

Somerset Council
Scrutiny Committee
– Corporate and Resources 02 February 2024



Paper A - 2024/25 General Fund Revenue Budget

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. Somerset Council is a new unitary council, created less than one year ago and faces a very stark and challenging financial position. The scale of the financial challenge is significant and based upon the latest estimates of costs and income, there is a forecast budget gap of £137.3m over the next three financial years. Despite making substantial savings, disposing of asset, using available reserves, and increasing council tax, the council is unable to close the budget gap for 2024/25.
2. It is very clear that under the current financing model for local government the Council is not financially sustainable and that urgent reform of the funding mechanism for local government is required. Significant and on-going financial support from Government will be required due to the cost of delivering services increasing significantly faster than the income the council receives particularly in relation to social care. Without Government support the Council will have no choice other than to issue a section 114 notice in 2024/25.
3. At their meeting on the 15 January 2024, the Executive received a report on the updated position in respect of the 2024/25 budget. They resolved to consult the Corporate & Resources Scrutiny Committee on the latest 2024/25 budget proposals including the savings proposals and Council Tax increases. The feedback from the Scrutiny Committee alongside the public and business consultations will be considered by the Executive at their meeting on 07 February 2024. The Executive

has the responsibility for developing the 2024/25 budget proposals and recommending them to full Council.

4. 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 five predecessor 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 the Department for Levelling Up, Housing and Communities (DLUHC) on a capitalisation direction.

5. The latest position shown in **table 1** 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.

6. 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.

7. Officers have been following a strategy to avoid a Section 114 notice by identifying all potential savings that could be delivered in 2024/25 which total £35.2m. £11.1m of the savings were previously approved and £24.1m of new saving options being put forward.

8. 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 (EIAs) will be completed 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 01 April 2024 and throughout 2024/25. The progress of these decisions will be monitored through the regular budget monitoring reports considered by the Executive and Scrutiny Committees.

9. Taking the proposed budget 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

10. The remaining gap can be bridged by requesting dispensations from 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

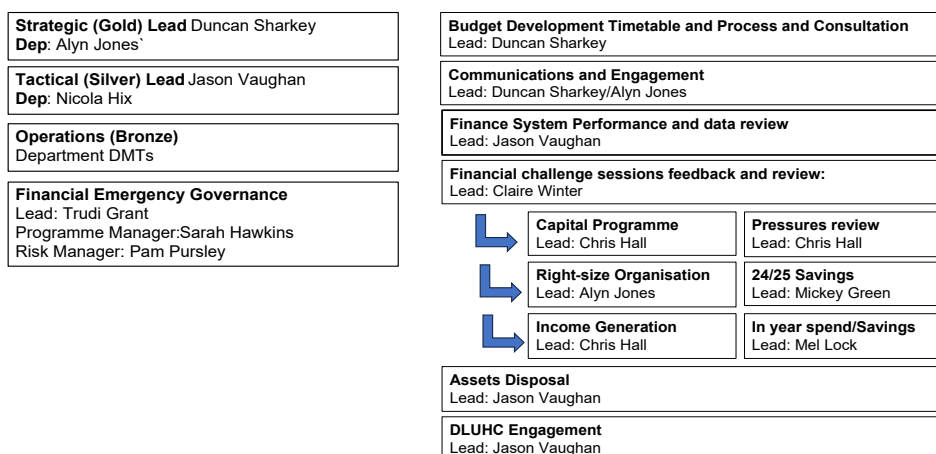
11. If DLUHC do not grant either dispensation request the Council will not be able to balance the 2024/25 budget. This situation will force the Section 151 officer to use his statutory powers and issue a section 114 notice.
12. The potential to increase Council Tax above referendum limits has been permitted 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.
13. The Council has requested a capitalisation direction from DLUHC. A capitalisation direction or exceptional financial support requires approval by government. It does not provide additional funding but allows the relaxation of accounting guidance enabling revenue costs to be funded from capital. This means the authority can borrow to fund these costs.
14. A capitalisation direction will 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.

15. 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. The significant reduction in the workforce will deliver on-going savings of £20m to £30m for 2025/26 (in addition to those in the Local Government Reorganisation Business Case). The one-off costs of this are estimated to be in the region of £40m and a capitalisation direction for this has been requested from DLUHC. Further work is being undertaken to assess if some of these costs can be funded from the capital receipts using the flexible use of capital receipts policy.

16. In November 2023, the Council declared a '**Financial Emergency**'. This has meant continued work to address the forecast in-year overspend and 2024/25 budget gap has become a priority for all officers. As part of the response 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

17. 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.

18. The recommendation approved by the Executive at their 15 January 2024 meeting were to:
 - 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.
19. The scrutiny of the budget proposals is an important part of the overall budget development process. The reasons for financial scrutiny of the budget proposals include:
- Reality check budgets and financial plans prior to their approval.
 - Ensure that there are clear links between budget setting and strategic/operational plans.
 - Assess the value for money provided by local public services or provided by council grant funding programmes.
 - Research and learn best practice in other local authorities.
 - Investigate matters in the public interest or address financial issues raised by constituents or community groups.
 - Oversee how the council is pooling its resources with partner agencies to tackle jointly agreed priorities.
 - Identify evidenced based options for reducing costs, generating income or introducing new models of delivery.
 - Challenge how resources are allocated and used and examining their impact.
 - Provide an additional and transparent challenge to the executive's management of the council's finances.

Recommendations

20. That the Committee:

- a) Review the draft budget proposals and makes comments on them for the Executive to consider at their meeting on 07 February 2024.

Reasons for recommendations

21. To ensure that the Council can set a balanced budget for 2024/25 and meet its statutory duties.

Other options considered

22. 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

23. 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

24. 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.
25. Regular budget monitoring reports will be considered at the Executive and Scrutiny Committee meetings to provide member oversight, transparency and assurance on management actions.
26. **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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27. 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

28. 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.

29. 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.
30. 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.
31. 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.
32. 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.
33. 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.

34. 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

35. 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

36. 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

37. 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

38. 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

39. 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

40. 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

41. 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.

Background

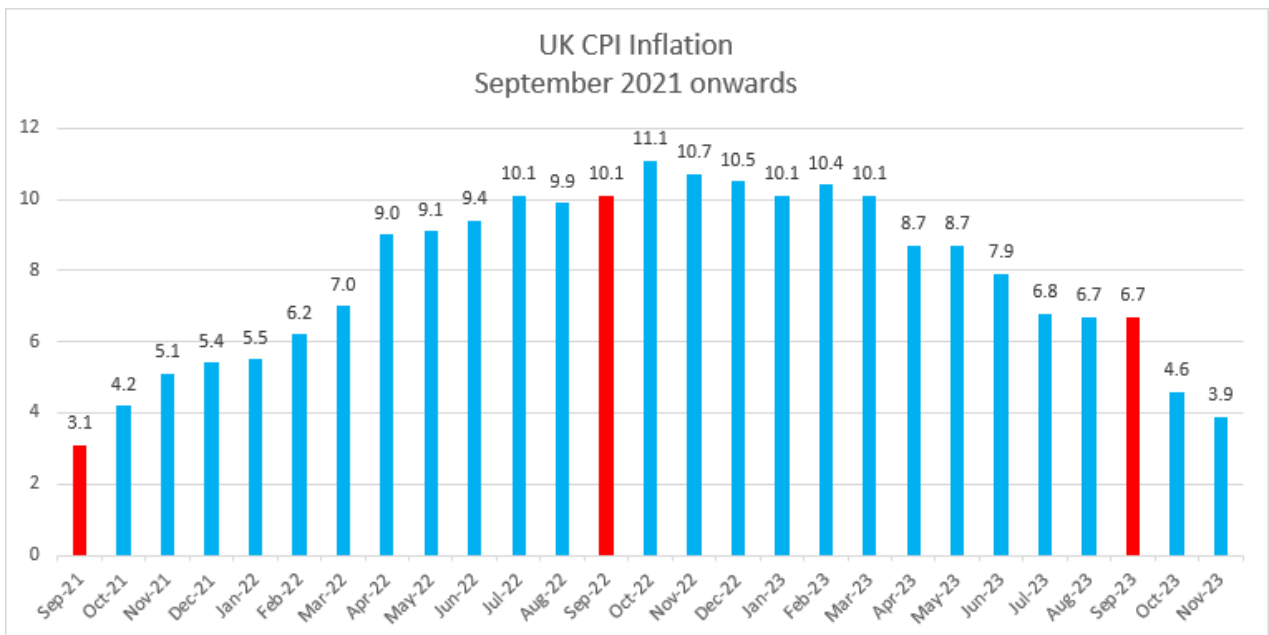
42. The 2023/24 Budget was the first for the new Somerset Council and brought together the budgets from the five predecessor councils. Every new unitary council has identified issues during its first year and Somerset is no different. All of the predecessor councils recorded budgets in slightly different 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.
43. 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.

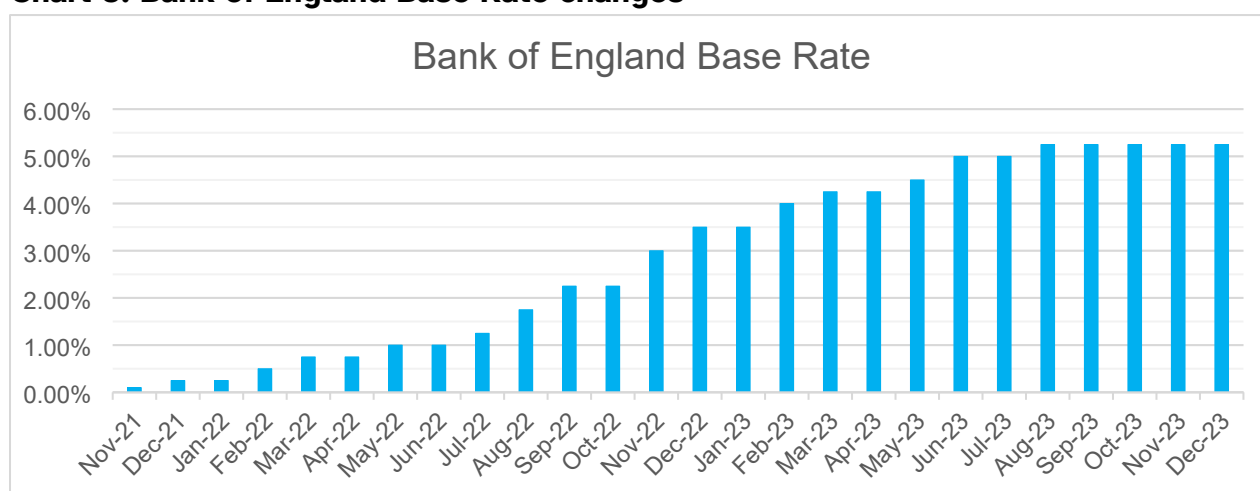
Current Context

- 44. 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.
- 45. 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.
- 46. Inflation peaked at a 40-year high with the Consumer Price Index (CPI) rising to 11.1% in October 2022, although this is now starting to decrease, to 3.9% in November 2023. The September 2023 figures are key as these are used by Government for increases in pensions, business rates etc.

Chart 2: CPI Inflation September 2021 to October 2023



47. 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 pro rata, which is estimated to be equivalent to a 6.1% increase in the pay bill for the Council.
48. To bring inflation under control the Bank of England has been increasing interest rates, with rates rising 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 01 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

49. In July 2023, the monthly budget monitoring process flagged up a potential overspend of £28.6m for the current financial year. If not addressed this would see General Reserves reduced below their minimum level of £30m, as they would be used to fund the overspend.

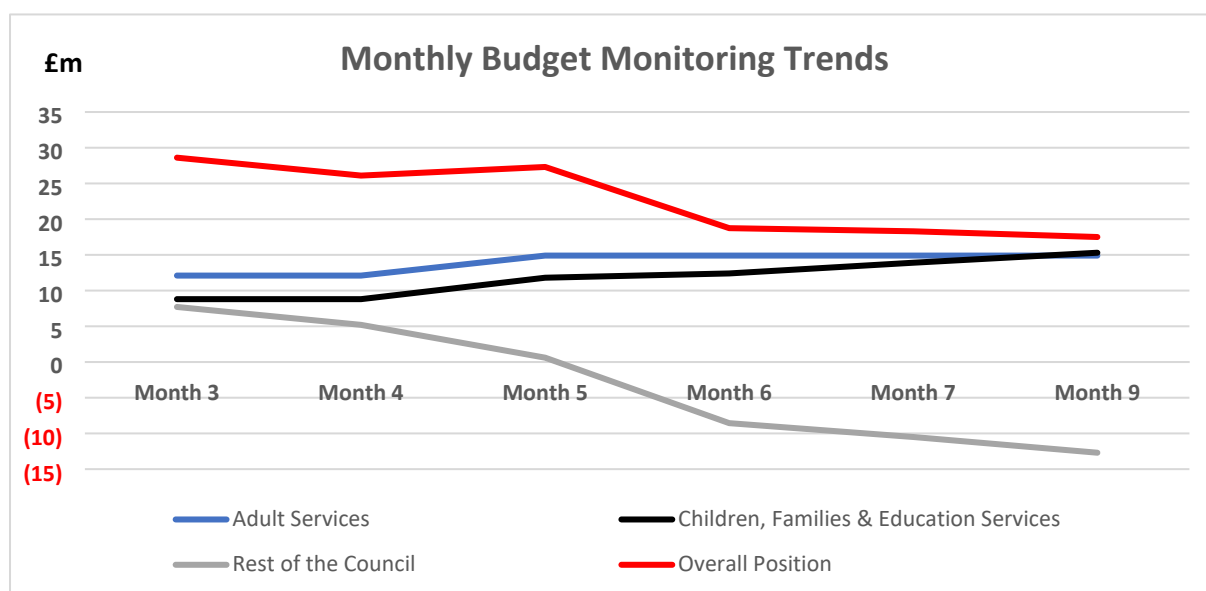
Table 3: Monthly budget monitoring forecast outturn for 2023/24

Service Area	Month 3 £m	Month 4 £m	Month 5 £m	Month 6 £m	Month 7 £m	Month 9 £m
Adult Services	12.1	12.1	14.9	14.9	14.9	14.9
Children, Families & Education Services	8.8	8.8	11.8	12.4	13.9	15.3
Total Adult and Children's	20.9	20.9	26.7	27.3	28.8	30.2
Community Services	-	-	-	1.3	-	(0.3)
Climate & Place	-	-	-	(5.3)	(5.4)	(7.0)
Strategy, Workforce & Localities	5.1	2.7	2.3	0.9	0.9	0.1
Resources & Corporate Services	1.5	1.5	1.3	(2.2)	(2.8)	(2.4)

Public Health	1.4	1.3	0.3	-	-	-
Non-Service	(0.5)	(0.5)	(3.5)	(3.6)	(3.5)	(3.5)
Corporate Contingency	-	-	-	-	-	-
Traded	0.2	0.2	0.2	0.3	0.3	0.4
Rest of the Council	7.7	5.2	0.6	(8.6)	(10.5)	(12.7)
Overall Forecast Overspend	28.6	26.1	27.3	18.7	18.3	17.5

50. Actions taken have seen the forecast overspend for the current year being reduced by £11.1m overall to £17.5m. However, the overall picture masks the underlying issue of both Adults and Childrens deteriorating positions. The month three report showed their combined forecast overspend at £20.9m, this has since increased to £30.2m by month nine. As a result of strong financial controls deployed to reduce the overall overspend the rest of the Council has seen a dramatic forecast reduction of £20.3m over the six months from a forecast overspend of £7.7m in month three to a forecast underspend of £12.6m in month nine.

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



Risks, Assurance, External Validation & Reviews

51. 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.
52. 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.

53. There have been regular Member briefings on the Council's finances which started in August 2023. These have since been held twice monthly and are open to all members. The briefings will continue through to February 2024 when the budget for 2024/25 is set to ensure that all members are up-to-date and aware of the financial challenges that the Council faces.
54. A number of external reviews have been carried out to help validate the overall budget and potential savings. 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

55. The Autumn Statement 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".
56. 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."
57. 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.
58. 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.

59. 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**.
60. The final Finance Settlement is due in early February 2024.

Council Tax

61. The authority’s 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 have been 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.
62. Therefore, the current band D charge of £1,646 reflects the historical decisions from the five 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.

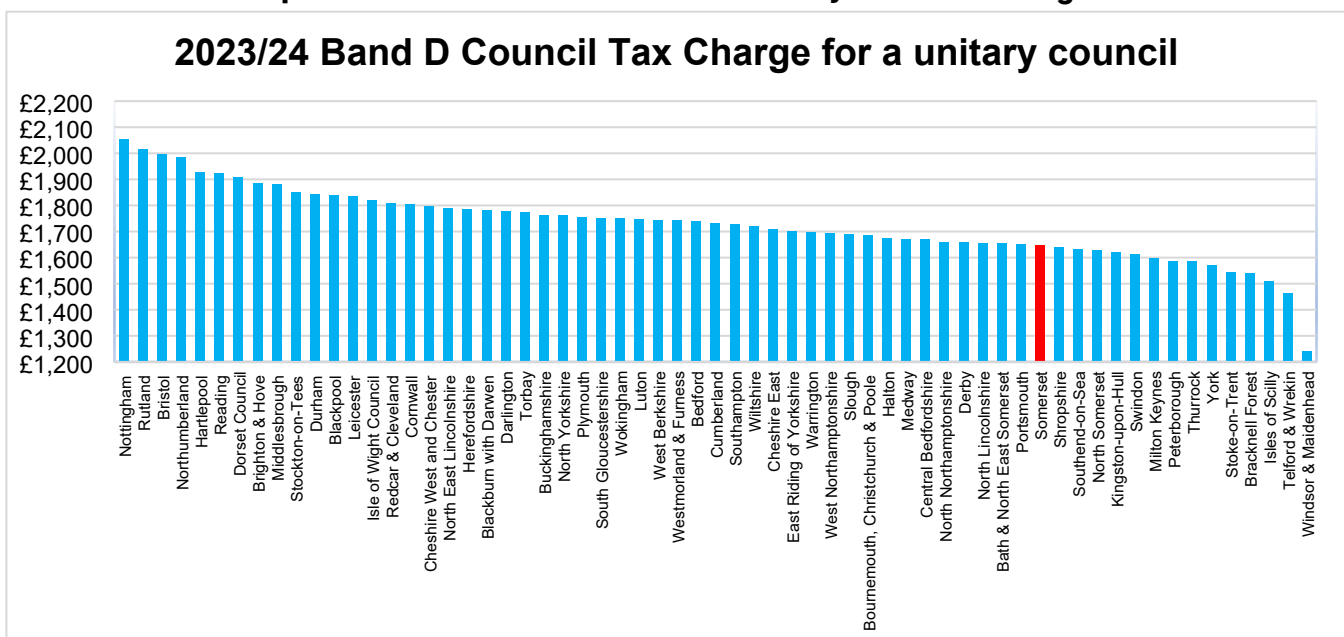
63. **Table 4** below shows the average Council Tax including the Adult Social Precept for 2023/24 is £2,027 with the charge in Somerset being £381 lower at £1,646. If the Council charged the average amount for England, then an additional income amount of £78.3m would be generated.

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

64. 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



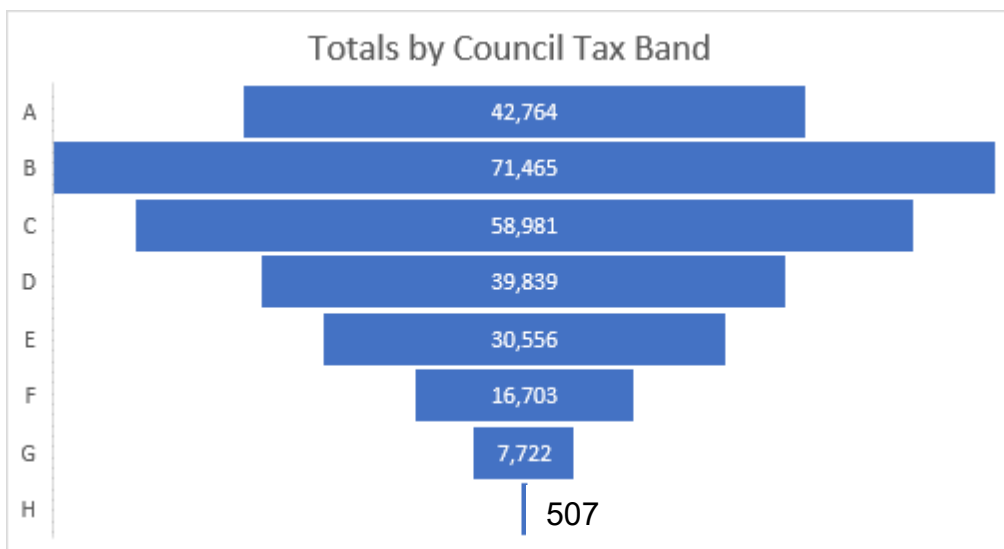
65. The analysis shows:

- Somerset Council 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

66. 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



67. 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.

68. 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.”

69. 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).
70. 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

71. 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.
72. **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 5** below.

Table 5: Summary of changes to budgets

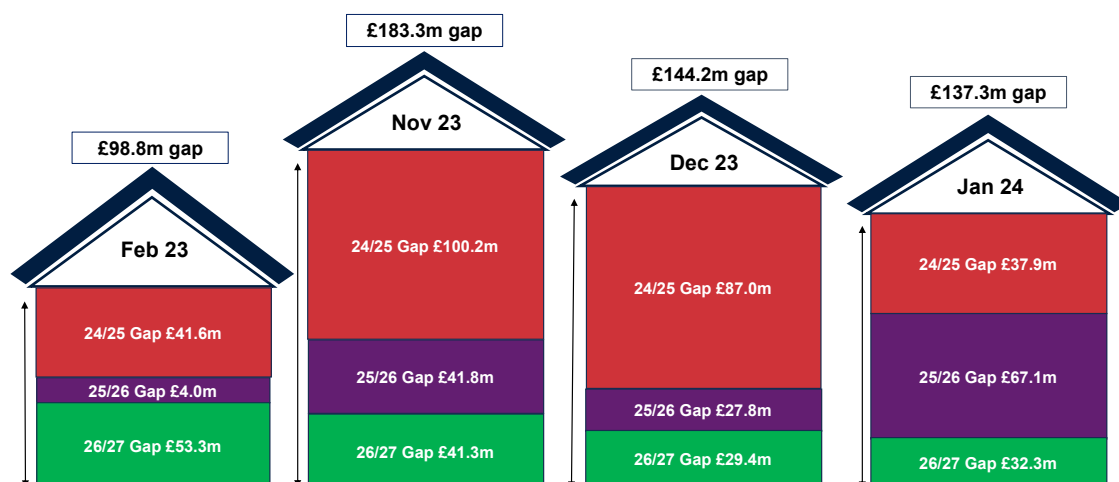
Changes to Budget	2024/25 £m	2025/26 £m	2026/27 £m
Budget from previous year	0.0	37.9	105.1
Reversals for once off items	19.9	7.8	0.0

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

73. 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 2023 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. The use of the MTFP Support reserve of £36.8m in 2024/25 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

Updates to MTFP Forecast – 24/25 to 26/27



74. 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.

75. If no additional savings were identified in future years the total capitalisation direction required over the 3 years is £280.2m. Increasing Council Debt by £280.2m with ongoing interest and MRP on this amount would add approximately £32.2m per annum to the gap identified above. The strategy is to try and avoid this by disposing of assets to fund this.

Table 6: Capitalisation Direction

Financing Costs of Capitalisation Direction	2024/25 £'m	2025/26 £'m	2026/27 £'m
Required Capitalisation Direction	37.9	105.0	137.3
Revenue cost of Capitalisation Direction			
- for 2024/25 of £37.4m	4.4	4.4	4.4
- for 2025/26 of £105.0m		12.1	12.1
- for 2026/27 of £137.3m			15.8
Budget Gap	4.4	16.4	32.2

76. The capitalisation direction may also have to have a further increase 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 2026. The current forecast is that the cumulative deficit will be £96.2m at this stage.
77. 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 future income lost.
78. 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.
79. The key and most significant changes relate to:
- Adults – demand increases and significant increased placement costs.
 - Childrens – increases in external placement costs and special education needs and disabilities (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.

80. **Table 7** 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 Office of National Statistics (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 7: 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

81. The list of pressures by directorate is summarised below in **table 9**, further details are set out in **appendix 6** totalling £108.5m for 2024/25 which represents a 20% increase on the 2023/24 budget.
82. **Table 8** below shows there are 67 pressures in total, which are spread fairly evenly in value from smallest to largest. 80% of pressures are over £100k, the value of these mean it would be very difficult for a service to absorb these in their current budget allocations.

Table 8: Analysis of Pressures

Total Pressure Value	Number of Pressures	% of Pressures
Below £100k	13	20%
£100k-£249k	19	28%
£250k-£499k	11	16%
£500k-£999k	8	12%
£1m+	16	24%
Total Number of Pressures	67	100%

83. 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-19, Covid-19 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.

84. 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 9: 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	2.6
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

85. 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 10** 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**.

86. These savings proposals total £45.2m over the next three years and represent an 8% reduction to the net budget and part of the approach of avoiding issuing a section 114 notice and moving towards a having sustainable financial footing. The savings are made up of new savings and savings previously approved.

Table 10: 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)

Table 11: Analysis of savings by value

Total Saving Value	Number of Savings	% of Savings
Below £100k	56	42%
£100k-£249k	28	21%
£250k-£499k	13	10%
£500k-£999k	24	18%
£1m+	5	4%
Value to be confirmed	6	5%
Total Number of Savings	132	100%

87. 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 12: 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)

88. 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.
89. Every service has 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. The authority currently has 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 & Contingency

90. The new Council had a 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.

91. The on-going 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 (**table 14**).
- Setting up a Budget Delivery reserve of £2.7m that will be spent during the year to cover any delays in the delivery of the savings contained within the budget proposals and loss of income from the disposals of assets.
- Reinstating the sinking fund for Yeovil Athletics Track and the Artificial Grass Pitch of £0.4m.

92. Set out in **table 13** is the summary of the overall position on reserves and shows the how the £316m in the 5 predecessor councils' statement of accounts on 31 March 2023 have brought together. The adjustments column shows the planned use of reserves agreed by council in setting the current years budget. The 'Other' category included the reserves held on behalf of others as part of the councils' accountable body's role. General fund reserves are forecast to be £32.3m after allowing for current years forecast overspend but remain above the £30m risk based minimum level approved by Council.

Table 13: Somerset Council Reserves by DLUHC Reporting Category

Somerset Council Reserves (DLUHC Reporting Categories)	31 March 2023 £m	Adjust-ments £m	01 April 2023 £m	Forecast Use £m	31 March 2024 £m	Forecast Use £m	31 March 2025 £m
Contractual commitments	14.8	(1.1)	13.7	(0.4)	13.2	(0.1)	13.2
Planned future revenue & capital spending	50.9	(18.9)	32.1	(15.7)	16.4	(4.2)	12.2
Specific risks	24.7	(7.2)	17.6	(2.9)	14.6	(3.7)	11.0
Budget stabilisation	52.3	(10.1)	42.2	1.2	43.4	(39.5)	3.9
Public Health	4.1	(1.7)	2.4	0.0	2.4	(1.8)	0.6
Other	142.4	(4.0)	138.4	(99.8)	38.6	(6.9)	31.7
Total Earmarked Reserves	289.2	(43.0)	246.3	(117.7)	128.6	(56.1)	72.5
General Fund Reserves	26.8	23.1	49.8	(17.5)	32.3	0.0	32.3
Total Reserves	316.0	(19.9)	296.1	(135.2)	161.0	(56.1)	104.9

93. Details of the reserves which were repurposed from the predecessor councils to create an MTFP support reserves of £36.8m is detailed in **table 14** below.

Table 14: MTFP Support Reserve

MTFP Support Reserve	£m
Amalgamated Reserves:	
Funding Volatility (SCC)	6.8
MTFP Support Fund (SSDC)	7.6
MTFP Managed Use of Balances (SDC)	9.4
MTFP Reserve (MDC)	3.9
Budget Equalisation (SCC)	2.4
Total Amalgamated MTFP Support	30.1
Full/Part Released Reserves	
Local Government Reorganisation	8.7
Investment Property Risk Reserve	5.2
Regeneration Fund	3.0
Workforce Resilience	0.7
Economic Development Fund	0.1
Total Released from Reserves to MTFP Support	17.7
Total MTFP Support Reserve after Transfers	47.8
Use of Reserve for 2023/24 MTFP	(11.0)
Remaining Balance for MTFP Support Reserve	36.8

94. The current level of corporate Contingency is £6m which is approximately 1% of the Net Budget requirement and is to allow for things such as changes to forecast cost of the national pay award for staff.

Dedicated Schools Grant (DSG) High Needs Deficit

95. Local authorities are facing increased demand for services for pupils with 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.
96. 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
97. In the case of Somerset, the DSG is forecast to overspend by £17.4m in 2023/24 and reach a cumulative deficit of £96.2m by 31 March 2026.
98. The actual, forecast and projected DSG deficits are shown in the **table 15** below:

Table 15: Actual, current forecast and projected Dedicated Schools Grant deficits

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

99. 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.
100. 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.
101. **Appendix 9** sets out more details on the Dedicated Schools Grant.

Asset Disposal

102. 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.
103. 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.
104. 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

105. 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.
106. 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.
107. 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.
108. 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).
109. 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.

110. 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.

111. 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.

112. 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.

113. 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
114. 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.
115. 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.
116. 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.

117. 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.

Department for Levelling Up, Housing & Communities (DLUHC)

118. The Council has been pro-active in writing to DLUHC outlining the financial challenges it faces and as result of this there have been several meetings with them. These meetings have covered the budget overspending in the current financial year as well as the 2024/25 budget gap and the financial position over the medium term. They have also helped to explain the context of being a new council and issues that it has inherited from the five predecessor councils.

119. The Council has already agreed to request a capitalisation direction from DLUHC in order set a balanced budget for 2024/25 and 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 which would generate £17.1m of on-going income.

120. The decision by DLUHC on allowing the council the additional 5% on council tax will be made as part of the finance settlement which is expected to be announced in early February. The timing of agreement on the request for a Capitalisation Direction will be at the end of February or early March.

Budget Consultation & Engagement

121. Somerset Council's 2024/25 budget consultation ran for six weeks from 11 December 2023 to 22 January 2024 and was widely promoted across a number of different communications channels.
122. The aim was to increase understanding of local government funding and the services we provide, while also seeking the public's views on options available as we look to set a balanced budget in February 2024. We invited residents, businesses and stakeholders to share their views on a range of high-level options that could contribute towards balancing the budget. We also asked for alternative options not yet considered and encouraged feedback on the potential impact of the general approach to budget setting.
123. The consultation received 5,841 responses via the consultation survey, 17 emails/letters and nearly 400 comments on social media. We are also aware of a petition about a specific saving associated with Yeovil Rec which has so far generated more than 13,900 signatures.
124. We held four in-person briefing events specifically for businesses. These were attended by both Members and Officers and held in Taunton, Bridgwater, Frome and Yeovil to give a wide geographical spread. There was also a virtual event for those who could not attend in person. These were attended by representatives from 46 businesses.
125. The report in **Appendix 10** summarises the findings of the consultation exercise.

Next Steps & Timetable

126. The next steps in finalising the budget proposals are:
 - Waiting for DLUHC to make a decision on the request for an additional 5% increase in council tax and the capitalisation direction to balance the budget and fund.
 - 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.

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

127. 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.
128. 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.
129. Given the incredibly 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

130. 2023/24 Budget, Medium-Term Financial Plan & Council Tax Setting report to Council 22 February 2023.
131. Medium Term Financial Strategy (MTFS) 2024/25 to 2026/27 report to Corporate & Resources Scrutiny & Executive July 2023.
132. 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.

133. Financial Strategy Update report to 09 November 2023 Corporate & Resources Scrutiny and 08 November 2023 Executive.
134. 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.
135. Monthly Budget Monitoring reports to Executive & Corporate & Resources Scrutiny Committee.
136. 2024/25 General Fund Revenue Budget Update to Executive 15 January 2024.
137. Application to DLUHC for a capitalisation direction.

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
- Appendix 10: Summary of findings from the budget consultation exercise
- Appendix 11: Reserves