

Decision Report - Executive Decision

Forward Plan Reference: FP/23/10/09

Decision Date – 15 January 2024

Key Decision – No

2024/25 General Fund Revenue Budget Update

Executive Member(s): Cllr Liz Leyshon - 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 (s.151 Officer)

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Summary

1. This report updates Executive on the latest budget position and will form the basis of the budget consultation with the Corporate and Resources Scrutiny Committee. The Scrutiny Committee consultation response will inform the budget report to February Executive which has the responsibility for recommending the 2024/25 budget to Council on 20 February 2024.
2. The Financial Strategy was approved by the Executive in July 2023 and updated in the light of the 'Financial Emergency' has been focused upon avoiding a section 114 notice by taking the following actions:
 - reducing the current year's overspend,
 - reviewing and reducing budget pressures,
 - identifying further saving options,
 - reducing the capital programme and bids for new schemes,
 - maximising funding & income to the council,
 - generating capital receipts from asset disposals,
 - disposing of commercial investments,
 - completing the outstanding statement of accounts from the processor councils,
 - reviewing Earmarked Reserves and repurposing them to support the budget,

- 'resizing' of the organisation (workforce transformation) to enable it to become financially sustainable in the future, and
 - working with DLUHC on a capitalisation direction.
3. The latest position is shown in **table 1**, which summarises the changes from the current year's budget to the draft 2024/25 budget. It highlights that there is a significant increase in cost pressures for 2024/25 of £108.5m, which is an increase of 20% on the 2023/24 budget.
 4. The funding assumptions have been updated following:
 - the provisional finance settlement received on 18 December 2023,
 - the national pay award estimated at 4% for 2024/25,
 - financing costs (debt and investment income) the latest interest rates forecast, reductions in reserves and capital spend.
 5. Officers have been following the strategy of avoiding a Section 114 notice by identifying all potential savings that could be delivered in 2024/25 and these total £35.2m with £11.1m of these being previously approved and £24.1m of new saving options.
 6. The delivery of the potential savings and other budget proposals will in some cases require consultation with service users, partners, staff and trade unions. Appropriate consultation and completion of Equalities Impact Assessments will be done ahead of decisions being taken by either the Executive, Lead Members or Officers to implement the actual savings and budget proposals that form the basis of the Council's approved budget for 2024/25. Budget implementation decisions will be taken prior to 1 April 2024 and throughout 2024/25 and progress will be monitored through the regular budget monitoring reports considered by the Executive and Scrutiny Committees.
 7. Taking the savings into account means the updated budget gap for 2024/25 is £82.5m. This gap can be reduced on a one-off basis by the use of £36.8m of reserves (agreed by Executive in December 2023), and £7.8m from the collection fund surpluses for Council Tax and Business Rates, reducing the gap for 2024/25 to £37.9m.

Table 1: Summary of changes from 2023/24 to 2024/25 budget

Changes to 2023/24 budget	£m
Reversals for once off items	19.7
Pressures	108.5
Savings	(35.2)
Changes to pay	13.8
Increase in financing costs	12.9
Increase in funding	(37.2)
Updated budget gap	82.5
One off items – to balance budget	
Use of Medium Term Financial Plan Support Reserve	(36.8)
Council Tax Collection Fund surplus	(6.2)
Business Rates Collection Fund surplus	(1.6)
Remaining budget gap	37.9

8. It is recommended that the Council bridge the remaining gap by requesting dispensations from Department for Levelling Up, Housing and Communities (DLUHC). These requests are summarised in **table 2** and are based upon:
- approval to increase Council Tax by 9.99% in 2024/25 to bring Somerset's charges more in line with other unitary councils. This would generate an additional £17.1m per annum on an ongoing basis; and
 - be granted a capitalisation direction for the balance of £20.8m, or, if the request to increase Council Tax by 9.99% is not granted by £37.9m.

Table 2: Option to close the budget gap for 2024/25

Remaining budget gap	2024/25 £m
Budget gap – December 2023	37.9
Increase Council Tax by a further 5%	(17.1)
Capitalisation Direction from DLUHC	(20.8)
Balanced position	0.0

9. If DLUHC do not grant either dispensation request the Council will not be able to balance the 2024/25 budget. This situation will force the Section 151 officer to use his statutory powers and issue a section 114 notice.

10. There have been several meetings with DLUHC concerning the 2024/25 budget. Discussions have included the application for a capitalisation direction to enable the budget gap to be closed. In the provisional local government financial settlement, it was announced that government would consider representations on Council Tax provisions. The statement said that:

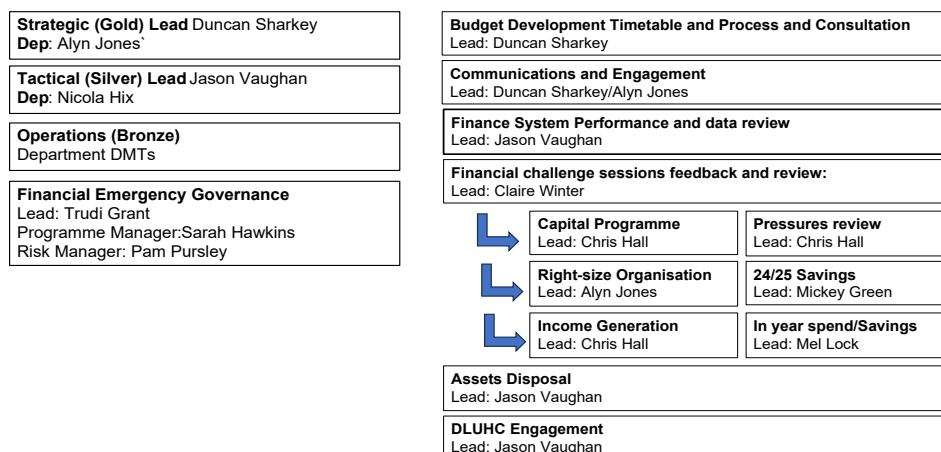
“Where councils need additional support from government, they should take every possible step to minimise the need for that support to be funded by national taxpayers. As part of that process, the government will consider representations from councils, including on council tax provision.”

11. The potential to increase Council Tax above referendum limits has been permitted in 2023/24 for Thurrock (10%), Slough (10%) and Croydon (15%) and 10% for 2024/25 in Woking, Slough and Thurrock. Allowing this would bring Somerset’s Council Tax charge to be closer to the average of all Unitary Councils, although it would still be a lot lower than others in the region such as Dorset and Cornwall, and still significantly below the English average charge. The advantage of increasing Council Tax is that the Council gains the benefit of the increase on an ongoing basis. The vulnerable will be protected from the increase through the recently approved Council Tax Reduction and Hardship schemes which will increase by 6.7% for 2024/25, in line with the rise in state benefits announced in the Autumn Statement.
12. A capitalisation direction does not solve the budget gap on an on-going basis, it is simply a mechanism that provides the Council time to radically change and develop sustainable solutions. If a capitalisation direction is not financed from capital receipts it will add to the financial pressures, with borrowing from the Public Works Loan Board (PWLB) attracting a premium of 1% over the standard rate. The additional borrowing will need to be repaid over a 20-year period from 2025/26. A capitalisation direction of for example £20m, would cost the Council £1m per annum (pa) in minimum revenue provision (MRP) and approximately £1.3m pa in interest, a total of £2.3m pa unless this can be funded from asset disposals. If the gap is not resolved for 2025/26 then another capitalisation direction would need to be sought, further adding to the ongoing pressures.
13. The very stark and challenging financial position that the Council faces is well documented, with the cost of delivering services increasing significantly faster than the income it receives particularly in relation to social care. It is widely recognised that the funding mechanism for local government is broken and needs urgent reform.

14. The Council cannot continue to provide and operate services in their current format and rapid, radical, change is required if it is to become financially sustainable. To address this, the Council is developing a Transformation Programme to deliver our **vision for the council** to be a smaller, leaner council, employing fewer people, requiring fewer offices, focusing only on the unique value the authority can provide.
15. In November 2023, the Council declared a **‘Financial Emergency’** and have since taken a number of actions to address the forecast overspend in the current year and the budget gap for 2024/25. A senior management structure, in a similar way to a major flooding incident was established, called “Gold Command” and Senior Responsible Officers identified to lead on various workstreams. The structure is set out in **Chart 1** below:

Chart 1: Financial Emergency workstreams structure

Financial Emergency – Workstreams and SROs



SRO – senior responsible officer DMT – directorate management team

16. Alongside the monthly reporting of the budget monitoring position to Scrutiny and the Executive, a number of daily and weekly control boards and panels have been established as the Council adopts an approach of operating as if a section 114 had been issued. The actions have seen the in-year forecast overspend reduce from £28.6m down to £18.3m. The five boards and panels are:
- Establishment & Recruitment Control Board - to assess all workforce requests and changes.
 - Commercial & Procurement Control Board – to review and challenge all new commissions, annual uplifts in contract and contract renewals.
 - Spend Control Board – ensuring that all purchases over £100 are reviewed and challenged to avoid any non-essential spend.

- Adult Social Care Panel – to review and challenge placements.
- Childrens Care Panels – various panels to review and challenge placements.

Recommendations

17. That the Executive:
 - a) Recognise that Council Tax in Somerset is low compared to other similar councils due to historical factors and formally requests from DLUHC the option of allowing an increase in Council Tax by an additional 5%, 9.99% in total, to £1,810.48 for the Somerset Council proportion of a Band D charge in order to set the 2024/25 budget.
 - b) Consult the Corporate & Resources Scrutiny Committee on the latest 2024/25 budget proposals including the savings proposals and Council Tax increases at their meeting on 01 February 2024 and receive their feedback at the next Executive meeting on 07 February 2024.
 - c) Receives the business case for the creation of a sustainable Somerset Council through 're-sizing' of the council and creating a sustainable workforce transformation programme. including the estimated costs and saving from this at the next Executive meeting on 07 February 2024.
 - d) Notes that the Section 25 Statement from the Section 151 Officer on the robustness of the budget proposals and adequacy of reserves will be a separate report to the 20 February 2024 Council.

Reasons for recommendations

18. To ensure that the Council can set a balanced budget for 2024/25 and meet its statutory duties.
19. The recommendations also recognise the separate responsibilities of the Leader of the Council, Executive and Officers to recommend the budget proposals and council tax to Full Council, manage services, develop budget proposals and take decisions to implement the approved budget (including making changes in-year where appropriate within the overall envelope of the agreed budget).

Other options considered

20. As this is an update report on progress in reducing the forecast budget gap for 2024/25 there are no other options considered.

Links to Council Plan and Medium-Term Financial Plan

21. It is important the Council considers how best it can continue to meet its policy objectives within the tighter financial constraints that it now faces. This requires a level of prioritisation, and the budget plans focus on the following key policy outcomes, as set out in the Council's five-year plan.
- A Healthy and Caring Somerset;
 - A Flourishing and Resilient Somerset;
 - A Greener, More Sustainable Somerset;
 - A Fairer, Ambitious Somerset.

Financial and Risk Implications

22. It is clear that the scale of financial challenges facing the Council are significant. All member monthly briefings on the budget will continue until the February 2024 Council meeting.
23. Regular budget monitoring reports will be considered at the Executive and Scrutiny Committee meetings to provide member oversight, transparency and assurance on management actions.
24. **Appendix 1** sets out the strategic risks associated with the budget. Given the size of the updated budget gap, a sustainable MTFP has the highest risk score possible:

Likelihood	5	Impact	5	Risk Score	25
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25. The financial impact of a forecast year-end overspend of £18.3m (as at month 7) in the current financial year would result in a reduction in the level of General Reserves from £49.8m to £31.5m. This remains above the £30m minimum risk-based assessment of the reserves approved by Council in February 2023.

Legal Implications

26. Section 31A of the Local Government Finance Act 1992 requires billing authorities to calculate their Council Tax requirements in accordance with the prescribed

requirements of that section. The function of setting the Council Tax is the responsibility of Full Council. The function of preparing estimates and calculations for submission to Full Council is the responsibility of the Executive. The Council is required by the 1992 Act to make estimates of gross revenue expenditure and anticipated income, leading to a calculation of a budget requirement and the setting of an overall budget to ensure proper discharge of the Council's statutory duties and to lead to a balanced budget. The budget should include sufficient allowances for contingencies and financial reserves.

27. Local authorities owe a fiduciary duty to Council taxpayers, which means it must consider the prudent use of resources in the short and long term, including control of expenditure, the need to strike a fair balance between the interests of Council taxpayers and the community's interest in adequate and efficient services, and the need to act in good faith in relation to compliance with statutory duties and exercising statutory powers.
28. Section 25 of the Local Government Act 2003 require that, when the Council is making the calculation of its budget requirement, it must have regard to the report of the Chief Finance (Section 151) Officer as to the robustness of the estimates made for the purposes of the calculations and the adequacy of the proposed financial reserves. It is essential, as a matter of prudence that the financial position continues to be closely monitored.
29. The Local Authorities (Functions & Responsibilities) (England) Regulations 2000 (as amended) set out the respective functions of Council and of the Executive. With regard to the setting of the budget and Council Tax for the forthcoming year, the Regulations provide that the Executive formulates the plan or strategy (in relation to the control of the Council's borrowing or capital expenditure) and the preparation of estimates of the amounts to be aggregated in making the calculations under Section 32 of the 1992 Act. However, the adoption of any such plan or strategy/calculations is the responsibility of Full Council.
30. Full Council is responsible for setting the overall budget framework. However, some of the proposed savings will be subject to further analysis and decision making and as such the savings are an estimate. Individual service decisions will be subject to officer or Executive approval. This will take account of the statutory framework, any requirement to consult and consideration of overarching duties, such as the public sector equality duty. A contingency has been set aside to deal with a risk that when

Executive considers these proposals it does not agree that the savings can be met within the specific statutory framework. In an extreme case, the Executive may have to refer the budget to Full Council to reconsider the overall budget framework.

31. The Local Government Act 2003 and associated regulations set out rules in relation to use of capital reserves. Section 15 requires local authorities to have regard to relevant statutory guidance. The statutory guidance on flexible use of capital receipts confirms that local authorities cannot borrow to finance service delivery, however, they can use capital receipts from sale of assets to finance the revenue costs of reforming services. The guidance states that qualifying expenditure is expenditure on a project that is designed to generate ongoing revenue savings in the delivery of public services or transform service delivery in a way that reduces costs or demand for services in future years. The Council is expected to publish an annual Flexible Use of Capital Receipts Strategy, although this can be included in wider strategy documents.
32. In accordance with section 106 of the Local Government Finance Act 1992 where a payment of Council Tax that a member is liable to make has been outstanding for two months or more at the time of a meeting, the Member must disclose the fact of their arrears (though they are not required to declare the amount) and cannot vote on any of the following matters if they are the subject of consideration at a meeting:
 - any decision relating to the administration or enforcement of Council Tax,
 - any budget calculation required by the Local Government Finance Act 1992 underlying the setting of the Council Tax, and
 - the contents of this report are, and the decisions taken on it will be, matters which might affect the making of the Annual Budget calculation.

HR Implications

33. A number of the potential savings proposals will have staff implications and the approved HR processes and policies will be followed.

Other Implications:

Equalities Implications

34. The impact of setting a budget will have specific implications on those protected under the Equality Act 2010. The Council's budget planning framework is supported by the development of Equality Impact Assessments (EIAs) for the budget proposals, identifying possible disproportionate impact in relation to the protected characteristics as described within the Equality Act 2010. The EIAs will also identify

potential mitigation where applicable. Individual equality impact assessments form part of the decision making on the specific proposals needed to balance the budget in February 2024.

Community Safety Implications

35. There are no direct community safety implications arising from this report. Any specific community safety implications will be identified within the supporting information for proposals being considered by Scrutiny, Executive and Full Council in February 2024.

Climate Change and Sustainability Implications

36. There are no direct climate change and sustainability implications arising from this report. Any specific climate change implications will be identified within the supporting information for proposals being considered by Scrutiny, Executive and Full Council in February 2024.

Health and Safety Implications

37. There are no direct health and safety implications arising from this report. Any specific health and safety implications will be identified within the supporting information for proposals being considered by Scrutiny, Executive and Full Council in February 2024.

Health and Wellbeing Implications

38. There are no direct health and wellbeing implications arising from this report. Any specific health and well-being implications will be identified within the supporting information for proposals being considered by Scrutiny, Executive and Full Council in February 2024.

Social Value

39. There are no direct Social Value implications arising from this report. Any specific social value implications will be identified within the supporting information for included as part of the proposals being considered by Scrutiny, Executive and Full Council in February 2024.

Scrutiny comments / recommendations:

40. The Scrutiny for Corporate & Resources Committee considered the Financial Strategy in July 2023 and the updates at their meetings on 09 November 2023 and 05 December 2023. They will consider the draft 2024/25 Budget proposals at their meeting on 01 February 2024. Their comments and observations on the draft budget

proposals together with any specific recommendations will be considered by the Executive at their meeting on 07 February 2024 meeting when Executive will finalise the budget proposals and make their recommendations on the 2024/25 budget to full Council to consider at their meeting on 20 February.

Background

41. The 2023/24 Budget was the first for the new Somerset Council and brought together the budgets from the five predecessor councils. Every new unitary council has identified issues during its first year and Somerset is no different. All of the predecessor councils recorded budgets in slightly different ways, and it has become apparent that there are some areas where one-off sources of funding have been used to finance on-going expenditure, some items were not properly budgeted for, longer term investments were funded from short-term borrowing and there was additional staffing employed over and above the staffing establishment budget.
42. The 2024/25 to 2026/27 Medium-Term Financial Strategy (MTFS) was approved in July 2023 and provides a strategic financial framework and a forward-looking approach to achieving financial sustainability for the Council. The financial forecast has been updated and reported to the November Executive and it set out that the estimated budget gap for 2024/25 assumed in the report to February Full Council had increased from £42m to £100m. As a result of this the Council declared a 'financial emergency' and put in place a range of measures to address both the current year's projected overspend and the forecast budget gap for 2024/25 and future years.

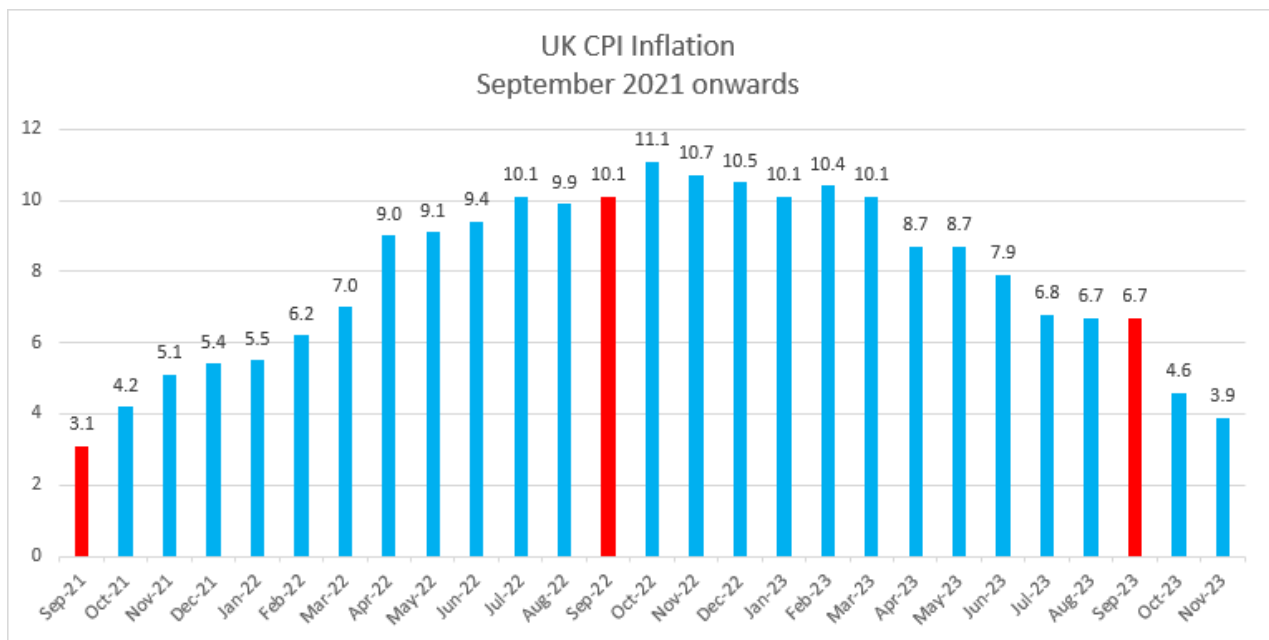
Current Context

43. The Council's finances have been significantly impacted by national factors outside of its control such as inflation and interest rates, as well as having to deal with the challenges of Local Government Reorganisation and bringing the five predecessor councils into one new organisation.
44. The LGR business case set out that £18.5m of on-going savings would be achieved with the costs of implementation being £16.5m. The Non-Staffing savings of £6.2m have largely been delivered in the current year or will be in 2024/25. Saving from staffing made up the majority of the savings with an expected reduction of 339 posts delivering £2.9m of senior management savings and £9.4m from staff savings across the services. To date, £2.6m of on-going senior management savings (29 posts at Tiers 1 to 3) have been achieved which was reported to Council in July 2023 and Tier

Four appointments were made in the last quarter of 2023 with the resulting redundancies being reported to Council in December 2023. The other staff savings were profiled as being £1m in current year, £4m in 2024/25 and £4.4m in 2025/26.

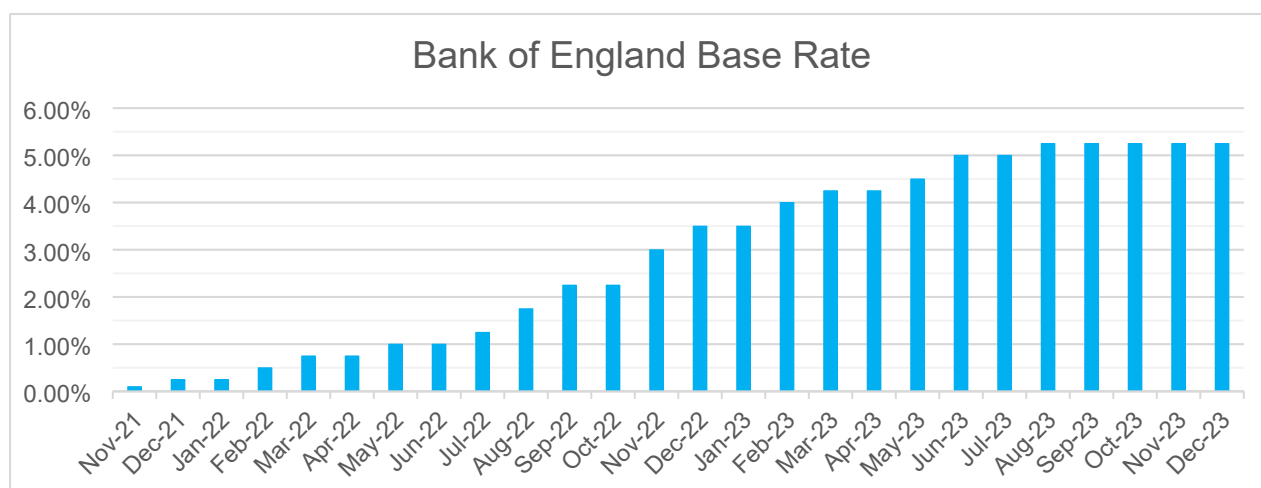
45. Inflation peaked at a 40-year high with CPI rising to 11.1% in October 2022, although this is now starting to decrease, to 3.9% in November 2023. The September figures are key in that they are used by Government for increases in pensions, business rates etc.

Chart 2: CPI Inflation September 2021 to October 2023



46. These inflationary increases adversely impact upon the Council and the costs of the services which it provides. This is particularly evident in the care sector where cost increases have been significantly above the CPI inflation levels. The Chancellor has announced that the national living wage will increase by 9.8% from April 2024 and the national staff pay award for 2023/24 has now been agreed at £1,925 which is estimated to be equivalent to a 6.1% increase in the pay bill for the Council.
47. To bring inflation under control the Bank of England has been increasing interest rates and these have risen from 0.1% in November 2021 to the current rate of 5.25%. The Council is a net borrower and inherited a position of significant amount of short-term borrowing on 1 April 2023 of over £200m, with each 1% increase interest rates having a financial impact of £2m per annum.

Chart 3: Bank of England Base Rate changes



48. The 2023/24 monthly budget monitoring process acted as an early warning system and flagged up in July 2023 a potential overspend of £28.6m for the current financial year which, if not addressed, would see the General Reserves reduced below their minimum level of £30m.

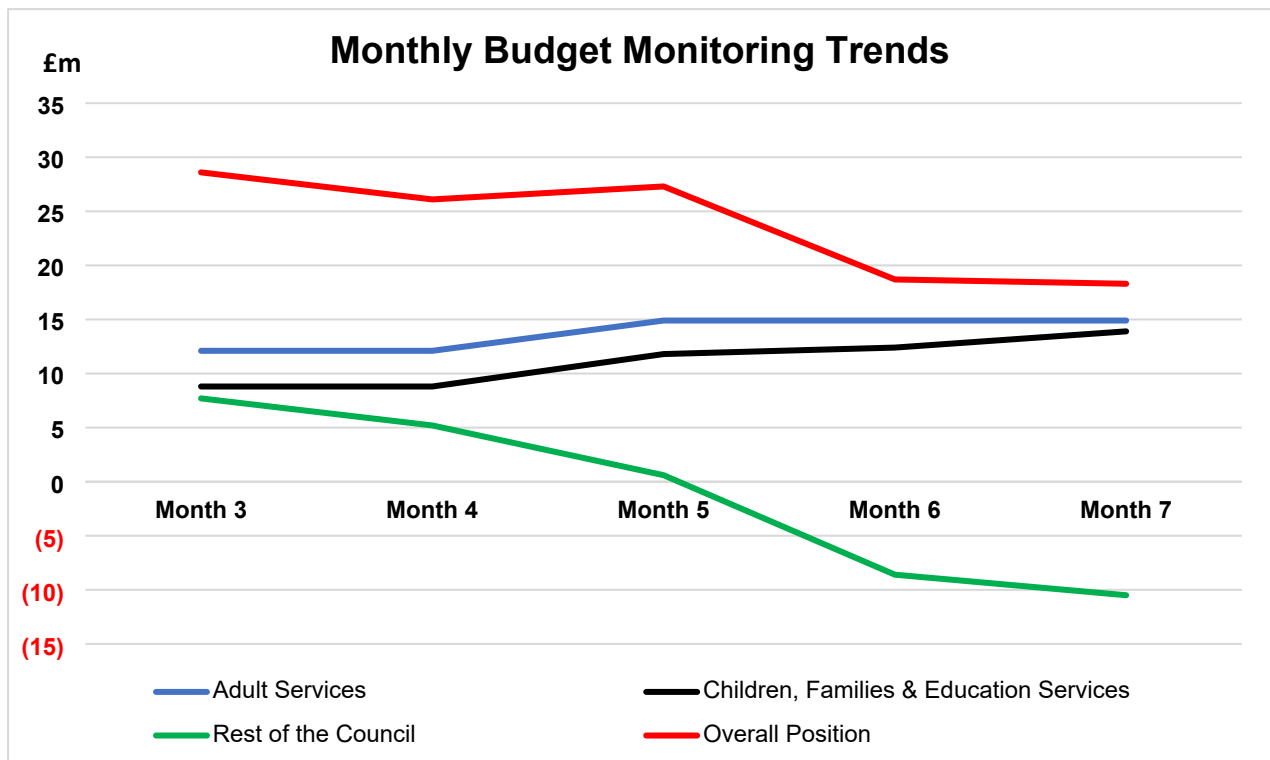
Table 3: Monthly budget monitoring forecast outturn for 2023/24

Service Area	Month 3 £m	Month 4 £m	Month 5 £m	Month 6 £m	Month 7 £m
Adult Services	12.1	12.1	14.9	14.9	14.9
Children, Families & Education Services	8.8	8.8	11.8	12.4	13.9
Total Adult and Children's	20.9	20.9	26.7	27.3	28.8
Community Services	-	-	-	1.3	-
Climate & Place	-	-	-	(5.3)	(5.4)
Strategy, Workforce & Localities	5.1	2.7	2.3	0.9	0.9
Resources & Corporate Services	1.5	1.5	1.3	(2.2)	(2.8)
Public Health	1.4	1.3	0.3	-	-
Non-Service	(0.5)	(0.5)	(3.5)	(3.6)	(3.5)
Corporate Contingency	-	-	-	-	-
Traded	0.2	0.2	0.2	0.3	0.3
Rest of the Council	7.7	5.2	0.6	(8.6)	(10.5)
Overall Forecast Overspend	28.6	26.1	27.3	18.7	18.3

49. Actions taken have seen the forecast overspend for the current year being reduced by £10.3m overall to £18.3m. However, the overall picture masks the underlying issue of both Adults and Childrens deteriorating positions, with the month three showing their combined forecast overspend of £20.9m increasing to £28.8m by month seven.

The rest of the Council has seen a dramatic forecast reduction of £18.2m over the four months from a forecast overspend of £7.7m in month three to a forecast underspend of £10.5m in month seven.

Chart 4: Budget monitoring forecast on a monthly basis for 2023/24



Risks, Assurance, External Validation & Reviews

50. The Council has two strategic risks associated with its finances: risk reference ORG0057, concerning a sustainable MTFP and ORG0070, being the risk of a budget overspend in the current financial year. In addition to these, there are also a number of other strategic risks that are associated with the budget. Appendix 1 sets out the strategic risks associated with the budget.
51. A common feature of councils that have issued a section 114 notice has been the number of prior year external audits that have not been completed with issues. Therefore, a key area of activity for the finance team in the new Council has been around the production of the 2022/23 statement of accounts for the five predecessor councils and dealing with the inherited position of outstanding external audits on their accounts from 2020/21 and 2021/22. This is particularly important, not only in understanding the opening position for the new Council, but also in providing

independent external assurance around the finances. Good progress has been made on this, with all the 2020/21 and 2021/22 statement of accounts now signed off. All five of the 2022/23 statements of accounts have been published and one of these has been signed off by the external auditors with the remainder being completed in early 2024.

52. There have been regular Member briefings on the Council's finances which started in August 2023 and there have been two monthly briefing sessions open to all members from September 2023 and these will continue through to February 2024 to ensure that all members are aware of the financial challenges that the Council faces.
53. There have been a number of external reviews which have been carried out to help validate the overall budget and potential savings, some leading to change programmes. These include:
 - Adult Services commissioned Newton Europe to complete a transformation programme "*My Life, My Future*" following a diagnostic review in 2022. The programme is aimed at improving outcomes for older adults, those with learning difficulties and mental health needs by helping them stay within their own homes and encouraging independent community support. The programme is aimed at reducing costs by circa £14m per annum on an ongoing basis by reducing the number of residential placements.
 - Children's Services have commissioned Peopletoo to undertake a review of spend in Children's Social Care to determine a plan for better outcomes at a reduced cost from using best practice.
 - The Section 151 Officer commissioned PDLB Financial Consultancy Ltd to undertake an independent review of the new Council's balance sheet. Comparing it to statistical neighbours and highlighting whether particular issues need to be built into the 2024/25 budget or changes in practice made. This fulfils part of the recommendation in the report to the July 2023 Executive to undertake a financial resilience review. The report will be presented to the Audit Committee on 25 January 2024 with their recommendations passed to the Executive meeting in February 2024.
 - The Section 151 Officer commissioned Peopletoo to undertake a review of third party spend, this work will highlight opportunities for ongoing savings and will be implemented later in the financial year.

- The Section 151 Officer commissioned Peopletoo to review the processes for collecting client contributions for elements of Adult Care services to determine that all income is being recovered. As a result of this review £3.4m of additional income has been identified and included as part of the budget proposals.

Finance Settlement

54. The Autumn Statement was delivered by the Chancellor on 22 November 2023 and set out details of the country's finances including details of the government tax and public spending plans. The Office for Budget Responsibility (OBR) also warned pressure on local authority budgets "will continue." It said 2022-23 was the first time since 2019-20 that local authorities had drawn on their reserves for current spending, using £2.3bn and it now assumes they will drawdown a further £1.5bn in 2023-24 and £0.8bn in 2024-25. Its previous forecast in March 2023 had assumed there would be no drawdown from reserves. The analysis notes that 11 section 114 notices have been issued by local authorities since 2018, this includes Croydon that has issued three section 114 notices, compared with two between 2000 and 2018, but says the "direct impact on our forecast to date has been relatively small as the central government response to section 114s has been to allow affected local authorities to reallocate their capital budget towards day-to-day spending (a 'capitalisation direction') or to increase council tax rates".
55. However, the OBR warns that wider pressures on local authority finances still pose a risk to its forecast. It notes that local authority spending has fallen from 7.4% to 5% of GDP since 2010-11 and forecasts it will fall further to 4.6% in 2028-29. It adds: "Given local authorities' statutory duty to provide a range of services where demand is likely to continue to grow, for example adult and child social care, pressure on local authority finances and services will continue." The watchdog also forecasts a £4.5bn fall in borrowing for capital expenditure from its 2019-20 peak of £11.5bn to £7bn in 2028-29. It adds: "This reflects the financial pressures facing local authorities and higher interest rates on loans from the Public Works Loan Board, their principal source of financing."
56. On 05 December 2023, the Secretary of State for Levelling Up, Housing and Communities published a written ministerial statement which was accompanied by a policy statement on the 2024/25 local government finance settlement.
57. On the core settlement, the statement confirms assumptions around the Revenue Support Grant, Business Rates baseline levels and that councils with social care responsibilities will be able to increase council tax by up to 3%, with an additional

2% for adult social care without a local referendum. The Government reconfirmed the adult social care funding package announced in December 2022, and included the new Market Sustainability and Improvement Fund (MSIF) – workforce fund which was announced in July 2023 and will continue into 2024/25. They also announced that they would consider representations on council tax. The statement said that: “Where councils need additional support from government, they should take every possible step to minimise the need for that support to be funded by national taxpayers. As part of that process, the government will consider representations from councils, including on council tax provision.” Last year, as part of the settlement three councils, Slough Borough Council, Thurrock Council and Croydon London Borough Council, were given permission to increase their council tax by more than the referendum threshold.

58. The provisional Local Government Finance Settlement was announced on 18 December 2023. The headlines were a 6.5% increase in Core Spending Power for Councils, but Somerset only received 6.1%. This is below the average for Unitary Councils of 6.5%, Shire Counties of 6.7%, Inner London Boroughs of 6.7% and Metropolitan Districts of 6.6%. It is also below the Southwest average of 6.3% and below the level of councils with similar Index of Multiple Deprivation (IMD) of 6.5%. Further detail can be found in **appendix 3**.

Council Tax

59. The main source of funding is Council Tax, which at £336m in the current year is nearly 62% of the net budget. In recent years, the increases in Council Tax are carefully controlled by government which limits annual changes through the referendum principles which were introduced in 2012/13. Somerset Council was not able to set its charge at the national average or what it required for the year. Instead, it was limited to having the 2023/24 charge based upon historical charges of the five predecessor councils.
60. Therefore, the current band D charge of £1,646 reflects the historical decisions from the predecessor councils. **Appendix 5** sets out the details of the band charges of the predecessor councils since council tax was introduced in 1993/94. It highlights that between 2010/11 and 2015/16 the majority of the councils did not increase council tax. The impact upon the finances of Somerset Council of this is significant given how much of overall income comes from council tax. Part of funding for Adult Services is now funded from council tax through the adult social care precept. Comparing what the maximum increases could have been against the actual position shows that additional income to Somerset Council would have been in excess of £50m in the current year.

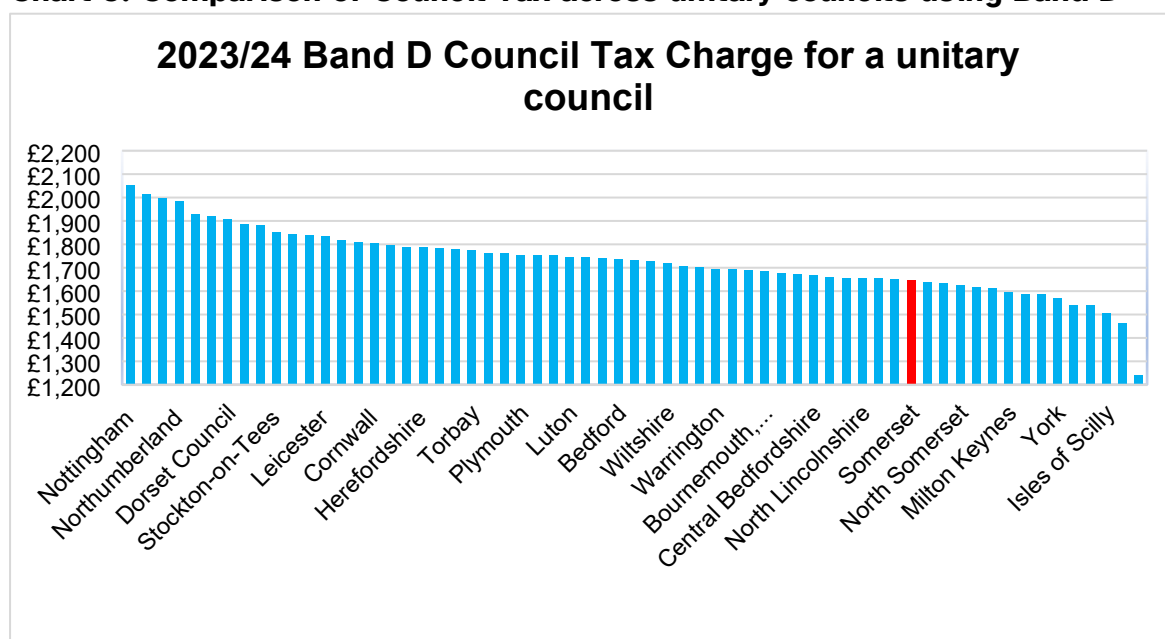
61. **Table 4** below shows the average Council Tax including the Adult Social Precept for 2023/24 is £2,027 with the charge in Somerset being £381 lower at £1,646. If the Council charged the average amount for England, then an additional income amount of £78.3m would be generated.

Table 4: Summary of Council Tax statistics for England from 2019/20 to 2023/24

Year	2019 /20	2020/21	2021/22	2022/23	2023/24
Council tax requirement including adult social care precept, excluding parish precepts (£ millions)	30,894	32,544	33,819	35,658	38,011
Parish precepts (£ millions)	554	596	618	655	708
Council tax requirement including adult social care and parish precepts (£ millions)	31,448	33,141	34,437	36,313	38,718
Taxbase for council tax setting purposes (millions)	17.972	18.232	18.139	18.473	18.749
Average Band D council tax including adult social care, excluding parish precepts	£1,719	£1,785	£1,864	£1,930	£2,027
Average Band D council tax including adult social care and parish precepts	£1,750	£1,818	£1,898	£1,966	£2,065

62. As well as being significantly below the average charge for England, the council tax charge for 2023/24 is lower than the majority of other unitary councils as set out in **Chart 5**.

Chart 5: Comparison of Council Tax across unitary councils using Band D

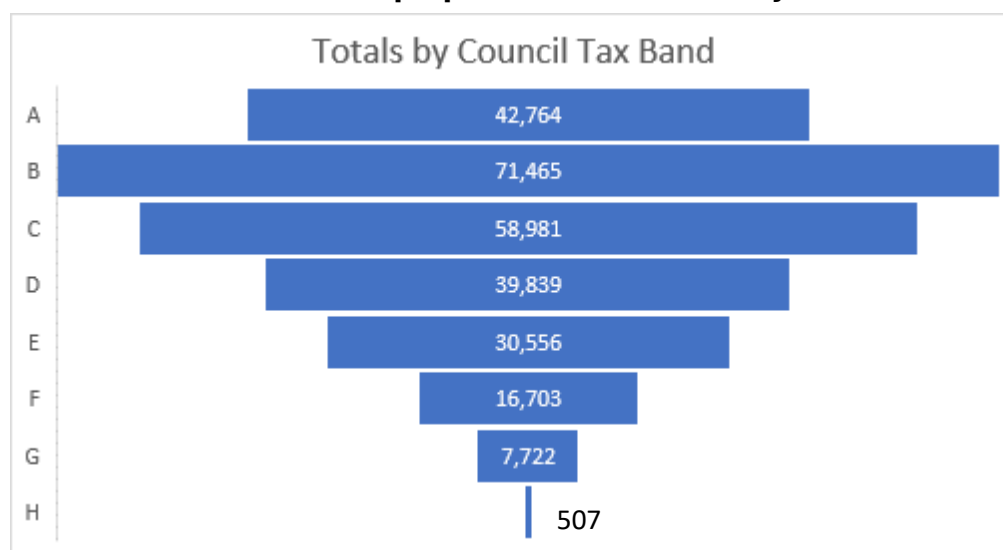


63. The analysis shows:

- It being ranked 49 out of 63 for unitary councils.
- The average unitary Council Tax charge is £1,728 which is 5% or £82 higher than in **Somerset which is £1,646**.
- Charging the unitary average would generate an additional £16.7m per annum.
- If the Council charged the average amount for all councils in England, then an additional amount of £78.3m would be generated.
- Charging the same as the highest Unitary Council Tax, Nottingham City Council (£2,053) would generate an additional £83.7m per annum.
- Charging the same as the other Southwest unitary councils would generate an additional:
 - Dorset Council (£1,906 – 15.8% higher) - £53.4m per annum
 - Cornwall Council (£1,803 – 9.5% higher) - £32.2m per annum
 - Wiltshire Council (£1,702 – 3.4% higher) - £11.5m per annum

64. In Somerset, the most common council tax band is Band B and 64.5% are in Bands A to C. **Chart 6** sets out the number of properties in Somerset each in band in 2023.

Chart 6: Total number of properties in Somerset by Council Tax band



65. The Council approved an updated Local Council Tax Reduction and exceptional hardship scheme at its meeting on 20 December 2023 which detailed uprating income band thresholds by the same increase applied by Government to state benefits (6.7%). The overall cost of the schemes is estimated to cost £36m with approximately £20m relating to support for working age claimants and £16m for pensioners.

66. The referendum limits for 2024/25 are that Council Tax can increase by 3% and that there can be a further rise of 2% for the adult social care precept. In the provisional local government financial settlement, it was announced that government would consider representations on Council Tax. The statement said that:

“Where councils need additional support from government, they should take every possible step to minimise the need for that support to be funded by national taxpayers. As part of that process, the government will consider representations from councils, including on council tax provision.”

67. The potential to increase Council Tax above referendum limits would enable Somerset’s Council Tax charge to be closer to the average of all Unitary Councils, although it would still be a significantly below the English average charge. If the Council were permitted to increase council tax by a further 5%, as DLUHC has been allowing other councils to do in both the current year and for 2024/25, this would generate an additional £17.1m. It would see the band D charge increase to £1,810 which would mean that the total council tax increase for a band D property would be £3.15 per week (including the Adult Social Care precept).
68. The Council has looked to ensure that the vulnerable are protected from the increase through the recently approved Council Tax Reduction and Hardship schemes which will increase by 6.7% for 2024/25 in line the rise in state benefits announced in the Autumn Statement.

2024/25 Budget Forecast & Future Years

69. The current focus is very much upon 2024/25 but it is important to look at the Council’s position over the medium term. The figures included with the MTFP are based upon the current assumptions on funding and service costs, and will continue to be updated with the latest available information. The current MTFP Forecast is set out in **appendix 2** and shows the 2023/24 budget alongside the forecast budgets for the 2024/25 to 2026/27 for each service. We have revised the format in line with best practice on where grants are recorded and shown, with all those that relate to a specific service being included within the service and those general grants being shown in the “Financed by” section. This has revised the 2023/24 Net Budget Requirement from £493.4m as per the February 2023 Full Council Report to £542.7m in **appendix 2** and **table 5** below, due to moving £49.3m of general grants.

70. **Table 5** shows the overall high-level summary of changes for the three years 2024/25 to 2026/27. Further details on the changes from 2023/24 to 2024/25 can be seen in **appendix 4** and **table 6** below.

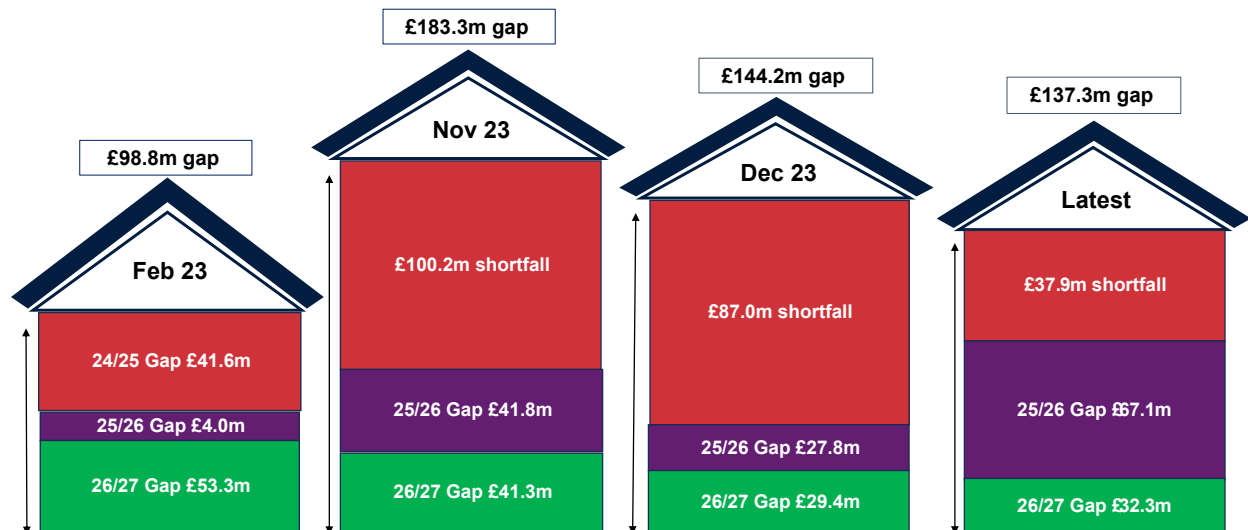
Table 5: Summary of changes to budgets

Changes to Budget	2024/25 £m	2025/26 £m	2026/27 £m
Budget from previous year	0.0	37.9	105.1
Reversals for once off items	19.9	7.8	0.0
Revised starting point	19.9	45.7	105.1
Pressures	108.5	41.6	42.0
Savings	(35.2)	(9.7)	0.3
Changes to pay	13.8	6.2	6.1
Increase in financing costs	12.9	12.0	4.4
Increase in funding	(45.1)	(29.2)	(20.6)
Change in Use of Reserves	(36.9)	38.5	0.0
Budget Gap	37.9	105.1	137.3

71. The work on updating the MTFP forecast across the three financial years is shown in **chart 7** below. It shows how the MTFP forecast has changed from the initial forecast which was set by Council in February 2023 and assumed that the various funding reforms by government would take place in 2025/26. These reforms have been delayed and the November Executive received the update which set out that the budget gap for the coming year was £100.2m and £183.3m over the next three years. The latest position is that the overall gap has now been reduced down by £46m to £137.3m over the three years. By using the MTFP Support reserve of £36.8m in 2024/25 it helps reduce the gap for the year but as reserves are one-off sources of funding it results in an increased gap for 2025/26. It is clear that on-going sustainable solutions need to be found to help close the budget gap and that the long-promised review of local government funding is essential.

Chart 7: Updates to the MTFP Forecast 2024/25 to 2026/27

MTFP Forecast – 24/25 to 26/27



72. The assumptions for future years are based upon the current council tax referendum limits and government funding in line with the details set out in finance settlement. The underlying assumptions will continue to be reviewed and updated.
73. If no additional savings were identified in future years a further capitalisation direction of £114.8m would be required in 2025/26 and £144.2m in 2026/27. Increasing Council Debt over the three years from this source by £309.2m with no additional assets to represent it. Although this scenario is unlikely, ongoing interest and MRP on this amount would add approximately £40m per annum to the gap identified above.
74. The capitalisation direction may also have to increase as a one-off in 2026/27 if the Dedicated Schools Grant (DSG) High Needs Block deficit has to be funded by the Council once the statutory override finishes at 31 March 2025, estimated at approximately £100m.
75. The capitalisation of revenue can be funded by asset disposals, although asset values of surplus council accommodation are not significant in Somerset. It will be beneficial to dispose of commercial properties and using the receipts to fund the capitalisation direction, however the MRP (or principal) and interest costs on the borrowing for these assets will remain and the income lost.

76. The Local Government Reorganisation heading in **appendix 2** includes the staff savings from the LGR Business Case that have been previously agreed with £4m of savings built into the 2024/25 budget and a further £4.4m into the 2025/26 budget. These savings are currently held here but will be allocated against individual services. Included within the Corporate Area is the budget for the 2023/24 national pay award together with the estimate for 2024/25 and these will also be allocated out to the individual services.
77. The key and most significant changes relate to:
- Adults – demand increases and significant increased placement costs.
 - Childrens – increases in external placement costs and SEND transport.
 - Pay Award - impacts of the 2023/24 national pay award which was budgeted for at 5% and has been agreed at £1,925. It is estimated that this is equivalent to a 6.1% increase.
 - Debt Financing - Increased interest rates and MRP costs impacting on debt financing costs.
78. **Table 6** provides analysis of the changes between the 2023/24 budget and the draft 2024/25 budget by service with more detail set out in **appendix 4**. Key assumptions:
- Inflation – No general increases in inflation but use of specified indices within individual contracts.
 - Demographic changes – changes built into demand models based upon ONS population forecasts.
 - Interest rates – based upon current Bank of England base rates of 5.25%.
 - National pay award – The assumption for 2024/25 is currently estimated to be 4%.
 - Council tax – An increase of 1.52% in the tax base and 2.99% in the council tax charge and a further 2% increase in the adult social care precept.
 - Government Grants – Based upon the provisional finance settlement.
 - Business Rates – based upon modelling & forecast to increase by £9.5m.

Table 6: Changes to budgets from 2023/24 to 2024/25

Service	2023/24 Original Budget £m	2024/25 Draft Budget £m	Change	
			£m	%
Adults Services	180.4	237.3	56.9	32%
Children, Families & Education Services	122.4	138.2	15.8	13%
Community Services	34.8	30.9	(3.9)	(11%)
Climate & Place	91.3	91.5	0.2	-
Strategy, Workforce & Localities	20.2	22.1	1.9	9%
Resources & Corporate Services	20.5	23.7	3.2	16%
Public Health	1.2	1.0	(0.2)	(17%)
2023/24 & 2024/25 Pay Award	15.3	29.1	13.8	90%
Financing Costs	40.6	53.7	13.1	32%
Other Corporate Costs	16.0	9.8	(6.2)	(39%)
Total	542.7	637.3	94.6	17%

Pressures

79. The list of pressures by Directorate is summarised below in **table 7**, further details are set out in **appendix 6** totalling £108.5m for 2024/25 which represents a 20% increase on the 2023/24 budget.
80. The cost pressures in the adult social care budget are driven by the increasing 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.
81. In Childrens, the increases in external placement costs and SEND transport are significant. The growth in demand for, and the costs of children's social care is a national issue and the recently published Government statistics demonstrated that nationally, Council spending on Children's Social Care doubled in the decade to 2022-23 from £6.6bn to £12.8bn. The Children's Funding Alliance have identified a £1.6bn annual shortfall in funding, while the Independent Review of Children's Social Care has called for an additional £2.6bn over five years to deliver much needed reform

and highlighted a system under extreme stress. The Competitions and Markets Authority identified a dysfunctional market for children's residential care in which a small number of providers can make excessive profits as local authorities compete for limited spaces.

Table 7: Summary of the pressures by directorate

Total Pressures by Directorate	2024/25 £m	2025/26 £m	2026/27 £m
Adults Services	69.6	34.4	33.1
Childrens, Families and Education	26.4	4.8	5.3
Communities Services	1.3	(0.2)	0.0
Climate & Place	5.4	1.7	2.5
Strategy, Workforce & Localities	0.1	0.0	0.0
Resources & Corporate Services	5.7	0.9	1.0
Total	108.5	41.6	42.0
Cumulative Total	108.5	150.1	192.1

Savings Proposals

82. To close the projected gap for 2024/25 and ensure we can set a balanced budget there is a need to review the range and scope of the services that are delivered by the Council. The purpose of this section is to set out the areas where savings could be made by redesigning how a service is delivered, reducing the level of service offered or, potentially, ceasing the service entirely, subject to appropriate consultation and the Council's duties, including the public sector equality duty. **Table 8** below shows a summary of the savings proposals broken down between those already approved, which mainly relate to LGR Staff savings from the business case £8.4m and £5m from 'My Life, My Futures' in Adult Social Care and new saving proposals. The detail behind these is set out in **appendix 7**.
83. These savings proposals total £45.2m over the next three years and represent a reduction of 8% of the net budget. However, they represent the start of the process of trying to move the council onto a sustainable financial footing. The savings are made up of new savings and savings previously approved.

Table 8: Breakdown of total savings

Total Savings by Directorate	2024/25 £m	2025/26 £m	2026/27 £m
Already approved savings	(11.1)	(6.9)	0.2
New Savings	(24.1)	(3.3)	0.1
Total	(35.2)	(10.2)	0.3
Cumulative Total	(35.2)	(45.4)	(45.1)

84. Further savings in addition to these are required and need to be developed with the council having an established pipeline as it looks to radically change, reduce costs and increase income.

Table 9: Summary of savings proposals by directorate 2024/25 to 2026/27

Total Savings by Directorate	2024/25 £m	2025/26 £m	2026/27 £m
Adults Services	(9.8)	(1.6)	0.0
Childrens, Families and Education	(9.5)	(1.9)	0.0
Communities Services	(3.0)	(0.7)	0.0
Climate & Place	(5.6)	(0.9)	0.3
Strategy, Workforce & Localities	(0.7)	(0.1)	0.0
Resources & Corporate Services	(2.6)	(0.6)	0.0
Public Health	0.0	0.0	0.0
Local Government Reorganisation	(4.0)	(4.4)	0.0
Total	(35.2)	(10.2)	0.3
Cumulative Total	(35.2)	(45.4)	(45.1)

85. The priority is to find savings through efficiencies and improved practice before reducing services. This includes reviewing our contracts to ensure that they represent value for money and reducing the use of consultants. Surplus buildings and offices will be closed to reduce energy and maintenance bills. Our IT infrastructure will continue to be transformed so that it reflects best practice and the size of our Council. Grants and external funding will be sought to reduce revenue costs. Savings will also be made by reducing the number of meetings, the number of Lead Members in our Executive, and the budget for Councillor training and conferences.

86. All services have found savings proposals, reviewing all areas of activity. This includes reviewing discretionary services and considering whether they can be reduced or even stopped. The list below illustrates the key areas of potential savings options:

- Efficiency savings, including reviewing our contracts and use of consultants, reducing the bills associated with managing our estate by reducing the number of buildings we operate, continuing to transform our IT infrastructure so that it reflects best practice and the size of our Council, removing all non-essential mobile phones, making best use of grants and external funding to reduce revenue costs and reducing staff benefits including long service awards.
- Harmonisation of service standards as there are several services where there is still inconsistency across the County following Local Government Reorganisation. Currently there are grants paid to Parish Councils in the former Somerset West and Taunton area to maintain footpaths, playing fields and burial grounds. In addition there are several legacy grants, established by previous councils, which are paid to support community groups. We currently have different approaches in different areas to providing facilities for events and charging for emptying bins. Savings are proposed by moving to a consistent approach across Somerset and ceasing funding.
- Adult Services: Many of these services are demand led with service levels set by statute. However, there is discretion on how the Council delivers some preventative services. Saving options include (but are not limited to):
 - Reviewing supported living accommodation and decommissioning properties that are no longer suitable.
 - Maximising fees and charges across adult social care.
 - Reducing spend on mental health and substance misuse support.
 - Cease Council funding for employment support for carers and individuals with mental health needs.
- Children's Services: costs in Children's services are increasing nationally and there is often legislation setting delivery standards. As with adult social care services, there are discretionary elements where savings could be considered including (but not limited to):
 - Removing the use of external resources to prepare education, health and care plans.
 - Increasing the use of Council owned residential homes.
 - Stopping out of hours security checks for young adults living in supported accommodation homes.

- Highways and public transport: Somerset Council carries out a range of proactive and reactive highways maintenance services. Many of these are mandatory but service levels could be reviewed to reduce costs.
 - Reduction in planned and reactive highway maintenance.
 - Review of subsidies for contracted bus services.
 - Increase parking charges in line with inflationary pressures.

Waste

- Closure of five household waste recycling centres.
- Introduction of a Somerset recycling site permit scheme to stop non-Somerset residents using sites.

Economic development and land use planning

- Introduce fees for pre-application planning enquiries.
- Reduce reliance of Council funding to deliver the economic development service, making greater use of grant funding.

- Community Services: Many of these services are discretionary and as a result Councils can determine the extent to which they support these activities. Saving options include (but are not limited to):
 - Closing all Council owned public toilets.
 - Ceasing the CCTV service.
 - Reducing support to theatres in Somerset.
 - Closing visitor information centres.
 - Increasing fees for harbours, beach parking and cemeteries.
 - Closure of Council run plant nurseries.
- Elected Councillors and Democratic Function: Savings options associated with reducing the number of Councillor meetings, reducing the number of Executive Lead Councillors and reducing the budget for training and conferences.

Reserves

87. The new Council had a comparatively reasonable level of reserves on vesting day, 01 April 2023. £20m of reserves were planned to be used in 2023/24 with £10m of these used to balance the budget. Early in the new financial year it became apparent that more reserves would be required to fund the forecast overspend in 2023/24 and to support the 2024/25 budgets. A detailed review of the inherited reserves to determine if any could be released to support both financial years was undertaken in November 2023 and the re-classification reported to Executive on 06 December 2023.

88. The review of the reserves resulted in:

- a transfer between the Earmarked Reserves to General Reserves to fund the 2023/24 forecast overspend of £18.3m and increase them to £31.5m to ensure that they are within the range of a minimum of £30m and maximum of £50m agreed by Council when the 2023/24 budget was set in February 2023, and
- repurposing of several reserves from the predecessor councils to create a MTFP Support Reserve of £36.8m which is planned to support the 2024/25 budget.

Dedicated Schools Grant (DSG) High Needs Deficit

89. Local authorities are facing increased demand for services for pupils with Special Educational Needs and Disabilities (SEND). By December 2023, Somerset had issued 5,447 Education Health and Care Plans for pupils with SEND, which is an increase of more than 160% in the last five years. As well as the significant increase in numbers, there has been an increase in the complexity of pupils' needs.

90. In 2020, the Government introduced a statutory override for a period of three years (up to end of March 2023) that allowed local authorities' DSG deficits to be separated from the wider local authority accounts. Subsequently, the Government agreed to extend the DSG statutory override by a further three years so that the override will now expire on 31 March 2026. At this point any DSG deficit would be included in the overall assessment of Somersets reserves which are lower the forecast DSG deficit

91. In the case of Somerset, the DSG is forecast to overspend by £17.4m in 2023/24 and reach a cumulative deficit of approximately £96m by 31 March 2026.

92. The actual, current forecast and projected DSG deficits are shown in the **table 10** below:

Table 10: Actual, current forecast and projected Dedicated Schools Grant deficits

Actual, current forecast and projected DSG deficits	31/03/2023 Actual £m	31/03/2024 Forecast £m	31/03/2025 Projected £m	31/03/2026 Projected £m
Dedicated Schools Grant deficit	20.7	38.1	61.5	96.2

93. As one of the conditions of the Dedicated Schools Grant, local authorities with DSG deficits are required to prepare and implement a DSG Management Plan. The

Department for Education DfE) recognises that in some cases it may take several years to recover any DSG deficits.

94. The local authority is currently in the process of refreshing its DSG Management Plan and agreeing the plan with the Department for Education. The refreshed plan will be shared with Schools Forum and Council Members when complete.
95. **Appendix 9** sets out more details on the Dedicated Schools Grant.

Asset Disposal

96. The generation of capital receipts from asset disposals is a key part of the financial strategy. The Council has already agreed to the disposal of its commercial property investments and has developed a pipeline of future disposals of surplus assets. Capital receipts from asset disposals can be used to reduce debt, provide funding for transformational activities, fund any capitalisation directions or fund capital schemes.
97. Following on from the Executive decision to approve the disposal of the commercial investment portfolio at its meeting of 08 November, external agents have been appointed and the new Property and Investment Sub Committee received a full update report at its inaugural meeting on 21 December 2023.
98. The Executive also tasked the Asset Management Group to bring forward asset disposals from assets held outside of the commercial investment portfolio, including council office rationalisation proposals, at its meeting of 08 November. The Asset Management Group is currently overseeing the disposal of 74 sites that have been declared surplus; 16 further sites have been sold to date during 2023/24. Whilst sales of a number of these sites are subject to planning agreements and options (and may, therefore, not be concluded until 2025/26 or beyond), a total value in the range of £15m to £20m is targeted to be achieved from the current pipeline of approved disposals during 2023/24 and 2024/25.

Developing a Business Case for a sustainable Somerset Council

99. Our **vision for the council** is to be a smaller leaner council, employing fewer people, requiring fewer offices, focusing only on the unique value we can provide. We will bring people together and build strategic relationships with our partners and communities to work as a team, harness and build our collective power to deliver outcomes for the people of Somerset.

100. Like many other councils, Somerset Council is facing an extremely challenging financial position with the cost of delivering services increasing significantly faster than the income received. The new Council came into existence at the most challenging time for local government in a generation. Fourteen years of austerity and growing demand has reduced the spending power and financial flexibility of all councils. The cost of delivering services has dramatically increased due to rising energy costs, rising interest rates, rising costs of care, and increasing numbers of people who need the Council's support.
101. The current financial outlook means the pace and breadth of the scale of Council transformation will need to accelerate to deliver a radically different way of working as a Council, operating with fewer staff, whilst increasing our influence and impact. The 'Vision for a sustainable Somerset Council' and associated organisational design principles were approved by the Executive on 06 December 2023. This transformation approach is a fundamental part of our response to the financial challenge and maximises the opportunity of bringing together five predecessor councils to deliver a new, smaller, leaner, more productive Council.
102. Transformation of this scale is complex and will require a whole organisation transformation programme incorporating detailed workforce, finance and service level data and analysis, product and milestone planning, risks, issues and dependency management. DLUHC are clear that the Council must show it has a robust transformation programme to ensure long term financial stability and our external auditors, Grant Thornton, underline this requirement and are monitoring us on progress. Somerset Council has committed to "developing a plan to fundamentally change the council with a new operating model, rapid transformation, and automation programme" (Somerset Council letter to DLUHC, 24 October 2023).
103. Activity is underway to develop the scope of the programme and in doing so consideration has been given to options as to how this is best approached. Firstly, no change could be proposed, and the organisation could continue with the transformation approach envisaged as part of the LGR business case. The initial phase of this programme was to consolidate and realise efficiencies as a result of moving from five councils into one. However, given the scale of the financial pressures that are now being experienced this option has been rejected for the following reasons -
- Savings insufficient to close the budget gap in 2024/25
 - Transformation not happening horizontally across the organisation.
 - Reinforces directorate led change and silo working.
 - The pace does not match the increased need to realise benefits more quickly than envisaged.

- Cultural change to 'one team' slower than anticipated.

104. As a result, it is proposed to develop a transformation programme to deliver a sustainable Somerset Council: bringing together transformation and change across the organisation. Fundamentally redesigning the whole Council, the ways of working, the services we deliver and those which will be delivered by others, the capabilities and competencies required. This approach will -

- Deliver a whole Council approach and oversight, moving away from silo-working.
- Develop a Target Operating Model which will bring into practice the Organisational Design Principles: people and skills, organisation and governance, technology, data and insights, process and measures, partnership and localities.
- Focus on providing impact and value to the people and communities of Somerset.
- Contribute to the financial stability of the Council, delivering significant financial savings.
- Reducing the number of people employed and structure, prioritising operational effectiveness and efficiency while maintaining sufficient capacity to fulfil legal obligations.
- Reshape service delivery to meet the evolving needs of the people of Somerset, maximising collaboration and partnership working, seeking to devolve services and assets where appropriate.
- Streamline governance, processes and reduce bureaucracy.

105. The purpose of the programme is to design and implement a smaller and leaner Council that is flexible and agile, data driven and digitally enabled, sustainable and resilient, local, connected and inclusive to deliver the strategic vision and priorities for the people of Somerset and ultimately employing fewer people. To realise the desired outcome, it is proposed that all directorates, services and staff are in scope, regardless of how they are funded (e.g. capital, external grants and Housing Revenue Account), as well as all agency, interims and consultants. It is recognised that whilst staff of Somerset Local Authority schools are employed by the Council, they have separate management arrangements at a local level and as such are out of scope.

106. This comprehensive approach is designed to ensure fairness and a holistic consideration of how each part of the organisation can contribute to the transformation. There will be some exemptions for workforce reductions e.g. social work, planners, lawyers.

107. A detailed programme is now being developed which will set out the areas of focus for the programme, the resource requirements and risks (together with mitigation measures). These areas include -
- Organisational redesign and innovation
 - Workforce
 - Partnerships and Devolution
 - My Life, My Future (Adults Transformation Programme)
 - Children's Services Transformation
 - MTFP Savings Delivery
 - Place shaping and economic development plan
108. Inevitably, a programme of this scale will undoubtedly carry a significant amount of risk. A detailed risk management plan will be required to support the programme. At this stage, the following risks have been identified -
- Service instability - Inability to provide essential services to the Somerset residents.
 - Insufficient budget to fund service redesign and reduce staffing levels where appropriate - cannot initiate redundancies without a budget to fund them. Without redundancies, savings associated with the programme will not be materialised.
 - Inability to source and implement innovation and automation.
 - Excessive loss of talent and organisational knowledge - loss of organisational memory, knowledge and skills
 - Pension strain funding and impact on future actuarial valuations
 - Failure to consult properly and failure to engage staff and Trade Union - loss of trust and confidence in the delivery of the programme.
109. A programme of this scale will require a significant level of resources; however, it will be essential that our own teams are utilised to ensure that the councils make the best use of the talent and expertise across the organisation. Internal capacity has been identified to support the programme - external specialist resource will only be sought for skills, knowledge, capability and capacity that is not available internally. More work will be done on this as the programme is further developed. By way of example, the whole of the Workforce service has been reconfigured informally to be able to run the Workforce Transformation programme and maintain essential operational HR, Learning and Development and Health and Safety services.
110. Throughout any programme of this scale, it is important that the organisation reflects on lessons learned from other Councils and our own recent Local Government Association Peer Reviews. At this stage, the following is of relevance when developing

our own programme (Learning from other authorities (Birmingham, Bournemouth Christchurch and Poole, Thurrock) and our own LGR Peer Review):

- Lack of clarity on future plans creates significant risk of inconsistent leadership, challenge and delivery: ultimately failure.
- Need to reframe values and behaviours as well as services, processes and structures to ensure cross-council solutions to cross-council problems.
- Transformation Programme must be proportionate and understood in wider context of financial sustainability.
- Need to allocate the right skills, capabilities and capacity to lead, manage and deliver change.
- Must be a “corporate” whole-council programme: balance people and place agendas, without losing sight of agreed priority areas for improvement.
- Effective governance (programme management, democratic and “informal” as well as systems that support) are essential including:
 - Sufficient “grip” including proactive and cross-cutting risk management, strong and proportionate programme architecture.
 - Openness to challenge (including through audit) by staff, Members and others.

111. This is therefore a key part of the council becoming financially sustainable and failure to deliver on this will mean that Somerset Council is no longer financially viable. The

Department for Levelling Up, Housing & Communities (DLUHC)

112. The Council has been pro-active in writing to DLUHC outlining the financial challenges it faces and as result of this there have been a number of meetings with them. These meetings have covered the budget overspending in the current financial year as well as the 2024/25 budget gap. They have also helped to explain the context of being a new council and the financial position and issues that it has inherited from the five predecessor councils. The Council has already agreed to request a capitalisation direction from DLUHC in order set a balanced budget for 2024/25 and is recommended to requests the option of allowing an increase in Council Tax by an additional 5%, 9.99% in total, to £1,810.48 for the Somerset Council proportion of a Band D charge in order to set the 2024/25 budget.

Budget Consultation & Engagement

113. The arrangements for consultation and engagement on the budget proposals are:

- Consultation and engagement process with the public, staff, trade unions, and partners started on 11 December 2023 and runs until 22 January 2024.
- Consultation with the Business sector at five events across the county during January.
- Consultation with the Corporate & Resources Scrutiny Committee, who have responsibility for scrutiny of the budget, on the draft budget proposals on 01 February 2024.
- Audit Committee on 25 January will consider the various accounting strategies and policies such as the Treasury Management Strategy, Capital Strategy, Minimum Revenue Provision (MRP) Policy, Flexible use of Capital Receipts and Non-Treasury Management Investment Strategy.
- Continue to engage with members through all members monthly briefings and political group meetings.

Next Steps & Timetable

114. The next steps in finalising the budget proposals are:

- Continue discussion with DLUHC on council tax and a capitalisation direction.
- Continue to identify further savings options for 2024/25 and future years.
- Develop a full business case for the creation of a sustainable Somerset Council through 're-sizing' of the council and creating a sustainable workforce transformation programme and setting out the estimated costs and saving from this.
- Update the Children's budget with the findings from the Peopletoo deep dive into the service.
- Review of the assumptions and modelling on the Adult's budget in light of the National Living Wage increase and latest diagnostic from Newton.
- Review financing costs in the light of capital programme, potential capitalisation direction and use of reserves.
- Continue to review the Earmarked Reserves to identify reserves that can be repurposed to support the budget.
- Further review of the pipeline of asset disposals to identify the level of capital receipts available to support the budget.
- Review the Flexible use of capital receipts policy to identify potential transformation costs that could be funded from this.
- Review the level of corporate contingency budget (currently £6m) in the light of emerging budget proposals, risks and level of reserves.

115. The sequence of committee meetings for finalising the proposals for the Council to consider on 20 February 2024 is:
- 25 January 2024 - Audit Committee - review of various accounting strategies and policies such as the Treasury Management Strategy, Capital Strategy, Minimum Revenue Provision (MRP) Policy, Flexible use of Capital Receipts and Non-Treasury Management Investment Strategy.
 - 01 February 2024 - Corporate & Resources Scrutiny Committee - scrutiny review of Executive draft budget proposals and make any specific recommendations to the Executive to consider on 7 February 2024.
 - 07 February 2024 - Executive - review of the latest draft budget proposals for the Revenue Budget, Housing Revenue Account and Capital Programme and the consultation feedback and make recommendations to Council on final budget proposals including the level of council tax.

Chief Finance Officer (CFO) Report and Advice on the Robustness of the 2024/25 Budget and Adequacy of Reserves & Balances

116. Under the terms of section 25 of the Local Government Act 2003 the Section 151 Officer (Chief Finance Officer) is required to report to the Council on two specific matters:
- the robustness of the estimates included in the budget, and
 - the adequacy of the reserves for which the budget provides.
117. Section 26 of the same act places an onus on the Chief Finance Officer to ensure the Council has established a minimum level of reserves to be retained to cover any unforeseen demands that could not be reasonably defined within finalising the proposed budget.
118. Given the very challenging financial position that the council faces it is important that all members take note of this report when approving the budget at Full Council. A separate section 25 report will be presented to Full Council by the Section 151 Officer.

Background Papers

119. 2023/24 Budget, Medium-Term Financial Plan & Council Tax Setting report to Council 22 February 2023.

120. Medium Term Financial Strategy (MTFS) 2024/25 to 2026/27 report to Corporate & Resources Scrutiny & Executive July 2023.
121. Somerset Council – Financial Sustainability report to 26 October 2023 Audit Committee including the Section 151 Officer’s letter to DLUHC and External Auditor letter on Somerset Council Financial Sustainability.
122. Financial Strategy Update report to 09 November 2023 Corporate & Resources Scrutiny and 08 November 2023 Executive.
123. 2024/25 General Fund Revenue & Capital Programme update to 05 December 2023, Corporate & Resources Scrutiny Committee, 06 December 2023 Executive and 20 December 2023 full Council.
124. Monthly Budget Monitoring reports to Executive & Corporate & Resources Scrutiny Committee.

Appendices

Appendix 1: Strategic Risks associated with the budget

Appendix 2: MTFP Forecast

Appendix 3: Provisional Finance Settlement

Appendix 4: Changes to budget 2023/24-2024/25

Appendix 5: Council Tax trends

Appendix 6: Detailed list of savings proposals

Appendix 7: Detailed list of pressures

Appendix 8: Full & part reversals of prior year savings.

Appendix 9: Dedicated Schools Grant 2024/25

Report Sign-Off (if appropriate)

	Officer Name	Date Completed
Legal & Governance Implications	David Clark	02/01/2024
Communications	Peter Elliott	29/01/2023
Finance & Procurement	Nicola Hix	03/01/2024
Workforce	Dawn Bettridge	27/12/2023
Asset Management	Oliver Woodhams	03/01/2024
Executive Director / Senior Manager	Jason Vaughan	03/01/2024
Strategy & Performance	Sara Cretney	03/01/2024
Executive Lead Member	Cllr Liz Leyshon	03/01/2024
Consulted:		
Local Division Members	All	
Opposition Spokesperson	Cllr Mandy Chilcott Deputy Leader of the Opposition and Opposition Spokesperson for Resources and Performance	Sent for information 05/01/2024
Scrutiny Chair	Cllr Bob Filmer, Chair - Scrutiny Corporate & Resources Committee	Sent for information 05/01/2024