Public Agenda Pack

Notice of Meeting of

SCRUTINY COMMITTEE - CORPORATE AND RESOURCES

Tuesday, 8 August 2023 at 10.00 am

Luttrell Room - County Hall, Taunton TA1 4DY

To: The members of the Scrutiny Committee - Corporate and Resources

Chair: Councillor Bob Filmer
Vice-chair: Councillor Richard Wilkins

Councillor Shane Collins
Councillor Philip Ham
Councillor Martin Lovell
Councillor Diogo Rodrigues
Councillor Brian Smedley
Councillor Lucy Trimnell
Councillor Nick Cottle
Councillor Tony Lock
Councillor Emily Pearlstone
Councillor Peter Seib
Councillor Andy Soughton

For further information about the meeting, including how to join the meeting virtually, please contact Democratic Services democraticservicesteam@somerset.gov.uk.

All members of the public are welcome to attend our meetings and ask questions or make a statement **by giving advance notice** in writing or by e-mail to the Monitoring Officer at email: democraticservicesteam@somerset.gov.uk by **5pm on Wednesday, 2 August 2023**.

This meeting will be open to the public and press, subject to the passing of any resolution under the Local Government Act 1972, Schedule 12A: Access to Information.

The meeting will be webcast and an audio recording made.

Issued by (the Proper Officer) on Friday 28 July 2023

AGENDA

Scrutiny Committee - Corporate and Resources - 10.00 am Tuesday, 8 August 2023

Public Guidance Notes contained in Agenda Annexe (Pages 7 - 8)

Click here to join the online meeting (Pages 9 - 10)

1 Apologies for Absence

To receive any apologies for absence.

2 Minutes from the Previous Meeting (Pages 11 - 16)

To approve the minutes from the previous meeting.

3 Declarations of Interest

To receive and note any declarations of interests in respect of any matters included on the agenda for consideration at this meeting.

(The other registrable interests of Councillors of Somerset Council, arising from membership of City, Town or Parish Councils and other Local Authorities will automatically be recorded in the minutes: City, Town & Parish Twin Hatters - Somerset Councillors 2023)

4 Public Question Time

The Chair to advise the Committee of any items on which members of the public have requested to speak and advise those members of the public present of the details of the Council's public participation scheme.

For those members of the public who have submitted any questions or statements, please note, a three minute time limit applies to each speaker and you will be asked to speak before Councillors debate the issue.

We are now live webcasting most of our committee meetings and you are welcome to view and listen to the discussion. The link to each webcast will be available on the meeting webpage, please see details under 'click here to join online meeting'.

5 Work Programme (Pages 17 - 20)

To consider the committee`s work programme and to agree on items to scrutinise, the link to the Somerset Council Executive Forward Plan is here: Somerset Council Executive Forward Plan and the proposed Scrutiny work programme is also attached for information.
The committee will also need to agree on membership for the Task and Finish Groups to be set up.

6 Commercial Investment (Pages 21 - 42)

To receive a presentation on Commercial Investment.

7 Budget Monitoring Report Quarter 1 (Pages 43 - 120)

To receive the Budget Monitoring Report for Month 3 (Quarter 1) 2023-2024 for the General Fund and Housing Revenue Accounts.

8 Local Communities Network Update (Pages 121 - 130)

To receive an update report on the Local Community Networks.

Exclusion of Press and Public

PLEASE NOTE: Although the main report for this item not confidential, supporting appendices available to Members contain exempt information and are therefore marked confidential – not for publication. At any point if Members wish to discuss information within this appendix then the Council will be asked to agree the following resolution to exclude the press and public:

Exclusion of the Press and Public
To consider passing a resolution having been duly proposed and seconded under Schedule 12A of the Local Government Act 1972 to exclude the press and public from the meeting, on the basis that if they were present during the business to be transacted there would be a likelihood of disclosure of exempt information, within the meaning of Schedule 12A to the Local Government Act 1972:

Reason: Information relating to the financial or business affairs of any particular person (including the authority holding that information).

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Guidance notes for the meeting

Council Public Meetings

The legislation that governs Council meetings requires that committee meetings are held face-to-face. The requirement is for members of the committee and key supporting officers (report authors and statutory officers) to attend in person, along with some provision for any public speakers. Provision will be made wherever possible for those who do not need to attend in person including the public and press who wish to view the meeting to be able to do so virtually.

Inspection of Papers

Any person wishing to inspect minutes, reports, or the background papers for any item on the agenda should contact Democratic Services at democraticservicesteam@somerset.gov.uk or telephone 01823 357628.

They can also be accessed via the council's website on Committee structure - Modern Council (somerset.gov.uk)

Members' Code of Conduct requirements

When considering the declaration of interests and their actions as a councillor, Members are reminded of the requirements of the Members' Code of Conduct and the underpinning Principles of Public Life: Honesty; Integrity; Selflessness; Objectivity; Accountability; Openness; Leadership. The Code of Conduct can be viewed at: Code of Conduct

Minutes of the Meeting

Details of the issues discussed, and recommendations made at the meeting will be set out in the minutes, which the Committee will be asked to approve as a correct record at its next meeting.

Public Question Time

If you wish to speak or ask a question about any matter on the Committee's agenda please contact Democratic Services by 5pm providing 3 clear working days before the meeting. (for example, for a meeting being held on a Wednesday, the deadline will be 5pm on the Thursday prior to the meeting) Email democraticservicesteam@somerset.gov.uk or telephone 01823 357628.

Members of public wishing to speak or ask a question will need to attend in person or if unable can submit their question or statement in writing for an officer to read out, or alternatively can attend the meeting online.

A 20-minute time slot for Public Question Time is set aside near the beginning of the meeting, after the minutes of the previous meeting have been agreed. Each speaker will have 3 minutes to address the committee.

You must direct your questions and comments through the Chair. You may not take a direct part in the debate. The Chair will decide when public participation is to finish. If an item on the agenda is contentious, with many people wishing to attend the meeting, a representative should be nominated to present the views of a group.

Meeting Etiquette for participants

Only speak when invited to do so by the Chair.
Mute your microphone when you are not talking.
Switch off video if you are not speaking.
Speak clearly (if you are not using video then please state your name)
If you're referring to a specific page, mention the page number.
There is a facility in Microsoft Teams under the ellipsis button called turn on live captions which provides subtitles on the screen.

Exclusion of Press & Public

If when considering an item on the agenda, the Committee may consider it appropriate to pass a resolution under Section 100A (4) Schedule 12A of the Local Government Act 1972 that the press and public be excluded from the meeting on the basis that if they were present during the business to be transacted there would be a likelihood of disclosure of exempt information, as defined under the terms of the Act.
If there are members of the public and press listening to the open part of the meeting, then the Democratic Services Officer will, at the appropriate time, ask participants to leave the meeting when any exempt or confidential information is about to be discussed.

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 this 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. No filming or recording may take place when the press and public are excluded for that part of the meeting.

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Minutes of a Meeting of the Scrutiny Committee - Corporate and Resources held in the Luttrell Room - County Hall, Taunton TA1 4DY, on Thursday, 6 July 2023 at 10.00 am

Present:

Cllr Bob Filmer (Chair)

Cllr Martin Lovell
Cllr Andy Soughton
Cllr Andy Dingwall (Substitute)
Cllr Henry Hobhouse (Substitute)
Cllr Peter Seib
Cllr Norman Cavill (Substitute)
Cllr Dawn Johnson (Substitute)

Other Members present remotely:

Cllr Shane Collins
Cllr Philip Ham
Cllr Liz Leyshon
Cllr Mandy Chilcott
Cllr Nick Cottle
Cllr Andy Kendall
Cllr Sarah Wakefield
Cllr Richard Wilkins

8 Apologies for Absence - Agenda Item 1

Apologies were received from Councillors Tony Lock, Emily Pearlstone, Diogo Rodrigues, Richard Wilkins.

9 Minutes from the Previous Meeting - Agenda Item 2

Resolved that the minutes of the Scrutiny Committee - Corporate and Resources held on 16 May 2023 be confirmed as a correct record.

10 Declarations of Interest - Agenda Item 3

There were no additional declarations of interest.

11 Public Question Time - Agenda Item 4

There were no questions submitted by the Public.

12 Introduction to Strategic Asset Management at Somerset Council - Agenda Item 5

Ollie Woodhams, Service Director Strategic Asset Management gave a presentation which was an overview of the Strategic Asset Department and the various aspects of work undertaken and the plans for the future work.
There are 2 clear areas of assets within Somerset Council, these being Real Estate Assets and Infrastructure Assets, however with in the old Districts the work was more of a combined nature.
It was noted that the new authority has economies of scale to ensure assets are managed using professional expertise in departmental specialist "centres of excellence", with the authority taking a `Corporate Landlord` approach to the asset management of real estate assets. They will also take the lead role in all real estate transactions and will be responsible for al repairs and maintenance and compliance responsibilities for buildings.
The asset management of Housing Revenue Account assets will sit with the Housing department within Community Services, LA Maintained School assets will have specific arrangements. Some areas of operational land/infrastructure i.e. car parks, highway, parks etc will sit with the appropriate service director i.e. Communities or Climate & Place directorates.

Current transition projects being undertaken included a restructure of staff, commercial investment property review, property rationalisation and estate decarbonisation; it was also as part of this work the records from the 5 authorities would be brought into one using Civica Property. Another project would be using One Public Office which involved discussions on sharing office space with other organisations and this work had already commenced.

Members of the committee asked for further information on the projects planned as follows:

- Decarbonisation of properties: this included changing heating from gas to other ways of heating including the use of green tariffs and solar panels but this depended on the site as to what worked best. This would also be taken into consideration if any property was proposed for disposal or enhancement as some buildings were not cost effective to decarbonise.
- Use by other organisations of Somerset Council buildings? Avon & Somerset Police currently use some of our offices, however they are looking for town

centre premises but are still in discussions with the council.

- Investment and Commercial Assets? Being reviewed at present, values have slumped at present and any new leases are being assessed and reviewed before continuing or setting up. It was noted that the Audit process had changed and there was a much more robust approach towards the operational buildings and valuations.
- It was confirmed that the staff restructure was on-going with an interim structure for facilities management, however it would be service alignment to be considered not just staffing.
- The assets owned by the Districts were transferred to this authority and therefore would also be assessed and included on the Civica register, this will also include any strips of land. Another task to undertake is to check with the Land Registry that all these buildings and land are correctly registered with them.

It was agreed that the committee would have a proactive role in the programme and that 2 areas that could be considered in the near future would be Commercial Assets and rationalisation, also assessment and disposal of assets, this could be via working groups or task & finish groups?

Cllr Soughton asked about recuperation of costs if any highway furniture were damaged and it was agreed to provide a written reply.

13 **Medium Term Financial Strategy 2024/25 to 2026/27** - Agenda Item 6

Jason Vaughan gave a presentation on the Financial Strategy which included the national picture, financial outlook, financial strategy and high level timetable, a copy of the Medium Term Financial Strategy report due to go to Executive in July 2023 had been attached to the agenda for this meeting for background information.

The committee received an overview of the national picture which highlighted the increase in Interest Rates, Labour Market and the impacts on Councils who are now feeling the financial strain including some authorities who have issued S114 notices and DLUHC having to send in Commissioners to take control of decision making in these councils. Other Councils have also issued warnings due to financial issues. It was noted by the committee that unless remedial actions were undertaken, Somerset Council would be facing a possible S114 within a couple of years.

It was noted that there were some of the Districts where Statement of Accounts were outstanding from previous years and accounts for 2022/23 were being finalised with an estimated overspend of £20m.Schools especially were forecasting deficits for 2023/24 and for the following 3 years. In respect of High Need Block

(HNB) there was a current deficit of £30m which was projected to be £70m by March 2026, currently there had a statutory override until 31 March 2026 but then the deficit must be set against the Council`s other reserves which would have a huge impact in Somerset Council`s case.

In respect of the financial outlook, this year`s budget has been impacted by interest and inflation, delays on delivery of LGR business case staff savings, there was likely to be a higher than 5% pay award and a potential overspend was likely therefore service directors were looking at corrective actions and there was an Establishment Control Process agreed. The budget monitoring reports will reflect any actions undertaken and their effect.

The committee were taken through the challenges relating to the objectives and challenges of the Medium Term Financial Strategy and the budgets including the Revenue, Housing Revenue Account and Dedicated Schools Grants; all these have been risk assessed and RAG rated so actions can be prioritised.
It was noted that the MTFS was being brought forward so an early review can take place and issues and pressures can be highlighted. There were currently 17 key areas targeted for early focus; these included:
Adult and Childrens Services, Schools – High Needs Block, Review of School Transport, School Capital programme and school balances, commercial investments, review of assets, staffing establishment, capital programme and Receipts, Grants and Treasury Management.
The budget needs to be ready for the Executive and Full Council in February 2024.

Members of the committee discussed the presentation and requested clarification on the High Needs Block for Schools, commercial investments and the reality of S114 notice for the authority. It was confirmed that there were lots of actions that need to be undertaken after review of the budgets and they should be targeted to prioritise savings that would make a difference.

Alyn Jones also explained that there were areas of Transition and Transformation project that should also be explored and he would bring a report to the committee for further discussion.

It was suggested that Task and Finish groups should be set up to enable Councillors to focus on specific areas and then actions can be targeted.

14 **Work Programme** - Agenda Item 7

To note the Work Programme and to include items as discussed including Asset Management and Budget issues, it was proposed that Task and Finish Groups should be set up to look into detail any specific areas; it was proposed that the MTFS should be a core item at each meeting.

(The meeting ended at 12.30 pm)

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CHAIR

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Scrutiny Corporate & Resources Work Programme 2023-2024

Meeting date	Agenda item	Report Author/Officer attending	Service Area
Thursday 6 July 2023 at 10am Luttrell Room, CH	Forward Plan items to be considered? Strategic Asset Management MTFP 2024/25 - 2026/27	 Ollie Woodhams Jason Vaughan	
Tuesday 8 August 2023 at 10am Venue Luttrell Room, CH	Budget Monitoring Report Q1 LCN update Investment for Yield Property Portfolio - Overview	Leah Green Kate Hellard Robert Orrett	Corporate Finance LCN Team Strategic Asset Management
Thursday 7 September 2023 at 10am Venue Sedgemoor Room, Bridgwater	Draft Assets Disposal Policy (proposed) *(possibly with Asset & Service Devolution Framework)* Property Rationalisation – West Somerset Review (proposed)	Sally Stark/Keith Pennyfather/Ollie Woodhams *Sara Skirton* Ollie Woodhams	Strategic Asset Management *Partnerships & Localities* Strategic Asset Management
Thursday 9 November 2023 at 10am Venue Brympton Way, Yeovil	Revs & Bens Policy Reviews – TBC Property Rationalisation & Ways of Working (proposed)	Richard Sealy – AD Customer Ollie Woodhams/Sara Kelly *Amanda Kotvics/Chris Squire*	Revs & Bens Strategic Asset Management Workforce

	Potential for office rationalisation/OPE work Property maintenance and compliance (proposed) Business Process Update (Replacement of SAP HR/Payroll not included in Dynamics) -date to be confirmed as now not ready for Sept.	Ollie Woodhams/Andrew Wilson Claire Griffiths/ Jon Marks	Strategic Asset Management Procurement & Financial Governance
Thursday 4 January 2024 at 10am Venue TBC	Early Careers Strategy – CONFIRMED Surplus Assets Review (proposed)	Misha Liddiatt TBC	
Thursday 7 March 2024 at 10am Venue TBC			

Scrutiny Corporate & Resources committee briefings and/or Task and Finish workshops

Title	Description	Date	Service Area and Lead Officer

Other issues for consideration

- Major building construction projects - summary of delivery programme and overview of process
- Estate decarbonisation & energy management

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Commercial Investment

SCRUTINY PRESENTATION FOR 8 AUGUST 2023

Somerset Council

Service funding model

Investment Income Estimates:	% of Fund Total
Gross Investment Fund	
Gross Yield (average)	7.00%
Less: Financing	4.30%
Less: Fixed Costs	0.30%
Net Income	2.40%
Less: Risk Reserve / Sinking Fund	0.17%
Budget for Target Investment Income	2.23%

Derived from SSDC model at time of approval of second tranche of capital funding.
Financing based on interest rate 2.30% plus MRP 2%

Commercial investment assets

Investment assets are held to earn income, or for capital appreciation or both.

For Somerset Council, the commercial assets comprise land with buildings or infrastructure intended to deliver income.

Capital overview

	31/03/2023	
CFR Closing Balance	Forecast	
	£	
Investment Property		
Mendip	49,621,640	PWLB
Sedgemoor	43,628,688	Short-term
Somerset WT	91,563,120	Short-term
South Somerset	85,345,032	Short-term
TOTAL	270,158,480	
Amount Fully Financed	18,932,168	
Gearing	93.5%	
Battery Storage		
Fideoak	8,957,055	Short-term
FERL 1	16,979,761	Short-term
FERL 2	10,630,877	Short-term
	36,567,693	

Investment Property Assets summary

Capital investment made £290m

Individual asset capital value from £1.2m to £22.2m

48 properties

36 out of Somerset

17 multi let

31 single let

91 tenants
Currently 7 voids
5.9% of total ERV

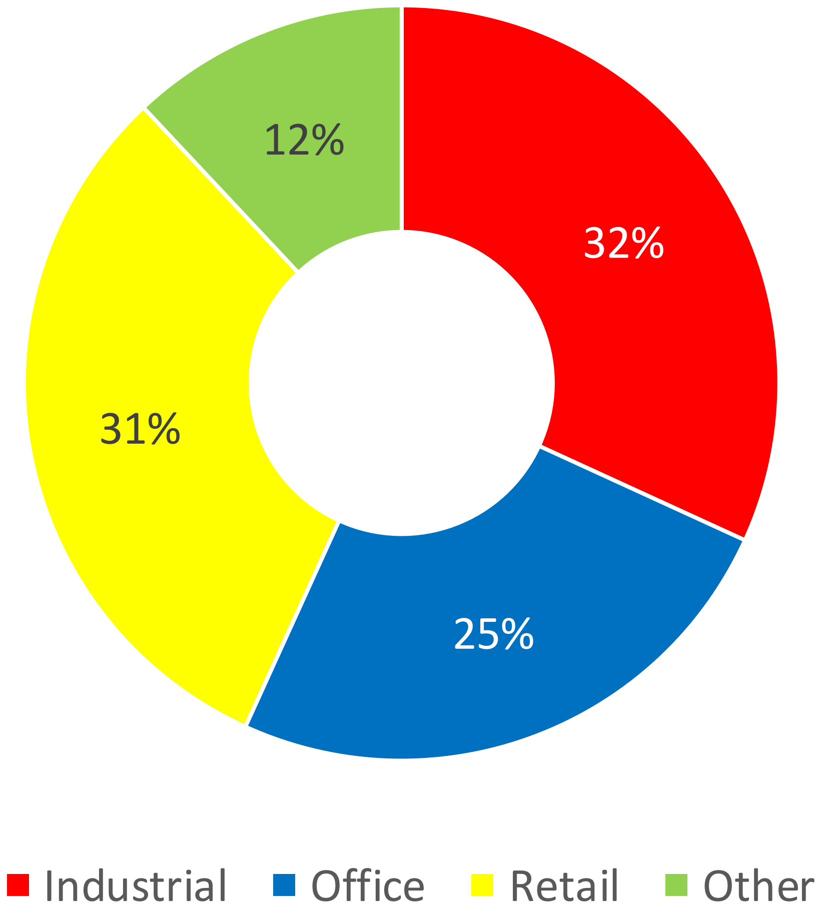
Average income per tenant £211k

Gross average yield 6.62%*

Average WAULT 6.27 years

Gross rental income (Jul 2023) £19.3m

Value by Sector



Note: Sector split calculated on year end 21/22 Asset Valuations reported by each Council.

The values reported were £265m, circa 5% down on purchase price - broadly in line with slight softening in market.

Location


Edinburgh
United Kingdom
NORTHERN IRELAND
Isle of Man
Manchester
Liverpool
Sheffield
Ireland
Dublin
WALES
London
Cambridge
Norwich
Plymouth
English Channel
Netherlands
Amsterdam
Rotterdam
Belgium
Brussels
Luxembourg
Styled by District
SSDC (20)
SW&T (12)
S (8)
M (7)

Main asset risk areas

- Tenant failure
- Lease end voids
- Rental value changes
- Capital value changes
- Building depreciation
- Asset management delivery

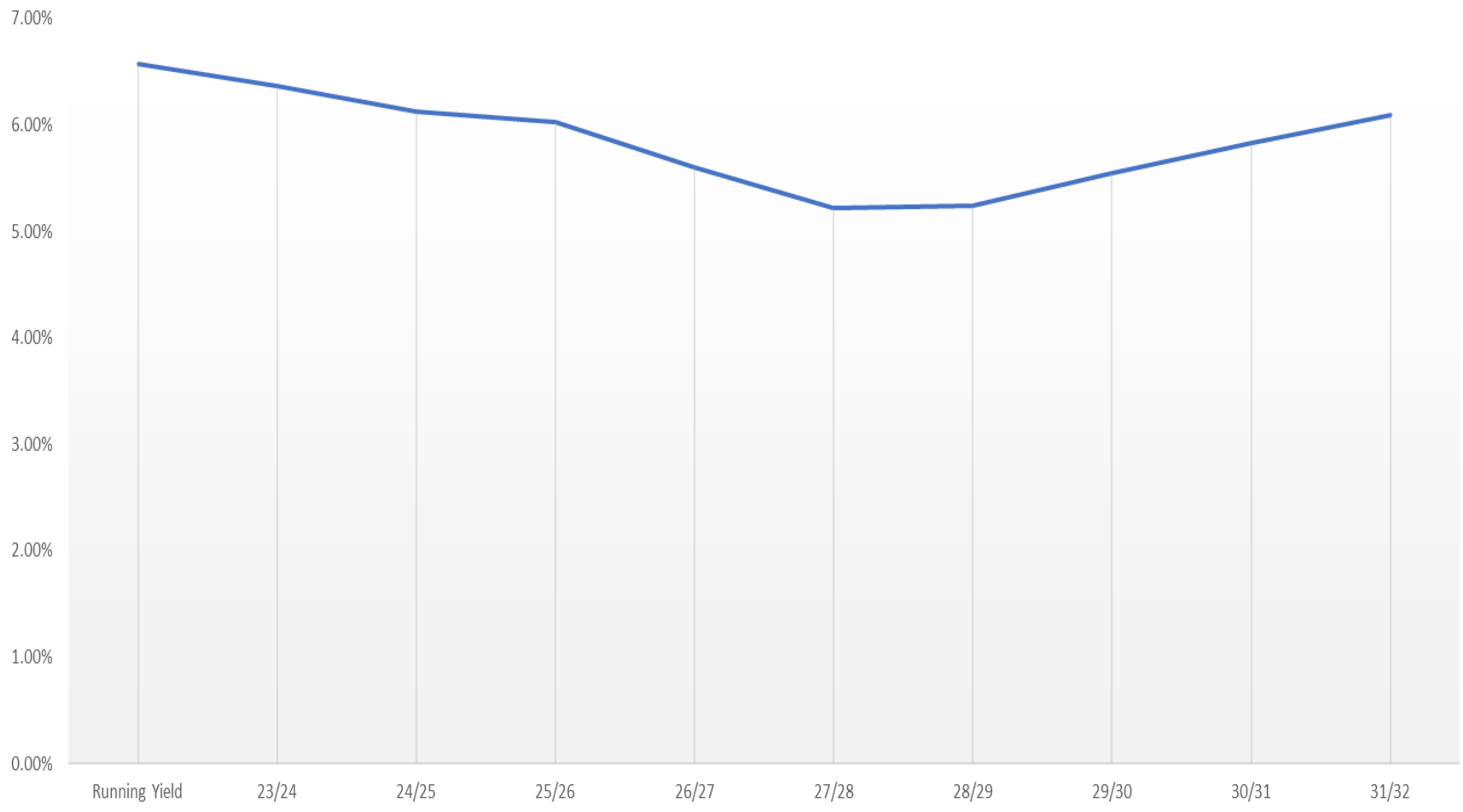
Tenant failure

- COVID-19 stress test on rent payments: 96-98% collected
- Three current tenants in Administration or proposing CVA
- This is c3% of our lessees

Lease end voids

- Inherent risk of investment property
- “Reasonable worst case” assumption – when buying and continuing management – see Running Yield chart
- COVID-19 business changes caused some increase
- Actual “risk” is all upside
- Continuous focus of asset management

Running Yield

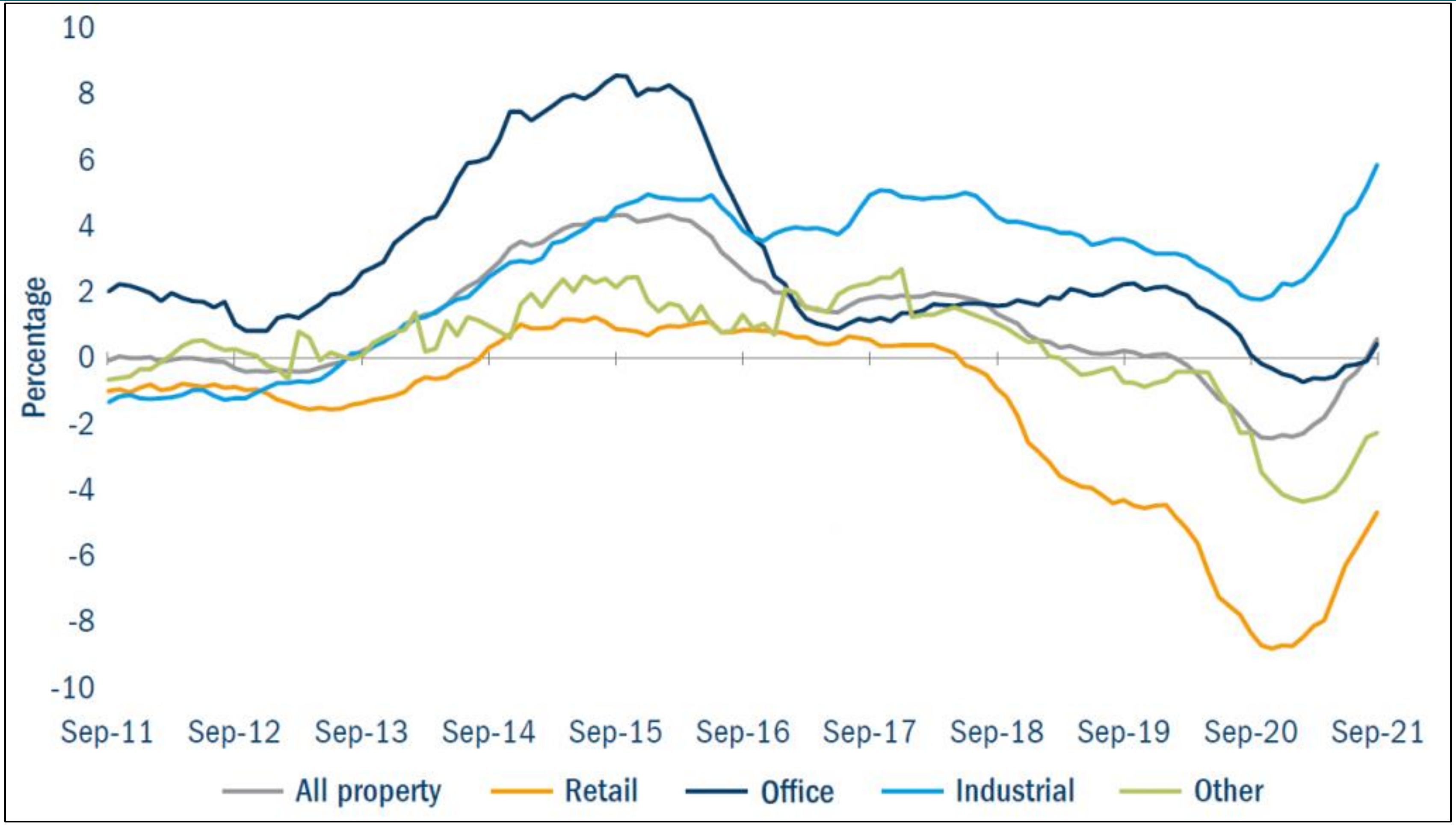


This is the projected profile of passing rents as return on original investment.

This is a reasonable worst-case scenario, assuming all tenants break as soon as they can, and rents are not increased at review.

Where purchase costs not provided 6% added to purchase price to ascertain accurate net running yield.

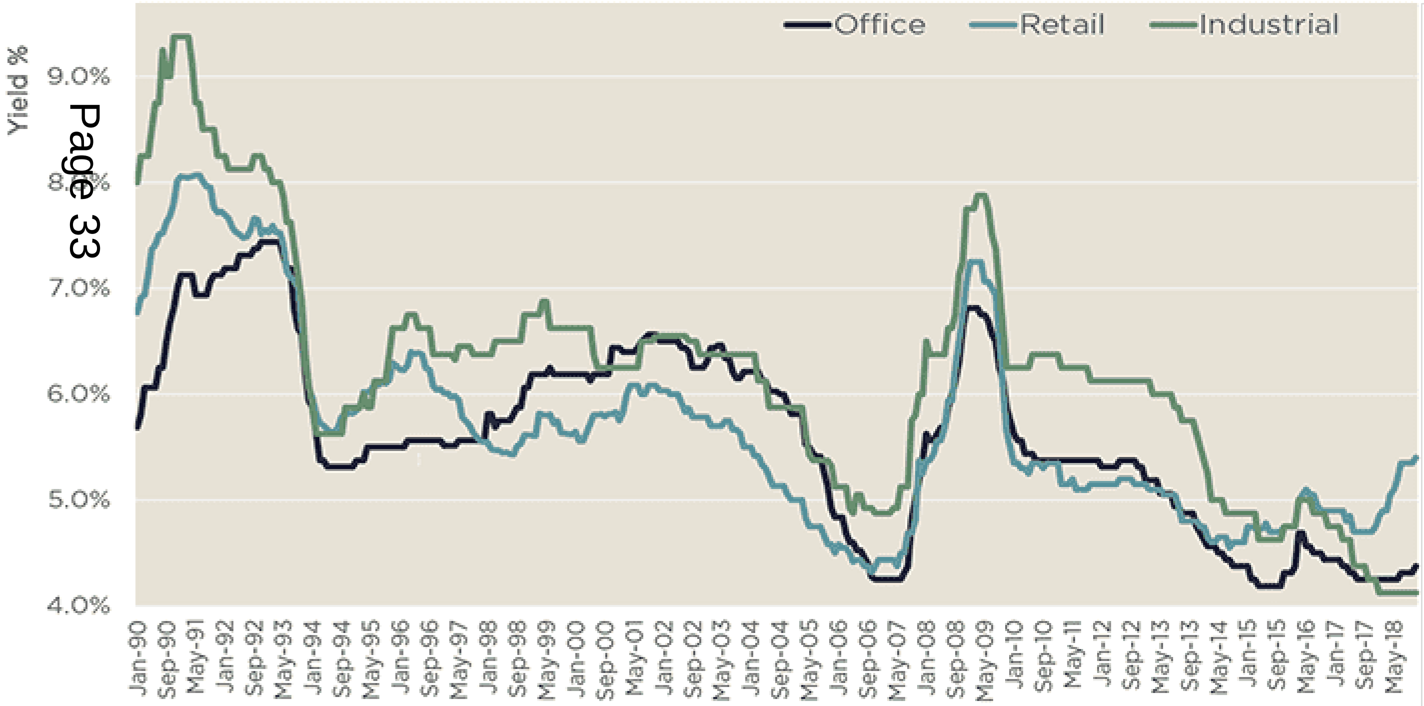
Rental value changes

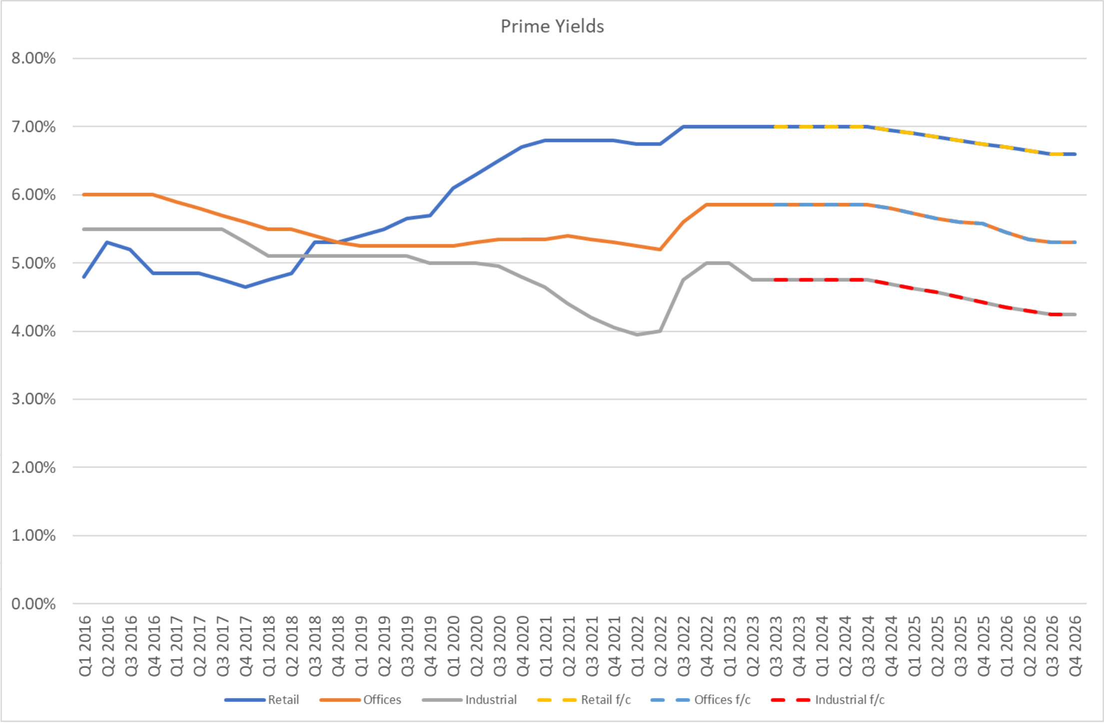


10-year UK commercial property rental value growth (annualised)

Capital value changes

- Long term changes in relative yields between main sectors
- Inverse relationship between yield and capital value changes
- Partial correlation with base rate history

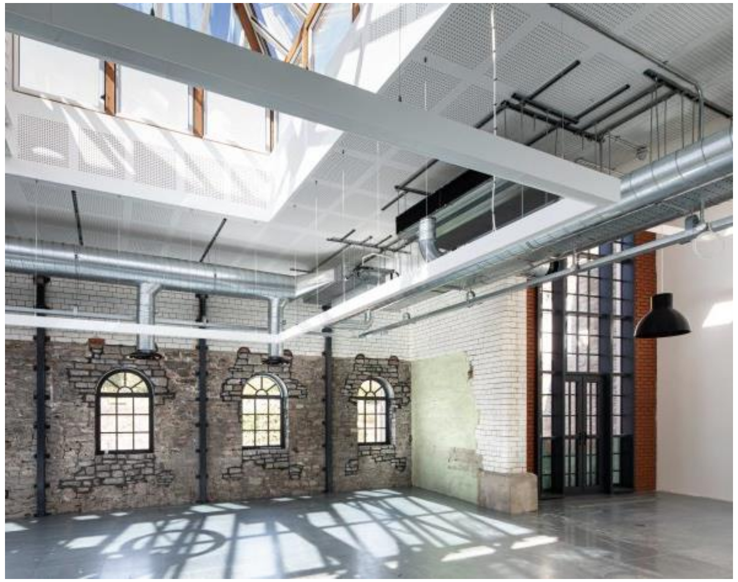




Building depreciation

- Tenant repairing obligations
- Lease end improvements – Imperial House example

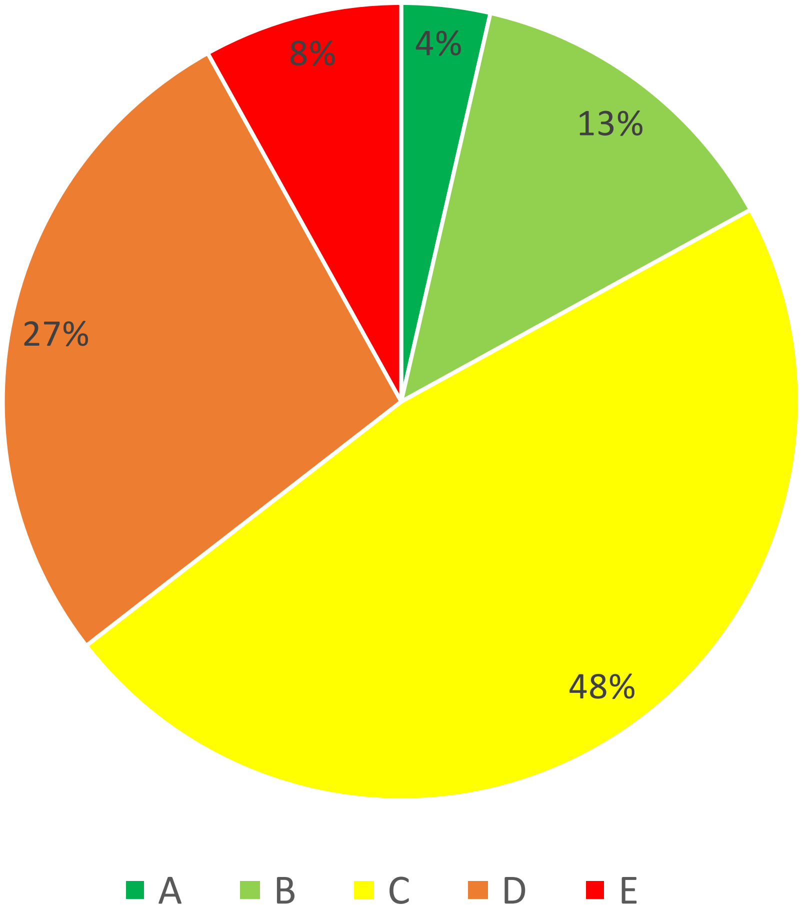
Imperial House



Fermentation Building

Steelite

Energy Performance



- 65% of assets at minimum Grade C required by 2027.
- 19% of assets at minimum Grade B required by 2030.
- Only 8% at E and nothing below.

Asset management delivery

- LGR – consolidated approach
- Temporary team roles
- Rent collection
- Priorities
  - Processes and operations
  - Governance (incl Executive Sub-committee)
  - Portfolio Review and presentation
  - Strategic direction
  - Team structure and resourcing
  - Adviser appointment

Battery Energy Storage JV

The investment

- Battery Energy Storage Systems (BESS) – renewable energy sold to the national grid
- Investment Lifespan – 25 years
- 3 companies – SSDC OPL – FERL1 – FERL2
- 2 BESS locations – Fideoak Taunton & Fareham
- 100% Council funded – via loans to JV companies

Site / Phase	BESS	Loan provided £m	Investment approved	Site energised	First Income delivered
Fideoak phase 1	25 MW	9.840	18/4/2018	November 2019	April 2020
Fideoak phase 2	5 MW	2.033	16/7/2019	November 2019	April 2020
Fideoak rectification		1.284	24/6/2019	November 2019	
Fareham 1	40MW	18.690	20/5/2020	March 2022	April 2022
Fareham 2	20MW	10.319	16/2/2021	July 2022	Aug 2022
Total	**90MW**	**42.165**			

Fareham

Sources of income

Benefit	Explanation
Grid frequency balancing	The national grid has peaks and troughs in terms of power supply – the use of battery technology allows power to be drawn from the grid at off peak times and be re-supplied during peak periods as renewable energy – per megawatt unit
Capacity standby	Emergency losses of power can be resupplied or redirected to the grid per mega- watt from the battery storage system
Balanced mechanisms	To take excessive power from the grid when it is not being generated, e.g. a wind turbine is programmed to shut down if the grid is in full supply – battery storage can be used to draw off this excess supply if the turbine is kept in use
Wholesale trading	From a purely commercial point of view – power supply from the battery storage can be sold by an optimiser company to the grid on a wholesale basis and rates have increased markedly since 2019 with sharper increases expected in 2022 to 2029

Questions & discussion

Somerset Council
Corporate & Resources Scrutiny Committee
8 August 2023

2023/24 Budget Monitoring Report – Month 3 – End of June 2023

Lead Officer: Jason Vaughan, Executive Director for Resource & Corporate (S151 Officer)
Author: Jason Vaughan, Executive Director for Resource & Corporate (S151 Officer)
Contact Details: Jason.vaughan@somerset.gov.uk
Executive Lead Member: Deputy Leader of the Council and Lead Member for Resources and Performance
Division / Local Member:

1. Summary

1.1. The Executive will consider the Quarter 1 Budget Monitoring reports at its meeting on 6 September 2023 and the reports will be presented to the scrutiny committee to allow for pre-scrutiny of them.

2. Issues for consideration / Recommendations

2.1. Scrutiny is asked to consider:-

a. If there are any general comments or observations that they would wish to make to the Executive on the reports.

b. If the actions set out in the report are appropriate and if there were any further actions, they would wish to see included.

3. Background

3.1. The 2023/24 Budget is the first for the new Somerset Council and it brought together the budgets of the five predecessor councils adjusted for new assumptions and identified savings. It is well documented that there are significant delays in the auditing of local authority accounts and this national issue means that there are a number of statement of accounts from the predecessor councils for prior years that are still outstanding. This brings an amount of uncertainty, as well resourcing implications, and in practical terms means that some of the information for Somerset Council such as the 2022/23 outturn, reserves position, and capital position are still being finalised.

3.2. The Full Council approved the 2023/24 Budget in February 2023. Budget monitoring is delegated to Executive and Scrutiny and revenue service reports will be presented monthly with a full overview of revenue, capital, and reserves quarterly. This report outlines the forecast year-end position of services against the 2023/24 budget of £493.4m as at the end of June 2023.

3.3. After taking into account all service expenditure and contingencies the projected outturn position is £522m against a net budget of £493.4m. This gives a £28.6m adverse variance which represents a variance of 5.8%.

- Adult Services has a £12.1m adverse variance against their budget (6.5% of service budget). This variance is mainly in the adult social care and Learning Disabilities budget areas.

- Children's Services has a £8.8m adverse variance against their budget (7.2% of service budget). This variance is in External Placements.

- Climate and Place has a £5.1m adverse variance against their budget (5.8% of service budget). This adverse variance is seen in Waste Services, Infrastructure and Transport and Economy, Employment and Planning.

- Strategy, Workforce and Localities has a £1.5m adverse variance against their budget (7.4% of service budget). This variance is seen in Legal Services.

- Resources and Corporate Services has a £1.4m adverse variance against their budget (6.5% of service budget). This variance is seen in Revenues, Housing Benefits, Property, and ICT.

3.4. The Budget Monitoring Report on the Housing Revenue Account (HRA) provides an update on the projected outturn financial position of the Council's Housing Revenue Account (HRA) for the financial year 2023/24 (as at 30th June 2023) and shows it to be in line with the budget.

3.5. The Capital Programme monitoring report is still being finalised and will also be considered by the Executive at its September meeting.

4. Consultations undertaken

4.1. Internal consultation with ELT.

5. Implications

5.1. As set out in the 2 reports.

6. Background papers

6.1. Medium Term Financial Strategy (MTFS) 2024/25 to 2026/27 report to Corporate & Resources Scrutiny & Executive July 2023

2023/24 Budget, Medium-Term Financial Plan & Council Tax Setting report to Council February 2023

HRA Budget Setting Report – Full Council 22 February 2023

Decision Report - Executive Decision
Forward Plan Reference: FP/24/03/07
Decision Date – 06 September 2023
Key Decision – No

2023/24 Budget Monitoring Report – Month 3 – End of June 2023

Executive Member(s): Deputy Leader of the Council and Lead Member for Resources and Performance
Local Member(s) and Division: All

Summary / Background

1. This report sets out the very stark and challenging financial situation that the new Somerset Council faces given the size of the potential overspend for the year. Directorates and services will work on actions to mitigate the position, particularly in relation to savings plans at risk, and will develop recovery actions wherever possible. The budget monitoring position cannot be looked at in isolation and needs to be set against the context of the forecast £100m budget gap in the Medium-Term Financial Plan (MTFP) over the next three financial years, the outstanding audits from predecessor councils and the relatively low level of reserves that the new council has inherited.

2. The detailed reason for the forecast overspends are set out in the report against each Service. However, there are some general themes which are adversely impacting upon the council's finances which include:
   - High Inflation
   - Interest rates
   - Rising complexity and costs of care
   - Labour market

3. The position is not dissimilar to 2022/23 where very high inflation led to significant pressures and the detailed forecasts in this report indicate that both demand and inflation are not subsiding in many areas and in some areas continue to grow at unprecedented rates, for example, cost of residential care. The budget monitoring position cannot be viewed in isolation and needs to be considered alongside the Medium-Term Financial Strategy (MTFS) 2024/25 to 2026/27 report considered at the Corporate & Resources Scrutiny and approved

Executive in July which set out that the forecast budget gap over the next 3 years was around £100m. The forecast overspend is of sufficient magnitude to be potentially destabilising to the authority's financial sustainability if it is not managed down and would significantly adversely impact on the level of Reserves.

4. Service Directors have been tasked to take actions within their areas to address their potential overspend and where this cannot be contained within a service then the Executive Director has been tasked with taking the necessary actions to do this within their Directorate.

5. The 2023/24 budget was developed through the LGR programme and was based upon the budgets, service levels and priorities of the five predecessor councils. The savings were largely efficiency savings set out in the LGR business case, existing transformations programmes, pension fund saving and the use £10m from reserves.

6. **Table 1** provides a summary of budget, projections, and variances on a service-by-service basis with further detail and mitigations being taken by the responsible director outlined in the body of the report. After taking into account all service expenditure and contingencies the projected outturn position is £522.0m against a net budget of £493.4m. This gives a £28.6m adverse variance which represents a variance of 5.8%.

Table 1: 2023/24 Budget Monitoring Report as at the end of June 2023 (Month 3)

Service Area	Original Budget £m	Current Budget £m	Full Year Projection £m	Month 3 Variance £m	A/(F)
Adult Services	186.6	185.5	197.6	12.1	A
Children & Family Services	123.1	123.1	131.9	8.8	A
Public Health	1.2	1.2	1.2	0.0	-
Communities Services	35.2	34.9	34.9	0.0	-
Climate & Place	87.1	87.6	92.7	5.1	A
Direct Services Position	**433.3**	**432.3**	**458.3**	**26.0**	**A**
Strategy, Workforce & Localities	20.2	20.2	21.7	1.5	A
Resources & Corporate Services	20.5	21.5	22.9	1.4	A
Accountable Bodies	3.7	3.7	3.7	0.0	-
Non-Service	9.8	9.8	9.3	(0.5)	(F)
Traded Services	0.0	0.0	0.2	0.2	A
Total Service Position	**487.4**	**487.4**	**516.0**	**28.6**	**A**
Corporate Contingency	6.0	6.0	6.0	0.0	-
Total after Contingencies	**493.4**	**493.4**	**522.0**	**28.6**	**A**
Reserves	(19.9)	(19.9)	(19.9)	0.0	-
Council Tax	(345.4)	(345.4)	(345.4)	0.0	-
Business Rates	(116.1)	(116.1)	(116.1)	0.0	-
Revenue Support Grant	(7.9)	(7.9)	(7.9)	0.0	-
Flexible Use of Capital Receipts	(4.0)	(4.0)	(4.0)	0.0	-
Total Month 3 Position	**0.0**	**0.0**	**28.6**	**28.6**	**A**

7. Services will continue to develop Financial Recovery Plans as required by the Councils financial management framework, but escalated, corporate recruitment and spending controls are also required in this situation and need to be put in place until further notice. The controls will be managed by Directorate Management Teams (DMTs) with oversight from the Executive Leadership Team (ELT) and members via the Budget Monitoring reports. The controls are summarised as follows:

- Savings – Delivery of the 2023/24 Approved Savings is vital and where this cannot be achieved then the development of alternative recovery or mitigation measures to address any forecast underachievement of approved savings is required.
- Staffing – Review and deferral / delay to all permanent, temporary, interim, agency or casual recruitments unless over-ridden by exception by the relevant DMT due to service delivery considerations, for example, to maintain staffing in services requiring statutory minimum staffing levels.
- Identifying underspending opportunities – DMTs will review 2022/23 underspending or break-even services to explore whether greater underspending or moving into underspend can be achieved to assist the position.

8. DMT specific financial management actions including:

a. Imposing financial transaction limits above which senior management (Strategic Manager, Head of Service or Director) approval will be required.
b. Similarly, reviewing any local schemes of delegation to managers for spending decisions, for example, authorisation of adult or children's social care packages, and considering whether or not to review the delegations.
c. Imposing a moratorium or limit on certain types of non-critical expenditure where possible.
d. Similarly, setting target reductions for certain types or categories of expenditure where this can be done without destabilising service delivery.
e. Curtailing or 'value-engineering' one-off or project spend or exploring alternative funding solutions.
f. Exploring alternative funding to relieve pressure on the revenue budget e.g., bids for grants, income generation, invest-to-save business cases, etc.

9. The 2023/24 Budget included £40.9m of savings, income generation, and transformation savings with £0.5m over-achieved/on-track to overachieve, £6.9m achieved, £22.4m on track, £6.3m at risk and £5.3m unachievable.

Recommendations

10. That the Executive:

a. Note the forecast overspend of £28.6m for the year and the key risks, future issues and opportunities detailed in the report.
b. Requests that each of the Scrutiny Committees urgently reviews the budget monitoring position for their areas of responsibility and that the relevant Executive members set out the reasons behind the current forecasts and the actions that are being taken to address the position.
c. Approves that member briefings are set to ensure every councillor has the opportunity to fully understand the financial current situation and the financial challenges facing the council going forward.
d. Receives a monthly update on the financial position and actions being taken to address it.

Reasons for recommendations

11. To ensure that the Council continues to maintain tight financial control over its budget.

Other options considered

12. No other options were considered as continuing to monitor the budget on a monthly basis is considered best practice.

Links to Council Plan and Medium-Term Financial Plan

13. The 2023/24 Budget was approved by Council in February 2023 as part of the Medium-Term Financial Plan (MTFP) and is the financial resourcing plan to deliver the Council Plan.

Financial and Risk Implications

14. A new Strategic Risk ORG0070 Budget Overspend in the current financial year has been created and its current score is:

Likelihood	**5**	**Impact**	**5**	**Risk Score**	**25**

It is clear that the scale of financial challenges facing the council are significant. The precise level of reserves is not known with certainly until all of the 2022/23 accounts from the predecessor councils are finalised. However, based upon the work done in setting the 2023/24 budget it is estimated that they will be the region of £100m and there is already a programme to review and align these in place. In the light of this report Strategic Risk ORG0057 Sustainable MTFP has had its score revised upwards to:

Likelihood	**5**	**Impact**	**5**	**Risk Score**	**25**

Legal Implications

15. There are no specific legal implications arising from this report.

HR Implications

16. There are no specific HR implications arising from this report.

Other Implications:

Equalities Implications

17. There are no specific equalities implications arising from this report.

Community Safety Implications

18. There are no community safety implications arising from this report.

Climate Change and Sustainability Implications

19. There are no climate change and sustainability implications arising from this report.

Health and Safety Implications

20. There are no health and safety implications arising from this report.

Health and Wellbeing Implications

21. There are no health and wellbeing implications arising from this report.

Social Value

22. There are no Social Value implications arising from this report.

Scrutiny comments / recommendations:

23. This report will be presented to Scrutiny for Corporate & Resources Committee, on 8th August 2023; comments arising will be made available to the Executive at the subsequent meeting.

Background

24. The 2023/24 Budget is the first for the new Somerset Council and it brought together the budgets of the five predecessor councils adjusted for new assumptions and identified savings. It is well documented that there are significant delays in the auditing of local authority accounts and this national issue means that there are a number of statement of accounts from the predecessor councils for prior years that are still outstanding. This brings an amount of uncertainty, as well resourcing implications, and in practical terms means that some of the information for Somerset Council such as the 2022/23 outturn, reserves position, and capital position are still being finalised.

25. The Full Council approved the 2023/24 Budget in February 2023. Budget monitoring is delegated to Executive and Scrutiny and revenue service reports will be presented monthly with a full overview of revenue, capital, and reserves quarterly. This report outlines the forecast year-end position of services against the 2023/24 budget of £493.4m as at the end of June 2023.

26. **Table 1** provides a summary of budget, projections, and variances on a service-by-service basis with further detail and mitigations being taken by the responsible director outlined in the body of the report. The significant variances are:

- Adult Services has a £12.1m adverse variance against their budget (6.5% of service budget). This variance is mainly in the adult social care and Learning Disabilities budget areas.

- Children's Services has a £8.8m adverse variance against their budget (7.2% of service budget). This variance is in External Placements.

- Climate and Place has a £5.1m adverse variance against their budget (5.8% of service budget). This adverse variance is seen in Waste Services, Infrastructure and Transport and Economy, Employment and Planning.

- Strategy, Workforce and Localities has a £1.5m adverse variance against their budget (7.4% of service budget). This variance is seen in Legal Services.

- Resources and Corporate Services has a £1.4m adverse variance against their budget (6.5% of service budget). This variance is seen in Revenues, Housing Benefits, Property, and ICT.

27. With the financial challenges outlined in this paper the Council needs to move at pace to deal with the very difficult financial situation that the council now faces.

The 2022/23 Outturn Position for Somerset

28. The Statement of Accounts for the 2022/23 financial year of the five predecessor councils are being finalised and show that the overall outturn position will be a c£20m overspend. This will need to be funded from reserves and reducing the Councils ability to manage issues in this financial year and flexibility in budget planning and sustainability. Over the summer there will be a full review of reserves once the overall outturn position is confirmed to ensure that Somerset Council has sufficient reserves to meet risks.

Medium-Term Financial Strategy

29. The forecast Medium Term Financial Plan gap outlined in February 2023 for the next three years was a predicted shortfall between the resources available and cost of current service of c£100m in 2025/26 prior to further savings being identified. In addition to the pressures on the General Fund, there are also pressures within the Housing Revenue Account (HRA) and Dedicated Schools Grant (DSG). The DSG is of particular concern given that the overall deficit on it is now £20.7m with the High Need Block (HNB) part of this being in deficit by £29.8m and is forecast to rise substantially over the next 3 years to be circa £70m deficit if planned mitigations are insufficient to address increasing demand. The statutory override provided by government ends on 31 March 2026 at which time this will revert to being set against the councils' other reserves and combined with all the other pressures on the Council resources raises the very real prospect of a Section 114 notice. The DfE is continuing to work with councils on a national programme to address the deficits in the HNB but given the very substantial figures are unlikely to resolve the issues. However, analysis from the DfE's Delivering Better Value for SEND programme suggest that the cumulative impact of these mitigations is likely to be between £10.4 million and £22.7 million by the end of 2026/27, which means that these initiatives are unlikely to resolve the issues entirely.

30. The Financial Strategy approved by the Executive in July recognised that given the level of required savings, the known pressures within the current year's budget and the relatively low level of reserves, it is imperative that action is taken to identify significant savings. With the need to take decisive action combined with limited staff resources it is proposed to take a targeted approach with three key elements, which are: -

- Targets Areas – An early focus on 'big ticket' items that are some of the key building blocks of the budget. **Table 2** below identifies 17 key areas for early review.

- Review of MTFP assumption – Challenging and reviewing of the identified cost pressures to try and reduce them down which would reduce the MTFP gap. Also reviewing all the funding streams in the light of deferral by government of the funding reforms.

- Service Budget Options – All Service Directors will be reviewing their services and identifying Budget Options for members to consider. This will help form the basis of a transformation pipeline of savings for the MTFP over the next three years.

Table 2 – Targeted Areas

Ref	Key Area	Detail	Lead Member	Lead Officer
1	Adults Services	Implementing opportunities identified in the Diagnostic of Adults by Newton. Prior to this work the MTFP assumed cost reductions of £10m split equally over 2023/24 and 2024/25. The detailed diagnostic work has identified a different profile of savings and opportunities more than those built into the MTFP in future years.	Cllr Dean Ruddle, Lead Member for Adult Services	Mel Lock, Executive Director Adult Services

Ref	Key Area	Detail	Lead Member	Lead Officer
2	Childrens Services	Implementing the opportunities identified in the Diagnostic by Impower which identified potential, cumulative cost avoidance and savings ranging from £4.9m and £8.1m over three years. This includes developing new sufficiency strategies for placements and edge of care services to inform the transformation plan for Children Looked After. Transformation will include Homes & Horizons, recommissioning 16+, market development, reducing unregistered placements, and work with Impower consultancy to improve internal fostering and step-across options for children and young people.	Cllr Tessa Munt, Lead Member for Children, Families, and Education	Claire Winter, Executive Director – Childrens, Families & Education
3	Schools – High Needs Block	Delivering Better Value (DBV) in SEND Programme with Newton Europe & CIPFA which identified potential cumulative cost avoidance and savings ranging from £10.4m to £22.7 m over three years.	Cllr Tessa Munt, Lead Member for Children, Families, and Education	Rob Hart, Service Director Inclusion

Ref	Key Area	Detail	Lead Member	Lead Officer
4	Review of School Transport	Implementing the recommendations and opportunities identified in the report from the Edge Public Solutions report that identified saving of £0.6m in year 1, £2.4m in year 2 rising to £2.6m in year 3.	Cllr Tessa Munt, Lead Member for Children, Families, and Education	Rob Hart, Service Director Inclusion and David Carter, Service Director, Infrastructure & Transport
5	Schools Capital Programme	Review of capital programme for schools considering maintenance backlog, current schemes, future requirements with revised pupil numbers forecast & estimated academisations	Cllr Tessa Munt, Lead Member for Children, Families, and Education	Amelia Walker, Service Director Education Partnerships & Skills and Oliver Woodhams, Service Director – Strategic Asset Management

Ref	Key Area	Detail	Lead Member	Lead Officer
6	School Balances	There are a significant number of schools setting deficit budgets for 2023/24 which projected forward would see a significant reduction to the current £20m surplus in school balances. This would include a programme to identify some of the themes within school budgets to target support in the most effective way, and to lobby government if appropriate	Cllr Tessa Munt, Lead Member for Children, Families, and Education	Amelia Walker, Service Director Education Partnerships & Skills
7	Staffing Establishment Control	Management control of vacant posts, temporary posts, agency staff etc in order to minimise redundancy costs and help deliver the staff savings in the LGR business case.	Cllr Theo Butt, Lead Member for Transformation and Human Resources	Chris Squires, Service Director - Customers, Digital & Workforce and Nicola Hix – Service Director of Finance & Procurement
8	Commercial Investments	Review of the current portfolio and identification of opportunities for disposals and reduction of risks	Cllr Ros Wyke, Lead Member for Economic Development, Planning, and Assets	Oliver Woodhams, Service Director – Strategic Asset Management

Ref	Key Area	Detail	Lead Member	Lead Officer
9	Review of Assets	Review of assets and identification of pipeline of disposals including council office rationalisation	Cllr Ros Wyke, Lead Member for Economic Development, Planning, and Assets	Oliver Woodhams, Service Director – Strategic Asset Management
10	Business Rates & Council Tax	Review of business rates and council tax following the creation of the new unitary and the financial impacts this has on funding forecasts and collection fund positions	Cllr Liz Leyshon, Deputy Leader of the Council and Lead Member for Resources and Performance	Nicola Hix – Service Director of Finance & Procurement
11	Review of Capital Programme	Reduce number and costs of all existing capital schemes & restrict funding for new capital schemes to urgent Health & Safety schemes or schemes that are 100% externally funded.	Cllr Liz Leyshon, Deputy Leader of the Council and Lead Member for Resources and Performance	Nicola Hix – Service Director of Finance & Procurement
12	Reserves	Review the reserves from across the five councils, amalgamate them and ensure sufficient General Fund Reserves are set aside. The risk-based assessment of reserves identified that General reserves should be in the range £30m to £50m.	Cllr Liz Leyshon, Deputy Leader of the Council and Lead Member for Resources and Performance	Nicola Hix, Service Director - Finance & Procurement

Ref	Key Area	Detail	Lead Member	Lead Officer
13	Capital Receipts	Review capital receipts available along with the commitments in the capital programme and disposal programmes. Identify and recommend the most effective use within the MTFP	Cllr Liz Leyshon, Deputy Leader of the Council and Lead Member for Resources and Performance	Nicola Hix, Service Director - Finance & Procurement
14	Treasury Management	Review of the Borrowing & Investments portfolio. Identify a strategy of rationalisation of investments that takes account of future needs and interest rate forecasts.	Cllr Liz Leyshon, Deputy Leader of the Council and Lead Member for Resources and Performance	Nicola Hix, Service Director - Finance & Procurement
15	Grants	Review the grants provided by the 5 Councils. Understand the source of the grants and the priorities within the Council Plan and rationalise.	Cllr Theo Butt, Lead Member for Transformation and Human Resources	Alyn Jones, Executive Director – Strategy, Workforce & Localities
16	Transformation Programme	Outline the pipeline of transformation projects that deliver on-going savings / reductions in cost over the MTFP.	Cllr Theo Butt, Lead Member for Transformation and Human Resources	Alyn Jones, Executive Director – Strategy, Workforce & Localities
17	Financial Resilience & Sustainability Review	Complete a financial sustainability and resilience review for Somerset Council in the light of the 2022/23 outturn from the five predecessor councils.	Cllr Liz Leyshon, Deputy Leader of the Council and Lead Member for Resources and Performance	Jason Vaughan, Executive Director – Resources & Corporate Services

2023/24 Budget & Forecast Outturn Position

31. The 2023/24 Budget was put together using the information from the five predecessor councils who recorded things in different ways and also before the full officer structure was finalised. Therefore, there is still a lot of alignment of budgets to take place which will require budget virements. Service Directors are currently developing their service structure which will require further adjustments to the budget in order to reflect the new staffing establishment.

32. After taking into account all service expenditure and contingencies the projected outturn position is £522m against a net budget of £493.4m. This gives a £38.6m adverse variance which represents a variance of 5.8%. With the financial challenges outlined in this paper the Council needs to move at pace to deal with the very difficult financial situation that the council now faces. Further information for each service is shown below, along with details on movements, actions to be taken, future risks and opportunities.

Adult Services Director Mel Lock, Lead Member Cllr Dean Ruddle

- 2023/24 net budget £185.5m, projected adverse variance £12.1m
- 2022/23 net budget £160.7m, outturn adverse variance £15.4m

Table 3: Adult Services as at the end of June 2023 (Month 3)

Service Area		Current Budget	Full Year Projection	Month 3 Variance	A/(F)
		£m	£m	£m	
Adult Social Care Operations - Physical Disability/Sensory Loss/65 Plus					
	Residential & Nursing	54.0	54.7	0.7	A
	Home Care	28.1	30.3	2.2	A
	Direct Payments	11.9	12.8	0.9	A
	Staffing Costs	11.6	11.6	0.0	-
	Transport & Daycare	7.6	7.6	0.0	-
	sub total	**113.2**	**117.0**	**3.8**	**A**
Adult Social Care Operations - Mental Health					
	Residential & Nursing	13.9	13.9	0.0	-
	Home Care/Supported Living	5.7	5.9	0.2	A
	Staffing/Deprivation of Liberty Safeguards	2.6	2.6	0.0	-
	Direct Payments, Day Care & Transport	2.6	2.5	(0.1)	(F)
	sub total	**24.8**	**24.9**	**0.1**	**A**
Adult Social Care Operations - Learning Disabilities					
	Residential & Nursing	23.8	25.7	1.9	A
	Home Care/Supported Living	30.6	35.4	4.8	A
	Direct Payments/In Control	10.7	10.3	(0.4)	(F)
	Day Care	5.8	6.3	0.5	A
	Transport & Shared Lives	2.4	2.7	0.3	A
	Central & Salaries	6.0	6.2	0.2	A
	Discovery	30.5	30.1	(0.4)	(F)
	sub total	**109.8**	**116.7**	**6.9**	**A**
Commissioning					
	Commissioning	2.9	5.7	2.8	A
	Better Care Fund	(37.3)	(37.3)	0.0	-
	LD Pooled Budget Income	(27.9)	(29.4)	(1.5)	(F)
	sub total	**(62.3)**	**(61.0)**	**1.3**	**A**
Adult Services Total		**185.5**	**197.6**	**12.1**	**A**

Adult Services - key explanations, actions & mitigating controls

Adult Social Care - Physical Disability/Sensory Loss/65 Plus

Within this area of adults its currently projecting to be £3.8m overspent. As in previous years, we continue to see pressure within residential and nursing placements, with pressure on the weekly costs, as well as the number of people receiving support. Historically the authority has paid low fee rates within this sector. The increase in fee levels for 23/24 are still not stabilising the market, due to the increase in inflation and cost of living.

There continue to be a number of interim placements as the service works with the NHS trusts to ensure a timely discharge for people from hospital. These placements are currently projected to cost £2.5m.

We continue to deliver more homecare, to allow people to remain in their own homes for as long as possible to help reduce the overreliance on beds, as well as it being the best place for them. This has led to reported overspends of £2.2m for home care.

As we continue to offer choice and have a varied market that includes micro-providers, we have seen an increase in the use of direct payments, resulting in a projected overspend of £0.9m.

Mental Health

This budget includes individuals who have a diagnosis of dementia. The budget continues to be an area of growth for the past few years, and this has continued in 2023/24. We are currently projecting an overspend of £0.1m mainly within home care and supported living. Residential and nursing continues to be a pressure for the service due to a combination of increasing numbers and high unit costs.

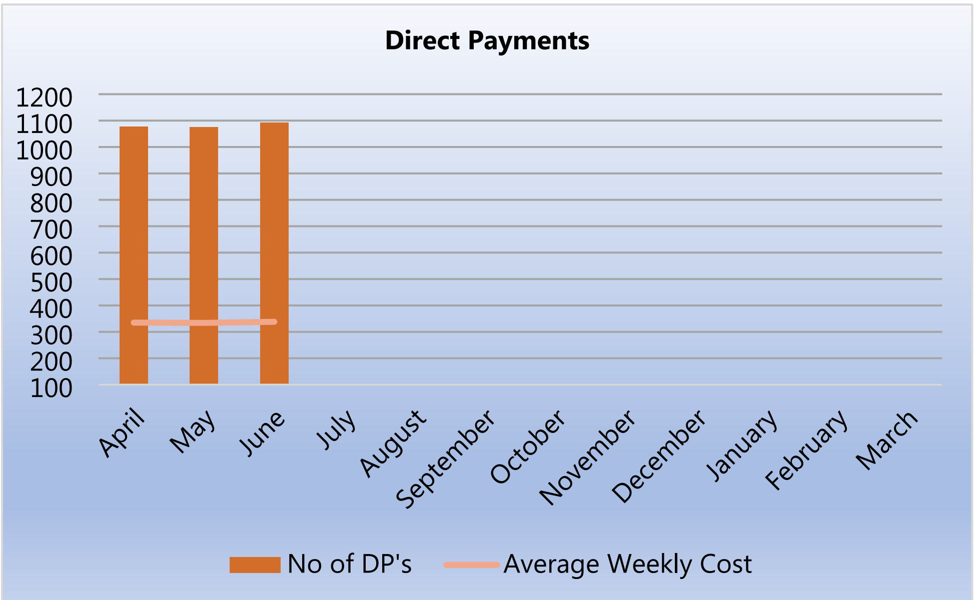
Learning Disabilities

Overall, the cost of Learning Disabilities is projected to overspend by £6.9m. Since outturn we have seen a number of high costs placements come through, either via transitions or due to other forms of funding coming to an end. The four main pressure areas continue to be residential & nursing £1.9m, supported living and homecare £4.8m and day care £0.5m due to market sustainability. Supported Living is in the best interest of people but is an area where unit costs can be high.

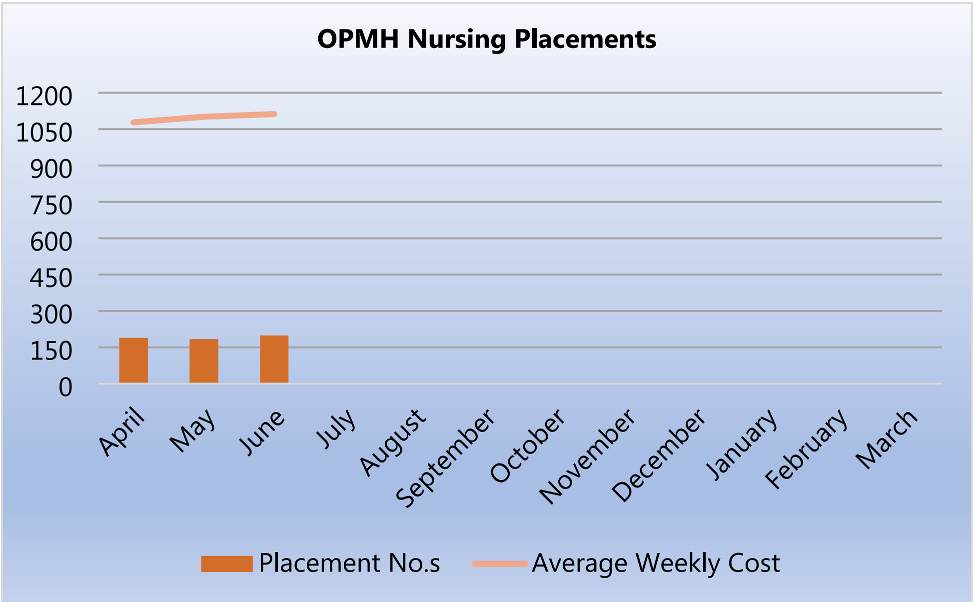
Commissioning

Commissioning is currently projecting to overspend by £1.3m, as the Adults transformation my life, my future will not achieve the full £5m saving.

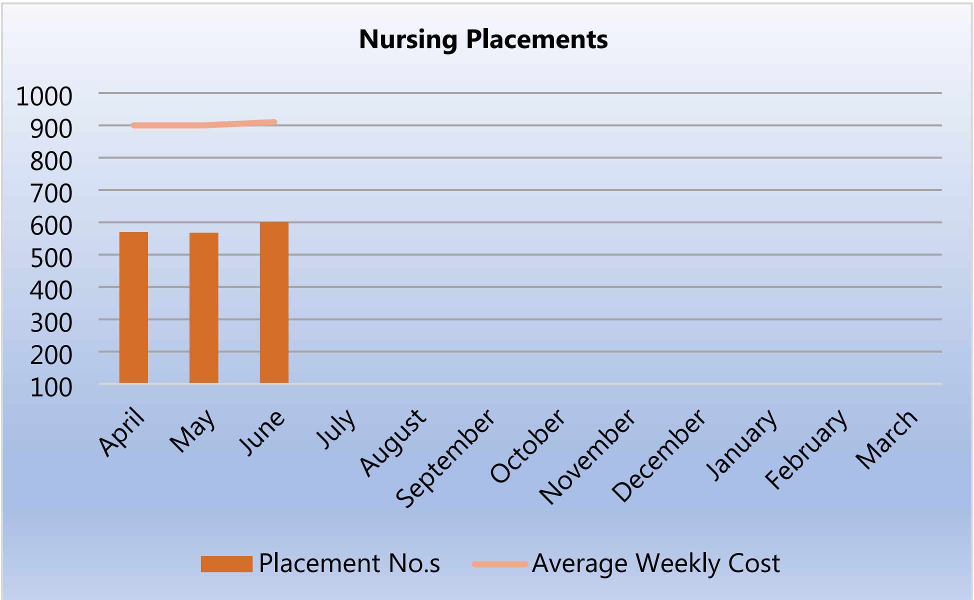
Adult Services - key performance cost drivers



Since the beginning of the financial year, we have seen the number of people receiving a Direct Payment within ASC increased from 1,077 to 1093 packages. The current weekly average cost of an ASC Direct Payment is £338 per package.



The number of Older People Mental Health (OPMH) Nursing placements has increased by ten placements since April, from 188 to 198. The current weekly average cost for OPMH Nursing is £1,112 per placement.



Nursing placements increased by thirty-one since April from 569 to 600. The current weekly average cost for Nursing is £910 per placement.

Adult Services - key risks, future issues & opportunities

90% of the ASC budget is spent on individual placements purchased through the market via block and spot placements. Therefore, there is a significant risk that this budget will continue to overspend. This is due to increase demand, the cost-of-living rise, particularly the increase in petrol, gas, electric, and food.

We have a number of mitigations that are not currently reflected in the financial position above but across the financial year we will start to see the impact:

- Enhanced Peer Forum – Robust financial and operating challenge
- Reviewing Interim Placements – This review will identify those who should be self-funding/contributing towards their long-term care.
- My life, my future – reduce the overreliance on bed placements and redesign the reablement service.
- Review all high cost/complex placements.
- Review void costs.

Children & Family Services – Executive Director Claire Winter, Lead Member Cllr Tessa Munt

- 2023/24 net budget £123.1m, projected adverse variance £8.8m
- 2022/23 net budget £107.1m, outturn adverse variance £21.2m

Table 4: 2023/24 Children & Family Services as at the end of June 2023 (Month 3)

Service Area		Current Budget	Full Year Projection	Month 3 Variance	A/(F)
Children's Social Care					
	Prevention	5.7	5.7	0.0	-
	Fostering & Permanence	13.3	13.3	0.0	-
	External Placements	38.4	47.2	8.8	A
	Fieldwork	13.9	13.9	0.0	-
	Disabilities	2.5	2.5	0.0	-
	Partnership, Audit & Quality	4.3	4.3	0.0	-
	Children Looked After	2.3	2.3	0.0	-
	Leaving Care	(0.8)	(0.8)	0.0	-
	Central	2.2	2.2	0.0	-
	Residential Homes	0.0	0.0	0.0	-
	sub total	**81.8**	**90.6**	**8.8**	**A**
Commissioning					
	Commissioning Services	11.1	11.1	0.0	-
	Supporting Families	(0.6)	(0.6)	0.0	-
	Central	0.7	0.7	0.0	-
	sub total	**11.2**	**11.2**	**0.0**	**-**
Education Partnerships and Skills					
	Education Partnerships and Skills	1.0	1.0	0.0	-
	Home to School Transport	13.1	13.1	0.0	-
	sub total	**14.1**	**14.1**	**0.0**	**-**
Inclusion					
	Home to School Transport	0.0	0.0	0.0	-
	Inclusion Services	5.9	5.9	0.0	-
	SEND Transport	10.1	10.1	0.0	-
	sub total	**16.0**	**16.0**	**0.0**	**-**
Children & Family Services Total		**123.1**	**131.9**	**8.8**	**A**

Children & Family Services - key explanations, actions, and mitigating controls

The external placements budget is forecasting a total overspend of £8.8m. Of this, the unregistered placement overspend is £3.5m and the residential overspend is £3.0m.

There are two key pressures that account for this:

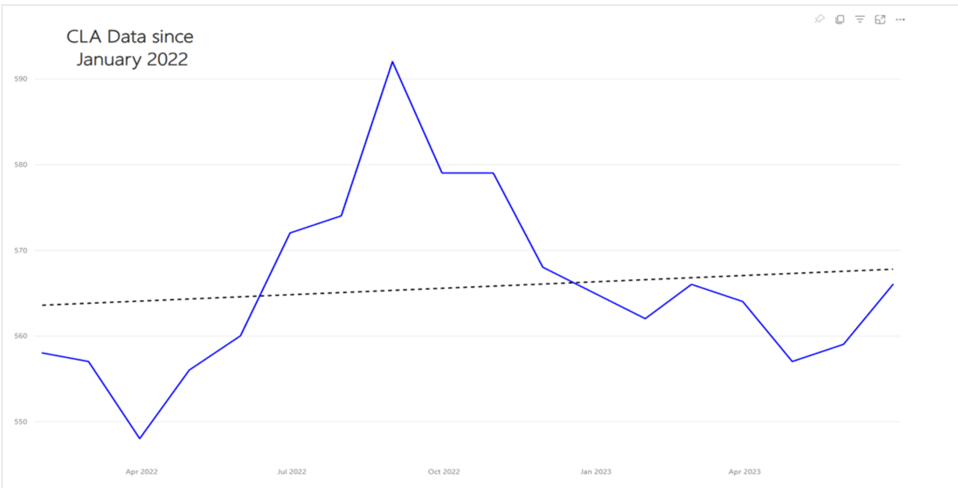
1. The number of unregistered bed placements with demand being higher than the budgeted placement nights. As at the end of June, the budgeted days were 545 compared to actual days used of 1,167.

2. We have seen an increase in residential placements due to both complexity of children and lack of sufficiency within fostering both internally and in the external market.

The service is developing new sufficiency strategies for placements and edge of care services to inform the transformation plan for Children Looked After. Transformation will include Homes & Horizons, recommissioning 16+, market development, reducing unregistered placements, and work with Impower consultancy to increase the number of internal foster carers and step-across options for children and young people.

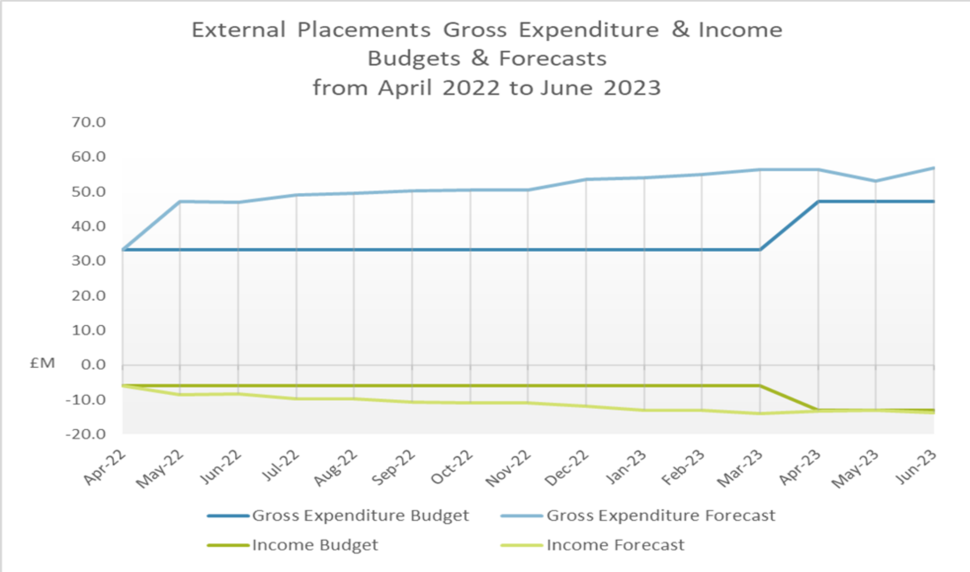
Children & Family Services – key performance cost drivers

The number of children in care has remained relatively stable for a significant period with an unexpected spike in the summer of 2022. This spike was largely children in their teenage years with complex needs. This has had an impact on the number of children in external placements and costs for these children were also higher than expected due to the complexity of their needs.



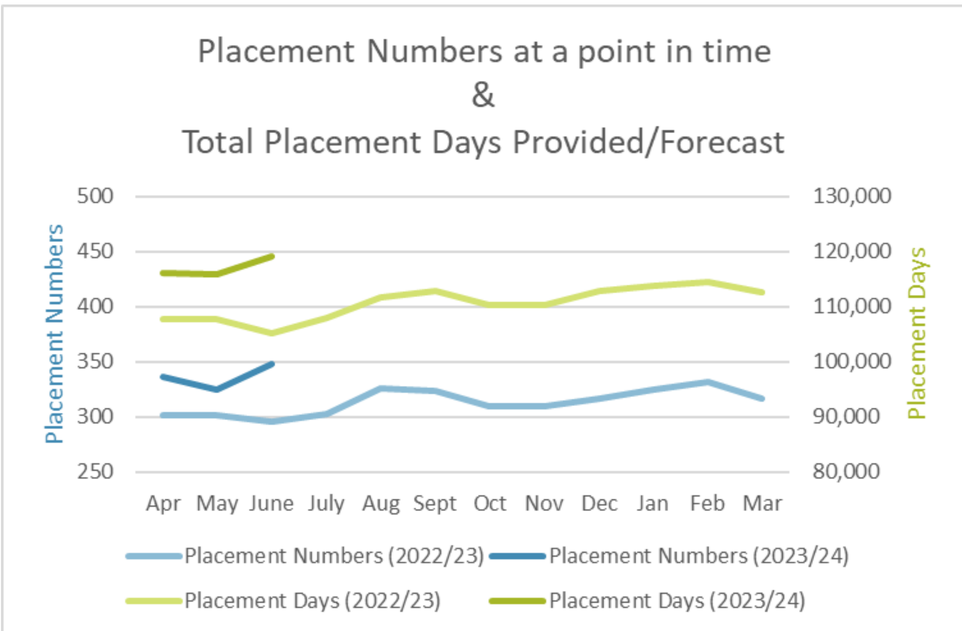
The external placements gross expenditure base budget for 2023/24 has increased by £14.0m to £47.3m in 2023/24. The forecast gross expenditure for 2023/24 is £56.9m, resulting in a forecast overspend on expenditure of £9.6m.

This is being offset by a forecast overachievement of income from the NHS and Education of £0.8m, resulting in an overall net forecast overspend of £8.8m (25.7%).

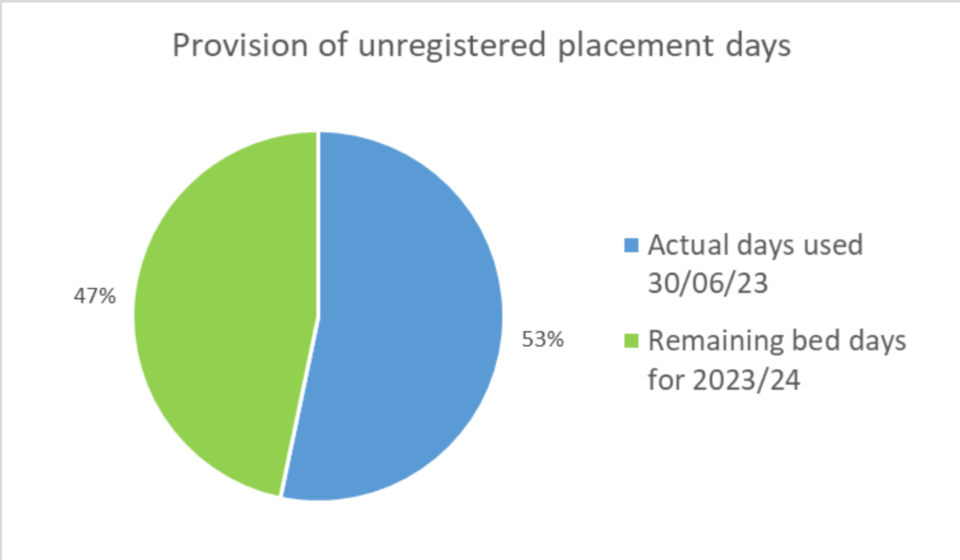


Placement numbers and the forecast number of placement days has increased compared to June last year, mainly due to:

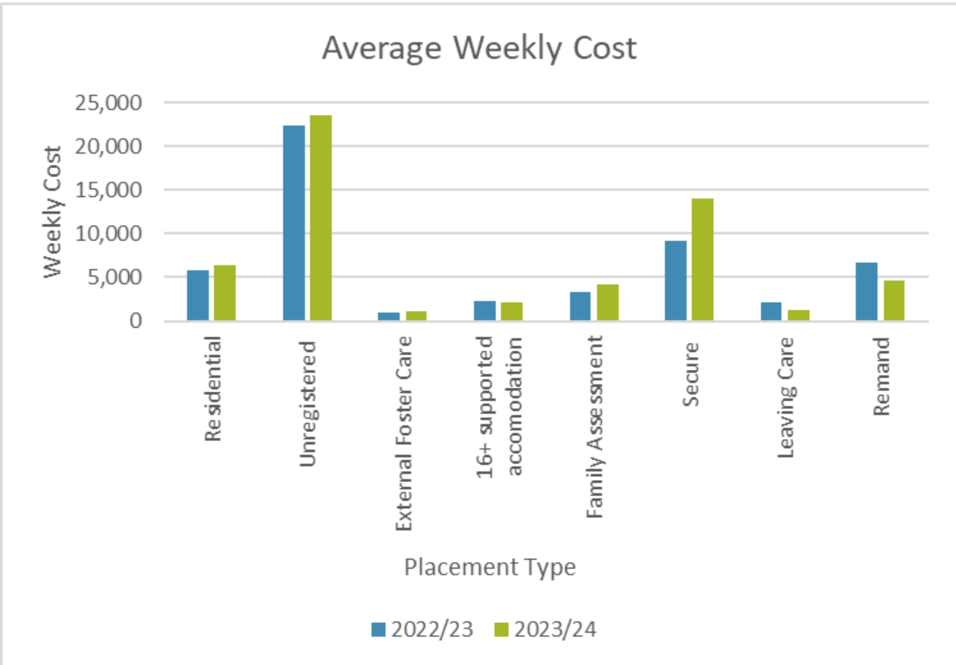
- Increases in placements for Unaccompanied Asylum-Seeking Children (UASC), largely from the National Transfer Scheme, which are only partly funded from the UASC Grant.
- Increases in residential placements due to both complexity of children and lack of sufficiency within the fostering sector.
- Increases in bespoke 16+ supported accommodation placements due to complexity of need.
- Reduction in external fostering placements.



The demand for unregistered bed placements is higher than the budgeted placement days. Over half of the annual 2,190 budgeted placements days have been provided in the first quarter of the financial year.



The average weekly cost of unregistered placements is £23.5k, a 5% increase on last year's average weekly cost. The average weekly cost of residential placements has increased by 10%.



Children & Family Services - key risks, future issues, and opportunities

For reasons outlined by the Competition and Markets Authority, the external residential market is a difficult market with unreasonable expectations of profits. Somerset is disproportionately exposed to Private Equity companies which often expect a 25% return. Although Children Looked After numbers in Somerset have remained largely stable over the last year, they have increased by 10% in Counties nationally over the same period. Lack of sufficiency, nationally, has led to providers being able to choose children with the least complex needs, again maximising profit, and minimising risk. The immediate impact is an increase in unregulated provision as providers refuse to take our most complex children.

There are also insufficient secure placements nationally which has a domino effect on residential care sufficiency. It is of note that NHS England has reduced tier 4 mental health beds for children by 90% in Somerset – leading to additional costs for the most complex children for the Council.

In parallel, there is a risk that the cost-of-living crisis and reducing budgets in partner organisations will have a significant impact on demand in children's social care including the number of children requiring support, or the complexity of need, and therefore the cost of services. Due to the complexities of families and communities and their resilience it is unclear when this risk might occur.

16+ Supported Accommodation (high risk)

There is a specific risk that the Ofsted's new inspection regime for 16- and 17-year-old supported accommodation placements, which begins in the Autumn of 2023, will lead to increased cost for the CLA budget. National Newton Europe analysis puts this increase at between 15% and 30%.

The annual additional cost to the Council is likely to be in the range of £0.9m to £1.9m (including the small additional new burdens grant from DfE).

The retender of the 16+ services with housing should encourage more competition and move spot purchasing to a lower cost block arrangement which will help to mitigate against this risk.

Education Partnership and Skills (EPS) (medium risk)

EPS has a gross expenditure of £29.7m and is dependent on schools and academies buying the traded service.

Somerset schools are significantly underperforming, and the Council has recently initiated a five-year strategy to improve educational outcomes. The financial health of the education support services provided to schools and early years settings, and of the schools and settings themselves, is of concern, particularly in 2023/24 due to inflation.

The traded income assumptions continue to be updated in the financial model. Should schools (maintained and academies) choose to buy less than the trading assumptions this would result in a loss of income. The buy back for the following financial year will be calculated mid-year every year and services are resized accordingly.

Home to Schools Transport for Mainstream and SEN (medium risk)

In 2022/23, the overall cost of mainstream passenger transport had risen by 50% since 2018 despite static demand, while demand for SEND transport has doubled in the same period, with per passenger costs increasing by 10% (See table below). A significant factor in the rise in demand for SEND transport was a rise in number of children with EHCPs.

	Demand Number of Passengers		Costs £m		Cost per passenger £/annum	
	SEN	Mainstream	SEN	Mainstream	SEN	Mainstream
Mar-23	1,252	8,212	8.9	12.3	7,109	1,498
Mar-22	1,112	7,825	7.0	9.9	6,316	1,269
Mar-21	885	8,003	5.4	9.7	6,052	1,217
Mar-20	857	8,074	5.3	9.4	6,209	1,168
Mar-19	758	8,347	4.6	9.8	6,073	1,175
Mar-18	674	8,400	4.4	8.1	6,468	968

Another main driver of increased cost has been the increasing cost of contracted supply. Suppliers have been bidding higher for tenders and in addition to a 2% fuel allowance which was given to reflect inflation, this has driven up unit costs. The average annual cost of providing transport for every SEN child has risen from £6,468 in 2018 to £7,109 in 2023 (10% increase) and the average annual cost of providing transport to mainstream children has risen from £968 in 2018 to £1,498 in 2023, a 54% increase.

An additional £5.6m in relation to these demand and inflationary increases is included in the 2023/24 budget for mainstream and SEN transport. Forecasting future costs and demand is challenging. Edge Public Solutions were commissioned to conduct a deep dive review of Home to Schools Transport following unprecedented growth in demand and costs. In April 2023 Edge produced a report that summarised the review findings, detailed opportunities and made recommendations to make financial and service improvements. Following discussion at the Transformation Transition and Change Board there has been approval to establish a transformation programme to address the recommendations of the Edge review.

Opportunities

Our transformation programme includes the following improvements, which taken together are significantly changing the model of children's services in Somerset to improve the efficiency and effectiveness of how we use our limited resources. The transformation programme is acting at all levels and drawing in a wide all-age partnership across health, care, and education, including:

- **New placement and edge of care sufficiency strategies** – describing emerging needs and response. Both strategies will inform a children looked after transformation plan, overseen by the new CLA Outcomes Transformation Board. Changes incorporate new provision, market development, fostering redesign, Family Safeguarding business case and regional commissioning.

- **Homes and Horizons** – a strategic partnership with the charity, the Shaw Trust, to deliver up to ten homes for children, up to 20 foster homes and therapeutic education provision for the most complex children in our care. This aligns with the political ambition to ensure that children from Somerset in our care have a home in the county and allows us to bring children who have been placed elsewhere home to their communities.

- **Education for Life strategy** – with the ambition and confidence to improve outcomes for children in both our maintained and academised sector schools over the next five years. This is a central pillar of the Council's work.

- **Our SEND strategy** – focussing with our partners on ensuring that our children with SEND are included with their peers in their schools and communities and well supported in all aspects of their lives. Two key elements of this that will help to address financial challenges are a focus on early identification and support to reduce demand for statutory support, and the focus on developing more inclusive mainstream education provision and specialist provision for children with social, emotional, and mental health needs.

- **Connect Somerset** – an early help partnership between the Council, the NHS, schools, the voluntary sector, and our communities, ensuring that professionals and communities work together to help families and residents to improve their lives. This work is integrated with the Neighbourhoods, Local Community Networks and Primary Care networks.

Transformation, Savings, and Income Generation

Children's Services revenue budget includes £4.6m of MTFP transformation and other savings.

Homes to Inspire/Strategic Partnership (on track) – The first four 'Homes and Horizons' children's homes have opened. Our first 5 young people are settling in well, with a strong partnership approach currently supporting the transition of two further children into new homes from unregistered provision. The programme continues at pace with home 5 (due to open early in August) and home 6 due to open towards the end of 2023. Planning work continues for the first annexes (for crisis provision) and pods (for Staying Close provision) and for the establishment of the registered Therapeutic Education Provision, and these aspects of the programme are the most at risk currently. Unless delivered on time this will impact on 2023-24 financial year savings. As reported to Children's Scrutiny Committee, the programme is on course to deliver system savings of £2m (of which £1.2m relates to Children's Social Care, primarily by reducing the number of children in unregistered provision where costs would otherwise be significantly higher).

Family Safeguarding saving (on track) – this saving is about preventing children coming into care. The savings target, set in early 2020, relates to reduced numbers of children coming into care. The impact of the pandemic, which led to more children coming into care, could not be anticipated. Numbers of children in care have reduced significantly and are now stable evidencing the positive impact of this service on children remaining in their birth family.

There is approximately £2.3m of MTFP savings at risk:

Increased staff turnover (high-risk) – the £0.5m saving in 2023/24 increases the total turnover saving to £1m per year which is unlikely to be deliverable because we have a more stable workforce.

Diagnostic Review of Children's Services (medium risk) – the Impower report identifies potential savings which deliver approximately 6 to 8 step downs from residential to in house fostering, but there is a risk that not all savings will be delivered in 2023/24 due to the unknown timescale to drive significant change in in-house fostering services.

Children and Family Services – Dedicated Schools Grant (DSG)

Dedicated Schools Grant - key explanations, actions, and mitigating controls

The DSG is a ring-fenced grant which is allocated in four blocks:

- **Schools** funds the Individual Schools' Budgets of Academies and Local Authority Maintained schools.
- **Early Years** funds the provision of education for children from age three up to age five and for qualifying two-year olds.
- **High Needs** funds the place budgets at special schools, Enhanced Resource schools and Pupil Referral Units within the local authority's geographical boundary and other expenditure required to support children and young people with additional educational needs.
- **Central Schools Services** funds limited central expenditure on behalf of all schools and academies plus historic commitments that have been agreed by the Schools' Forum

The forecast variances by the four DSG blocks are outlined below.

Table 5: 2023/24 Dedicated Schools Grant Summary

DSG Block	Balance b/fwd at 1 Apr 2023 surplus/(deficit)	Total funding for 2023/24	Allocation to Academies and LA Schools	Total funding available for services 2023/24	2023/24 Forecast Quarter 1	Forecast in-year variance surplus/(deficit)	Forecast balance c/fwd at 31 Mar 2024 surplus/(deficit)
	£m	£m	£m	£m	£m	£m	£m
Schools	2.6	370.5	373.0	(2.5)	0.3	(2.8)	(0.1)
Central Schools	5.6	5.0	-	5.0	5.0	0.0	5.6
Early Years	0.9	30.6	-	30.6	30.6	0.0	0.9
High Needs	(29.8)	85.2	9.5	75.7	85.6	(9.9)	(39.7)
Total	**(20.7)**	**491.4**	**382.5**	**108.9**	**121.6**	**(12.7)**	**(33.4)**

The DSG is forecast to have an in-year deficit of £12.7m in 2023/24 giving a carried forward cumulative deficit of £33.4m when added to the brought forward balance of £20.7m. The main area for concern continues to be the High Needs Block with a forecast in-year deficit of £9.9m and there is forecast in-year deficit on the Schools Block of £2.8m of which £2.5m is planned expenditure for growing schools and academies and £0.3m is for unplanned expenditure to support asylum-seeking children.

The main areas contributing to the £9.9m adverse variance in the High Needs Block are:

1. Planned budget pressure (£5.6m adverse variance)

   The planned budget allocation for 2023/24 included a forecast in-year pressure on the High Needs Block of £5.6 million. Largely this is due to two related factors: year-on-year growth in the number of children and young people with an education, health, and care plan (93% increase from 2019 to 2022) and a lack of sufficient provision within Somerset's maintained sector for children with social, emotional, and mental health needs.

2. Independent & Non-Maintained Schools (INMS) (£3.1m adverse variance)

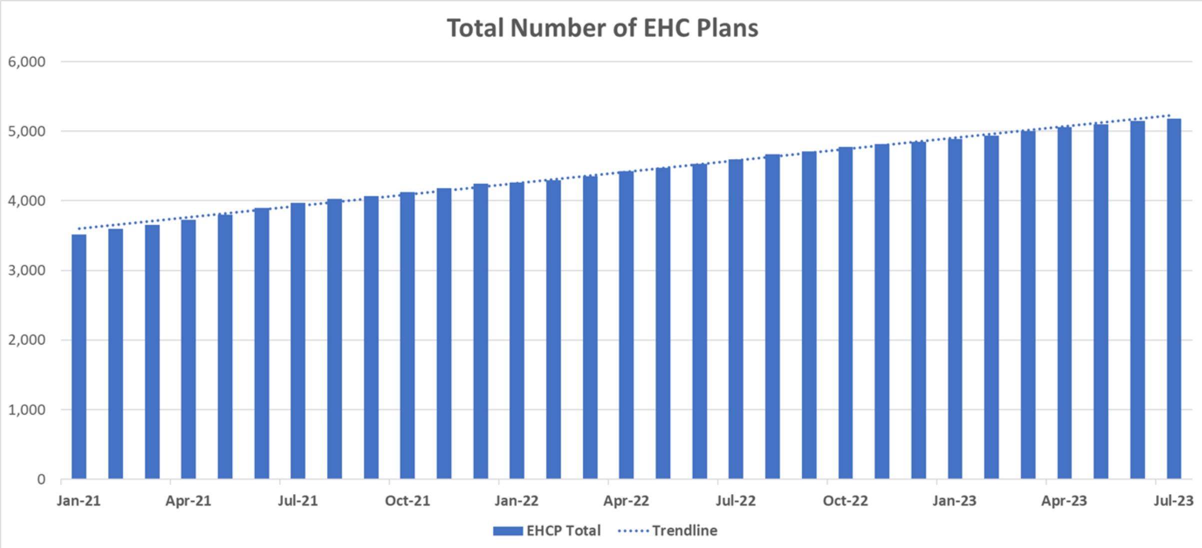
   The effect of the significant increase in new INMS placements agreed through the LA's Placement and Travel Panel or ordered by the SEND Tribunal continued in the first quarter of 2023/24. In part, this has been due to insufficient availability of maintained specialist provision for pupils with social, emotional, and mental health needs.

3. Children Looked After (CLA) (£0.9m adverse variance)

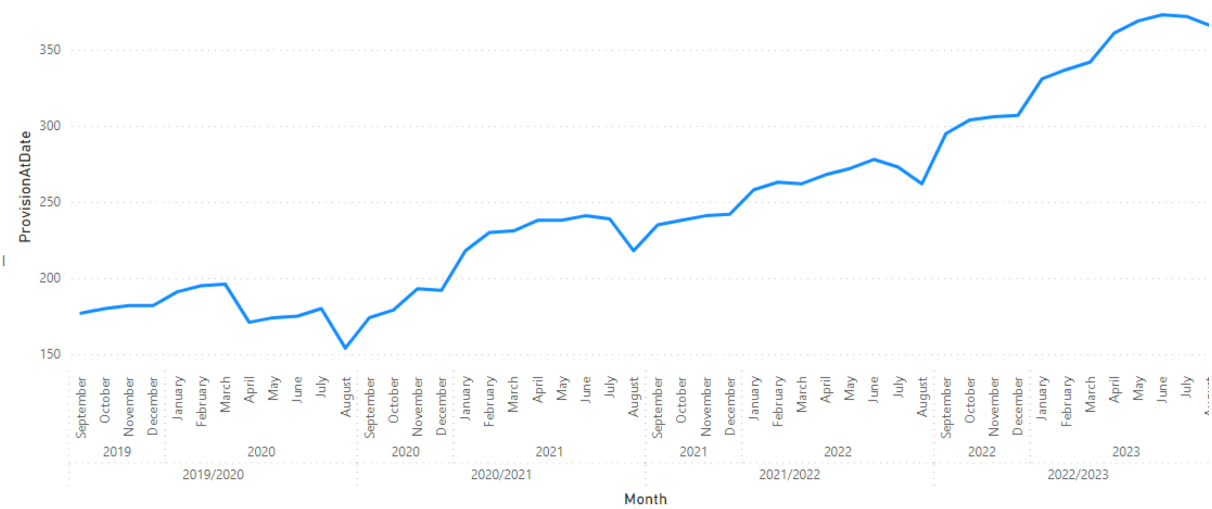
   The complexity and, therefore, cost of CLA placements resulting in a contribution from education has increased above the budgeted assumptions.

Dedicated Schools Grant - key performance cost drivers

Since 2018, Somerset has experienced a steady growth in the number of children with Education Health & Care (EHC) plans as shown below. Previously, Somerset was an outlier, nationally, with extremely low numbers of children with EHC plans, as there was a policy of allocating high needs funding to mainstream schools to support children. This policy was changed in 2018 to ensure there was better oversight and accountability for use of high needs funding. From 2018 to 2023 there was an increase nationally in the proportion of school pupils from 2.9% to 4.3%. Somerset is now slightly above the national level at 4.5% of pupils with an EHC plan.



The graph below shows the growth in the number of children accessing independent non-maintained specialist (INMS) schools. INMS schools are significantly more costly (Approx £30k per pupil per year) than placements in maintained specialist schools. These placements are only made where there is no viable alternative placement available in a maintained setting, so the growth is a result of not having sufficient maintained provision in Somerset to meet the range of needs.



Dedicated Schools Grant - key risks, future issues, and opportunities

The key issues relating to the DSG Reserves are:

1. The projected future overspends in the High Needs Block will continue to create increasing deficits within that block and hence within the overall DSG Reserves position. This is discussed further in the High Needs Block sections below.

2. The DSG had an overall cumulative deficit of £20.7m at 31 March 2023. The statutory override that allows the separation of DSG deficits from the local authority's wider finances is due to expire in March 2026 whereupon the DSG deficit will need to be recognised within the local authority's overall level of reserves.

The key risks in the High Needs Block are:

1. Increased demand for education, health, and care (EHC) plans

   The key driver for increases in high needs spending is increased demand for EHC plans. Having had one of the lowest rates of EHC plans nationally in 2018, Somerset has seen a continued increase in rates of EHC plans and the current rate of 4.0%, is now just above the national average of 3.9% (2021/22 figures). Although most children with EHC plans are educated in mainstream schools, there has been a gradual movement of children from mainstream settings into specialist settings, with demand for places exceeding the growth in the provision of specialist settings. £10.1m of DfE capital funding was made available in 2022 allowing the development of a new phase of the capital programme, which focuses on special school satellites, enhanced learning provision across the county and new therapeutic education capacity, to enable more children to access inclusive provision close to where they live. In addition, service transformation activity linked to the national Delivering Better Value (DBV) programme focuses on improving interventions and support at an early stage to prevent the need for so many EHC plans.

2. Sufficiency of provision of Social, Emotional and Mental Health (SEMH) support

   There is currently insufficient SEMH provision in Somerset with the only provider currently operating significantly below capacity. This has been caused by a poor Ofsted rating for this provider. In addition, the opening of a new special SEMH free school in South Somerset has been delayed from September 2022 to September 2024. These issues result in SEMH needs being met by higher cost INMS providers. In 2022 the Council successfully applied for another SEMH special free school in the Wells area, which will cater for 64 children. However, this is not expected to be delivered until 2027. These will help to address the current lack of SEMH provision.

Transformation, Savings, and Income Generation

There have been two key programmes of work to address the ongoing challenges in the high needs block. The specialist capital programme began in 2019, supported by investment from the local authority, to expand and improve Somerset's specialist estate. This has resulted in an increase of 361 additional places in specialist SEND provision across the county to date. In 2022, the Council received a £10.1 million DfE high needs capital grant, which is being used to fund further increases in specialist SEND capacity, through development of special school satellites, enhanced learning provisions in mainstream settings, and therapeutic education provision. In addition, the Council has successfully bid for two new Special Free Schools, which the DfE is responsible for delivering. The first was due to open in September 2022, but has been delayed and is now expected to open in September 2024. This will ultimately provide 120 new places. The second is due to open in 2027 and will provide a further 64 places.

Since April 2022, the service has been working with IMPOWER Consulting to identify further opportunities to improve outcomes for children and reduce pressures on high needs budgets. This work has focused on improving early identification and support and led to the set-up of a dedicated advice line for schools to support earlier intervention, as well as a trial of the Somerset Inclusion Tool (Valuing SEND) to improve planning around transitions for children with SEND. This is helping to identify children who can remain in mainstream settings with the right support, who might otherwise have moved into more specialist settings.

Following on from this, in summer 2022, Somerset was invited to participate in the DfE-led Delivering Better Value programme. This is aimed at 55 local authorities with significant high needs deficits, but not the 20 areas with the biggest deficits (who access a different "safety valve" programme). During autumn 2022 the service worked with Newton Europe and CIPFA to develop an improved understanding of our demand and financial trajectories in relation to high needs, as well as identify opportunity areas where improvements and efficiencies could be made. This has resulted in the award of a £1m grant from DfE to support transformation and test and learn activity.

Newton's analysis has suggested that there are opportunities for reducing high needs expenditure, which could realise a £1.05m benefit by the end of 2024/25, and a cumulative benefit of £7.93m by the end of 2027/28. However, based on Newton's model, it is still expected that the cumulative deficit will continue to grow each year, unless there were to be significant changes to SEND policy or funding at a national level. Newton have reported that in each of the local authorities they have worked with, they are projecting that deficits will continue to grow, so Somerset is in line with other areas in this respect.

The Department for Education still requires the Local Authority to produce a DSG Deficit Management Plan to evidence how it will reduce the in-year deficit to zero by 31st March 2026 when the statutory override expires. The activities and opportunities identified through the work with IMPOWER Consulting and the DBV SEND programme are included in Somerset's DSG Deficit Management Plan with further mitigating actions being developed.

Children and Family Services – Local Authority (LA) Maintained Schools Revenue Reserves

LA Maintained Schools - key explanations, actions, and mitigating controls

These reserves are regarded as being under the control of the individual schools and not the local authority and are therefore not included in the calculation of the overall DSG reserves.

The overall revenue reserves of the 133 local authority's maintained schools were £19.8m at 31 March 2023. Projections for 2023/24 indicate a sharp downturn in the forecast for most schools, with overall revenue reserves expected to decrease by around £8m during the year and move into overall deficit during 2024/25.

- At the beginning of the year, 9 schools shared a cumulative deficit position of £1.9 million and 124 schools shared a cumulative surplus of £21.7m.
- Budget plans submitted by schools for 2023/24 show significant budgetary pressures with 103 of 122 plans submitted by 30 June 2023 indicating projected in year deficits totalling £8.2m. These schools are now the focus of targeted work to review their budgets in detail and develop financial recovery plans.

- One school, Wadham Secondary, had a cumulative deficit of £1.5m at 31 March 2023 and does not have an agreed recovery plan. The underlying problems have now been addressed by an area restructure, but the historic deficit is too large to be recovered solely by this school. A proposal has been developed to manage down this deficit over a 5–10-year period. There is a risk that the local authority may be required to fund the deficit if the school is required to convert to an academy due to underperformance.

LA Maintained Schools - key risks, future issues, and opportunities

Somerset's education system as whole (both the academised and maintained sectors) is underperforming and the 2022 assessment outcomes showed a trajectory of decline. While funding and finance issues are significant factors contributing to school performance, they do not determine educational outcomes. However, a weakened support infrastructure around schools has been strongly associated with that decline and financial stability is necessary for strong and reliable support services. Ensuring that financial uncertainty does not disrupt the focus on improvement and the benefit of improvement for children is therefore a priority for the local authority.

Key stakeholders, including Schools and the Local Authority are currently being consulted on proposals that are designed to mitigate risks and provide clarity and stability in relation to financial measures associated with a change of status from local authority maintained to academy status.

These proposals have been considered by Scrutiny and are due for decision on 2 August by the Executive:

a) Change the approach to managing Core Offer contracts when a school converts to academy status.
b) Update the Council's academy charge for schools electing to convert to academy status.
c) Apply Department for Education guidance when dealing with surplus and deficit balances on conversion to academy status.
d) Implement the proposal at (c) in relation to surplus and deficit balances effective from the date of decision (2 August 2023)

There are currently 13 schools with an academy order and a further 10 that have notified of an intention to academise. Five of the schools with orders have directive academy orders due to underperformance which means that costs cannot be recouped but any surplus would be retained.

Public Health – Executive Director Trudi Grant, Lead Member Cllr Adam Dance

- 2023/24 Net Budget £1.2m, no projected variance
- 2022/23 Net Budget £1.3m, no variance at outturn

Table 6: 2023/24 Public Health as at the end of June 2023 (Month 3)

Service Area	Current Budget	Full Year Projection	Month 3 Variance	A/(F)
Public Health Grant	22.6	22.6	0.0	-
Somerset Council Budget	1.2	1.2	0.0	-
Grant Income	(22.6)	(22.6)	0.0	-
Public Health Total	**1.2**	**1.2**	**0.0**	**-**

Public Health - key risks, mitigations, future issues, and opportunities

The Public Health budget is currently projected to be on budget for both the ringfenced grant and the Somerset Council budget.

Both the Public Health Grant and the Somerset Council funding managed by public health are under significant pressure caused by contract and pay inflationary increases. This pressure will intensify following an early indication of a 1% increase to the Public Health Grant for the 2024/25 financial year which is again significantly below inflation. We are still awaiting a decision by the treasury to pay the inflationary pay increase for staff on active NHS Agenda for Change Terms and Conditions where teams are employed outside of the NHS.

There is a systemic underfunding of public health in Somerset. The Public Health Grant is significantly below the national average being 141st out of 153 local authorities nationally. Improvements in whole population health are not achievable within the constraints of the public health budget. A new operating model for public health is underway in order to focus the activity of the Public Health Team towards influencing policy, commissioning and spend right across the Somerset system towards improving health and tackling inequalities.

Community Services – Director Executive Director Chris Hall, Lead Member Cllr Federica Smith-Roberts

- 2023/24 net budget £34.7m, no projected variance.

Table 7: 2023/24 Community Services as at the end of June 2023 (Month 3)

Service Area	Current Budget	Full Year Projection	Month 3 Variance	A/(F)
Housing				
Lifeline	(0.5)	(0.5)	0.0	-
Housing Enabling	0.4	0.4	0.0	-
Housing Strategic	1.3	1.3	0.0	-
Homelessness	4.2	4.2	0.0	-
Customer Services				
Customers & Communities	7.6	7.6	0.0	-
Cultural Services				
Library Service	3.8	3.8	0.0	-
Heritage Service	1.7	1.7	0.0	-
Leisure - Sports Centre	2.0	2.0	0.0	-
Museum/ Theatres	0.6	0.6	0.0	-
Visitor Centre	0.1	0.1	0.0	-
Tourism	0.1	0.1	0.0	-
(wellbeing) Community Safety	0.5	0.5	0.0	-
Regulatory & Operational Services				
Scientific Services	0.0	0.0	0.0	-
Registration	(0.2)	(0.2)	0.0	-
Environmental Health	4.2	4.2	0.0	-
Bereavement Services	(1.2)	(1.2)	0.0	-
Harbours	0.3	0.3	0.0	-
Ports	0.0	0.0	0.0	-
Street Cleansing	5.0	5.0	0.0	-
Open Spaces	3.1	3.1	0.0	-
CCTV	0.7	0.7	0.0	-
(wellbeing) Community Grants	1.0	1.0	0.0	-
Communities Services Total	**34.7**	**34.7**	**0.0**	**-**

Community Services - key risks, mitigations, future issues, and opportunities

Cultural Services

Freedom Leisure Contract – there may be an under recovery of income from the contracted schedule of payments in 2023/24 due to changes in the business rate policy and pension contributions as well as benchmarking clauses currently being discussed in relation to the dramatically increased utility costs that are placing significant pressure on the contractor's budget position. The service is continuing to work with the contractor to find solutions to reduce the impact to the Council. A bid may be required, as part of the MTFP process, to reflect the impact of any changes in future years.

Octagon Theatre & Westlands Entertainment Venue – the Council currently subsidises the delivery of this provision to the community. The revenue budgets are currently under pressure from the rising cost of inflation. In addition, The Octagon has been closed to complete survey work and preparatory work as part of the proposed refurbishment tender process. The service is working with finance to review the annual budgets and business plan to see where savings could be made and / or income could be increased to mitigate any variance to the net budget.

Housing

Homelessness – the Council has a statutory duty to assist in the prevention and provision of accommodation to those who are at risk of or become homeless. The service is seeing an increase in the number of approaches and the number of cases which the service has a duty to investigate due to the cost-of-living crisis. The cost of temporary accommodation has also increased due to the economic climate and local demand pressures on B&B and private rented accommodation. Whilst the government is providing £1.6m in the form of a Homelessness Prevention Grant and an extra £940k Ukraine Homeless Prevention Grant, there is a risk that the service will overspend above its base budget from the Council to fulfil its statutory duty. The service's current projections suggest that existing earmarked reserves should cover any overspend in this financial year. To reduce any impact on the MTFP, the service's directorate plan includes implementing a consistent approach, improving performance measures and the development of an accommodation strategy. In addition, the government has pledged a further £1.6m Homelessness Prevention Grant in 2024/25.

Climate & Place – Executive Director Mickey Green, Lead Members – Cllr Dixie Darch, Cllr Mike Rigby, Cllr Ros Wyke

- 2023/24 net budget £87.7m, projected adverse variance of £5.1m

Table 8: 2023/24 Climate & Place as at the end of June 2023 (Month 3)

Service Area	Current Budget	Full Year Projection	Month 3 Variance	A/(F)
Climate, Environment & Sustainability				
Civil Contingencies	0.4	0.4	0.0	-
ECI Management	0.4	0.4	0.0	-
Business Support	1.3	1.3	0.0	-
Waste Services	49.4	52.8	3.4	A
Drainage Board Levy	2.3	2.3	0.0	-
Climate Change Costs	0.8	0.8	0.0	-
Infrastructure & Transport				
Highways and Transport Commissioning	1.8	1.8	0.0	-
Community Infrastructure	0.6	0.6	0.0	-
Infrastructure Programmes Group	0.4	0.6	0.2	A
Highways	16.4	17.5	1.1	A
Traffic Management	1.0	1.0	0.0	-
Transporting Somerset	9.3	9.3	0.0	-
Car Parks	(7.3)	(7.3)	0.0	-
Fleet Management	0.3	0.3	0.0	-
Economy, Employment & Planning				
Economy and Planning	2.2	2.6	0.4	A
Commissioning Development	0.1	0.1	0.0	-
Building Control	0.5	0.5	0.0	-
Development Control	1.5	1.5	0.0	-
Planning Policy	3.5	3.5	0.0	-
Economic Development	2.8	2.8	0.0	-
Climate & Place Total	**87.7**	**92.8**	**5.1**	

Climate & Place - key explanations, actions, & mitigating controls

Climate and Place is currently forecasting an outturn variance of £5.1m. The forecasted overspends are due to the following:

Climate, Environment and Sustainability

- Waste Services is forecasting an overspend of £3.4m at outturn. This can be explained by the following:
  - An increase in residual waste has been seen at both the kerbside and recycling centres. The budgeted increase was estimated to be 0.7%, however figures at the end of Quarter 1 shows that the actual increase for this period is 4.2%. Based on this increase the forecasts have been amended to reflect the higher costs. The increase in tonnages is currently

being investigated by the service to understand what has caused this significant increase.

- The additional bank holiday for the Kings coronation, meant that there was an impact on waste collections and was not anticipated in budgets.
- An anticipated change of legislation due in January 2024 regarding DIY waste (removing charges at recycling centres) adds further pressures to the waste budget.
- Waste services have been able to negotiate an improved pay award shared with Suez, however this has provided a further unbudgeted pressure within the service. This however has avoided any strike action which would have caused disrupted waste collections across the County and resulted in significant costs.

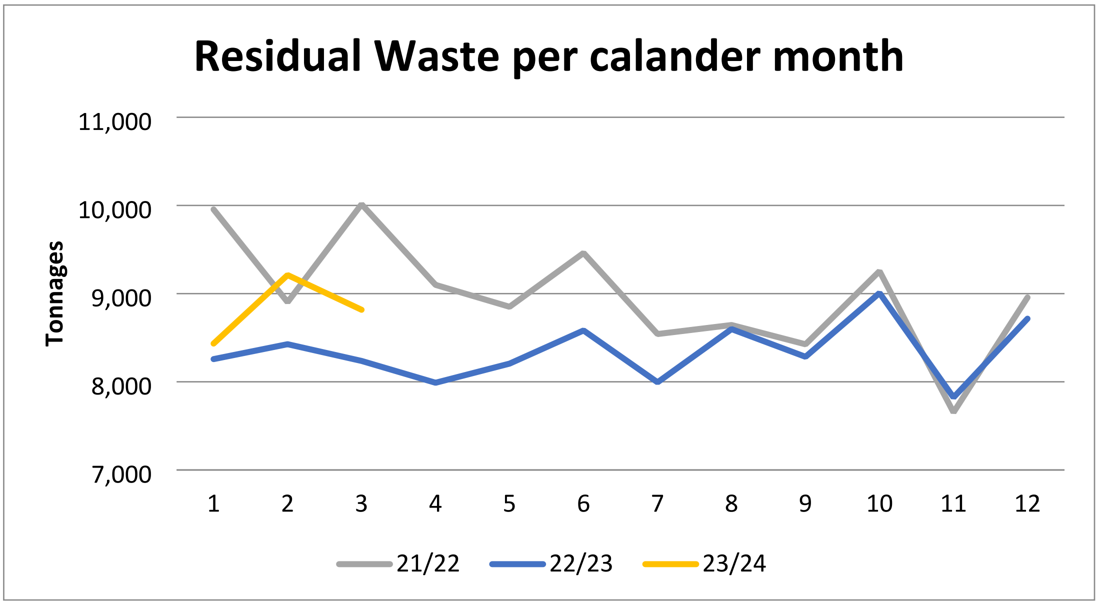
Infrastructure and Transport

- Highways is forecasting an overspend of £1.1m at year end. As many authorities are finding this is due to an increase in Safety defects across the road network. The service continues to work hard to successful complete the investigation and repair works. This pressure is a continuation of the situation that Somerset County Council reported in 2022/23.
- Infrastructure Programmes Group have highlighted pressures of £0.2m. This is due to being unable to allocate salary costs to capital schemes, the service is currently supporting revenue funded projects as well as Capital works.

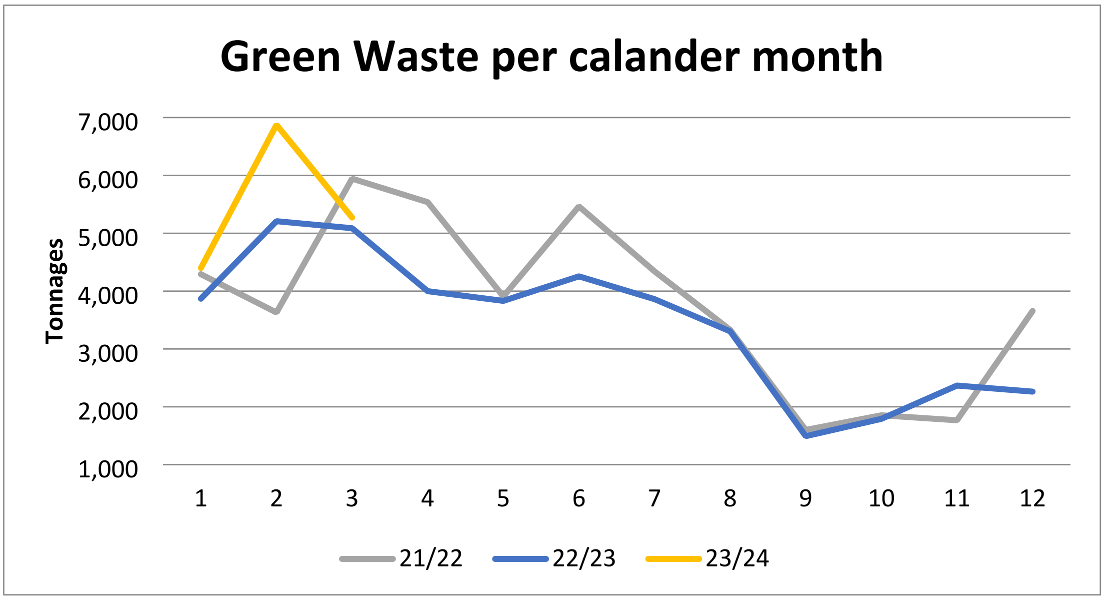
Economy, Employment and Planning

- A one-off pressure of £0.4m has been identified in this area due to a change in how funding from DWP can be applied. Work continues to try and mitigate this pressure, and the service are exploring other funding streams to try and mitigate this action.

Climate & Place - key performance cost drivers



The above graph shows the residual waste (per tonnage) per month. The residual waste includes Kerbside collected waste and waste deposited at the recycling centre. The graph currently shows the reduction of waste in 2022/23 compared to 2021/22, however this highlights the unexpected increase in tonnages for 2023/24.



The above graph shows the green waste (per tonnage) per month. It is expected to see a downwards trend between month 6-12 (September to April) due to the seasonality of garden waste. The graph currently highlights a higher tonnage of green waste compared to 2021/22 and 2022/23.

Climate & Place - key risks, future issues & opportunities

Due to the current economic climate, there are several key risks and future issues that need to be taken into consideration:

- **Contract inflation** is applied at various times throughout the year, as the increase in contract could be led by RPI or CPI it is currently difficult to predict accurately what the impact for each contract might be. In addition, there are a number of contractual disputes which are being worked through. It is anticipated that these can be resolved in a timely matter, but in resolution may see increased costs agreed.

- **Impact of cost-of-living crisis.** As costs continue to rise, spending habits may change therefore it is possible that services across Economic and Community Infrastructure will see a decrease in income budgets.

- **Staff vacancy levels.** Difficulties in recruiting permanent staff across Climate and Place continue to impact on the ability to deliver services, where possible agencies have been used to feel critical roles. However, this has a financial impact as generally the cost of these staff is higher than budgeted for.

Risks can be identified due to the change in climate. It is almost difficult to be able to identify financially what the impact of climate change will be year on year, but risks with a potential financial impact include:

- Icey conditions will see a high demand on the Highways service to grit primary and secondary routes.
- An increase in rainfall raises the risk of flooding across the County. This will require input from the Emergency Planning department, Highways and Traffic Management to help ensure residents can safely navigate around the affected areas.
- The extreme changes in weather will impact the road surfaces which continues to increase the safety defects reported and increases the costs of investigation and corrective action for potholes.

Climate and Place are working with finance colleagues to ensure pressures within budgets are highlighted and that income has been received as anticipated. There is a risk that further pressures will be identified as this work continues.

Strategy, Workforce & Localities – Executive Director Alyn Jones, Lead Members Cllr Theo Butt Philip, Cllr Liz Leyshon, Cllr Mike Rigby & Cllr Bill Revans

- 2023/24 net budget £20.2m, projected adverse variance £1.5m.

Table 9: 2023/24 Strategy, Workforce & Localities as at the end of June 2023 (Month 3)

Service Area	Current Budget	Full Year Projection	Month 3 Variance	A/(F)
Partnership & Localities				
Community Development	0.8	0.8	0.0	-
Strategy & Performance				
Communications	1.2	1.2	0.0	-
Transformation & Change	2.2	2.2	0.0	-
Land Charges	(0.6)	(0.6)	0.0	-
Performance	0.4	0.4	0.0	-
Workforce				
Human Resources & Organisational Development	5.1	5.1	0.0	-
Learning & Development	0.9	0.9	0.0	-
Governance, Democratic & Legal Services				
Democratic Services	4.6	4.6	0.0	-
Legal Services	5.6	7.1	1.5	A
Strategy, Workforce & Localities Total	**20.2**	**21.7**	**1.5**	A

Strategy, Workforce & Localities - key risks, mitigations, future issues, and opportunities

Legal Services

The forecast £1.5m is an estimate in respect of an anticipated increase in external legal costs based on the previous year's reported pressures. This is due to the continued need to place legal cases, principally in respect of childcare, with external legal experts.

An improvement plan is under development and some initial actions have already been implemented. This includes reviewing practice, improving representation to the courts, and developing capacity in the Legal Services team. The intention is to reduce the need to externalise this work and, in turn, reduce the level of spend that is currently being incurred in this service.

Resources & Corporate Services – Executive Director Jason Vaughan, Lead Member Cllr Liz Leyshon, Cllr Mike Rigby & Cllr Ros Wyke

- 2023/24 net budget £21.6m, projected adverse variance of £1.4m.

Table 10: 2023/24 Resources & Corporate Services as at the end of June 2023 (Month 3)

Service Area	Current Budget	Full Year Projection	Month 3 Variance	A/(F)
Finance & Procurement				
Finance	8.3	8.3	0.0	-
Director of Resources & Corporate Services	0.2	0.2	0.0	-
Commercial & Procurement	1.7	1.7	0.0	-
Revenues	1.7	2.4	0.7	A
Housing Benefits	1.1	1.3	0.2	A
Property Services				
Property Services	11.9	12.3	0.4	A
Commercial Investment Properties	(21.1)	(21.1)	0.0	-
Information Communication Technology				
ICT	17.8	17.9	0.1	A
Resources & Corporate Services Total	**21.6**	**23.0**	**1.4**	A

Resources & Corporate Services - key risks, mitigations, future issues, and opportunities

Revenues

Additional spend in respect of temporary staff due to service pressures. Work is being undertaken on identifying unallocated funding in the earmarked reserves for this area to fund the additional costs. Additional spend in respect of Foster Carers and Carers Leave discount which was approved as part of the Council Tax Discounts and Premiums scheme for the new Council.

Housing Benefits

Temporary resourcing required to maintain service delivery resulting in additional spend on staffing. The Housing Benefit Admin Subsidy grant received is anticipated to be less than the budget. The temporary resourcing additional spend is partially covered by funding received in the form of a government grant (Ukrainian refugee scheme).

Property Services

Vacant property running costs are forecast to be higher than budget as the service is taking on larger complex sites and properties are vacant for longer periods due to ongoing phosphates issues delaying planning. Tenancy changes at various properties has resulted in an anticipated shortfall of income in respect of rent receivable. Various other overspends anticipated on several budgets including facilities costs, property maintenance and training costs. The additional spend has been partially offset by an anticipated underspend on cleaning costs.

The budget in respect of National Non-Domestic Rates (NNDR) payable is expected to be exceeded, however the impact of this will be minimised due to a revaluation in respect of an office premise. The revaluation mentioned is expected to reduce the NNDR payable in respect of the office premises and therefore reduce the spend.

Information Communication Technology

Additional costs have been incurred in respect of the Office365 backup costs. The cost in respect of consolidating into a single electronic payments system will be more than anticipated and the work on data centre consolidation is not achievable in this financial year meaning the budget will be exceeded.

Work is being undertaken to find a solution that delivers the Office365 backup work on budget, an update on progress will be provided in quarter 2. All service budgets are being reviewed and budget savings will be identified to offset the additional costs anticipated in respect of the systems consolidation work.

Accountable Bodies – Executive Director Mickey Green, Lead Members - Cllr Mike Rigby, Cllr David Woan, Cllr Mike Stanton

- 2023/24 net budget £3.7m, no projected variance.

Table 11: 2023/24 Accountable Bodies as at the end of June 2023 (Month 3)

Service Area	Current Budget	Full Year Projection	Month 3 Variance	A/(F)
Somerset Rivers Authority	3.0	3.0	0.0	-
Local Enterprise Partnership	0.0	0.0	0.0	-
Connecting Devon & Somerset	0.7	0.7	0.0	-
Accountable Bodies Total	**3.7**	**3.7**	**0.0**	**-**

Accountable Bodies - key explanations, actions, & mitigating controls

Somerset Rivers Authority (SRA)

Somerset Rivers Authority is currently reporting to be within budget and are not anticipating any draws from or to reserves.

Local Enterprise Partnership (LEP)

LEP is currently reporting to be within budget and are not anticipating any draws from or to reserves.

Connecting Devon & Somerset (CDS)

CDS is currently reporting to be within budget and are not anticipating any draws from or to reserves.

Accountable Bodies - key risks, future issues & opportunities

Somerset Council acts as the accountable body for the Heart of the Southwest LEP, providing a service across the core functions of the LEP and its programmes. This is in the context of an assurance framework for this programme funding meeting Government principles and expectations. In performing these functions, Somerset Council works closely with the LEP core team, and the services Somerset Council provides are specified and resourced via a service level agreement between the LEP and Somerset Council.

LEP performance is subject to periodic assessment and an annual formal review by Government – the most recent of these for 2022/23 looked positively on Somerset Council's accountable body services to the LEP.

LEPs are being reviewed by Government and in March 2023 the Chancellor indicated that the Government is minded ceasing funding them post 2023/24. Detailed outcomes of this review are planned this summer with the likely outcome of LEP integration into local authorities including Somerset Council. The Council is working with the LEP and partner Local Authorities to seek advice about the treatment of LEP assets remaining at this point.

Non-Service – Executive Director Jason Vaughan, Lead Member Cllr Liz Leyshon

- 2023/24 net budget £9.8m, projected favourable variance £0.5m

Table 12: 2023/24 Non-Service as at the end of June 2023 (Month 3)

Service Area	Current Budget	Full Year Projection	Month 3 Variance	A/(F)
Local Government Reform	0.1	0.1	0.0	-
Contributions	0.9	0.9	0.0	-
Corporate Costs	9.3	9.3	0.0	-
Financing Transactions	40.6	40.6	0.0	-
Special Grants	(56.4)	(56.9)	(0.5)	(F)
Pay Award	15.3	15.3	0.0	-
Non-Service Total	**9.8**	**9.3**	**(0.5)**	**(F)**

Non-Service - key risks, mitigations, future issues, and opportunities

Special Grants

The favourable variance of £0.5m for Special Grants is due to receiving confirmation that the Rural Services Delivery grant and the 2023/24 Services Grant will be higher than budgeted. The grant confirmation was received after the budget setting process.

Traded Services – Executive Director Claire Winter, Lead Member Cllr Tessa Munt

- Traded Services are required to set a net nil budget with full costs offset by income generated.

Table 13: 2023/24 Traded Services as at the end of June 2023 (Month 3)

Service Area	Current Budget	Full Year Projection	Month 3 Variance	A/(F)
Dillington	0.0	0.2	0.2	A
Traded Services Total	**0.0**	**0.2**	**0.2**	**A**

Traded Services - key risks, mitigations, future issues, and opportunities

Dillington's deficit for the year is forecast to be £0.240m with operating costs continuing to increase, particularly food, drink, and utility bills. Salary costs have also increased due to using agency staff whilst current employees secure alternative employment.

Contingencies – Executive Director Jason Vaughan, Lead Member Cllr Liz Leyshon

- 2023/24 allocation of £6m, assumed £6m is committed.

Table 14: 2023/24 Contingencies as at the end of June 2023 (Month 3)

Service Area	Original Budget	Contingency Allocations £m	Current Budget	Full Year Projection	Month 3 Variance	A/(F)
Corporate Contingency	6.0	0.0	6.0	6.0	0.0	-
Contingencies Total	**6.0**	**0.0**	**6.0**	**6.0**	**0.0**	**-**

Contingencies – key risks, mitigations, future issues, and opportunities

Corporate Contingency

The Corporate Contingency is showing as being fully committed in order to cover the additional costs of the national pay award over and above the 5% that was budgeted for, temporary staffing, the additional costs in closing the accounts of the predecessor councils and costs of the financial resilience review.

Core Revenue Funding – Executive Director Jason Vaughan, Lead Member Cllr Liz Leyshon

- 2022/23 net budget (£473.4m), no projected variance

Table 15: 2023/24 Core Revenue Funding as at the end of June 2023 (Month 3)

Service Area	Current Budget	Full Year Projection	Month 3 Variance	A/(F)
Council Tax	(345.4)	(345.4)	0.0	-
Business Rates	(116.1)	(116.1)	0.0	-
Revenue Support Grant	(7.9)	(7.9)	0.0	-
Flexible Use of Capital Receipts	(4.0)	(4.0)	0.0	-
Core Revenue Funding Total	**(473.4)**	**(473.4)**	**0.0**	**-**

Core Revenue Funding - key explanations, actions, & mitigating controls

There is currently no variance projected for outturn.

Transformation, Savings, and Income Generation Proposals

The Council's 2023/24 revenue budget includes over £40m of approved MTFP transformation, savings, and income generation proposals (TSIGP). As at the end of quarter one, it is forecast that 72% will be delivered against this target and 1% will be achieved over and above this target.

Delivery of the 2023/24 Approved Savings is vital and where this cannot be achieved then the development of alternative recovery or mitigation measures to address any forecast underachievement of approved savings is required by the relevant Service Director.

Table 16 shows the forecast achievement of TSIGPs against the original approved amounts. Services monitor these monthly based on their achievement to date and the forecast profile for realising the savings over the year. Any over or under achievement is reflected in the forecast outturn position.

Within the overall profile, £29.3m (72%) are either achieved or on-track to be delivered.

Table 16: Performance of Agreed Transformation, Savings, and Income generation Proposals as at end of June 2023 (Month 3)

Service Area	Approved TSIGP	Over-achieved/ on track to overachieve	Achieved	On-track	At Risk	Unachievable
	£m	£m	£m	£m	£m	£m
Adults Services	10.5	0.0	2.0	3.7	0.0	4.8
Children's Services	4.6	0.4	0.2	2.1	2.3	0.0
Public Health	0.1	0.0	0.0	0.1	0.0	0.0
Communities Services	1.5	0.0	0.1	0.5	0.4	0.4
Climate & Place	7.9	0.0	0.6	5.2	2.1	0.0
Strategy, Workforce & Localities	0.6	0.0	0.6	0.1	0.0	0.0
Resources & Corporate Services	4.7	0.1	0.8	3.6	0.2	0.1
Non-Service	11.0	0.0	2.6	7.1	1.3	0.0
Total	**40.9**	**0.5**	**6.9**	**22.4**	**6.3**	**5.3**

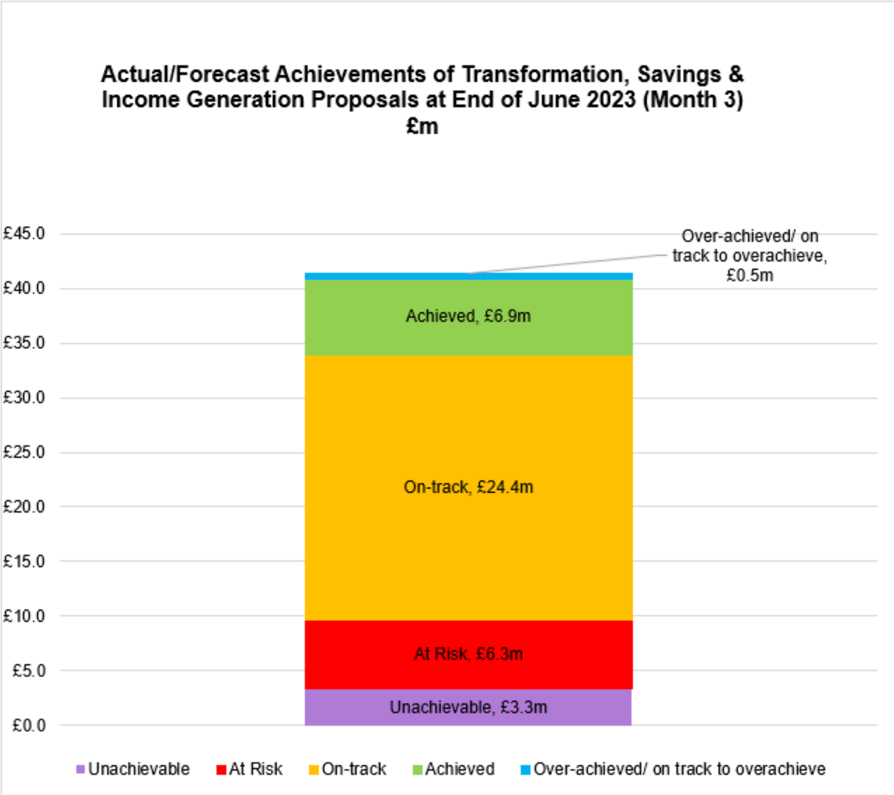
At Risk/Unachievable savings total £11.6m (28%) and include:

- **Adult Services – Total savings £10.5m, £4.8m unachievable.**
  - Newton Europe savings. Longer rollout than originally anticipated. £4.8m of the £5.0m saving will now be achieved in 2024/25.
- **Children & Family Service – Total savings £4.6m, £2.3m at risk.**

- Turnover Factor (high-risk) – the £0.5m saving in 2023/24 increases the total turnover saving to £1m per year which is unlikely to be deliverable because we have a more stable workforce.
- Family Intervention (high risk) - a review of the original savings assumptions has been undertaken and an alternative delivery model proposed.
- Diagnostic Review of Children's Services (medium risk) – the Impower report identifies potential savings which deliver approximately 6 to 8 step downs from residential to in house fostering, but there is a risk that not all savings will be delivered in 2023/24 due to the unknown timescale to drive significant change in in-house fostering services.
- Strategic Partnership Staying Close Pods and Annexes (medium risk) – delays in identifying a cost-effective construction method, procurement of the pods and annexes, and agreeing a planning route have resulted in a 4-month delay to opening the provision. There is a risk of further slippage while there is still no contractor in place.

- **Communities Services – Total savings £1.5m, £0.8m at risk/unachievable.**
  - Freedom Leisure Contract savings. Income & costs determined by contract with Freedom Leisure, so savings opportunities are limited. £0.669m at risk/unachievable
  - Reduction in Watchet Harbour dredging activity. Activity is still required therefore £0.020m saving unachievable.
  - Alignment of fees & charges for new Lifeline customers. Currently undertaking a review of income and costs to provide confidence that the savings are achievable following merger of lifeline services - £0.106m potentially at risk.
- **Climate & Place – Total savings £7.9m, £2.1m at risk.**
  - Recycle More. Latest data shows increase in landfill tonnages. Therefore £1.7m of the total saving (£3.1m) is at risk.
  - Materials Income. The entire £0.4m saving is at risk due to fluctuating material prices and volumes caused by the recession.
- **Resources & Corporate Services – Total savings £4.7m, £0.3m at risk/unachievable.**
  - Mobile Devices. £0.051m saving is due to be delivered January 2024. Project Manager considers this value to be at risk.
  - Reduction Treasury Management Advice costs. £0.025m at risk due to lack of baseline & Invoicing data.

    - Review of SAP Licences. Project Manager advises anticipated delay putting the £0.050m saving at risk.
    - Environmental Health IT. No activity in the programme to realise this saving therefore the entire £0.039m saving is at risk.
    - Various Supplies and Services Minor Budget Reductions. No activity in the programme to realise this saving therefore the entire £0.004m saving is at risk.
    - Subscriptions. No activity in the programme to realise this saving therefore the entire £0.005m saving is at risk.
    - Office 365 back-up contracts. Project Manager states this £0.026m saving is likely unachievable due to pressure to extend Office 365 back-up.
    - Data Centre Consolidation. Linked to office rationalisation therefore £0.050m saving will not be achievable this year.
    - Housing Benefit Admin Grant (2% increase): The increase in the Government Grant, was less than anticipated resulting in this £0.028m saving being unachievable.
- **Non-Service – Total savings £11.0m, £1.3m at risk.**
    - LGR Staffing savings. Work is currently being undertaken on the new staffing structures for the council, with some proposals out for consultation. Until the consultation is complete the financial savings cannot be guaranteed.


Actual/Forecast Achievements of Transformation, Savings & Income Generation Proposals at End of June 2023 (Month 3)
£m
£45.0
£40.0
£35.0
£30.0
£25.0
£20.0
£15.0
£10.0
£5.0
£0.0
Over-achieved/ on track to overachieve, £0.5m
Achieved, £6.9m
On-track, £24.4m
At Risk, £6.3m
Unachievable, £3.3m
Unachievable
At Risk
On-track
Achieved
Over-achieved/ on track to overachieve

Treasury Management

The creation of the unitary authority from 1st April has considerably changed the nature of the treasury investments compared to any of the portfolios of the five prior councils.

No further investment has been made in pooled funds during the quarter, we have maintained the £116.5m already invested by the five prior councils. It is likely we will be looking to reduce this level of investment as the year progresses.

The outlook for interest rates is for the Bank of England (BoE) base rate to continue to increase from the 5.00% seen at the end of the June quarter. The BoE has raised rates at each of the last 13 Monetary Policy Committee meetings (including every meeting in 2022 and the first six month of 2023) and markets expect this trend to continue at least until autumn 2023.

The rapid increase in rates has allowed us to broadly maintain interest income versus budget despite the reduction in balances.

A summary of investment balances and movements during the last three months is shown in Table 17 below:

Table 17: Investment Balances and Movements as at end of June 2023 (Month 3)

	Balance as at 31-03-2023 £m	**Balance as at 30-06-2023 £m**	**Movement £m**
Money Market Funds	16.8	35.7	+18.9
Notice Bank Accounts	0.0	20.0	+20.0
Time deposits/CDs – Banks	70.0	70.0	+0.0
Intra Unitary Deposits	45.0	0.0	-45.0
Time Deposits – LAs	73.0	30.0	-43.0
Debt Management Office	0.0	0.0	+0.0
Strategic Pooled Funds	116.5	116.5	+0.0
Total Investments	**321.3**	**272.2**	**-49.1**

Similar to the position on investments the creation of the unitary council has created a significantly different debt portfolio with a significant amount pf short term borrowing.

The Council is currently managing the cost of borrowing through its Treasury Management activities, as set out in the approved Treasury Management Strategy, by utilising cash funds available rather than taking external debt. This is known as internal borrowing and the council has utilised this strategy over the past three years. This has seen some debt repaid on maturity with only selective deals being renewed. As we move forward through the 2023-24 financial year it is likely that additional debt will be required to manage cash balances and meet capital expenditure.

Paying down some debt initially has allowed us to make savings on debt interest costs in the first fiscal quarter. The majority of the existing debt is fixed rate and therefore it is less sensitive to the increases in BoE base rate but the cost of new debt when needed will be higher than originally budgeted.

Table 18: Debt Balances and Movements as at end of June 2023 (Month 3)

	Balance as at 31-03-2023 £m	Balance as at 30-06-2023 £m	Movement £m
Local Authority	191.5	113.0	-78.5
PWLB	234.8	234.8	+0.0
Fixed Rate Bank	57.5	57.5	+0.0
LOBO Bank	108.0	108.0	+0.0
Total General Fund	**591.8**	**513.3**	**-78.5**
Local Authority	15.0	15.0	+0.0
PWLB	135.9	135.9	+0.0
Fixed Rate Bank	3.0	3.0	+0.0
Total HRA	**153.9**	**153.9**	**+0.0**
Total Debt	**745.7**	**667.2**	**-78.5**

Background Papers

28. Medium Term Financial Strategy (MTFS) 2024/25 to 2026/27 report to Corporate & Resources Scrutiny & Executive July 2023

29. 2023/24 Budget, Medium-Term Financial Plan & Council Tax Setting report to Council February 2023

Appendices

None

Report Sign-Off (if appropriate) (internal use only - not for publication)

	Officer Name	Date Completed
Legal & Governance Implications	David Clark	
Communications	Chris Palmer	
Finance & Procurement	Nicola Hix	
Workforce	Chris Squire	
Asset Management	Oliver Woodhams	
Executive Director / Senior Manager	Jason Vaughan	27/07/2023
Strategy & Performance	Alyn Jones	
Executive Lead Member	Cllr Liz Leyshon	
Consulted:		
Local Division Members	All	
Opposition Spokesperson	Cllr Mandy Chilcott Deputy Leader of the Opposition and Opposition Spokesperson for Resources and Performance	
Scrutiny Chair	Cllr Bob Filmer, Chair - Scrutiny Corporate & Resources Committee	

Decision Report - Executive Decision
Forward Plan Reference: FP/23/--/--
Decision Date – 06 September 2023
Key Decision – No

Somerset Council

2023/24 Housing Revenue Account Budget Monitoring as at Quarter 1 (30 June 2023)

Executive Member(s): Deputy Leader of the Council and Lead Member for Resources and Performancer(s); Lead Member for Communities, Housing and Culture
Local Member(s) and Division: All
Lead Officer: Jason Vaughan, Executive Director for Resource & Corporate, S151 Officer
Author: Kerry Prisco, Management Accounting & Reporting Lead
Contact Details: kerry.prisco@somerset.gov.uk

1 Executive Summary

1.1 This report provides an update on the projected outturn financial position of the Council's Housing Revenue Account (HRA) for the financial year 2023/24 (as at 30th June 2023).

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

Revenue Budget	Forecast to budget	Green
General Reserves	£12.049m forecast balance = favourable compared to £3.722m minimum requirement	Green
Earmarked Reserves	£258k opening balance	Green

1.3 The HRA is a ring-fenced account which must abode by the accounting regulations and ensure that cross subsidy does not occur. Whist self-financing has provided some flexibilities, the HRA is heavily regulated which restricts income growth and increase cost pressures.

1.4 The HRA has set a balance budget for 2023/24 however areas of risk for the will year relate to **economic operating environment** and the impact this may have on any variation from the forecasts assumed when setting the budget, for example the cost of borrowing for the refinancing of debt, pay awards, cost of materials and utilities, etc.

1.5 In addition, there are risks associated with **regulatory and compliance** requirements. For example, changes are expected during the year in relation to the Regulator of Social Housing's decent home standard where the cost impact is unknown, as well as a new Bill passing through parliament which will require several changes to home safety, tenant satisfaction measures, complaints handling, a new inspection regime for social landlords which will increase resource requirements.

1.6 From an **operational** perspective, the risk here relates to the levels of demand from our tenants for support and service, for example for debt and benefit advice, repairs and maintenance on their properties, and the number and condition of void properties. This is a very reactive service based on the needs of the tenants.

1.7 The headline estimates for **capital** costs are:

1.8 The Housing Revenue Account (HRA) Capital Programme for 2023/24 onwards is £122.606m (subject to approval). This consists of £32.208m of new schemes approved for 2022/23 plus £90.397m proposed budget carry forward.

1.9 The current forecast outturn is to budget for the Major & Improvement Works. The Social Housing Development schemes will be delivered over the next eight years.

2 Recommendations

2.1 The Executive:

2.2 To note the HRA's forecast financial performance and projected reserves position for 2023/24 financial year as at 30 June 2023, including key risks and future issues and opportunities detailed in the report which will be closely monitored and updated throughout the year.

2.3 To note the forecast outturn position of the Capital Programme.

2.4 To approve a supplementary capital budget of £3,313,829 for the in-house service to spend on Fire Safety.

3 Financial and Risk Implications

3.1 Financial forecasts are based on known information and projections based on assumptions. As such any forecast carries an element of risk. The current forecasts included in this report are considered reasonable given the extra element of risk around inflation being experienced in the current economic operating environment and based on experience it is feasible the year end position could change. It is common for overspends and / or underspends to emerge during the year, reflecting an optimism bias within previous forecasting. There may also be matters beyond the Council's control that affect the final outturn position.

3.2 Salient in year budget risks are summarised below. The Council manages financial risk in several ways including setting prudent budgets, carrying out appropriate monitoring and control of spend, operating robust financial procedures, and so on. The Council also holds both unearmarked and earmarked reserves which include contingencies to manage budget risk.

3.3 Budgets and forecasts are based on known information and the best estimates of the housing service's future spending and income. Income and expenditure over the 2023/24 financial year are estimated by budget holders and then reported through the budget monitoring process. During this process risks and uncertainties are identified which could impact on the financial projections, but for which the likelihood, and/or amount are uncertain. The Council carries protection against risk and uncertainty in several ways, such as insurances and maintaining reserves. This is a prudent approach and helps to mitigate unforeseen pressures.

3.4 The following general risks and uncertainties have been identified:

Regulatory and Compliance

3.5 Over the past few years, the regulatory and compliance requirements have increased. The landlord functions have increasingly stringent standards to ensure customers are kept safe. Recent and imminent legislation in Fire Safety and Damp & Mould has led to greater investment in a range of components and different working practices. The proportionate cost of works associated with compliance has increased significantly over the past three years. The landlords are investing significantly in electrical safety checks, compartmentalisation within blocks and fire doors and Homes in Sedgemoor with the Council has enhanced its practices to manage new Building Safety Act requirements.

3.6 **Landlord Compliance:** Both operating models have good and well-established approaches to ensure the Council keep tenants safe. The big six compliance areas (Gas, Electric, Water, Asbestos, Fire Safety and Lifts) have now been joined by Damp & Mould. Housing is increasingly scrutinised and reputational damage as well as harm is significant if the Council fails to manage its compliance responsibilities. The Council is ultimately responsible. Performance management frameworks are in place to measure landlord compliance and new approaches have been developed to help the services respond to damp and mould cases. The Housing Regulator is currently supporting the in-house service's action plan to bring Electrical testing to top quartile performance. This should be achieved by October. Regular audits take place and currently a Fire Safety Audit is being carried out involving both landlord services.

3.7 **Social Housing Regulation Bill:** This paper is passing through parliament with its core objectives being – to facilitate a new, proactive approach to customer regulation regime, refine the existing economic regime and strengthen the regulatory powers to enforce customer and economic regulation. The bill will include Awaab's Law placing additional requirements in relation to resolving damp & mould on the landlord and requiring greater professionalisation of the service. The Council landlords are applying the new Tenant Satisfaction Measures and reporting these through Key Performance Indicators. The bill will require several changes to home safety, tenant satisfaction measures, complaints handling, a new inspection regime for social landlords and a strengthened role for the Regulator of Social Housing. The Bill provides addition impetuous for the two operating models to share best practice and learn from one another. The in-house service is focusing this year on improving communication with tenants, within the service and on Core Service delivery (repairs, compliance, Capital programme, voids/lettings, tenancy management and income collection).

3.8 **Responding to increased stock quality standards:** Changes to the Regulator of Social Housing's decent home standard as well as higher thermal efficiency standards which may not be fully supported by additional external grant funding would place an additional burden on HRA resources available for elemental investment in homes. After a period of transition, the strategic Housing Revenue Account service will be in a good position to influence stock investment for all 10,000 homes and align strategy such as low carbon retrofit.

3.9 **Right To Buy (RTB) Receipts**: This is a government policy that enables tenants to purchase their homes at a discount, subject to meeting qualifying criteria. The receipts allowed to be retained by the Council can now fund up to 40% of new social housing costs and must be used within five years of receipt. To date, with the exception of one instance in Q1 2015/16 where receipt and interest was repaid, the Council has successfully fully spent all of their retained 1-4-1 receipts.

Economic Operating Environment

3.10 **Inflation:** The current economic operating environment is placing financial risk on the Council in terms of rising inflation increasing the cost of supplies such as utilities, labour and materials, above budgeted assumptions. Regardless of the difference in how the repairs are delivered (by a direct labour organisation or contracts) the shortage of labour and materials is increasing costs to the service and often additional supervision is required to ensure quality is maintained.

3.11 **Rising cost of borrowing:** The landlord service has a well development social housing and regeneration programme; however, these schemes can only obtain a maximum of 40% subsidy from the RTB Scheme (subject to criteria) leaving the Council to borrowing to finance the remaining 60% cost of the scheme. With the cost of borrowing rising this is having a significant impact on the MTFP and 30-Year Business when new borrowing is required to either refinance debt falling due or to finance new borrowing requirements.

3.12 The PWLB has recently announced a reduction in the margin applied to loans that will be used to fund capital expenditure within the Housing Revenue Account (HRA). Available from the 15 June 2023 qualifying loans (submitted within one year) will attract a margin of 0.40% above Gilts which is a discount of 0.60% below the published PWLB rates.

3.13 The Council is exploring further opportunities to subsidise schemes and reduce the HRAs borrowing requirements. For example, the service is currently working with Homes England to submit a bid in August to access funding for its regeneration programme as part of the North Taunton Woolaway Project.

3.14 **Capital Programme Forecasts:** Engaging with Contractors at all tiers continues to be very challenging, therefore the risk to the capital programme and forecast costs should be considered. The labour and materials market are still in short supply, with Contractors unable to resource both tenders being issued on projects on site. As such, competition in the market is more limited than it has been for some time.

3.15 The cost pressure created by inflation, the liquidation of a number of contractors, logistics challenges and the general acceleration to get projects to site, is causing previous fixed price contracts to be re-appraised within a matter of months of a successful tender. This could move schemes to the limits of viability. The resulting impact of this cost pressure is resulting in Tier One (larger scale) Contractors often turning down tender opportunities unless an inflation clause (requiring the Client to take the risk of inflation), is included in Contracts, whilst smaller Contractors are withdrawing tenders after submission or operating on such a small margin as to put them at risk of failure.

3.16 There is no question that the cost of maintenance and construction has significantly increased over the past two years. The forecast tender price inflation market appears to be at a turning point as inflation and demand pressures fall. This may see new opportunities during the tendering of works however the baseline is significantly higher than 2021/2022. The material price index in January 2023 increased by 10.4% (All Words) which was slightly down on previous months. Tender price inflation appears to be dropping to around 3% in 2023 compared to 3.75% in 2022. Although the Housing Revenue Account is sufficiently robust the ability to deliver works will in part relate to the solvency of contractors and their ability to manage the economic environment.

3.17 **Recruitment:** There are a number of vacancies across the Council and assumptions have been made as to when these vacancies will be filled. The Council is experiencing recruitment issues (as seen country-wide) therefore assumptions and forecasts may change, in addition to higher agency costs to cover roles where permanent recruitment is not successful.

3.18 **Cost of living crisis, Welfare Reform and Universal Credit (UC):** The impacts of these are significant with the number and value of rent accounts in arrears expected to increase considerably. Several mitigations are already in place to help support tenants affected particularly by the rising cost of living such as debt advice, access to discretionary housing payments and an arrears management team with redesigned workflow processes. These issues may require the Council to revise future income projections.

Operational Delivery

3.19 **Repairs & Maintenance**: Overall this is a very demand led and reactive service based on the needs of the tenants. There are also a number of uncontrollable variables associated with this service such as the weather (e.g., cold winters causing burst pipes, roof leaks, etc), condition of properties when returned (e.g., void refurbishments), consumer demand on minor internal / external repairs (e.g., broken door or fence) and the type of repair work required. Market pricing of materials etc can also be volatile with some unit costs increasing in recent years. As such the levels of demand do not always follow a recognisable trend. We therefore caveat the forecasts in these areas to account for fluctuations.

3.20 **Fluctuation in demand for services:** We operate many demand-led services and the levels of demand do not always follow a recognisable trend, which may lead to fluctuations in costs and income compared with current forecasts. Regulatory change is increasing the landlords need to improve access to the service and by its nature increase demand. Increase in demand can often be a positive in terms of maintenance as early intervention can limit damage and save costs to the landlord.

3.21 **HRA Service Level Agreements with the new unitary council:** As the Housing Revenue Account comes together as one account there is an opportunity to review and formally agree the service level agreements which helps the landlord functions operate through the purchase of General Fund skills. For example, finance, human resources, business support, governance, etc. The in-house landlord is looking at all its services in order to secure appropriate resources from within its own structure or through other Council directorates. It is envisaging the new Service Level Agreements will allow the landlord and HRA strategic business team to better meet the challenges as a highly regulated social landlord.

Technical Accounting Risks

3.22 **Bad Debt Provision:** The budgeted bad debt provision of £147k provides financial capacity for any increase in arrears and / or aging debt from one year to the next as well as any in-year write offs. This is a year-end technical accounting adjustment. The key challenges facing the arrears position are the pressures to maximise rental income in an environment of reduced government support and greater need to utilise internal resources; the 'cost of living crisis' marked by reductions in real income accompanied by increases in utility, fuel costs and food prices; welfare reforms which have made extensive use of sanctions and reductions in eligibility; and the impact of the COVID pandemic. Homes in Sedgemoor have excelled at managing income and are currently in the top ten social housing landlord nationally. The in-house service does not compare as well and is narrowly outside the top quartile industry standard. Income generation and managing debt is being elevated in importance for the service and new software is being introduced to support this critical work.

3.23 The approaches incorporated at the Council to aid the HRA's enforcement of debt and support to tenants include providing direct welfare benefit advice and support; facilitating access to employment and training, support and advice; facilitating access to debt prevention support; and opportunities for flexible rent payment.

3.24 **Unitary Council:** The landlord functions have transitioned well into the new authority. The challenges since April have been working with new financial systems, learning other corporate software such as risk management software and working to procedures such as those in relation to recruitment and governance. It is currently unknown what the potential HRA costs will be and whether revenue costs including costs associated with staff movements due to uncertainty/feeling of insecurity, additional reliance on agency staff to fill vacancies in the short term, rebranding vehicle, offices and PPE have been impacted. From a capital perspective the business plan does provide some headroom to allow non-right to buy receipts to be used as flexible capital receipts to fund transformation costs. Revenue costs of implementation are not currently budgeted and will place additional pressures on the HRA budget and reserves, thus we will need to review planned expenditure and reserves during the business planning process in 2023/24.

3.25 **Forecasting Assumptions:** It is conceivable that, whilst budget holders are optimistic that they will spend all their budget, experience shows that variances are more accurate in the last quarter of the financial year. The pace of spending may also reduce as capacity and delivery of priorities is affected by local government structural change.

3.26 **Year-end Adjustments:** There are certain items that are not determined or finalised until the financial year-end. For example, the final assessment of provisions required for bad debts and final allocations of support service recharges. These can result in potentially significant differences to current forecasts.

4 Partnership Implications

4.1 A range of HRA services are provided through partnership arrangements such as MIND, citizen's advice, Taunton East Development Trust, North Taunton and Wiveliscombe Area Partnership. The cost of these services is reflected in the Council's financial outturn position for the year. The Housing Revenue Account is increasingly having to question the funding of services outside its core service.

5 Scrutiny Comments / Recommendations

5.1 This report will be considered by Scrutiny on 8 August 2023. A summary of the comments and recommendations discussed will be provided here for the Executive to consider.

6 Background and Full details of the Report

6.1 The Housing Revenue Account (HRA) is a ring-fenced, self-financing, account used to manage the Council's housing stock, with the Council acting as the Landlord. This has been the case since April 2012 where, under the Localism Act 2011, the government abolished the national subsidy system (which required an annual payment from the HRA to Central Government) and introduced ‘self-financing’. This new system enabled Councils to retain all rental income to fund the costs of managing and maintaining the housing stock, as well as meeting the interest payments and repayment of debt. As part of the self-financing agreement, Councils had to buy themselves out of the subsidy system by making a one-off payment to the Government. The debt taken in 2012 was a total of £133m; £85.198m for the Taunton Deane Borough Council legacy authority and £47.321m for the Sedgemoor District Council legacy authority.

6.2 Self-financing does bring financial benefits and more flexibility, especially since the borrowing cap was removed in October 2018, however the HRA is still heavily regulated. For example, rent increases are restricted by the Regulator of Social Housing’s Rent Standard, there are specific regulations which govern eligible income and expenditure to prevent cross subsidy with the General Fund, as well as the decent homes standards that stipulate the conditions of properties.

6.3 The new unitary Somerset Council has inherited two landlord operating models which now sit under one Housing Revenue Account. The two landlord operating models are an in-house service in the West, formerly Somerset West and Taunton (SWT), and Homes in Sedgemoor which is an Arm’s Length Management Organisation (ALMO) operating in the North, formerly Sedgemoor District Council (SDC). The combined total dwelling stock as at 1 April 2023 is 9,665 (5,653 from SWT and 4,012 from SDC). In addition to this we have 599 leasehold properties (489 from SWT and 110 from SDC).

6.4 The Council’s two operating models which deliver the landlord functions will continue to operate as they did previously however there are various transitional projects taking place which will enable the Council to compare the two models like for like. These transitional projects will also allow the Council’s in-house service and Homes in Sedgemoor to learn from one another. The transitional programme will also recognise the opportunity to enhance the Council’s strategic Housing Revenue Account responsibilities. This will allow the council to be a better client to the arm’s length service and its own in-house service. The transition will see appropriate resources at landlord function level and at the strategic level allowing the in-house and Homes in Sedgemoor landlord service to be ambitious in delivering great and improving services to customers and allow the Council to make strategic decisions in relation to stock investment, growth, rent setting, zero carbon homes and administering its statutory and regulatory responsibilities. Following a period of transition, the Council will be able to turn toward an option appraisal of its stock and operating models.

6.5 The regular monitoring of financial information is a key element in the Council’s HRA Performance Management Framework. Crucially it enables remedial action to be taken in response to significant budget variances, some of which may be unavoidable. It also provides the opportunity to assess any consequent impact on reserves and the HRA's Medium Term Financial Plan and 30-Year Business Plan.

6.6 Members are to note that the position can change between 'in-year' projections and the final outturn position, mainly due to demand-led service costs and income levels and where actual costs and income can vary from initial estimates and assumptions. The budget monitoring process involves a detailed review of the more volatile budgets and a proportionate review of low risk/low volatility budget areas. Budget Holders, with support and advice from their finance business partner, update their forecasts monthly based on currently available information and knowledge of service requirements for the remainder of the year. As with any forecast there is always a risk that some unforeseen changes could influence the position at the year-end, and several risks and uncertainties are highlighted within this report. However, the following forecast is reasonable based on current information.

7 HRA Revenue Budget 2023/24 Forecast Outturn

7.1 This report provides the Housing Revenue Account (HRA) forecast end of year financial position for revenue and capital expenditure as at 30 June 2023.

7.2 The current year end forecast outturn position for the HRA for 2023/24 is to budget. The table below summarises the approved revenue budget for the combined HRA for 2023/24, with more detail found in Appendix A.

Table 1: HRA Revenue Outturn Summary

	Current Budget	**Forecast Outturn**	**Forecast Variance**	
	£000	**£000**	**£000**	**%**
Gross Income	-51,115	-51,115	0	0.0%
Service Expenditure	29,578	29,578	0	0.0%
Other Expenditure	21,537	21,537	0	0.0%
Total	**0**	**0**	**0**	**0.0%**

8 <u>Capital Programme</u>

8.1 The Housing Revenue Account (HRA) Capital Programme for 2023/24 onwards is £122.606m (subject to approval) as summarised in the table below. This consists of £32.208m of new schemes approved for 2022/23 by Full Council on 22 February 2023 plus £90.397m of previously approved schemes in prior years that have been proposed to be carried forward and are pending approval as part of the outturn report being presented to the Executive on 6 September 2023.

Table 2: Summary of HRA Capital Programme Approved Budget for 2023/24

	2022.23 Slippage Budget	2023.24 Approved Budget	2023.24 Total Budget
	£000	£000	£000
Majors & Improvements	5,507	22,206	27,712
Social Housing Development	84,891	10,003	94,893
Total	**90,397**	**32,208**	**122,606**

8.2 The Council plans to finance this investment through the Major Repairs Reserve, Capital Receipts, Capital Grants, Revenue Funding and Borrowing.

8.3 The HRA Capital Programme relates to in-year works and longer-term schemes that will be completed over the next eight years. Once the capital budget slippage has been approved the planned profiled spend will be updated and provided, in the quarter 2 report, to reflect the estimated timing of capital expenditure for the approved schemes.

8.4 The current forecast outturn is to budget for the Major & Improvement Works. Further work is underway to update the profiled capital expenditure for the Social Housing Development Schemes as this total approved budget will be spent over the next eight years.

8.5 The Information on what the HRA capital programme plans to deliver during 2023/24 can be found below.

Major Works and Improvement:

8.6 The two operating models both aim to maintain homes to the decent home's standard enhance the thermal comfort of tenants by moving towards 2030 and 2050 standards.

8.7 The 2023/24 capital programme includes major programmes such as kitchens, bathrooms, heating improvements, insulation and ventilation, door entry systems, external doors, fasciae and soffits, roofing and windows.

8.8 The two operating models have previously placed slightly different emphasis on different aspects of major works however under one Housing Revenue Account decent homes, low carbon living, stock sustainability and block investment can be approached more consistently. Both organisations have been successful at being awarded grant for low carbon works and combined bids and programmes will be encouraged.

8.9 Members are being asked to approve a supplementary capital budget of £3,313,829 (in addition to the current budget of £150,000 plus pending carry forward of £373,671) for the in-house HRA to spend on essential fire safety works following Fire Risk Assessments (FRAs) to general needs, sheltered and extra-care schemes. These works include fire doors (and fire door automation), compartmentalisation works, emergency lighting, fire safety flooring to communal areas, and consumer unit upgrades to communal areas. Procurement activities are underway and internal resources are being arranged to ensure the works can be delivered during the 2023/24 financial year. This will be funded from a combination of the Major Repairs Reserve and borrowing, subject to the final outturn position of the capital programme, and Officers will ensure that the most effective use of resources is made. In light of the budget returns proposed in the Outturn Report 2022/23, this supplementary budget request will stay within the assumptions of 30-Year Business Plan presented to members in February 2023.

Social Housing Development Programme:

8.10 The Homes in Sedgemoor and in-house functions both have a social housing development programme of works, which increases stock through a combination of acquisitions from the open market and / or building new homes.

8.11 The Right To Buy (RTB) scheme is a government scheme that enables tenants to purchase their homes at a discount, subject to meeting qualifying criteria. During 2022/23 the Council sold 50 properties (SWT 28 and SDC 22). The Council estimates that on average 55 properties will be sold each year through the Right to Buy Scheme. Therefore, growth in our housing stock is vital to replace stock and attempt to ensure Somerset has more affordable homes to meet the increasing demand.

8.12 The two landlords have diverse approaches and discussions are taking place within the setting of the review of the action plan a more consistent approach to growth. The in-house team has two major schemes delivering over the next six to seven years whilst Homes in Sedgemoor have generally more schemes over a shorter period, and these tend to be smaller schemes. The HRA has started aligning its growth ambitions with opportunities to deliver homes on behalf of the Council especially for vulnerable customers. The landlords are purchasing for displaced persons and building and purchasing properties to support the General Fund homelessness challenges. The HRA 30-Year Business Plan considers the cost of growth alongside the many other service needs. The annual business planning process reviews affordability annually.

9 HRA Earmarked Reserves

9.1 The Housing Revenue Account (HRA) Earmarked Reserves at the beginning of 2023/24 totalled £258k (see **Table 3** below). These have been carried forwards from Somerset West and Taunton. There were none held by Sedgemoor District Council.

9.2 Earmarked reserves are set aside for a specific purpose and are reviewed on a regular basis. These funds have been earmarked to be spent within the next two years.

Table 3: Earmarked Reserves Balances

Description	**Opening Balance 01/04/2023 £000**	**Transfers £000**	**Projected Balance 31/3/2024 £000**
Hinkley – Community Grants	130	0	130
Climate Change Grant - Electric Vehicles	77	0	77
Hinkley – Home Moves Plus Grant	34	0	34
Tenant Satisfaction Grant	17	0	17
Total	**258**	**0**	**258**

10 HRA Unearmarked Reserves

10.1 The Housing Revenue Account (HRA) Unearmarked Reserves opening balance of £13.699m stands above the recommended minimum balance of £3.722m and provides ongoing financial resilience and mitigation for unbudgeted financial risks.

10.2 The recommended minimum balance for the combined HRA is £3,722,400 and is equates to approximately 7.3% of gross income and £385 per property.

10.3 As part of the budget setting proposals to Full Council on 22 February 2023, £1.650m of current reserves will be used to support the base budget in 2023/24. Further approved (or proposed) allocations to / from Unearmarked Reserves are shown in the table below.

Table 4: HRA Unearmarked Reserves Balance

	Approval	**£000**
Balance Brought Forward 1 April 2023		
From Sedgemoor District Council		10,713
From Somerset West and Taunton		2,986

Total Balance Brought Forward 1 April 2023		**13,699**
Budgeted Contribution to support base budget 2023/24	FC – Feb23	-1,650
Current Balance		**12,049**
Forecast: 2023/24 Projected Overspend / Underspend		0
Projected Balance 31 March 2024		**12,049**
Recommended Minimum Balance		3,722
Projected Balance above Minimum Reserve Balance		8,327

Background Papers

HRA Budget Setting Report – Full Council 22 February 2023
HRA Outturn Report - tbc

List of Appendices

Appendix A	Housing Revenue Account (HRA) Approved Budget for 2023/24

Report Sign-Off (if appropriate) (internal use only - not for publication)

	Officer Name	Date Completed
Legal & Governance Implications	David Clark	
Communications	Chris Palmer	
Finance & Procurement	Nicola Hix	
Workforce	Chris Squire	
Asset Management	Oliver Woodhams	
Executive Director / Senior Manager	Chris Hall / Jason Vaughan	
Strategy & Performance	Alyn Jones	
Executive Lead Member	Cllr Federica Smith / Cllr Liz Leyson	
Consulted:	Councillor Name	
Local Division Members		
Opposition Spokesperson	Choose an item.	
Scrutiny Chair	Choose an item.	

Appendix A: Housing Revenue Account (HRA) Approved Budget for 2023/24

	In-House	ALMO	Combined					
	Approved Budget	Approved Budget	Original Budget	Current Budget	Full Year Projection	Month 3 Variance		A/(F)
	£m	£m	£m	£m	£m	£m	%	
Income								
Dwelling Rents	(27.1)	(18.0)	(45.2)	(45.2)	(45.2)	0.0	0.0%	-
Non Dwelling Rents	(0.7)	(0.6)	(1.3)	(1.3)	(1.3)	0.0	0.0%	-
Charges for Services / Facilities	(1.9)	(1.5)	(3.4)	(3.4)	(3.4)	0.0	0.0%	-
Contributions Towards Expenditure	(0.2)	(1.1)	(1.3)	(1.3)	(1.3)	0.0	0.0%	-
	(29.9)	**(21.2)**	**(51.1)**	**(51.1)**	**(51.1)**	**0.0**	**0.0%**	**-**
Expenditure								
Repairs and Maintenance	8.7	4.4	13.1	13.1	13.1	0.0	0.0%	-
Supervision and Management	4.1	5.2	9.2	9.2	9.2	0.0	0.0%	-
Special Services	1.6	1.3	2.9	2.9	2.9	0.0	0.0%	-
Rents, Rates, Taxes and Other Charges	0.2	0.7	0.8	0.8	0.8	0.0	0.0%	-
Central Recharges (to / from the General Fund)	3.2	0.2	3.4	3.4	3.4	0.0	0.0%	-
	17.8	**11.8**	**29.6**	**29.6**	**29.6**	**0.0**	**0.0%**	**-**
Other Operating Income and Expenditure								
Interest Payable	3.3	2.5	5.8	5.8	5.8	0.0	0.0%	-
Interest Receivable	0.0	(0.3)	(0.3)	(0.3)	(0.3)	0.0	0.0%	-
Change in Provision for Bad Debts	0.1	0.0	0.1	0.1	0.1	0.0	0.0%	-
Depreciation	9.1	7.3	16.3	16.3	16.3	0.0	0.0%	-
Capital Financing	0.0	1.2	1.2	1.2	1.2	0.0	0.0%	-
Movement in Reserves	(0.4)	(1.3)	(1.6)	(1.6)	(1.6)	0.0	0.0%	-
	12.1	**9.4**	**21.5**	**21.5**	**21.5**	**0.0**	**0.0%**	**-**
Net Surplus(-) / Deficit for the Year	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0%**	**-**

Somerset Council
Scrutiny Committee – Corporate and Resources
– 08/08/2023

LCNs: Initial Meetings and Emerging Themes
Lead Officer: Sara Skirton, Service Director Partnership and Localities
Author: Kate Hellard, LCN Development Lead
Contact Details: kate.hellard@somerset.gov.uk
Executive Lead Member: Cllr Theo Butt Philip, Lead Member for Transformation and Human Resources
Associate Lead Member: Cllr Val Keitch, Associate Lead Member for Public Health and Localities (LCNs)
Division / Local Member: N/A

1. Summary

1.1. The purpose of this report is to provide an overview of the implementation of the first round of Local Community Network meetings, including initial lessons learnt and emerging themes of importance to communities, and it seeks the views from Scrutiny Committee on any matters concerning LCNs that it would welcome further analysis and feedback on.

1.2. It also considers the governance, staffing and support, geographies, participation and stakeholders of LCNs, recognising that LCNs are in their infancy and will evolve as partnerships and ways of working mature.

2. Issues for consideration / Recommendations

2.1. The Scrutiny Committee is asked to note, and comment on, the contents of this report.

2.2. The Scrutiny Committee is asked to indicate if there are any particular areas of interest that they would like to further explore.

3. Background

3.1. Local Community Networks (LCNs) are a key commitment to ensure the new Somerset Council is engaged with and listening to our communities.

3.2. The purpose, ways of working and initial roles of LCNs, were agreed by the Executive on 18 January 2023, with the Terms of Reference agreed by

Constitution and Governance Committee in 30th January 2023, with final approval and adoption in the constitution at Full Council in 22nd February 2023.

3.3. The purpose of LCNs, as agreed by the Executive on 18 January 2023, is as follows:
To be the focus for community development, engagement and partnership working at a local level; improving outcomes for residents and establishing strong connections between the Council, our communities and our partners.

3.4. It is intended that LCNs will:

- Inform and influence Council policy and service development and delivery
- Develop local solutions to local issues
- Share the delivery of actions between all partners
- Develop and test innovative placed based ways of working and by doing so improve outcomes for residents.

3.5. At the time of writing, we are two thirds of the way through the delivery of the first round of LCN meetings. The meetings are taking place, primarily, in community venues and are running as hybrid meetings.

3.6. **Geographies**
Following extensive consultation, it was agreed that there would be 18 LCNs, covering all of Somerset, created around communities, landscape character and the natural flow of residents between towns and parishes.

3.7. Initial feedback regarding geographies was that on the whole the LCN boundaries reflect the above. However, there are a couple of parishes on the margins of the boundaries in one LCN area that are potentially interested in being grouped in a neighbouring LCN area. There is provision for boundary changes to be made in consultation with the Associate and Lead Members during the year, where there is a clear rationale for such a change.

3.8. As services within Somerset Council become more familiar with the purpose of LCNs and the opportunities arising from working with communities in this way, some are starting to align their project delivery or areas of focus to the LCN boundaries

3.9. Partners in the Voluntary Community Faith and Social Enterprise (VCFSE) sectors are also considering a best fit with LCN boundaries in terms of service delivery and data gathering, including Citizens Advice, Somerset Rivers Authority and Avon and Somerset Police.

3.10. It is anticipated that a review of LCN boundaries will take place before the LCNs hold their Annual General Meetings (AGM) next year and where appropriate boundary changes will be considered.

3.11. Governance
The Terms of Reference (ToRs) were developed to enable LCNs to be recognised as formal boards of Somerset Council, providing an established link both into and out from the Council. It was agreed, in February, that a review of the ToRs would take place within the first year of LCNs.

3.12. The first round of meetings has highlighted some areas that require further consideration in preparation for the January 2024 Constitution and Governance Committee, where any changes to the ToRs will be considered, ahead of the Full Council meeting in February 2024.

3.13. Initial feedback from core members for LCNs indicates a desire to consider some changes to the standard agendas for both the AGM and other meetings, particularly in respect of the 'public question time' item which, in the context of a participative forum, is perhaps considered too formal.

3.14. There has been some discussion in LCN meetings with regards to the 'core membership' of LCNs, in particular who the core members are, how they are identified, agreed and approved. It was originally anticipated that LCNs would take time to build partnerships and get to know each other through the first meetings and that the core membership would be agreed by the participants, including Somerset Council Members, City, Town and Parish representatives and other partners as listed in the terms of reference. However, for LCNs to be formally recognised as boards of Somerset Council it has been necessary to appoint a Chair and Vice chair of each LCN, at which point the identification of those on the core membership becomes key to the election process.

3.15. Where more than one candidate has been nominated for the role of Chair or Vice Chair, elections have taken place involving the core membership. Two of the three elections highlighted a need for a more detailed description of the core membership – particularly with regards to statutory services and VCFSE members.

3.16. In order to provide more clarity regarding the core membership, to inform the selection and election of Chairs, a Lead Member Non-Key decision paper, building on high level detail regarding the core membership in the ToRs, was written. It was approved by the Lead Member for Transformation and Human Resources on the 28th June 2023 and circulated to all Somerset Councillors.

3.17. Promotion, Participation and Attendance
Inaugural LCN meetings have been promoted to City, Town and Parish Councils, Somerset Council Members and to wider VCFSE and statutory partners as outlined in the 'core membership' defined in the ToRs, through existing mechanisms, as a soft launch.

3.18. LCNs are underpinned by an ethos of participation and engagement, with an expectation that they will create a local, discursive forum. They will build collaboration and consensus between a wider range of partners to improve outcomes for residents through the creation and delivery of an action plan to address local priorities.

3.19. Attendance at LCNs has been encouraging with an average of over 70% of parishes being represented. Whilst the majority of attendees join the meetings in the room there has been an average of three online attendees at every meeting and initial feedback regarding the hybrid experience is positive.

3.20. There has been representation from wider stakeholders including the Police, VCFSE, Business groups and Business Chambers, Health and members of the public at many of the initial LCN meetings.

3.21. All attendees are encouraged and supported to fully participate in LCN meetings, which are laid out in a café style to support discussion and conversation amongst participants during breakout sessions planned into the agenda. Online participants are also supported to participate in these discussions in online breakout rooms. Headline feedback from table discussions is shared during the meeting, in addition the discussions on each table were captured and is being collated and shared.

3.22. Feedback from attendees has been positive. Some have reported being initially sceptical about LCNs but then being pleasantly surprised, and looking forward to making a difference together in their communities and have demonstrated a desire to share local knowledge and plans post the event. The LCN team have noted a step change that happens during the meetings where any specific frustrations with Somerset Council services turns to a desire to identify wider priorities and to start to consider actions that could be shared at a local level.

3.23. It is anticipated that the wider membership of each LCN will grow, in the coming months, to reflect individual communities and topics of interest. During the discussion item at these initial meetings participants have identified a wide range of partners who could further inform and support discussion around emerging themes and priorities. The LCN Link offers will be key, alongside the Chairs and Vice Chairs, in developing stakeholder relationships pertinent to the area or topic, increasing participation both within the main LCN meetings and at working groups which will take place between meetings.

3.24. There is growing interest from Somerset Council colleagues and partners in the VCFSE in participating in LCNs as they learn more about the opportunities of working in a participative way to shape, inform and deliver place based projects and services.

3.25. The Service Director for Partnerships and Localities and members of the interim LCN team, including the LCN Development Leads, have attended a number of meetings and forums both within the Council and with wider partners to brief them on the role of LCNs, ways of working and practical considerations and to discuss wider participation in LCNs over the coming year.

3.26. ICT, Hybrid and Practical Considerations
LCN meetings are being supported by ICT colleagues to trial a technology set-up that provides adequate and appropriate sound and visual infrastructure to create inclusive online and in person participation.

3.27. Managing online meetings in community venues has presented some IT challenges, in particular sound quality and the visuals of the room for online participants.

3.28. The LCN / ICT teams have learnt that rural Wi-Fi bandwidth can drop significantly in the evenings in some areas, and this impacts the quality of hybrid meetings.

3.29. There is a staffing and time implication impact of using community venues, however an important ethos of LCNs is to balance the power and build relationships between all of the partners and stakeholders at a local level and therefore using a range of venues is considered key to this in the first instance.

3.30. Many participants travel to the meetings by car and therefore adequate parking is important. A small number of the venues used in this first round have not had adequate parking arrangements.

3.31. LCN team / staff capacity
The first round of LCN meetings has been supported and facilitated by an interim LCN staff team, drawn primarily from colleagues across Partnerships and Localities Service Directorate. We have learnt more about the capacity needed, and the vital role of staff in enabling new ways of working, during this first round of LCN meetings.

3.32. LCNs are also serviced by Democratic Services colleagues and have been supported by the ICT team. It is anticipated that in the medium to long term the support for LCNs will be proportionate and focussed, maximising the use of technology solutions. However, whilst the technology set-up is still in its trial phase, and the Link Officers are not yet in place, we are discussing arrangements for ICT to continue to support LCN meetings in the short to medium term.

3.33. A permanent team will be recruited to support LCNs. Each LCN will have a dedicated Link Officer who will forge relationships with stakeholders in the LCN area and work with partners and colleagues to progress agreed priorities. It is anticipated that the team will also provide some specialist support and the ability to have an overview across all LCNs. They will facilitate the sharing of best practice, discovery of shared issues and topics and enable cross LCN working.

3.34. There are some capacity challenges in this interim stage, particularly where there is a strong desire from many LCNs to meet regularly in their initial stages. The team are working hard to manage the practicalities of the delivery of LCN meetings, planning the next round, looking to balance the initial support for newly elected Chairs, building bespoke data packs and ensuring that we continue to build strategic and local links with partners and stakeholders to inform and support identification of LCN priorities for each area. However, there is a growing reputational and operational risk associated to the delay in recruiting the permanent LCN staff team.

3.35. Emerging Themes

These initial meetings have had a focus on starting to explore the issues and opportunities arising in communities, with a view to further defining the priorities for each LCN over the coming months, through a series of LCN meetings.

3.36. Initial themes common across LCNs can be grouped into Climate Change and Environmental action, Crime and Policing, Education, Economic Development, Employment and Skills, Community Development, Housing, Infrastructure, Planning, Health and Wellbeing, Social Care and Support.

3.37. Examples of the issues raised include a desire to:

- mitigate the impact of flooding
- tackle anti social behaviour
- improve access to education and employment
- increase provision of affordable housing
- increase access to NHS dentistry
- improve response to roads maintenance
- influence the revision and creation of the local plan and 106 requests to better meet local infrastructure needs
- expand community transport options and develop local walking and cycling infrastructure routes
- create green corridors and dark skies policies.

3.38. There is an appetite to progress initial discussions around priorities within LCNs between formal meetings, and the capacity to support this will be key. There are a wider range of partners to be identified relevant to topics and geographic areas that will play a key role in informing discussions and decisions regarding priorities.

3.39. Next Steps

- Identify interim staff support specific to each LCN.
- Create bespoke data packs for each LCN
- Map common themes across LCNs and work with the Council and other partners to provide contextual information to inform future discussions.
- Recruit the LCN Link Officer team.
- Agree ITC support for future meetings this year.
- Schedule a calendar of meetings with appropriate venues, taking the learning from the first round of meetings into account for each LCN.
- Review the Terms of Reference for LCNs
- Continue to build local and strategic links with partners and stakeholders to inform priority setting and action planning for LCNs.
- Budget for and identify financial resource for the support and delivery of LCNs for the coming year as part of the MTFP process.

3.40. The LCN team will continue to gather feedback regarding this first round of LCN meetings in order to inform the development of individual LCNs and the wider programme. Honouring our ambition to evolve LCNs as a codesign between Somerset Council and other stakeholders, we welcome the opportunity to work with all partners to develop mechanisms for review and development of LCNs.

4. Consultations undertaken

4.1. The engagement and consultation activity regarding LCN development has involved a wide range of internal and external stakeholders over a number of years and elicited a diverse range of views and opinions, which have informed decisions on matters including LCN geographies and governance. Initial informal feedback from the early meetings is reflected in the themes of this report. More detailed feedback will be sought and reported as part of the ongoing development and evaluation of LCNs.

5. Implications

5.1. Financial and Risk Implications

The establishment and ongoing development of LCNs requires a level of financial investment in their infrastructure, primarily in terms of staffing budgets. On 18 January 2023, Executive noted that indicative annual costs for running LCNs would be up to £900k. Members agreed a one-off Earmarked Reserve amount of £300k that could be used to mobilise LCNs, pending a review of existing community development spend across the Council. This review would seek to realign and repurpose existing budgets to be able to deliver LCNs. This review is however fairly complex and involves several service directorates, and therefore will take some time to complete.

5.2. Recognising the increasing risk of not having the permanent LCN team in place, the focus is on identifying any potential savings that can allow LCN team recruitment to progress ahead of completion of the full review of community development activity and spend.

5.3. It is intended that the priorities of LCNs will, locally and strategically, influence the spend of the Council and it is hoped that over time existing funding streams aligned to particular priorities can be directed through these networks. There is also the potential for 'return on investment' with LCNs playing a role in preventing residents reaching crisis.

5.4. Legal and HR implications

There are no legal implications arising directly from this report. Emerging governance issues relating to the approved LCN ToRs, and how they will be addressed are detailed within the report.

5.5. HR implications relate to financial implications, in as much as there is a need to put the operations of LCNs on a financially sustainable footing, which includes provision for a permanent staff team.

5.6. As referenced above in Financial Implications, LCNs will need to be supported by a team of officers with a wide range of knowledge, skills and experience, spanning community engagement and development, stakeholder and partnership relationship building, the ability to think locally and strategically, manage projects and negotiate solutions and resources.

5.7. Equalities Implications

An initial Equalities Impact Assessment accompanied the decision paper to Executive on 18 January 2023. This assessment directly influenced how LCN meetings have been designed and delivered, however equality considerations are a key part of ongoing evaluation and review.

5.8. Community Safety Implications

There are no community safety implications arising directly from this report. However, there is potential for LCNs, once established, to support community safety priorities.

5.9. Sustainability Implications

There are no sustainability implications arising directly from this report. However, there is potential for LCNs to support sustainability priorities of communities and the Council.

5.10. Health and Safety Implications

There are no health and safety implications arising directly from this report.

5.11. Health and Wellbeing Implications

There are no Health and Wellbeing implications arising directly from this report. However, there an expectation that LCNs will have significant potential to support Health and Wellbeing priorities.

5.12. Social Value

There are no Social Value implications arising directly from this report. However, there is potential for LCNs, over time, to contribute to Social Value priorities.

6. Background papers

6.1. Decision Report to Executive January 2023: Local Community Network (LCN) Development Next Steps is here

Decision Report To Governance and Constitution Committee January 2023: Governance Arrangements for Local Community Networks here

Note For sight of individual background papers please contact the report author