

Decision Report - Executive Decision

Decision Date – 08 November 2023

Key Decision – No



Financial Strategy Update

Executive Member(s): Deputy Leader of the Council and Lead Member on Resources and Performance

Local Member(s) and Division: All

Lead Officer: Jason Vaughan, Executive Director – Resources & Corporate Services (Section 151 Officer)

Author: Jason Vaughan, Executive Director – Resources & Corporate Services

Contact Details: jason.vaughan@somerset.gov.uk

Summary

1. The new Council faces a very stark and challenging financial position with its cost of delivering services increasing significantly faster than the income it receives. The income the council receives comes from Council Tax, government grants, and fees and charges such as parking charges and planning fees. The council is not able to increase Council Tax in line with inflation as its increases are controlled by government through referendum limits which restrict any increase to a maximum of 2.99% and for the adult social care precept to 2%. With inflation hitting double digits and being at a 40 year high over the last year, the increases in costs at the same time as income has been restricted results in a fundamental imbalance and a very considerable budget gap between the costs of providing services and the income the council receives.
2. The most significant area of impact is on the adult social care budget where costs are increasing at a much faster rate than Council Tax and the adult social care precept. The cost pressures in the adult social care budget are driven by the soaring costs of providing care, particularly the costs of residential care placements. Traditionally the costs in Somerset have been amongst the lowest in the country providing extremely good value for the council taxpayer of Somerset. The impacts of interest rates, cost of living, Brexit, Covid, Covid jobs, and the commencement and then postponement of the national Fair Cost of Care exercise by the government, have all been detrimental to the cost of placements, particularly in Somerset.

3. When the current year's budget was set in February 2023 the Medium-Term Financial Plan (MTFP) forecast the budget gap for 2024/25 based upon the available information and it estimated that the budget gap between costs and resources available was £42m which equates to around 8.5% of the net budget.
4. The Financial Strategy approved by the Executive in July 2023 recognised that given the level of required savings, the known pressures within the current year's budget and the relatively low level of reserves, the need to take decisive action combined with the limited staff resources so soon after Local Government Reorganisation was to take an approach that had three key elements in order to balance the budget and put the council on sound financial footing. The key elements are: -
 - Targeted Areas – An early focus on 'big ticket' items that are some of the key building blocks of the budget. Not all of these areas will deliver a direct financial savings and some are part of having sound financial management arrangements in place that are necessary to ensure the organisations financial sustainability.
 - 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 councils' funding streams in the light of deferral by government of the funding reforms and checking that the underlying assumptions still seem reasonable.
 - Service Budget Options – All service directors to review their services and identifying Budget Options for members to consider. The Financial Strategy set out a framework for doing this and the output will help form the basis of a transformation pipeline of savings for the MTFP over the next three years.
5. **The work undertaken over the last few months has seen a substantial increase in the budget gap as cost pressures have increased and a relatively low level of new saving options being put forward by services.** At this stage, the latest forecast is that the budget gap has increased to £100m for 2024/25 with gaps of £42m for 2025/26 and £41m for 2026/27. The focus over the next few months is a combined approach of mitigating and reducing down the cost pressures and developing a range of budget saving options from across all parts of the council.

6. The month five budget monitoring report is projecting an overspend for 2023/24 of £27.3m (5.5%), the majority of which relates to Adults and Children's Services. The cost pressures identified in the current year, continue into the 2024/25 financial year with demand and inflation in social care far outstripping forecast increases in council tax, business rate income and government grants. **These trends are being experienced across the sector although the increases in costs seem significantly higher in Somerset than in other areas.**
7. The Council does have reserves, but these were set aside for unforeseen costs, not ongoing expenditure. If the budget gap is not reduced substantially over the coming months, it would use the bulk of General Fund reserves meaning the Council would not be financially sustainable. A review of the £104.9m held in Earmarked Reserves is currently being undertaken to identify the precise value of reserves that can be repurposed to support the budget. The Council has £49.8m in General Reserves and has set the minimum level at £30m for the current year.
8. The Section 151 Officer wrote to the Department of Levelling Up, Housing and Communities (DLUHC) in September setting out the financial challenges facing the council (**Appendix 1**) and shared this with the Chartered Institute of Public Finance and Accountancy (CIFPA), SWAP (internal auditors) and Grant Thornton (external auditors). As a result of this Officers have met with DLUHC to warn them of the position, that without significant additional funding or changes in legislation around support for Social Care, Somerset would join other councils that are already warning of imminent s114 notices. There has also been a meeting with the External Auditors and they have now formally written to Duncan Sharkey, Chief Executive concerning the council's Financial Sustainability (**Appendix 2**). The Audit Committee at their meeting on 26 October have considered these letters.
9. The updated Medium Term Financial Strategy and draft Budget for 2024/25 will be submitted to Executive in December 2023 and Council will approve the budget in February 2024

Establishment of Financial Focus Group

10. **With slow progress on addressing both the in year projected overspend and lack of budget savings options being produced by services, an emergency response is required immediately.** A financial focus group has been established to provide further drive across the organisation with a clear

programme of activity to address the budget overspend in the current year and the forecast budget gap for next year, ensuring sufficient dedicated resources are in place, auditable progress tracking is in place and a clear communication is put in place.

11. The Financial Focus Group will initially focus on the delivery of actions agreed by Executive as part of the Month 3 Budget Monitoring Report and the 2024/25 budget gap. This includes identifying a series of budget proposals to address the in-year overspend and the actions set out in financial strategy to develop deliverable budget proposals for next financial year for member approval. The team will ensure that:

- the current assumptions upon which the budget gap is based are challenged.
- ensure that directorate level in year expenditure is challenged.
- a review of vacancies across the organisation is undertaken.
- review of the capital programme is carried out on schemes that require borrowing or capital receipts.
- progress is monitored and reported to members, corporate leadership team, stakeholders and staff about the situation and the actions taken. The team will seek input and feedback throughout the process and will ensure transparency and accountability.

12. Each Service Director is being subject to a Service Challenge session with a focus on what actions they are taking in current year to help with the forecast overspend, what new savings options can they put forward and what can they do to reduce or remove their service pressures. These will be completed by end of October and should see the £100m gap reduced. In addition to these service challenge sessions and given the size of cost increases, both Adults and Childrens & Families are also subject to 'deep dive' reviews using external experts. The existing capital programme and bids for new capital schemes are being reviewed to the aim of removing schemes in order to reduce down borrowing costs and make revenue savings. Staffing establishment control and spending controls have also been put in place. A review of the councils inherited commercial investment portfolio been complete and the recommendation is to dispose of them and reduce down the Council's risks. The rationalisation of the council offices and other asset disposals is part of the overall strategy to generate capital receipts and reduce down running costs. A transformation programme to

reshape the councils' services in line with limited resources available is underway and will be brought forward in December.

Audit Committee

13. The Audit Committee considered the section 151 officer's letter to DLUHC on Somerset Councils Financial Challenges and the letter from Grant Thornton on the Financial Sustainability of the Council. At their meeting 26 October the Audit Committee was not assured that arrangements were in place to address the current years forecast overspend or to close the 2024/25 budget gap. As a result, they have called a special Audit Committee to consider the council's financial sustainability in December when the quarter 2 budget monitoring report and the 2024/25 budget update reports are available.

Recommendations

14. That the Executive:
 - a) Agrees that Somerset Council faces a financial emergency and acknowledges that urgent actions need to be taken to address the position including the setting up of the Financial Focus Group and the introduction of further financial controls to limit spending.
 - b) Approves that the Council should continue its discussions with the Department for Levelling Up, Housing and Communities (DLUHC) following the letter from the Section 151 officer to them concerning the councils' financial challenges and the initial meeting.
 - c) Agrees that there should be a special meeting of the Audit Committee in December to consider the council's financial sustainability and the issues raised in the letter from Grant Thornton.
 - d) Approves the disposal of the commercial investment portfolio, delegates the appointment of external agents to the Director of Strategic Asset Management and uses the Property & Investment Executive sub-committee to oversee the disposal programme.
 - e) Agrees to receive an update report on the actions being taken and progress in closing the budget gap for the 2024/25 Budget at the 6 December Executive 2023 meeting.
 - f) Receives a report on the review of Earmarked Reserves at the 6 December Executive meeting.

- g) Task the Asset Management Group with bringing forward asset disposals including council office rationalisation proposals, with an update to the Executive on 6 December 2023.
- h) Agrees to receive a report on the vision for a sustainable Somerset Council at the 6 December 2023 Executive meeting.

Reasons for recommendations

- 15. To ensure that the Council has tight control over its finances and is able to set a balanced budget for 2024/25.

Other options considered

- 16. No other options were considered given the current number of inflight actions to develop the 2024/25 budget proposals that will be considered by Council in February 2024.

Links to Council Plan and Medium-Term Financial Plan

- 17. 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 and to avoid a section 114 notice.

Financial and Risk Implications

- 18. It is clear that the scale of financial challenges facing the council are significant. There is also more risk and uncertainty for the new council until all of the external audits of 2022/23 accounts from the predecessor councils are finalised. Given the size of the updated budget gap, Strategic Risk ORG0057 Sustainable MTFP has the highest score possible:

Likelihood	5	Impact	5	Risk Score	25
-------------------	----------	---------------	----------	-------------------	-----------

Legal Implications

- 19. There are no specific legal implications arising from this report.

HR Implications

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

Other Implications:

Equalities Implications

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

Community Safety Implications

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

Climate Change and Sustainability Implications

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

Health and Safety Implications

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

Health and Wellbeing Implications

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

Social Value

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

Scrutiny comments / recommendations:

27. This report will be presented to Scrutiny for Corporate & Resources Committee, on 9 November 2023, alongside the month five budget monitoring report.

Background

28. The Full Council approved the 2023/24 Budget in February 2023, the first budget for Somerset Council. The budget was put together using the information from the five predecessor councils which all recorded budgets in different ways and it has become apparent that there are some areas where one-off sources of funding

has been used to finance on-going expenditure, some items were not properly budgeted for and there was additional staffing employed over and above the staffing establishment budget.

29. The current year's budget was developed 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 structures which will require further adjustments to the budget in order to reflect the new staffing establishment.

Medium-Term Financial Strategy (MTFS)

30. The Medium-Term Financial Strategy (MTFS) provides a strategic financial framework and a forward-looking approach to achieving financial sustainability for the Council. The 2024/25 to 2026/27 Financial Strategy was approved in July 2023. This report provides an update to that and is central to the delivery of the Council's priorities in an affordable and sustainable way over the medium term. It aids robust and methodical planning as it forecasts the Council's financial position, taking into account known pressures, major issues affecting the Council's finances, including external economic influences as well as local priorities and factors. It helps the Council to respond, in a considered manner, to pressures and changes as a result of many internal and external influences. This is particularly important during a period when the Council faces considerable pressures and challenges, such as those relating to the cost-of-living crisis and increased demand for social care. The MTFS recognises the key role that financial resources play in the future delivery of priorities and in enabling the effective planning, management, and delivery of services. The approach concentrates on the principles that will provide a strong direction for the medium term.

31. The key overriding aim of the MTFS is therefore:

“To provide a financial framework within which financial stability can be achieved and sustained in the medium term to deliver the Council's key strategic priorities and sustainable services.”

32. The six key objectives of the MTFS are to:

- Provide financial parameters within which budget and service planning should take place;

- Ensure that the Council sets a balanced and sustainable budget;
- Focus and re-focus the allocation of resources so that, over time, priority areas receive additional resources. Ensuring services are defined on the basis of clear alignment between priority and affordability;
- Ensure that the Council manages and monitors its financial resources effectively so that spending commitments do not exceed resources available in each service area and where ring-fenced government funding is reduced the service area takes action to reduce expenditure accordingly;
- Plan the level of fees, charges and taxation in line with levels that the Council regard as being necessary, acceptable and affordable to meet the Council's aims, objectives, policies and priorities; and
- Ensure that the Council's long term financial health and viability remain sound.

33. Overall, the gap outlined in February 2023 for the next three years was a predicted shortfall between the resources available and cost of current service of £100m by 2026/27 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). 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 set out a targeted approach with three key elements, which are:

-

- Targeted Areas – An early focus on 'big ticket' items that are some of the key building blocks of the budget.
- Review of MTFP assumption – Challenging and reviewing of the identified cost pressures to try and reduce them down which would reduce the MTFP gap. Each Service is being subject to a challenge session Also reviewing all the funding streams in the light of deferral by government of the funding reforms.

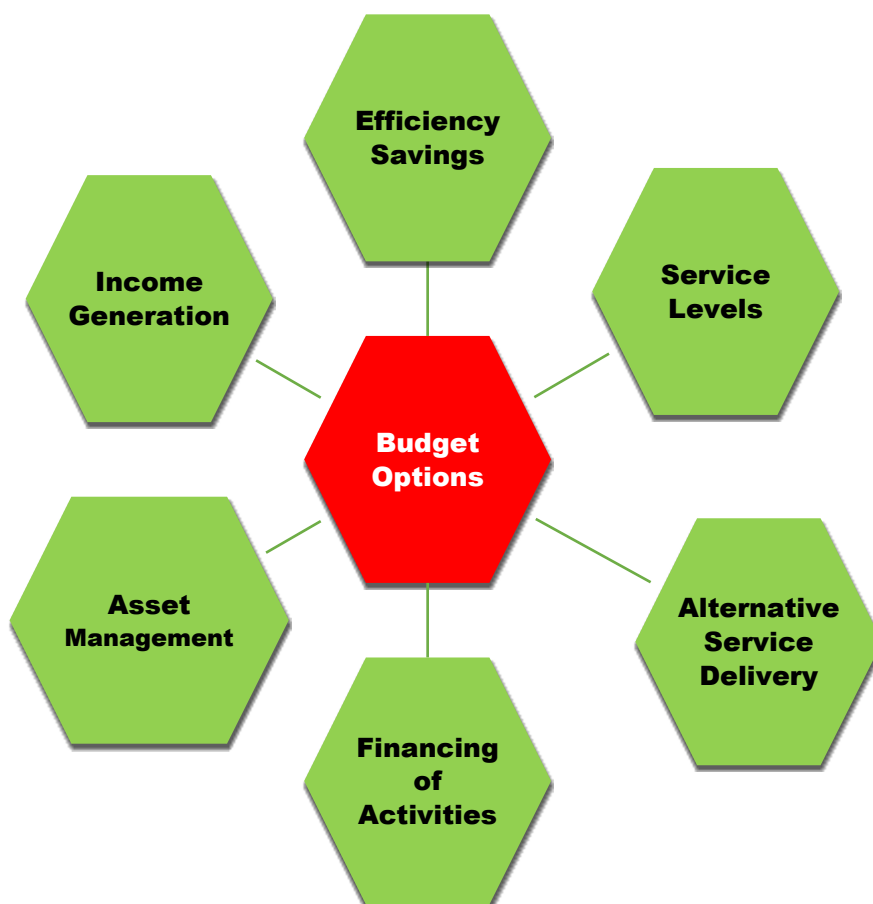
- Service Budget Options – All Service Directors will be reviewing their services and identifying Budget Options for members to consider. This will help form the basis of a transformation pipeline of savings for the MTFP over the next three years.

Targeted Areas

34. An early focus on 17 key areas that are ‘big ticket’ items which included a combination of some saving areas and some of the key building blocks of the budget. Progress against these items has been slower than anticipated and the latest position is set out in **Appendix 3**.

Review of MTFP Assumptions

35. The funding assumptions for 2024/25 have been reviewed and are in line with February 2023 forecast. Confirmation on the actual funding levels will come from government with Autumn Statement on 22 November providing some high-level details of government department funding levels but the actual detail of the councils funding will not be confirmed until the local government finance settlement takes place. This should be by 7 December each year, but that target has not been met by government and it is expected to be shortly before Christmas.
36. The current year’s budget was developed upon the delivery of the LGR business case and minor savings from services. The Financial Strategy set out a framework for services to develop budget options for each service under the following headings:-



37. Savings already identified and approved by the council for 2024/25 total £10.2m. New savings of £9.3m for 2024/25 have been identified by services but significantly more are required in the light of increased cost pressures.
38. At this stage there is significant gap between increased costs of services and the funding available. Overall, the budget gap at this point in time is now £100m for 2024/25, an increase of £58m from the February forecast. **Table 1** below summarises the position and also shows the current year's budget, MTFP forecast in February 2023 and areas of change.

Table 1 - MTFP Updated – as at 13 October 2023

Latest Position @ 13/10/23	2023.24 Budget £m	Feb 23 Forecast 2024.25 Budget £m	Oct 23 Forecast 2024.25 Budget £m	Change in Forecast £m
Adults Services	187	222	256	34
Children & Family Services	123	129	140	11
Community Services	35	35	40	5
Climate & Place	87	92	91	-1
Strategy, Workforce & Localities	20	20	20	

Resources & Corporate Services	20	22	20	-2
Public Health	1	1	1	
Local Government Reform	0	-8	-7	1
Corporate Contingency	6	6	6	
Accountable Bodies	4	4	4	
Corporate Areas	66	82	94	12
Special Grants	-56	-65	-66	-1
Net Budget Requirement	493	540	598	58
Financed by:				
Revenue Support Grant	-8	-9	-8	1
Flexible Use of Capital Receipts	-4			
Business Rates (Combined)	-122	-130	-131	-1
Business Rates Collection Deficit	6			
Council Tax Collection Surplus	-7			
Council Tax	-295	-307	-307	
Council Tax Adult Social Care	-40	-47	-47	
Council Tax Somerset Rivers Authority	-3	-3	-3	
Earmarked Reserves	-20	-2	-2	
Total Financing	-493	-498	-498	0
Budget (Surplus) / Deficit	0	42	100	58

39. The key areas of change are: -

- Adults £34m – significant increased placement costs
- Childrens & Families £11m – external placement costs and SEND transport
- Community Services £5m – homelessness and contractual inflation
- Corporate £12m – national pay award (estimated to be 5%) and debt financing costs of new bids

Actions being taken to close the budget gap

40. There are a range of actions being taken to close the £100m forecast budget gap which include:-

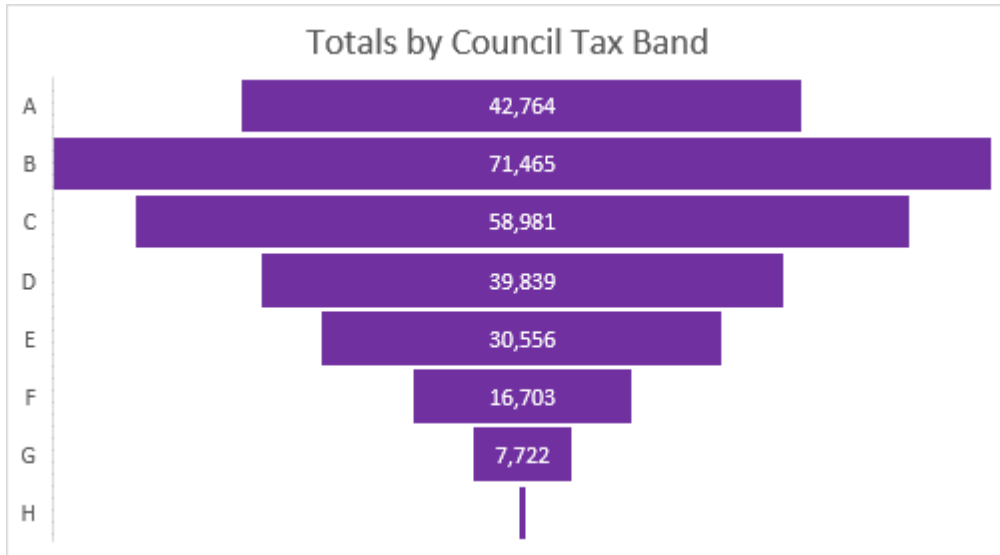
- challenge session for each service Director by their peers with a view of reducing the current service pressures and identifying new savings options using the framework set out in the financial strategy.
- deep dive sessions for both Adults usings John Jackson, LGR national expert and Newton Europe.
- deep dive review of Childrens & Families using external experts Peopletoo.
- reviewing all of the existing capital programme and bids for new capital schemes to remove schemes that are no longer affordable.

- implementing further Staffing establishment controls around vacant posts, temporary posts and agency staffing in order to reduce costs.
 - reviewing the inherited commercial investment portfolio and developing a disposal programme.
 - rationalisation of the council offices and other asset disposals to generate capital receipts and reduce running costs.
 - developing a transformation programme to reshape the councils' services within the available medium-term resourcing envelope against the vision for a sustainable Somerset Council
41. The updated position and progress on these actions will be reported to the executive at its 6 December meeting.

Structural Budget Problem

42. The council has a structural budget problem with its cost base increasing at a significantly higher rate than its income. The main source of income is council tax which is limited by government through the referendum limits. For 2024/25 the indication is that council tax can increase by 2.99% and that there can be a rise of 2% in the adult social care precept. With general inflation entering double digits and a 40 year high during the year, these below increases automatically mean a significant cut to service before taking account of any new demand.
43. Council tax is the biggest source of funding for the council brings in over £338m with properties in Band B being the most common council tax band as shown in **Table 2** which details the total number of properties in each council tax band as at October 2023.

Table 2 – Total number of properties in each council tax band.



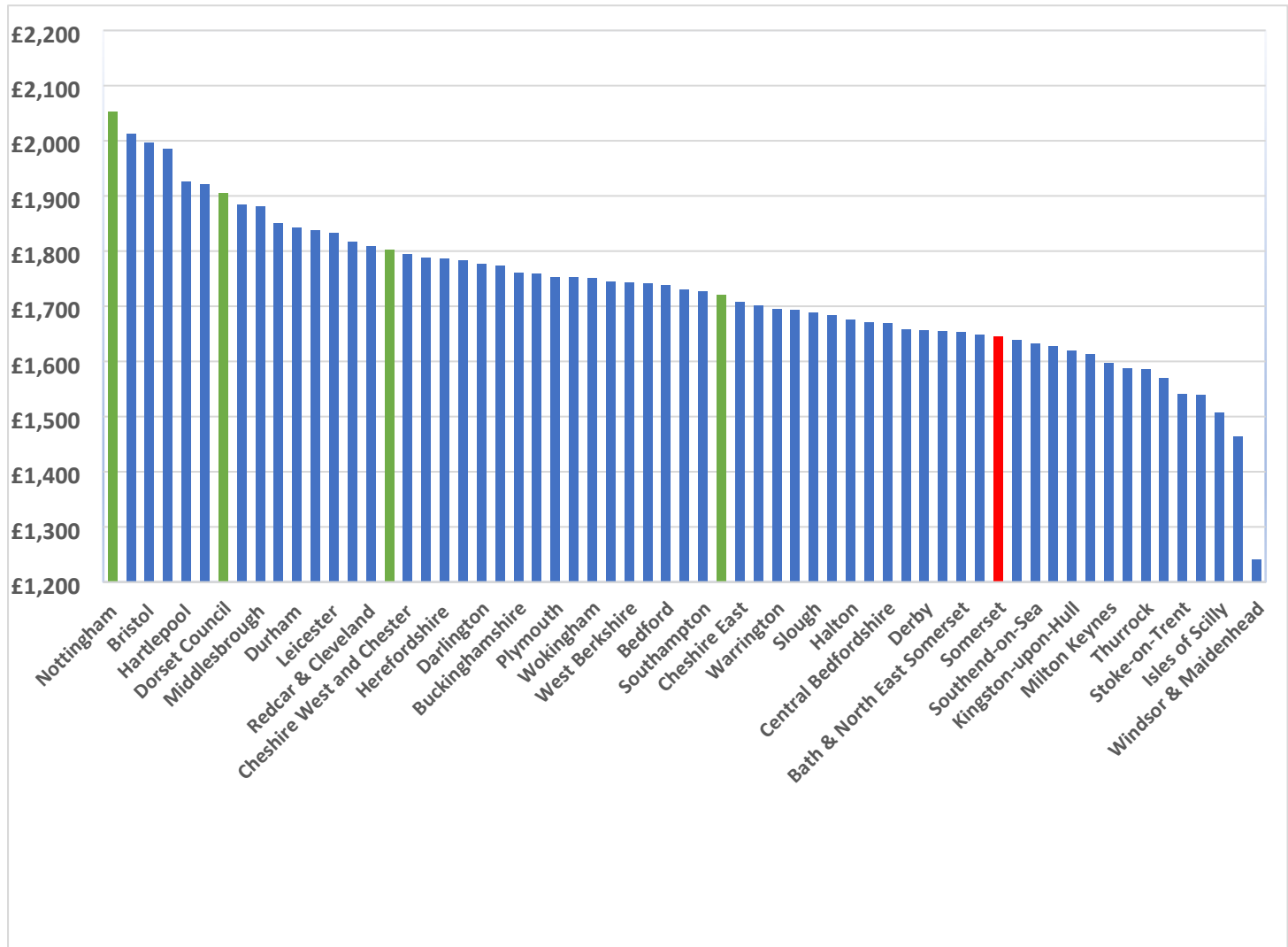
44. **Table 3** shows the breakdown of the council tax bands based upon the CTB1 return to government by previous District area as at October 2023.

Table 3 – Council Tax Bands by areas October 2023

Council Tax Bands									
	A	B	C	D	E	F	G	H	Total
Mendip	7,330	13,713	13,021	8,081	6,164	3,503	1,988	131	53,931
Sedgemoor	13,654	13,091	12,814	8,530	5,530	2,865	1,416	60	57,960
Somerset West & Taunton	10,851	21,222	15,673	11,540	8,677	5,092	2,330	148	75,533
South Somerset	10,929	23,439	17,473	11,688	10,185	5,243	1,988	168	81,113
Total chargeable properties	42,764	71,465	58,981	39,839	30,556	16,703	7,722	507	268,537
Percentage in each band	15.92%	26.61%	21.96%	14.84%	11.38%	6.22%	2.88%	0.19%	100.00%
Cumulative %	15.92%	42.54%	64.50%	79.34%	90.72%	96.94%	99.81%	100.00%	

45. The council tax charge for Somerset Council is a harmonisation of the charges of the five processor councils. **Table 4** compared the Band D charge in Somerset, which is used for national comparison purposes, against the other 62 unitary councils.

Table 4 - 2023/24 Band Council Tax Charge for Unitary Councils



46. The Somerset Council charge is lower than the majority of other unitary councils with it being:

- Ranked 49 out of 63 for unitary councils
- Somerset Council Tax Charge £1,646.04
- Average unitary charge £1,727.08
- Charging unitary average would generate an additional £16.7m per annum

- Charging the same as the highest, Nottingham (£2,053) would generate an additional £83.7m per annum.

47. Charging the same as other local unitary council would generate additional annual income of: -

- Dorset (£1,906) - £53.4m per annum additional income
- Cornwall (£1,803) £32.3m per annum additional income
- Wiltshire (£1,702) £11.5m per annum additional income

48. Having a lower council tax charge also impacts upon the income from the Adult Social precept as illustrated by the **table 5** below.

Table 5 - Comparison of Adult Social Care precept by SW unitary

Local Authority	Total Properties	Tax Base	Population 2021 Census	Total ASC Precept Charge	ASC Precept income £m	£ per head of pop
Cornwall	279,638	206,063.26	570,300	£228.07	£47.00	£82.41
Dorset	183,265	152,424	379,584	£239.67	£36.53	£96.24
Wiltshire	228,910	191,142.94	510,400	£225.88	£43.18	£84.59
Somerset	266,235	205,674.09	573,119	£196.46	£40.41	£70.50

The Capital Programme

49. A revised General Fund Capital Programme and HRA Capital Programme was approved at Council in September 2023. This combined the outturn position and slippage of the five legacy Councils and the Capital Programme approved in February 2023. Slippage of £59.4m was brought forward and a revised budget of £391.6m set for the General Fund and slippage of £90.4m brought forward and a revised budget of £122.6m set for the HRA. Both programmes are currently being reviewed in terms of priorities and affordability.

50. In addition to this the Strategy approved in July outlined the criteria for new bids for capital funding reflecting the financial outlook as follows:

- Schemes that are fully externally funded: &
- Where there is a legal requirement such as Health & Safety Needs

51. To date new capital bids totalling £227.0m have been received and are summarised in **Table 6**. These new schemes would require new borrowing of £116.6m.

Table 6 – New Capital Bids

Type of Bid	2024/25 £'m	2025/26 £'m	2026/27 £'m	2027/28 £'m	2028/29 £'m	TOTAL £'m
Fully Funded	33.6	37.8	6.2	6.2	6.1	89.9
Health & Safety	21.2	18.6	17.4	17.2	17.2	91.6
Save to Earn	6.8	7.0	4.6	4.0	4.0	26.4
Other bids	4.8	9.2	2.8	1.0	1.1	19.0
Total	66.5	72.6	31.1	28.4	28.4	227.0

Funding Type	2024/25 £'m	2025/26 £'m	2026/27 £'m	2027/28 £'m	2028/29 £'m	TOTAL £'m
Grant	37.8	41.8	10.2	10.1	10.1	110.0
3 rd Party Contributions	0.2	0.1	0.1			0.4
Borrowing	28.4	30.7	20.8	18.3	18.4	116.6
Total	66.5	72.6	31.1	28.4	28.4	227.0

52. At present the MTFP includes the £116.6m of new borrowing costs with £9.8m (across the five years) of interest, MRP costs and revenue consequences. Therefore the work to review the capital programme and reduce down the number of new schemes to an affordable level and ensure that only those that meet the strict criteria set out will help reduce down the budget gap.

Commercial Investment Portfolio

53. The general market values of UK commercial investment properties has fallen by over 20% since April 2022. The Council inherited a commercial investment portfolio with a total purchase price of £289m and current valuation as at 31 March 2023 of £220m. The financing of some of the investment was from short-term borrowing when interest rates were at the historic low 0.1%. Since then, rates have significantly increased meaning that the portfolio is no longer profitable. Given this and the overall financial position that the council it is recommended that the

decision is made to dispose of the commercial investment portfolio, to delegate the appointment of external agents to Director of Strategic Asset Management and uses the Property & Investment Executive sub-committee oversee the disposal programme.

54. A key objective from the disposal project will be to achieve the best sale prices reasonably obtainable. This will involve securing highly capable specialist services for the council from investment agents and lawyers, ensuring the whole package prepared for the marketing is in the optimum position and being properly resourced and organised within the council.

Risk Update

55. **Table 7** below sets out an update the main risks associated with the 2023/24 budget that was outlined in the strategy considered by the Executive in July:

Table 7 – Risks

Risk	Rag Rating (R/A/G)	Risk Owner	Comments, Management and Mitigations
National pay award will be higher than estimated	R	Executive Director of Resources & Corporate Services	A 5% increase was built into the budget for 2023/24. This has not been accepted within negotiations to date. A further 3% has been added to the budget for 2024/25 to increase the provision to 5%. Inflation has decreased slightly compared to July but was still running at 6.7% in September.

Continuation of high levels of inflation impacting on the cost of services and pay budgets	R	Executive Director of Resources & Corporate Services	The CPI inflation rate was 10.4% in February and now has decreased to 6.7%. This is expected to decrease to around 5.2% later this year and possibly 2.9% later in 2024. Inflationary increases are built into some of our major contracts and are having a huge impact on service costs as well as goods and materials. The timing of inflationary reductions will need to be monitored as part of the MTFP in predicting future pressures.
Changes to Government Policy that affects future funding (Social Care)	R	Executive Leadership Team	Further funding for social care was made in the Provisional Settlement but funding still remains lower than demand and inflationary pressures within the service. Fair Cost of funding has now been delayed until 2025 and with the funding being given to local authorities for current pressures it remains to be seen how this will be funded in the longer term
Continuation of high interest rates impact on borrowing costs	R	Service Director – Finance and Procurement	The base rate of interest has now increased to 5.25%. It remains to be seen as to whether this will be the peak or whether further rate rises will occur. This is impacting on the replacement of debt although cash flow in 2023/24 is supporting internal borrowing creating an underspend. This will become more difficult as reserves are used to support the budget and any overspends. Reducing the capital programme and selling assets will help to mitigate this.

Increasing demand due to external factors	R	Relevant Service Director	The cost-of-living crisis and reducing budgets in partner organisations have a significant impact on demand including the number of children requiring support, or the complexity of need, and therefore the cost of services. This risk has now increased as demonstrated in the projections for 2023/24 within budget monitoring.
The Government announces further cuts in local government funding	R	Executive Leadership Team	The Provisional Settlement outlined most of the funding for 2024/25. The risk has now increased as it looks more likely that funding will not keep in line with inflation as well as a push from Government to reduce the cost of public services through further efficiency targets.
Delivery of a balanced budget for 2024/25	R	Executive Leadership Team	The issues and actions are laid out in the body of this report
Reserves are not sufficient to meet the risks facing the Council including the possibility that the deficit on the High Needs Block could have to be financed from other reserves once the statutory override ends	R	Executive Director of Resources & Corporate Services	A full review of reserves has almost been completed. The risk has increased from amber to red given current in year projections and the budget gap for 2024/25. Need to continue to press Government to address the issues around high needs and how deficits will be financed.
Economic downturn impacts on income	A	Relevant Service Director	This will continue to be reviewed as part of budget monitoring

Unforeseen events outside Somerset Councils control	A	Relevant Director	Events such as extreme weather, increases in fuel and utility costs (currently a major issue) and changes in recycling material values are outside our direct control. These will need to be monitored and the MTFP updated as necessary.
---	----------	-------------------	---

56. This will be updated for the 6 December report to the Executive.

Background Papers

- 57. 2023/24 Budget, Medium-Term Financial Plan & Council Tax Setting report to Council February 2023
- 58. Medium Term Financial Strategy (MTFS) 2024/25 to 2026/27 report to Corporate & Resources Scrutiny & Executive July 2023
- 59. Monthly Budget Monitoring reports to Executive & Corporate & Resources Scrutiny Committee

Appendices

- Appendix 1 - Letter from S151 Officer to DLUHC concerning Somerset Council - Financial Challenges
- Appendix 2 - Letter from Grant Thornton concerning the Financial Sustainability of Somerset Council
- Appendix 3 - Update on progress against 17 Key Areas

Report Sign-Off

	Officer Name	Date Completed
Legal & Governance Implications	David Clark	30/10/2023
Communications	Peter Elliott	27/10/2023
Finance & Procurement	Nicola Hix	26/10/2023

Workforce	Dawn Bettridge	30/10/2023
Asset Management	Oliver Woodhams	26/10/2023
Executive Director / Senior Manager	Jason Vaughan	26/10/2023
Strategy & Performance	Alyn Jones	30/10/2023
Executive Lead Member	Cllr Liz Leyshon	30/10/2023
Consulted:		
Local Division Members	All	
Opposition Spokesperson	Cllr Mandy Chilcott Deputy Leader of the Opposition and Opposition Spokesperson for Resources and Performance	30/10/2023
Scrutiny Chair	Cllr Bob Filmer, Chair - Scrutiny Corporate & Resources Committee	30/10/2023