

Decision Report - Executive Decision
Forward Plan Reference: FP/23/05/08
Decision Date – 10 July 2023
Key Decision – Yes



Medium Term Financial Strategy (MTFS) 2024/25 to 2026/27

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

Local Member(s) and Division: All

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Summary

1. The Medium-Term Financial Strategy (MTFS) provides a strategic financial framework and a forward-looking approach to achieving financial sustainability for the Council. The 2023/24 Financial Strategy was approved in July 2022 and was used as the framework within which the current year's budget was. This report provides an update to that and is central to the delivery of the Council's priorities in an affordable and sustainable way over the medium term. It aids robust and methodical planning as it forecasts the Council's financial position, taking into account known pressures, major issues affecting the Council's finances, including external economic influences as well as local priorities and factors. It helps the Council to respond, in a considered manner, to pressures and changes as a result of many internal and external influences. This is particularly important during a period when the Council faces considerable pressures and challenges, such as those relating to the cost of living crisis and increased demand for social care. The MTFS recognises the key role that financial resources play in the future delivery of priorities and in enabling the effective planning, management, and delivery of services. The approach concentrates on the principles that will provide a strong direction for the medium term.
2. The key overriding aim of the MTFS is therefore:

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

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

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

4. The MTFS enables integrated service provision and financial planning over the medium term, using a business planning approach. The resulting Medium-Term Financial Plan (MTFP) provides the framework within which decisions relating to future service provision can be made. The detailed budget, taking account of constantly changing circumstances, will continue to be kept under review over the period and the Council will need to set the level of council tax on an annual basis. The Council's budget setting process centres around the organisational goals contained within the Council Plan to ensure resources are directed towards agreed priorities.

5. The key priorities within the Corporate Plan are:

- A greener more sustainable Somerset

- A healthy and caring Somerset
- A flourishing and resilient Somerset
- A fairer ambitious Somerset

Recommendations

6. The Executive approves the Medium-Term Financial Strategy (MTFS) for 2024/25 to 2026/27 and the approach for the medium term of the following proposals:
 - An early review of 17 key areas that are the main building blocks of the budget and financial framework (as outlined in table 1).
 - A three-year approach and framework for balancing the budget to develop the Service Budget Options (outlined in paragraphs 28 to 30).
 - Reviewing and challenging all MTFP assumptions as outlined in paragraph 27.
 - A review of the capital programme as outlined in paragraph 54.
 - The criteria for any new schemes as outlined in paragraph 56.
 - Note that the reserves position for the Somerset Council has not yet been completed pending finalisation of all five authorities Statement of Accounts.

Reasons for recommendations

7. To request members endorsement of the approach to financial planning and balancing the budget in the medium-term for the next three years.

Other options considered

8. Other options considered were whether to look at the budget for 2024/25 in isolation, and or to allocate targets to all services. This approach was rejected as is it doesn't fit with best practice for a council to plan its resources over the medium term.

Links to Council Plan and Medium-Term Financial Plan

9. The MTFP will link pressures, growth, and savings to the delivery of the Council's key priorities within the Council Plan.

Financial and Risk Implications

10. The MTFP forecast in February 2023 outlined a budget shortfall of nearly £42m for 2024/25. There is a significant risk that this figure is likely to increase given the continued level of high inflation and demand for services requiring additional savings needing to be identified and delivered.
11. The 2023/24 Budget report identified 14 risks out of which 3 were Red and 9 were Amber and two were green. This assessment has been updated along with new and emerging risks are outlined in table 8 of this report.

Legal Implications

12. The legal implications will be assessed as part of the overall budget process that will conclude in February 2024.

HR Implications

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

Other Implications:

Equalities Implications

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

Community Safety Implications

15. There are no community safety implications arising from this report.

Climate Change and Sustainability Implications

16. Somerset Council have declared both a Climate and Ecological Emergency. Climate Change activities will be linked through the Corporate Plan.

Health and Safety Implications

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

Health and Wellbeing Implications

18. There are currently no implications.

Social Value

19. There are currently no implications.

Scrutiny comments / recommendations

20. The 2024/25 budget preparations and proposals will be considered by the Councils Scrutiny Committees in December 2023.

Background

21. The well documented national issues around local audit means that there are a number of statement of accounts from the predecessor councils for prior years that are still outstanding, and this means that some of the information for Somerset Council such as the 2022/23 outturn, reserves position, and capital position are still being finalised.
22. The 2024/25 budget will be challenging given that the Council is still restructuring post Local Government Reorganisation, as well as the national economic outlook with impact of high inflation, rising interest rates and levels of demand for services especially in Adults and Childrens Services.
23. The MTFP in February 2023 outlined a forecast budget gap of £100m over the next three years to 2026/27. These forecasts need to be updated to take account of the latest service demand forecasts and cost increases. The MTFP included an increase in Council tax of 4.99% in 2024/25 and most of the Government grant increases have been factored in as they were announced in December 2022 as part of the settlement.
24. When the 2023/24 budget was set the expected budget gap for 2024/25 was expected to be c£40m. However, continuing high inflation, rising interest rates, and demand in Adults and Childrens Services means that the gap is expected to be considerably higher than this.
25. The first three tiers of the staffing restructuring have taken place providing savings of £2.6m of the £9.4m overall target and completing this across the Council will take up considerable resources over the next two years. Part of the finance settlement for local government announcement in December 2022 provided outline details of the various government Grants including the Social Care Grant, Revenue Support Grant, and Rural Services Delivery Grant for 2024/25. The various funding reforms previously proposed by the government are on hold and not likely to be implemented in this parliament. The MTFP will be updated to take account of this.
26. With the financial challenges outlined in this paper the Council needs to move at pace to deal with the very difficult financial situation that the council now faces.

The 2022/23 Outturn Position for Somerset

27. The Statement of Accounts for the 2022/23 financial year of the five predecessor councils are being finalised and show that the overall outturn position will be a c£20m overspend. This will need to be funded from reserves and reducing the Councils ability to manage issues

in this financial year and flexibility in budget planning and sustainability. Over the summer there will be a full review of reserves once the overall outturn position is confirmed to ensure that Somerset Council has sufficient reserves to meet risks.

Medium-Term Financial Strategy

28. Overall, the gap outlined in February 2023 for the next three years was a predicted shortfall between the resources available and cost of current service of c£100m in 2025/26 prior to further savings being identified. In addition to the pressures on the General Fund, there are also pressures within the Housing Revenue Account (HRA) and Dedicated Schools Grant (DSG). The DSG is of particular concern given that the overall deficit on it is now £20.7m with the High Need Block (HNB) part of this being in deficit by £29.8m and is forecast to rise substantially over the next 3 years to be circa £70m deficit if planned mitigations are insufficient to address increasing demand. The statutory override provided by government ends on 31 March 2026 at which time this will revert to being set against the councils' other reserves and combined with all the other pressures on the Council resources raises the very real prospect of a Section 114 notice. The DfE is continuing to work with councils on a national programme to address the deficits in the HNB block but given the very substantial figures are unlikely to resolve the issues. However, analysis from the DfE's Delivering Better Value for SEND programme suggest that the cumulative impact of these mitigations is likely to be between £10.4 million and £22.7 million by the end of 2026/27, which means that these initiatives are unlikely to resolve the issues entirely.
29. Given the level of required savings, the known pressures within the current year's budget and the relatively low level of reserves, it is imperative that action is taken to identify significant savings. With the need to take decisive action combined with limited staff resources it is proposed to take a targeted approach with three key elements, which are: -
- Targets Areas – An early focus on 'big ticket' items that are some of the key building blocks of the budget. The table below identifies 17 key areas for early review.
 - Review of MTFP assumption – Challenging and reviewing of the identified cost pressures to try and reduce them down which would reduce the MTFP gap. Also reviewing all the funding streams in the light of deferral by government of the funding reforms
 - Service Budget Options - All Service Directors will be reviewing their services and identifying Budget Options for members to consider. This will help form the basis of a transformation pipeline of savings over MTFP over the next three years.

Table 1 – Targeted Areas for early focus

Ref	Key Area	Detail	Lead Member	Lead Officer
1	Adults Services	Implementing opportunities identified in the Diagnostic of Adults by Newton. Prior to this work the MTFP assumed cost reductions of £10m split equally over 2023/24 and 2024/25. The detailed diagnostic work has identified a different profile of savings and opportunities more than those built into the MTFP in future years.	Cllr Dean Ruddle, Lead Member for Adult Services	Mel Lock, Executive Director Adult Services

Ref	Key Area	Detail	Lead Member	Lead Officer
2	Childrens Services	<p>Implementing the opportunities identified in the Diagnostic by Impower which identified potential, cumulative cost avoidance and savings ranging from £4.9m and £8.1m over three years.</p> <p>This includes developing new sufficiency strategies for placements and edge of care services to inform the transformation plan for Children Looked After. Transformation will include Homes & Horizons, recommissioning 16+, market development, reducing unregistered placements, and work with Impower consultancy to improve internal fostering and step-across options for children and young people.</p>	Cllr Tessa Munt, Lead Member for Children, Families, and Education	Claire Winter, Executive Director – Childrens, Families & Education

Ref	Key Area	Detail	Lead Member	Lead Officer
3	Schools – High Needs Block	Delivering Better Value (DBV) in SEND Programme with Newton Europe & CIPFA which identified potential cumulative cost avoidance and savings ranging from £10.4m to £22.7m over three years.	Cllr Tessa Munt, Lead Member for Children, Families, and Education	Rob Hart, Service Director Inclusion
4	Review of School Transport	Implementing the recommendations and opportunities identified in the report from the Edge Public Solutions report that identified saving of £0.6m in year 1, £2.4m in year 2 rising to £2.6m in year 3.	Cllr Tessa Munt, Lead Member for Children, Families, and Education	Rob Hart, Service Director Inclusion and David Carter, Service Director, Infrastructure & Transport
5	Schools Capital Programme	Review of capital programme for schools considering maintenance backlog, current schemes, future requirements with revised pupil numbers forecast & estimated academisations	Cllr Tessa Munt, Lead Member for Children, Families, and Education	Amelia Walker, Service Director Education Partnerships & Skills and Oliver Woodhams, Service Director – Strategic Asset Management

Ref	Key Area	Detail	Lead Member	Lead Officer
6	School Balances	There are a significant number of schools setting deficit budgets for 2023/24 which projected forward would see a significant reduction to the current £20m surplus in school balances. This would include a programme to identify some of the themes within school budgets to target support in the most effective way, and to lobby government if appropriate	Cllr Tessa Munt, Lead Member for Children, Families, and Education	Amelia Walker, Service Director Education Partnerships & Skills
7	Staffing Establishment Control	Management control of vacant posts, temporary posts, agency staff etc in order to minimise redundancy costs and help deliver the staff savings in the LGR business case.	Cllr Theo Butt, Lead Member for Transformation and Human Resources	Chris Squires, Service Director - Customers, Digital & Workforce and Nicola Hix – Service Director of Finance & Procurement
8	Commercial Investments	Review of the current portfolio and identification of opportunities for disposals and reduction of risks	Cllr Ros Wyke, Lead Member for Economic Development, Planning, and Assets	Oliver Woodhams, Service Director – Strategic Asset Management

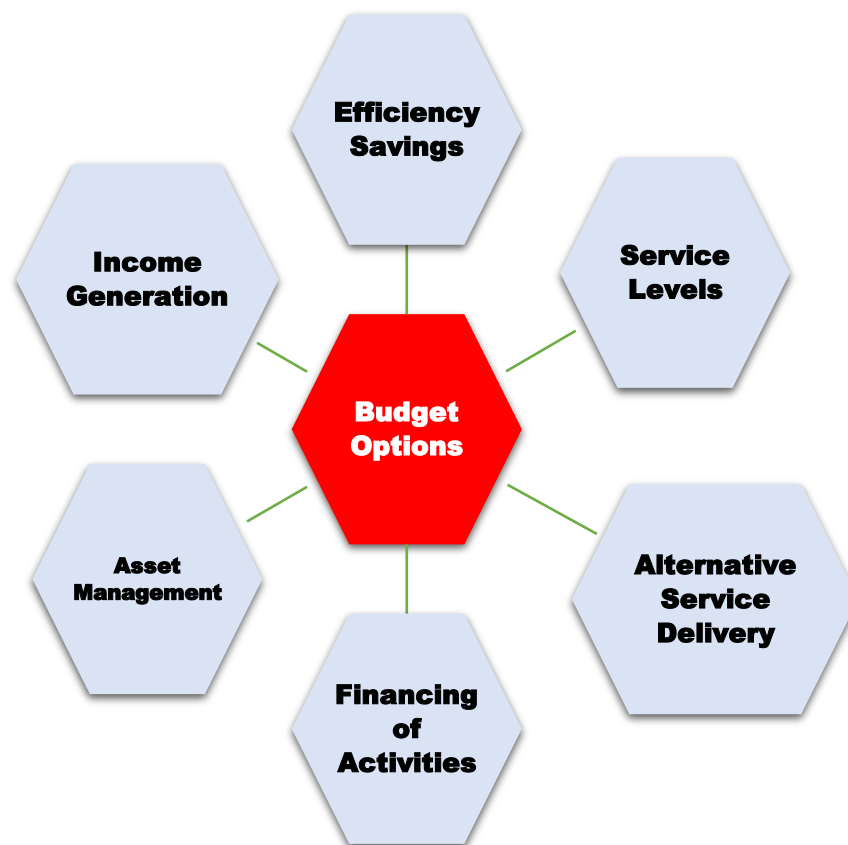
Ref	Key Area	Detail	Lead Member	Lead Officer
9	Review of Assets	Review of assets and identification of pipeline of disposals including council office rationalisation	Cllr Ros Wyke, Lead Member for Economic Development, Planning, and Assets	Oliver Woodhams, Service Director – Strategic Asset Management
10	Business Rates & Council Tax	Review of business rates and council tax following the creation of the new unitary and the financial impacts this has on funding forecasts and collection fund positions	Cllr Liz Leyshon, Deputy Leader of the Council and Lead Member for Resources and Performance	Nicola Hix – Service Director of Finance & Procurement
11	Review of Capital Programme	Reduce number and costs of all existing capital schemes & restrict funding for new capital schemes to urgent Health & Safety schemes or schemes that are 100% externally funded.	Cllr Liz Leyshon, Deputy Leader of the Council and Lead Member for Resources and Performance	Nicola Hix – Service Director of Finance & Procurement

Ref	Key Area	Detail	Lead Member	Lead Officer
12	Reserves	Review the reserves from across the five councils, amalgamate them and ensure sufficient General Fund Reserves are set aside. The risk-based assessment of reserves identified that General reserves should be in the range £30m to £50m.	Cllr Liz Leyshon, Deputy Leader of the Council and Lead Member for Resources and Performance	Nicola Hix, Service Director - Finance & Procurement
13	Capital Receipts	Review capital receipts available along with the commitments in the capital programme and disposal programmes. Identify and recommend the most effective use within the MTFP	Cllr Liz Leyshon, Deputy Leader of the Council and Lead Member for Resources and Performance	Nicola Hix, Service Director - Finance & Procurement
14	Treasury Management	Review of the Borrowing & Investments portfolio. Identify a strategy of rationalisation of investments that takes account of future needs and interest rate forecasts.	Cllr Liz Leyshon, Deputy Leader of the Council and Lead Member for Resources and Performance	Nicola Hix, Service Director - Finance & Procurement

Ref	Key Area	Detail	Lead Member	Lead Officer
15	Grants	Review the grants provided by the 5 Councils. Understand the source of the grants and the priorities within the Council Plan and rationalise.	Cllr Theo Butt, Lead Member for Transformation and Human Resources	Alyn Jones, Executive Director – Strategy, Workforce & Localities
16	Transformation Programme	Outline the pipeline of transformation projects that deliver on-going savings / reductions in cost over the MTFP.	Cllr Theo Butt, Lead Member for Transformation and Human Resources	Alyn Jones, Executive Director – Strategy, Workforce & Localities
17	Financial Resilience & Sustainability Review	Complete a financial sustainability and resilience review for Somerset Council in the light of the 2022/23 outturn from the 5 predecessor councils.	Cllr Liz Leyshon, Deputy Leader of the Council and Lead Member for Resources and Performance	Jason Vaughan, Executive Director – Resources & Corporate Services

30. In addition to looking at these key elements, all Service Directors are reviewing their services and identifying Budget Options for members to consider. This will help form the basis of a transformation pipeline of savings over MTFP over the next three years.

31. A framework for the development of options to balance the budget within the MTFP is set out in the diagram below:



32. With the context of only being a new unitary since April and recognising both the time and staffing resources constraints that we currently face, balancing the 2024/25 budget is focused upon the following activities:

- **Efficiency Savings** – Savings from LGR (being 1 council rather than 5), changes in demand, innovation & procurement. Specific tasks are:

- 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** – Changing service levels - Gold, Silver, or Bronze standard or stopping the service altogether if it is not statutory as follows:

- 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** – Providing the same service in a different way e.g., transformation savings, through a partner or VCFSE sector and specifically:

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

- **Asset Management** – different use of assets, purchase, and disposal of assets as follows:

- 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** – Capital, Revenue & Reserves as follows

- 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** – Grants, business rates, council tax and fees & charges.

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

Medium Term Financial Plan

33. The Medium-Term Financial Plan in February 2023 outlined the expected General Fund budget gap over the next three years as follows:

Table 2 – General Fund Budget Gap 2024/25 to 2026/27

MTFP	Forecast	Forecast	Forecast
	Budget	Budget	Budget
	2024/25	2025/26	2026/27
	£m	£m	£m
Net Budget Requirement	539.6	569.2	633.7
Financing:			
Revenue Support Grant	(8.5)	(33.6)	(33.0)
Business Rates Income	(130.1)	(124.0)	(126.7)
Council Tax	(357.4)	(366.4)	(375.5)
Contributions to & from Reserves	(2.0)	0.3	0.3
Total Financing	(498.0)	(523.7)	(534.9)
Accumulative Budget Gap	41.6	45.5	98.8

34. In the current financial year, we have already identified a number of ‘emerging issues’ that are creating budget pressures and are likely to have also impact on the 2024/25 budget and future years. Directors are currently working to mitigate these pressures, but it is likely given the rate of inflation and demand that the overall accumulated gap will be higher than estimated in February 2023. The various funding reforms proposed by government have all stalled and no significant changes are expected in this parliament. The finance settlement in December 2022 did provide some guidance on government funding for 2024/24 which has been reflected in the MTFP but with the funding reforms being delayed the MTFP assumptions on funding will be reviewed.

Council Funding

Government Grants

35. 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 grants and forecasts are outlined below but will need to be reviewed and updated in the light of delays to the funding reforms.

Table 3 – Government Grants to 2026/27

Grant	Actual 2023/24 £'m	Forecast 2024/25 £'m	Forecast 2025/26 £'m	Forecast 2026/27 £'m
Revenue Support Grant - Government Grant Distributed based on need.	7.9	8.5	33.6	33.0
Rural Services Delivery Grant - Government Grant to support the increased costs of delivering services in rural areas.	3.2	3.2	3.2	3.2
New Homes Bonus - 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	3.8	-	-
Services Grant - A once-off grant to support Local Government Services (the funding is ongoing but the mechanism for distribution is once-off)	3.2	3.2	-	-
Social Care Grant - A Government Grant to support the cost pressures in both Adult and Children's social care.	39.2	45.1	88.6	93.8
Specific Grants Included Within Adult Services or Public Health				
Market Sustainability and Improvement Funding - Government grant toward improvement in Adult Social Care	5.8	8.8	-	-
Discharge Fund – Government Grant to support hospital discharges	3.3	5.5	-	-

Better Care Fund - Grant from the ICB for the integration of health and social care.	14.7	14.7	14.7	14.7
Improved Better Care Fund - Government Grant to support local authorities to meet adult social care costs, reduce pressures on the NHS and support the social care market	23.4	23.4	23.4	23.4
Public Health Grant - Ringfenced Government funding to improve health in the local population	22.6	22.9	23.0	24.2
Total	126.4	138.6	186.5	192.3

Business Rates

36. 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.

Table 4 – Business Rates Assumptions

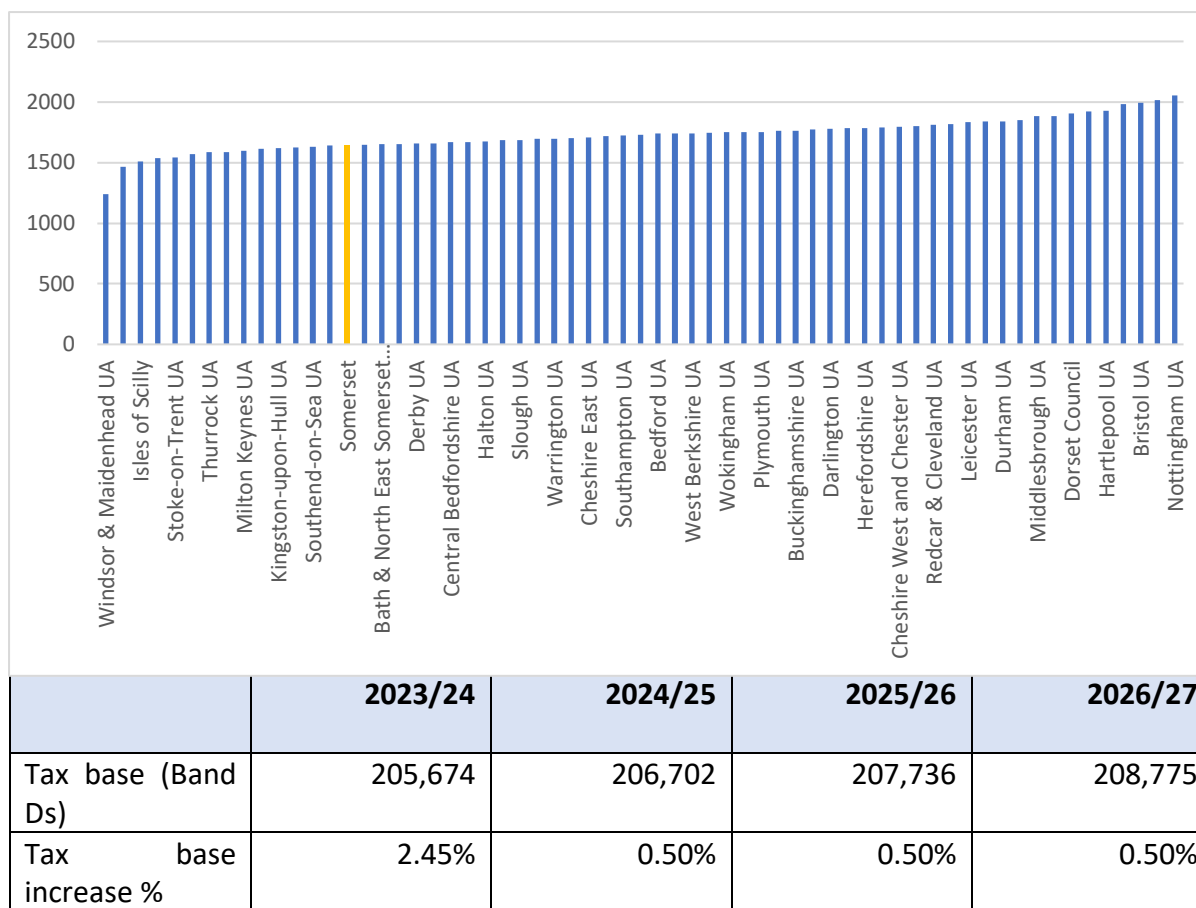
	2023/24	2024/25	2025/26	2026/27
Income £'m	£122.2m	£130.1m	£124.0m	£126.7m
Increase/(decrease) %	2.99%	6.5%	(4.7)%	2.2%

37. Income to Somerset is higher than the baseline need of £84.5m and therefore demonstrates how much growth has been retained. The table above shows the adjustment that is expected once the baseline is reset. It remains a risk that Somerset could suffer further loss of that growth once the reset takes place.

Council Tax

38. The 2023/24 council tax for the new authority for an average Band D of £1,646.03 (not including special rates) was approved at full Council in February 2023. The following table shows a comparison of Somerset Council to other Unitary Authorities for 2023/24

Table 5 – Average council tax for the authority including adult social care, excluding parish precepts (Band D) in 2023/24



39. The average council tax of unitary authorities in 2023/24 was £1,733 compared to Somerset £1,646. Referendum limits for 2023/24 and 2024/25 were agreed by central government.

40. The following table shows the current assumptions for the taxbase increases currently included within the Medium-Term Financial Plan (2023/24 is shown for comparison purposes):

Table 6 – Tax Base Assumptions

41. Band D Council Tax increases currently included within the Medium-Term Financial Plan are as follows:

Table 7 – Council Tax Increase Assumptions

	2023/24	2024/25	2025/26	2026/27

Average Band D £'s	£1,646.03	£1,728.17	£1,762.56	£1,797.64
Increase %	4.99%	4.99%	1.99%	1.99%

Note the above has been used for planning purposes but are not approved.

Housing Revenue Account

42. The Housing Revenue Account is ringfenced and the Council approved the HRA business plan in February 2023. Inflation is also impacting on the HRA through pay, contracts, and materials but rent increases have been capped to 7%. Work has started to refresh the 30-year business plan for 2024/25.

Schools and DSG

43. 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.
44. Currently 51% of mainstream schools are academies (Primary 44%, Sec/Middle 89%). It is expected that 15 schools will convert to academies over the next 12 months leaving 118 schools as LA maintained schools. As at 31/3/22 the reserves of all LA maintained schools, including Specials and PRUs, was £19.8m (mainstream schools were £17.1m). This is expected to drop this year and move into a deficit position during 2024/25.
45. With the introduction of the National Funding Formula (NFF) the DSG was ring-fenced for schools from 2018/19 making the LA responsible for the demographic pressures being observed in the SEND / High Needs element of the DSG (although schools can contribute up to 0.5% of the ringfenced sum if agreed by the Schools Forum). However, local authorities cannot contribute to any deficit. The DSG deficit at the end of 2022/23 was £20.7m with the High Needs Block deficit reaching £29.8m and this is expected to increase to £70m by the end of 2025/26 without a change in policy or further funding when the statutory override ends. This could mean that the negative balance would have to be found by the Council with a disastrous impact on reserves.

46. There have been two key programmes of work to address this challenge. The specialist capital programme began in 2019, supported by investment from the local authority, to expand and improve Somerset's specialist estate. This has resulted in an increase of 361 additional places in specialist SEND provision across the county to date. In 2022, the Council received a £10.1 million DfE high needs capital grant, which is being used to fund further increases in specialist SEND capacity, through development of special school satellites, enhanced learning provisions in mainstream settings, and therapeutic education provision. In addition, the Council has successfully bid for two new Special Free Schools, which the DfE is responsible for delivering. The first was due to open in September 2022, but has been delayed and is now expected to open in September 2024. This will ultimately provide 120 new places. The second is due to open in 2027 and will provide a further 64 places.
47. Since April 2022, the service has been working with IMPOWER Consulting to identify further opportunities to improve outcomes for children and reduce pressures on high needs budgets. This work has focused on improving early identification and support and led to the set-up of a dedicated advice line for schools to support earlier intervention, as well as a trial of the Somerset Inclusion Tool (Valuing SEND) to improve planning around transitions for children with SEND. This is helping to identify children who can remain in mainstream settings with the right support, who might otherwise have moved into more specialist settings.
48. Following on from this, in summer 2022, Somerset was invited to participate in the DfE-led Delivering Better Value programme. This is aimed at 55 local authorities with significant high needs deficits, but not the 20 areas with the biggest deficits (who access a different "safety valve" programme). During autumn 2022 the service worked with Newton Europe and CIPFA to develop an improved understanding of our demand and financial trajectories in relation to high needs, as well as identify opportunity areas where improvements and efficiencies could be made. This has resulted in the award of a £1m grant from DfE to support transformation and test and learn activity.
49. Newton's analysis has suggested that there are opportunities for reducing high needs expenditure, which could realise a £1.05m benefit by the end of 2024/25, and a cumulative benefit of £7.93m by the end of 2027/28. However, based on Newton's model, it is still expected that the cumulative deficit will continue to grow each year, unless there were to be significant changes to SEND policy or funding at a national level. Newton have reported that in each of the local authorities they have worked with, they are projecting that deficits will continue to grow, so Somerset is in line with other areas in this respect.
50. The Department for Education still requires the Local Authority to produce a DSG Deficit Management Plan to evidence how it will reduce the in-year deficit to zero by 31st March 2026 when the statutory override expires. The activities and opportunities identified through the

work with IMPOWER Consulting and the DBV SEND programme are included in Somerset's DSG Deficit Management Plan with further mitigating actions being developed.

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

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

52. In July 2023, the DfE will publish provisional allocations for the schools, high needs and central services blocks. Final allocations are expected in mid-late December and will be based on pupil numbers from the October 2022 school census. Schools funding across England is expected to increase by 2.6% overall in 2024/25, through the NFF. Based on this level of increase, the provisional allocation expected for Somerset Schools Block is an increase of £9.7m. There is no further information on High needs funding for 2024/25. Nationally central schools services funding will continue to decrease by 20% for historic commitments, which is approximately £0.5m in 2024/25. Some early help services are currently funded by this block and will be impacted by the reduction in funding.

Capital Strategy

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

54. The update to the Code includes a clear statement that local authorities must not borrow primarily for financial return. Somerset Council holds £289m of investment properties that would be designated as being held for financial return. The Code outlines that authorities are not required to immediately sell these investments. However, Authorities which have an expected need to borrow should review options for exiting their financial investments for commercial purposes in their annual treasury management or investment strategies. The options should include using the sales proceeds to repay debt or reduce new borrowing requirements. It also states that authorities should not

take on new borrowing if financial investments for commercial purposes can reasonably be released instead, based on a financial appraisal of financial implications and risk reduction benefits.

55. It was expected under current rules that borrowing long term or refinancing these commercial properties where the property was purchased after November 2020 that the Council could not finance these from the PWLB (Public Works Loans Board). However, in discussions with central Government, and as a result of Local Government Reorganisation this will not apply to Somerset Council.
56. Under these rules the Council cannot purchase properties for financial gain and therefore this pushes the Council into a more passive approach to managing this portfolio. A review of the portfolio is being undertaken to look at the borrowing costs of each property compared to yields and as required by the prudential code to decide whether to divest rather than borrow. This could be used to reduce the Council's costs of borrowing through lower Minimum Revenue Provisions and interest costs (which in essence reduces the revenue costs to the Council). However, the loss of rental income will also impact the MTFP and therefore a complete overview will be required with careful consideration of the borrowing costs, loss of income, length of lease, the capital receipt, as well as any future capital commitments that will be required to maintain the property.
57. The Council currently has a CFR (Capital Funding Requirement) of £1.2bn and almost 11% of the net budget is required to repay debt (this includes Minimum Revenue Provision and interest). There is a need to review the capital programme as soon as slippage/ reprofiled schemes are incorporated within the capital programme to review and reduce this requirement. It will be necessary to review the relative priorities of each individual schemes with an approach of limiting any impact upon the MTFP by expecting that additional costs will be found from removing lesser priority schemes rather than additional borrowing.
58. Borrowing costs for the general fund are made up of MRP (Minimum Revenue Provision) which in essence is set aside to reduce debt and interest costs. The current MRP policy is a mix of the previous five authorities and needs simplifying. Work on this will begin once the capital programme is updated when the final year end positions are known.
59. With the current MTFP position any funding for new Capital schemes will be very limited and focused upon
 - Schemes that are fully externally funded: &
 - Where there is a legal requirement such as Health & Safety Needs

60. Other methods of funding the capital programme include:

- Third Party Contributions -Only Third-Party contributions received or formally agreed are used to fund the programme.
- Capital receipts - will be reviewed as part of the overall funding requirements of both revenue and capital. The authority has some flexibility in the use of capital receipts and the Capital Receipts Flexibility Strategy was approved as part of the 2023/24 budget. The Strategy specifically outlined the implementation costs (where they meet the criteria) of LGR would be funded from the flexibility. Other projects and programmes may be added for 2023/24 and/or 2024/25 but will require full Council approval. It is key that all means of financing remain as flexible as possible as a means of supporting the authority's long-term viability and sustainability. This may mean that some capital receipts currently earmarked to fund the capital programme are replaced by borrowing.
- Revenue contributions to capital – any remaining contributions will be reviewed to ensure that financial resources are utilised as part of the assurance process to maintain the Councils' ongoing sustainability.
- CIL (Community Infrastructure Levy)/S106 - the Capital Programme will include allocations of CIL and S106 funding to ensure that the capital programme shows an accurate picture of overall funding requirements. It will also show the timing differences where schemes require upfront funding that will be repaid in future years as CIL and S106 payments are received.

Reserves

61. The Council holds three types of reserves:

- **General Fund Unallocated Reserves** – the level of requirement for General Fund Reserves is assessed on a risk-based approach that reviews the risks to the authority and the mitigations including earmarked reserves and contingencies in place to meet those risks. The budget setting report in February 2023 assessed the requirement for Somerset Council to be within the range of £30-£50m. Once the final outturn and preserves position is known of all five legacy councils a full review of reserves will be carried out.

- **Earmarked Reserves** – these can be reserves that are held for specific purposes, such as a reserve to fund elections or insurance risks as well as being held for issues such as budget volatility.
- **Reserves Held on Behalf of Others**- these are reserves that the Council holds as the accountable body so an example would be the LEP Reserve that is held on behalf of the partnership.

All reserves (except than those held on behalf of others) will be reviewed as soon as the five authorities accounts are closed. It is worth noting that £10m of reserves were set aside to support the 2023/24 budget plus the expected 2022/23 overspend of c£20m. If there is an overspend in the current financial year this will cause further stress on the levels of reserves required to meet risks as well as supporting the MTFP for future years.

Links to Other Strategies

62. There are several other related strategies that link to and supplement the Financial Strategy. These include: -

- The Council Plan
- Treasury Management Strategy Statement
- Non-Treasury Investment Strategy
- Flexible Capital Receipts Strategy
- Asset Management Plan

Risks

63. 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 8 – Risks

Risk	Rag Rating (R/A/G)	Risk Owner	Comments, Management and Mitigations
National pay award will be higher than estimated	R	Executive Director of Resources & Corporate Services	The pay award for 2022/23 was agreed at a flat rate of £1,925. A 5% increase was built into the budget for 2023/24. This has not been accepted within negotiations to date. Only 2% has been budgeted for 2024/25 and with inflation currently running at 8.7% this will need to be reviewed.

Continuation of high levels of inflation impacting on the cost of services and pay budgets	R	Executive Director of Resources & Corporate Services	The CPI inflation rate was 10.4% in February and now has decreased to 8.7%. This is expected to decrease to around 5% later this year and possibly 2% by late 2024. Inflationary increases are built into some of our major contracts and therefore the timing of inflationary reductions will need to be monitored as part of the MTFP.
Changes to Government Policy that affects future funding (Social Care)	R	Executive 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
Continuation of high interest rates impact on borrowing costs	R	Service Director – Finance and Procurement	The base rate of interest is currently 5%. There are predictions that they could yet peak at 6%. The Council will need to review and reduce its capital programme to ensure that it is sustainable and affordable.

Economic downturn impacts on income	A	Relevant Service Director	This will continue to be reviewed as part of budget monitoring
Increasing demand due to external factors	A	Relevant Service Director	There is a risk that the cost-of-living crisis and reducing budgets in partner organisations have a significant impact on demand including the number of children requiring support, or the complexity of need, and therefore the cost of services. Due to the complexities of families and communities and their resilience it is unclear when this risk might occur.
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.

The Government announces further cuts in local government funding	A	Executive Leadership Team	The Provisional Settlement outlined most of the funding for 2024/25. The risk is that funding does not keep in line with inflation as well as a push from Government to reduce the cost of public services through further efficiency targets
Reserves are not sufficient to meet the risks facing the Council including the possibility that the deficit on the High Needs Block could have to be financed from other reserves once the statutory override ends	A	Executive Director of Resources & Corporate Services	A full review of reserves will be carried out as soon as the Statement of accounts are completed for all five authorities to free up reserves where possible. Need to continue to press Government to address the issues around high needs and how deficits will be financed

Timetable

64. The high-level timetable is as follows:

July 2023

- Medium Term Financial Strategy presented to Executive.

September 2023

- Budget data collected for the MTFP and capital bids received.

December 2023

- Updated Medium Term Financial Plan (MTFP) to the Executive

- Executive review the budget proposals as the basis for consultation.
- Scrutiny review the proposals and public consultation commences.

February 2024

- Executive review all proposals and consultation and recommend budget to full Council.
- Council reviews and approves the 2024/25 budget and council tax.

Background Papers

65. 2023/24 Budget report to February 2023 Council and 2023/24 Financial Strategy report to July 2022 Executive.

Report Sign-Off (if appropriate)

	Officer Name	Date Completed
Legal & Governance Implications	David Clark	20/06/2023
Communications	Chris Palmer	20/06/2023
Finance & Procurement	Nicola Hix	20/06/2023
Workforce	Chris Squire	20/06/2023
Asset Management	Oliver Woodhams	20/06/2023
Executive Director / Senior Manager	Jason Vaughan	20/06/2023
Strategy & Performance	Alyn Jones	20/06/2023
Executive Lead Member	Liz Leyshon	21/06/2023
Consulted:		
Local Division Members		
Opposition Spokesperson	Councillor Mandy Chilcott	21/06/2023
Scrutiny Chair	Councillor Bob Filmer	22/06/2023

