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## **Decision Report - Executive Decision**

Forward Plan Reference: FP/22/06/24

Decision Date – 11/07/22

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## **Medium Term Financial Strategy & Plan 2023/24 to 2027/28**

Lead Member(s): Cllr Liz Leyshon – Deputy Leader of the Council and Lead Member on Finance and Human Resources

Local Member(s) and Division: All

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### **1. Summary / Background**

- 1.1.** This report outlines the Medium Terms Financial Strategy (MTFS) for the new Somerset Council and starts to set out the Medium-Term Financial Plan (MTFP) for the next five years.
- 1.2.** Although combining the finances of all five Somerset Authorities is at a very early stage, it is important to provide an initial view of the financial challenges ahead in order that we can plan a smooth transition from the current five councils into the new unitary. The 2023/24 budget will be challenging given both the practical difficulties involved in the process and the national economic outlook with inflation expected to be in double digits and the financial impacts that this will have upon the council.
- 1.3.** The Business Case for the new unitary council identified that £18.5m of savings could be achieved through the efficiencies of being one rather than 5 separate organisations. However, these savings would not be realised immediately but over the coming years as services, systems and processes were combined. The business case was based upon the best publicly information available at the time, which is now over 2 years ago, and although the work identified that the overall total was in line with other unitary business cases and achievements, the figures need to be updated for the 2022/23 budget information and their delivery profiled over the MTFP.
- 1.4.** It is therefore recognised that 2023/24 is an unusual year and an approach in the financial strategy to recognise this is appropriate. The approach will be based upon not looking at 2023/24 in isolation but taking the first few years of the new unitary together and setting a solid financial foundation which the new council can then build from in the longer term. A key element in developing the budget proposals for the coming year will be producing a balanced revenue budget by the appropriate use of reserves to smooth out the financial challenges whilst the savings

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in Business Case are delivered. This approach will ensure that financial decisions to balance the budget are taken against the backdrop of achieving medium term financial sustainability.

- 1.5.** The context for developing the 2023/24 budget proposals is going to be challenging given complex and unique circumstances which include:
- New Unitary Council – Replacing the existing two-tier system and five councils with Somerset Council
  - Political Leadership – 110 members and change in political control following the elections in May
  - Target Operating Model – Draft being developed but not approved
  - Corporate Plan – New corporate plan for the new council not in place
  - Chief Executive – Recruitment for new chief executive of new council underway
  - Officer Structure – No structure currently in place for the new council
  - MTFP – The 5 Councils forecasting a combined budget gap of £28.5m for 2023/24 in February 2022
  - Inflation – Significant increases in inflation since each council set its budget set in February, which is now expected to be in double digits
  - National funding for councils – Major funding reviews expected for 2023/24 now looking like they will be further delayed
  - Social Care reforms – initial indications are that the costs of these will be significantly in excess of the funding provided by government
- 1.6.** The Spring Statement in March 2022 recognised that inflation was increasing, and that the Russia / Ukraine conflict would impact further on this. The Statement did not outline any additional support for local authorities. The County Councils Network (CCN) and the Society of County Treasurers (SCT) recently produced a national report which highlighted the significant impact that the rising level of inflation is having upon council budgets. With the UK's inflation rate rising from 5.5% at the start of the year to 9% this Spring, and global costs rising, the research estimates that councils' costs from inflation have risen from £789m in March when they set their budgets to £1.5bn as of June, leaving them with £729m of additional unfunded costs. The Month 2 Budget Monitoring Report highlights the significant impact that this is having upon the 2022/23 budget.
- 1.7.** The CCN and the SCT are requesting all authorities in the lead up to the Autumn Budget support them in making the case to the Treasury for additional financial support to meet these rapidly escalating costs. Moreover, with the current Spending Review providing a cash flat settlement for 2023/24, that the government is asked to look again at the settlement for councils next year. Unless the Spending Review settlement is revisited, councils including Somerset Council will be faced with a significant funding gap because of these inflationary pressures.
- 1.8.** The full details of the various government grants including the Social Care Grant, Revenue Support Grant and Rural Services Delivery Grant will be provided as part

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of Governments Finance Settlement which is expected to be announced in December this year. The funding reviews including Fairer Funding and Business Rates are now expected to be further delayed. The changes to social care, may cost circa £20m more than government funding and will create further financial stress on the new Authority if this is not provided through Central Government Grant and further analysis of this will be carried out over the coming months.

- 1.9.** Tax base growth is currently estimated to be 0.97% in 2023/24 but will be updated in the Autumn. It will have been impacted by the current phosphates issue which is restricting new house building. For the purposes of this strategy Council Tax increases are shown at 1.99% per annum ongoing with a 1% increase in the Adult Social Care Precept for the next two years and have been factored in at present. The increase in council tax is governed by the referendum levels and it will not be until later this year that the Government will set them for 2023/24. Given the significance of this income stream to the council, the Governments decision on them in the lights of recent increases in inflations will be a key factor for the 2023/24 budget.
- 1.10.** The MTFP forecast in February was a budget gap of £28.6m for 2023/24 and given the inflationary impacts upon the 5 councils budgets this has been updated to £44.5m. Detailed work will now commence on the MTFP process with an update being made to the Executive in October 2022 including progress on closing the budget gap.

## **2. Recommendations**

### **2.1.** That the Executive: -

- a) Approves the Medium-Term Financial Strategy and notes the current budget gap and proposed process for producing a balanced revenue budget for 2023/24 and capital programme.
- b) That a Budget Working Group is set up to help develop the 2023/24 budget proposals.
- c) Recommends to Council that the Director of Finance and Governance is delegated to set the council tax base and business rates base for Somerset Council.

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## **3. Reasons for Recommendations**

To request members endorsement of the approach to balancing the budget in the medium-term including the financial planning for the initial two years of the new Unitary Council. It also updates members of the progress on budget preparation ahead of the statutory deadline for preparing the budget for 2023/24.

## **4. Other Options Considered**

- 4.1.** Members are not being requested to approve any part of the budget at this stage as there is not sufficient information regarding funding to enable them to do so.

## **5. Links Between the Council's Priorities and the Medium-Term Financial Strategy**

- 5.1.** The MTFP will link pressures, growth, and savings to the delivery of the Council's emerging key priorities as the new Corporate Plan develops and is approved in November 2022.

## **6. Consultations and Co-production**

- 6.1.** Scrutiny Committees will be consulted upon the detailed budget proposals in October/November 2022 and January/February 2023. Any required public consultation on the consultation on the budget proposals will take place later in the process once the specific proposals have been developed.
- 6.2.** The financial strategy and MTFP has been developed by the LGR Finance Workstream which comprises of the S151 officers and Deputies from the 5 councils.

## **7. Financial and Risk Implications**

- 7.1.** The MTFP forecast has been updated from £28.6m in February to £44.5m in June. Detailed work on the MTFP will now commence and the updated position will be report in October.
- 7.2.** The 2022/23 Budget report identified a number of risks and there is the also LGR risk register which has also identified a number of financial risks around the MTFP, LGR implementation budget and deliver of the LGR savings. The October report will provide a comprehensive risk update.

## **8. Legal and HR Implications**

- 8.1.** The legal implications will be assessed as part of the overall budget process that will conclude in February 2023.
- 8.2.** Any HR implications will be reviewed as part of the budget process.

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## 9. Other Implications

### 9.1. Equalities Implications

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

### 9.2. Community Safety Implications

There are no community safety implications arising from this report.

### 9.3. Sustainability Implications

There are no sustainability implications arising from this report.

### 9.4. Health and Safety Implications

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

### 9.5. Health and Wellbeing Implications

There are currently no implications

### 9.6. Social Value

There are currently no implications

## 10. Scrutiny Comments / Recommendations:

- 10.1.** The 2023/24 budget preparations and proposals will be considered by the Councils Scrutiny Committees in October 2022 and January/ February 2023.

## 11. Summary / Background

- 11.1.** This report outlines the basis of the Medium-Term Financial Strategy (MTFS) for the new Somerset Council and also starts to set out the Medium-Term Financial Plan (MTFP) for the next five years. The 2023/24 budget will be challenging given both the practical difficulties involved in the process and the national economic outlook with inflation expected to be in double digits and the financial impacts that this will have upon the new Somerset Council.
- 11.2.** Although combining the finances of all five Somerset Authorities is at a very early stage, it is important to provide an initial view of the financial challenges ahead in order that we can plan a smooth transition from the existing five councils into the new unitary. One of the biggest challenges for any organisation is ensuring that its expenditure is aligned to its priorities. More often than not, historic spend will determine how much is invested in different activities which can lead to disparity between budgets and corporate priorities. This will be a particular challenge in the early years for the new council.
- 11.3.** There is significant uncertainty in the national approach to funding local government, national and local recovery post Covid-19 pandemic, social care funding, and inflationary pressures as well as preparing for the new Unitary Council.

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It is however important that the MTFS addresses the finances of the Unitary authority and its' financial stability and sustainability over the longer term. A further report on preparations of 2023/24 MTFP will be presented in October 2022, and full budget detail proposals in January 2022, with the final proposals presented for approval at Executive and then Full Council in February 2023.

### 12. The Medium-Term Financial Plan

- 12.1.** The 2023/24 financial year will be an exceptional year as we amalgamate the budgets of five authorities into one. A new administration has been formed and therefore the Council's key priorities will be set out within a new Corporate Plan that will be presented for approval in November 2022. The work on the MTFP will link in with this as it is being developed.
- 12.2.** There are a number of risks that were reported when the budget was set in February that could have an impact in 2022/23 that are now impacting on the authority's finances – these include additional demand especially in Children's Services, increased inflation, and some early indications that the costs of the Governments changes to social care may not be fully funded.
- 12.3.** This report outlines the current baseline and gap and also what the recommended strategy is for approaching that gap. This will require some smoothing using reserves and capital receipts flexibility. It is also important that the Government is aware of the impacts on the new Council in preparation for the Autumn Budget and Comprehensive Spending Review.

#### Current Financial Position

- 12.4.** The overall outturn position for 2021/22 for each Council is shown below:

**Table 1 – 2021/22 Outturn**

Service	Total Budget	Outturn	Overspend / (Underspend)
	£m	£m	£m
Somerset County Council	359.6	355.5	(4.1)
Mendip District Council	Not yet available		
Sedgemoor District Council	Not yet available		
Somerset West and Taunton Council	18.8	16.4	(2.4)
South Somerset District Council	Not yet available		
<b>Total</b>			

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**12.5.** Each authority will be asked to review their year-end positions to assess whether any underspends can be made permanently as well as the ongoing impact of any overspends.

**12.6.** As part of developing the budget proposals for 2023/24 it is important to look at the latest budget monitoring report in the current year and to identify any variances that will impact on future years. The budget monitoring report at the end of May forecasts an overspend of £14.4m at the year-end as shown below:

**Table 2 : Month 2 Budget Monitoring Position**

<b>Service</b>	<b>Current Budget £'m</b>	<b>Forecast Outturn £'m</b>	<b>Total Net Variance £'m</b>	<b>A/(F)</b>
Adult Services	160.1	163.4	3.3	A
Children's Services	105.2	118.0	12.8	A
Public Health	1.3	1.3	0.0	-
Economic & Community Infrastructure	73.2	75.4	2.2	A
Customers, Digital, and Workforce	17.0	17.0	0.0	- A
Finance and Governance	12.1	12.9	0.8	A
Accountable Bodies	4.3	4.3	0.0	-
Non-Service Items	2.5	2.4	(0.1)	(F)
Trading Services	0.0	0.1	0.1	A
<b>Total Service Position</b>	<b>375.7</b>	<b>394.8</b>	<b>19.1</b>	<b>A</b>
Corporate Contingency	6.0	1.3	(4.7)	(F)
<b>Total SCC</b>	<b>381.7</b>	<b>396.1</b>	<b>14.4</b>	<b>A</b>

**12.7.** As part of the County Council's financial management approach monthly budget monitoring of service spend is reported as well as a full financial overview including revenue, capital, and reserves on a quarterly basis. This enables the council to identify issues early and take corrective action as can be demonstrated from the figures above for the end of May.

**12.8.** The overspends in Children's and Adult Services have been reviewed and amendments where required have been added into the MTFP for future years. This does not mean that savings cannot be found to mitigate these, but they do need to be identified and planned as part of bridging the financial gap. Further refinements will be made over the summer months and an update reported to the Executive in October 2022.

**12.9.** The District authorities report budget monitoring on a quarterly basis and all budgets will continue to be monitored and updates made to the MTFP and budget for 2023/24 to ensure that the budget reflects the most up to date position.

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- 12.10.** The S24 Agreement has now been approved which enables day to day service provision to continue. The Agreement is appended to show sale of assets, contracts, and capital projects that may impact on the new authority to be reviewed by the County Council's S151 Officer/Lead Members/Executive depending on value

### **The 2023/24 Budget**

- 12.11.** The 2023/24 budget preparation has commenced but it must be acknowledged at this stage that there are still many areas that may vary as the Council prepares the final budget that will be approved in February 2023.
- 12.12.** In addition to the General Fund Somerset Council will also have a Housing Revenue Account (HRA). The HRA is a ringfenced account used to manage the Council's housing stock. The housing stock in the current Somerset West and Taunton area is managed by the Council whereas the housing stock in the current Sedgemoor area is still owned by the Council but since 2007 has been managed by Homes in Sedgemoor (HIS) an Arms-Length Management Organisation (ALMO) under a management agreement. Under the Localism Act 2011, both HRA's moved away from a national subsidy system (which required an annual payment from the HRA to Central Government) on 1 April 2012 to become 'self-financing'. In order to manage the freedoms gained by the HRA through self-financing 30-Year Business Plans were introduced setting out the Council's overall aims and objectives for Housing Services, as well as laying out plans to manage the increased risks and opportunities. Both 30-Year Business Plans have been updated annually alongside the budget setting process. Work is currently being undertaken to review the HRA Business Plans and Budgets which will follow the same principles as the General Fund considering any specific regulations that the HRA need to adhere to. An update will be included in the October Executive report.
- 12.13.** Services will be asked to review additional requirements for inflation, demand, and growth although it has been agreed that growth will not be added without headroom being made within the budget. We will be asking services to produce savings plans over the summer and Autumn months for draft proposals to be presented to the Executive in January 2023.
- 12.14.** An initial starting point for the MTFP is the February 2022 forecast made by each of the 5 councils as part of their 2022/23 budget setting process which they reported to their own Council. The combined position was also reported to the LGR Joint Committee. This identified a budget gap, being the difference between the predicted resources available and estimated cost of providing the current services, of £28.5m for the new council in 2023/24. Taking into account, both the Month 2 budget monitoring report and also applying the 2.1% inflationary pressure (as identified by the CCN report) to the Districts 2022/23 net budget of £70.4m, would add a further £15.9m to the February position.

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**Table 3: Updated MTFP Position June 2022**

<b>Description</b>	<b>2023/24 Budget Gap £'m</b>
<b>MTFP Forecast Feb 2022</b>	
Mendip DC	1.9
Sedgemoor DC	2.8
South Somerset DC	4.5
Somerset West & Taunton Council	5.2
Somerset CC	14.2
<b>Feb Forecast</b>	<b>28.6</b>
<b>Updates</b>	
SCC Month 2	14.4
Assumed inflation on District Budgets	1.5
<b>June position</b>	<b>44.5</b>

**12.15.** The June MTFP forecast provides an early very indicative outline of the potential budget gap for 2023/24 before the detailed work on updating all of the individual service budgets commences. The figures do not include any allowance for any new growth items such as LCN's or funding for new capital schemes. It is clear, even at this very stage, that 2023/24 is going to be a financially challenging year and to help develop the budget proposals it is proposed to set up a Budget Working Group to work with the Lead Member for Finance and Human Resources. The terms of reference for the Group is set out in **Appendix A**.

### **Funding for Councils**

**12.16.** Local authority funding remains uncertain with both the Fairer Funding Review and review of business rates are likely to be further delayed. There has been discussion with DLUHC to confirm the basis of funding for the new unitary and they have recently sent details on how this would have worked for the current financial year. This now provides a basis for the modelling of future years income subject to any changes in funding streams.

**12.17.** The Government announced changes to social care should be fully funded but there remains a very high risk that there will be a shortfall in funding once fully rolled out. It is expected that a provisional settlement for local authorities will be announced in December 2022 and that this will include details of the funding for both 2023/24 and 2024/25.

**12.18.** In terms of specific funding the following outlines the most recent information on future funding:

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## Revenue Support Grant (RSG)

Revenue Support Grant is distributed based on need but has been reducing year-on year. This has been significantly reduced over the last decade, as funding switched to a combination of being more performance related, through the Business Rates Retentions scheme and more locally raised, through council tax. Current estimates are that Somerset Council will receive £6.8m in 2023/24 but this will not be confirmed until the Finance Settlement is published in December.

## Schools and 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.

## New Homes Bonus

New Homes Bonus is an incentive-based grant to increase the number of new homes built and reduce the number of empty properties. The funding through this scheme has been reduced in recent years and the scheme is being phased out. However, with nothing else at present to replace it is likely that a further legacy payment of New Homes Bonus will be made in 2023/24 of £2.3m.

## Social Care Grant

SCC received £24.6m in social care grant in 2022/23 – this can be used to support Adult Social Care or Children's Services. The finance settlement is likely to announce further support for local authorities given the national recognition of the pressures in this area, but this will not be allocated to individual authorities until December/January.

## Better Care Fund

The Better Care Fund from the CCG is intended to incentivise the integration of health and social care, requiring Clinical Commissioning Groups and Local Authorities to pool budgets and agree an integrated spending plan. Greater integration is seen as a potential way to use resources more efficiently, by reducing avoidable hospital admissions and facilitating early discharge from hospital. The Council received £13.9m in 2022/23 and assumptions are that the grant will remain at 2022/23 levels.

## Improved Better Care Fund

iBCF funding has been provided by Government since 2017/18 to support local authorities to meet adult social care needs, reduce pressures on the NHS and support the social care market, in recognition of the increasing financial pressures being seen in the delivery of adult social care. SCC received £23.3m 2022/23 – no uplift has been made to budgets for 2023/24

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## Public Health Grant

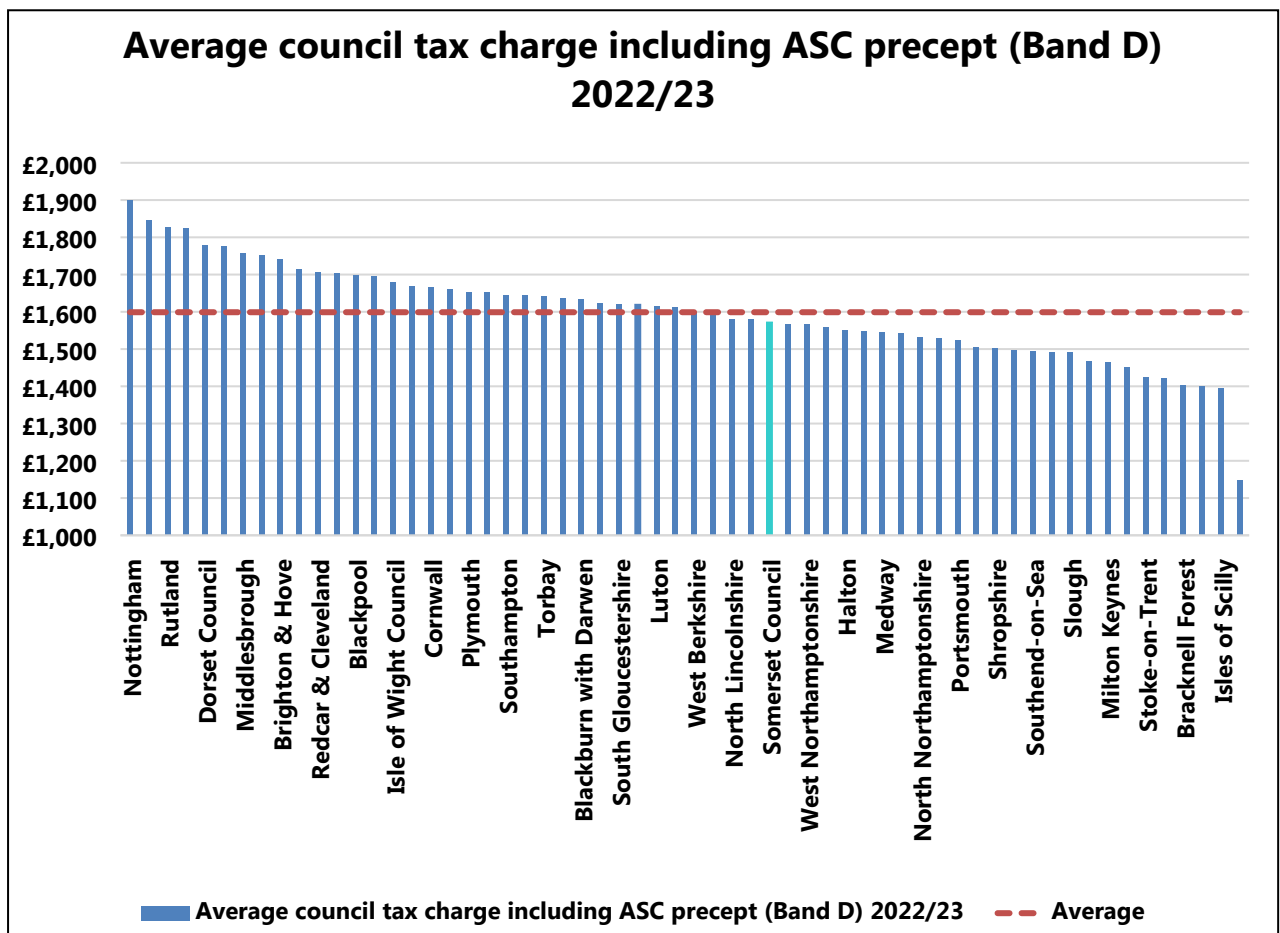
Public Health Grant is funded by central Government to improve health in the local population. The grant totalled £21.8m in 2022/23 and no additional grant is expected in 2023/24.

## Business Rates

The review of Business Rates is likely to be further delayed and modelling of the likely income for 2023/24 is currently being undertaken in the light of the current pool performance.

## Council Tax

Using a weighted average, the equivalent council tax Band D charge for a Unitary Somerset would be £1,572.39 in 2022/23 (including the ASC and the SRA precepts). This is based on a total council tax base of 200,747. The following graph shows how the authority would sit compared to other Unitary Authorities this year:



The charge would be £27 lower than the average Unitary Band D charge of £1,599, and £326 lower than the highest charge.

Referendum limits are likely to be published for 2023/24 as part of the finance settlement and the Government includes these within the overall spending power for each authority. The provisional budget currently includes increases of 1.99% in Council Tax per annum with a further 1% increase in Adult Social Care Precept over

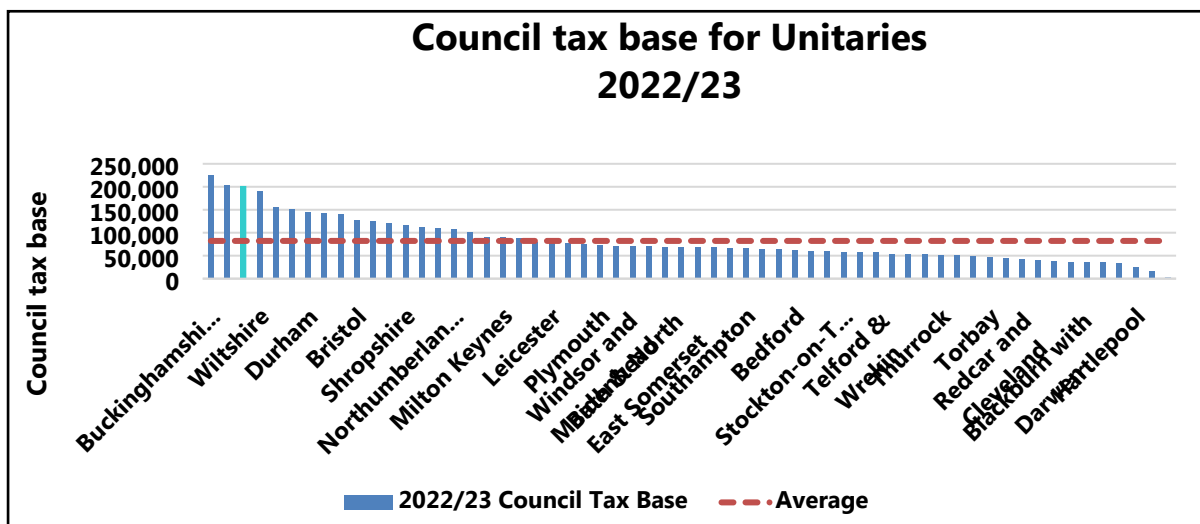
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the next two years. No decisions have been made on final levels. The Government may increase referendum levels so that some of the increasingly impacting inflationary pressures are funded locally. An increase of 2.99% overall would add £47.01 to a Band D property annually (equivalent to just under £0.90 per week).

It is worth noting that the figures outlined above have not included the parishing of Taunton and its implications for Council Tax. The expectation is that this will not have an impact on the overall finances of Somerset Council.

### Tax Base

The tax base is expected to increase in 2023/24 by 0.97% followed by increases of 0.92% and then 0.75% for the following two years respectively. The following graph shows the overall tax base for Somerset compared to other Unitary Authorities. It will be the third largest tax base.



The tax base will need to be set for the new Council in December 2022. This is usually set by the District authorities as billing authorities. Somerset Council will become the billing authority from the 1<sup>st</sup> April 2022 and will need to set the tax base in December 2022. This task is usually delegated to the S151 Officer and therefore a recommendation has been made as part of this report to delegate this task to the Director of Finance and Governance.

## 13. The Capital Strategy

- 13.1.** 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.
- 13.2.** It requires 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

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- 13.3.** The update includes a clear statement that local authorities must not borrow primarily for financial return. Somerset Council will hold circa £250m of investment properties that would be designated as being held for financial return. The Code outlines that authorities are not required to immediately sell these investments. However, Authorities which have an expected need to borrow should review options for exiting their financial investments for commercial purposes in their annual treasury management or investment strategies. The options should include using the sales proceeds to repay debt or reduce new borrowing requirements. It also states that authorities should not take on new borrowing if financial investments for commercial purposes can reasonably be released instead, based on a financial appraisal of financial implications and risk reduction benefits.
- 13.4.** The requirements of the Prudential Code will be assessed as the Capital Programmes of all five authorities are combined for 2023/24.
- 13.5.** Inflationary pressures are impacting on programmes nationally and across all the Somerset Authorities. Given the overall financial position all of the existing capital programmes need to be reviewed to ensure that value reengineering and contingencies are fully utilised. It will be necessary to review the relative priorities of each individual schemes with an approach of limiting any impact upon the MTFP by expecting that additional costs will be found from removing lesser priority schemes rather than additional borrowing.
- 13.6.** With the current MTFP position any funding for new Capital schemes will be very limited and focused upon:
- Schemes that are Fully Externally Funded; &
  - Where there is a legal requirement such as Health and Safety Needs

### **14. The Capital Programme**

- 14.1. Table 5** shows the totals of the overall programmes for all Somerset authorities including this financial year. The figures do not yet include slippage from the 2021/22 financial year. Although the new authority will only inherit the programmes for 2023/24 onwards (£180.5m) it is likely that a considerable amount of slippage possibly around 30% from this financial year will also transfer to the new authority.

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**Table 5: Current Capital Programme**

Authority	2022/23 Budget	2023/24 Budget	2024/25 Budget	2025/25 and Beyond	Projected Total Spend
	£m	£m	£m	£m	£m
Somerset County Council	120.8	41.0	13.5	1.9	177.2
Mendip District Council	6.9	12.8	6.6	3.0	29.3
Sedgemoor District Council	14.4	22.5	0.5	0.5	37.9
Somerset West and Taunton Council	37.8	38.8	9.0	0.0	85.6
South Somerset District Council	47.4	18.9	10.9	0.6	77.8
<b>Total Programme All Councils</b>	<b>227.3</b>	<b>134.0</b>	<b>40.5</b>	<b>6.0</b>	<b>407.8</b>
<b>Funded By:</b>					
Grants	101.1	54.2	19.4	2.7	177.4
Borrowing	101.9	59.8	15.8	0.4	177.9
Capital Receipts	8.9	1.1	2.9	2.8	15.7
Reserves	4.8	0.1	0.1	0.1	5.1
CIL/S106	8.7	17.8	2.2		28.7
Revenue Contributions	1.9	1.0	0.1		3.0
<b>Total Funding</b>	<b>227.3</b>	<b>134.0</b>	<b>40.5</b>	<b>6.0</b>	<b>407.8</b>

Note the above figures do not include the capital programmes for the Housing Revenue Accounts (HRA). The update report in October will outline these as part of business planning for the HRA.

### 15. Reserves

- 15.1.** The reserves of all five authorities will be combined on the 1<sup>st</sup> April 2023 and work is currently being undertaken to predict the likely level of these that will be available to Somerset Council.
- 15.2.** There is a legal requirement for the council to consider the overall level of reserves held and this will be included in the budget proposals. The strategy for General Reserves is to retain sufficient funds within a range based on the risks assessed and in the light of the Directors assessment of the robustness of their budgets. At this stage it is a prudent assumption to assume that the range will be between £30m to £50m for financial planning purposes. Given the experience of other newly created unitaries, it would be prudent to be at the higher end of range.
- 15.3.** All five authorities have set aside a specific reserve to support the remaining Unitary transition costs in 2023/24. In addition, there will be calls on reserves for once-off funding to smooth out the budget gaps whilst the LGR savings are being delivered.

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An assessment of this will be made later in the process once we have more certainty over the MTFP and LGR savings profiles.

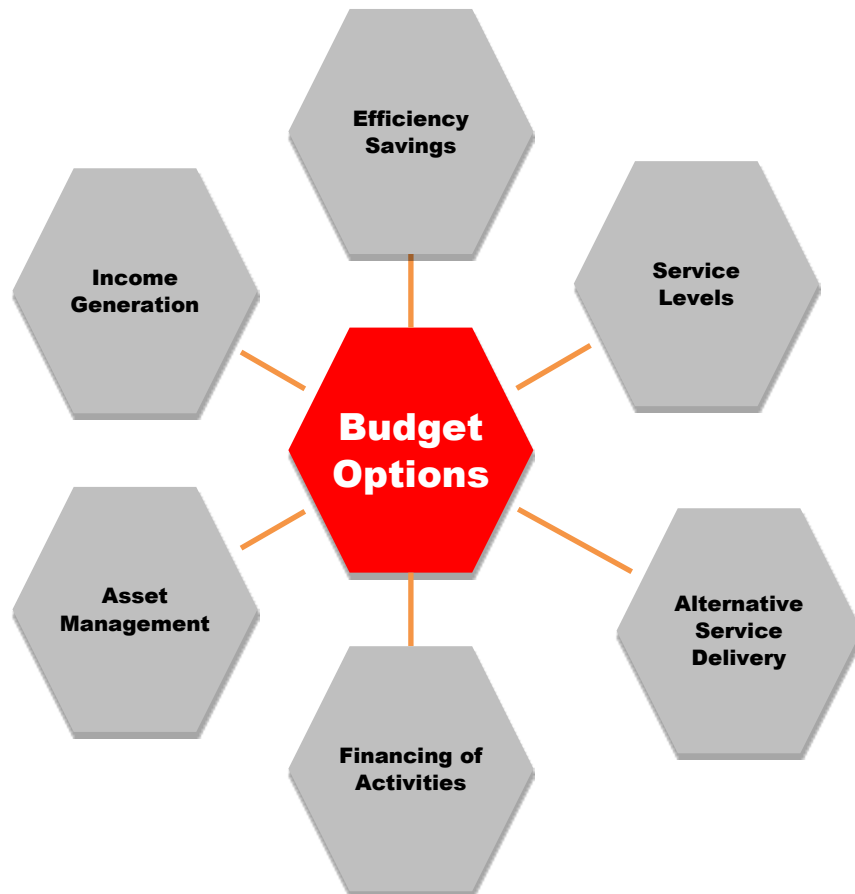
### **16. Medium Term Financial Strategy**

**16.1.** This Medium-Term Financial Strategy (MTFS) provides a framework for budget setting. It explains the financial context and the targets, as well as the financing mechanisms available to the Council. This strategy does not detail how individual savings will be made, nor how categories of additional income will be achieved. Nevertheless, it describes the scope of the work required, and taking place, to meet these targets together with some of the anticipated impacts

**16.2.** The focus is to set the context to enable a budget setting and financial planning process, that will deliver a balanced budget for the longer term whilst recognising that the detail will initially be on 2023/24, as the first year of the new Somerset Council. There is significant uncertainty because of transitioning into Local Government Reorganisation as well as the national approach to funding local government is still under review. The MTFS, however, will look at the financial pathway for the new Unitary Council. This strategy also provides the background for budget consultation due to take place this autumn

- 16.3.** The key objectives of the MTFS are therefore to:
- Provide financial parameters within which budget and service planning should take place
  - Ensure that the Council sets a balanced and sustainable budget
  - Focus and re-focus the allocation of resources so that, over time, priority areas receive additional resources. Ensuring services are defined on the basis of clear alignment between priority and affordability
  - Ensure that the Council manages and monitors its financial resources effectively, so that spending commitments do not exceed resources available in each service area
  - 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
- 16.4.** A useful framework for the development of options to balance the budget within the MTFP is set out in the diagram below.

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### 16.5. The headings are: -

- Efficiency Savings – Savings from LGR (being 1 council rather than 5), changes in demand, innovation & procurement
- Service levels – Changing service levels - Gold, Silver or Bronze standard or stopping the service altogether if it's not statutory
- Alternative Service Delivery – Providing the same service in a different way e.g., transformation savings, through a partner or VCSE sector
- Asset Management – different use of assets, purchase, and disposal of assets
- Financing of Activities – Capital, Revenue & Reserves,
- Income Generation – Grants, business rates, council tax & fees & charges

### 16.6. Given both the current context and MTFP position the proposals based upon the MTFS for balancing the 2023/24 budget are focused upon the following activities recognising both the time and staffing resources constraints that we currently face:

#### **Efficiency Savings**

- Delivering the LGR Business case savings of £18.5m
- Review of contracts as part of combining the five contracts registers into one
- Reviewing and challenging demand and inflationary requirements

#### **Service Levels**

- Use of benchmarking information to inform the cost of services of comparable unitary councils

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- Consideration of service levels and what discretionary services are provided

### **Alternative Service Delivery**

- To transform services as they are joined together maximising the use of digital technology and new ways of working to maximise efficiency

### **Asset Management**

- 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 revenue savings.
- Reviewing the portfolio of commercial investments

### **Financing of Activities**

- 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.

### **Income Generation**

- Increase income from a review of all fees and charges including the alignment of charges from the 5 councils
- Reviewing the finance settlement in terms of council tax, business rates, and other grants

**16.7.** With both time and staffing resources constraints, it is important that the collective effort is focused on the key areas that will deliver the best return for the effort involved. The Financial Strategy will be further developed and evolved over this year's budget setting process.

## **17. Risks**

**17.1.** A key part of the MTFP process will be to update the risks identified by the 5 councils when they set their own 2022/23 budgets, as well as those new risks that come from being a new unitary council.

## **18. Background Papers**

**18.1.** LGR Business Case

**18.2.** Report to LGR Joint Committee 4 February 2022

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### 18.3. 2021/22 Outturn report to Executive 15 June 2022

#### **Report Sign-Off**

		Date completed
Legal Implications	Honor Clarke	29/06/22
Governance	Scott Wooldridge	30/06/22
Corporate Finance	Jason Vaughan	29/06/22
Human Resources and ICT	Chris Squire	30/06/22
Property	Paula Hewitt / Oliver Woodhams	29/06/22
Procurement	Claire Griffiths	30/06/22
Senior Manager	Jason Vaughan	29/06/22
Commissioning Development	Sunita Mills / Ryszard Rusinek	30/06/22
Executive Member	Cllr Liz Leyshon - Deputy Leader of the Council and Lead Member on Finance and Human Resources	29/06/22
<b><u>Sign-off Key Decision / Consulted on Non-Key Decision</u></b>		
Local Member		
Opposition Spokesperson	Opposition Spokesperson - Finance and Human Resources - Cllr Mandy Chilcott	30/06/22
Scrutiny Chair	Scrutiny for Policies and Place Committee - Cllr Gwil Wren	30/06/22