



## **Decision Report - Executive Decision**

Forward Plan Reference: FP/22/06/28

Decision Date - 13/02/23

### **2023/24 Budget, Medium-Term Financial Plan & Council Tax Setting**

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

Local Member(s) and Division: All

Lead Officer: Jason Vaughan - Director of Finance & Governance

Author: Jason Vaughan - Director of Finance & Governance

Contact Details: [Jason.Vaughan@somerset.gov.uk](mailto:Jason.Vaughan@somerset.gov.uk)

#### **Sections**

1. **Report Summary**
2. **Recommendations**
- 3.– 9. **Implications (Including Equalities) and Links**
10. **Scrutiny Comments and Recommendations**
11. **Background**
12. **Budget Process**
13. **General Fund Budget Monitoring Position in 2022/23**
14. **2023/24 Budget Proposals**
15. **Funding for Councils including Council Tax and Business Rates**
16. **The Capital Strategy and Programme**
17. **The Capital Programme**
18. **Capital Programme – New Bids**
19. **MTFP Forecast for Future Years**
20. **Reserves and Balances**
21. **Housing Revenue Account**
22. **Risks**
23. **Chief Finance Officer (CFO) Report and Advice on the Robustness of the Budget and Adequacy of Reserves & Balances**

#### **Appendices Attached to this Report**

Appendix 1 – 2023/24 Budget Detail

Appendix 2 - Transformation, savings, and Income Generation Proposals

Appendix 3 – Equality Impact Assessments

Appendix 4 - Fees and Charges for 2023/24

Appendix 5 – Additional Financial Requirements (AFR's)

Appendix 6 – Special Expenses Rates

Appendix 7 – Detailed Directorate Summaries

Appendix 8 - The Capital Strategy

Appendix 9 -The Flexible Capital Receipts Strategy

Appendix 10 – New Capital Schemes

Appendix 11 – The Capital Programme 2023/24 to 2025/26

Appendix 12 - The Non-Treasury Investment Strategy

Appendix 13 – The MRP Statement

Appendix 14 – Comments from Policy and Place Scrutiny

Appendix 15 – Council Tax Resolution Report

## **1 Summary / Background**

**1.1** This budget report sets out spending plans for next financial year which will be the first budget for the new Somerset Council. It highlights areas of priority to support residents across Somerset. Some of the key elements of the revenue budget are:

- Significant additional funding for both Adults £28.0m and Childrens Services £18.8m to reflect the significant cost increases in those services for our most vulnerable people.
- Local Community Networks (LCNs) – New funding of £0.3m to establish LCN' s and to support the completion of a Community Development spend review across the councils to identify existing funding to support LCN' s on an ongoing basis
- Voluntary, Community, Faith, and Social Enterprise (VCFSE) – Maintain core funding for the sector at the same level as 2022/23
- Budget Savings – protection of frontline services with a focus on delivering the LGR Business Case and other efficiencies
- Council Tax – Below inflation increases in line with Government policy of 2.99% increase in general council tax plus 2% for the Adult Social Care Precept
- Inflation – Budgeting for the impacts of inflation on energy, fuel, and contract
- Pay– Budgeting for the national pay award

**1.2** The budget also contains detail of the significant capital investment of over £332m in schools, roads, regeneration, climate change and other projects across the county.

**1.3** This has been achieved despite the budget being impacted by financial challenges facing all councils and Somerset Council is no different with costs increasing more than the income that is received. As can be seen in 1.1 above, the impact of inflation and demand continues to impact on Adults and Childrens Services.

**1.4** The size of the financial challenge facing the new council is well documented with the Executive receiving reports in July and then November where the gap was estimated to be £74.2m but with savings options that could bring this down to £38.2m. The report today sets out a balanced budget, but it will require members to make some difficult choices. Like a lot of councils, failure to make those tough decisions will lead to reserves being exhausted and the likelihood of a section 114 notice in the next couple of years could not be ruled out.

**1.5** The provisional Finance Settlement was published on 19 December 2022 and recognised the very difficult financial challenge that councils are facing

particularly with increasing social care costs but did not provide any longer-term solution. The settlement provided details of funding for 2023/24 which will be confirmed in January and some indications of the funding for 2024/25 including the assumption that councils will increase their council tax by 2.99% and a further 2% for the Adult Social Precept in each of these years.

- 1.6** The Financial Strategy approved in July 2022 recognised the time, resource and capacity constraints facing the new council. It allowed for using reserves in the short term, to enable the delivery of all the LGR savings as an approach. A key part of good financial management is to consider the medium-term financial planning implications but given the significant uncertainties over future government funding for councils and the establishment of the new council it is appropriate to plan over the next 2 years and make sure that any decisions taken in 2023/24 do not adversely impact upon 2024/25.
- 1.7** The overall financial picture is complex with the budgets from the 5 councils coming together into one and therefore there is more risk in the budget proposals than would normally be the case. The delivery of Transformation, Income, and Savings Proposals is vital and will need to be closely monitored during the year. The forecast budget gap for 2024/25 is just over £41m on a net budget of nearly £500m which means that there will need to be further savings of 8% for that year. Therefore, if there is any slippage in the delivery of the savings during 2023/24 corrective action will need to be quickly taken and replacement new savings identified. Given this position the 2024/25 budget process needs to start early and will be more of a rolling budget approach with any new savings being implemented as early as possible rather than the traditional approach of waiting for the February Budget Setting process.
- 1.8** The overall level of reserves is low for a council of the size of Somerset and very careful management of them will be required. The individual reserves from each Council will need to be brought together and reviewed, including any previous commitments from the predecessor councils. This can be done once the Statement of Accounts for 2022/23 for the 5 councils have been produced and the updated position will be reported to the Executive during the year.
- 1.9** The 2023/24 Revenue and Capital Budget Proposals for were subject to Scrutiny at their meeting on 1 February with their comments showing at **Appendix 15**.

## 2. Recommendations

- a. That the Executive recommends Council approves
  - a. The General Fund net revenue budget for 2023/24 of **£493,357,150** and the individual service budgets for 2023/24 as outlined in **Appendix 1** including,
  - b. The transformation, savings and income generation plans outlined in **Appendix 2**, considering the required detailed Equalities Impact Assessment in **Appendix 3** and further consultation where necessary.
  - c. The detailed Fees and Charges as set out in **Appendix 4**.
  - d. The additional funding requirements set out in **Appendix 5**.
  - e. An increase in Council Tax of **2.99%** in 2023/24 to **£1,434.93** (an increase of **£46.88** per Band D property).
  - f. An increase of **2.00%** to Council Tax for the Adult Social Care Precept to **£196.46** is approved in recognition of the current demands and financial pressures on this service. This is equivalent to an increase of **£31.36** on a Band D property.
  - g. Agree to continue the Council Tax precept of **£14.65** within the base budget for the shadow Somerset Rivers Authority (representing no increase). This results in a Council Tax Requirement of **£3,013,125**.
  - h. Agree the precept requirement of **£338,767,850** (including Special Expenses Rate) **£338,547,779** (excluding Special Expenses Rates) and set the Council precept for Band D council tax charge at **£1,646.04** for 2023/24.
  - i. A Special Expenses rate of **£220,071** as detailed in **Appendix 6**.
  - j. The formal council tax resolution which incorporates the precepts of all the precepting bodies in **Appendix 15** (this will be circulated separately).
  - k. The overall estimated position of Earmarked Reserves of **£65.125m** outlined in **Table 18** and the proposed use of reserves detailed in **Table 17** of this report.
  - l. Note the conclusions of the Council's Section 151 Officer (Chief Finance Officer) in **Section 23** confirming the robustness of the budget estimates and the adequacy of the level of reserves.
  - m. Approved the risk-based assessment of the level of General Reserves being maintained within range of **£30m - £50m** and note the forecast level of General Reserves at **£47.460m**.
  - n. The Capital Strategy attached at **Appendix 8**.

- o.** The Flexible Capital Receipts Strategy attached at **Appendix 9**.
- p.** The Capital Programme for 2023/24 to 2025/26 of **£332.243m** as outlined in **Appendix 11** including new capital bids of **£75.967** outlined in **Appendix 10**, and the planned sources of funding.
- q.** Note that the Capital Programme will require resetting once the outturn positions of all five Councils are finalised.
- r.** The Non-Treasury Investment Strategy attached at **Appendix 12**.
- s.** The MRP Policy attached at **Appendix 13**.
- t.** Considers the comments from Scrutiny Policies and Place in **Appendix 14 (to follow)**.
- u.** Delegate any amendments within the final Government Financial Settlement and the final Business Rates amendments to the Director of Finance and Governance in consultation with the Leader of the Council

### **3. Reasons for recommendations**

- 3.1** 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 2023/24.

### **4. Other options considered**

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

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

- 5.1** A new Corporate Plan will be approved in February 2023.

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

- 6.1** The budget proposals have been developed by joint working across the 5 councils through the s151 officers and chief executives working with Executive. A general consultation has been carried out with a closing date of the 10 February and a verbal update of responses will be given at the Executive meeting. Where a detailed consultation is required, this will be arranged as the agreed proposals for change are developed and implemented by the relevant directors. A Scrutiny Workshop was held on 1 February followed by Place Scrutiny to review the budget proposals. Their response is attached at **Appendix 14**.

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

- 7.1** The Corporate Risk Register includes a Strategic Risks ORG0057 – Sustainable MTFP with a current risk score of 5x5=25. This remains high despite the balanced budget. 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.
- 7.2** Key risks have been outlined in **Table 19** of this report and these will continue to be monitored and reported as part of the budget monitoring process.

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

- 8.1** There are a number of saving proposals that have HR implications and the council has well established processes and policies for dealing with these. There are no legal implications to bring to Members attention, but it is important to note that some savings plans will require further specific consultation.

## **9. Other Implications**

### **9.1 Equalities Implications**

Individual proposals that currently have clear details have completed equality impact assessments. These are attached to the decision-making documents in **Appendix 3** and decision makers are requested to review these to help inform agreeing the budget.

Some proposals do not currently contain detailed explanations on how budget savings will be achieved. These Equality Impact Assessments will need to follow. When further decisions are taken on these more detailed proposals, Equality Impact Assessments will be provided to support these decisions.

### **9.2 Community Safety Implications**

The Equality Impact Statement outlined in Appendix 3 outlines key implications from the Transformation, Income, and Savings proposals outlined in Appendix 2.

### **9.3 Sustainability Implications**

The Equality Impact Statement outlined in Appendix 3 outlines key implications from the Transformation, Income, and Savings proposals outlined in Appendix 2.

### **9.4 Health and Safety Implications**

The Equality Impact Statement outlined in Appendix 3 outlines key implications from the Transformation, Income, and Savings proposals outlined in Appendix 2.

## **9.5 Health and Wellbeing Implications**

The Equality Impact Statement outlined in Appendix 3 outlines key implications from the Transformation, Income, and Savings proposals outlined in Appendix 2.

## **9.6 Social Value**

A number of contracts will be impacted by bringing five authorities into one. The social value of those contracts will be assessed as they are renewed.

## **10. Scrutiny comments / recommendations:**

The 2023/24 budget proposals were considered through a workshop of all Scrutiny members followed by a Scrutiny Place Committee on the 1<sup>st</sup> February 2023. The Committees comments are included in **Appendix 14**.

## **11. Background**

**11.1** In February 2022 each of the 5 Councils set out the MTFP forecast for 2023/24 and the position was updated in the report to the Executive in July 2022. The report made it clear that the 2023/24 budget would be challenging given both the practical difficulties involved in the process and the national economic outlook with inflation remaining in double digits. Alongside the updated forecast was the Financial Strategy which set out the approach that would be used to balance the budget.

**11.2** In November 2022 the Executive received an update on the Medium-Term Financial Plan which outlined the forecast budget gap for 2023/24 was £74.2m after taking into account the cost pressures in the current financial year and the forecast for 2023/24. The report outlined a range of actions that would be taken in order to close the budget. They included the following:

- Protect the level of Reserves by reducing spend and reviewing the funding of capital projects in the 5 councils
- Increase income where possible
- Ensure delivery of the LGR Business Case savings and minimise redundancy payments
- Review & reprioritise the existing Capital programme to reduce borrowing costs
- Develop a new Asset Strategy and Plan to help deliver capital receipts
- Develop a new Minimum Revenue provision (MRP) policy for the new Council
- Review the existing Commercial Investment portfolio
- Develop the Treasury Management Strategy that minimises debt financing costs

- Identification of key items for future transformation programme
- Start discussing with DLUHC about a potential capitalisation directive
- Start work on identifying financially sustainable service cuts

**11.3** At the Executive in January 2023 the proposals for a balanced budget were set out and approved as a basis for consultation and scrutiny. These proposals were based upon the December provisional finance settlement and latest information.

## **12. Budget Process**

**12.1** To help develop the budget proposals an advisory member Budget Working Group chaired by Cllr Liz Leyshon the Lead Member for Finance and Human Resources was formed and has met on nine occasions from August to December. The Group has reviewed an entire range of budget areas including the Financial Strategy, Adults Services, savings proposals, Additional Financial Requirements, Revenue & Benefits policies, Council Tax, the existing Capital Programme and new capital schemes, and Investments for yield. Recognising the very difficult financial challenge, the Executive along with the 5 Chief Executives and 5 Section 151 Officers have come together on 4 occasions for full days to review and develop the budget proposals.

**12.2** The starting point for developing the 2023/24 budget proposals was to bring together the five council budgets into one common format. This task was quite complex given the quite different ways the 5 councils are structured. The figures also had to be adjusted for any 'inter-authority' trading, such as Somerset Waste Partnership, as this is not relevant when budgeting for Somerset Council. The figures also need to be adjusted for any 'once-off' items to ensure that the on-going base budget for Somerset Council is established.

**12.3** Having established the 2022/23 base budget for Somerset Council the next part of the budget building process is to take account of the current budget monitoring position and any other known changes. The process for doing this has been to identify any Additional Funding Requirements (AFR) for such things as inflation, legislative changes, demographic, and other demand increases and they total just under £85m. These Additional Financial Requirements are detailed in **Appendix 5** with the Transformation, Savings, and Income Generation plans, which total over £40m, detailed in **Appendix 2**.

**12.4** The General Fund net revenue budget for 2023/24 total £493.357m and the individual service budgets for 2023/24 are set out in **Appendix 1**.



### 13. General Fund Budget Monitoring Position in 2022/23

13.1 The overall predicted outturn position of the combined Somerset Authorities in the current financial year is:

**Table 1 – General Fund Positions in 2022/23**

	Quarter	2022/23 Budget £'m	2022/23 Estimated Outturn Position £'m	(Under)/ Overspend £'m
Somerset County Council	Q3	383.400	408.700	24.300
Mendip District Council	Q2	17.080	17.070	(0.010)
Sedgemoor District Council	Q2	17.600	18.100	0.500
South Somerset District Council	Q2	19.780	19.780	-
Somerset West and Taunton Council	Q2	17.030	16.810	(0.220)
		<b>454.890</b>	<b>476.460</b>	<b>24.570</b>

13.2 Previous years patterns show that the numbers tend to improve slightly by year end with various once off grants from government and when items like the revenue impact of slippage in the capital programme are fully assessed.

13.3 The main causes for the forecast overspend are: -

- Inflation – energy and fuel costs. Suppliers have increased the out of contract gas rates by an average of 180% and out of contract electricity rates by 130% since August 2021.
- National Pay Awards – the District Councils budgeted for pay increases of 2% and the County Council assumed 2.5%. The national pay award has now been agreed at a flat rate of £1,925 which equates to an average cost increase of 5.5%.
- Adult Services – inflationary increases in residential and nursing placements costs.
- Children’s Services – external placements demand and cost.

### 14. 2023/24 Budget Proposals

The budgets of all Somerset authorities were combined to set a 2022/23 base. All Somerset authorities have been working together to continue to refine the detailed requirements. Further inter-Directorate adjustments will need to be made in 2023/24 in order to continue to ensure that budgets are aligned to the new structure.

**14.1** The budget for 2023/24 is balanced with the support of £10m from reserves. The key assumptions underpinning the 2023/24 are set out in **Table 2** and are based upon the latest forecast and information available.

**Table 2 – Summary of key Budget Assumptions**

<b>Budget Area</b>	<b>Current Assumption</b>
Pay	5% for 2023/24 after adjusting for £1,925 (5.6%) for 2022/23, allowing for increments and new employers pensions rate
Inflation	No allowance for general inflation – contractual only
Adults – Demand & Inflation	Based upon latest forecast and trends over the last 3 years
Childrens – Demand & Inflation	Based upon latest forecast and trends over the last 3 years and the capital investment made in purchase our own homes. With unregulated placements budget these are based upon 3 rather the current level of 5 but there is a specific Social Care Volatility Reserve to mitigate against the plans to reduce demand in this area
Council Tax	Tax base increase of 2.45% 2.99% for council tax plus 2% for Adult Social Care
Interest Rates (borrowing and investments)	A blended rate including some internal borrowing with PWLB rates at 4.27% and interest receivable 3.75%
Minimum Revenue Provision	New policy for Somerset Council reflecting the assets life and revised DLUHC guidance
Corporate Contingency	£6m which is 1.25% of the net service budgets
Funding from Government	Figures from provisional finance settlement

**14.2** The budget shown below in **Table 3** outlines how the budget has been built from the five separate authorities 2022/23 budgets into the 2023/24 Budget for Somerset Council.

**Table 3: Summary of changes to 2023/24 Revenue Budget**

<b>All Services</b>	<b>£m</b>	<b>£m</b>
2022/23 Combined Original Base Budget		451.881
Removal of Once off & Inter-Authority Budgets for 2022/23	(18.486)	
In Year Permanent Virements	0.651	
		(17.825)
<b>2022/23 Amended Base Budget</b>		<b>434.046</b>
Additional Funding Requirements:		
Inflation (Contractual and General)	34.818	
Demographic and other Demand Increases	30.117	
Other Funding Requirements	19.976	
Growth	0.000	
Total Additional Funding Requirements		84.910
Pay Changes		15.337
Savings Previously Agreed		0.156
New Savings Proposals		(40.785)
Use of Earmarked Reserves for Service Budget		0.435
Technical Adjustments		(0.743)
<b>2023/24 Proposed Budget</b>		<b>493.357</b>
<b>Change £m</b>		<b>59.311</b>
<b>Change %</b>		<b>13.66%</b>

**14.3** The table above outlines the overall allocations for Additional Finance Requirements of £84.9m (note that £65.2m of this was allocated to Adults and Childrens Services). Additional Finance Requirements include inflationary costs of £34.8m this compared to the SCC requirement last year of £12.8m demonstrates the huge impact inflation is having on services. It also includes demographic and additional demands of £30.1m compared to £13.1m for SCC last year. The strategy agreed in July outlined that there would be no growth in budgets without headroom being found. With a draw on reserves of £10m there has not been any scope to add growth bids. The Additional Financial Requirements are detailed in **Appendix 5**.

**14.4 Table 4** also shows transformation, income, and savings proposals of £40.8m details of which are included in **Appendix 2**.

**Table 4 – Summary of Transformation, Income, and Savings Proposals by type**

	<b>2023.24</b>	<b>2024.25</b>	<b>2025.26</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
Transformational	(2.925)	(1.109)	(0.469)
Fees and Charges	(2.257)	0.128	(0.142)
Other Income	(0.802)	(0.021)	0.026
LGR - Contract	(1.621)	(0.334)	0.000
LGR- Staffing	(3.981)	(4.000)	(4.400)
LGR – Other	(1.294)	(0.285)	(0.215)
Non-LGR -Contract	(4.534)	(0.036)	(0.016)
Non-LGR - Staffing	0.000	0.000	(0.200)
Other General Savings	(23.371)	1.452	(0.790)
<b>Total</b>	<b>(40.785)</b>	<b>(4.203)</b>	<b>(6.206)</b>
<b>Cumulative Total</b>	<b>(40.785)</b>	<b>(44.988)</b>	<b>(51.194)</b>

**14.5** The 2023/24 revenue budget is shown in **Table 5** and is based upon the provisional settlement and therefore members are requested to delegate any final amendments to the Director – Finance and Governance once the final settlement is announced.

**Table 5 – Somerset Council Balanced Budget 2023/24**

<b>2022.23 Combined Budget £m</b>		<b>2023.24  Budget £m</b>
159.684	Adults Services	186.634
105.033	Children Services	123.067
36.820	Communities Services	35.223
83.082	Climate & Place	87.104
23.607	Strategy, Workforce & Localities	20.159
18.920	Resources & Corporate Services	20.474
1.336	Public Health	1.236
9.404	Local Government Reform	0.123
	<b>Non-Service items:</b>	
6.000	Corporate Contingency	6.000
4.692	Accountable Bodies	3.688
47.140	Corporate Areas	66.054
(43.186)	Special Grants	(56.405)
<b>452.532</b>	<b>Net Budget Requirement</b>	<b>493.357</b>
	<b>Financed By</b>	
(6.843)	Revenue Support Grant	(7.932)
0.000	Flexible Use of Capital Receipts	(4.023)
(103.894)	Business Rates	(122.173)
15.022	Business Rates Collection (Surplus) / Deficit	6.102
(6.800)	Council Tax Collection (Surplus) / Deficit	(6.662)
(312.686)	Council Tax @2.99% and ASC Precept @2%	(335.535)
(2.941)	Council Tax Somerset Rivers Authority	(3.013)
(0.215)	Somerset Special Expenses Rates	(0.220)
(1.375)	General Reserves	0.000
(33.015)	Earmarked Reserves	(19.901)
<b>(452.532)</b>	<b>Total Financing</b>	<b>(493.357)</b>

**14.6** Each new Directorate is shown in **Appendix 7** attached to give details of how the 2023/24 budgets have been calculated.

## **15. Funding for Councils**

**15.1** The Government announced a Local Government Finance Policy 2023/24 and 2024/25 setting out funding principles followed by the Provisional Finance Settlement on the 19 December 2022. The impact on various grants is outlined below

**Table 6 – Government Grants Announced as Part of Financial Settlement**

<b>Grant</b>	<b>2023/24 £'m</b>	<b>Change from Previous Year £'m</b>	<b>Forecast 2024/25 £'m</b>	<b>Forecast 2025/26 £'m</b>
<b>Revenue Support Grant</b> - Government Grant Distributed based on need.	7.9	1.1	8.5	33.6
<b>Rural Services Delivery Grant</b> - Government Grant to support the increased costs of delivering services in rural areas.	3.2	-	3.2	3.2
<b>New Homes Bonus</b> - 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.	3.8	-2.5	3.8	-
<b>Services Grant</b> - A once-off grant to support Local Government Services (the funding is ongoing but the mechanism for distribution is once-off)	3.2	-2.9	3.2	-
<b>Social Care Grant</b> - A Government Grant to support the cost pressures in both Adult and Children's social care.	39.2	14.7	45.1	88.6
<b>Specific Grants Included Within Adult Services or Public Health</b>				
<b>Market Sustainability and Improvement Funding</b> - Government grant toward improvement in Adult Social Care	5.8	4.1	8.8	-
<b>Discharge Fund</b> – Government Grant to support hospital discharges	3.3	3.3	-	-
<b>Better Care Fund</b> - Grant from the ICB for the integration of health and social care.	14.7	0.8	14.7	14.7
<b>Improved Better Care Fund</b> - Government Grant to support local authorities to meet adult social care costs, reduce pressures on the NHS and support the social care market	23.4	-	23.4	23.4
<b>Public Health Grant</b> - Ringfenced Government funding to improve health in the local population	21.9	-	21.9	21.9

## 15.2 Business Rates

The review of Business Rates and baseline reset is likely to be delayed further and therefore the MTFP assumes that the review will now occur in 2025/26.

All the Somerset authorities with the exception of Somerset West and Taunton are currently in the Somerset Pool for 2022/23 but the pool will not continue in 2023/24 as the authorities will be combined. The new Unitary Council however will continue to benefit from some of the pooling gain by being a Unitary authority.

Estimates for Business Rates Retention for Somerset Council are shown below in **Table 7**

**Table 7 – Business Rate Retention Estimates**

<b>Business Rates Retention Provisional Funding Estimates</b>	<b>2023/24 Estimates £'m</b>
Share of Business Rates Yield	(85.923)
Rates yield from renewable energy	(1.498)
Tariff to Government	2.745
Levy Payment	0.669
Safety Net Income	-
S31 Grant funding for Reliefs	(38.166)
<b>Net Retained Business Rates Funding</b>	<b>(122.173)</b>

The budget for business rates income is based upon the NDR1 form and in line estimates provided by Pixel and LG Futures.

## 15.3 Fees and Charges

Fees and charges have been reviewed for 2023/24 and in most cases aligned. A Fees and Charges Policy was approved by the Executive on the 19 January 2023. The schedule of proposed Fees and Charges for 2023/24 is attached at **Appendix 4**. These were also considered by Policies and Place Scrutiny Committee on 1 February.

## 15.4 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. 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 2022, the DfE published provisional allocations for the schools' high needs and central services blocks. Final allocations based on pupil numbers from the October 2022 school census have now been made.

The DfE calculate the Schools Block 2023-24 primary units of funding (PUF), and secondary units of funding (SUF) for each local authority using the July 2022 provisional allocation which is based on the October 2021 census. These are final units of funding for 2023-24 and are not updated at any later point. The PUFs and SUFs are used to allocate schools block funding to local authorities in December 2022, using pupil numbers from the October 2022 census. The Executive approved the schools' allocations at their meeting on the 19 January 2023.

High needs funding to support children with Special Education Needs and Disabilities (SEND) is receiving an additional grant in 2023-24 of £3.2m, with an increase in High Needs Block allocation for Somerset of £8.3m. 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 26 pence and by 6 pence for the 2-year-old entitlement. The total 2023-24 Early Years Block allocation has increased by £1.5m.

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 2021/22 was £20.2m and this is expected to increase to £24.1m by the end of 2022/23.

## **15.5 Treasury Management**

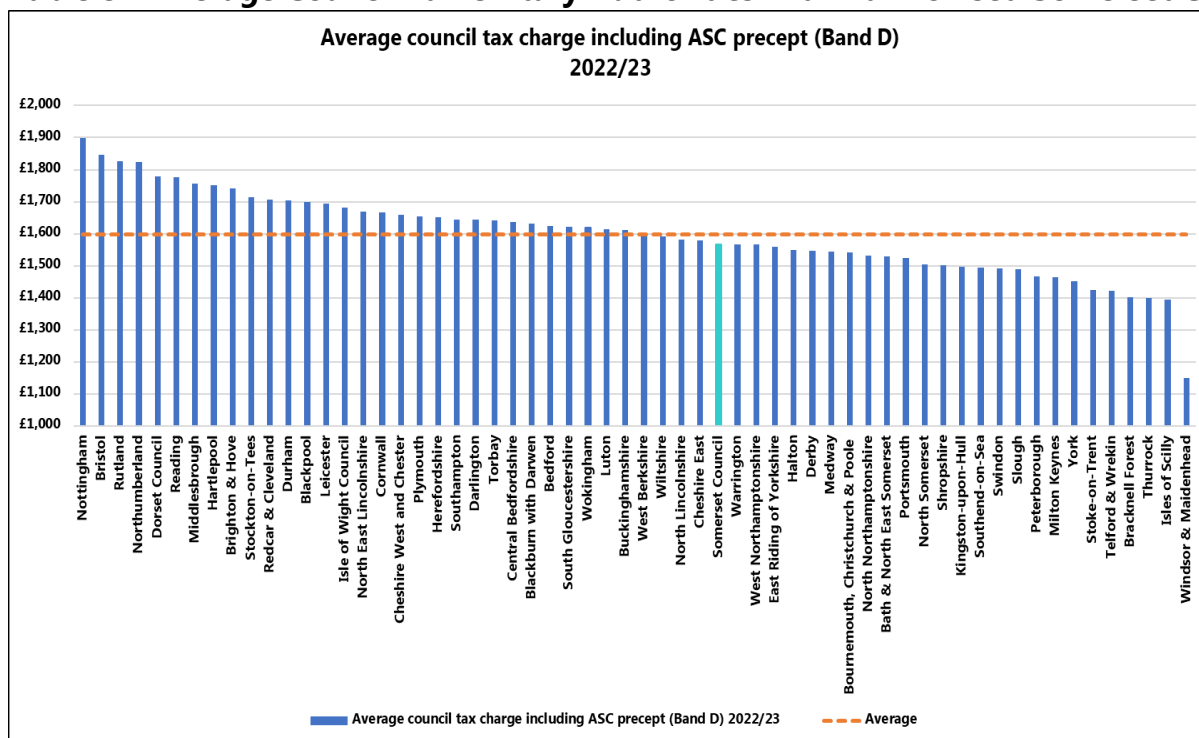
Treasury management is the management of the Council's cash flows, borrowing and treasury investments, and the associated risks. The Council has significant treasury investment portfolios. The income budget from treasury activity for 2023/24 is £13m based on average funds of £350m and 3.75% in interest. The actual income may change depending on the level of internal borrowing utilised but would have a positive impact on borrowing costs.

## **15.6 Council Tax**

The council tax for the new authority and a formal Council Tax Resolution will need to be approved at full Council in February 2023 in a separate report. Somerset Council will become the billing authority for collecting council tax. The report to executive in November outlined the council tax harmonisation for Taunton and the new authority had been agreed by DLUHC with a Band D of £1,568.87 (including the ASC, special rates, and the SRA precepts) as the restated 2022/23 baseline position. Excluding the special rates this was £1,567.80. This was based on a total 2022/23 council tax base of 200,747. The following graph shows how the authority would sit compared to other Unitary Authorities this year:



**Table 8 – Average Council Tax Unitary Authorities with Harmonised Somerset Council**



The charge would be £35 lower than the average Unitary Band D charge of £1,599, and £331 lower than the highest charge.

Referendum limits were outlined in the Governments Local Government Finance Policy Statement 2023/24 and 2024/25 on the 12 December 2022. This outlined that County and Unitary authorities could increase council tax by 3% in 2023/24 and 2024/25 as well as increases in the Adult Social Care Precept of 2% in both 2024/24 and 2024/25. This would enable the new authority to increase overall council tax by 5% in each year. An increase of 4.99% overall would add £78.23 to a Band D property in 2023/24 (equivalent to just over £1.50 per week).

Each 1% increase in Council Tax increases income by £3.2m.

### 15.7 Tax Base

The taxbase for 2023/24 shows an overall increase in tax base is 2.45% for 2023/24 and is estimated to increase by 0.5% in 2024/25 and 2025/26.

The final taxbase including provision of Council Tax support and other approved discounts will be 205,674.09 equivalent Band D' s. The table below shows the taxbase over three years and the increase compared to 2022/23.

**Table 9 - Taxbase 2021/22 to 2023/24**

2021/22	2022/23	2023/24	Increase
199,429.93	200,747.16	205,674.09	2.45%

## 15.8 Council Tax Proposals

The Executive is requested to recommend increases of 2.99% for 2023/24 for Council tax and 2% for Adult Social Care which will remain within those referendum limits. This will increase basic Council Tax (including Somerset Rivers Authority) to £1,449.58 an increase of £46.88 per annum (90p per week) and the Adult Social care Precept to £196.46 an increase of £31.36 per annum (60p per week). The overall council tax proposed is £1,646.04 an increase of £78.24 per annum (£1.50 per week). The Adult Social Care precept is ringfenced to support Adult Social Care.

The Somerset Rivers Authority's (SRA) precept (included within general council tax above) will be £3.01m in 2023/24.

The new Council will also inherit Special Expense Rates from Mendip District Council and South Somerset District Council. These are specific charges to some Parishes for the following:

- Closed Churchyards - When a church decides a churchyard is closed it can transfer the liability for costs to the Unitary or District Council. Some parishes have chosen this option while others maintain the closed churchyards and pay the costs themselves. The result is some taxpayers are paying for the cost of maintenance through their own parish Council tax charge, and additionally for other parishes through the Council tax paid to Somerset. For the parishes where the Council maintains the closed churchyard Mendip and South Somerset had recovered part of the maintenance cost by charging a 'special expenses rate' to the residents of that parish.
- In a similar way, Mendip maintained play areas in some towns and villages while others were maintained and paid for by the residents of the parish.

These special rates have been retained for Somerset Council in 2023/24. Details of individual parish charges under the special expenses rate can be found within **Appendix 6**. The total income from Special Expense Rates is expected to be £0.220m.

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**

	<b>Band A</b>	<b>Band B</b>	<b>Band C</b>	<b>Band D</b>	<b>Band E</b>	<b>Band F</b>	<b>Band G</b>	<b>Band H</b>
	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
<b>General</b>	956.62	1,116.06	1,275.49	1,434.93	1,753.80	2,072.68	2,391.55	2,869.86
<b>ASC Precept</b>	130.97	152.80	174.63	196.46	240.12	283.78	327.43	392.92
<b>SRA</b>	9.77	11.39	13.02	14.65	17.91	21.16	24.42	29.30
<b>Total</b>	<b>1,097.36</b>	<b>1,280.25</b>	<b>1,463.14</b>	<b>1,646.04</b>	<b>2,011.83</b>	<b>2,377.62</b>	<b>2,743.40</b>	<b>3,292.08</b>

Note this excludes Special Expense Rates

As the billing authority Somerset Council will outline the overall council tax from all preceptors in Somerset in a statutory report to full Council in February 2023.

The MTFP currently outlines overall council tax of 4.99% in 2024/25 and 4.99% in 2025/26

Please note that all the increases above have been compared to the Alternative Notional Amount (ANA) that has been agreed as part of council tax harmonisation with DLUHC.

## **16. The Capital Strategy and Programme**

- 16.1** The Government requires all local authorities to produce a Capital Strategy and a Non-Treasury Investment Strategy for authorities that own commercial properties and non-treasury lending. These are the overarching documents 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 Capital Strategy also includes the arrangements for capital investment in the Housing Revenue Account. The strategies focus on core principles that underpin the council's capital programme, investment properties, financing and the risks that will impact on the delivery of the programme; and the governance framework required for decision making and delivery. The Capital Strategy is attached at **Appendix 8** and the Non-Treasury Investment Strategy is attached at **Appendix 12**.
- 16.2** 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.
- 16.3** 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
- 16.4** The update included a clear statement that local authorities must not borrow primarily for financial return. Somerset Council will hold 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.
- 16.5** The Capital Strategy, Treasury Management Strategy, a Non-Treasury Strategy (this will cover capital loans and investment properties), an MRP Policy, and a Flexible

Capital Receipts Policy was presented to the Audit Committee on the 2 February 2023 and will be considered by full Council in February 2023.

## 17. The Capital Programme

**17.1** The capital programmes of all Somerset Authorities have now been summarised as at quarter two. The assumption is that for budgeting purposes the profiling of spend is accurate and therefore only profiled spend from 2023/24 will be included in the new Authority's programme. This will mean that the authority will need to review capital spend for 2022/23 once the outturn position is known and revise the programme for 2023/24 for projects that have slippage into 2023/24. Therefore, the inherited capital programme for Somerset is summarised as follows:

**Table 11 – Capital Programmes of all Somerset authorities as at Quarter 2 for 2023/24 to 2025/26**

Authority	2023/24 £'m	2024/25 £'m	2025/26 £'m	Total All Years £'m
Somerset County Council	65.484	19.796	6.279	91.559
Mendip District Council	12.798	6.609	2.970	22.377
Sedgemoor District Council	42.400	0.700	0.700	43.800
Somerset West and Taunton Council	37.190	5.451	0.594	43.235
South Somerset District Council	38.250	16.033	1.022	55.305
<b>Total</b>	<b>196.122</b>	<b>48.589</b>	<b>11.565</b>	<b>256.276</b>

**Table 12- Q2 Capital Programme by Somerset Council Directorates 2023/24 to 2025/26**

Directorate	2023/24 £' m	2024/25 £' m	2025/26 £' m	Total All Years £' m
Children's Services	26.405	11.861	6.373	<b>44.639</b>
Adults Services	2.235	0.337	0.275	<b>2.847</b>
Community Services	22.345	14.118	2.514	<b>38.977</b>
Climate and Place	133.815	16.903	1.987	<b>152.705</b>
Resources and Corporate Services	11.322	5.370	0.416	<b>17.108</b>

<b>Total Programme</b>	<b>196.122</b>	<b>48.589</b>	<b>11.565</b>	<b>256.276</b>
------------------------	----------------	---------------	---------------	----------------

**17.2** The overall funding for the Capital Programme is as follows:

**Table 13 – Funding for the Combined Capital Programme as at Q2 2023/24 to 2025/26**

	<b>Total £m</b>
<b>Financed By:</b>	
Grants	146.939
Capital Receipts	12.190
Reserves	0.345
S106 or CiL Contributions	19.612
Borrowing	77.190
<b>Total</b>	<b>256.276</b>

**17.3** A review of the overall programme has been carried out and £7m in expected underspends for Somerset County Council were removed as part of budget monitoring.

**17.4** The following schemes have been paused (this means that the funding for those schemes has been pushed back into 2024/25 for further review in 2023/24):

- Walton and Ashcott Bypass
- Bridgwater Library improvements
- Wincanton Town Centre improvements
- Yeovil Crematorium Chapel upgrade
- Homes for Children with Disabilities Phase 2

### **17.5 Borrowing**

The opening borrowing position (CFR) for the General Fund for the new Council is estimated to be £945.2m next year rising to just over £1,000m by the end of 2023/24 for the legacy programme and the new approved bids. The overall estimate for interest payments from the General fund is £32.1m.

#### **Third Party Contributions**

Only Third-Party contributions received or formally agreed are used to fund the programme. As expected, contributions are received in the future this will release the need for that level of borrowing.

#### **Capital Receipts**

The authority has some flexibility in the use of capital receipts and an Efficiency Strategy (now the Capital Receipts Flexibility Strategy) was approved as part of the 2022/23 budget pending clarity around the criteria from Central Government. This has now been received

and the criteria outlines that detailed information around projects must be agreed by full Council, DLUHC must also be informed before the use is acted upon, and enhanced redundancy payments cannot be included (statutory payments and pension strain are still permitted). It is key that all means of financing remain as flexible as possible to support the new authority's long-term viability and sustainability. Therefore, it is recommended that the remaining budget for Local Government Reorganisation of £11.9m in 2022/23 and an estimated £4.0m for 2023/24 will use this flexibility and will enable the reserves earmarked for this to be used for other means to support the new Council. The Audit Committee reviewed the strategy attached at **Appendix 9** at their meeting on the 2 February and the Executive is requested to approve this for consideration at full Council on the 22 February 2023. replaced by borrowing.

Where capital receipts are utilised, they will be applied to assets that have a shorter life. This will support the revenue budget by minimising annual MRP payments where this is spread over the life of assets funded by borrowing.

The Council must review its Investment Properties portfolio before deciding to borrow. Any disposals would create a capital receipt.

### **Revenue**

Legacy Revenue Contributions to Capital Outlay (RCCO) of £0.711m have now been removed and replaced by borrowing to preserve levels of reserves for the new Council.

### **CIL (Community Infrastructure Levy)/S106**

The contributions from planning developments through CIL and S106 is expected to be £19.612m for the legacy programme and £0.029m for new schemes.

## **18. Capital Programme - New bids**

The Medium-Term Financial Strategy approved in July 2022 agreed the criteria for funding of new Capital schemes for 2023/24 as follows:

- Schemes that are Fully Externally Funded.
- Save to invest schemes which either make savings or income returns higher than borrowing costs:
- Where there is a legal requirement such as Health and Safety Needs or Operational Need

**Table 14 – New Capital Schemes by Criteria**

	<b>2023/24</b>	<b>2024/25</b>	<b>2025/26</b>	<b>Total All Years</b>
<b>Criteria</b>	<b>£' m</b>	<b>£' m</b>	<b>£' m</b>	<b>£' m</b>
Fully Externally Funded	38.455	1.967	1.967	<b>42.389</b>
Health and Safety/Legal Requirement	14.809	7.996	0.187	<b>22.992</b>

Operational Need	9.266	0.820	0.500	<b>10.586</b>
<b>Total</b>	<b>62.530</b>	<b>10.783</b>	<b>2.654</b>	<b>75.967</b>

Funding between borrowing and external funding for the new schemes is outlined below:

**Table 15 – Funding of New Capital Schemes**

<b>Criteria</b>	<b>External Sources Grants/CIL/ Third Party Contributions £' m</b>	<b>Borrowing £' m</b>	<b>Total Funding £' m</b>
Fully Externally Funded	42.389		42.389
Health and Safety/Legal Requirement	3.700	19.292	22.992
Operational Need		10.586	10.586
<b>Total</b>	<b>46.089</b>	<b>29.878</b>	<b>75.967</b>

New schemes are outlined in **Appendix 10** and the overall programme totalling £332.243m is included in **Appendix 11**.

### **18.1 Minimum Revenue Provision (MRP)**

Full Council must approve the policy for MRP each year with the Audit Committee providing an overview. Given that Somerset Council will be a new Council the policies of all five authorities have been reviewed along with the likely statutory changes that will be required in 2024/25. The MRP Policy in effect sets out how a local authority will repay its borrowing from funding its capital programme. The Policy for 2023/24 has been based on a blend of approaches from both the District and County authorities. The Director of Finance and Governance may wish to review this in 2023/24 and simplify once the outturn positions of all capital programmes are known and the starting Capital Financing Requirement (CFR) for Somerset Council is known. Audit Committee reviewed the Provision attached at **Appendix 13** at their meeting on the 2 February and the Executive is recommended to approve it to Council on the 22 February 2023.

### **18.2 Treasury Management Strategy**

The Treasury Management Strategy is included within this agenda to consider and recommend to Full Council on the 22 February 2023. The Audit Committee considered the strategy at their meeting on the 2 February 2023. The Treasury Management Strategy outlines how the Council will manage its cash flows, borrowing and treasury investments, and the associated risks. The Council has significant debt and treasury investment portfolios and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of financial risk are therefore central to the Council's prudent financial management.

### 18.3 Non-Treasury Management Strategy

The Non-Treasury Management Strategy Attached at **Appendix 12** outlines how the authority will manage its Investment Properties and Service loans. Local authorities can no longer invest in properties purely for financial yield. However, authorities are not expected to divest of properties for yield that they hold but they must review these before borrowing to finance capital expenditure. The strategy was reviewed by Audit Committee on the 2 February and the Executive is requested to recommend it to Full Council

### 19.MTFP Forecast for Future Years

**19.1** In assisting with building a long-term financial strategy, estimates for future years have been forecast. These will need to be reviewed but this will assist with building a longer-term plan for the ongoing sustainability of Somerset Council. The table below shows the budget for 2023/24 plus two further years for financial planning purposes.

**Table 16 – Indicative Budgets for Future Years**

Directorate	Combined Budget 2022/23 £'m	Proposed Budget 2023/24 £'m	Indicative Budget 2024/25 £'m	Indicative Budget 2025/26 £'m
Adult Services	159.684	186.634	222.154	260.195
Children's Services	105.033	123.067	129.377	134.163
Communities Services	36.820	35.223	34.558	34.531
Climate and Place	83.082	87.104	92.384	94.660
Strategy Workforce and Localities	23.607	20.159	19.859	19.859
Resources & Corporate Services	18.920	20.474	21.882	23.234
Public Health	1.336	1.236	1.236	1.236
Local Government Reorganisation	9.404	0.123	(7.900)	(12.300)
Corporate Contingency	6.000	6.000	6.000	6.000
Accountable Bodies	4.692	3.688	3.639	3.658
Corporate Costs	47.140	66.054	81.587	96.831
Special Grants	(43.186)	(56.405)	(65.157)	(92.872)
<b>Net Budget Requirement</b>	<b>452.532</b>	<b>493.357</b>	<b>539.618</b>	<b>569.197</b>
Financing	452.532	493.357	498.056	523.682
<b>Cumulative Gap</b>	-	-	<b>41.562</b>	<b>45.515</b>
<b>Annual Gap</b>	-	-	<b>41.562</b>	<b>3.953</b>



- 19.2** It is clear from the MTFP forecast that 2024/25 will also be a very challenging financial year with the level of saving required being equivalent to a reduction in the net budget of 8%.
- 19.3** Given this position the 2024/25 budget process needs to start early and will be more of a rolling budget approach with any new savings being implemented as early as possible rather than the traditional approach of waiting for the February Budget Setting process.
- 19.4** The future years are less certain with Governments reforms for local government finance and social care funding due to take effect, but these have already been postponed on numerous occasions.

## 20. Reserves & Balances

- 20.1** The budget proposals include the planned use of Earmarked Reserves as detailed in the table below including £10m for budget smoothing.

**Table 17 – Planned use of Reserves in 2023/24**

<b>Service</b>	<b>Brief Summary</b>	<b>Amount £m</b>
Accountable Bodies	Use of CDS reserve	0.135
Highways and Transport Commissioning	Approved in 2022/23 - New Highways Contract Procurement (2223-28) to be funded from Budget Equalisation reserve	0.200
Highways	Approved in 2022/23 - Highway vegetation (2223-02) to be funded from Budget Equalisation Reserve	0.200
Highways	Approved in 2022/23 - Ash die back multi-year once-off service pressure funded from Budget Equalisation Reserve	0.250
Children's Commissioning	Approved in 2022/23 - Use of reserve Social Care Transformation reserve for Family Safeguarding	1.013
Adults/Childrens	Contribution from public health reserve for relevant activities within Childrens and Adults	1.700
Community Development	Initial funding for LCN's whilst other resources are identified and repurposed	0.300
Business Rates	Business rates deficit for the year. Out of which £4.912m relates to Covid Additional Relief Fund (CARF) which will be compensated for via Section 31 Grant	6.102
General	Use of reserves to allow for budget smoothing	10.000
<b>Total</b>		<b>19.901</b>

**20.2** There is a legal requirement for the council to consider the overall level of reserves held as part of the budget setting process. There has been some work carried out based upon the information provided by the Section 151 Officers who have estimated that the overall level of reserves is likely to be just over £112.5m by 31 March 2025, after taking into account any under or overspending in the current year and future commitments.

**Table 18 – Reserves Summary**

	<b>Reserves @ 31 March 2025 £m</b>
General	47.460
Earmarked	65.125
<b>Total</b>	<b>112.585</b>

**20.3** At this stage it is a prudent assumption that the level of General Reserves be maintained in the range between £30m to £50m. The estimated level of £47.460m is therefore at the higher end of this range but is appropriate given the financial risks facing the council and the potential for some of the savings proposals to be delayed.

**20.4** The overall level of Earmarked Reserves are relatively low for a council of the size of Somerset and very careful management of them will be required. The individual reserves from each Council will need to be brought together and reviewed, including any previous commitments from the predecessor councils. This can be done once the Statement of Accounts for 2022/23, for the 5 councils have been produced and the updated position will be reported to the Executive during the year.

## **21. Housing Revenue Account**

**21.1** The draft HRA Business Plan (including the rent Charges Policy) was approved by the Executive in December 2022. The HRA rent setting report and Revenue and Capital budget will be considered by the Executive committee in February followed by full Council.

## 22.Risks

**22.1** The table below sets out the main risks associated with the 2023/24 budget, who the risk owner is and how the risk will be managed.

**Table 19 – Budget Risk**

Risk	Rag Rating (R/A/G)	Risk Owner	Comments, Management and Mitigations
Overspend on budget	<b>R</b>	Corporate Leadership Team (CLT)	The current year's budget has been impacted by high levels of inflation, the longer-term impacts of Covid, demand pressures and employment market. The 2023/24 has been adjusted for this and the latest forecasts and includes a number of savings to produce a balanced budget. There remains a high risk of potential overspend given the impact of bringing 5 councils together and the current economic climate. Monitoring of the budget during year will be a key mitigation.
Social Care - Market Sustainability	<b>R</b>	Executive Director Adults	Close working with our health partners to mitigate the risk as a system to market failure. National lobbying through Association of Directors of Adult Social Care (ADASS) Local Government Association (LGA) and the Care Provider Association.
Levels of Borrowing are unsustainable	<b>R</b>	Corporate Leadership Team (CLT)	The analysis of the Capital Financing Requirement (CFR) has identified that level of borrowing is very high. The Financial strategy will be to avoid/ reduce the need for future borrowing. A review of the investment portfolio will be undertaken during the year.

Risk	Rag Rating (R/A/G)	Risk Owner	Comments, Management and Mitigations
Level of Reserves reduces to low levels	<b>A</b>	Executive Director of Resources & Corporate Services	The level of General Reserves are estimated to be £47.460m which is towards the top of the risk based range of £30m to £50m. Any overspend or non-delivery of savings will impact upon the level of reserves. There will be a full review of reserves once the 2022/23 statement of accounts have been produced.
Increase in interest rates	<b>A</b>	Executive Director of Resources & Corporate Services	The differential between interest earned and the costs of borrowing is approximately £0.45m per 1%. We will continue to monitor rates and adapt our strategy with advice from Arlingclose
Delivery of the LGR Business Case – Staff Savings of £3.9m in 2023/24 (£2.9m from Tiers 1 to 3 and £1m from the £9.4m of the staff reductions)	<b>A</b>	Corporate Leadership Team (CLT)	Appointment of Tier 2 has been completed and subject to formal approval. Tier 3 process scheduled for March. Will need to work at pace in 2023/24 to deliver. Delays will impact on reserves and contingency.
Savings in Adults - Review by Newton Europe – Saving of £5m in 2023/24 and a further £5m in 2024/25	<b>A</b>	Executive Director Adults	This is the estimate of savings expected. This will need to be reviewed and consulted upon once completed. The Council will need to find other savings to replace this if it is not achieved.
Savings in Childrens - £1m from diagnostic review	<b>A</b>	Executive Director Childrens Services	This the estimate of savings expected. This will need to be reviewed and consulted upon once completed. The Council will need to find other savings to replace this if it is not achieved.

Risk	Rag Rating (R/A/G)	Risk Owner	Comments, Management and Mitigations
National pay award will be higher than estimated	<b>A</b>	Executive Director of Resources & Corporate Services	The pay award for 2022/23 has now been agreed at a flat rate of £1,925. This has been built into budget proposals together with 5% increase for 2023/24. Robust establishment control and the corporate contingency should help to mitigate this risk.
Unitary preparations and Transitional Costs	<b>A</b>	Corporate Leadership Team (CLT)	Further controls have been recommended to manage costs during the transition period. Maximum flexibility is being retained to fund transitional costs and maintain the sustainability of the new authority.
Economic downturn impacts on income	<b>A</b>	Relevant Director	This will continue to be reviewed as part of budget monitoring
Unforeseen events outside Somerset Councils control	<b>A</b>	Relevant Director	Events such as extreme weather, increases in fuel and utility costs (currently a major issue) and changes in recycling material values are outside our direct control. These will need to be monitored and the MTFP updated as necessary.
Changes to Government Policy that affects future funding (Social Care)	<b>G</b>	Strategic Leadership Team	Further funding for social care was made in the Provisional Settlement but funding still remains lower than demand and inflationary pressures within the service. Fair Cost of funding has now been delayed until 2025 and with the funding being given to local authorities for current pressures it remains to be seen how this will be funded in the longer term

Risk	Rag Rating (R/A/G)	Risk Owner	Comments, Management and Mitigations
The Government announces further cuts in local government funding	<b>G</b>	Strategic Leadership Team	The Provisional Settlement has now been fed into the MTFP. It is unlikely that these will change when the final figures are released in February. Indication from the Policy Statement also outlined some principles for 2024/25. The bigger area of risk is around social care funding which is outlined below.

### **23. Chief Finance Officer (CFO) Report and Advice on the Robustness of the Budget and Adequacy of Reserves & Balances**

#### **Scope**

**23.1** Under the terms of Section 25 of the Local Government Act 2003 the s.151 Officer is required to report to the Council on two specific matters: -

- **the robustness of the estimates** included in the Budget, and
- **the adequacy of the reserves** for which the Budget provides.

**23.2** Section 26 of the same Act places an onus on the Chief Finance Officer to ensure the Council has established a minimum level of reserves to be retained to cover any unforeseen demands that could not be reasonably defined within finalising the proposed budget.

**23.3** This report has been prepared by the CFO (Section 151 Officer) to fulfil this duty and gives the required advice relating to the 2023/24 financial year and Medium-Term Financial Strategy. It includes consideration of the budget proposals as a whole and the financial risks facing the Council. It identifies the Council's approach to budget risk management.

**23.4** The Council then has a statutory duty to have regard to this report from the Section 151 Officer when making its decision about the proposed Budget and Precept.

#### **Context**

**23.5** This is the first budget for new Somerset Council and therefore brings together the budgets of the 5 predecessor authorities. Therefore, in making my assessment I have heavily relied upon the information provided by the Section 151 Officers in each of the Councils.

## Robustness of the estimate

**23.6** There is a high-level assessment of the Council's anticipated potential financial risks in 2023/24 and the subsequent period up to 2025/26 as far as that is possible, including:

- the realism of the Revenue Budget 2023/24 estimates for: -
  - price increases and general levels of inflation
  - fees / charges income
  - changes to specific grants and / or changes to their eligibility requirements
  - provision for demand and supply chain pressures within services
  - funding for LGR implementation costs
  - transitional costs – likely impacts of aggregation of services across the 5 councils
  - the financing costs arising from the Capital Programme
  - the impact of current and forecast interest rates on the expected returns from investment of cash balances
  - the probability of achieving the savings targets during the MTFS period
  - the likelihood of being able to deliver further necessary savings without dangerous levels of depletion of Reserves / Balances
  
- the realism of the Capital Programme estimates in light of: -
  - the potential for slippage and underspending of the Capital Programme
  - the risks of overspends due to inflation and / or contractor distress
  - the possible non-achievement of capital receipts targets and its implications for the funding of the Capital Plan
  
- financial management arrangements including: -
  - the history over recent years of financial management performance across the predecessor councils including delivery / non-delivery of savings programme
  - the impact of the budget savings required on service managers while establishing a combined service from five authorities
  - the impact of budget savings in finance and related functions, whilst at the same time retaining a capability to help support the necessary support for other services delivery of saving targets across the Council as a whole
  - the need to continue to be able to respond to Covid or other similar scenarios whilst retaining existing services and implementing new arrangements as part of the new unitary Somerset Council
  
- potential losses, including: -
  - claims against the Council
  - bad debts or failure to collect income
  - major emergencies or disasters
  - contingent or other potential future liabilities

- 23.7** It is inevitable that the first cut of a new Council Budget will be imperfect, and that better information will be ascertained once the new Council is in existence. Estimates used in the Budget for 2023/24 are therefore based on pragmatic assumptions, taking into account: -
- future pay and price increases across services
  - anticipated levels of both specific and general grants
  - the impact of the economic situation on future interest rates, the Council tax base, District Council Collection Fund surpluses and deficits, and the future levels of Business Rates collected in Somerset
  - policies and priorities as expressed in the Council Plan and associated Service Plans
  - best estimates of continuing funding streams for services
  - commitments in terms of demand for services and demographic changes
- 23.8** Budget monitoring will continue to be carried out on a regular basis and reported, alongside other key performance information, to Scrutiny and the Executive during the year. Given the newness of the Council it is to be expected that there may be more significant variations in the budget position so such budget monitoring will be of immense importance.

### **Adequacy of Reserves and Balances**

- 23.9** The projected level of reserves and balances based upon the 5 predecessors councils' commitments and forecast outturn is that the total level of uncommitted reserves (General + Earmarked) is £112.6m as at the end of March 2025 which represents 22.8% of the 2023/24 net budget.
- 23.10** Somerset Council will inherit a good level of General Reserves at £47.5m which is 9.6% of the 2023/24 net budget. The range for level of General Reserves has been set as being between a minimum of £30m and a maximum of £50m.
- 23.11** The projected level of Earmarked Reserves at the end of March 2025 are forecast to be £65.1m after taking into account the 2022/23 forecast outturns, previous commitments and use in supporting the 2023/24 budget. This is at the lower end of the spectrum for a unitary council of its size and with the risks it faces.
- 23.12** The final reserves position will be known once the 2022/23 statement of accounts for the 5 councils have been finalised and a full review of the reserves will be undertaken following this.
- 23.13** A good level of Reserves and Balances will need to be maintained as it remains possible that further shocks will emerge alongside the existing financial challenges and the work towards implementing the new council and its savings programme.
- 23.14** The s151 officer is content that there are adequate levels of Reserves and Balances for the 2023/24 Budget and for the early stages of the MTFs beyond. However, this position may be significantly eroded should the Council not be able to deliver the



savings built into the 2023/24 budget proposals. The position will need to be reviewed constantly throughout 2023/24 and earlier corrective action may be required should any forecast indicate that Reserves and Balances could become near-exhausted before any sustainable financial plan is in place.

**23.15** The government have confirmed that they have extended the dedicated schools grant (DSG) statutory override for a further 3 years up to 31 March 2026. DfE guidance states that "...DSG is a ring-fenced specific grant separate from the general funding of local authorities, and that any deficit an authority may have on its DSG account is expected to be carried forward to the next year's schools budget and does not require to be covered by the authority's general reserves." Therefore, I have not taken the size of this deficit into account for the purposes of this Section 25 report.

**23.16** This means that the DSG deficits is separated from the wider reserves. The council is in the first phase of the Delivering Better Value in SEND interventions programme to develop plans to ensure the in-year position is balanced and then will enable progression into the Safety Value Programme which will enable a process for the removal of the historic deficit.

**23.17** Reserves and Balances can only be used once. They are therefore best suited to bridging any financial deficit pending a recurrent savings plan or, even more desirable, for investing in one-off initiatives that deliver policy value and / or provide returns on investments e.g., savings.

### **Section 25 opinion of the Chief Finance Officer (Section 151 Officer)**

**23.18** While there are councils that have issues or are facing section 114 notices, that is not the case in Somerset at this stage. That is because the Council has sufficient Reserves and Balances for 2023/24. It cannot be ruled out that the Somerset Council may well find itself in a situation where it has not been possible to develop a comprehensive savings programme over the next 3 years that largely eliminates any in-year deficit. The Council, its Members and officers therefore should carefully consider this Section 25 opinion and guard against complacency and the risk of a section 114 notice in the foreseeable future.

### **Conclusions of the Section 151 Officer**

**23.19** Based on the risks and issues raised in this report, in my opinion as Section 151 Officer is that:

- a) the **budget proposals are robust** for the calculation of the budget within the confines of the many risks noted throughout this report
- b) the **proposed level of Council reserves are adequate** to support the budget for 2023/24 having regard to an assessment of current financial and other risks set out extensively in this report and assuming these risks do not increase

beyond those that can be contained by the Council. Particular attention is drawn to the following specific conditions and risks:

- (i) the recommended level of general balances is kept in the range of £30m to £50m and that for 2023/24 these are forecast to be £47.5m, which is at the higher end of range and reflects the higher level of risk with the 2023/24 being the first budget for Somerset Council and the current economic conditions.
- (ii) the budget includes £6m corporate contingency to reflect the considerable risks the Council is facing.
- (iii) the forecast level of Earmarked Reserves at the end of March 2025 is £65.1m which is at the lower end of the spectrum for a unitary council of this size.

## **Report Sign-Off**

		Date completed
Legal Implications	Honor Clarke	01/02/2023
Governance	Scott Wooldridge	01/02/2023
Corporate Finance	Jason Vaughan	30/01/2023
Customers, Digital and Workforce	Chris Squire	31/01/2023
Property	Paula Hewitt / Oliver Woodhams	31/01/2023
Procurement	Claire Griffiths	01/02/2023
Senior Manager	Jason Vaughan	30/01/2023
Commissioning Development	Sunita Mills / Ryszard Rusinek	31/01/2023
Executive Member	Cllr Liz Leyshon - Deputy Leader of the Council and Lead Member on Finance and Human Resources	30/01/2023
<b><u>Sign-off Key Decision / Consulted on Non-Key Decision</u></b>		
Local Member	All	
Opposition Spokesperson	Opposition Spokesperson - Finance and Human Resources - Cllr Mandy Chilcott	Sent report 30/01/2023
Scrutiny Chair	Scrutiny for Policies and Place Committee - Cllr Gwil Wren	Sent report 30/01/2023