

## **Decision Report - Executive Decision**

Forward Plan Reference: FP/23/03/04

Decision Date – 08 April 2024

Key Decision – Yes

---

### **Medium-Term Financial Strategy (MTFS) 2025/26 to 2029/30**

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

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

Contact Details: [jason.vaughan@somerset.gov.uk](mailto:jason.vaughan@somerset.gov.uk)

### **Summary**

1. The financial challenges facing the Council are significant and the budget has been set with one-off resources. Earmarked reserves have been used in both 2023/24 and 2024/25 to close the budget gap.
2. The Medium-Term Financial Strategy (MTFS) provides a strategic financial framework and a forward-looking approach to achieving financial sustainability for the Council. The key overriding aim of the MTFS is:

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

3. The MTFS aids robust and methodical planning as it forecasts the Council’s financial position over a five-year period, taking account of known pressures, major issues affecting the Council’s finances, external economic influences, and local factors. This is particularly important during a period when the Council faces a significant financial challenge. The MTFS recognises the key role that financial resources play in the future delivery of priorities and in enabling the effective planning, management, and delivery of services.

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

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

5. The 2024/25 Financial Strategy was approved by the Executive in July 2023 and updated in November 2023 when the Council declared a 'Financial Emergency' which focused on avoiding a section 114 notice by taking the following actions:

- Reducing the 2023/24 projected overspend
- Reviewing and reducing budget pressures
- Identifying further saving options
- Reducing the capital programme and bids for new schemes
- Maximising funding and income to the Council
- Generating capital receipts from asset disposals
- Disposing of commercial assets
- Completing the outstanding statement of accounts from the five predecessor councils to ensure the new Council's balances were correct
- Reviewing Earmarked Reserves and repurposing them to support the budget
- Agreeing plans to 'resize' the organisation (workforce transformation) in 2024/25 to enable it to become financially sustainable in the future

- Working with the Department for Levelling Up, Housing and Communities (DLUHC) on a capitalisation direction.

6. Following the approval of 2024/25 Budget by Council on 20 February 2024 it is appropriate to update the Financial Strategy and build on the work done to date. The overriding aim of avoiding a section 114 but operating as if one had been issued remains. The key strands of the financial strategy are:

- Maintaining adequate reserves – ensuring that there are adequate General Reserves to cover the financial risks faced by the Council and a maintaining suitable level of Earmarked Reserves to fund future commitments.
- Financial Controls – ensuring that strong financial controls are in place over all aspects of the Council’s finances.
- Having a clear plan to close the forecast budget gap in the Medium-Term Financial Plan (MTFP).
- Generating capital receipts – to avoid the need to borrow for the Capitalisation Direction, thus avoiding increasing debt and putting additional pressures on the General Fund Revenue Budget.
- Housing Revenue Account – having a clear 30-year business plan.
- Affordability of the Capital programme – ensuring that any new borrowing is limited, with a priority to emergency health and safety works or where there is clear business case for delivering future savings and opportunities.
- Dedicated School Grant – having a deficit management plan (DMP) in place to address the forecast in-year overspend on the high need block. Once this is in place to agree with the DfE actions to address the historic deficit.
- Funding reforms – actively engaging and campaigning for the reform of local government including giving freedom to councils to set their own council tax levels without a need to hold a referendum.

7. The MTFS is a strategic document that sets out the financial context, challenges, and priorities over the medium-term and is used as a basis to build the Council’s Medium-Term Financial Plan (MTFP). The MTFP, approved as part of the annual budget process, provides a detailed breakdown of how the Council plans to manage its finances to create a balanced budget and achieve its objectives. The MTFP includes detailed projections of forecast income, expenditure, borrowing, savings, pressures, etc. over the medium-term.

## **Recommendations**

8. **That the Executive:**
  - a) **Recommends approval of the Medium-Term Financial Strategy (MTFS) for 2025/26 to 2029/30 and the savings targets for 2025/26 to Council.**
  - b) **Recommends that the Council continues with the aim of avoiding a section 114 notice by taking all of the necessary actions and continuing to operate as if one had been issued.**
  - c) **Receives an updated Medium-Term Financial Plan in September 2024 which sets out the latest forecasts of future service costs, income and funding from 2025/26 to 2029/30.**
  - d) **Recommends to continue actively campaigning for the reform of funding of councils and greater local freedoms.**
  - e) **Approves that the Financial Control Boards continue to operate in 2024/25 as set out in Appendix 3.**

## **Reasons for recommendations**

9. To request members endorsement of the approach to financial planning and balancing the budget in the medium-term.

## **Other options considered**

10. It is a requirement of good financial management to have a Medium-Term Financial Strategy (MTFS) and a forecast of the future financial picture through a Medium-Term Financial Plan (MTFP).

## **Links to Council Plan and Medium-Term Financial Plan**

11. The MTFP will link pressures, growth, and savings to the delivery of the Council's key priorities within the Council Plan which are:
  - a greener, more sustainable Somerset
  - a healthy and caring Somerset
  - a flourishing and resilient Somerset
  - a fairer, ambitious Somerset

## Financial and Risk Implications

12. It is clear that the scale of financial challenges facing the Council are significant, with the forecast cost of services increasing at a faster rate than the income received. The 2024/25 budget could not be balanced without Exceptional Financial Support from DLUHC.
13. The Section 25 Statement from the Section 151 officer to the 20 February 2024 Council highlighted the risks around a Section 114 notice given the MTFP forecast and the estimated level of reserves. A clear and significant programme of activities is required in order to avoid the position where a section 114 notice needs to be issued.
14. The Medium-Term Financial Forecast has identified a budget gap of just under £200m over the next five years, with costs increasing at a faster rate than income particularly in relation to Adults and Children’s social care if future savings are not identified.
15. The deficit on the Dedicated Schools Grant is a major risk. The deficit is projected to continue to increase despite a number of mitigations. The current statutory override is due to finish at the end of the 2025/26 financial year. After this point the deficit would need to be offset against Council reserves. As the forecast DSG deficit would exceed the current level of reserves, a s114 notice would have to be issued.
16. Given the issues set out on this report and despite all of the actions taken and mitigations put in place, the risk score on Strategic Risk ORG0057 – Sustainable MTFP remains at 25 the highest risk score possible.

<b>Likelihood</b>	<b>5</b>	<b>Impact</b>	<b>5</b>	<b>Risk Score</b>	<b>25</b>
-------------------	----------	---------------	----------	-------------------	-----------

## Legal Implications

17. 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.

18. Section 114 of the Local Government Finance Act 1988 outlines the duties of the chief finance officer of a relevant authority. The chief finance officer is required to make a report under this section if it appears to him/her that the expenditure of the authority incurred (including expenditure it proposes to incur) in a financial year is likely to exceed the resources (including sums borrowed) available to it to meet that expenditure.
19. 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.
20. 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.

## **HR Implications**

21. There are considerable HR implications as a result of the savings targets where staff may be impacted by decisions made. The relevant business cases for these savings will outline the HR implications as part of the 2025/26 budget process.

## **Other Implications:**

### **Equalities Implications**

22. This report is a high-level plan of how the short and long-term budget will be approached. The equalities implications will be assessed as part of the final budget proposals and considered before any final decision is made.

### **Community Safety Implications**

23. There are no direct community safety implications arising from this report and any implications will be reviewed as part of the 2025/26 budget process.

### **Climate Change and Sustainability Implications**

24. There are no direct Climate Change and Sustainability implications arising from this report and any implications will be reviewed as part of the 2025/26 budget process.

### **Health and Safety Implications**

25. There are no direct health and safety implications arising from this report and any implications will be reviewed as part of the 2025/26 budget process.

### **Health and Wellbeing Implications**

26. There are no direct Health and Wellbeing implications arising from this report and any implications will be reviewed as part of the 2025/26 budget process.

### **Social Value**

27. There are no direct Social Value implications arising from this report and any implications will be reviewed as part of the 2025/26 budget process.

### **Scrutiny comments / recommendations**

28. The 2025/26 budget preparations and proposals will be considered by the Councils Scrutiny Committees in accordance with budget setting timetable.

## Background

29. The financial challenges facing the Council are well documented with there being a significant budget gap forecast between the costs of service and the funding available.
30. The Section 25 Statement to 20 February 2024 Council outlined the stark and challenging financial situation facing the Council. **Table 1** below shows that there was £81.4m on one-off resources required to balance the 2024/25 budget which highlight the structural budget gap and the size of the challenge in addressing this over the medium-term.

**Table 1: - Balancing the 2024/25 using one-off sources of funding**

<b>Changes to 2023/24 budget</b>	<b>£m</b>
Reversals for one off use of reserves in 2023/24	19.9
Pressures	109.9
Savings	(35.0)
Changes to pay	13.8
Increase in financing costs	12.9
Increase in funding	(40.1)
<b>Budget gap</b>	<b>81.4</b>
One off items – to close the budget gap	
Use of Medium-Term Financial Plan Support Reserve	(36.8)
Council Tax Collection Fund surplus	(6.2)
Business Rates Collection Fund surplus	(1.5)
Capitalisation Direction	(36.9)
<b>Remaining budget gap</b>	<b>0.0</b>

31. The current MTFP forecast for 2025/26 to 2028/29 is set out in **Appendix 1**. This will be reviewed, updated and reported back to the Executive in September 2024.



32. The recent report from the Levelling Up, Housing and Communities Committee on Financial distress in local authorities which was published on 29 January 2024 highlights the significant financial challenges faced by the sector. In its summary it says:

*“It is no surprise that the financial crisis that local authorities are encountering comes after significant reductions in local authorities’ spending power which has itself coincided with increasing demand for their services and inflationary pressures driving up costs. Ultimately, the levels of funding available to local authorities, through council tax, retained business rates, and government grants have not kept pace with these pressures, leading to a funding gap which is already estimated at £4 billion over the next two years.”*

33. It also highlights the problems with the current funding system, with the fair funding reviews promised but the anticipated reforms not materialising and now deferred into the next parliament.

*“This has meant that local authorities are increasingly reliant on income from council tax to fund service delivery. However, council tax is regressive, long overdue for reform, and is contributing to a disproportionately negative impact on funding levels of local authorities in the most deprived areas of the country. Furthermore, the business rates retention scheme is increasingly misaligned with local authorities’ current spending needs and the government has not delivered on its earlier commitments to review and reform the scheme. The Government must urgently reform these core funding mechanisms to ensure that the levels of demand and cost pressures faced by local authorities are adequately considered in determining their funding levels.”*

*“In the short term the Government must ensure that local authorities receive sufficient financial support to enable them to continue delivering the services that people need.”*

34. Given the findings in this report and the challenges facing the sector, it is important that the Council continues to actively campaign for the reform of funding of councils great local control and flexibility including removal of the

referendum limits on council tax and ability to cover the cost of services through fees & charges such as licensing and planning.

35. Despite the significant financial challenges, there have been many key financial achievements made during the first year of the new Council which have helped improve and embed financial management across the organisation. These are summarised in **Appendix 2** together with the self-assessment for 2023/24 against the CIPFA FM Code that has been considered by Audit Committee.

### The 2023/24 Outturn Position for Somerset

36. The month ten budget monitoring report for 2023/24 is projecting an overspend of £16.3m for the year which equates to 3% of the net budget. This is a significant reduction compared to the Month 3 forecast of £28.6m. This will need to be funded from reserves, reducing the Council’s flexibility in budget planning and sustainability.

### Medium-Term Financial Strategy (MTFS)

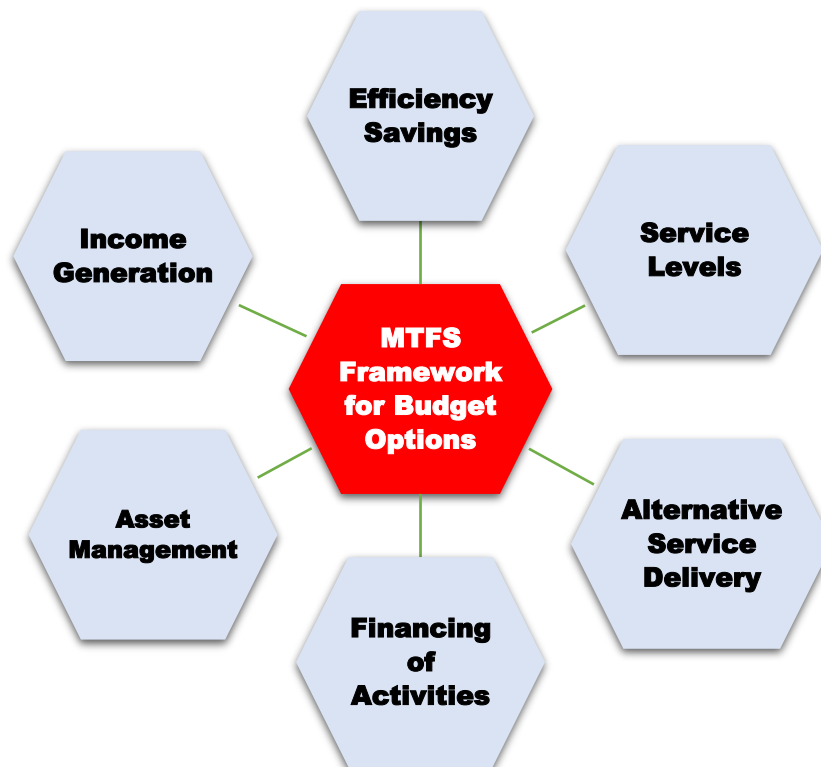
37. As well as providing the strategic framework to ensure that resources are aligned to the corporate objectives the MTFS also ensures that the Revenue, HRA, Capital Strategy, Treasury Management Strategy and Prudential Indicators are appropriately aligned.
38. The MTFP is currently forecasting a budget gap of £103.9m for 2025/26 and then a total of £94.6m over the subsequent three years. The MTFS is therefore very heavily focused upon addressing the budget gap in 2025/26.

<b>High Level MTFP Forecast</b>	<b>2025/26</b>	<b>2026/27</b>	<b>2027/28</b>	<b>2028/29</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Budget Gap	103.9	147.8	170.0	198.5
Change on Previous Year	103.9	43.9	22.2	28.6
% of total Gap	52.3%	22.1%	11.2%	14.4%

39. With the MTFS there is an established framework for the development of options to balance the budget. By systematically using this at both at Service and

corporate levels this should enable a range of options to be developed that can close the budget and help the council move to a financially sustainable position.

40. The six elements of the framework for the development of budget options are:



41. Below is a high-level assessment of significant areas to target for potential savings in order to close budget gap for 2025/26. The numbers are initial guides rather than the precise detail to help ensure that we focus on the areas that are likely to yield the most significant savings. The financial targets within this MTFS for balancing the 2025/26 budget are in range of £47m to £116m.

Summary	Lower end of range £m	Upper end of range £m
Efficiency Savings	7	26
Service Levels	32	48
Alternative Service Delivery	1	3
Asset Management	1	3
Financing of Activities	0	2
Income Generation	6	34
<b>Total</b>	<b>47</b>	<b>116</b>

## **Efficiency Savings**

Savings target for Efficiency Saving in 2025/26 £7m to £26m

42. This part of the strategy is focused on identifying savings that can be made from such things as removing duplication, technological changes, improved procurement and new ways of working. These savings do not impact upon the level of service provided. For the 2025/26 this will include:
- Delivering the approved Local Government Reorganisation (LGR) Business case savings.
  - Reviewing the 2023/24 outturn and identifying on-going underspends.
  - Reviewing and challenging future forecast of demand and inflationary increases.
  - Reviewing the current Commissioning practices and arrangements with a view of identifying latest best practice and ensuring value for money is achieved.
  - Reviewing spend on third parties utilising the report from Peopletoo which has identified areas of potential savings.

## **Service Levels**

Savings target for Service Levels in 2025/26 £32m to £48m

43. This element of the Financial Strategy is concerned with making strategic choices over what level of service is required. Some services that the Council provides are classed as being statutory i.e. the Council has a legal duty to provide them, whereas others are discretionary in that the Council actively chooses to provide them. With all services regardless of whether they are statutory or discretionary, there is usually a choice over the service level that is to be provided and the manner in which it is delivered.
44. For the 2025/26 this will include:
- Use of benchmarking information to inform the cost of services of comparable unitary councils.
  - Reviewing what options other councils have put forward as they move to statutory minimum standards.
  - Workforce Programme – This programme will enable a redesigned and reshaped workforce, which is smaller, costs less, is more efficient and productive, and demonstrates a values-led people culture. It is expected that the Workforce programme will deliver:
    - A reduction to our pay-bill by c.£40m to help close the 25/26 budget gap whilst minimising the need for compulsory redundancies. Various interventions including a VR Scheme, robust recruitment and

establishment controls, a reduction in agency spend, a reduction of interims and consultants, removal of vacant budgeted posts, and reduction in management costs.

- Embedded Values and Behaviours - ensuring the basics are in place to improve employee performance and engagement and organisational efficiency.
- Supporting staff through change - various targeted interventions to support employee wellbeing and cultural change.
- Total Reward – improvements to how we manage Job Evaluation, development of a new Somerset Council Pay & Grading framework for a smaller workforce, and a review of affordable reward and recognition solutions to attract and retain talent.

### **Alternative Service Delivery**

Savings target for Alternative Service Delivery in 2025/26 £1m to £3m

45. This element of the Financial Strategy is about focusing on a current service and reviewing if that service could be provided in a different way and produce savings as a result. For the 2025/26 this will include:
- Service Devolution and the transfer of specific functions to City, Town, and Parish Councils.
  - Rationalising and standardising the approach to the Revenue & Benefits function which is currently a mixture of inhouse and external provision.

### **Asset Management**

Savings target for Asset Management in 2025/26 £1m to £3m

46. This element of the Financial Strategy is concerned with how the Council manages its assets effectively and efficiently. For the 2025/26 this will include:
- Rationalisation of the corporate estate to reduce running costs and generate potential capital receipts or rental income.
  - Minimise new capital bids by only considering fully externally funded schemes and those where there is a legal requirement (such as critical condition schemes to manage Health and Safety risks or maintain operations), and those where there is a robust and compelling invest-to-save business case, generating ongoing revenue savings.

## **Financing of Activities**

Savings target for Asset Management in 2025/26 £0m to £2m

47. This element is concerned with options for funding activities such as the use of reserves, revenue, capital, borrowing, forward funding etc. For the 2025/26 this will include:
- Review of current capital programme to deal with the impacts of inflation and focus on priority areas.
  - Reviewing options around the Flexible use of Capital Receipts for appropriately qualifying spend.
  - Review of Treasury Management activities covering both investment and borrowing activities.
  - Reviewing the use of reserves to smooth out the MTFP and delivery of savings.
  - Reviewing the current PFI arrangements

## **Income Generation**

Savings target for Income Generation in 2025/26 £6m to £34m

48. This covers the whole spectrum of income to the Council from all sources including government grant, fees & charges, investment income, business rates and council tax. For the 2025/26 this will include:
- Increase income from a review of all fees and charges including the alignment of charges from the five predecessor councils.
  - Reviewing the finance settlement in terms of Council Tax, Business Rates, and other grants.
  - Raising Council Tax by an additional 5% above the current referendum limits, subject to Government approval.

## **Housing Revenue Account**

49. The Housing Revenue Account is ringfenced and the Council approved the 2024/25 HRA budget and the 30-year business plan in February 2024. These need to be reviewed and updated for 2025/26.

## **Schools and DSG**

50. Schools are funded by the Dedicated Schools Grant which is initially allocated to the Council by the DfE. The DSG supports all expenditure in schools (which

set their own budgets) and the activities that the Council carries out directly for schools. It does not cover the statutory responsibilities the Council has towards parents. These responsibilities are funded through the Council's main revenue funding.

51. With the introduction of the National Funding Formula (NFF) the DSG was ring-fenced for schools from 2018/19 making the LA responsible for the demographic pressures being observed in the SEND/High Needs element of the DSG (although schools can contribute up to 0.5% of the ringfenced sum if agreed by the Schools Forum). However, local authorities cannot contribute to any deficit. The DSG deficit at the end of 2022/23 was £20.7m with the High Needs Block deficit reaching £29.8m.
52. There have been two key programmes of work to address this challenge. The specialist capital programme began in 2019, supported by investment from the local authority, to expand and improve Somerset's specialist estate. This has resulted in an increase of 361 additional places in specialist SEND provision across the county to date. In 2022, the Council received a £10.1 million DfE high needs capital grant, which is being used to fund further increases in specialist SEND capacity, through development of special school satellites, enhanced learning provisions in mainstream settings, and therapeutic education provision. In addition, the Council has successfully bid for two new Special Free Schools, which the DfE is responsible for delivering. The first was due to open in September 2022, but has been delayed and is now expected to open in September 2024. This will ultimately provide 120 new places. The second is due to open in 2027 and will provide a further 64 places.
53. Since April 2022, the service has been working with IMPOWER Consulting to identify further opportunities to improve outcomes for children and reduce pressures on high needs budgets. This work has focused on improving early identification and support and led to the set-up of a dedicated advice line for schools to support earlier intervention, as well as a trial of the Somerset Inclusion Tool (Valuing SEND) to improve planning around transitions for children with SEND. This is helping to identify children who can remain in mainstream settings with the right support, who might otherwise have moved into more specialist settings.
54. Following on from this, in summer 2022, Somerset was invited to participate in the DfE-led Delivering Better Value programme. This is aimed at 55 local authorities with significant high needs deficits, but not the 20 areas with the biggest deficits (who access a different "safety valve" programme). During

autumn 2022 the service worked with Newton Europe and CIPFA to develop an improved understanding of our demand and financial trajectories in relation to high needs, as well as identify opportunity areas where improvements and efficiencies could be made. This has resulted in the award of a £1m grant from DfE to support transformation and test and learn activity.

55. The key risks in the High Needs Block are:

- increased demand for education, health and care (EHC) plans
- sufficiency of provision of Social, Emotional and Mental Health (SEMH) support

56. The Department for Education still requires the Local Authority to produce a DSG Deficit Management Plan to evidence how it will reduce the in-year deficit to zero by 31st March 2026 when the statutory override expires. The activities and opportunities identified through the work with IMPOWER Consulting and the DBV SEND programme are included in Somerset's DSG Deficit Management Plan which has been updated and shared with CIPFA in January 2024.

57. The table below shows the latest forecast and the impact of the mitigating actions that are being put in place.

#### Unmitigated DSG Forecast

	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
	£m	£m	£m	£m	£m	£m
<b>Expenditure</b>	96.6	103.7	112.0	120.8	130.2	139.6
<b>Income</b>	(77.7)	(80.0)	(82.5)	(84.9)	(87.5)	(90.1)
<b>In Year Deficit</b>	18.9	23.7	29.5	35.8	42.8	49.5
<b>b/d Deficit</b>	37.6	56.5	80.1	109.6	145.5	188.2
<b>c/f Deficit</b>	<b>56.5</b>	<b>80.1</b>	<b>109.6</b>	<b>145.5</b>	<b>188.2</b>	<b>237.7</b>

#### Mitigated DSG Forecast

	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
	£m	£m	£m	£m	£m	£m
<b>Expenditure</b>	96.6	95.8	92.3	92.0	93.4	94.9
<b>Income</b>	(77.7)	(80.0)	(82.5)	(84.9)	(87.5)	(90.1)
<b>In Year Deficit</b>	18.9	15.8	9.8	7.1	5.9	4.8
<b>b/d Deficit</b>	37.6	56.5	72.3	82.1	89.2	95.1
<b>c/f Deficit</b>	<b>56.5</b>	<b>72.3</b>	<b>82.1</b>	<b>89.2</b>	<b>95.1</b>	<b>99.9</b>



## Reserves

58. Somerset Council inherited the position on 01 April 2023 that there were outstanding Statement of Accounts not signed off by the external auditors relating to 2020/21 and 2021/22. Completing the Statement of Accounts from the five predecessor councils for 2022/23 has been a priority for the finance team in order to provide assurance on the starting point for Somerset Council.
59. The new Council inherited a mixture of reserves from the five predecessor councils and a review of reserves has been undertaken to bring together similar reserves e.g. business rates, commercial property portfolio etc., and to help identify reserves that could be repurposed to support the budget.
60. The on-going review of the reserves resulted in:
- A transfer between the Earmarked Reserves to General Reserves to bring them up to £49.8m to reflect the higher risks facing the new council.
  - 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.
  - Setting up a Budget Delivery reserve of £2.5m to cover the costs associated with the delivery of the savings contained within the budget proposals and any delays in delivery of them.
  - Setting up a Reserve for Devolution of Assets & Services – Overhead Costs of £0.6m.
61. Set out in the table below is the summary of the overall position on reserves and shows the how the £316.0m in the five predecessor councils' statement of accounts on 31 March 2023 have been brought together. The adjustments column shows the £19.9m planned use of reserves agreed by Council in setting the current year's budget. The 'Other' category includes £109.0m of reserves which, in the main, relate to reserves held on behalf of others as part of the Council's accountable body's role.

<b>Somerset Council Reserves (DLUHC Reporting Categories)</b>	<b>31 March 2023</b>	<b>Adjust -ments</b>	<b>01 April 2023</b>	<b>Fore- cast Use</b>	<b>31 March 2024</b>	<b>Fore- cast Use</b>	<b>31 March 2025</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Contractual commitments	14.8	(1.1)	13.7	(0.4)	13.2	(0.1)	13.1
Planned future revenue & capital spending	50.9	(18.9)	32.1	(15.5)	16.6	(3.9)	12.7
Specific risks	24.7	(7.2)	17.6	(2.9)	14.6	(3.7)	11.0
Budget stabilisation	52.3	(10.1)	42.2	1.0	43.2	(39.4)	3.9
Public Health	4.1	(1.7)	2.4	0.0	2.4	(1.8)	0.6
Other	142.4	(4.0)	138.3	(100.2)	38.1	(6.9)	31.3
<b>Total Earmarked Reserves</b>	<b>289.2</b>	<b>(43.0)</b>	<b>246.3</b>	<b>(118.0)</b>	<b>128.2</b>	<b>(55.7)</b>	<b>72.5</b>
General Fund Reserves	26.8	23.1	49.8	(17.5)	32.3	0.0	32.3
<b>Total Reserves</b>	<b>316.0</b>	<b>(19.9)</b>	<b>296.1</b>	<b>(135.5)</b>	<b>160.6</b>	<b>(55.7)</b>	<b>104.9</b>

62. Maintaining an adequate level of reserves is vital if the council is to avoid issuing a section 114 notice.

### **Capital Strategy**

63. The Prudential Code for Capital Finance in Local Authorities was updated in December 2021. The objectives of the Prudential Code are to ensure that the capital expenditure plans of local authorities are affordable, prudent, and sustainable and that treasury management decisions are taken in accordance with good professional practice and in full understanding of the risks involved.

64. It requires authorities to look at capital expenditure and investment plans in the light of overall organisational strategy and resources, to ensure that decisions are made with sufficient regard to the long-term financial implications and potential risks to the authority.

65. The 2023/24 Capital Budget was the first amalgamated capital programme for the new Somerset Council which brought together the existing capital

programme from the continuing authority, Somerset County Council and the four legacy district authorities programmes. The programme was updated to include the new capital projects agreed as part of the 2023/24 Budget, Medium-Term Financial Plan & Council Tax setting report to Full Council in February 2023.

66. A revised General Fund Capital Programme and HRA Capital Programme was approved at Council in September 2023. This combined the outturn position and slippage of the five legacy Councils and the Capital Programme approved in February 2023.
67. As part of the response to the declared financial emergency and the CIPFA code, the Council has carried out a further review of its entire capital programme. The factors Officers took in account when carrying out this review were as follows:
  - Somerset Council financial survival meant a high-level analysis was undertaken rather than a detailed review of the scheme.
  - Schemes not underway should be removed, if required in future a new bid submitted with an updated business case.
  - Schemes that are funded by borrowing should be curtailed in year where possible.
  - Approved schemes via grant or ringfenced funds should continue.
  - New schemes that are funded by borrowing are not approved for 24/25 unless urgent H&S requirement/ statutory requirement.
  - Save to invest schemes which either make savings or income returns higher than borrowing costs.
68. The outcomes were used to reduce unfinanced capital expenditure, to ensure the affordability and sustainability of our capital programme in the medium-term. Political desire was not one of the assessment criteria at the stage this review / challenge sessions were undertaken.

## Capital Programme by Somerset Council Directorates 2024/25 to 2026/27

Directorate	2024/25 £m	2025/26 £m	2026/27 £m	Total All Years £m
Adults Services	2.512	1.368	0	3.880
Childrens Services	21.712	8.241	5.810	35.763
Community Services	1.538	0.221	0	1.759
Climate and Place	91.402	62.510	25.311	179.223
Resources and Corporate Services	14.659	2.899	0.065	17.623
Strategy and Workforce	0.135	0.136	0	0.271
<b>Total Programme</b>	<b>131.958</b>	<b>75.375</b>	<b>31.186</b>	<b>238.519</b>

69. The table below details how the approved capital programme is funded.

### Funding for the Capital Programme 2024/25 to 2026/27

Financed by:	2024/25 £m	2025/26 £m	2026/27 £m	Total £m
<b>Specific Funding:</b>				
Grants	94.604	66.139	25.388	186.131
S106 / CIL Contributions	6.844	1.136	0	7.980
<b>Corporate Funding:</b>				
Borrowing	30.510	8.100	5.798	44.408
<b>Total</b>	<b>131.958</b>	<b>75.375</b>	<b>31.186</b>	<b>238.519</b>

70. The Financial Strategy will continue to be focused upon ensuring that any new borrowing is restricted to health and safety works or where there is clear business case for delivering future savings.

### Financial Control Boards

71. As part of response to the financial emergency various Financial Control Board were put in place. Now that we have had 4 months experience of operating

them, they have been reviewed and updated operated has been review and updated in the light of the experience of the last 4 months. It is proposed that they remain in place and operate as set out in **Appendix 3**.

## **Risk Management**

72. A key of good financial management is effective risk management and **Appendix 4** sets out a summary of the development of risks for Somerset Council.
73. The council has two strategic risks associated with its finances; those being ORG0057 concerning a sustainable MTFP and ORG0070 being the risk of a budget overspend in the current financial year. However, there are a number of other Strategic Risks associated with the budget and these are included in the February 2024 budget report to council.

## **Section 114**

74. The underlying aim of the overall Financial Strategy is to avoid issuing a section 114 notice but to take all of the actions as if one had been issued. Set out in **Appendix 5** is the current assessment of why a Section 114 notice is not required at this stage.

## **Links to Other Strategies**

75. There are several other related strategies that link to and supplement the Financial Strategy. These include:
- The Council Plan
  - Capital Strategy including the Flexible Use of Capital Receipts Strategy and Minimum Revenue Provision (MRP) Policy
  - Treasury Management Strategy Statement
  - Asset Management Plan

## **Budget Process and Timetable**

76. The detailed 2025/26 Budget process will be finalised by the end of April but the high-level timetable is as follows:

### **April 2024**

- Medium-Term Financial Strategy presented to Executive

### **May 2024**

- Medium-Term Financial Strategy considered by Council
- Detailed guidance issued to budget holders.

### **June 2024**

- Investment and Treasury Strategy reports presented to Executive

### **August 2024**

- Draft 2023/24 outturn report and reserves update
- Review of General Fund reserves and Earmarked Reserves

### **September 2024**

- Progress report on the MTFP to the Executive

### **October 2024**

- Start of budget consultation and engagement process

### **November 2024**

- 2025/26 fees and charges register prepared

### **December 2024**

- Council Tax Base set
- Provisional Finance Settlement expected
- Updated Medium-Term Financial Plan (MTFP) to the Executive
- Executive review the budget proposals as the basis for consultation
- Scrutiny reviews the proposals and public consultation commences

### **January 2025**

- Final Finance Settlement expected

### **February 2025**

- Executive review all proposals and consultation and recommend budget to full Council
- Council reviews and approves the 2025/26 budget and Council Tax

## **Background Papers**

77. 2024/25 Revenue Capital & HRA Budget reports to 20 February 2024 Council
78. Section 25 Report from the Section 151 Officer to 20 February 2024 Council
79. Letter from DLUHC 28 February 2024
80. 2024/25 Financial Strategy report to July 2023 Executive.

## **Appendices**

81. Appendix 1 - High Level MTFP
82. Appendix 2 - Financial Management
83. Appendix 3 - Financial Control Boards

84. Appendix 4 - Progress on Risk Management

85. Appendix 5 – Section 114 judgement by Section 151 Officer

### Report Sign-Off

	Officer Name	Date Completed
Legal & Governance Implications	David Clark	20/03/2024
Communications	Peter Elliott	20/03/2024
Finance & Procurement	Nicola Hix	19/03/2024
Workforce	Dawn Bettridge	21/03/2024
Asset Management	Oliver Woodhams	19/03/2024
Executive Director / Senior Manager	Jason Vaughan	18/03/2024
Strategy & Performance	Sara Cretney	20/03/2024
Executive Lead Member	Liz Leyshon	18/03/2024
<b>Consulted:</b>		
Local Division Members	All	Informed on agenda publication
Opposition Spokesperson	Councillor Mandy Chilcott	Sent report 18/03/2024
Scrutiny Chair	Councillor Bob Filmer	Sent report 18/03/2024