

PAPER A

Medium Term Financial Plan - 2022/23 Revenue & Capital Budgets and Council Tax Setting

Cabinet Member(s): Cllr Mandy Chilcott - Cabinet Member for Resources

Local Member(s) and Division: All

Lead Officer: Jason Vaughan, Director of Finance & Governance

Author: Jason Vaughan, Director of Finance & Governance

Contact Details: JZVaughan@somerset.gov.uk

Sections

- 1. Report Summary**
- 2. Recommendations**
- 3. – 9. Implications (Including Equalities) and Links**
- 10. Scrutiny Comments and Recommendations**
- 11. Background**
- 12. 2022/23 Budget and LGR Implications for 2023/24**
- 13. Funding for Councils including Council Tax and Business Rates**
- 14. Contingency, General Reserves, and Earmarked Reserves**
- 15. 2022/23 Statutory Chief Finance Officer (CFO) Report and Advice on the Robustness of the Budget and Adequacy of Reserves and Balances**
- 16. The Capital Strategy, Efficiency Strategy, Capital Programme, MRP Policy, and links to Prudential Indicators**
- 17. Financial Risk and Risk Management**
- 18. Proposals to Opt into the National Procurement Scheme for External Auditor Appointments**

Appendices

Appendix 1 – 2022/23 Budget Detail

Appendix 2 - Transformation, savings, and Income Generation Proposals

Appendix 3 – Additional Financial Requirements

Appendix 4 – The Use of Reserves and Reserves Position

Appendix 5 – Detailed Directorate Summaries

Appendix 6 - The Capital Strategy

Appendix 7- Efficiency Strategy

Appendix 8 – New Capital Bids

Appendix 9 – The Capital Programme 2022/23 to 2024/25

Appendix 10 – The MRP Statement

Appendix 11- Somerset Finance Assets Protocol

1. Key Points of the Budget Report and Summary

PAPER A

This budget report sets out spending plans for next year which will be the final budget for Somerset County Council. It highlights areas of priority to support residents across Somerset as follows:

- £18.092m increased spending in Adults Services
- £12.317m increased spending in Children's Services
- £2.530m increased spending in Economic and Community Infrastructure Services
- Council tax rise of 1.99% with a further 1% adults social care precept

The budget also contains detail of the significant capital investment of £48.4m in schools, roads, climate change and other projects across the county as follows:

- £24.2m allocated to road schemes in 2022/23
- A further £8.3m for schools
- £1.0m for Small Improvement Member Schemes
- £2.6m for Children's Placements
- £1.9m to support Climate Change (decarbonisation schemes and electric fleet vehicles)

These additional schemes have been added to the overall capital programme of investments in Somerset to £152.4m. Further detail is provided throughout this report and appendices. The papers also provide evidence of strong financial performance with Council reserves of £84.9m by the end of 2022/23 (£23.0m General Reserves and £61.9m Earmarked Reserves) after funding the LGR implementation costs.

Preparation for the 2022/23 budget were reported to Cabinet in October 2021 and January 2022 and highlighted the continued impact of the Covid-19 pandemic, preparations for Local Government Reorganisation, and Government changes to social care. The report lays out balanced budget proposals for the coming year and provides a solid foundation for the new Somerset Council to build from.

On the 16th December the Government announced the provisional Local Government Finance Settlement which provided details of the funding for 2022/23 including referendum levels for Council Tax and the Adult Social Care precept. The final settlement has been received, to which there were no fundamental changes from the provisional settlement. Any changes have been updated within the report.

Changes in future Council funding through the Governments review of Fairer Funding and changes to the Business Rates retention scheme have been

PAPER A

delayed for a number of years and now look to take place from April 2023. There is also the on-going issue of longer-term funding of Adult Social Care and the Business Rates reset. These major changes provide greater uncertainty around the future years funding levels and make longer term financial planning more difficult to predict.

The detailed 2022/23 budget proposals and MTFP for future years were reviewed by Adult and Public Health Scrutiny Committee and Children and Families Scrutiny Committees in January and by the Policies & Place Scrutiny on 1st February 2022. The final budget proposals from Cabinet will be considered by Council on 23rd February.

The Medium-Term Financial Plan (MTFP) projections for 2023/24 are included under the Local Government Reorganisation section and **Table 5** within this report and give an outline of the potential budget gap for the new Somerset Council for 2023/24.

2. Recommendations

That the Cabinet recommends Council approves

The General Fund net revenue budget for 2022/23 of **£378,646,000** and the individual service budgets for 2022/23 as outlined in **Appendix 1** including,

- a) The transformation, savings and income generation plans outlined in **Appendix 2**, noting the savings did not require detailed Equalities Impact Assessments.
- b) The additional funding requirements set out in **Appendix 3**
- c) The Finance and Assets Protocol as part of Local Government Reorganisation implementation as attached at **Appendix 11**
- d) An increase in Council Tax of **1.99%** in 2022/23 (an increase of **£26.94** per Band D property).
- e) An increase of **1.00%** to Council Tax for the Adult Social Care Precept is approved in recognition of the current demands and financial pressures on this service. This is equivalent to an increase of **£13.54** on a Band D property.
- f) Agree to continue the Council Tax precept of **£12.84** within the base budget for the shadow Somerset Rivers Authority (representing no increase). This results in a Council Tax Requirement of **£2,577,594**.

PAPER A

- g) Agree the precept requirement of **£279,841,541** and set the County Council precept for Band D council tax charge at **£1,394.00** for 2022/23.
- h) The use of reserves for once-off spend and the overall estimated position of Earmarked Reserves outlined in **Appendix 4**.
- i) Note the adequacy of General Reserves at **£23.0m** within a risk assessed range requirement of **£20m - £30m**.
- j) The Capital & Investment Strategy attached at **Appendix 6**
- k) The Efficiency Strategy attached at **Appendix 7**
- l) The Capital Programme for 2022/23 of **£110.2m** including new capital bids of **£48.4m** outlined in **Appendix 8**, planned sources of funding, and notes the overall programme of **£180.3m** for 2023/24 to 2024/25 as outlined in **Appendix 9**.
- m) The MRP Policy attached at **Appendix 10**.
- n) The Capital Prudential Indicators outlined in **tables 16-22**.
- o) To opt into the national procurement scheme for External Auditor Appointments administered through Public Sector Audit Appointments Limited (PSAA).
- p) Delegate any final Business Rates amendments to the Director of Finance and Governance in consultation with the Leader of the Council.

3. Reasons for recommendations

To recommend to full Council the Revenue and Capital Budgets, levels of Council Tax and other supporting documents as part of the statutory requirements to set a balanced budget for 2022/23.

4. Other options considered

The Council has a legal duty to set a balance budget each year and these proposals fulfil that requirement.

PAPER A

5. Links to County Vision, Business Plan and Medium-Term Financial Strategy

The budget will link additional funding requirements (both revenue and capital), transformation, savings, and income generation to the delivery of the Council's key priorities within the Council's vision to create:

- A thriving and productive County that is ambitious, confident and focussed on improving people's lives;
- A county of resilient, well-connected and compassionate communities working to reduce inequalities;
- A county where all partners actively work together for the benefit of residents, communities and businesses and the environment, and;
- A county that provides the right information, advice and guidance to enable residents to help themselves and targets support to those who need it most.

6. Consultations and co-production

The budget proposals have been developed by the Senior Leadership Team (SLT) working with the Cabinet. In the Summer there was a series of Portfolio holder challenge sessions led by Cllr Mandy Chilcott – Cabinet Member for Resources and reviewed various issues such as demand, growth, benchmarking, income, transformation savings and capital bids.

Where a detailed consultation is required this will be arranged as the agreed proposals for change are developed and implemented by the relevant directors.

The three Scrutiny Committees have also been consulted upon the detailed budget proposals in January and February 2022.

The LGR Joint Committee reviewed the 5 Councils headline budget proposals at its meeting 4 February 2022 to assess the impact they have upon the finances of new Somerset Council.

7. Financial and Risk Implications

The financial implications are set out in the report.

The Corporate Risk Register includes Strategic Risks ORG0057 – Sustainable MTFP with a current risk score of 3x4=12. This is a reduced risk score from previous years and reflects that the 2022/23 Budget Proposals show a balanced budget with a robust level of reserves and contingencies, combined with the improvements made in financial management over the last 3 years which have been recognised by the external auditor in their value for money judgement.

PAPER A

An assessment of the risks to general and earmarked reserves within the budget as set has taken place and the conclusion has been set out under the Director of Finance & Governances robustness assessment within this report.

Key risks have been outlined in **Table 23** of this report and these will continue to be monitored and reported as part of the budget monitoring process.

8. Legal and HR Implications

The legal implications will be assessed as part of the overall budget process that will conclude in February 2022.

Any HR implications will be reviewed as part of the budget process.

9. Other Implications

Equalities Implications

The Equalities Officer has reviewed the Transformation, savings, and Income Generation Proposals and agreed that none require a full Equalities Impact Assessment (EIA).

Community Safety Implications

There are no community safety implications arising from this report.

Sustainability Implications

There are no sustainability implications arising from this report.

Health and Safety Implications

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

Health and Wellbeing Implications

There are currently no implications

Social Value

There are currently no implications

10. Scrutiny comments / recommendations:

The 2022/23 budget proposals were considered by the **Children and Families Advisory Board** on the 25th January 2022. Their comments were as follows:

On behalf of the advisory board, the Chair thanked officers for the presentation noting that Members still had an opportunity to feed into the budget and MTFP process. The advisory board noted the MTFP for Children and Families Services

PAPER A

2022 – 2023 and the Children’s Services Plan and requested additional information / clarification on the following: -

- *With reference to the additional funding information set out in Table 2 on page 41 of the Report, information on reasons for increases*
- *Clarification on how the Ilminster & Crewkerne transport position is shown in the Budget Report*
- *Clarification on Early Years funding / hourly rates, detailed on page 47 of the Report*
- *Clarity on SENDIAS funding and clarity on how investments and savings were displayed in Appendix 2 Cabinet Report*
- *Acceptance of the uncertainty in the budget due to unknowns around the long-term effects and impact of Covid.*

The 2022/23 budget proposals were considered by the **Adults and Health Scrutiny for Policies Advisory Board** on the 26th January 2022. Their comments were as follows:

The Advisory Board had a report which was introduced by the Cabinet Member for Resources. Preparations for the 2022/23 budget were reported to Cabinet in January 2022 and highlighted the difficulties of producing the 2022/23 budget against the backdrop of the Covid-19 pandemic, uncertain funding, and preparations for Local Government Reorganisation. (The Medium-Term Financial Plan (MTFP) will link pressures, growth, and savings to the delivery of the Council’s key priorities within the Council’s vision to create:

- *A thriving and productive County that is ambitious, confident and focussed on improving people’s lives,*
- *A county of resilient, well-connected and compassionate communities working to reduce inequalities,*
- *A county where all partners actively work together for the benefit of residents, communities and businesses and the environment, and*
- *A county that provides the right information, advice and guidance to enable residents to help themselves and targets support to those who need it most.*

The draft proposals recognise the importance of Adult Services and the budget adds further investment of £18.1m, which is an increase of 12.8% to this key frontline service. This recognises additional pressures as a result of demand for services, which continue to be at an unprecedented level. Predicting future years demand is made more difficult by Covid-19 and one of the key challenges around this is identifying whether the current demand is on-going as peoples social care needs have increased, or whether there is a degree of temporary

PAPER A

demand. These budget proposals have tried to strike a balance between the two and to ensure the budget proposals are robust. Inflationary increases recognise the increased statutory pressures on providers such as increased national living wage, as well as general price inflation which is currently running at 5.1%. This figure also includes contractual inflation for the Discovery in line with the contract. The anticipated demographic growth in demand across the service has been calculated using Office for National Statistics population data and trends from previous years.

The Advisory Board welcomed the proposed increase in investment and the robust planning that had resulted in the proposed budget.

The 2022/23 budget proposals were considered by the **Polices and Place Advisory Board met** on the on 1st February 2022. Their comments were as follows:

- *Question on Pg82 – setting out £1.9 million funding for climate change – walking and cycling initiatives– the Director of Finance and Governance said that this was made up of SCC funding of £1.5million and £0.4m of government grant*
- *Active travel phase 3 was questioned? – an update due at future meeting will set out progress and update of budget against spend and level of funding provided to those schemes.*
- *Pg 95, referring to the risk table – unitary preparations and transitional costs, more info was requested in respect of costs at SCC associated with backfilling posts where staff were moving into LGR related work full time.*
- *Given timescale until vesting day and the safe implementation of a new payroll system with 5 organisations combining into 1 this was still a recognised risk. There was a preference for all organisations to be transferred to a single payroll system but this was an ongoing conversation*
- *More information was requested in relation to the reduction in travel and budgets and how this has changed since the easing of lockdown measures. Chris Squire committed to bring info back to the Board setting out the projected savings from travel, printing, venue hire underpinning the case for hybrid working*
- *Further info was requested from the Director of Finance and Governance in respect of the base budget funding to VCSE partners and questioned where funding for the voluntary sector was located in the MTFP?*
- *It was requested for the case to be considered for using additional reserves to provide a better delivery of maintenance in public highway areas.*

PAPER A

- *Question around Adults services and use of reserves which was used largely for transformation and investment exercises and not used for ongoing expenses and expenditure.*
- *Alyn Jones in respect of LGR committed to verifying all the resources/costs and bring into one place to match the resources using the implementation budget and prioritise work with service delivery.*
- *It was considered how the budget setting compared with similar County Councils, with SCC being the fourth lowest council tax base in England – explored if Somerset should be receiving significant levelling up funding?*
- *Chairs summary included requests on funding relating to carbon capture and the financing of tree canopy financing, Risks around LGR, staffing and IT cost projections as part of LGR, and further information in relation to the funding of the voluntary sector.*

11. Background

Preparations for the 2022/23 budget were reported to Cabinet in October 2021 and January 2022 and highlighted the continued impact of the Covid-19 pandemic, preparations for Local Government Reorganisation, and Government changes to social care. They also detailed how the MTFP, and budget building process worked to develop robust and up to date budget proposals to reflect the latest demand and cost pressures including Cabinet budget challenge sessions over the summer. There have been a series of engagements with both budget holders and members through Budget Briefings and group meetings during the budget process.

On the 16th December the Government announced the provisional Local Government Finance Settlement which provided details of the funding for 2022/23 including referendum levels for Council Tax and the Adult Social Care precept. The final settlement has been received, to which there were no fundamental changes from the provisional settlement. Any changes have been updated within the report.

Changes in future Council funding through the Governments review of Fairer Funding and changes to the Business Rates retention scheme have been delayed for several years and now look to take place from April 2023. There is also the on-going issue of longer-term funding of Adult Social Care and the Business Rates reset. These major changes provide greater uncertainty around the future years funding levels and make longer term financial planning more difficult to predict.

PAPER A

12. 2022/23 Budget and Forecast for 2023/24 and 2024/25

The development of the 2022/23 budget has now been finalised and the final budget proposals will mean that there is a balanced budget for the coming year which will see continued investment in services and further additions to the capital programme. The budget proposals have been built up based upon the latest information and forecasting, but it has to be acknowledged in the current climate that there are still some areas of uncertainty, and it is therefore proposed to retain the current budget Contingency of £6.0m within the proposals. This equates to approximately 1.6% of the net 2022/23 budget and based upon previous experience is at an appropriate level given the overall level of reserves and potential calls on funding.

The overall financial environment continues to be challenging but despite this there is continued investment in key front-line services and a capital programme that meets priority needs. The draft proposals have been subject to review by SLT through various challenge processes. The 2022/23 budget are shown below in **Table 1** on a Service-by-Service basis with a summary of the changes in **Table 2**.

PAPER A

Table 1 - Service Budgets

Original Budget 2021/22		Proposed Budget 2022/23	Indicative Budget 2023/24	Indicative Budget 2024/25
£m	Services	£m	£m	£m
141.592	Adult Services	159.684	184.900	204.495
96.005	Children's Services	105.048	111.635	118.692
73.107	ECI Services	71.862	74.262	76.753
1.411	Public Health	1.336	1.348	1.360
15.805	Customers, Digital & workforce	16.863	16.979	17.398
9.114	Finance & Governance	12.145	10.222	10.438
	Non-Service			
6.000	Corporate Contingency	6.000	6.000	6.000
10.800	Covid-19 Funding	0.000	0.000	0.000
7.433	Accountable Bodies	4.329	3.249	3.273
32.624	Corporate Areas	37.247	33.345	31.132
(37.819)	Special Grants	(35.868)	(47.485)	(53.729)
356.072	Net Budget Requirement	378.646	394.455	415.812
	Financed by			
(6.209)	Revenue Support Grant	(6.407)	(6.438)	(6.586)
(70.042)	Business Rates	(78.266)	(78.300)	(78.300)
13.700	Collection Fund (Surplus) / Deficit	(5.864)	0.000	0.000
(267.374)	Council Tax	(277.264)	(288.417)	(299.851)
(2.561)	Council Tax Somerset Rivers Authority	(2.578)	(2.603)	(2.627)
0.000	General Reserves	0.000	0.000	0.000
(23.587)	Earmarked Reserves – SCC	(7.055)	(4.530)	(0.197)
	Earmarked Reserves – Held on Behalf of Other Bodies	(1.212)	0.000	0.000
(356.072)	Total Funding	(378.646)	(380.287)	(387.561)
	Adjustment for prior years' budget gap			(14.168)
0.000	MTFP Forecast Budget Gap	0.000	14.168	14.083

PAPER A

Table 2: Changes to the Budget from 2021/22 to 2022/23

All Services	£m	£m
2021/22 Original Budget		356.072
Removal Of Once Off Budgets for 2021/22	(10.887)	(10.887)
2021/22 Base Budget		345.185
Additional Funding Requirements:		
Inflation (Contractual and General)	12.792	
Demographic and other Demand Increases	13.114	
Other Funding Requirements	6.001	
Growth	0.068	
Total Additional Funding Requirements		31.974
Pay Award		5.633
Savings Previously Agreed		(2.298)
Prior Year Savings Not Delivered		0.861
New Savings Proposals		(2.480)
Once off funding		12.808
Technical Adjustments (Changes in specific grants)		(13.037)
2022/23 Proposed Budget		378.646
Change £m		33.461
Change %		9.69%

Appendix 1 sets out the service details of the budgets shown above and will form the basis of the level of budget monitoring in 2022/23.

Appendix 5 outlines the Detailed Directorate Summaries.

PAPER A

Budget Assumptions

The budget for 2022/23 and forecast for 2023/24 and 2024/25 are based on the following assumptions:

- **Inflation (pay/general/contractual)** – the pay award has not yet been agreed for 2021/22. The latest offer of 1.75% has been rejected. An estimate of 2% for 2021/22 and 2.5% has been made for 2022/23. All salaries budgets have been reviewed regarding the announcement of the 5.9% increase in the National Living Wage and the introduction of the 1.25% NI increase.
- **Demographic & Demand Changes** – greater details are shown in under each service area’s narrative within this report.
- **Funding** – this includes the single year Final Settlement figures.
- **Current savings plans** – the details of these are attached at **Appendix 2**.
- **Council Tax** – the table above assumes Council tax of 1.99% for general Council Tax and 1% for the Adult Social Care Precept for financial planning purposes. The actual level of council tax will be set by Council in February and will be considered in the context of the full budget including savings and growth proposals. The tax bases have now been set by the District Councils and reflect an overall increase of 0.66%.
- **Business Rate Retention** – estimates are being reviewed in line with the NDR1 forms submitted by District Councils

Transformation, Savings, and Income Generation Plans

Transformation, savings, and income generation proposals are attached in **Appendix 2**. None of the new saving plans require a full Equalities Impact Assessment.

Additional Funding Requirements

Additional Funding Requirements are shown in **Appendix 3**. The requirements include legislation requirements, contractual, general inflation, demographic and demand pressures, and growth.

Climate Change Emergency

PAPER A

Somerset Councils' Climate Emergency Declarations set out shared ambitions to deliver a Carbon Neutral Somerset by 2030 and to build our resilience for, or adapt to, the impacts of a changing climate. We have developed a shared Strategy for Somerset with our District partners and have added further commitments for 2022/23.

Table 3: Funding for Climate change

Description	£'m	Source
Climate Change funding to support Towns & Parishes	1.0	2020/21 Budget - Feb 2020
Climate Change funding to support Towns & Parishes	0.5	2020/21 Outturn - July 21
Investment in clean energy generation projects	3.1	2021/22 Budget - Feb 21
Energy efficient and decarbonisation schemes	1.3	2021/22 Budget - Feb 21
Walking and cycling initiatives	1.9	2021/22 Budget - Feb 21
Decarbonisation of buildings including County Hall and libraries	7.4	2021/22 - Decision Report Sept 21
DfT Grant - Road Decarbonisation	1.0	2021/22 Decision Report
Heat decarbonisation feasibility studies across Somerset's maintained school estate	0.4	Low Carbon Skills fund
Electric fleet vehicles and infrastructure	0.9	New bid for 2022/23
Match funding for decarbonisation grants	1.0	New bid for 2022/23
Spend on climate change	18.5	

PAPER A

Local Government Reorganisation

This will be the last budget for Somerset County Council which will be replaced by a Unitary Somerset Council on the 1st April 2023. The One Somerset Business Case outlined that the new single-tier unitary council would deliver £18.5m savings per year, with a one-off investment of £16.5m.

The profile of LGR Business Case Savings is as follows:

Table 4 – Profile of the LGR Business Case Savings

Business Case Savings	2023/24 Estimated Savings £'m	2024/25 Estimated Savings £'m	Total Savings £'m
Savings Profile	13.7	4.8	18.5

Although this report is focussed on the Somerset County Council budget it is important to look forward and begin to assess the financial position and resilience of the new Council. The following **(Table 5)** shows the estimated budget gaps for all five authorities (it must be noted however that these are the individual positions and further work needs to be undertaken for instance to review government funding changes that would apply to one authority rather than five individual authorities). However this does give an indication of the overall position for the new Council.

Table 5 – Projected Budget Gaps of the five authorities in Somerset

Authority	2022/23 Estimated Net Budget £'m	2023/24 Estimated Budget Gap £'m	% of Net Budget
Somerset	376.3	14.2	3.8%
Mendip	16.7	1.9	11.4%
Sedgemoor	17.4	2.8	16.1%
South Somerset	19.6	4.1	20.1%
Somerset West & Taunton	16.7	5.5	32.9%
Total	446.7	28.5	6.4%

(Note these estimates need reviewed once all budgets have been approved and assumptions are aligned – this will enable longer projections to be made for 2024/25 as well as 2023/24)

The table above show the accumulative net budget of £446.7m with a budget gap of £28.3m (6.3%) in the first year of the new authority. If we add this to the first year of business case savings of £13.7m the initial overall savings target for

PAPER A

vesting day is £42.0m (unless some of the LGR savings are re-invested in services). This is a substantial sum for the new authority and further work around savings targets and options will need to be carried out as soon as possible.

The business case also outlined that once off implementation costs of £16.5m would be required to set up the new authority and its operating structure. District authorities have agreed to fund 20% of the overall costs with the remaining sum for 2023/24 being allocated to a specific reserve to ensure that the costs of implementation are fully covered. SCC has set aside £3.2m in 2021/22 and £6.9m for 2022/23 and £3.1m for 2023/24 has been set aside within this budget to fund SCC's 80% share.

A further sum is required to fund the costs of an additional 55 members in the transition period from May when the elections will take place until the end of March 2023. A sum of £0.752m has been allocated for this and discussions are ongoing with our District colleagues regarding a contribution towards this.

A voluntary spending protocol has been agreed by all of the Somerset authorities which will help to minimise new financial pressures for the new Council. The Secretary of State may issue a direction to local councils under Section 24 (Local Government and Public Involvement in Health Act 2007) after the Structural Change Order (SCO) is enacted. The purpose of such a notice is to protect the finances and interests of the new Unitary Council. This allows the Secretary of State to direct that a relevant authority may not without the written consent of a person or persons specified to:

- dispose of any land if the consideration payable for the disposal exceeds £100,000.
- enter into any capital contract under which the consideration exceeds £1m or which includes a term allowing the consideration payable to be varied.
- enter into any non-capital contract under which the consideration exceeds £100,000.
- commit existing financial reserves by a specified amount.

It can take up to 6 months after the SCO before the Section 24 notice is put in place and therefore exposes the new Unitary Council to a period of risk. DLUHC officers have recommended that the 5 Somerset councils come together with a voluntary protocol which can then be quickly put in place. Therefore, each Council will be asked to adopt the protocol (attached at **Appendix 11**) as part of the 2022/23 budget setting process that would become effective for the 2022/23 financial year.

PAPER A

13. Funding for Councils

The Final Settlement outlined the following grants:

Table 6– Government Grants Announced as Part of Financial Settlement

Grant	Description	Estimated In 2022/23 £'m	Increase/ (Decrease) from Previous Year £'m	Indicative Budget 2023/24 £'m	Indicative Budget 2024/25 £'m
Revenue Support Grant	Government Grant Distributed based on need.	6.407	0.199	6.438	6.586
Rural Services Delivery Grant	Government Grant to support the increased costs of delivering services in rural areas.	2.521	-	2.521	2.521
New Homes Bonus	NHB is an incentive-based grant to increase the number of new homes built and reduce the number of empty properties. This is currently being phased out.	1.266	0.020	-	-
Services Grant	A once-off grant to support Local Government Services (the funding is ongoing but the mechanism for distribution is once-off)	4.709	4.709	4.709	4.709
Social Care Grant	A Government Grant to support the cost pressures in both Adult and Children's social care.	24.591	6.632	24.591	24.591

PAPER A

In addition to the grants listed above the following are included within the Adults or Public Health Services budgets:

Table 7 – Other Major Grants Embedded in Service Budgets

Grant	Description	Estimated In 2022/23 £'m	Increase/ (Decrease) from Previous Year £'m	Indicative Budget 2023/24 £'m	Indicative Budget 2024/25 £'m
Better Care Fund	Grant from the CCG for the integration of health and social care. (To be confirmed for 2022/23)	13.191	-	13.191	13.191
Improved Better Care Fund	Government Grant to support local authorities to meet adult social care costs, reduce pressures on the NHS and support the social care market	23.372	0.686	23.372	23.372
Public Health Grant	Ringfenced Government funding to improve health in the local population (to be confirmed)	21.881	0.597	21.881	21.881

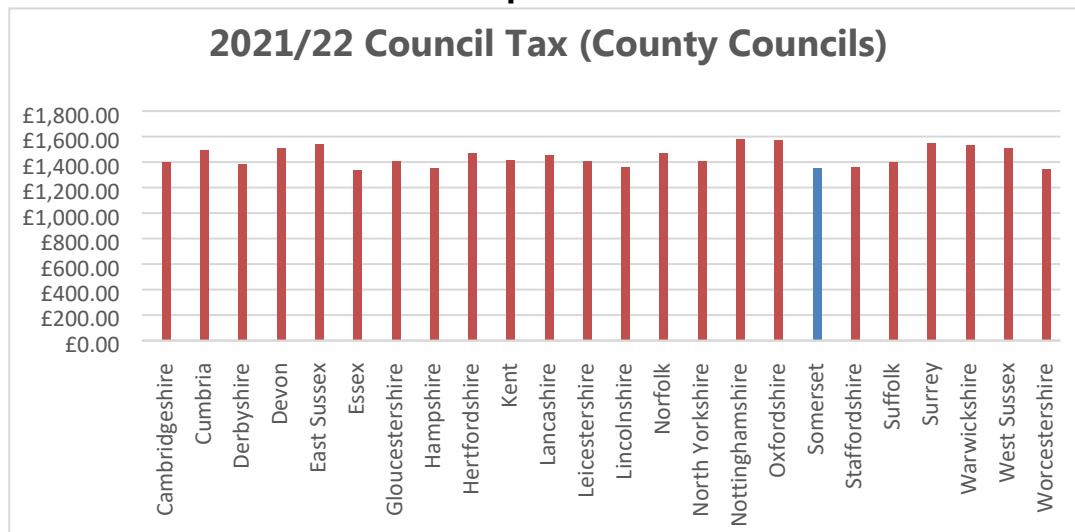
Council Tax

Over the last few years there has been a national shift away from government funding to locally generated funding through Council Tax. The income from Council Tax is a product of the Tax Base multiplied by the Band D Council Tax charge.

PAPER A

Table 8 shows the Council Tax charge for the current year of £1,353.53 for a Band D property which is the fourth lowest of all Shire County Councils with the average charge being £1,443.

Table 8: Council Tax Band D Comparisons



The Government controls council tax increases through the referendum limits and has set these for 2022/23 at 2% for Council Tax and 1% for Adult Social Care precept. Also, as part of Finance Settlement the government has taken these increases into account when allocating funding as part of the Core Spending Power (CSP) calculation for each council.

Tax Base

The MTFP in February estimated an increase of 0.5% for 2022/23 but this has improved to 0.66%. The Tax bases has now been set for 2022/23 by the District Councils and **Table 9** shows the figures for 2020/21 to 2022/23 and the increase or decrease in 2022/23 compared to 2021/22. This has increased the expected income for 2022/23 to £1.783m.

Table 9: Changes to the Tax Base by District

TAX BASE	2020/21	2021/22	2022/23	% Increase/ (Decrease)
Mendip	40,978.57	41,337.76	41,544.07	0.50
Sedgemoor	41,435.78	40,991.35	41,910.15	2.24
South Somerset	60,710.78	61,152.95	60,643.62	(0.83)
Somerset West and Taunton Council	56,449.87	55,947.87	56,649.32	1.25
Total	199,575.00	199,429.93	200,747.16	0.66

Council Tax Increases

PAPER A

Cabinet is requested to recommend an increase of 1.99%, £26.94 per annum (52p per week) in general Council Tax to Council, and a further 1.0%, £13.54 per annum (26p per week) increase in Adult Social Care Precept in line with those referendum limits and government expectations. This will add £40.48 per annum (78p per week) to a Band D property. The overall Council Tax for 2022/23 including £12.84 towards the Somerset Rivers Authority would be £1,394.00 which is still below the current year's average charge for County Councils.

The overall Council Tax charge in **Table 10** is broken down in accordance with the proportion set out in section 5(i) of the Local Government Act 1992 as follows:

Table 10 – Council Tax charges per Band

	Band A £	Band B £	Band C £	Band D £	Band E £	Band F £	Band G £	Band H £
General	810.71	945.82	1,080.94	1,216.06	1,486.30	1,756.53	2,026.77	2,432.12
ASC Precept	110.06	128.41	146.76	165.10	201.79	238.48	275.16	330.20
SRA	8.56	9.99	11.41	12.84	15.69	18.55	21.40	25.68
Total	929.33	1,084.22	1,239.11	1,394.00	1,703.78	2,013.56	2,323.33	2,788.00

Adult Social Care Precept

The Government in recognising the continued pressures facing Adult Social Care (ASC) authorities, has allowed for a further 1.00% increase in 2022/23. The Council's plans include this for 2022/23 (this would increase the Adult Social Care Precept to £33.144m an increase of £2.917m from 2021/22). This will support the increase of £18.684m in the Adult Services budget in 2022/23. The Medium-Term Financial Plan assumes that this only applies to 2022/23 as the Final Settlement does not outline any further funding through this source.

Collection Fund Surpluses/Deficit

The overall council tax collection surplus for the year is £5.8m. This has been utilised to fund the spreading adjustment from previous the year of £2.3m, funded a once off Resilience budget to support services of £1.5m, and the remainder has been transferred into reserves.

Business Rates

PAPER A

The review of Business Rates and reset have now been delayed until 2023/24 at the earliest. The Finance Settlement set the Tariff & Top Up for 2022/23 at £53.1m, the Safety Net at £63.2m and Baseline at £68.3m. The draft budget proposals assume a Business Rates income of £78.3m. All of the Councils in Somerset apart from Somerset West and Taunton have agreed to participate in the Business Rates pool in 2022/23. An assessment of the risks and rewards of continuing with the pool has been completed. Somerset West and Taunton are not participating because of a specific risk in that District. No pool gains or losses have been factored into the budget currently and the position will be monitored and reported during the year.

District authorities will also be providing the surplus / deficit position of the Business Rates Collection Fund in the current year. The position on Business Rates is made more complex with there being differences between cash and accounting positions which are more distorted due to section 31 payments from government in supporting the business sector as a result of Covid-19. Any surpluses or deficits will be absorbed through the Funding Volatility Reserve which has been set up for this purpose. The current balance on the reserve is £3.3m.

Schools and Dedicated Schools Grant (DSG)

Schools are funded by the Dedicated Schools Grant (DSG) which is initially allocated to the Council by the Department for Education (DfE). The DSG supports all expenditure in schools (who 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 Councils main revenue funding and included as part of the proposed Budget.

In July 2021, the DfE published provisional allocations for the schools, high needs and central services blocks. Final allocations based on pupil numbers from the October 2021 school census have now been made.

The allocation for Somerset Schools is an increase of £12.0m^[1]. The Schools Forum supported the approach to delegation of the Schools Block in line with the National Funding Formula (NFF) at their meeting on the 17th November 2021 and approved the final Individual Schools Budget (ISB) proposal at their meeting on the 12th January 2022. The allocations were approved by Cabinet on the 19th January 2022.

^[1] Excluding Teachers' Pay and Pensions which is now included in the DSG (previously via separate grant allocation)

PAPER A

High needs funding to support children with Special Education Needs and Disabilities (SEND) is increasing by £780m nationally, with an increase in High Needs Block allocation for Somerset of £6.3m^[2]. Nationally central schools services funding has increased for ongoing responsibilities but will decrease by 20% for historic commitments.

The Early Years hourly rate for 3-4-year-old entitlement has increased by 17p per hour and by 21p for the 2-year-old entitlement. The total 2021-22 Early Years Block allocation has decreased by £1.1m pre-adjustment figure, post adjustment is an increase of £1.0m.

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 2020/21 was £14.8m and this is expected to increase to £19.7m by the end of 2021/22. The Somerset Deficit Management Plan has been updated following the systems response to the pandemic and in light of the Written Statement of Action in response to the joint Ofsted and CQC inspection.

At the end of 2020/21 the level of reserves of maintained schools was £23.3m.

14. Contingency, General Reserves, and Earmarked Reserves

The proposed budget includes a Corporate Contingency sum of £6.0m for 2022/23. This will be held for unforeseen budget issues.

Reserves are either General Reserves which are held to manage general financial risks or Earmarked Reserves to be used for specific purposes. The Council also holds Earmarked Reserves on behalf of other organisations in its role as accountable body. As the council does not control these they should not be included when assessing the Council's level of reserves.

The current level of the General Reserves of £23m will be maintained within a range of £20m-£30m in 2022/23. Although there is no guidance on the appropriate level of General Reserves to hold, 5% is widely accepted as general good practice. Having a range of £20m-£30m for the minimum and maximum is appropriate given the current risks and Local Government Reorganisation.

^[2] Including Teachers' Pay and Pensions and before recoupment and deductions for direct funding of high needs places by the ESFA

PAPER A

In addition to this an overall review of contingency and reserves has been undertaken as part of the robustness review by the Directors and Director of Finance & Governance. Given the Covid-19 pandemic, major uncertainty and changes to future council funding having General Reserves at this level seems appropriate and robust. The table below outlines an overview of Directors' confidence levels in the 2022/23 budget and also confidence levels in achieving transformation, savings, and income generation plans in 2022/23:

Table 11 – Summary of Directors Confidence in the 2022/23 Budget and Transformation, Savings, and Income Generation Plans

Changes	Adults Services	Children's Services	Economic & Community Infrastructure Services	Customers , Digital & Workforce	Finance and Governance	Public Health	Corporate Costs	Financing	Overall
	£m	£m	£m	£m	£m	£m	£m	£m	£m
Director's Confidence Level in:									
2022/23 Budget	Medium	Medium	Medium	High	High	High	High	High	Medium
Achieving transformation, savings, and income generation	Medium	Medium	Medium/ High	High	High	High	High	High	Medium

Earmarked Reserves are expected to total £69.0m at the start of 2022/23. All reserves have been reviewed as part of setting the 2022/23 budget. The Use and position of Earmarked Reserves in 2022/23 is attached at **Appendix 4**.

Table 12 – Summary of Contingency, General Reserves, Earmarked Reserves Position

	Estimated Opening position at start of 2022/23 £m	Estimated Opening position at start of 2023/24 £m	Estimated Opening position at start of 2024/25 £m	Estimated Opening position at start of 2025/26 £m
General Contingency	6.0	6.0	6.0	6.0
General Reserves	23.0	23.0	23.0	23.0
Earmarked Reserves	69.0	61.9	57.4	57.2
Total	98.0	90.9	86.4	86.2

PAPER A

Table 13 – Summary of Funds Held on Behalf of Other Bodies

	Estimated Opening position at start of 2022/23 £m	Estimated Opening position at start of 2023/24 £m	Estimated Opening position at start of 2024/25 £m	Estimated Opening position at start of 2025/26 £m
Earmarked Reserves	4.7	3.5	3.5	3.5
Total	4.7	3.5	3.5	3.5

15. Robustness of and Risks within the Proposed Budget for 2022/23 Statutory Chief Finance Officer (CFO) Report and Advice on the Robustness of the Budget and Adequacy of Reserves and Balances

Introduction

The Local Government Act 2003 states that when a local authority is preparing its budget, "the Chief Finance Officer of the authority must report to it on the following matters:

- (a) the robustness of the estimates made for the purposes of the calculations; and;
- (b) the adequacy of the proposed financial reserves."

And goes on to state that the authority "shall have regard to the report when making decisions about the calculations in connection with which it is made."

This report has been prepared by the Director of Finance & Governance to fulfil his duty and gives the required advice relating to the 2022/23 financial year including a consideration of the budget proposals and the financial risks facing the Council within this budget. Also, it identifies the Council's approach to budget risk management and assesses the particular risks associated with the 2022/23 budget to inform the advice.

CIPFA's Financial Resilience Index

CIPFA has published its Financial Resilience Indicators for each authority. These measure different aspects of financial indicators such as levels of reserves across each tier of local authority. This information has been analysed to show the trend over the last 5 years and shows a significantly improved position overall. The focus and effort on improving the level of reserves is clearly shown with

PAPER A

them improving significantly since 2017/18 when total reserves were £23.7m – the level of reserves (general and SCC earmarked) expected at the end of this financial year is £92.0m. Levels of reserves are estimated to be £84.9m by the end of 2022/23 to retain this resilience. The external auditors value for money judgement has also improved from Adverse in 2016/17 to Adverse – Except for in 2018/19 to the highest rating of Unqualified in 2019/20. This external judge provides significant assurance.

The latest data available is based on the 2020/21 Financial Year which show much higher interest payable compared to net budget within the CIPFA family group of County Authorities. However, this should show an improvement in 2021/22 and 2022/23 as further prioritisation of capital spend starts to feed through.

Executive Summary of the Director of Finance & Governance (CFO) on the budget position

Over the last couple of years there has been a radical overhaul of the budget setting process to ensure that robust budgets are set. The underlying methodology has changed from a service siloed approach to a more comprehensive council priority led corporate approach. This has entailed moving away from an approach of issuing service controls and expecting each service to manage within its financial envelope, to a corporate approach of building the budget up on best estimated and forecast, identifying priorities and opportunities, developing deliverable savings, and managing risks. This change in approach and the resulting robustness of the budget estimates has been recognised by Grant Thornton in their works as the Council's external auditors and is one of the key components in the improved Value for Money rating which now sees the Council achieving the highest rating possible of Unqualified for two years in a row.

The assessment of the plans to close the gap do not require funds from Reserves to finance ongoing expenditure. There are several risks to the budget which include the ongoing Covid-19 pandemic, Local Government Reorganisation, inflation pressures within the economy, and Government policy changes especially within Social Care. Therefore, the Revenue Budget Contingency sum of £6.0m will remain to reflect the level of risk associated with delivery of the budget in 2022/23. A once off budget has been set up of £1.5m to support service resilience as we move towards vesting day of the new Unitary authority. There is still an expectation however, that services will be managed within the budget envelope approved by Council and additional support will be allocated only when additional need can be robustly demonstrated.

PAPER A

Consequences of Failing to Deliver a Budget

If the Council is unable to produce a budget or a plan for reducing the budget requirement for future years or finds it cannot deliver the budget in year, the CFO (under s151 of the Local Government Act) would be required to produce a Section 114 report.

Section 114 of the Local Government Finance Act 1988 requires a report to all the authority's members to be made by the CFO, in consultation with the Council's Monitoring Officer and Head of Paid Service, if "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" (i.e. there is likely to be an unbalanced budget). In this event the Council must consider the report within 21 days and decide whether it agrees or disagrees with the views in the report and what action it proposes to take to bring the budget into balance. The publication of such a report starts an immediate 'prohibition period'. This means that everyone who has delegated authority to spend the Council money immediately has those powers suspended during the prohibition period, and only the CFO can authorise new commitments.

Report of the Director of Finance & Governance (CFO) in Respect of Statutory Duties

The Budget Report sets out the Council's financial position and budget. This is the formal report and is part of a continuum of professional advice and is the culmination of a budget process in which substantial detailed work has already been carried out with Directors, Senior Managers and their teams and Members. This section provides a summary of the conclusions which are considered in more detail within this report and its appendices.

It became abundantly clear that the MTFP forecast produced in February 2021 became out of date as the on-going financial impact of Covid-19 significantly impacted upon several services. The approach taken in developing the 2022/23 budget proposals was therefore more of a 'Zero Based' approach with future demand in service budgets being built up from scratch based upon the latest information and projections around prices and new estimates of future demands. There has been Portfolio holder and SLT challenge sessions to review the 2022/23 budget proposals.

Another improvement in financial management processes has been to have greater member engagement and involvement in the councils' finances. The monthly Budget Monitoring to Scrutiny and Cabinet is the main foundation of this but there are also 3 all member briefings focused upon the budget

PAPER A

proposals to coincide with key reports being considered by the council. The first of these took place in October with further sessions on the 7th and the 17th February 2022. In respect of the robustness of estimates, estimates have been prepared by Directors and their staff supported by appropriate finance staff reviewing additional financing requirements including demand and inflation, transformation, savings, and income generation. Each Director has completed a Robustness Statement outlining confidence levels in the budget and also the delivery of the Transformation, savings, and income generation proposals that have been incorporated into a corporate wide assessment. A Corporate contingency budget of £6.0m has been included to mitigate unforeseen risks.

Considerable funding of an additional £30.4m has been added to the Adults and Children's Services budgets. Monitoring of the budget especially around the demand pressures in these services will be critical to identifying any emerging issues as quickly as possible.

A shortfall of £14.2m has been identified for 2023/24 and plans will need to be put in place along with the delivery of the LGR business case to fund this gap.

In the context of the overall budget the financial position continues to be challenging, but the **CFO concludes that the estimates are robust**, in that they have been robustly constructed.

With regard to the adequacy of General Reserves, the level of £23.0m (within the required range of £20.0m-£30.0m) in addition to £61.9m (predicted at the end of 2022/23) of Earmarked Reserves as well as £6.0m of budget Contingency is currently sufficient to meet the Council's known risks.

The conclusion of the CFO is that the estimates for 2022/23 are robust and the budget is lawful, levels of general and earmarked reserves are adequate and reasonable in meeting the Council's risks.

16. The Capital Strategy and Programme

Capital & Investment Strategy

The Government requires all local authorities to produce a Capital and Investment Strategy. This is the overarching document which sets the policy framework for the development, management and monitoring of capital investment as well as lending to other organisations and commercial investments. The strategy focuses on core principles that underpin the council's capital programme, investment property, financing and the risks that will impact on the delivery of the programme; and the governance framework required for

PAPER A

decision making and delivery. The Capital and Investment Strategy is attached at **Appendix 6**.

New Capital Projects and the Overall Capital Programme

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.

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

The Covid-19 pandemic has had an impact on the delivery of schemes this year. The budget position has been reprofiled and reflects the revised spend profile.

Bids from services for new capital schemes due to start in 2022/23 have been received and are summarised in the table below (a summary of each scheme is attached at **Appendix 8**):

PAPER A

Table 14 – Summary of New Capital Schemes

New MTFP Request and Profiled Expenditure				
Scheme	2022/23	2023/24	2024/25	Total MTFP Bid Request
	£'m	£'m	£'m	£'m
Children and Young People				
Children's Residential	0.1	2.4	0.2	2.6
Schools Services	2.8	5.1	0.4	8.3
Economic and Community Infrastructure - Highways				
Bridge Structures	1.0			1.0
Road Structures	24.2			24.2
Traffic Control	2.2			2.2
Small Improvement Member Schemes	1.0			1.0
Small Improvement Safety Schemes	0.7			0.7
Highway Lighting	0.6			0.6
Rights of Way	0.5			0.5
Economic and Community Infrastructure - Property				
Property Services	1.6	2.9	0.4	4.9
Economic and Community Infrastructure - Other Services				
Traveller Measures	0.1			0.1
Fleet Management	1.8			1.8
Heritage Services	0.1			0.1
Somerset Waste Partnership	0.5			0.5
Total SCC Capital Programme	37.1	10.4	0.9	48.4

Financed by				
Borrowing	6.1	8.1	0.9	15.2
Grants	30.4	2.3		32.7
Third Party Contributions	0.5			0.5
Total	37.1	10.4	0.9	48.4

Note – that £3.0m for short-life assets has been ringfenced to fund a possible replacement Business Support Systems a report will come forward in March outlining recommendations including potential costs.

PAPER A

The following tables present the capital programme in its entirety. This has taken into consideration a review of current approved programme and includes the additional new starts for 2022/23:

Table 15 – Overall Capital Programme 2022/23 to 2025/26 Onwards

Scheme	Overall Scheme Budget		
	Total Scheme Budget	Predicted Total Expenditure	Estimated Scheme Variance
	£'m	£'m	£'m
Adult Services, Learning Disabilities and Public Health			
Adult Social Care	3.2	3.1	(0.1)
Learning Disabilities	0.1	0.1	
Children and Young People			
Children's Residential	5.2	5.2	
Children Looked After	0.0	0.0	
Special Education Needs	0.3	0.3	
Schools Access Initiative	1.4	1.4	
Community Services	0.1	0.0	(0.1)
Early Years	1.5	1.5	
Schools Services *note 1	58.1	58.1	
Corporate and Support Services			
Corporate ICT Investment	0.9	0.8	(0.1)
Economic and Community Infrastructure - Economic Development			
Business Growth Fund	1.8	1.8	
Wells Technology Enterprise Centre	0.4		(0.4)
Wiveliscombe Enterprise Centre	0.1		(0.1)
Taunton Digital Innovation Centre	6.6	6.6	
Chard Grow On Spaces	0.7	0.7	
Economic and Community Infrastructure – Highways			
Bridge Structures	6.0	6.0	
Road Structures	25.1	25.1	
Traffic Control	5.8	5.8	
Integrated Transport	1.6	1.7	0.1
Small Improvement Member Schemes	1.0	1.0	
Small Improvement Safety Schemes	2.2	2.2	
Highway Lighting	0.6	0.6	
Rights of Way	1.2	1.2	
Economic and Community Infrastructure - Highway Major Projects			
M5 Junction 25 Improvements	0.7	(0.3)	(1.0)

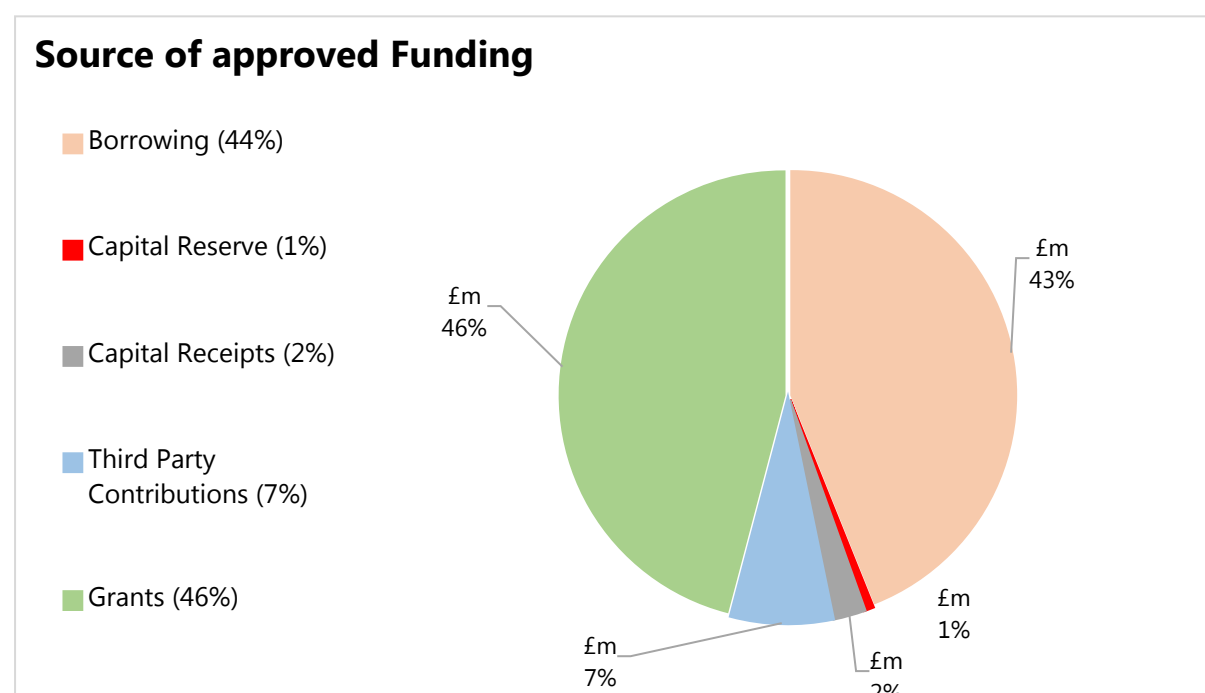
PAPER A

Toneway Corridor Capacity Improvements	2.4	2.4	
Trenchard Way Residual Works	0.7	0.7	
Major Road Network	2.0	2.0	
Various Other Schemes	(0.0)	0.5	0.5
Economic and Community Infrastructure – Property			
Property Services	13.2	13.2	
Economic and Community Infrastructure - Other Services			
Traveller Measures	0.1	0.1	
Fleet Management	3.5	3.5	
Heritage Services	0.1	0.1	
Library Services	0.7	0.7	
Somerset Waste Partnership	4.2	0.5	(3.7)
Total SCC Capital Programme	151.4	146.4	(5.0)

SCC Accountable Body Status			
Broadband Project (CDS)	25.9	25.2	(0.7)
HoTSW Local Enterprise Partnership	2.9	2.9	
Somerset Rivers Authority	0.2	0.2	
Accountable Body Status Total	28.9	28.3	(0.7)

Total Capital Programme	180.3	174.7	(5.6)
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This proposed programme is funded through the following resources:



PAPER A

The full Capital Programme is attached at **Appendix 9** for approval.

Minimum Revenue Provision (MRP) Statement

The Council is required to make revenue provision to repay capital spend that is financed by borrowing (either supported or unsupported). This is called the Minimum Revenue Provision (MRP). The Department of Communities & Local Government has issued regulations that require full Council to approve an MRP Policy in advance each year, or if revisions are proposed during the year they should be put to the Council at that time. The policy is attached at **Appendix 10**.

Prudential Indicators

The key objectives of the Prudential Code are to ensure that capital investment plans of local authorities are affordable, prudent, and sustainable. The Capital Prudential Indicators and one additional voluntary indicator are set out within the capital strategy and the Treasury Management Strategy and are shown below and following a brief narrative of their purpose:

Table 16 - Prudential Indicator 1: Estimates of Capital Financing Requirement:

	31.03.2021	31.03.2022	31.03.2023	31.03.2024	31.03.2025
	actual	forecast	budget	budget	budget
	£m	£m	£m	£m	£m
TOTAL CFR	458.106	484.976	520.020	549.949	547.740

PAPER A

Table 17 - Prudential Indicator 2: Gross External Debt and the Capital Financing Requirement

	31.3.2021 actual £m	31.3.2022 forecast £m	31.3.2023 budget £m	31.3.2024 budget £m	31.3.2025 budget £m
Short term debt	7.220	10.000	10.000	10.000	10.000
Long term debt *	334.173	332.099	325.814	312.993	288.701
Assumed debt not yet taken	0.000	0.000	40.000	80.000	120.000
PFI & leases	42.533	39.872	38.669	37.350	36.031
Total external borrowing	383.926	381.971	414.483	440.343	454.732
Capital Financing Requirement	458.106	484.976	529.020	549.949	547.740

Statutory guidance is that debt should remain below the capital financing requirement, except in the short-term. As can be seen from **Table 16**, the Council expects to comply with this in the medium term.

Table 18 - Prudential Indicator 3 & 4: Authorised limit and operational boundary for external debt

	2020/21 limit £m	2021/22 limit £m	2022/23 limit £m	2023/24 limit £m	2024/25 limit £m
Authorised limit – borrowing	399.570	397.572	451.924	485.927	509.649
Authorised limit – PFI and leases	55.533	52.872	51.301	49.989	49.677
Authorised limit – total external debt	455.103	450.444	503.225	535.916	559.326
Operational boundary – borrowing	369.570	367.572	406.924	440.927	464.649
Operational boundary – PFI and leases	47.533	44.872	43.301	41.989	40.677
Operational boundary – total external debt	417.103	412.444	450.225	482.916	505.326

PAPER A

Table 19 - Prudential Indicator 5: Proportion of financing costs to net revenue stream

	2020/21 actual	2021/22 forecast	2021/23 budget	2023/24 budget	2024/25 budget
Financing costs (£m)	23.907	24.621	25.735	26.810	27..841
Proportion of net revenue stream	6.63%	6.59%	6.43%	6.57%	6.75%

Table 20 - Prudential Indicator 6: Maturity Structure of Borrowing

	Upper Limit	Lower Limit
Under 12 months	50%	15%
>12 months and within 24 months	25%	0%
>24 months and within 5 years	25%	0%
>5 years and within 10 years	20%	0%
>10 years and within 20 years	20%	5%
>20 years and within 30 years	20%	0%
>30 years and within 40 years	45%	15%
>40 years and within 50 years	15%	0%
>50 years	5%	0%

Table 21 - Prudential Indicator 7: Principal sums invested for periods longer than a year

	2021-22	2022-23	2023-24
	£m	£m	£m
Prudential Limit for principal sums invested for periods longer than 1 year	75	75	75

Table 22 - Voluntary Indicator: Credit Risk Indicator

Credit risk indicator	Target
Portfolio average credit rating (score)	A (6.0)

Gross Debt and the Capital Financing Requirement

In order to ensure that over the medium-term debt will only be for a capital purpose, the Council should ensure that external debt does not, except in the short term, exceed the total of the capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years.

PAPER A

After reviewing the capital programme and borrowing proposals, the Section 151 officer reports that the Council will continue to meet the demands of this indicator.

Borrowing limits

The Authorised limits for external debt include current commitments and proposals in the budget report for capital expenditure, plus additional headroom over and above the operational limit for unusual cash movements.

The Operational boundary for external debt (or planned borrowing level) is based on the same estimates as the authorised limit, but including an allowance for cash flow funding of specific capital schemes and without the additional headroom for unusual cash movements

There is increased funding to the current programme through confirmed external funding and a minimal requirement for new SCC resource. All cost of debt is factored into the revenue financial plans.

Under new rules Councils seeking to borrow from the PWLB will have to provide a three-year capital plan, confirming that it does not intend to borrow primarily for yield at any point over the period or from any source and that borrowing is seen to be taken as a last resort of financing. The aim of this is to curb local authority borrowing to purchase investment properties and to ensure Councils do not borrow ahead of need. This will not impact on the Council's overarching strategy for borrowing and financing of the capital programme. In the current economic circumstances, we will continue to reduce financing costs by borrowing internally as detailed in the Treasury Management Strategy.

Maturity structure of borrowing, principal sums investment limits and credit risk

These are indicators specific to treasury management activity to manage a balance portfolio of debt and control the Council's exposure to the risk of losses of its investments.

17. Financial Risk and Management

A risk assessment has taken place including Directors assessing the key risks to their budget areas and an overall review by the Director of Finance as part of assessing the robustness of the budget estimates and levels of contingency, general reserves, and earmarked reserves.

PAPER A

Some of the key corporate risks are outlined in **Table 23** below and these will be monitored and reported as part of the budget monitoring process throughout the year:

Table 23 – MTFP Financial Risks

Risk	Rag Rating (R/A/G)	Risk Owner	Management and Mitigations
The longer-term impact of the Covid-19 pandemic continues to impact adversely on demands for services to escalate beyond current estimates and contingencies	R	Strategic Leadership Team	Demand will need to be continually monitored in 2021/22 for impacts on the estimates for 2022/23 budgets. The Contingency Budget of £6m will be retained in 2023/24.
Changes to Government Policy that affects future funding (Social Care)	R	Strategic Leadership Team	The Government's announcements on Social Care reform not yet fully understood. Grant funding of £1.7m has been allocated to SCC in 2023/24 to start to prepare for these changes. It is not currently known if this is sufficient.
Interest rates increase	A	Director of Finance and Governance	The base rate has recently increased from 0.1% to 0.25%. This does not change the current strategy of internal borrowing, but we will continue to monitor and review this.
Impact on business rates is greater than currently estimated	A	Director of Finance and Governance	The Somerset Councils Business Rates Pool for 2022/23 now excludes SWT Council in order to reduce the risks to the pool.
Pay awards will be higher than estimated	A	Director of Customers, Digital, and Workforce	The additional cost of a 2.0% increase for 2021/22 and a 2.5% increase for 2022/23 has been factored into the MTFP.

PAPER A

Unitary preparations and Transitional Costs	A	Strategic Leadership Team	All workstreams and governance arrangements are now in place. Transition costs are monitored and managed through the Steering Group, Programme Board and Joint Committee.
Inflation	A	Relevant Director	Costs such as the recent increases in fuel and utility costs continue to rise and impact upon the revenue & capital budgets. Review as part of budget monitoring.
Unforeseen events outside SCC's control	A	Relevant Director	Events such as extreme weather,) and changes in recycling material values are outside our direct control. These will need to be monitored and the MTFP updated as necessary.

18. Proposals to Opt into the National Procurement Scheme for External Auditor Appointments

The Council has previously opted into the national auditor appointment scheme and these arrangements are due to end once the 2022/23 Statement of Accounts has been audited. Under the Local Government Audit & Accountability Act 2014 ("the Act"), the council is required to appoint an auditor to audit its accounts for each financial year. The council has three options:

- To appoint its own auditor, which requires it to follow the procedure set out in the Act.
- To act jointly with other authorities to procure an auditor following the procedures in the Act.
- To opt-in to the national auditor appointment scheme administered by a body designated by the Secretary of State as the 'appointing person'. The body currently designated for this role is Public Sector Audit Appointments Limited (PSAA). Full Council must approve the decision to opt-into the national scheme.

All of the Somerset S151 Officers have agreed to make recommendations to their individual councils that opting into a sector-wide procurement conducted by PSAA will

PAPER A

produce better outcomes and will be less burdensome for the Council than a procurement undertaken locally because:

- Collective procurement reduces costs for the sector and for individual authorities compared to a multiplicity of smaller local procurements.
- If it does not use the national appointment arrangements, the Council (and its successor) will need to establish its own auditor panel with an independent chair and independent members to oversee a local auditor procurement and ongoing management of an audit contract.
- It is the best opportunity to secure the appointment of a qualified, registered auditor - there are only nine accredited local audit firms, and a local procurement would be drawing from the same limited supply of auditor resources as PSAA's national procurement.
- Supporting the sector-led body offers the best way of ensuring there is a continuing and sustainable public audit market into the medium and long term.

Audit Committee has consider a report on this and ask that Cabinet recommend to Council the opt-in to the national scheme administered by the PSAA.

PAPER A

Report Sign-Off

		Signed-off
Legal Implications	Honor Clarke	03/02/2022
Governance	Scott Woodridge	03/02/2022
Corporate Finance	Jason Vaughan	03/02/2022
Human Resources	Chris Squire	03/02/2022
Property	Paula Hewitt / Oliver Woodhams	03/02/2022
Procurement / ICT	Claire Griffiths	03/02/2022
Senior Manager	Jason Vaughan	03/02/2022
Commissioning Development	Sunita Mills / Ryszard Rusinek	03/02/2022
Local Member	All	
Cabinet Member	Cllr Mandy Chilcott - Cabinet Member for Resources	03/02/2022
Opposition Spokesperson	Cllr Liz Leyshon	02/02/2022
Scrutiny Chair	Cllr Anna Groskop - Place Scrutiny	01/02/2022