

2023/24 Budget Updated & Medium-Term Financial Plan (MTFP)

APPENDIX A

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Local Member(s) and Division: All

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Appendices Attached to this Report

Appendix 1 – Transformation, Income, and Savings Proposals

Appendix 2 – Fees and Charges Policy 2023/24

Appendix 4 – Amalgamated Somerset Capital Programme

Appendix 5 – New Capital Bids for 2023/24 Start

Appendix 6 – Details of New Capital Bids for 2023/24

1 Summary / Background

- 1.1** This report outlines the details of the proposals for the 2023/24 Revenue Budget and Capital Programme and will be the basis of the budget consultation process with Scrutiny. The Executive will make its final budget proposals at its meeting on 13 February which will be considered by Council on 22 February.
- 1.2** The financial challenge facing all councils is well documented and Somerset Council is no different with costs increasing more than the income that is received. Several councils have indicated that unless social care is funded properly, they will run out of money. The provisional finance settlement went some way to recognising this, but the medium-term financial challenge cannot be underestimated.
- 1.3** 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 how a balanced budget can be achieved but it requires 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.
- 1.4** 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.

1.5 The difficult financial circumstances facing all councils in setting budgets for the coming year include: -

- Inflation – Increased to double digits, its highest rate in over 40 years and significant changes since 2022/23 Budgets were set and assumptions on pay, fuel, and energy costs were made
- Interest rates – End of historic low levels impacting upon borrowing costs given the new council's inherited short-term borrowing position
- Longer term impact of Covid - Seen in care services, for example, more cases of complex childcare which means higher cost
- National funding for councils – Major funding reviews were expected for 2023/24 which have now been deferred until 2025/26 including social care reforms. This leaves significant uncertainty over future funding and lots of once off funding from the government

1.6 In addition to the difficult challenges facing all councils there are some unique circumstances as we move to the new Somerset Council which include:

- New Unitary Council – Replacing the existing two-tier system and five councils with Somerset Council
- Political Leadership – Election before Vesting Day. 110 members and change in political control following the elections in May
- Inherited base budget gap – The 2022/23 budgets of some of the councils were balanced including using reserves to fund on-going expenditure
- Management Structure - New Chief Executive started October 2022 and no Management Structure in Place with Tier 2 looking to be appointed in January and Tier 3 in March 2023
- Target Operating Model – Draft being developed and to Council in February 2023 for approval
- Corporate Plan – Being developed and will be presented to Council in February 2023 for approval
- Asset Management Strategy - Being developed and to Council in February 2023 for approval
- Investments Properties - Significant investment property portfolio but with reduced returns following interest rate increases

- Reserves – Relatively low level of reserves and the 2022/23 budget monitoring position will further reduce them
- Council Tax – Below average charge for unitary council (Somerset Council £1,569 v 2022/23 Average £1,599)

1.7 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.

1.8 Recognising the scale of the challenge and the very tight timescales the budget proposals have been developed through the following meetings and groups:

- Medium Term Financial Strategy & Plan – Approved by the Executive in July with an update on progress in November
- Budget Working Group (including Lead Member for Finance & Associate, Chair & Vice Chair of Audit, District Leaders, Executive Lead Members and representative of Sedgemoor members)
 - Meeting on 9 occasions from August through to December
 - Reviewing the whole range of budget areas including the Financial Strategy, Adults Services, Savings proposals, Additional Financial Requirements, Revenue & Benefits policies, Council Tax, Capital Programme and Investments for yield
- Executive, Chief Executives, & S151 meetings (The full Executive plus the 5 Chief Executives and 5 Section 151 Officers from all Somerset Councils)
 - 4 full days focused upon the budget
 - Developing the HRA and General fund budget proposals
- Networks
 - Using and engaging in the various member and officer networks such as the County Council Network (CNN), Local Government Association (LGA), Society of County Treasurers (SCT), Association of Directors of Environment, Economy, Planning & Transport (ADEPT), Association of Directors of Adult Social Services (ADASS) and Association of Directors of Childrens Services (ADCS)
- LGR Board – 5 Chief Executives, LGR Programme Director, Section 151 Officer, and Monitoring Officer
 - Weekly meetings from August to December
 - Finance Workstream - Section 151 Officers and Deputies from all Somerset councils

1.9 The report provides the full details of the budget proposals and in summary they include: -

- Budget Savings – protection of frontline services with a focus on delivering the LGR Business Case and other efficiencies
- Council Tax – Increase in line with Government policy of 2.99 % plus 2% for the Adult Social Care Precept
- Inflation – Budgeting for the impacts of inflation on energy, fuel and pay
- Significant additional funding for both Adults and Childrens Services to reflect the significant cost increases in those services
- Capital Programme – A combined capital programme of nearly £0.5bn investment
- Local Community Networks (LCNs) – New funding of £300,000 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 the current year
- Flexible use of capital Receipts – Using up to £15m of capital receipts for the LGR implement costs
- Reserves – use of £10m of Earmarked Reserves to smooth the delivery of savings and set the level of General Reserves to be the range of £30m to £50m
- Corporate contingency – Having a corporate contingency of £6m which reflects the risks around the budgets estimates and delivery of savings

1.10 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 under £40m 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.

1.11 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 have been produced and the updated position will be reported to the Executive during the year.

1.12 The 2023/24 Revenue and Capital Budget Proposals for both General Fund and the Housing Revenue Account will be subject to Scrutiny at their meeting on 1 February with their comments being considered by the Executive on 13 February and the final proposals being considered by Council at its meeting on 22 February.

2 Recommendations

2.1 That the Executive

1. Approves the draft 2023/24 Revenue Budget and Capital Scheme proposals as the basis for consulting Scrutiny Committee in February 2023.
2. Receives the final budget proposals at its February meeting including the comments and feedback from Scrutiny.
3. Approves the Fees and Charges Policy attached at Appendix 2 and notes that the individual fees and charges proposals will be reviewed by Scrutiny Committee and presented to the Executive in February 2023.
4. Approves the schools block funding as outlined in Appendix 4 (to follow).

3 Reasons for recommendations

- 3.1 To set out the draft proposals from the Executive for Scrutiny prior to the statutory deadline for the 2023/24 budget.

4 Other options considered

- 4.1 The administration has considered a number of options as part of their consideration of the budget.

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. Where a detailed consultation is required, this will be arranged as the agreed proposals for change are developed and implemented by the relevant directors. There is a Scrutiny Workshop on 1 February followed by Place Scrutiny to review the budget proposals.

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 risk will be reviewed in February in the light of the updated MTFP and final budget.

8 Legal and HR Implications

- 8.1** There a number of saving proposals that have HR implications and the council has well established processes and policies for dealing with these. The legal implications will be assessed as part of the overall budget process that will conclude in February 2023.

9 Other Implications

9.1 Equalities Implications

Officers are currently completing Equalities Impact Assessments on relevant budget proposals. These will be available for the Scrutiny Meeting in the 1st February and the Executive meeting in February. The savings therefore approved at this meeting will be subject to the Executive reviewing them, including the considerations of due regard, before making any final decision in February 2023. It should be noted that some proposals will require additional work and this will require an updated Equality Impact Assessments to support them.

A cumulative impact report will also be created that analysis all of the equality impacts. This will provide decision makers with a clear understanding of the collective decision of agreeing the budget.

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

One of the criteria for capital bids includes those that have a health and safety implication.

9.5 Health and Wellbeing Implications

There are currently no implications.

9.6 Social Value

There are currently no implications.

10 Scrutiny comments / recommendations:

The 2023/24 budget proposals will be considered through a workshop of all Scrutiny members followed by a Scrutiny Place Committee on the 1st February 2023.

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.

11.2 Alongside the updated forecast was the Financial Strategy which set out the approach that would be used to balance the budget and some of the key elements of it are:

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
- 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

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 for 4 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 waste, 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. The pay award has been budgeted for at 5% which is an additional cost of £14m. After taking account of the provisional finance settlement and £10m from use of reserves, there are savings options of just over £40m required to balance the budget.
- 12.4** The current capital programmes across the five authorities have been reviewed and a modest Capital Programme for new schemes developed. The Housing Revenue Account has been reported to the Executive in December 2022 and will be considered alongside the General Fund budget proposals in February.

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/ Month	2022/23 Budget £'m	2022/23 Estimated Outturn Position £'m	(Under)/ Overspend £'m
Somerset County Council	7	383.400	404.700	21.300
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)
		454.890	476.460	21.570

13.2 As shown in **Table 1** there is a forecast overspend across Somerset. If predictions are correct this will require the use of £21.570m of reserves. This will leave less reserves to support the new authority and so each authority is taking actions to help reduce this. Overall, the number is expected to reduce following those actions taken and additional funding for things like Winter Pressures in Adults. For financial planning purposes it is prudent to plan on a call of £20m from reserves at this stage.

14 2023/24 Budget Proposals

14.1 All Somerset authorities have been working together to refine the detailed requirements and, also to challenge proposals. LGR Sub-workstream leads have been working together to produce savings proposals as well as estimating the impact of inflation and demand on services. These have then been challenged through cross authority Director Groups. The details of the Transformation, Income, and Savings Proposals are set out in Appendix 1.

14.2 The budget shown below in **Table 2** shows a balanced budget. The figures are based upon the provisional

Table 2 – Somerset Council Balanced Budget 2023/24

2022.23 Combined Budget £m		2023.24 Budget £m
159.684	Adults Services	186.634
105.048	Children Services	123.057
36.715	Communities Services	35.085
82.339	Climate & Place	86.383
23.515	Strategy, Workforce & Localities	20.082
18.978	Resources & Corporate Services	20.553
1.336	Public Health	1.236
9.404	Local Government Reform	0.123
	Non-Service items:	
6.000	Corporate Contingency	6.000
4.692	Accountable Bodies	3.688
47.355	Corporate Areas	64.933
(43.186)	Special Grants	(56.405)
451.881	Net Budget Requirement	491.370
	Financed By	
(6.843)	Revenue Support Grant	(7.932)
0.000	Flexible Use of Capital Receipts	(4.023)
(103.894)	Business Rates	(120.453)
15.022	Business Rates Collection (Surplus) / Deficit	0.000
(6.800)	Council Tax Collection (Surplus) / Deficit	(6.400)
(312.686)	Council Tax	(335.541)
(2.941)	Council Tax Somerset Rivers Authority	(3.013)
0.000	Somerset Council Precepts Funding	(0.209)
(1.375)	General Reserves	0.000
(32.364)	Earmarked Reserves	(13.798)
(451.88)	Total Financing	(491.370)

14.3 The budget shown below in **Table 3** outlines how the budget has been built from the five separate authorities into one.

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

All Services	£m	£m
2022/23 Combined Original Base Budget		451.881

Removal of Once off & Inter-Authority Budgets for 2022/23	(18.486)	
In Year Permanent Virements	0.000	(18.486)
2022/23 Amended Base Budget		433.395
Additional Funding Requirements:		
Inflation (Contractual and General)	34.585	
Demographic and other Demand Increases	30.372	
Other Funding Requirements	19.976	
Growth	0.000	
Total Additional Funding Requirements		84.932
Pay Award		14.000
Savings Previously Agreed		0.156
Prior Year Savings Not Delivered		0.000
New Savings Proposals		(40.807)
Use of Earmarked Reserves for Service Budget		0.435
Technical Adjustments		(0.743)
2023/24 Proposed Budget		491.370
Change £m		57.975
Change %		13.38%

14.4 The main budget assumptions used in the 2023/24 budget proposals are outline in **Table 4** below.

Table 4 -Budget Assumptions

Budget Area	Current Assumption
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. 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 down demand in this area
Council Tax	Tax base increase of 2.45% and 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

14.5 Each new Directorate is shown in the tables below to give details of how their budgets have been calculated.

Adults Services

14.6 The changes to the Adults Services budget are set out in Table 5 below. It shows how the 2023/24 budget has been built from the original 2022/23 budget as the starting point.

Table 5: Changes to the Adults Services Budget

Adults Services	£m	£m
2022/23 Combined Original Base Budget		159.684
Removal of Once off & Inter-Authority Budgets for 2022/23	(1.019)	
In Year Permanent Virements	0.000	
		(1.019)
2022/23 Amended Base Budget		158.665
Additional Funding Requirements:		
Inflation (Contractual and General)	7.932	
Demographic and other Demand Increases	15.124	

Other Funding Requirements	18.715	
Growth	0.000	
Total Additional Funding Requirements		41.771
Pay Award		0.000
Savings Previously Agreed		0.000
Prior Year Savings Not Delivered		0.000
New Savings Proposals		(10.525)
Use Of Reserves		0.000
Technical Adjustments		(3.277)
2023/24 Proposed Budget		186.634
Change £m		27.969
Change %		17.63%

14.7 Predicting future years demand is made more difficult by Covid-19 and one of the key challenges around this is identifying whether the current demand is on-going as residents' needs have increased, or whether there is a degree of temporary demand. These budget proposals have tried to strike a balance between the two and to ensure the budget proposals are robust.

14.8 Inflationary increases recognise the increased statutory pressures on providers such as increased national living wage, as well as general price inflation which is currently running at 10.1%.

14.9 The anticipated demographic growth in demand across the service has been calculated using Office for National Statistics population data and trends from previous years.

14.10 Historically Somerset has been a low fee payer for residential and nursing placements, this was highlighted in the recent cost of care exercise undertaken by all England local authorities. As part of this outcome, it is acknowledged we would not be able to achieve the full cost of care outcome next financial year and therefore, need to take a step approach to enable it to be achieved over the next 2-3 financial years.

14.11 New transformation saving proposals for 2023/24 included £5m linked to the current exercise being undertaken by Newton Europe to identify savings across the adults system. Work has progressed to identify savings and once confirmed this will be shared at a later date.

14.12 The Adults Improvement Programme continues to offer a test and learn environment to test ideas with key stakeholders.

- New Models of Micro Provision are aiming to increase the options available to people and professionals in deciding how their care and support is provided either through a different model to access micro providers or using a different payment method.
- Technology Enabled Care aims to increase the technology options available to support people in their own homes. There has been an ongoing delay in the implementation of the prescriber portal, necessitating mitigating actions and a new agreed timeline. Proposals are now starting to be received and TEC installations have begun. Benefits analysis to be conducted shortly.

14.13 The Intermediate Care Model has been under significant pressure with demand, capacity and flow within the wider system creating some challenges that have affected capacity to deliver the improvement plan. As a consequence, the Intermediate Care Board agreed in September the essential deliverables needed ahead of the winter pressures, with the remainder of the plan is due to go on hold until the new year.

Childrens Services

14.14 The changes to the Childrens Services are set out in **Table 6** below. It shows how the 2023/24 budget has been built from the original 2022/23 budget as the starting point.

Table 6: Changes to the Childrens Services Budget

Children's Services	£m	£m
2022/23 Combined Original Base Budget		105.048
Removal of Once off & Inter-Authority Budgets for 2022/23	(0.767)	
In Year Permanent Virements	(0.025)	
		(0.792)
2022/23 Amended Base Budget		104.256
Additional Funding Requirements:		
Inflation (Contractual and General)	10.199	
Demographic and other Demand Increases	12.946	
Other Funding Requirements	0.282	
Growth	0.000	
Total Additional Funding Requirements		23.427

Pay Award		0.000
Savings Previously Agreed		0.000
Prior Year Savings Not Delivered		0.000
New Savings Proposals		(4.625)
Use Of Reserves		0.000
Technical Adjustments		0.000
2023/24 Proposed Budget		123.057
Change £m		18.801
Change %		18.03%

- 14.15** Demand for Children’s Services, especially those with complex needs, continues to increase reflecting - increasing poverty amongst Somerset families, impact of COVID measures on children, and contextual safeguarding issues. The impact of the pandemic has meant that children entering the system have had more complex needs and therefore their care needs are higher costs in their own right. The future demand and inflation are based upon latest forecasts and trends over the last 3 years.
- 14.16** Inflation includes contractual inflation for existing contracts for Home to School transport and care placements as well as several smaller contracts across Children’s Services. Rates of inflation vary between contracts, but significant inflationary pressures are expected which are caused by rising fuel costs, driver shortages and wage demand. Although fuel costs have reduced in recent months, it is unclear how this will impact contract costs, when balanced against wage demands and staff shortages.
- 14.17** Demographic and other demand changes include projected increased demand for care and SEND school transport.
- 14.18** Other funding requirements are £0.2m for a change in financing of budgets previously funded by the Dedicated Schools Grant and £0.1m for changes in government policy that impact on the number of UASC children transferred to Somerset as part of the national scheme.
- 14.19** New transformation, savings, and income generation proposals for 2023/24 of £4.6m include our strategic partnership with The Shaw Trust of £1.2m and ongoing savings from the Family Safeguarding transformation programme of £1.3m.
- 14.20** Compared to other local authorities, overall need for social work intervention and care placements are significantly lower, due in part to the Council’s investment in Family Safeguarding and the Family Intervention Service (SCCs Early Help Service).

- 14.21** However, the increasing number of children with complex needs is putting a significant capacity and resource strain on the service at all levels. This is due in part to increased need but also changes nationally in the provision of care to those children with the most complex needs, these include:
- Regulations which came into force in Autumn 2021 prohibiting the use of unregulated (i.e., not registered with Ofsted) provision for under 16s – this had unintended (but predictable) consequences of putting even more pressure on an already saturated residential care market.
 - Changes in access to Tier 4 CAMHS provision (not consulted beyond the NHS) – restricting access to children with a diagnosed mental health disorder who require inpatient treatment.
 - Secure Estate – issues about the quality of care have led to restrictions to this provision, resulting in children who would have entered the secure estate requiring other residential care provision
 - Residential Care Staffing – longstanding recruitment and retention issues in the sector have further deteriorated post pandemic resulting in some homes closing at short notice due to inadequate staffing levels.
- 14.22** These are national issues which have been recently highlighted by independent reports commissioned by central Government from the Competition and Markets Authority and an independent expert report – The Care Review. The former has highlighted the profits from private care companies.
- 14.23** Local proposals to improve the availability of local high-quality care placements are being progressed, specifically through the mobilisation of the Strategic Partnership as described above.
- 14.24** The Children's Transformation Programme continues at pace; working with families to deliver sustainable change, enabling them to reduce reliance on statutory services and to achieve excellent outcomes.
- 14.25** The Strategic Partnership (with Homes 2 Inspire and the Shaw Trust) is developing into a strong partnership model which will increase our capacity for providing high quality Somerset homes for our most complex young people, reduce our reliance on unregulated provision and enable improved long-term outcomes.
- The first 2 homes are due to open by end January/ early February 2023 with a further 3 opening during the year. These homes will accommodate our most complex children, reducing our reliance on external unregistered and high cost provision.
 - The partnership is also delivering an innovative career pathway for foster carers and residential staff which is starting to evidence positive results.
- 14.26** Recent benchmarking undertaken against national and southwest trends has evidenced that the Family Safeguarding service is holding off the rise in numbers of younger children coming into care. Interim evaluation of the multi-disciplinary

staffing model has evidenced positive feedback from staff and families, who feel supported and empowered to lead their own change. Learning from this model is influencing how we work with partners and agencies to build successful integrated teams.

- 14.27** Recently commissioned external reviews of the drivers of costs in children’s services and our school transport system will help us understand what further efficiencies and innovation can be delivered to reduce costs further.

Communities Services

- 14.28** This is a new Directorate and includes Housing, Culture, Customers and Regulatory & Operational services.

- 14.29** The changes to the Communities Services budget are set out in **Table 7** below. It shows how the 2023/24 budget has been built from the original 2022/23 budget as the starting point.

Table 7: Changes to the Communities Services Budget

Communities Services	£m	£m
2022/23 Combined Original Base Budget		36.715
Removal of Once off & Inter-Authority Budgets for 2022/23	(1.198)	
In Year Permanent Virements	(0.033)	
		(1.231)
2022/23 Amended Base Budget		35.485
Additional Funding Requirements:		
Inflation (Contractual and General)	1.344	
Demographic and other Demand Increases	0.000	
Other Funding Requirements	0.317	
Growth	0.000	
Total Additional Funding Requirements		1.660
Pay Award		0.000
Savings Previously Agreed		0.000
Prior Year Savings Not Delivered		0.000
New Savings Proposals		(1.560)
Use Of Reserves		0.000
Technical Adjustments		(0.500)

2023/24 Proposed Budget		35.085
Change £m		(0.399)
Change %		-1.13%

14.30 The main pressure within these services is contract pressures especially within leisure centres that have been impacted by fuel and pay inflation. Other pressures are within the provision of accommodation for homelessness.

A large saving in a leisure contract as well as increases in fees and charges provide most of the savings proposals. Fees and charges will be reviewed by Scrutiny Committee and presented to the Executive in February 2023.

Climate and Place Services

14.31 This is new a Directorate and includes Climate & Sustainability, Infrastructure & Transport and Economy, Employment & Planning.

14.32 The changes to the Climate and Place Services budget are set out in **Table 8** below. It shows how the 2023/24 budget has been built from the original 2022/23 budget as the starting point.

Table 8: Changes to the Climate and Place Services Budget

Climate & Place	£m	£m
2022/23 Combined Original Base Budget		82.339
Removal of Once off & Inter-Authority Budgets for 2022/23	0.076	
In Year Permanent Virements	0.022	
		0.098
2022/23 Amended Base Budget		82.437
Additional Funding Requirements:		
Inflation (Contractual and General)	10.428	
Demographic and other Demand Increases	0.681	
Total Additional Funding Requirements		11.878
Pay Award		0.000

Savings Previously Agreed		(0.120)
Prior Year Savings Not Delivered		0.000
New Savings Proposals		(7.722)
Use Of Reserves		0.000
Technical Adjustments		(0.090)
2023/24 Proposed Budget		86.383
Change £m		3.946
Change %		4.79%

14.33 Inflation has had a major impact on services within this Directorate with inflation within waste services estimated to increase by £5.6m. Other contracts that have been impacted are street lighting and highways. Additional funding of £0.8m has been provided for revision of the Local Plan.

14.34 The main saving within this directorate is the full rollout saving from the introduction of Recycle More £3.1m, the rolling back of Covid measures £0.6m and the capitalisation of waste bins £1m. There are also a number of proposals to increase fees and charges – these will be reviewed by Scrutiny Committee and presented to the Executive in February 2023.

Strategy, Workforce & Localities Services

14.35 This a new Directorate and includes Partnerships & Localities. Strategy & Performance. Governance, Legal & Democratic, and Human Resources services.

14.36 The changes to the Strategy, Workforce and Localities Services budget are set out in **Table 9** below. It shows how the 2023/24 budget has been built from the original 2022/23 budget as the starting point.

Table 9: Changes to the Strategy, Workforce, and Locality Services Budget

Strategy, Workforce & Localities	£m	£m
2022/23 Combined Original Base Budget		23.515
Removal of Once off & Inter-Authority Budgets for 2022/23	(3.590)	
In Year Permanent Virements	0.015	
		(3.575)
2022/23 Amended Base Budget		19.940

Additional Funding Requirements:		
Inflation (Contractual and General)	0.000	
Demographic and other Demand Increases	0.250	
Other Funding Requirements	(0.055)	
Growth	0.000	
Total Additional Funding Requirements		0.195
Pay Award		0.000
Savings Previously Agreed		0.261
Prior Year Savings Not Delivered		0.000
New Savings Proposals		(0.614)
Use Of Reserves		0.300
Technical Adjustments		0.000
2023/24 Proposed Budget		20.082
Change £m		0.142
Change %		0.71%

14.37 On 16 November 2022, Executive Members noted that to establish LCN' s in Somerset it could cost up to £0.9m based on modelling at that time from other Unitary authorities and learning from LCN pilots. This comprised predominantly of community development and democratic services staffing, the continuation of the Highways Steward pilot in the Exmoor Area and one-off capital costs for technology. Further work has been done to refine that figure, including evaluation of job descriptions to understand salary impacts, allocation of the new pay award as well as recognising the part year effect of being able to recruit staff to the new LCN roles.

14.38 There was also a recognition that the new Council would not be working from a standing start with their being locality and community development roles and expertise within the current five Councils and wanting to build on this best practice and legacy. Whilst scope and resourcing levels are different in each council, it is expected that there will be officers in the new Somerset Council with the knowledge, skills and experience to develop and manage LCNs. However, at this point in time it is not possible to accurately quantify the capacity that will be available, as in many cases the current roles cover multiple functions, some of which are likely to sit within different directorates in the new Council. Nonetheless a review of community development spend has commenced and we are confident that existing community engagement and development staff and resources could be identified and re-assigned to support LCNS' s over the coming 12 months. Furthermore, there are also opportunities to explore other funding streams with partners and shared models of delivery.

14.39 The budget proposals include the setting up of an earmarked reserve of £0.300m 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.

Resources & Corporate Services

14.40 This is new a Directorate and includes Finance & Procurement, Strategic Asset Management and Information Communications Technology services.

14.41 The changes to the Resources & Corporate Services budget are set out in **Table 10** below. It shows how the 2023/24 budget has been built from the original 2022/23 budget as the starting point.

Table 10: Changes to the Resources & Corporate Services

Resources & Corporate Services	£m	£m
2022/23 Combined Original Base Budget		18.978
Removal of Once off & Inter-Authority Budgets for 2022/23	(0.418)	
In Year Permanent Virements	0.020	
		(0.398)
2022/23 Amended Base Budget		18.581
Additional Funding Requirements:		
Inflation (Contractual and General)	4.563	
Demographic and other Demand Increases	1.370	
Other Funding Requirements	0.200	
Growth	0.000	
Total Additional Funding Requirements		6.134
Pay Award		0.000
Savings Previously Agreed		0.015
Prior Year Savings Not Delivered		0.000
New Savings Proposals		(4.658)
Use Of Reserves		0.000
Technical Adjustments		0.481

2023/24 Proposed Budget		20.553
Change £m		1.972
Change %		10.61%

14.42 The main pressures within this budget are inflationary with £3m required for electricity costs for council premises and £1.5m for increases in ICT contracts.

14.43 Savings proposals include additional rental income £0.5m, and rationalisation of ICT licences, applications, decommissioning systems £0.6m, Dividend income £1.7m.

Public Health Services

14.44 The changes to the Public Health Services budget are set out in Table 11 below. It shows how the 2023/24 budget has been built from the original 2022/23 budget as the starting point.

Table 11: Changes to the Public Health Services

Public Health	£m	£m
2022/23 Combined Original Base Budget		1.336
Removal of Once off & Inter-Authority Budgets for 2022/23	0.000	
In Year Permanent Virements	0.000	
		0.000
2022/23 Amended Base Budget		1.336
Additional Funding Requirements:		
Inflation (Contractual and General)	0.000	
Demographic and other Demand Increases	0.000	
Other Funding Requirements	0.000	
Growth	0.000	
Total Additional Funding Requirements		0.000
Pay Award		0.000
Savings Previously Agreed		0.000
Prior Year Savings Not Delivered		0.000

New Savings Proposals		(0.100)
Use Of Reserves		0.000
Technical Adjustments		0.000
2023/24 Proposed Budget		1.236
Change £m		(0.100)
Change %		-7.49%

14.45 The Comprehensive Spending Review committed to maintaining the Public Health grant at current levels in real terms until 2024/25, but we await the detail with concerns over inflationary pressures for both contracts and staff costs. Somerset receives a very low proportion of the overall Public Health grant and is 141st out of the 152 authorities with Public Health responsibilities, when comparing allocation per person in the population.

14.46 In addition to the public Health grant, the council provides funding of over £1.3m for services that the public health team manage for the organisation. The savings proposals above relate to these services and include the reduction in dedicated communications support for the central volunteer team £0.010m and a £0.018m reduction for projects within Stronger Communities. The remaining SCC funding in this budget line will still enable the service to function and to fulfil its agreements. It also includes a reduction in contribution for the Somerset Integrated Domestic Abuse service contract of £0.072m. This saving can be achieved as a provider has won a number of lots within the contract and therefore can reduce establishment costs as a result.

Local Government Reorganisation

14.47 This budget area includes the LGR Implementation Costs and LGR Business Case savings from staffing that will be allocated out to services during the year.

14.48 The changes to the Local Government Reorganisation budget are set out in **Table 12** below. It shows how the 2023/24 budget has been built from the original 2022/23 budget as the starting point.

Table 12 – Changes Local Government Reorganisation

Local Government Reorganisation	£m	£m
2022/23 Combined Original Base Budget		9.404
Removal of Once off & Inter-Authority Budgets for 2022/23	(6.284)	

In Year Permanent Virements	0.000	
		(6.284)
2022/23 Amended Base Budget		3.120
Additional Funding Requirements:		
Inflation (Contractual and General)	0.000	
Demographic and other Demand Increases	0.000	
Other Funding Requirements	0.903	
Growth	0.000	
Total Additional Funding Requirements		0.903
Pay Award		0.000
Savings Previously Agreed		0.000
Prior Year Savings Not Delivered		0.000
New Savings Proposals		(3.900)
Use Of Reserves		0.000
Technical Adjustments		0.000
2023/24 Proposed Budget		0.123
Change £m		(2.997)
Change %		-96.04%

14.49 This budget is made up of two elements, £4.023m for the final year of LGR Implementation costs and £3.9m of staff savings as per the LGR Business Case. The staff savings will be allocated to individual services once the restructuring process has been completed and is made up of the reduction of 39 posts in Tiers 1 to 3 (£2.9m) and £1m out of the £9.4m (300 posts) of other staff savings.

Corporate Costs and Special Grants

14.50 This budget includes those costs that do not directly relate to individual services and non-service specific grants such as New Homes Bonus. It also includes the estimated increase in the 2023/24 national pay award that will be allocated out to services during the year.

14.51 The changes to the Corporate Costs and Special Grants budgets are set out in **Table 13** below. It shows how the 2023/24 budget has been built from the original 2022/23 budget as the starting point.

Table 13 -Corporate Costs and Special Grants

Corporate Costs and Special Grants	£m	£m
2022/23 Combined Original Base Budget		4.170
Removal of Once off & Inter-Authority Budgets for 2022/23	(4.073)	
In Year Permanent Virements	0.000	
		(4.073)
2022/23 Amended Base Budget		0.096
Additional Funding Requirements:		
Inflation (Contractual and General)	0.120	
Demographic and other Demand Increases	0.000	
Other Funding Requirements	(1.229)	
Growth	0.000	
Total Additional Funding Requirements		(1.109)
Pay Award		14.000
Savings Previously Agreed		0.000
Prior Year Savings Not Delivered		0.000
New Savings Proposals		(7.102)
Use Of Reserves		0.000
Technical Adjustments		2.642
2023/24 Proposed Budget		8.528
Change £m		8.432
Change %		8753%

14.52 The main areas held within corporate costs is £14m in additional pay costs that is being held centrally and the adjustment post actuarial valuation of the pension scheme resulting in a reduction of £7m.

15 Funding for Councils

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 19th December 2022. Although the Policy statement covered two years the settlement only covers 2023/24. The Policy did clarify a number of areas including Council Tax Referendums limits and that Fairer Funding would not be implemented until 2025/26 at the earliest.

Social care charging reforms and the Fair Cost of Care have been deferred from October 2023 to October 2025 and the provisional settlement outlined that funding for ASC reforms would be repurposed to fund ongoing pressures within care and a commitment that each authority's spending power would increase by at least 3% (this takes into account the ability to increase council tax). The impact on various grants is outlined below

15.1 Revenue Support Grant

Revenue Support Grant is distributed based on need but has been reducing year-on year. The grant for Somerset Council in the provisional settlement is £7.9m in 2023/24. However, this is as predicted as the increase is due to three grants have been rolled into this figure £0.3m for Family Annexes, £0.6m for Local Council Tax Support and £0.1m for Food Safety Enforcement.

15.2 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. It is split between Counties and Districts but the new Unitary will receive a combination of the two, Funding through this scheme has been reduced in recent years and there have been government plans for a number of years to potentially phase the scheme out. Legacy payments have been phased out and there is no assurance regarding funding for 2024/25. The provisional settlement outlines a payment of £3.812 will be made in 2023/24.

15.3 Social Care Grant

This grant is used to support Adult and Childrens Social Care and in the provisional finance settlement has increased from £24.6m in current year to £39.2m in 2023/24 and is further expected to increase to £45m in 2024/25.

15.4 Market Sustainability and Improvement Funding

Funding increased from £1.7m in current year to £5.8m in 2023/24 and expected to increase to £8.8m in 2024/25.

15.5 Better Care Fund

The Better Care Fund is a grant that is intended to incentivize the integration of health and social care, requiring pooled 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. There is a new allocation of £3.2m for Discharge Support Grant in 2023/24 and this is expected to increase to £5.4m in 2024/25. The Discharge Funding grant is provided to upper tier authorities to ensure those people who need to draw on social care when they are discharged from hospital can leave as soon as possible. The Discharge Funding must be pooled as part of the Better Care Fund.

15.6 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. This grant is allocated directly to the Adult Services budget.

15.7 Public Health Grant

Public Health Grant is funded by central Government to improve health in the local population. Use of the grant must be signed off annually by the Director of Public Health and the local authority's S151 Officer as eligible spend. The grant totalled £21.8m in 2022/23 and an inflationary increase is expected for 2023/24 but as yet we have received no confirmation.

15.8 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 however will continue to benefit from some of the pooling gain by being a Unitary authority.

The budget for business rates income will not be fully known until January 2023 when the NDR1 form is completed. Current estimates have been compiled and then compared to those provided by Pixel, LG Futures, and DLUHC.

15.9 Fees and Charges

Fees and charges have been reviewed for 2023/24 and in most cases aligned. A Fees and Charges Policy is attached at Appendix 2. A schedule showing the proposals for fees and charges will be considered at the Scrutiny Committee on 1 February.

15.10 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.

Table 14 below shows how the Somerset PUFs and SUFs have increased over time and in comparison to the England averages (including and excluding London authorities) and the South-West average. It also shows that Somerset continues to move up the ranking for PUFs.

Table 14 – PUF and SUF Benchmarking

Table 3: PUF and SUF Benchmarking

	Somerset		England		England (excl LDN)		South West		Ranking	
	PUF	SUF	PUF	SUF	PUF	SUF	PUF	SUF	PUF	SUF
2021/22	4,510	5,606	4,611	5,935	4,516	5,779	4,468	5,634	88/150	127/150
2022/23	4,680	5,770	4,786	6,213	4,644	5,979	4,577	5,812	71/150	122/150
2023/24	4,916	6,077	5,014	6,542	4,871	6,304	4,796	6,119	69/150	124/150
Change 21/22 - 22/23	3.8%	2.9%	3.8%	4.7%	2.8%	3.5%	2.4%	3.2%	17	5
Change 22/23 - 23/24	5.0%	5.3%	4.8%	5.3%	4.9%	5.4%	4.8%	5.3%	2	-2

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.

15.11 Treasury Management

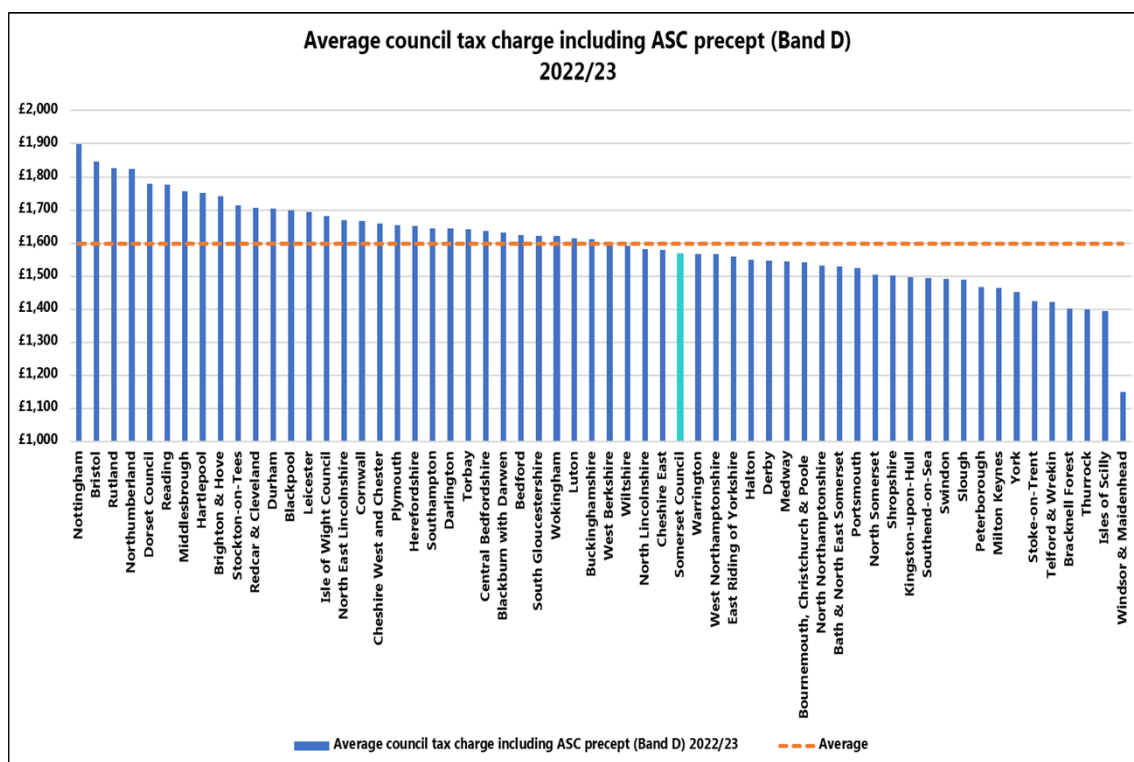
Treasury management is the management of the Council' s cash flows, borrowing and treasury investments, and the associated risks. The Council has significant treasury investment portfolios. The income budget from treasury activity for 2023/24 is £13m based on average funds of £350m and 3.75% in interest.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

borrowing costs.

15.12 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 £1,567.83. 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 15 – 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 12th 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. No decisions have been made on final levels. The Government has increased referendum levels so that some of the increasingly impacting inflationary pressures are funded locally. 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).

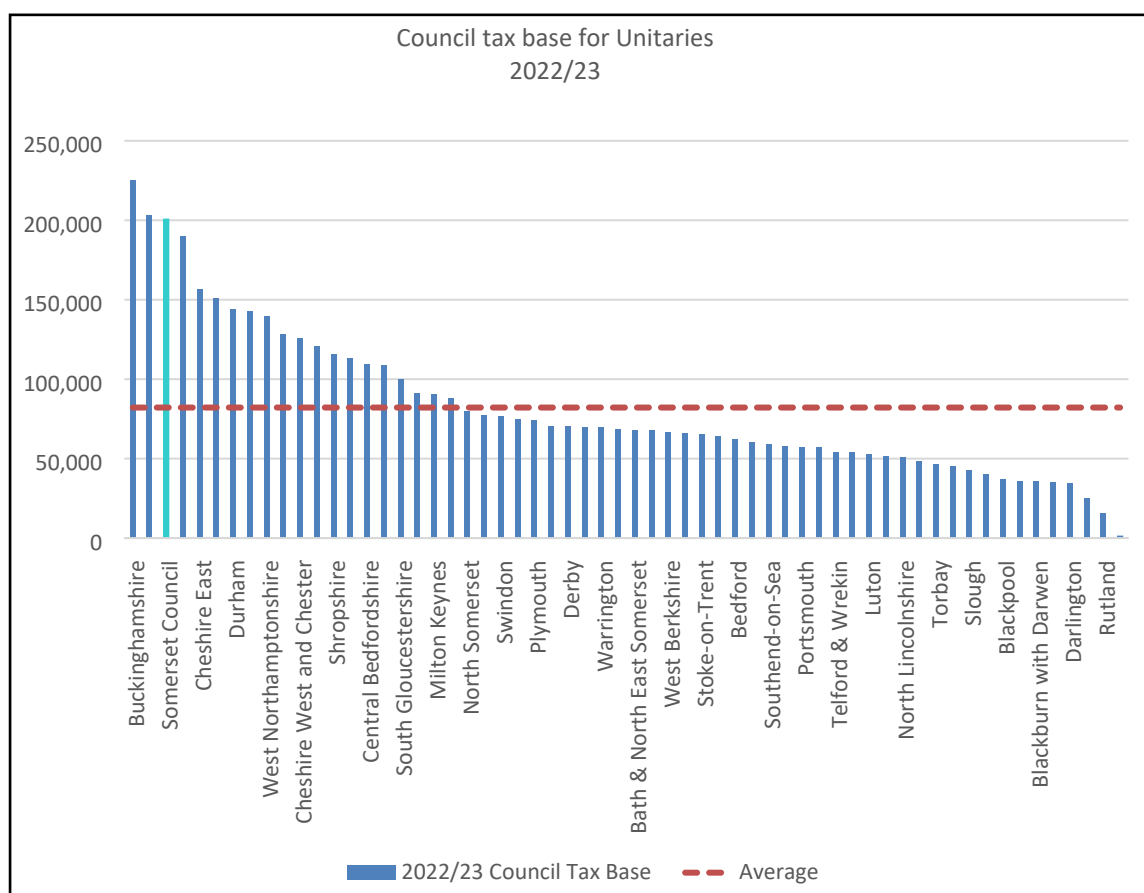
Each 1% increase in Council Tax increases income by £3.2m.

15.13 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 following graph shows the tax base for Somerset Council compared to other Unitary Authorities for 2022/23:

Table 16 – Council Tax Base Comparisons 2022/23



It will have the third largest tax base of all Unitary Authorities.

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 17 - Taxbase 2021/22 to 2023/24

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

15.14 Council Tax Proposals

The Government outlined referendum limits in its' Policy Statement published on the 12th December 2022. The current MTFP proposes 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 £1,449.61 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 £1,646.07 an increase of £78.24 per annum (£1.50 per week). The Adult Social Care precept is ringfenced to support Adult Social Care. The impact of inflation and demand on Adult Services is estimated to be £m in 2023/24.

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 Rates from Mendip District Council. These are specific charges to some Parishes. The total income from Special Rates is expected to be £0.2m. This will be reviewed and reported in February 2023.

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 of the increases above have been compared to the Alternative Notional Amount that has been agreed as part of council tax harmonisation with DLUHC.

16 The Capital Strategy

16.1 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.

16.2 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

16.3 The update includes 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.

16.4 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 will be presented to the Audit Committee, Executive, and full Council in February 2023.

16.5 Inflationary pressures have been impacting on programmes nationally and across all the Somerset Authorities. Given the overall financial position all the existing capital programmes were reviewed and some amendments to those programmes are outlined in this report.

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.

17.2 Therefore, the inherited capital programme for Somerset is summarised as follows and is outlined in more detail in Appendix 4:

Table 18 - Summary Capital Programme Quarter 2 2023/24 to 2025/26

Directorate	2023/24 £' m	2024/25 £' m	2025/26 £' m	Total All Years £' m
Childrens Services	25.517	9.616	6.374	41.507
Adults Services	2.968	1.070	1.008	5.046
Community Services	31.615	13.907	1.722	47.243
Climate and Place	98.452	20.608	7.987	127.047
Resources and Corporate Services	11.915	2.162	0.405	14.482
Total Programme	170.467	47.363	17.496	235.325

17.3 The overall funding for the Capital Programme is as follows:

Table 19 – Funding for the Combined Capital Programme

	Capital	S106/CIL	Total

Directorate	Grants £' m	Receipts £' m	Reserves £' m	£' m	Borrowing £' m	Funding £' m
Children's Services	6.395	0.034		5.139	29.939	41.507
Adults Services	3.024			0.090	1.932	5.046
Community Services	17.410	1.986	0.047	5.817	21.983	47.243
Climate and Place	83.283	2.793	0.298	8.442	32.231	127.047
Resources and Corporate Services	-	7.377		0.124	6.981	14.482
Total Prog	110.112	12.190	0.345	19.612	93.066	235.325

17.4 A review of the overall programme has been carried out and the has already been reported as part of budget monitoring.

17.5 The following schemes have been paused (this means that the funding for those schemes have been delayed by a year to review in 2023/24):

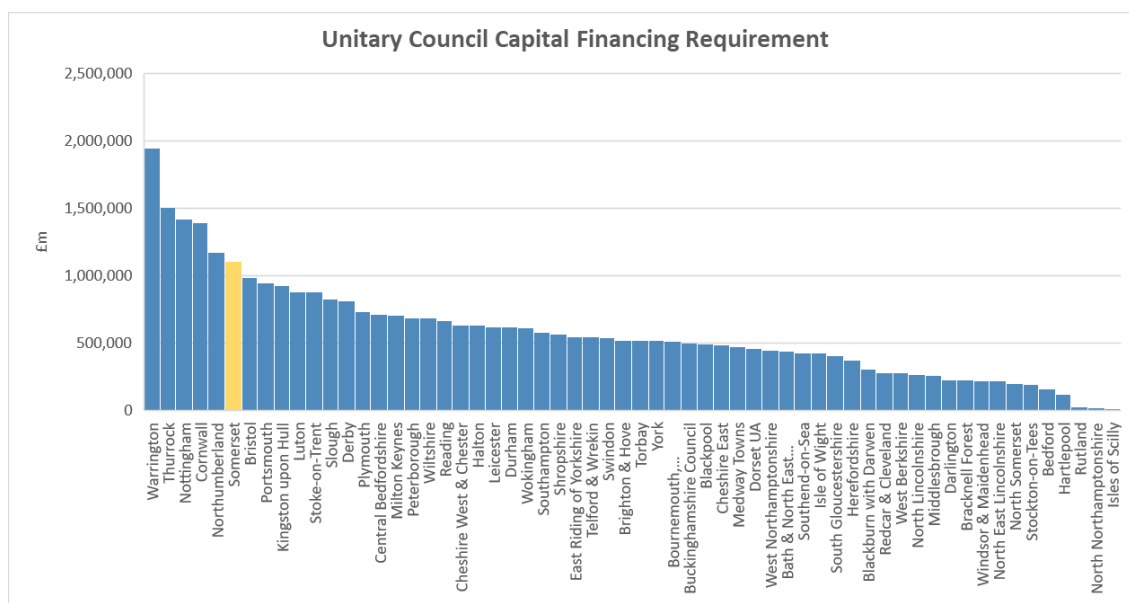
- Walton and Ashcott Bypass
- Bridgwater Library improvements
- Wincanton Town Centre improvements
- Yeovil Crematorium Chapel upgrade
- Homes for Children with Disabilities Phase 2

17.6 Borrowing

17.7 The borrowing position (CFR) for the General Fund for the new Council is estimated to be £937m next year for the legacy programme and the new approved bids starting in 2023/24. The overall estimate for interest payments from the General fund is £32.3m.

17.8 The Capital Financing Requirement (CFR) which outlines the need for borrowing of the new authority compared to others indicates that the new authority is at the higher end of the scale and is shown in the table below:

Table 20 – Comparison of Unitary Councils Capital Financing Requirement



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. This will mean that some capital receipts approximately £3m currently earmarked to fund the capital programme will be 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 £16.192 for the legacy programme and £0.029m for new schemes.

18 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 earn 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

Table 21 – New Capital Schemes by Criteria

Criteria	2023/24 £' m	2024/25 £' m	2025/26 £' m	Total All Years £' m
Fully Externally Funded	38.456	1.967	1.967	42.389
Health and Safety/Legal Requirement	14.809	7.996	0.172	22.977
Operational Need	9.266	0.820	0.500	10.586
Total	62.530	10.783	2.639	75.952

Note capital spend of £0.015k in 26/27-27/28

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

Table 22 – Funding of New Capital Schemes

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

New schemes are outlined in Appendix 5 and more details of each scheme is included in Appendix 6.

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 key principles of the new policy are that the Council will repay its legacy debts over a maximum of 50 years for land and buildings and over 40 years for other assets. The Council will use asset life for new schemes starting in 2023/24. The MRP Policy will be presented to the Executive in February 2023.

Treasury Management Strategy

Full Council approves the Treasury Management Strategy each year and the Audit Committee provides an overview and monitor the strategy throughout the year. 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.

Non-Treasury Management Strategy

The Non-Treasury Management Strategy 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 will be reviewed by Audit Committee before approval of the strategy is requested at 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 23 – 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	159.68	186.64	222.15	260.20
Children's Services	105.05	123.06	129.37	134.15
Communities	36.71	35.09	34.42	34.40

Services				
Climate and Place	82.34	86.38	91.66	93.94
Strategy Performance and Localities	23.52	20.08	19.78	19.78
Resources	18.98	20.55	21.96	23.31
Public Health	1.34	1.24	1.24	1.24
Local Government Reorganisation	9.40	0.12	(7.90)	(12.30)
Service Totals	437.02	473.16	512.68	554.71
Corporate Contingency	6.00	6.00	6.00	6.00
Accountable Bodies	4.69	3.69	3.64	3.66
Corporate Costs	47.36	64.93	80.47	95.71
Special Grants	(43.19)	(56.40)	(65.16)	(62.87)
Net Budget Requirement	451.88	491.37	537.63	567.21
Financing	451.88	491.37	498.05	563.26
Annual Budget Gap	-	-	39.58	3.95

19.2 It is clear from the MTFP forecast that 2024/25 will also be a very challenging financial year with saving of just under £40m required which is approximately 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 following 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 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 by the 5 Sections 151 Officers who have estimated that the overall level of reserves is likely to be just over £170m before taking into account any under or overspending in the current year. There are some previous commitments that the current councils have made for future use of reserves and combined with an estimate of potential overspend of £20m across the 5 councils this will reduce the level of reserves by

£37.832m.

Table 24 – Reserves Summary

	2022/23 Estimated Outturn Position	Previous Commitments & potential overspend	New Commitment	Remaining Balance
General	47.460			47.460
Earmarked	122.755	(37.832)	(13.798)	71.125
Total	170.215	(37.832)	(13.798)	118.585

20.2 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.

20.3 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 have been produced and the updated position will be reported to the Executive during the year.

20.4 The budget proposals include the planned use of Earmarked Reserves as detailed in the table below.

Table 25 – Planned use of Reserves in 2023/24

Service	Brief Summary	Amount £m
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	0.220
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	0.200
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	1.700

	relevant activities within Childrens and Adults	
Community Development	Initial funding for LCN's whilst other are repurposed	0.300
General	Use of reserves to allow for smoothing of budget	10.000
Total		13.798

21 Housing Revenue Account

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

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 26 – Risks

Risk	Rag Rating (R/A/G)	Risk Owner	Management and Mitigations
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)	R	Strategic Leadership Team/LGR Director	Appointment of Tier 2 is currently in progress and the LGR delivery underway. Will need to work at pace in 2023/24 to deliver and ensure consultations are completed. Delays will impact on reserves and contingency.
Newton Europe – Saving of £5m in 2023/24 and a further £5m in 2024/25	R	Executive Director Adults	This is the estimate of savings expected. This will need reviewed and consulted upon once completed. The Council will need to find other savings to replace this if it is not achieved.
Childrens £1m from diagnostic review	R	Executive Director Childrens Services	This the estimate of savings expected. This will need reviewed and consulted upon once completed. The Council will need to find other savings to replace this if it is not achieved.
Level of Reserves	R	Executive Director of	The level of General Reserves should be in the range of £30m to

		Resources & Corporate Services	£50m given the risks the new Council is facing. The estimated level of reserves will continue to be monitored and reviewed during the budget setting process
Interest rates increase	R	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 our strategy with advice from Arlingclose
Levels of Borrowing	R	Executive Director of Resources & Corporate Services	The initial analysis of the Capital Financing Requirement (CFR) has identified that level of borrowing is very high. A review of the current capital programme and investment portfolio is being undertaken.
The Government announces further cuts in local government funding	A	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.
Pay awards will be higher than estimated	A	Executive Director of Resources & Corporate Services	The pay award for 2022/23 has now been agreed at a flat £1,925. This has been built into these estimates. Therefore, the bigger risk is 2023/24 – currently 5% has been included in the budget
Unitary preparations and Transitional Costs	A	Strategic Leadership Team	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	A	Relevant Director	This will continue to be reviewed as part of budget monitoring

Unforeseen events outside Somerset Councils control	A	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)	G	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

23 Budget Setting Timetable

The high-level budget setting timetable is: -

July 2022

11 July Executive - Financial Strategy & Medium-Term Financial Plan

November 2022

16 November Executive - 2023/24 Budget Update & Medium-Term Financial Plan

January 2023

18 January 2023 - Executive – Budget proposals and HRA

19 January 2023 - Audit Committee – Budget Proposals

February 2023

1 February 2023 - Scrutiny – Review of Executive draft budget proposals

13 February 2023 - Executive – Final budget proposals and tax setting for Somerset Council

22 February 2023 - Council – Approval of 2023/24 budget and setting of Council Tax.

Report Sign-Off

Date completed

Legal Implications	Honor Clarke	05/01/23
Governance	Scott Wooldridge	05/01/23
Corporate Finance	Jason Vaughan	05/01/23
Customers, Digital and Workforce	Chris Squire	05/01/23
Property	Paula Hewitt / Oliver Woodhams	05/01/23
Procurement	Claire Griffiths	05/01/23
Senior Manager	Jason Vaughan	05/01/23
Commissioning Development	Sunita Mills / Ryszard Rusinek	05/01/23
Executive Member	Cllr Liz Leyshon - Deputy Leader of the Council and Lead Member on Finance and Human Resources	05/01/23
<u>Sign-off Key Decision / Consulted on Non-Key Decision</u>		
Local Member	All	
Opposition Spokesperson	Opposition Spokesperson - Finance and Human Resources - Cllr Mandy Chilcott	Sent report 09/01/2023
Scrutiny Chair	Scrutiny for Policies and Place Committee - Cllr Gwil Wren	Sent report 09/01/2023

