. During the year, identified core balances and reserves have been lent for longer periods when deemed appropriate, via the Comfund. The Comfund aim is to create a portfolio of deposits with a rolling maturity providing sufficient liquidity, whilst enabling advantage to be taken of the extra yield offered in longer periods.

Yield: The Council sought to optimise returns commensurate with its objectives of security and liquidity. UK Bank Rate halved to 0.25% in August, with the possibility of even lower rates to come. With increased uncertainty following the vote to leave the EU, deposit rates continued along the even lower for even longer path. 3-month, 6-month and 12-month LIBID rates had averaged 0.46%, 0.61% and 0.90% respectively during 2015-16. Rates remained at these levels until the outcome of the referendum was known in June, when rates began to decline. They reduced dramatically when bank base rate was cut in August, all ending the year approximately 0.25% lower. The average 3, 6, and 12-month rates lost 0.14%, 0.15%, and 0.20% respectively, to 0.32%, 0.46% and 0.70% for 2016-17. A table of rates is shown below.

Money Market Rates 2016-17 (LIBID Source = BBA)

	O/N LIBID	7-Day LIBID	1-Month LIBID	3-Month LIBID	6-Month LIBID	12-Month LIBID	2-Yr SWAP
01/04/2016	0.36	0.36	0.39	0.46	0.61	0.88	0.78
30/04/2016	0.36	0.36	0.38	0.47	0.62	0.90	0.86
31/05/2016	0.35	0.37	0.39	0.46	0.61	0.89	0.82
30/06/2016	0.35	0.36	0.39	0.43	0.55	0.80	0.49
31/07/2016	0.35	0.34	0.31	0.37	0.46	0.68	0.47
31/08/2016	0.10	0.12	0.15	0.26	0.40	0.61	0.42
30/09/2016	0.10	0.12	0.14	0.26	0.41	0.63	0.43
31/10/2016	0.10	0.12	0.14	0.28	0.44	0.69	0.61
30/11/2016	0.10	0.13	0.14	0.26	0.43	0.67	0.65
31/12/2016	0.09	0.11	0.13	0.24	0.41	0.65	0.60
31/01/2017	0.10	0.12	0.14	0.23	0.41	0.65	0.69
28/02/2017	0.10	0.12	0.14	0.23	0.39	0.61	0.56
31/03/2017	0.10	0.11	0.13	0.22	0.37	0.61	0.61
Minimum	0.09	0.11	0.13	0.22	0.37	0.59	0.38
Average 2016-17	**0.19**	**0.20**	**0.22**	**0.32**	**0.46**	**0.70**	**0.61**
Maximum	0.36	0.37	0.39	0.47	0.62	0.90	0.88
Spread	0.27	0.26	0.26	0.25	0.25	0.31	0.50
Average 2015-16	**0.36**	**0.36**	**0.38**	**0.46**	**0.61**	**0.90**	**0.96**
Difference in average	**-0.17**	**-0.16**	**-0.16**	**-0.14**	**-0.15**	**-0.20**	**-0.35**

Comfund

Comfund investment decreased to £211.31m at year-end 2017, by £43.05m from the £254.36m at year-end 2016.

The total of other investors' balances also decreased slightly by £0.24m.

The average balance of the Comfund throughout 2016-17 was £250m, a £7.8m decrease on the previous years' average.

The Comfund vehicle, with an annual return of 0.77% out-performed the benchmark for the year, by 0.35%.

A total of approximately £1.93m was earned in interest in the year, a decrease of £160,000 on the figure for 2015-16 of £2.09m. The rate achieved was only 4 basis points lower in an environment where available rates and balances were significantly reduced.

Comfund administration charges received from investors totalled approximately £38,500 for the year.

Revenue

Revenue balances averaged £35.5m during the year, with a yield of 0.42%. This compares favourably to a normal money market fund benchmark of 7-day LIBID (London Interbank Bid Rate, an average of bid rates that banks are willing to lend to each other), the average for which was 0.20%. This income stream earned interest of over £148,000.

Combined

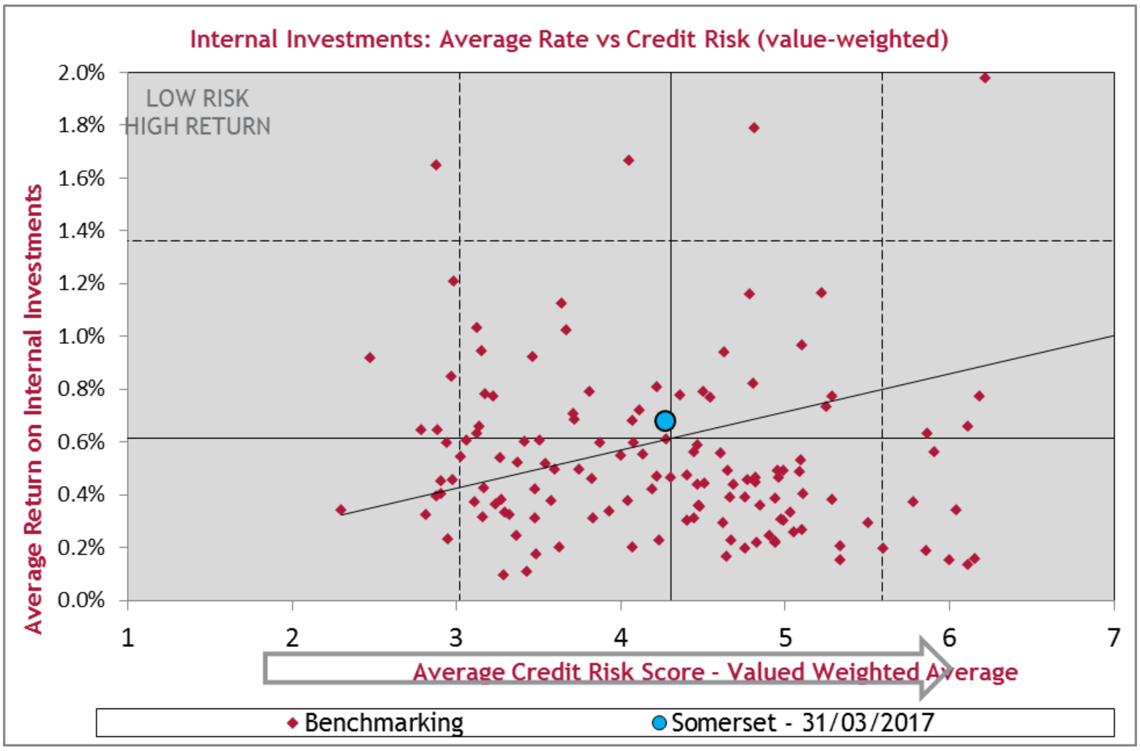
The combined average daily balance of the Council's investments during 2016-17 was £285.5m against £312.9m for 2015-16. The overall weighted investment return of combined in-house investments was 0.73% against a return of 0.75% for 2015-16.

2016-17 was the eighth complete year that SCC had the services of retained Treasury advisors, Arlingclose. It would therefore seem appropriate to look at SCC performance compared with other Authorities that use Arlingclose, i.e. that share much of the same investment advice, particularly regarding counterparties. However, many of the caveats mentioned in appendix B may apply. Furthermore, it has become apparent that many Authorities currently have exposure to Property Funds in their Treasury portfolios. With this in mind, a more equitable comparator, figures for internally managed investments only, has been used. The Arlingclose report compares quarter-end figures only, and comparisons can be seen below.

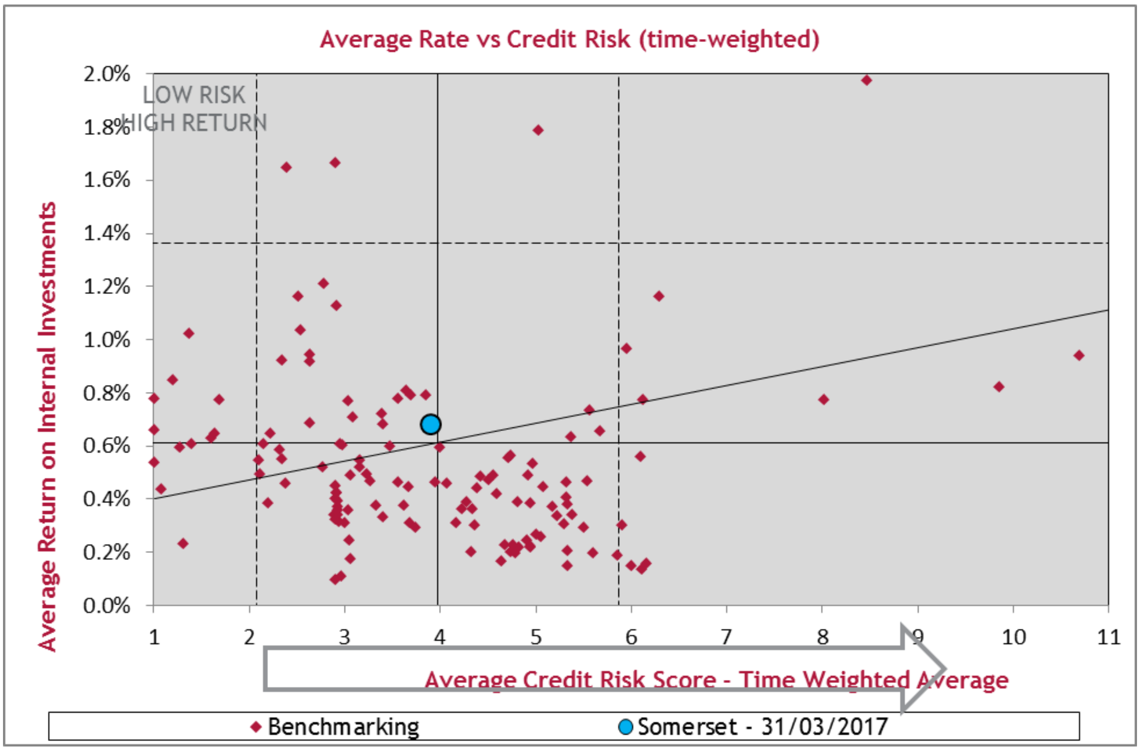
	Average Rate		Average Balance	
	SCC	Others	SCC	Others
June 2015	0.83%	0.69%	£299m	£65m
September 2015	0.73%	0.60%	£282m	£64m
December 2015	0.69%	0.52%	£242m	£62m
March 2016	0.68%	0.61%	£218m	£55m
Average	**0.73%**	**0.61%**	**£260m**	**£62m**

Using this methodology, SCC performance has been above that of comparators. This has been achieved with an average investment balance of more than 4 times that of the average for the universe.

From a risk perspective, both SCC and Other Authorities' average credit rating score was AA- throughout the year. (To give this some perspective, the United Kingdom Government is rated one notch above at AA). The performance relative to risk can be seen in the two graphs below.



It can be seen in both graphs that SCC performance is above the average rate of return whilst being below the average credit risk score.



Security and liquidity have been achieved while returning an overall rate in excess of average rates for all periods up to 1 year (see table 2 above), on a portfolio with an average duration of less than 6 months. Performance was ahead of the Arlingclose comparison group.

The overall return has produced a total income of £2.08m, down by £280,000 from 2015-16 on much reduced balances and rates. If balances had been invested in the relatively risk-free Government Debt Management Account Deposit Facility (DMADF) run by the Debt Management Office (DMO), at 6-month rates, the return would have averaged approximately 0.13%, or £371k, a reduction in income of £1,705,000.

All treasury management activities have not only mitigated risk to SCC to permit the achievement of objectives, but have brought in income and benefits of approximately £206,000.

Icelandic Investments Update

As has been previously reported, SCC in common with 126 other Local Authorities (44% of County Councils and 24% of District Councils), numerous charities, banks, and building societies, and the Audit Commission, had deposits with two Icelandic banks, Glitnir and Landsbanki, at the time the Icelandic Government repatriated their overseas assets, and also in the UK subsidiary of another, Kaupthing Singer & Friedlander (KSF), when the UK FSA placed it into administration.

The current position is this: -

Landsbanki & Glitnir – As reported in the end of 2015-16 Treasury Management Outturn Report, SCC has concluded any interest that it had with these two banks.

Kaupthing, Singer & Friedlander – The estimated range for total dividends was increased at the lower end in the Administrator's October 2016 report, and is now at 86p-86.5p in the pound.

A further dividend of £51,574.66 was received in November 2016. Future dividends will be paid subject to consultation with the Creditors' Committee, and when the level of distributable funds makes it cost effective to do so.

In total, as at 31st March 2017 £23,086,582.66 had been recovered. The shortfall of £1.91m from the original investment was written off back in 2008-09.

Appendix H

Prudential Indicators

Prudential Indicators are agreed and set by Council prior to each financial year. The key objectives are to ensure, within a clear framework, that the Capital Investment plans of the Council are affordable, prudent, and sustainable.

The indicators are regularly monitored, with actuals reported to the Director of Finance & Performance monthly.

The Council can confirm that it has complied with its Prudential Indicators for 2016-17, with the exception of one band within the Maturity Structure of Borrowing Indicator. This is a technical breach as it was not due to Treasury activity, but was due to the fact that the £57.5m of Barclays LOBOs have become fixed-term loans. Prudential guidance treats this differently, and the loans have moved between bands intra-year. The higher limit on loans maturing between 30-40 years was set at 20%, but reached 26.3% in June as the £57.5m loans moved to that band. Those indicators agreed by Full Council and actual figures as at 31st March are included below:

Borrowing	**Limit for 2016-17**	**As at 31-03-17**
Authorised Limit	374	340
Operational Boundary	360	340
Upper limit – Fixed Interest	100%	100%
Upper limit – Variable Interest	30%	0%

Maturity Structure of Borrowing	**Upper**	**Lower**	**Actual**
Under 12 months	55%	20%	28.9%
>12 months and within 24 months	20%	0%	0.0%
>24 months and within 5 years	20%	5%	7.4%
>5 years and within 10 years	20%	5%	9.0%
>10 years and within 20 years	20%	5%	12.2%
>20 years and within 30 years	20%	0%	0.0%
>30 years and within 40 years	20%	5%	26.3%
>40 years and within 50 years	25%	5%	16.2%
>50 years and above	10%	0%	0.0%

Limit for Principal sums invested > 364 days £100m **Actual** £45m

Appendix I

Risk Management & Governance

During the year, all Council treasury management policies, practices, and activities remained compliant with all relevant statutes and guidance, namely the CLG investment guidance issued under the Local Government Act 2003, the CIPFA Code of Practice for Treasury Management, and the CIPFA Prudential Code.

The CLG's Guidance on Investments, revised during 2009-10, reiterated security and liquidity as the primary objectives of a prudent investment policy. All lending was compliant with guidance issued by the CLG, with the investment strategy agreed, and activities conducted within the procedures contained in the TMPs.

As required by the CIPFA TM Code, a mid-year review was presented to Full Council in November 2016.

Officers from the Treasury Management team reported debt and investment positions and performance via comprehensive reports at monthly meetings with the Director of Finance & Performance and/or the Strategic Manager (Finance Technical).

All recent audits conducted by the South West Audit Partnership have received a 'Comprehensive' Audit Opinion, the highest rating for its management of risk.

There was no audit during 2016-17, so the Audit report dated 28th September 2015 was the last one. It awarded the best possible outcome, as quoted below.

> "I am able to offer substantial assurance as the areas reviewed were found to be adequately controlled. Internal controls are in place and operating effectively and risks against the achievement of objectives are well managed".

The audit was also complimentary regarding policy, procedures and processes, as per the quoted passages below.

> "The procedures for Treasury Management remain unchanged and all key controls assessed during the audit were found to be operating effectively. The Council's Treasury Management Policy, which adopts the key recommendations of CIPFA's Treasury Management in the Public Services Code, is robust and the low risk managed approach continues to be of benefit to the Council".

> "In addition, it has been established that all recommendations made in the last review have been actioned. As a result, no recommendations have been made in this report. All Council officers involved in this audit were found to be open and transparent, committed to further improvement and receptive to feedback".

Arlingclose have been retained Treasury Advisors throughout the period.

During the year Treasury staff have continued to attend regular courses and seminars provided through the CIPFA Treasury Management Network (TMN), its advisors, Arlingclose, and other ad hoc events including treasury software supplier forums.

Somerset County Council

Cabinet
– 10 July 2017

2017/18 Revenue Budget Quarter 1 Highlight Report

Cabinet Member:	David Hall – Cabinet Member for Finance and Economic Development
Division and Local Member:	All
Lead Officer:	Lizzie Watkin – Service Manager, Chief Accountant
Author:	Lizzie Watkin – Service Manager, Chief Accountant
Contact Details:	KBNacey@somerset.gov.uk Tel: 01823 355213

Report Sign off	**Seen by:**	**Name**	**Date**
	County Solicitor	Honor Clarke	26/06/17
	Monitoring Officer	Julian Gale	26/06/17
	Corporate Finance	Lizzie Watkin	26/06/17
	Human Resources	Chris Squire	26/06/17
	Senior Manager	Kevin Nacey	26/06/17
	Cabinet Member	David Hall	26/06/17
Forward Plan Reference:	FP17/05/08		
Summary:	The report provides the first indication of the year regarding the potential Revenue Budget outturn position for the 2017/18 financial year.		
Recommendations:	**To note the contents of this report and the potential outturn position for the year.**		
Reasons for recommendations	As above.		
Links to Priorities and Impact on Service Plans:	The Outturn report indicates how the Council's resources have been used to support the delivery of budgetary decisions. The Medium Term Financial Plan (MTFP) sets the funding for the County Plan and the use of those funds is then monitored throughout the year to ensure delivery of Council objectives and actions.		
Consultations Undertaken:	Information and explanations have been sought from directors on individual aspects of this report and their comments are contained in the report.		

Financial Implications:	A deficit on the Revenue Budget will impact on the Council's General Balances. The Council's financial position will be constantly reviewed to ensure its continued financial health. The report signifies that Cabinet and the Senior Leadership Team will need to take some immediate actions to address the overspend projections.
Legal Implications:	There are no implications arising directly from this paper.
HR Implications:	There are no implications arising directly from this paper.
Risk Implications:	If the overspend were to be at the same level by year end, this would deplete the Council's General Balances below the recommended range given the size of the budget and taking into account the annual financial risk assessment. Therefore, the management and Administration will do what is required to manage these projections to avoid that. As per last year, these are testing and unprecedented times for local councils. We have to face up to the increasing demand and devise better ways of managing the increases while continuing to provide statutory services. The availability and use of reserves is critical in being able to manage spikes in demand and costs incurred. Our corporate risk register recognises this and we will put mitigating actions in place to reduce the level of overspends wherever possible.
Other Implications	There are no other implications arising directly from this paper. However, as services take remedial action, including any formal decisions required to address the in-year overspend, then appropriate consideration will need to be given to the legal, HR and equalities issues, as necessary.
Scrutiny Recommendation	Not Applicable

1. Background

1.1 Last year, 2016/17, there was a year end overspend of £7.049m, with the main areas of overspend in Adults and Children's services. Not surprisingly, the demands upon these services have not reduced in the early part of this financial year and are not likely to over the course of the year. The transformational work under way to improve demand management and simultaneously improve outcomes for vulnerable children and adults is well under way but will not reduce cost sufficiently quickly to ensure budgets are balanced.

1.2 SCC is therefore in a similar position to last year in trying to find mitigating actions across the whole Council as well as in those core care services to off-set the overspend while transformation takes place in line with our MTFP themes as trailed in budget papers throughout last financial year.

2. Summary Forecast 2017/18 – Revenue Budgets

2.1 The Authority's forecast shows a projected net overspend of £8.692m (see Appendix A) when compared to the Revenue Budget. This represents 2.8% of base budget. The majority of the overspend lies in the Children's Services budgets (section 3) and in the Adult Social Care budgets (section 4). For this reason this report goes into those two areas in some depth to explain the issues involved.

2.2 Most other areas of the Council are within reasonable tolerance although some corporate and support budgets are under pressure (as covered in section 5).

2.3 The implication of this early forecast is that Cabinet and the Senior Leadership Team will need to take some immediate actions to address the overspend projections. Given last year's position, there are already 5 high priority projects under way to identify ways of reducing spend and managing demand. These are having some success in reducing overspend and delivering MTFP savings but are projects that in some cases span last year, this year and next before coming to fruition.

2.4 SLT is confident that with these projects, together with the MTFP themes, we can mitigate the pressures faced. Some service pressures are being well managed but the market capacity is not there and this is forcing up costs. The largest budget pressure is currently in Children's Services, although this overspend has not yet taken account of the contingency sum pledged to support the service in the CYPP calculations. This figure of £3.5m would therefore bring their overspend down but would also reduce the underspend in contingency in the non-service line, leaving the bottom line figure of overspend unaffected.

2.5 Adult Social Care has had a £7m injection from Government via the Improved Better Care Fund which has helped considerably. Learning Disabilities is overspending but this is in part as per the plan associated with the Discovery contract and is being treated via a smoothing reserve in the accounts. This effectively confirms what was stated when awarding the contract that there would be up front additional cost which would be saved later in the contract life and therefore over a 6 year period, we will be managing the over / under expenditure in an equalisation reserve.

3. Children's Services

3.1 <u>Children & Families Operations: (+) £11.244m overspend</u>

The increase in the number of children and young people being helped by the service has increased by 30% during the past financial year (from 1774 to 2300). This is placing increased pressure on salaries budgets both within Fieldwork and other areas, especially as this increase in most instances is covered by locum staff. As a result we are projecting salary pressures of £3.300m in Fieldwork with a further £1.632m in Fostering, Adoption, Leaving Care, and Disabilities.

3.2 Whilst the gate-keeping provided by the At Risk of Care and Permanence panels has enabled us to keep the actual number of Children Looked After reasonably stable, there remains a pressure of £3.171m in external residential and fostering placements. The saturation of the external market has seen our average placement costs increase by 3.6% with Independent Fostering Agencies and 7.6% with external residential providers. This is not necessarily the result of individual providers putting up their own costs but the availability of placements with those providers whose costs are relatively cheaper in comparison with the market. Transport costs primarily associated with school and contact visits account for a further £0.248m of pressure.

3.3 There is a continuing dialogue with Health with regard to contributions for children with complex needs, where a contribution has been agreed at the multi-agency complex cases panel. Actions are now being put in place to engage legal services support in securing this income.

3.4 Some of the financial pressures are positive actions for the longer term such as the increase in the number of families taking advantage of the Direct Payments scheme within the Disabilities service, which has meant that this is projecting a pressure of £0.447m, and also the increase in Special Guardianship orders has created a pressure of £0.854m. Smaller pressures of £0.386m in Fostering Allowances, £0.189m in Leaving Care allowances, and £0.110m in Adoption Allowances has led to an overall pressure against Fees and Allowances of £2.006m.

3.5 Business Support projects a £0.461m pressure as costs rise to keep pace with case load for social workers.

3.6 <u>Children & Learning Central Commissioning: (+) £2.236m overspend</u>

There is a pressure of £1.859m across transport budgets against a budget of £9.521m. Home to School transport is showing a pressure of £1.018m. Inflation pressures of £0.238m are also impacting on the service, but these have been mainly offset via managed savings. There is further pressure in this area due to the impact of Hinkley Point recruitment, causing contractual/wage issues in relation to driver turnover.

3.7 The Special Educational Needs (SEN) transport pressure is forecast at £0.778m against a budget of £3.391m, due to the ongoing issue of an increased number of placements. Inflation pressures of £0.130m are being offset by reduced school calendar days this Year (£0.155m). The full Year implication of additional route costs (£0.197m) following the opening of the new Mendip Free School, plus the delayed notification of placements to Transporting Somerset colleagues, although improving, is still resulting in additional transport requirements.

3.8 There is a managed saving of £0.423m forecast within getset, relating to the planned underspend as detailed within the Early Help business case. The original estimate was £0.205m, but there has been an increase in part due to the carry forward from 2016/17 and the in-year grant supporting the service. The service has requested that this is all earmarked as a carry forward to 2018/19 given reductions in the Troubled Families Grant and the need to carry out further costings required, pending potential staffing restructure and building usage reviews.

3.9 The planned invest to save costs relating to posts within Children's Commissioning is forecast to be £0.290m, slightly less than the full year estimate of £0.340m, due to staff changes, a secondment and delayed appointments. This will be carried forward as a deficit budget as part of the agreed business case.

3.10 The SEP programme Year 2 was due to be funded through the use of reserves within School Improvement but this is now forecast as a pressure, due to reserves being fully utilised in 2016/17. This has resulted in an overall pressure of £0.591m. This comprises £0.169m in relation to Team around the School posts, £0.382m for School Education Partners (SEPs) and £0.040m related to Thinking Leadership costs. Year 2 bids for match funding against Raising Achievement Plans (RAPs) for Primary and Secondary phases have not been agreed, but are being considered and could lead to additional pressures in this area.

3.11 Minor variations, mainly due to vacancy savings, make up the balance of £0.081m.

Schools Budget

3.12 **<u>Children & Learning Central Commissioning: (+) £0.783m overspend</u>**

The Out of County Independent & Non Maintained Special Schools budget is showing a pressure of £0.510m, due to continuing high cost placements. There have been 17 new placements since January 2017, but these have only been partially offset by leavers. There is a potential additional pressure in this area, if planned leavers at the end of the Academic Year are extended above the budgeted percentage of 50% (reduced from 67% as in previous years).

3.13 Other pressures within High Needs total £0.253m. These are mainly due to increased placements within other Local Authority Special Schools (£0.161m).

4. Adult Services including Learning Disabilities

4.1 **<u>Adult Social Care Variation: (-) £3.733m underspend</u>**

Adult Social Care has seen reductions in spend compared to 2016/17 in the following areas:

- Residential / Nursing Costs £0.900m
- Direct Payments £0.500m
- Staffing £1.000m

These reductions result from the full year effect of changes made to the authorisation process during 2016/17 and vacancies in the structure that are being held.

4.2 In addition to the reduction we have assumed the following in getting to the projected underspend of £3.733m:

- £2.400m of the 2017/18 council tax precept has been allocated to Adult Social Care.
- £7.000m from the ‘improved’ Better Care Fund will be used to offset underlying pressures.
- The unallocated £1.350m from the Better Care Fund will also be used to offset underlying pressures.

4.3 The inherent pressure against Adult Social Care which was considered to be £9.200m at the end of 2016/17 has therefore been reduced through management action and changes in process to a pressure now of approximately £7.000m (then offset by the income streams shown above).

4.4 **<u>Learning Disabilities: (+) £5.914m overspend</u>**

The Learning Disability service continues to see increased pressure across its services, a position replicated across many local authorities. This is mainly due to the full year effect of packages and placements made last year, including Supported Living and Direct Payments. £1.6m of the 2017/18 council tax precept has been allocated here to offset this increase. In addition a further £1.400m of the pressure is as a result of increased Domiciliary Care delivery and staffing costs. We do however anticipate costs of many services reducing throughout the year as services transform and modernise.

4.5 At this stage the Clinical Commissioning Group has not made any payments towards the Joint Finance Agreement in 2017/18 of which Learning Disabilities is a large part. This forecast assumes they will pay the outstanding amounts relating to the Pooled Budget Agreement as well as their 25% share of the projected overspend (£1.971m).

4.6 The reported position also assumes 50% achievement of MTFP theme-based service redesign savings planned in year which would leave a balance of £3.089m to find. This is shown as a pressure for 2017/18.

4.7 The reported position assumes additional funding being identified through capital receipts of £1.1m to fund the shortfall in budget allocated to transition/transformation, and £6.2m being identified to fund the base budget shortfall against contract price (Equalisation Reserve) as reported earlier in paragraph 2.5.

4.8 **Adults Commissioning: (+) £0.248m overspend**

There is an overspend of £0.228m against Mental Health following allocation of £0.159m Council Tax Precept. Pressures against Residential and Supported Living are being partially offset by an underspend against staffing.

5. Economic and Community Infrastructure Services (ECI): (on target)

5.1 As stated earlier in the report the budgets managed in ECI are more or less reporting that they will be on target at year end. There are some small overspends in Highways and Traffic and Transport Development services but these are mostly offset by a predicted underspend in Waste services. The overall net overspend across the £61m budgets is £136k (0.02%) and these are volatile budget areas.

6. Corporate and Support Services: (+) £2.759m overspend

6.1 There are some forecast overspends in ICT and Strategic Property totalling £1.2m. There are also at this stage of the year some projected procurement savings that may not be achievable and we will need to find replacement projects to identify the £1.3m savings required. The forecast funding requirement for the Core Council Programme is £1.456m which will be allocated from capital receipts under the new flexibilities regulations.

7. Non-Service Items: (-) £10.112m underspend

7.1 The underspend in this area is mainly due to uncommitted contingency budget and additional s31 grant received from DCLG for the Non-Domestic Rates schemes.

8. Financial, Legal, HR and Risk Implications

8.1 Financial implications are dealt with in the body of this report, and where decisions are required. There are no other direct implications arising from this paper.

9. Background papers

9.1
- Cabinet Report – 14th June 2017 – Revenue Outturn report – Paper 9

Note:
For sight of individual background papers please contact the report author(s):
Lizzie Watkin, Service Manager, Chief Accountant
01823 359573 EWatkin@somerset.gov.uk

Compiled by:-
Lizzie Watkin, Service Manager, Chief Accountant
01823 359573 EWatkin@somerset.gov.uk

Appendix A – Revenue Budget Monitoring – Headline Summary Table for the Authority

A	B	C	D	E	F	G	H	I		J	K
Service	**Original Base Budget**	**Budget Movements**	**Total budget approvals**	**16/17 Projection**	**Gross Variance Under (-) / Overspend**		**Transfers (to) and from Grant / Earmarked Reserves**	**SCC Variance Under (-) / Overspend**		**Planned Use of Capital Receipts Flexibility**	**Forecast Under (-) / Over Spend**
	£m	**£m**	**£m**	**£m**	**£m**	**%**	**£m**	**£m**	**%**	**£m**	**£m**
Adults and Health - Operations	**72.683**	(1.794)	**70.889**	67.156	**(3.733)**	(5.3)	0	**(3.733)**	(5.3)		**(3.733)**
Children and Families - Operations	**48.749**	(1.890)	**46.860**	58.104	**11.244**	24.0	0	**11.244**	24.0		**11.244**
Learning Disabilities	**48.183**	1.619	**49.802**	61.916	**12.114**	24.3	(6.200)	**5.914**	11.9		**5.914**
Adults and Health - Commissioner	**14.756**	0.175	**14.931**	15.212	**0.281**	1.9	(0.033)	**0.248**	1.7		**0.248**
Children and Learning - Commissioning Central	**18.013**	2.181	**20.194**	23.425	**3.231**	16.0	(0.995)	**2.236**	11.1		**2.236**
Public Health	**1.070**	0	**1.070**	0.827	**(0.243)**	(22.7)	0.243	**0**	0		**0**
ECI Services	**61.655**	(0.291)	**61.364**	65.135	**3.771**	6.2	(3.635)	**0.136**	0.2		**0.136**
KEY SERVICES SPENDING	**265.109**	**0**	**265.109**	**291.774**	**26.665**	**10.1**	**(10.620)**	**16.045**	**6.1**		**16.045**
Support Services	**25.449**	0	**25.449**	29.179	**3.730**	14.7	0.485	**4.215**	16.6	(1.456)	**2.759**
Non-service items (inc Debt Charges)	**21.214**	0	21.214	11.102	**(10.112)**	(47.7)	0	**(10.112)**	(47.7)		**(10.112)**
Trading Units	**0**	0	**0**	0.368	**0.368**	0	(0.368)	**0**	0		**0**
SUPPORT SERVICES & CORPORATE SPENDING	**46.663**	**0**	**46.663**	**40.649**	**(6.014)**	**(12.9)**	**0.117**	**(5.897)**	**(12.6)**	**(1.456)**	**(7.353)**
Individual Schools Budget (ISB) and Early Years Providers	0	0	**0**	0	**0**	0	0	**0**	0		**0**
SCC TOTAL SPENDING	**311.772**	**0**	**311.772**	**332.423**	**20.651**	**6.6**	**(10.503)**	**10.148**	**3.3**	**(1.456)**	**8.692**

Somerset County Council

Cabinet
– 10th July 2017

Council Performance Report – End of May 2017

Cabinet Member(s): Cllr David Fothergill, Leader of the Council & Cllr David Hall
Division and Local Member(s): All
Lead Officer: Emma Plummer / Strategic Manager - Performance
Author: Emma Plummer / Strategic Manager - Performance
Contact Details: (01823) 359251

	Seen by:	Name	Date
Report Sign Off:	County Solicitor	Honor Clarke	26th June 2017
	Monitoring Officer	Julian Gale	26th June 2017
	Corporate Finance	Kevin Nacey	26th June 2017
	Human Resources	Chris Squire	26th June 2017
	Property / Procurement / ICT	Richard Williams	26th June 2017
	Senior Manager	Kevin Nacey	26th June 2017
	Local Member(s)	N/A	N/A
	Cabinet Member	Cllr David Hall	26th June 2017
	Opposition Spokesperson	Cllr Jane Lock Cllr Simon Coles	28th June 2017 28th June 2017
	Relevant Scrutiny Chairman	Cllr Tony Lock Cllr Hazel Prior-Sankey Cllr Leigh Redman	28th June 2017 28th June 2017 28th June 2017
Forward Plan Reference:	Forward Plan reference: FP/17/04/01 Proposed decision first published in Forward Plan dated 03/04/2017		
Summary:	This performance monitoring report provides an overview of the Council's performance across the organisation.		
Recommendations:	Cabinet is asked to: 1. Consider and comment on the information contained within this report specifically those areas identified as a potential concern under Section 3.0 of this report and the "issues for consideration" section of Appendix A. 2. Where performance issues are identified, Cabinet should consider whether the proposed actions are adequate to improve performance to the desired level. If the Cabinet are of the view that the proposed actions are not adequate then Cabinet should indicate what further actions are required to ensure performance is improved. 3. Subject to any amendments agreed under the above bullet points, to agree this report and Appendix A as the latest position for Somerset County Council against its County Plan.		

<table>
<tr><td colspan="1">Reasons for Recommendations:</td><td colspan="6">To ensure effective monitoring and management of the delivery of the Council's County Plan</td></tr>
<tr><td>Links to Priorities and Impact on Service Plans:</td><td colspan="6">Links to all aspects of the County Plan 2016-20</td></tr>
<tr><td>Consultations undertaken:</td><td colspan="6">Key messages have been approved by Directors, Lead Commissioners and Cabinet Lead Members</td></tr>
<tr><td>Financial Implications:</td><td colspan="6">Financial performance is discussed within this report. If performance is not at the expected or desired level then resources may need to be reviewed to enable improved performance.</td></tr>
<tr><td>Legal Implications:</td><td colspan="6">It is important when reviewing performance to ensure that minimum statutory requirements are being met at all times. There is nothing in the report to indicate that this is a concern at this time.</td></tr>
<tr><td>HR Implications:</td><td colspan="6">Actions agreed to address performance issues may involve the reallocating of resources and staff. As such there would be direct implications for staff that play a role in the delivery of services in those areas affected.</td></tr>
<tr><td rowspan="2">Risk Implications:</td><td colspan="6">In light of national resource constraints it is inevitable that service reductions will emerge from the Medium Term Financial Plan process. Members should note that these reductions may materially impact on our ability to deliver some of the priorities set out in the County Plan.
The performance and issues highlighted in this report are likely to impact on one or more of the Council risks as detailed in the Council's Risk Report</td></tr>
<tr><td>Likelihood</td><td></td><td>Impact</td><td></td><td>Risk Score</td><td></td></tr>
<tr><td>Other Implications (including due regard implications):</td><td colspan="6">If addressing performance issues requires changes in the way services are delivered, these must be supported by an appropriate impact assessment which will need to be duly considered by decision makers in line with our statutory responsibilities before any changes are implemented.</td></tr>
<tr><td>Scrutiny comments / recommendation (if any):</td><td colspan="6">Not applicable.</td></tr>
</table>

1. Background

1.1. This report provides members and senior officers with the information they need to lead and manage the performance of the outcomes set out in the County Plan and the organisation.

1.2. The report has been updated to reflect the County Plan that was adopted by full Council in February 2016 and a review of the priorities and the performance information that contributes to them has been carried out.

Appendix A – the Performance Wheel now has seven segments which reflect the “People’s Priorities” which are widely consulted upon through the Listening Learning, Changing Roadshows. There are four “Council” segments which seek to measure how well the council manages its relationships with partners, staff and the public and how good its ‘internal management’ processes are. There is one segment that seeks to reflect the performance of the Vision Projects being undertaken by the Vision Volunteers.

1.3. The Vision Volunteer segment is a quarterly update evidenced by the Core Council Board papers.

1.4. This report provides the latest information available in the period up until 31st May 2017. As such some of the data may be a little historical in nature; discussions regarding “performance issues” will take account of any additional information that may be available following production of this report.

2. Performance Overview

2.1. The latest performance information is set out in Appendix A and summarised in the table below. A performance status [RAG] at the objective level is detailed at the centre of the wheel in Appendix A whilst key areas of concern for consideration are set out in boxes on the right hand side of the wheel.

2.2. **Performance Summary**

The table below summarises overall performance against objectives:

Directions of Travel have been assessed based on whether current performance is improving or deteriorating as opposed to comparing performance with the previous report.

Metric Segment	Number of objectives			Direction of Travel		
	Green	Amber	Red	Up	Stable	Down
The People’s Priorities	3	2	2	3	4	0
The Council	2	1	1	2	1	1
Vision Volunteers	1	0	0	0	1	0
Totals	6	3	3	5	6	1
As Percentage	50%	25%	25%	42%	50%	8%

It is important when managing performance that consideration be given to the overarching vision statements set out in the County Plan.

3. Performance Issues for Consideration and Action

3.1. This month there are three red segments:

P1 Help vulnerable and elderly people

- The Performance Improvement process continues to embed within adult services. Improved use of data to support performance improvement is now being regularised across all teams in conjunction to a focused improved use of technology. Progress is being made to reach these targets particularly with regard to improving recording of data to ensure reporting accurately reflects work done. Management actions are in place for all performance targets and are being monitored closely.

P3 Safer Children and Better Care

- Progress for the first year of the Children and Young People's Plan has been reported to the Children's Trust Executive and is being reported to Cabinet on 14th June. The Children's Trust Executive are pleased with the progress against the 7 Improvement Programmes, but recognise there is still much work to be done. Action plans for 2017/18 have been drawn up with a focus on a stepped improvement over this second year to ensure year 3 achieves the outcomes of the CYPP in 2019. Ofsted quarterly monitoring visits have concluded adequate progress is being made and DfE intervention has confirmed a "significant improvement" in Somerset's Children's Services, including more manageable case-loads, a more stable workforce and better partnership working as reported by the Minister in December 2016.Despite this, until a re-inspection, services are judged inadequate and there is a corporate risk for Safeguarding Children that has a very high risk rating. Change is evident but universal improvement remains is a challenge.

C4 Managing our Business

- The Authority's forecast shows a projected overspend of £8.692m. This represents 2.8% of base budget. The majority of the overspend lies in the Children's Services budgets and in the Adult Social Care budgets. The transformational work under way to improve demand management and simultaneously improve outcomes for vulnerable children and adults is well under way but will not reduce cost sufficiently quickly to ensure budgets are balanced. Most other areas of the Council are within reasonable tolerance although some corporate and support budgets are under pressure.

3.2. This month there is one segment with a declining performance:

C3 Working with our Partners

- A verbal update will be provided at the meeting.

4. Options considered and reasons for rejecting them

4.1. N/A

5. Background Papers

5.1. County Plan

http://somersetcountyplan.org.uk/

Appendix A – Corporate Performance Report
End of May 2017/18

Date of Report: 10th July 2017
Report Forum: Cabinet

⇧	Performance Improving
⇩	Performance Deteriorating
⇔	Performance Stable
G	On target
A	At risk of missing target
R	Missing target

Issues for consideration

P1 Help vulnerable and elderly people

- The Performance Improvement process continues to embed within adult services. Improved use of data to support performance improvement is now being regularised across all teams in conjunction to a focused improved use of technology. Progress is being made to reach these targets particularly with regard to improving recording of data to ensure reporting accurately reflects work done. Management actions are in place for all performance targets and are being monitored closely.

P3 Safer Children and Better Care

- Progress for the first year of the Children and Young People's Plan has been reported to the Children's Trust Executive and is being reported to Cabinet on 14th June. The Children's Trust Executive are pleased with the progress against the 7 Improvement Programmes, but recognise there is still much work to be done. Action plans for 2017/18 have been drawn up with a focus on a stepped improvement over this second year to ensure year 3 achieves the outcomes of the CYPP in 2019. Ofsted quarterly monitoring visits have concluded adequate progress is being made and DfE intervention has confirmed a "significant improvement" in Somerset's Children's Services, including more manageable case-loads, a more stable workforce and better partnership working as reported by the Minister in December 2016.Despite this, until a re-inspection, services are judged inadequate and there is a corporate risk for Safeguarding Children that has a very high risk rating. Change is evident but universal improvement remains is a challenge.

C3 Working with our Partners

- A verbal update will be provided at the meeting.

C4 Managing our Business

- The Authority's forecast shows a projected overspend of £8.692m. This represents 2.8% of base budget. The majority of the overspend lies in the Children's Services budgets and in the Adult Social Care budgets. The transformational work under way to improve demand management and simultaneously improve outcomes for vulnerable children and adults is well under way but will not reduce cost sufficiently quickly to ensure budgets are balanced. Most other areas of the Council are within reasonable tolerance although some corporate and support budgets are under pressure.

This page is intentionally left blank

Agenda item 9

Somerset County Council

Cabinet
10th July 2017

Development of the 2018 to 2021 Medium Term Financial Plan

Cabinet Member(s):	Cllr David Hall – Cabinet Member for Resources and Economic Development
Division and Local Member(s):	All
Lead Officer:	Kevin Nacey – Director of Finance and Performance
Author:	Elizabeth Watkin – Chief Accountant
Contact Details:	01823 355213

	Seen by:	Name	Date
	County Solicitor	Honor Clarke	26/06/17
	Monitoring Officer	Julian Gale	26/06/17
	Corporate Finance	Kevin Nacey	26/06/17
	Human Resources	Chris Squire	26/06/17
	Senior Manager	Kevin Nacey	26/06/17
	Cabinet Member	David Hall	26/06/17
Forward Plan Reference:	FP/17/05/09		
Summary:	This report introduces the development of the Medium Term Financial Planning (MTFP) cycle for the period 2018/19 to 2021/22. The core function of the MTFP is to forecast the Council's finances in detail and ensure that the Council's priorities outlined in the County Plan can be delivered. This involves the Council considering its financial position for the following four financial years, to develop a strategy that will deliver financial stability in the medium to long term. The new administration will over the coming months develop their plans for the 4 year period. There is however uncertainty nationally around local government finances, as the recent Queen's Speech did not include a finance bill covering 100% business rates repatriation to councils. We have to prepare a 4 year MTFP that does not include the heralded introduction of new burdens and associated funding.		
Recommendations:	**That Cabinet notes the forecast MTFP position for the years 2018/19 to 2021/22 as set out in this report and supports the proposed approach to the development of the MTFP.**		

<table>
<tr><td>Reasons for Recommendations:</td><td colspan="6">The forecast MTFP position shows that current future service pressures significantly outstrip the resources available to the Council. This will require consideration of which services are delivered and improving efficiency and reducing cost for those services, in order to ensure the Council has a sustainable future.</td></tr>
<tr><td>Links to Priorities and Impact on Service Plans:</td><td colspan="6">The MTFP is the vehicle that allows the Council to identify resources to deliver the County Plan and covers both Revenue and Capital resources.

The current County Plan will be refreshed shortly and funding plans will need to follow suit.</td></tr>
<tr><td>Financial Implications:</td><td colspan="6">There are no direct Financial implications arising from this report over and above those outlined in this report.</td></tr>
<tr><td>Legal Implications:</td><td colspan="6">There are no direct Legal implications arising from this report.</td></tr>
<tr><td>HR Implications:</td><td colspan="6">There are no direct HR implications arising from this report.</td></tr>
<tr><td rowspan="2">Risk Implications:</td><td colspan="6">The key risk is the failure to align the available resources to the priorities of the Council, resulting in the needs of residents not being met. Prior to 17/18 in the previous couple of years, the financial value delivered via approved savings proposals was reduced, reflecting the growing difficulty to achieve savings due in part to the cumulative impact of austerity. This led to a different approach for the MTFP 2017/18: one which is more strategic, which is focussed on the opportunity for savings, is focussed on high cost areas of service and which engages all parts of the council working more collaboratively.

The key risk for the development and implementation of the 2018/19 Capital Investment Programme is that the actual costs are higher than estimated. In recent years the capital programme has been extremely well managed. Nevertheless, overspends can arise through unexpected additional works or inflationary costs arising from differences between estimates and tenders.

There is a strategic risk that is regularly reviewed in relation to the Council’s budget position (ORG0043 to maintain a sustainable budget). As reported to Audit Committee on 29 June, the risk score is at 20 (very high) using financial data as at the end of May 2017. This risk score reflects the on-going financial difficulties that demand in care services is placing on our budgets as reported in the first financial projections for the Revenue Budget 2017/18.</td></tr>
<tr><td>Likelihood</td><td>4</td><td>Impact</td><td>5</td><td>Risk Score</td><td>20</td></tr>
</table>

Scrutiny comments / recommendation:	The scrutiny committees will review the MTFP and consultation feedback at scheduled meetings throughout the MTFP process, with this report being the main focus of the September round of scrutiny meetings. Feedback from last year's process at Scrutiny and from the opposition spokesperson is that savings proposals need to be developed earlier and shared earlier so that they can be more effectively scrutinised.

1. Background

1.1. As outlined in the MTFP report to Full Council on 15 February 2017 and previous budget monitoring reports, the Government has significantly reduced the levels of funding in Local Government. The Council faces on-going challenges both within the current financial year and in developing a balanced budget for its Medium Term Financial Plan 2018/19 to deliver its 2020 Vision.

1.2. The existing Medium Term Financial Plan was approved by Full Council in February 2017 and covered the period 2017/18 to 2021/22. The plan showed a balanced budget for 2017/18, with a shortfall of £19.5m for 2018/19 - 2020/21.

1.3. The financial climate for local authorities is particularly uncertain both in relation to the totality of resources available for the sector and the distribution of those resources. The Council will continue to lobby for fairer funding for Somerset but Members need to be aware that many other councils face similar financial challenges.

1.4. The 2016/17 Revenue Budget outturn report was reported to Cabinet on 14 June. The outturn position showed an overspend of £7.049m (which represents 2.26% of the approved budget). The level of overspend took temporarily the Council's General Reserves balances below the minimum recommended range given the size of the budget and taking into account the annual financial risk assessment. The level of reserves will be replenished by the Council Tax collection fund surplus of around £5m. A survey of county councils recently showed that two thirds of councils had to use reserves to manage budgets and that on average around £4.5m was used.

1.5. In order to respond to these challenges, this report outlines the proposed approach to be taken for the 2018/19 to 2021/22 Medium Term Financial Planning (MTFP) cycle. It identifies forecast budget gaps through to 2021 from which point the Council will need to be self-financing, due to the planned removal of Revenue Support Grant by Government.

1.6. It is proposed that the approach to the development of the MTFP 2018/19 continues with the commissioning led approach to redefining services to meet residents' needs and maximise available resources in favour of the Council's priorities. It is fundamental that the Council takes a longer term approach and will require a significant shift in terms of what services the Council will be able provide in the future.

1.7. In most cases no additional funding for inflation or demographic growth will be provided. The potential financial impact has been considered and is thought to be manageable. However, at individual service level it is likely that budget monitoring will indicate areas of projected overspending. It is therefore incumbent on managers to manage the totality of their budgets pro-actively through more efficient procurement or demand management and by managing productivity and staff absences effectively. To help mitigate the impact of rising demand through demographic growth, services have embarked on a range of transformations and our Core Council Programme supports these transformations.

2. Current forecast position

Revenue

2.1. The report presented to Full Council on 15 February 2017 identified an estimated cumulative budget shortfall for 2018/19-2020/21 of £19.5m, with the annual shortfall for each year being:

- £12.8m in 2018/19,
- £4.6m in 2019/20,
- £2.1m in 2020/21.

2.2. The acceptance of the four year settlement offer in 2016 provided greater certainty over levels of some funding. Despite this, funding past 2017/18 still remains only indicative and a number of assumptions were made, such as:

- No inflation or demography pressures
- Annual Council Tax increases of 1.99%
- Adult Social Care precept of 2% up to and including 2019/20

2.3. The 2017/18 Settlement confirmed the continuation of the ability to levy the Adult Social Care precept, and allows upper tier authorities to increase the 2% to 3% for each of the next two years. However the total increase over the three years to 2019/20 cannot be in excess of 6%.

2.4. In terms of the Somerset Rivers Authority, Government stated that the new precepting body will not be in place for 2017/18 and therefore, DCLG confirmed that the County Council and five Districts within Somerset could raise an additional precept on behalf of the SRA for 2017/18 (£ 2.47m). At this stage it is unclear whether the necessary legislation will be in place for 1st April 2018 and our current assumption is that it is therefore likely that DCLG will be asked for permission to continue with the current arrangement.

Capital

2.5. At the meeting on 30 November 2016 Full Council approved new capital schemes for 2017/18 at a total value of £107.599m and planned investment for 2018/19 – 2020/21 of £234.702m . Available resources to fund new schemes can come from Government Grants, Capital Receipts, 3rd Party contributions, Revenue contributions or Borrowing.

2.6. We are currently assessing our capital investment needs for the coming years. We will also be revising the level of capital receipts required in 17/18 and future years as we need to take advantage of the flexibility allowed to use capital receipts to fund service transformation costs over the next three years.

2.7. It is intended as per last year to aim for a November Cabinet and Council meeting to approve the forward programme.

3. 2018/19 MTFP Approach

3.1. All indications are that austerity will continue for the foreseeable future. This means that more savings will need to be found. The Council has already implemented many savings meaning the ability to find further significant savings and deliver them is getting tougher and cannot be implemented without significant impacts across traditional local authority services.

3.2. The scale of savings still required means that the strategic approach used for the MTFP 2017/18 is recommended again for the Council in order to deliver a balanced budget for 2018/19 and future years. It is therefore proposed to continue with a commissioning led approach incorporating both revenue and capital for the development of the MTFP 2018/19.

3.3. The themed approach provided savings options over a three year period and gave services time to plan the required changes. This commissioning led approach to the MTFP process is seen as the long term solution to providing affordable services. This approach means Commissioners working with services, customers, stakeholders and partners to determine the type of service that the authority will need to fund in the future, whilst ensuring services deliver value for money and safeguard our citizens. The approach also allows for greater cross cutting programmes of spend reduction across services and will further integrate the Capital Investment Programme and the Revenue Budget.

3.4. In planning for the future financial challenge, Commissioners and Services will again be challenged to develop savings across a number of key themes and many of last year’s themes may continue. These were:

- Technology and People
- Productivity and Culture
- Commercial and Third Party Spend
- Stronger Communities
- Partnership and Integration
- Service Redesign
- Transport

3.5. It is proposed specifically that the themes of commercial and third party spend and service redesign are at the centre of our planning over the next few years. Our costs of course are mainly on goods and services (contracts) bought in and on staffing and we will look in depth within our biggest budgets in Adults and Children’s Social Care to ascertain how we can keep within budget primarily and deliver savings where it is safe to do so.

4. Proposed Timetable

4.1. The main requirement is to ensure that the Council has a balanced budget for 2018/19 in time for approval at February's Full Council Meeting. Future years can be further refined as the MTFP cycle continues. To maximise the benefit from savings, proposals will be brought forward for early approval and implementation in order to help reduce both in year spend and balance the budget for 2018/19.

4.2. In order to achieve this it is proposed that the following timetable is used:

Timeframe	Action
Spring / Summer	Commissioners to consider future service provision design and identify the work required under each theme, for both Revenue and Capital purposes
Summer / Autumn	Consultation on specific pieces of work and savings
November	Cabinet and Council approve the Capital Programme
November - February	Approval of Revenue savings under each theme
January / February	Scrutiny Committee discussion of savings proposals
February	Cabinet and Full Council approve 2018/19 Revenue Budget

5. Governance Process

5.1. As in previous years the authority's governance process will be applied to the MTFP cycle. Officer decisions will be used for low value savings, ensuring the documentation for public meetings is focused on the more strategic themes. This also allows decisions to be taken throughout the year before being summarised within the Budget Setting papers in February.

6. Consultations

6.1. Consultations around setting the budget will be undertaken in a number of ways, including face-to-face, surveys and written questionnaires. The various methods when compiled will provide an extensive and comprehensive level of consultation.

6.2. The consultations will reflect different demographic groups, geographic spread and use a variety of methods to provide as reliable a result as possible. Methods include:

- "Listening, Learning, Changing" – A Countywide public engagement and consultation exercise held during the summer and autumn
- Online Survey
- Freepost feedback forms printed in the Council newspaper "Your Somerset" which is delivered to every home in the County.
- Regular face-to-face surveys commissioned from an independent provider.

7. Implications

7.1. The Financial implications are included above and there are no direct, Legal, HR, Risk, or Equality implications arising from this report.

8. Background Papers

8.1.
- County Council 15 February 2017 Report of Leader and Cabinet – Medium Term Financial Plan 2017/18
- Cabinet 14 June 2017 2016/17 Revenue Budget Outturn

This page is intentionally left blank