

## Decision Report - Executive Decision

Forward Plan Reference: FP/23/04/06

Decision Date - 7 February 2024

Key Decision - Yes



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### 2024/25 General Fund Revenue Budget and Medium-Term Financial Plan

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

Local Member(s) and Division: All

Lead Officer: Jason Vaughan - Executive Director - Resources & Corporate Services (s.151 Officer)

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#### Summary

1. To set out for the Executive consideration and recommendation to Council the proposed revenue budget for 2024/25 and council tax based on implementing the Financial Strategy and avoiding a section 114 notice.
2. In November 2023, the Council declared a **'Financial Emergency'** which introduced significant local financial controls and moved the council to operating as if a section 114 notice had been issued and external commissioners appointed.
3. The Financial Strategy was approved by the Executive in July 2023 and updated in the light of the 'Financial Emergency' has been focused upon avoiding a section 114 notice by taking the following actions:
  - Reducing the current year's overspend,
  - Reviewing and reducing budget pressures,
  - Identifying further saving options,
  - Reducing the capital programme and bids for new schemes,
  - Maximising funding & income to the council,
  - Generating capital receipts from asset disposals,
  - Disposing of commercial investments,
  - Completing the outstanding statement of accounts from the five predecessor councils,
  - Reviewing Earmarked Reserves and repurposing them to support the budget,

- 'Resizing' of the organisation (workforce transformation) to enable it to become financially sustainable in the future, and
  - Working with the Department for Levelling Up, Housing and Communities (DLUHC) on a capitalisation direction.
4. Somerset Council is a new unitary council, created less than one year ago and faces a very stark and challenging financial position. The scale of the financial challenge is significant and based upon the latest estimates of costs and income, with the forecast budget gap predicted to increase to £147.9m in 2026/27 at the end of the MTFP period if no further savings are identified. Despite making substantial savings, disposing of asset, using available reserves, and increasing Council Tax, the Council is unable to close the budget gap for 2024/25.
  5. It is very clear that under the current financing model for local government the Council is not financially sustainable and that urgent reform of the funding mechanism for local government is required. Significant and on-going financial support from Government will be required due to the cost of delivering services increasing significantly faster than the income the council receives particularly in relation to social care. Without Government support the Council will have no choice other than to issue a section 114 notice in 2024/25.
  6. The potential to increase Council Tax above referendum limits has been permitted in 2023/24 for Thurrock (10%), Slough (10%) and Croydon (15%) and 10% for 2024/25 in Woking, Slough and Thurrock. Allowing this would bring Somerset's Council Tax charge closer to the average of all Unitary Councils, although it would still be a lot lower than others in the region such as Dorset and Cornwall, and still significantly below the English average charge. The advantage of increasing Council Tax is that the Council gains the benefit of the increase on an ongoing basis. The vulnerable will be protected from the increase through the recently approved Council Tax Reduction and Hardship schemes which will increase by 6.7% for 2024/25, in line with the rise in state benefits announced in the Autumn Statement.
  7. The Council has requested a capitalisation direction from DLUHC. A capitalisation direction or exceptional financial support requires approval by government. It does not provide additional funding but allows the relaxation of accounting guidance enabling revenue costs to be funded from capital. This means the authority can borrow or use capital receipts to fund these costs.

8. A capitalisation direction will not solve the budget gap on an on-going basis, it is simply a mechanism that provides the Council time to radically change and develop sustainable solutions. If a capitalisation direction is not financed from capital receipts it will add to the financial pressures, with borrowing from the Public Works Loan Board (PWLB) attracting a premium of 1% over the standard rate. The additional borrowing will need to be repaid over a 20-year period from 2025/26. A capitalisation direction of for example £20m, would cost the Council £1m per annum (pa) in minimum revenue provision (MRP) and approximately £1.3m pa in interest, a total of £2.3m pa unless this can be funded from asset disposals. If the gap is not resolved for 2025/26 then another capitalisation direction would need to be sought, further adding to the ongoing pressures.
9. The Council cannot continue to provide and operate services in their current format and rapid, radical, change is required if it is to become financially sustainable. To address this, the Council is developing a Transformation Programme to deliver our vision for the council to be a smaller, leaner council, employing fewer people, requiring fewer offices, focusing only on the unique value the authority can provide. The significant reduction in the workforce should deliver on-going savings of £20m to £30m for 2025/26 (in addition to those in the Local Government Reorganisation Business Case). The one-off costs of this are estimated to be in the region of £40m and a capitalisation direction for this has been requested from DLUHC. Further work is being undertaken to assess if some of these costs can be funded from the capital receipts using the flexible use of capital receipts policy.

## **Recommendations**

10. That the Executive:
  - a) Considers the feedback on the public consultation set out in Appendix 8.
  - b) Considers the comments from the five business sector engagement events set out in Appendix 8.
  - c) Considers the comments from Scrutiny Committee Corporate & Resources (to follow) on the budget proposals.
  - d) Note that a formal request has been submitted to DLUHC for Exceptional Financial Support in the form a Capitalisation Direction to balance the budget, an additional 5% in council tax and £40m for the 're-sizing' of the council and associated redundancy costs and that as part of this process there will an external assurance review by CIPFA.
  - e) Note that the conclusions of the Council's Section 151 Officer (Chief Finance Officer) confirming the robustness of the budget estimates and the adequacy of the level of reserves, will be a separate report to Council.

11. That the Executive recommends Council approves:

#### Revenue Budget

- a.** Note that the Section 151 is not proposing to issue a section 114 notice at this stage due to on-going discussing with DLUHC and the request for Exceptional Financial Support the outcome of which is expected to be known in March 2024.
- b.** The additional funding for pressures requirements set out in Appendix 6.
- c.** The transformation, savings and income generation plans outlined in Appendix 7, considering the detailed Equalities Impact Assessments
- d.** The General Fund net revenue budget for 2024/25 of £638.6m and the individual service budgets for 2024/25 as outlined in Appendix 2.
- e.** That in order to balance the 2024/25 budget, that revenue spend will be capitalised in accordance with the Capitalisation Directive from DLUHC of

£36.6m

OR

£19.5m (if the Council is permitted to increase Council Tax by a further 5.00%)

- f.** The delegation of any amendments within the final Government Financial Settlement and the final Business Rates amendments to the Executive Director of Resources and Corporate Services (s.151 Officer) in consultation with the Leader of the Council.
- g.** Members are asked to note that £36.6m of revenue spend will be capitalised in accordance with the assumed Capitalisation Directive from DLUHC to balance the 2024/25 budget (£19.5m if the Council is permitted to increase Council Tax by 9.99%), see section 48 for details.

#### Reserves

- h.** That the level of General Reserves is maintained within the risk-based assessment range of £30m minimum to £50m maximum level.
- i.** That £36.8m from the Medium-Term Financial Plan Support Reserve is used to help balance the 2024/25 budget.

- j. The previously agreed planned use of Earmarked Reserves of £2.250m for Ash dieback (£0.25m), Highways vegetation (£0.2m) and Public Health reserve £1.8m and the £0.253m contribution to Elections reserve.
- k. The overall estimated position of Earmarked Reserves of £65.125m outlined in **Table 13** and the proposed use of reserves detailed in **Table 14** of this report which includes the estimated use of Earmarked Reserves during the year.

#### Dedicated Schools Grant (DSG)

- l. Note spending on the Dedicated Schools Grant is forecast to exceed the funding provided by government by £17.4m in 2023/24 and reach a cumulative deficit of £96.2m by 31 March 2026.
- m. Notes the overall Dedicated Schools Grant allocation of £533.3m for 2024/25 and breakdown by block as set out in Appendix 12.

### **23.1**

#### Council Tax

- n. The calculations for determining the Council Tax requirement for the year 2024/25 in accordance with the Local Government Finance Act 1992 as set out in the Council Tax Resolution (to follow).
- o. The Council increase the Council Tax for a band D property, including the Somerset Rivers Authority Precept, by £82.14 for 2024/25, giving a band D Council Tax of £1,728.18 per year, excluding the precepts from Police, Fire and parishes as set out below:
  - i. The general band D Council Tax by 2.99%, the maximum permitted without a referendum as previously planned; and
  - ii. The Adult Social Care Precept by 2.00%.

OR

If permitted by government, to increase Council Tax by a further 5.00%, meaning an overall increase of 9.99% to £1,810.48.

- p. Agree to continue the Council Tax precept of £14.65, included in the overall band D Council Tax for the shadow Somerset Rivers Authority (representing no increase). This results in a Council Tax Requirement of £3,058,900 for the Somerset Rivers Authority.

- q. Agree the precept requirement of £338,778,756 (including Special Expenses Rate) £338,547,779 (excluding Special Expenses Rates). A Special Expenses rate of £230,977 as detailed in Appendix 5.
- r. The formal Council Tax resolution which incorporates the precepts of all the precepting bodies in Appendix 13 (this will be circulated separately).

### **Reasons for recommendations**

- 12. To ensure that the Council can set a balanced budget for 2024/25 and meet its statutory duties.

### **Other options considered**

- 13. As this is an update report on progress in reducing the forecast budget gap for 2024/25 there are no other options considered.

### **Links to Council Plan and Medium-Term Financial Plan**

- 14. It is important the Council considers how best it can continue to meet its policy objectives within the tighter financial constraints that it now faces. This requires a level of prioritisation, and the budget plans focus on the following key policy outcomes, as set out in the Council's five-year plan.
  - A Healthy and Caring Somerset
  - A Flourishing and Resilient Somerset
  - A Greener, More Sustainable Somerset
  - A Fairer, Ambitious Somerset

### **Financial and Risk Implications**

- 15. It is clear that the scale of financial challenges facing the Council are significant and that the 2024/25 budget cannot be balanced without Exceptional Financial Support from DLUHC.
- 16. The financial impact of a forecast year-end overspend of £17.5m (as at month 9) in the current financial year would result in a reduction in the level of General Reserves from £49.8m to £32.3m. This remains above the £30m minimum risk-based assessment of the reserves approved by Council in February 2023.
- 17. The Medium Term Financial Forecast has identified a budget gap of just under £200m over the next 5 years and the report shows the forecast reduction in reserves.

18. The deficit on the Dedicated Schools Grant is estimated to reach £98.2m at the end of 2025/26 when the current statutory override is due to end.
19. **Appendix 9** sets out the strategic risks associated with the budget.
20. Given the issues set out on this report and despite all of the actions taken and mitigations put in place the risk score on Strategic Risk ORG0057 – Sustainable MTFP remains at 25 the highest risk score possible.

<b>Likelihood</b>	<b>5</b>	<b>Impact</b>	<b>5</b>	<b>Risk Score</b>	<b>25</b>
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21. This risk score reflects the extremely challenging financial situation and the reality that the councils resources will be fully exhausted at some stage. There is a high likelihood that a section 114 notice will need to be issued unless there is a significant change to the current funding regime or government support is provided.

### **Legal Implications**

22. Section 31A of the Local Government Finance Act 1992 requires billing authorities to calculate their Council Tax requirements in accordance with the prescribed requirements of that section. The function of setting the Council Tax is the responsibility of Full Council. The function of preparing estimates and calculations for submission to Full Council is the responsibility of the Executive. The Council is required by the 1992 Act to make estimates of gross revenue expenditure and anticipated income, leading to a calculation of a budget requirement and the setting of an overall budget to ensure proper discharge of the Council’s statutory duties and to lead to a balanced budget. The budget should include sufficient allowances for contingencies and financial reserves.
23. Local authorities owe a fiduciary duty to Council taxpayers, which means it must consider the prudent use of resources in the short and long term, including control of expenditure, the need to strike a fair balance between the interests of Council taxpayers and the community’s interest in adequate and efficient services, and the need to act in good faith in relation to compliance with statutory duties and exercising statutory powers.
24. Section 25 of the Local Government Act 2003 require that, when the Council is making the calculation of its budget requirement, it must have regard to the report of the Chief Finance (Section 151) Officer as to the robustness of the estimates made for the purposes of the calculations and the adequacy of the proposed financial reserves. It is essential, as a matter of prudence that the financial position continues to be closely monitored.

25. The Local Authorities (Functions & Responsibilities) (England) Regulations 2000 (as amended) set out the respective functions of Council and of the Executive. With regard to the setting of the budget and Council Tax for the forthcoming year, the Regulations provide that the Executive formulates the plan or strategy (in relation to the control of the Council's borrowing or capital expenditure) and the preparation of estimates of the amounts to be aggregated in making the calculations under Section 32 of the 1992 Act. However, the adoption of any such plan or strategy/calculations is the responsibility of Full Council.
26. Full Council is responsible for setting the overall budget framework. However, some of the proposed savings will be subject to further analysis and decision making and as such the savings are an estimate. Individual service decisions will be subject to officer or Executive approval. This will take account of the statutory framework, any requirement to consult and consideration of overarching duties, such as the public sector equality duty. A contingency has been set aside to deal with a risk that when Executive considers these proposals it does not agree that the savings can be met within the specific statutory framework. In an extreme case, the Executive may have to refer the budget to Full Council to reconsider the overall budget framework.
27. The Local Government Act 2003 and associated regulations set out rules in relation to use of capital reserves. Section 15 requires local authorities to have regard to relevant statutory guidance. The statutory guidance on flexible use of capital receipts confirms that local authorities cannot borrow to finance service delivery, however, they can use capital receipts from sale of assets to finance the revenue costs of reforming services. The guidance states that qualifying expenditure is expenditure on a project that is designed to generate ongoing revenue savings in the delivery of public services or transform service delivery in a way that reduces costs or demand for services in future years. The Council is expected to publish an annual Flexible Use of Capital Receipts Strategy, although this can be included in wider strategy documents.
28. In accordance with section 106 of the Local Government Finance Act 1992 where a payment of Council Tax that a member is liable to make has been outstanding for two months or more at the time of a meeting, the Member must disclose the fact of their arrears (though they are not required to declare the amount) and cannot vote on any of the following matters if they are the subject of consideration at a meeting:
  - Any decision relating to the administration or enforcement of Council Tax,
  - Any budget calculation required by the Local Government Finance Act 1992 underlying the setting of the Council Tax, and



- The contents of this report are, and the decisions taken on it will be, matters which might affect the making of the Annual Budget calculation.

### **HR Implications**

29. A number of the potential savings proposals will have staff implications and the approved HR processes and policies will be followed.

### **Other Implications:**

### **Equalities Implications**

30. The impact of setting a budget will have specific implications on those protected under the Equality Act 2010. The Council's budget planning framework is supported by the development of Equality Impact Assessments (EIAs) for the budget proposals, identifying possible disproportionate impact in relation to the protected characteristics as described within the Equality Act 2010. The EIAs will also identify potential mitigation where applicable. Individual equality impact assessments form part of the decision making on the specific proposals needed to balance the budget in February 2024.

### **Community Safety Implications**

31. There are no direct community safety implications arising from this report. Any specific community safety implications will be identified within the supporting information for proposals being considered by Scrutiny, Executive and Full Council in February 2024.

### **Climate Change and Sustainability Implications**

32. There are no direct climate change and sustainability implications arising from this report. Any specific climate change implications will be identified within the supporting information for proposals being considered by Scrutiny, Executive and Full Council in February 2024.

### **Health and Safety Implications**

33. There are no direct health and safety implications arising from this report. Any specific health and safety implications will be identified within the supporting information for proposals being considered by Scrutiny, Executive and Full Council in February 2024.

### **Health and Wellbeing Implications**

34. There are no direct health and wellbeing implications arising from this report. Any specific health and well-being implications will be identified within the supporting information for proposals being considered by Scrutiny, Executive and Full Council in February 2024.

## **Social Value**

35. There are no direct Social Value implications arising from this report. Any specific social value implications will be identified within the supporting information for included as part of the proposals being considered by Scrutiny, Executive and Full Council in February 2024.

## **Background**

36. The 2023/24 Budget was the first for the new Somerset Council and brought together the budgets from the five predecessor councils. Every new unitary council has identified issues during its first year and Somerset is no different. All of the predecessor councils recorded budgets in slightly different ways, and it has become apparent that there are some areas where one-off sources of funding have been used to finance on-going expenditure, some items were not properly budgeted for, longer term investments were funded from short-term borrowing and there was additional staffing employed over and above the staffing establishment budget.
37. The 2024/25 to 2026/27 Medium-Term Financial Strategy (MTFS) was approved in July 2023 and provides a strategic financial framework and a forward-looking approach to achieving financial sustainability for the Council. The financial forecast has been updated and reported to the November Executive and it set out that the estimated budget gap for 2024/25 assumed in the report to February Full Council had increased from £42m to £100m. As a result of this the Council declared a 'financial emergency' and put in place a range of measures to address both the current year's projected overspend and the forecast budget gap for 2024/25 and future years.
38. The Annual Audit Report from Grant Thornton in respect of 4 of the 5 predecessor councils was considered at Audit Committee on 25 January 2024. It highlights a number of issues that will need to be addressed by Somerset Council and the report will be considered by Council at its February meeting. EY will be producing their report on Mendip DC by March 2024.

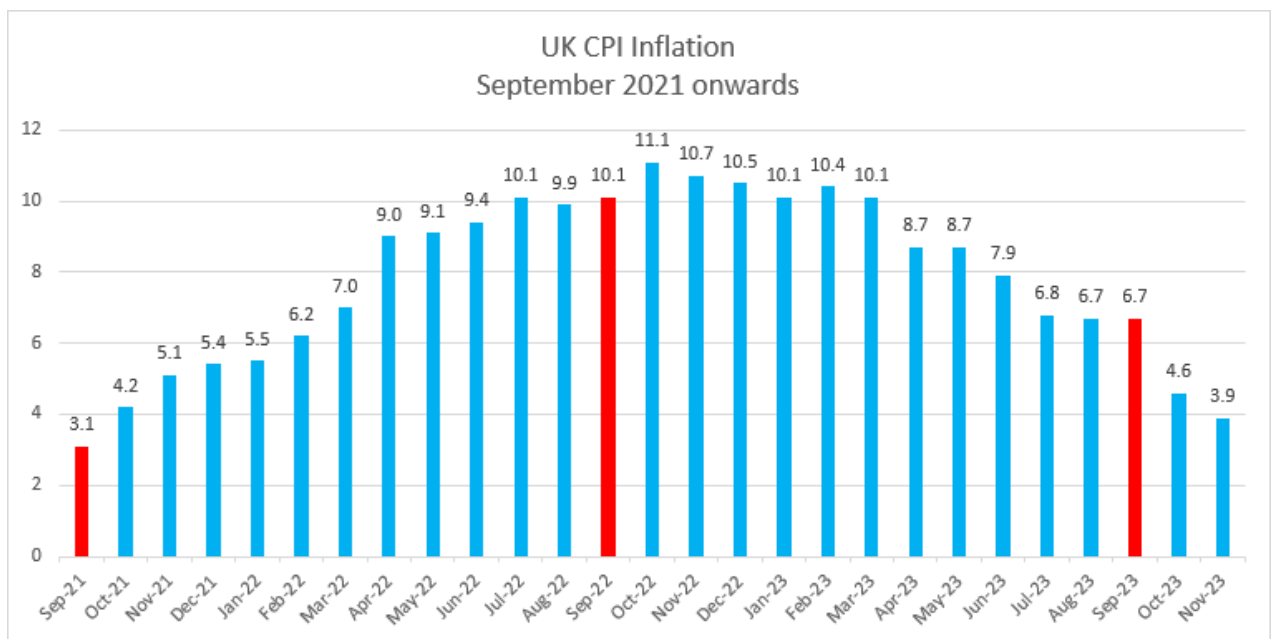
## **Current Context**

39. The Council's finances have been significantly impacted by national factors outside of its control such as inflation and interest rates, as well as having to deal with the challenges of Local Government Reorganisation and bringing the five predecessor councils into one new organisation.
40. The LGR business case set out that £18.5m of on-going savings would be achieved with the costs of implementation being £16.5m. The non-staffing savings of £6.2m have largely been delivered in the current year or will be in 2024/25. Saving from

staffing made up the majority of the savings with an expected reduction of 339 posts, delivering £2.9m of senior management savings and £9.4m from staff savings across the services. To date, £2.6m of on-going senior management savings (29 posts at Tiers 1 to 3) have been achieved which was reported to Council in July 2023 and Tier Four appointments were made in the last quarter of 2023 with the resulting redundancies being reported to Council in December 2023. The other staff savings were profiled as being £1m in current year, £4m in 2024/25 and £4.4m in 2025/26.

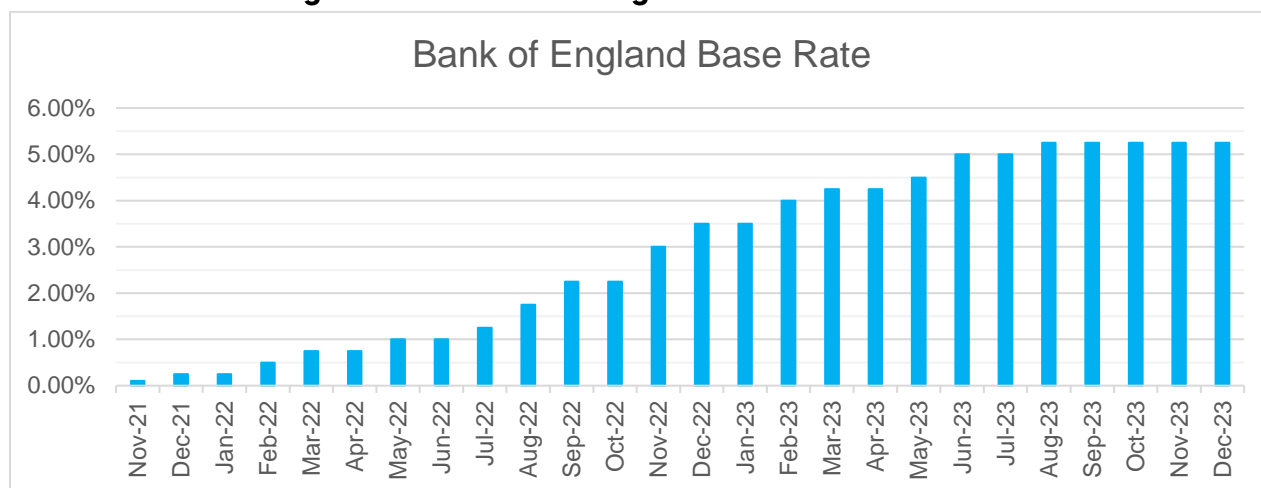
41. Inflation peaked at a 40-year high with the Consumer Price Index (CPI) rising to 11.1% in October 2022, although this is now starting to decrease, to 4.2% in December 2023. The September 2023 CPI of 6.7% is key as these are used by Government for increases in pensions, business rates etc.

**Chart 1: CPI Inflation September 2021 to October 2023**



42. These inflationary increases adversely impact upon the Council and the costs of the services which it provides. This is particularly evident in the care sector where cost increases have been significantly above the CPI inflation levels. The Chancellor has announced that the national living wage will increase by 9.8% from April 2024 and the national staff pay award for 2023/24 has now been agreed at £1,925 pro rata, which is estimated to be equivalent to a 6.1% increase in the pay bill for the Council.
43. To bring inflation under control the Bank of England has been increasing interest rates, with rates rising from 0.1% in November 2021 to the current rate of 5.25%. The Council is a net borrower and inherited a position of significant amount of short-term borrowing on 01 April 2023 of over £200m, with each 1% increase interest rates having a financial impact of £2m per annum.

**Chart 2: Bank of England Base Rate changes**



### **2023/24 Budget**

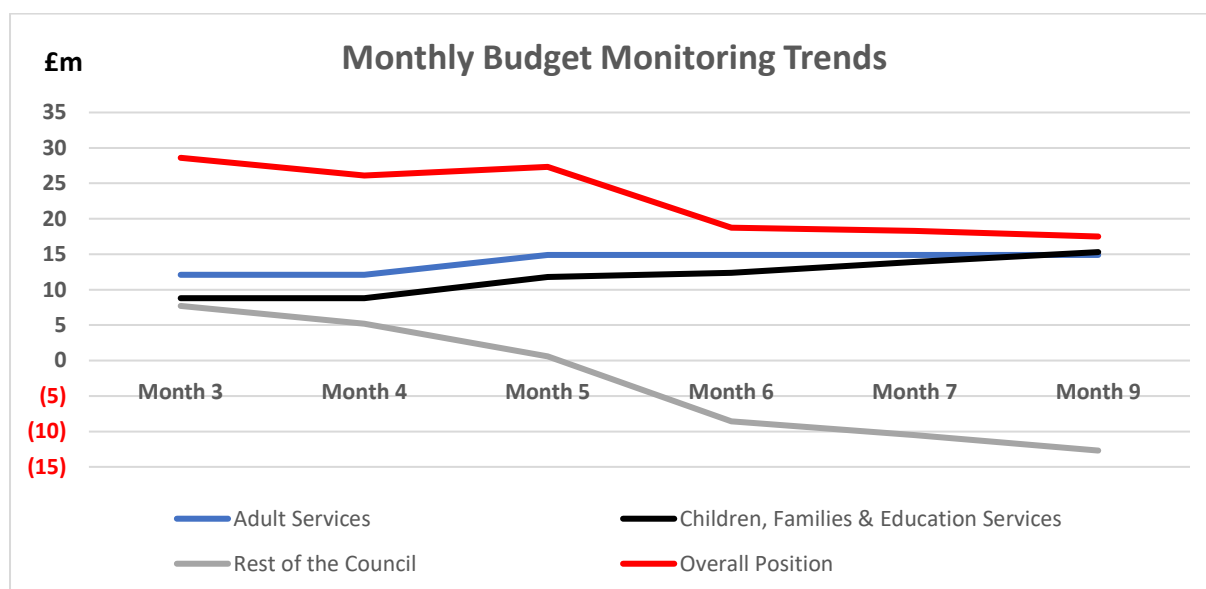
44. In June 2023, the monthly budget monitoring process flagged up a potential overspend of £28.6m (5.3%) for the current financial year. If not addressed this would see General Reserves reduced from their current level £49.8m to £21.2m. This would be below the minimum level of £30m.
45. Alongside the monthly reporting of the budget monitoring position to Scrutiny and the Executive, a number of daily and weekly control boards and panels have been established as the Council adopted an approach of operating as if a section 114 had been issued. The five boards and panels are:
- Establishment & Recruitment Control Board - to assess all workforce requests and changes.
  - Commercial & Procurement Control Board – to review and challenge all new commissions, annual uplifts in contract and contract renewals.
  - Spend Control Board – ensuring that all purchases over £100 are reviewed and challenged to avoid any non-essential spend.
  - Adult Social Care Panel – to review and challenge placements.
  - Childrens Care Panels – various panels to review and challenge placements.
- The actions have seen the in-year forecast overspend reduce from £28.6m (5.3%) down to £17.5m (3.2%) by Month 9 as set in **Table 1**.

**Table 1: Monthly budget monitoring forecast outturn for 2023/24**

<b>Service Area</b>	<b>Month 3 £m</b>	<b>Month 4 £m</b>	<b>Month 5 £m</b>	<b>Month 6 £m</b>	<b>Month 7 £m</b>	<b>Month 9 £m</b>
Adult Services	12.1	12.1	14.9	14.9	14.9	14.9
Children, Families & Education Services	8.8	8.8	11.8	12.4	13.9	15.3
<b>Total Adult and Children's</b>	<b>20.9</b>	<b>20.9</b>	<b>26.7</b>	<b>27.3</b>	<b>28.8</b>	<b>30.2</b>
Community Services	-	-	-	1.3	-	(0.3)
Climate & Place	-	-	-	(5.3)	(5.4)	(7.0)
Strategy, Workforce & Localities	5.1	2.7	2.3	0.9	0.9	0.1
Resources & Corporate Services	1.5	1.5	1.3	(2.2)	(2.8)	(2.4)
Public Health	1.4	1.3	0.3	-	-	-
Non-Service	(0.5)	(0.5)	(3.5)	(3.6)	(3.5)	(3.5)
Corporate Contingency	-	-	-	-	-	-
Traded	0.2	0.2	0.2	0.3	0.3	0.4
<b>Rest of the Council</b>	<b>7.7</b>	<b>5.2</b>	<b>0.6</b>	<b>(8.6)</b>	<b>(10.5)</b>	<b>(12.7)</b>
<b>Overall Forecast Overspend</b>	<b>28.6</b>	<b>26.1</b>	<b>27.3</b>	<b>18.7</b>	<b>18.3</b>	<b>17.5</b>

46. Actions taken have seen the forecast overspend for the current year being reduced by £11.1m overall to £17.5m. However, the overall picture masks the underlying issue of both Adults and Childrens deteriorating positions. The month three report showed their combined forecast overspend at £20.9m, this has since increased to £30.2m in month nine. As a result of strong financial controls deployed to reduce the overall overspend the rest of the Council has seen a dramatic forecast reduction of £20.3m over the six months from a forecast overspend of £7.7m in month three to a forecast underspend of £12.6m in month nine.

**Chart 3: Budget monitoring forecast on a monthly basis for 2023/24**



### 2024/25 Budget Overview

47. The latest position shown in **table 1** summarises the changes from the current year's budget to the draft 2024/25 budget. It highlights that there is a significant increase in cost pressures for 2024/25 of £109.8m, which is an increase of 20% on the 2023/24 budget.
48. The 2024/25 budget proposals have been based upon following key assumptions:
- Adults – Demand increases, and significant increased placement costs pressures based upon the latest demand and cost modelling.
  - Childrens – Increases in external placement costs and special education needs and disabilities (SEND) transport updated for the latest demand modelling.
  - Funding – Based upon the provisional finance settlement received on 18 December 2023, and the further support for Local Authorities announced on 24 January 2024, increasing the Social Care Grant, the Funding Guarantee from 3% to 4% and the Rural Services Delivery Grant.
  - Business Rates - income based upon the NNDR1 return January 2024.
  - Council Tax – Modelled upon tax base increase of 1.52% incorporating a collection rate of 98%, 2% increase in the Adult Social Care precept, 2.99% for council and potential of a further 5% increase if allowed by DLUHC.
  - National Pay Award – Estimated at 4% for 2024/25 with the budget provision held centrally and allocated to the services once agreed.
  - Financing Costs – Reduction in investment income following reductions to reserves (£6.8m), increased interest rates on debt financing (£1.5m) and

additional MRP costs (£4.7m) based upon the new policy for Somerset Council which reflects the latest DLUHC guidance.

- Corporate Contingency – £6m based upon 1% of the net revenue budget.
49. Officers have been following a strategy to avoid a Section 114 notice by identifying all potential savings that could be delivered in 2024/25 which total £35.2m. £11.0m of the savings were previously approved and £24.2m of new saving options being put forward.
50. The delivery of the potential savings and other budget proposals will in some cases require consultation with service users, partners, staff and trade unions. Appropriate consultation and completion of Equalities Impact Assessments (EIAs) will be completed ahead of decisions being taken by either the Executive, Lead Members or Officers to implement the actual savings and budget proposals that form the basis of the Council's approved budget for 2024/25. Some budget implementation decisions will be taken prior to 01 April 2024 and throughout 2024/25. The progress of these decisions will be monitored through the regular budget monitoring reports considered by the Executive and Scrutiny Committees.
51. Taking the proposed budget savings into account means the updated budget gap for 2024/25 is £81.1m. This gap can be reduced on a one-off basis by the use of £36.8m of reserves (agreed by Executive in December 2023), and £7.7m from the collection fund surpluses for Council Tax and Business Rates, reducing the gap for 2024/25 to £36.6m.

**Table 2: Summary of changes from 2023/24 to 2024/25 budget**

<b>Changes to 2023/24 budget</b>	<b>£m</b>
Reversals for once off items	19.9
Pressures	109.8
Savings	(35.2)
Changes to pay	13.8
Increase in financing costs	12.9
Increase in funding	(40.1)
<b>Updated budget gap</b>	<b>81.1</b>
<b>One off items – to balance budget</b>	
Use of Medium Term Financial Plan Support Reserve	(36.8)
Council Tax Collection Fund surplus	(6.2)
Business Rates Collection Fund surplus	(1.5)
<b>Remaining budget gap</b>	<b>36.6</b>

52. The remaining gap can be bridged by requesting dispensations from DLUHC. These requests are summarised in **table 2** and are based upon:
- Approval to increase Council Tax by 9.99% in 2024/25 to bring Somerset’s charges more in line with other unitary councils. This would generate an additional £17.1m per annum on an ongoing basis; and
  - Be granted a capitalisation direction for the balance of £19.5m, or, if the request to increase Council Tax by 9.99% is not granted by £36.6m.

**Table 3: Option to close the budget gap for 2024/25**

<b>Remaining budget gap</b>	<b>2024/25 £m</b>
Budget gap – January 2024	36.6
Exceptional Financial Support from DLUHC (Capitalisation Direction & 5% additional Increase in Council Tax)	(36.6)
<b>Balanced position</b>	<b>0.0</b>

53. If DLUHC do not grant either dispensation request the Council will not be able to balance the 2024/25 budget. This situation will force the Section 151 officer to use his statutory powers and issue a section 114 notice.



## **Consideration of the possible need to issue a Section 114 Report**

54. A report issued under s114 (3) of the Local Government Finance Act 1988 is one made by a council's Chief Finance Officer (CFO) if in their opinion they believe that the expenditure to be incurred during a financial year is likely to exceed the available resources. It is considered good practice to consult the Chief Executive and Monitoring Officer before such a report is issued. A copy of the report must be sent to all councillors and the external auditor.
55. The report triggers a short-term statutory prohibition on entering into any new agreement which may involve the incurring of expenditure without the permission of the CFO. Statutorily the CFO can only consent to new agreements or to terminate existing agreements during this period if they will prevent the situation getting worse, improve the situation, or prevent a recurrence.
56. The report must be considered at a meeting of the Council within 21 days of the report being issued. At the meeting, the authority must decide if it agrees or disagrees with the views in the report and the actions it proposes to take. If Council cannot still agree a balanced budget position, then the authority is required to call in the external auditor who must then try to set a balanced budget.
57. In addition, the Government can intervene on how services are run by a council following the issuing of a s114 Report. Most councils in this situation have been the subject of such intervention via Commissioners or members of an intervention board who are usually experts with lengthy experience in local government. Ultimately, they have the power to direct a council over budgetary and other decisions.
58. This process has often been, mistakenly, likened to a council declaring bankruptcy. In practice it is more like the process of a company entering administration in that core statutory services are maintained but the government will place commissioners in the Council to make the decisions that are needed to balance the budget, generally by cutting all non-statutory expenditure.

## **Department for Levelling Up, Housing & Communities (DLUHC)**

59. The Council has been pro-active in writing to DLUHC outlining the financial challenges it faces and as a result of this there have been several meetings with them. These meetings have covered the budget overspending in the current financial year as well as the 2024/25 budget gap and the financial position over the medium term. They have also helped to explain the context of being a new council and issues that it has inherited from the five predecessor councils.

60. The Council has already agreed to request a capitalisation direction from DLUHC in order set a balanced budget for 2024/25 and the option of allowing an increase in Council Tax by an additional 5%, 9.99% in total, to £1,810.48 for the Somerset Council proportion of a Band D charge which would generate £17.1m of on-going income.
61. The decision by DLUHC on allowing the council the additional 5% on council tax will be made as part of the finance settlement which is expected to be announced in early February. The timing of agreement on the request for a Capitalisation Direction will be at the end of February or early March.
62. DLUHC have confirmed the receipt of the Council's request for Exceptional Financial Support which is included as **Appendix 13**. Based upon this and the various meetings with DLUHC and the latest guidance from CIPFA, the section 151 officer is not proposing to issue a Section 114 notice at this stage. Should the application for Exceptional Financial Support not be successful then situation will force the Section 151 officer to use his statutory powers and issue a section 114 notice.

### **Risks, Assurance, External Validation & Reviews**

63. The Council has two strategic risks associated with its finances: risk reference ORG0057, concerning a sustainable MTFP and ORG0070, being the risk of a budget overspend in the current financial year. In addition to these, there are also a number of other strategic risks that are associated with the budget. **Appendix 9** sets out the strategic risks associated with the budget.
64. A common feature of councils that have issued a section 114 notice has been the number of prior year external audits that have not been completed with issues. Therefore, a key area of activity for the finance team in the new Council has been around the completion of the 2022/23 statements of accounts for the five predecessor councils and dealing with the inherited position of outstanding external audits on their accounts from 2020/21 and 2021/22. This is particularly important, not only in understanding the opening position for the new Council, but also in providing independent external assurance around the finances. Good progress has been made on this, with all the 2020/21 and 2021/22 statement of accounts now signed off. All five of the 2022/23 statements of accounts have been published and three of these has been signed off by the external auditors with the remainder expected to be completed in March 2024.
65. There have been regular Member briefings on the Council's finances which started in August 2023. These have since been held twice monthly and are open to all members. The briefings will continue through to February 2024 when the budget for

2024/25 is set to ensure that all members are up-to-date and aware of the financial challenges that the Council faces.

66. A number of external reviews have been carried out to help validate the overall budget and potential savings. These include:

- Adult Services commissioned Newton Europe to complete a transformation programme “*My Life, My Future*” following a diagnostic review in 2022. The programme is aimed at improving outcomes for older adults, those with learning difficulties and mental health needs by helping them stay within their own homes and encouraging independent community support. The programme is aimed at reducing costs by circa £14m per annum on an ongoing basis by reducing the number of residential placements.
- Children’s Services have commissioned Peopletoo to undertake a review of spend in Children’s Social Care to determine a plan for better outcomes at a reduced cost from using best practice.
- The Section 151 Officer commissioned PDLB Financial Consultancy Ltd to undertake an independent review of the new Council’s balance sheet. Comparing it to statistical neighbours and highlighting whether particular issues need to be built into the 2024/25 budget or changes in practice made. This fulfils part of the recommendation in the report to the July 2023 Executive to undertake a financial resilience review. The report was presented to the Audit Committee on 25 January 2024.
- The Section 151 Officer commissioned Peopletoo to undertake a review of third party spend, this work will highlight opportunities for ongoing savings and will be implemented later in the financial year.
- The Section 151 Officer commissioned Peopletoo to review the processes for collecting client contributions for elements of Adult Care services to determine that all income is being recovered. As a result of this review £3.4m of additional income has been identified and included as part of the budget proposals.

### **Funding for Councils & the Local Government Finance Settlement**

67. The Autumn Statement delivered by the Chancellor on 22 November 2023 and set out details of the country’s finances including details of the government tax and public spending plans. The Office for Budget Responsibility (OBR) also warned pressure on local authority budgets “will continue.” It said 2022-23 was the first time since 2019-20 that local authorities had drawn on their reserves for current

spending, using £2.3bn and it now assumes they will drawdown a further £1.5bn in 2023-24 and £0.8bn in 2024-25. Its previous forecast in March 2023 had assumed there would be no drawdown from reserves. The analysis notes that 11 section 114 notices have been issued by local authorities since 2018, this includes Croydon that has issued three section 114 notices, compared with two between 2000 and 2018, but says the “direct impact on our forecast to date has been relatively small as the central government response to section 114s has been to allow affected local authorities to reallocate their capital budget towards day-to-day spending (a ‘capitalisation direction’) or to increase council tax rates”.

68. However, the OBR warns that wider pressures on local authority finances still pose a risk to its forecast. It notes that local authority spending has fallen from 7.4% to 5% of GDP since 2010-11 and forecasts it will fall further to 4.6% in 2028-29. It adds: “Given local authorities’ statutory duty to provide a range of services where demand is likely to continue to grow, for example adult and child social care, pressure on local authority finances and services will continue.” The watchdog also forecasts a £4.5bn fall in borrowing for capital expenditure from its 2019-20 peak of £11.5bn to £7bn in 2028-29. It adds: “This reflects the financial pressures facing local authorities and higher interest rates on loans from the Public Works Loan Board, their principal source of financing.”
69. On 5 December 2023, the Secretary of State for Levelling Up, Housing and Communities published a written ministerial statement which was accompanied by a policy statement on the 2024/25 local government finance settlement.
70. On the core settlement, the statement confirms assumptions around the Revenue Support Grant, Business Rates baseline levels and that councils with social care responsibilities will be able to increase council tax by up to 3%, with an additional 2% for adult social care without a local referendum. The Government reconfirmed the adult social care funding package announced in December 2022, and included the new Market Sustainability and Improvement Fund (MSIF) – workforce fund which was announced in July 2023 and will continue into 2024/25. They also announced that they would consider representations on Council Tax. The statement said that:  
  
*“Where councils need additional support from government, they should take every possible step to minimise the need for that support to be funded by national taxpayers. As part of that process, the government will consider representations from councils, including on council tax provision.”*
71. Last year, as part of the settlement three councils, Slough Borough Council, Thurrock Council and Croydon Council, were given permission to increase their council tax by more than the referendum threshold.

72. The provisional Local Government Finance Settlement was announced on 18 December 2023. The headlines were a 6.5% increase in Core Spending Power for Councils, but Somerset only received 6.1%. This is below the average for Unitary Councils of 6.5%, Shire Counties of 6.7%, Inner London Boroughs of 6.7% and Metropolitan Districts of 6.6%. It is also below the Southwest average of 6.3% and below the level of councils with similar Index of Multiple Deprivation (IMD) of 6.5%. Further detail can be found in **appendix 3**.
73. On 24 January 2024, following representation from councils the government announced a further £600m of support for Local Authorities, £500m added to the Social Care Grant and £100m for an increase to the Funding Guarantee from 3% to 4%, £15m for the Rural Services Delivery Grant, £3m for authorities with Internal Drainage Boards. It is estimated that Somerset will benefit by £5.8m in 2024/25 from these additional grants. The funding from Business Rates has been updated in line with January 2024 NNRD1 form.
74. The final Finance Settlement is due in early February 2024 and an update on this will be provided at the meeting.

### **Council Tax**

75. The authority's main source of funding is Council Tax, which at £336m in the current year is nearly 62% of the net budget. In recent years, the increases in Council Tax have been carefully controlled by government which limits annual changes through the referendum principles which were introduced in 2012/13. Somerset Council was not able to set its charge at the national average or what it required for the year. Instead, it was limited to having the 2023/24 charge based upon historical charges of the five predecessor councils.
76. Therefore, the current band D charge of £1,646 reflects the historical decisions from the five predecessor councils. **Appendix 4** sets out the details of the band charges of the predecessor councils since council tax was introduced in 1993/94. It highlights that between 2010/11 and 2015/16 the majority of the predecessor councils did not increase council tax. The impact upon the finances of Somerset Council of this is significant given how much of overall income comes from council tax. Part of funding for Adult Services is now funded from council tax through the adult social care precept. Comparing what the maximum increases could have been against the actual position shows that additional income to Somerset Council would have been in excess of £50m in the current year.
77. **Table 4** below shows the average Council Tax including the Adult Social Precept for 2023/24 is £2,027 with the charge in Somerset being £381 lower at £1,646. If the

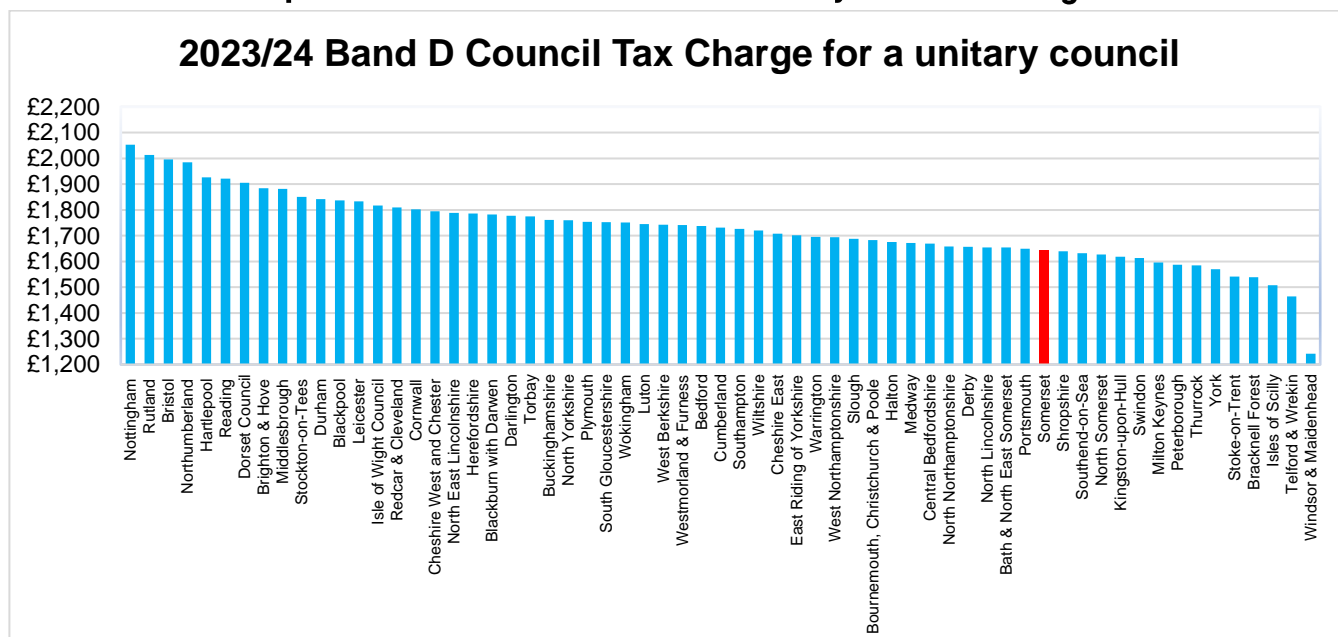
Council charged the average amount for England, then an additional income amount of £78.3m would be generated.

**Table 4: Summary of Council Tax statistics for England from 2019/20 to 2023/24**

Year	2019/20	2020/21	2021/22	2022/23	2023/24
Council tax requirement including adult social care precept, excluding parish precepts (£ millions)	30,894	32,544	33,819	35,658	38,011
Parish precepts (£ millions)	554	596	618	655	708
Council tax requirement including adult social care and parish precepts (£ millions)	31,448	33,141	34,437	36,313	38,718
Taxbase for council tax setting purposes (millions)	17.972	18.232	18.139	18.473	18.749
Average Band D council tax including adult social care, excluding parish precepts	£1,719	£1,785	£1,864	£1,930	£2,027
Average Band D council tax including adult social care and parish precepts	£1,750	£1,818	£1,898	£1,966	£2,065

78. As well as being significantly below the average charge for England, the council tax charge for 2023/24 is lower than the majority of other unitary councils as set out in **Chart 4** below.

**Chart 4: Comparison of Council Tax across unitary councils using Band D**



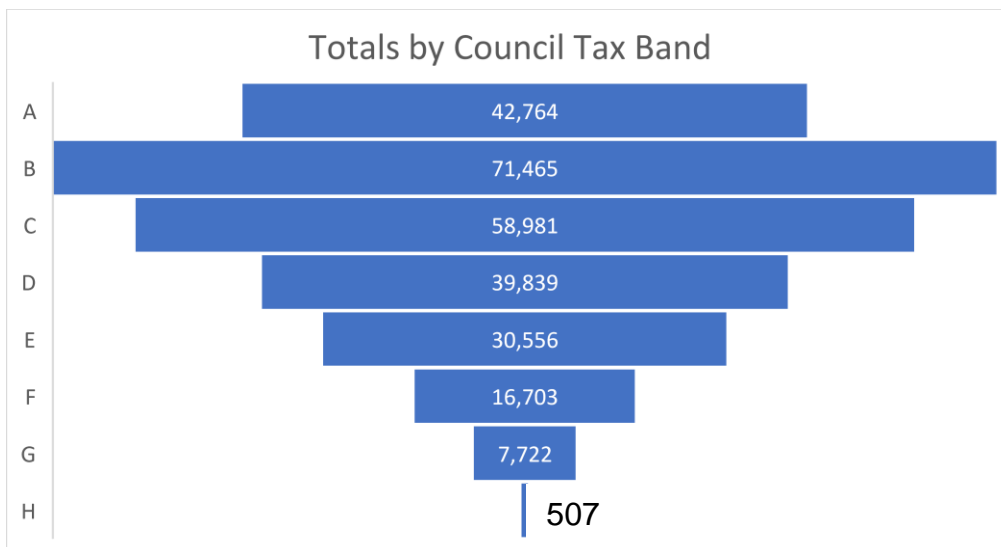
79. The analysis shows:

- Somerset Council being ranked 49 out of 63 for unitary councils.
- The average unitary Council Tax charge is £1,728 which is 5% or £82 higher than in **Somerset which is £1,646**.

- Charging the unitary average would generate an additional £16.7m per annum.
- If the Council charged the average amount for all councils in England, then an additional amount of £78.3m would be generated.
- Charging the same as the highest Unitary Council Tax, Nottingham City Council (£2,053) would generate an additional £83.7m per annum.
- Charging the same as the other Southwest unitary councils would generate an additional:
  - Dorset Council (£1,906 – 15.8% higher) - £53.4m per annum
  - Cornwall Council (£1,803 - 9.5% higher) - £32.2m per annum
  - Wiltshire Council (£1,702 – 3.4% higher) - £11.5m per annum

80. In Somerset, the most common council tax band is Band B and 64.5% are in Bands A to C. **Chart 5** sets out the number of properties in Somerset each in band in 2023.

**Chart 5: Total number of properties in Somerset by Council Tax band**



81. The Council approved an updated Local Council Tax Reduction and Exceptional Hardship scheme at its meeting on 20 December 2023 which detailed uprating income band thresholds by the same increase applied by Government to state benefits (6.7%). The overall cost of the schemes is estimated to cost £36m with approximately £20m relating to support for working age claimants and £16m for pensioners.

82. The referendum limits for 2024/25 are that Council Tax can increase by 3% and that there can be a further rise of 2% for the adult social care precept. In the provisional local government financial settlement, it was announced that government would consider representations on Council Tax. The statement said that:

*“Where councils need additional support from government, they should take every possible step to minimise the need for that support to be funded by*

*national taxpayers. As part of that process, the government will consider representations from councils, including on council tax provision.”*

83. The potential to increase Council Tax above referendum limits would enable Somerset’s Council Tax charge to be closer to the average of all Unitary Councils, although it would still be a significantly below the English average charge. If the Council were permitted to increase council tax by a further 5%, as DLUHC has been allowing other councils to do in both the current year and for 2024/25, this would generate an additional £17.1m. It would see the Band D charge increase to £1,810 which would mean that the total council tax increase for a Band D property would be £3.15 per week (including the Adult Social Care precept).
84. The Council has looked to ensure that the vulnerable are protected from the increase through the recently approved Council Tax Reduction and Hardship schemes which will increase by 6.7% for 2024/25 in line the rise in state benefits announced in the Autumn Statement.

### **Medium Term Financial Plan (MTFP)**

85. The current focus is very much upon 2024/25 but it is important to look at the Council’s position over the medium term. The figures included with the MTFP are based upon the current assumptions on funding and service costs and will continue to be updated with the latest available information. **Table 5** summarises the budget gap to 2026/27.

**Table 5: High Level MTFP Summary**

<b>High Level MTFP Forecast</b>	<b>2024/25 £m</b>	<b>2025/26 £m</b>	<b>2026/27 £m</b>
Budget Gap from previous year	0.0	36.6	104.0
Budget Gap for year	36.6	67.4	43.9
<b>Budget Gap</b>	<b>36.6</b>	<b>104.0</b>	<b>147.9</b>

86. The current MTFP Forecast is set out in **appendix 1** and show the 2023/24 budget alongside the forecast budgets for the 2024/25 to 2026/27 for each service.
87. **Table 6** shows the overall high-level summary of changes for the three years 2045/25 to 2026/27 with the detailed analysis set out **appendix 2**.

**Table 6: Summary of changes to budgets**

<b>Changes to Budget</b>	<b>2024/25 £m</b>	<b>2025/26 £m</b>	<b>2026/27 £m</b>
Budget from previous year	0.0	36.6	104.0
Reversals for once off items	19.9	8.2	0.0
<b>Revised starting point</b>	<b>19.9</b>	<b>44.8</b>	<b>104.0</b>



Pressures	109.8	45.0	53.6
Savings	(35.2)	(10.1)	0.3
Changes to pay	13.8	6.1	6.1
Increase in financing costs	12.9	12.0	4.4
Increase in funding	(47.7)	(32.4)	(20.5)
Change in Use of Reserves	(36.9)	38.6	0.0
<b>Budget Gap</b>	<b>36.6</b>	<b>104.0</b>	<b>147.9</b>

88. The assumptions for future years are based upon the current council tax referendum limits and government funding in line with the details set out in finance settlement. The underlying assumptions will continue to be reviewed and updated.
89. If no additional savings were identified in future years the total capitalisation direction required over the three years is £288.5m. Increasing Council Debt by £288.5m with ongoing interest and MRP on this amount would add approximately £33.2m per annum to the gap identified above. The strategy is to try and avoid this by disposing of assets to fund this.

**Table 7: Capitalisation Direction**

<b>Financing Costs of Capitalisation Direction</b>	<b>2024/25 £'m</b>	<b>2025/26 £'m</b>	<b>2026/27 £'m</b>
Required Capitalisation Direction	<b>36.6</b>	<b>104.0</b>	<b>147.9</b>
Revenue cost of Capitalisation Direction			
- for 2024/25 of £36.7m	4.2	4.2	4.2
- for 2025/26 of £103.9m		12.0	12.0
- for 2026/27 of £147.8m			17.0
<b>Cost of Capitalisation Direction</b>	<b>4.2</b>	<b>16.2</b>	<b>33.2</b>

90. The capitalisation direction may also have to have a further increase in 2026/27 if the Dedicated Schools Grant (DSG) High Needs Block deficit has to be funded by the Council once the statutory override finishes at 31 March 2026. The current forecast is that the cumulative deficit will be £96.2m at this stage.
91. The capitalisation of revenue can be funded by asset disposals, although asset values of surplus council accommodation are not significant in Somerset. It will be beneficial to dispose of commercial properties and using the receipts to fund the capitalisation direction, however the MRP (or principal) and interest costs on the borrowing for these assets will remain and the future income lost.
92. **Table 8** provides analysis of the changes between the 2023/24 budget and the draft 2024/25 budget by service with more detail set out in **appendix 2**. The Net Change includes adjustments for once off items in the current years budget, new pressures for 2024/25 and reductions for 2024/25 savings proposals.

**Table 8: Changes to budgets from 2023/24 to 2024/25**

Service	2023/24 Original Budget £m	2024/25 Draft Budget £m	Net Change	
			£m	%
Adults Services	179.3	237.3	58.0	32%
Children, Families & Education Services	122.5	138.2	15.7	13%
Community Services	32.5	30.9	(1.6)	(5%)
Climate & Place	91.4	91.4	0.0	0%
Strategy, Workforce & Localities	23.0	22.1	(0.9)	(4%)
Resources & Corporate Services	20.5	25.1	4.6	22%
Public Health	1.0	1.0	0.0	0%
2023/24 & 2024/25 Pay Award	15.3	29.1	13.8	90%
Financing Costs	40.7	53.7	13.0	32%
Other Corporate Costs	16.6	9.8	(6.8)	(41%)
<b>Total</b>	<b>542.8</b>	<b>638.6</b>	<b>95.8</b>	<b>18%</b>

**Pressures**

93. The list of pressures by directorate is summarised below in **table 10**, further details are set out in **appendix 6** totalling £109.8m for 2024/25 which represents a 20% increase on the 2023/24 budget.

**Table 9: Summary of the pressures by directorate**

Total Pressures by Directorate	2024/25 £m	2025/26 £m	2026/27 £m
Adults Services	69.6	34.4	33.1
Childrens, Families and Education	26.5	4.8	5.3
Communities Services	1.3	(0.2)	0.0
Climate & Place	5.3	1.7	2.5
Strategy, Workforce & Localities	0.1	0.0	0.0
Resources & Corporate Services	7.0	4.3	12.7
<b>Total</b>	<b>109.8</b>	<b>45.0</b>	<b>53.6</b>
<b>Cumulative Total</b>	<b>109.8</b>	<b>154.8</b>	<b>208.4</b>

94. **Table 10** below shows there are 68 pressures in total, which are spread fairly evenly in value from smallest to largest. 81% of pressures are over £100k, the value of these mean it would be very difficult for a service to absorb these in their current budget allocations.

**Table 10: Analysis of Pressures**

Total Pressure Value	Number of Pressures	% of Pressures
Below £100k	13	19%
£100k-£249k	19	28%
£250k-£499k	11	16%
£500k-£999k	8	12%
£1m+	17	25%
<b>Total Number of Pressures</b>	<b>68</b>	<b>100%</b>

95. The cost pressures in the adult social care budget are driven by the increasing costs of providing care, particularly the costs of residential care placements. Traditionally the costs in Somerset have been amongst the lowest in the country providing good value for the council taxpayer of Somerset. The impacts of interest rates, cost of living, Brexit, Covid-19, Covid-19 jobs, and the commencement and then postponement of the national Fair Cost of Care exercise by the government, have all been detrimental to the cost of placements, particularly in Somerset.
96. In Childrens, the increases in external placement costs and SEND transport are significant. The growth in demand for, and the costs of children’s social care is a national issue and the recently published Government statistics demonstrated that nationally, Council spending on Children’s Social Care doubled in the decade to 2022-23 from £6.6bn to £12.8bn. The Children’s Funding Alliance have identified a £1.6bn annual shortfall in funding, while the Independent Review of Children's Social Care has called for an additional £2.6bn over five years to deliver much needed reform and highlighted a system under extreme stress. The Competitions and Markets Authority identified a dysfunctional market for children's residential care in which a small number of providers can make excessive profits as local authorities compete for limited spaces.

### **Savings Proposals**

97. To close the projected gap for 2024/25 and ensure we can set a balanced budget there is a need to review the range and scope of the services that are delivered by the Council. The purpose of this section is to set out the areas where savings could be made by redesigning how a service is delivered, reducing the level of service offered or, potentially, ceasing the service entirely, subject to appropriate consultation and the Council’s duties, including the public sector equality duty. **Table 11** shows a summary of the savings proposals broken down between those already approved, which mainly relate to LGR Staff savings from the business case

£8.4m and £5m from 'My Life, My Futures' in Adult Social Care and new saving proposals. The detail behind these is set out in **appendix 7**.

98. These savings proposals total £45.0m over the next three years and represent an 8% reduction to the net budget and part of the approach of avoiding issuing a section 114 notice and moving towards a having sustainable financial footing. The savings are made up of new savings and savings previously approved.

**Table 11: Breakdown of total savings**

Total Savings by Directorate	2024/25 £m	2025/26 £m	2026/27 £m
Already approved savings	(11.0)	(7.0)	0.2
New Savings	(24.2)	(3.1)	0.1
<b>Total</b>	<b>(35.2)</b>	<b>(10.1)</b>	<b>0.3</b>
<b>Cumulative Total</b>	<b>(35.2)</b>	<b>(45.3)</b>	<b>(45.0)</b>

**Table 12: Analysis of savings by value**

Total Saving Value	Number of Savings	% of Savings
Below £100k	57	43%
£100k-£249k	28	21%
£250k-£499k	14	11%
£500k-£999k	23	17%
£1m+	5	4%
Value to be confirmed	6	5%
<b>Total Number of Savings</b>	<b>133</b>	<b>100%</b>

99. Further savings in addition to these are required and need to be developed with the council having an established pipeline of future savings as it looks to radically change, reduce costs and increase income. The new Transformation Programme will be integral in developing and delivering the future savings that are required in order to achieve future financial sustainability.

**Table 13: Summary of savings proposals by directorate 2024/25 to 2026/27**

Total Savings by Directorate	2024/25 £m	2025/26 £m	2026/27 £m
Adults Services	(9.8)	(1.6)	0.0
Childrens, Families and Education	(9.6)	(1.9)	0.0
Communities Services	(3.0)	(0.6)	0.0

Climate & Place	(5.6)	(0.9)	0.3
Strategy, Workforce & Localities	(0.6)	(0.1)	0.0
Resources & Corporate Services	(2.6)	(0.6)	0.0
Public Health	0.0	0.0	0.0
Local Government Reorganisation	(4.0)	(4.4)	0.0
<b>Total</b>	<b>(35.2)</b>	<b>(10.1)</b>	<b>0.3</b>
<b>Cumulative Total</b>	<b>(35.2)</b>	<b>(45.3)</b>	<b>(45.0)</b>

100. Every service has found savings proposals, reviewing all areas of activity. This includes reviewing discretionary services and considering whether they can be reduced or even stopped. The list below illustrates the key areas of potential savings options:

- Efficiency savings, including reviewing our contracts and use of consultants, reducing the bills associated with managing our estate by reducing the number of buildings we operate, continuing to transform our IT infrastructure so that it reflects best practice and the size of our Council, removing all non-essential mobile phones, making best use of grants and external funding to reduce revenue costs and reducing staff benefits including long service awards.
- Harmonisation of service standards as there are several services where there is still inconsistency across the County following Local Government Reorganisation. Currently there are grants paid to Parish Councils in the former Somerset West and Taunton area to maintain footpaths, playing fields and burial grounds. In addition there are several legacy grants, established by previous councils, which are paid to support community groups. The authority currently has different approaches in different areas to providing facilities for events and charging for emptying bins. Savings are proposed by moving to a consistent approach across Somerset and ceasing funding.
- Adult Services: Many of these services are demand led with service levels set by statute. However, there is discretion on how the Council delivers some preventative services. Saving options include (but are not limited to):
  - Reviewing supported living accommodation and decommissioning properties that are no longer suitable.
  - Maximising fees and charges across adult social care.
  - Reducing spend on mental health and substance misuse support.
  - Cease Council funding for employment support for carers and individuals with mental health needs.
- Children's Services: costs in Children's services are increasing nationally and there is often legislation setting delivery standards. As with adult social care

services, there are discretionary elements where savings could be considered including (but not limited to):

- Removing the use of external resources to prepare education, health and care plans.
  - Increasing the use of Council owned residential homes.
  - Stopping out of hours security checks for young adults living in supported accommodation homes.
- 
- Climate and Place: Somerset Council carries out a range of proactive and reactive highways maintenance services. Many of these are mandatory but service levels could be reviewed to reduce costs.
    - Reduction in planned and reactive highway maintenance.
    - Review of subsidies for contracted bus services.
    - Increase parking charges in line with inflationary pressures.
- Waste
- Closure of five household waste recycling centres.
  - Introduction of a Somerset recycling site permit scheme to stop non-Somerset residents using sites.
  - Economic development and land use planning.
  - Introduce fees for pre-application planning enquiries.
  - Reduce reliance of Council funding to deliver the economic development service, making greater use of grant funding.
- 
- Community Services: many of these services are discretionary and as a result Councils can determine the extent to which they support these activities. Saving options include (but are not limited to):
    - Closing all Council owned public toilets.
    - Generating additional income to cover the costs of the CCTV service.
    - Reducing support to theatres in Somerset.
    - Closing visitor information centres.
    - Increasing fees for harbours, beach parking and cemeteries.
    - Closure of Council run plant nurseries.
- 
- Elected Councillors and Democratic Function: savings options associated with reducing the number of Councillor meetings, reducing the number of Executive Lead Councillors and reducing the budget for training and conferences.

## **Budget Consultation & Engagement**

101. Somerset Council's 2024/25 budget consultation ran for six weeks from 11 December 2023 to 22 January 2024 and was widely promoted across a number of different communications channels.

102. The aim was to increase understanding of local government funding and the services we provide, while also seeking the public's views on options available as we look to set a balanced budget in February 2024. We invited residents, businesses and stakeholders to share their views on a range of high-level options that could contribute towards balancing the budget. We also asked for alternative options not yet considered and encouraged feedback on the potential impact of the general approach to budget setting.
103. The consultation received 5,841 responses via the consultation survey, 17 emails/letters and nearly 400 comments on social media. We are also aware of a petition about a specific saving associated with Yeovil Rec which has so far generated more than 13,900 signatures.
104. We held four in-person briefing events specifically for businesses. These were attended by both Members and Officers and held in Taunton, Bridgwater, Frome and Yeovil to give a wide geographical spread. There was also a virtual event for those who could not attend in person. These were attended by representatives from 46 businesses.
105. The report in **Appendix 8** summarises the findings of the consultation exercise. Members are reminded that individual proposals contained within the budget may be subject to further consultation.

## **Reserves & Contingency**

106. The new Council had a reasonable level of reserves on vesting day, 01 April 2023. £20m of reserves were planned to be used in 2023/24 with £10m of these used to balance the budget. Early in the new financial year it became apparent that more reserves would be required to fund the forecast overspend in 2023/24 and to support the 2024/25 budgets.
107. The on-going review of the reserves resulted in:
- A transfer between the Earmarked Reserves to General Reserves to fund the 2023/24 forecast overspend of £18.3m and increase them to £31.5m to ensure that they are within the range of a minimum of £30m and maximum of £50m agreed by Council when the 2023/24 budget was set in February 2023, and
  - Repurposing of several reserves from the predecessor councils to create a MTFP Support Reserve of £36.8m which is planned to support the 2024/25 budget (**table 15**).
  - Setting up a Budget Delivery reserve of £2.7m to cover the costs associated with the delivery of the savings contained within the budget proposals and any delays in delivery of them.

108. Set out in **table 14** is the summary of the overall position on reserves and shows the how the £316m in the five predecessor councils' statement of accounts on 31 March 2023 have brought together. The adjustments column shows the planned use of reserves agreed by council in setting the current years budget. The 'Other' category included the reserves held on behalf of others as part of the councils' accountable body's role. General fund reserves are forecast to be £32.3m after allowing for current years forecast overspend but remain above the £30m risk based minimum level approved by Council.

**Table 14: Somerset Council Reserves by DLUHC Reporting Category**

Somerset Council Reserves (DLUHC Reporting Categories)	31 March 2023 £m	Adjustments £m	01 April 2023 £m	Forecast Use £m	31 March 2024 £m	Forecast Use £m	31 March 2025 £m
Contractual commitments	14.8	(1.1)	13.7	(0.4)	13.2	(0.1)	13.2
Planned future revenue & capital spending	50.9	(18.9)	32.1	(15.7)	16.4	(4.2)	12.2
Specific risks	24.7	(7.2)	17.6	(2.9)	14.6	(3.7)	11.0
Budget stabilisation	52.3	(10.1)	42.2	1.2	43.4	(39.5)	3.9
Public Health	4.1	(1.7)	2.4	0.0	2.4	(1.8)	0.6
Other	142.4	(4.0)	138.4	(99.8)	38.6	(6.9)	31.7
<b>Total Earmarked Reserves</b>	<b>289.2</b>	<b>(43.0)</b>	<b>246.3</b>	<b>(117.7)</b>	<b>128.6</b>	<b>(56.1)</b>	<b>72.5</b>
<b>General Fund Reserves</b>	<b>26.8</b>	<b>23.1</b>	<b>49.8</b>	<b>(17.5)</b>	<b>32.3</b>	<b>0.0</b>	<b>32.3</b>
<b>Total Reserves</b>	<b>316.0</b>	<b>(19.9)</b>	<b>296.1</b>	<b>(135.2)</b>	<b>161.0</b>	<b>(56.1)</b>	<b>104.9</b>

109. Details of the reserves which were repurposed from the predecessor councils to create an MTFP support reserves of £36.8m is detailed in **table 15** below.



**Table 15: MTFP Support Reserve**

<b>MTFP Support Reserve</b>	<b>£m</b>
<b>Amalgamated Reserves:</b>	
Funding Volatility (SCC)	6.8
MTFP Support Fund (SSDC)	7.6
MTFP Managed Use of Balances (SDC)	9.4
MTFP Reserve (MDC)	3.9
Budget Equalisation (SCC)	2.4
<b>Total Amalgamated MTFP Support</b>	<b>30.1</b>
<b>Full/Part Released Reserves</b>	
Local Government Reorganisation	8.7
Investment Property Risk Reserve	5.2
Regeneration Fund	3.0
Workforce Resilience	0.7
Economic Development Fund	0.1
<b>Total Released from Reserves to MTFP Support</b>	<b>17.7</b>
<b>Total MTFP Support Reserve after Transfers</b>	<b>47.8</b>
Use of Reserve for 2023/24 MTFP	(11.0)
<b>Remaining Balance for MTFP Support Reserve</b>	<b>36.8</b>

110. The current level of corporate Contingency is £6m which is approximately 1% of the Net Budget requirement and is to allow for things such as changes to the forecast cost of the national pay award for staff.

### **Dedicated Schools Grant (DSG) High Needs Deficit**

111. Local authorities are facing increased demand for services for pupils with SEND. By December 2023, Somerset had issued 5,447 Education Health and Care Plans for pupils with SEND, which is an increase of more than 160% in the last five years. As well as the significant increase in numbers, there has been an increase in the complexity of pupils' needs.

112. In the case of Somerset, the spending on DSG is forecast to exceed the funding provided by government by £17.4m in 2023/24 and reach a cumulative deficit of £96.2m by 31 March 2026. This means that the council is having to pick up the costs of financing this deficit which are estimated to be £2.1m in 2024/25 rising to £5.3m in 2025/26.

113. The actual, forecast and projected DSG deficits are shown in the **table 16** below:

**Table 16: Actual, current forecast and projected Dedicated Schools Grant deficits**

<b>Actual, current forecast and projected DSG deficits</b>	<b>31 March 2023 Actual £m</b>	<b>31 March 2024 Forecast £m</b>	<b>31 March 2025 Projected £m</b>	<b>31 March 2026 Projected £m</b>
Dedicated Schools Grant deficit	20.7	38.1	61.5	96.2

114. As one of the conditions of the Dedicated Schools Grant, local authorities with DSG deficits are required to prepare and implement a DSG Management Plan. The Department for Education (DfE) recognises that in some cases it may take several years to recover any DSG deficits.
115. The local authority is currently in the process of refreshing its DSG Management Plan and agreeing the plan with the Department for Education. The refreshed plan will be shared with Schools Forum and Council Members when complete.
116. In 2020, the Government introduced a statutory override for a period of three years (up to end of March 2023) that allowed local authorities' DSG deficits to be separated from the wider local authority accounts. Subsequently, the Government agreed to extend the DSG statutory override by a further three years so that the override will now expire on 31 March 2026. At this point any DSG deficit would be included in the overall assessment of Somersets reserves which estimated to be lower the forecast DSG deficit. If this situation occurs then a section 114 notice will be issued.
117. **Appendix 12** sets out more details on the Dedicated Schools Grant.

### **Asset Disposal**

118. The generation of capital receipts from asset disposals is a key part of the financial strategy. The Council has already agreed to the disposal of its commercial property investments and has developed a pipeline of future disposals of surplus assets. Capital receipts from asset disposals will be used to provide funding for transformational activities, the capitalisation directions and capital schemes. Loss of £20m investment income has been built into the Medium Term Financial Plan.
119. Following on from the Executive decision to approve the disposal of the commercial investment portfolio at its meeting of 08 November, external agents have been appointed and the Property and Investment Sub Committee set up to oversee the process.

120. The Executive also tasked the Asset Management Group to bring forward asset disposals from assets held outside of the commercial investment portfolio. The Asset Management Group is currently overseeing the disposal of 74 sites that have been declared surplus; 16 further sites have been sold to date during 2023/24. Whilst sales of a number of these sites are subject to planning agreements and options (and may, therefore, not be concluded until 2025/26 or beyond), a total value in the range of £15m to £20m is targeted to be achieved from the current pipeline of approved disposals during 2023/24 and 2024/25.

### **Develop the Approach to Transformation**

121. The financial emergency facing the council requires a change in thinking around the pace, scale, and structure of transformation to deliver a radically different way of working as a Council, operating with fewer staff, whilst increasing our influence and impact.

122. Executive agreed a new ‘vision for a sustainable Somerset Council’ and associated organisational design principles on 06 December 2023 which will seek to deliver a new, smaller, leaner, more productive Council.

123. Achieving this vision will be complex and require whole organisation transformation in order to maximise the opportunity of bringing together the five predecessor councils and meet the financial challenge.

124. The new transformation approach will bring together transformation and change programmes across the organisation, under a single approach and governance to ensure whole council oversight, and prioritisation of resources and investment.

125. The programme will be a key tool in addressing the longer term MTFP forecast which in **table 17** shows that there is a budget gap of nearly £200m by 2027/28. It is clear that significant changes to how services are currently provided is required and progress in delivering this will need to be carefully monitored.

**Table 17: High Level MTFP Summary up to 2027/28**

<b>High Level MTFP Forecast</b>	<b>2024/25 £m</b>	<b>2025/26 £m</b>	<b>2026/27 £m</b>	<b>2026/27 £M</b>	<b>2027/28 £</b>
Budget Gap from previous year	0.0	36.6	104.0	147.9	170.0
Budget Gap for year	36.6	67.4	43.9	22.1	28.6
<b>Budget Gap</b>	<b>36.6</b>	<b>104.0</b>	<b>147.9</b>	<b>170.0</b>	<b>198.6</b>

126. The report to the 07 February 2024 Executive sets out the approach to developing the approach to Transformation.

## **Chief Finance Officer (CFO) Report and Advice on the Robustness of the 2024/25 Budget and Adequacy of Reserves & Balances**

127. Under the terms of section 25 of the Local Government Act 2003 the Section 151 Officer (Chief Finance Officer) is required to report to the Council on two specific matters:
- The robustness of the estimates included in the budget, and
  - The adequacy of the reserves for which the budget provides.
128. Section 26 of the same act places an onus on the Chief Finance Officer to ensure the Council has established a minimum level of reserves to be retained to cover any unforeseen demands that could not be reasonably defined within finalising the proposed budget.
129. Given the incredibly challenging financial position that the Council faces it is important that all members take note of this report when approving the budget at Full Council. A separate section 25 report will be presented to Full Council by the Section 151 Officer.

### **Background Papers**

130. 2023/24 Budget, Medium-Term Financial Plan & Council Tax Setting report to Council 22 February 2023.
131. Medium Term Financial Strategy (MTFS) 2024/25 to 2026/27 report to Corporate & Resources Scrutiny & Executive July 2023.
132. Somerset Council – Financial Sustainability report to 26 October 2023 Audit Committee including the Section 151 Officer’s letter to DLUHC and External Auditor letter on Somerset Council Financial Sustainability.
133. Financial Strategy Update report to 09 November 2023 Corporate & Resources Scrutiny and 08 November 2023 Executive.
134. 2024/25 General Fund Revenue & Capital Programme update to 05 December 2023, Corporate & Resources Scrutiny Committee, 06 December 2023 Executive and 20 December 2023 full Council.
135. Monthly Budget Monitoring reports to Executive & Corporate & Resources Scrutiny Committee.

136. 2024/25 General Fund Revenue Budget Update to Executive 15 January 2024.
137. 2024/25 General Fund Revenue Budget report to Corporate & Resources Scrutiny 2 February 2024.
138. Application to DLUHC for a capitalisation direction.

## **Appendices**

- Appendix 1: MTFP Forecast
- Appendix 2: Changes to Budget by Individual Service from 2023/24 to 2024/25
- Appendix 3: Provisional Finance Settlement
- Appendix 4: Council Tax trends
- Appendix 5: Special Expenses
- Appendix 6: Detailed list of pressures
- Appendix 7: Detailed list of savings proposals
- Appendix 8: Summary of findings from the budget consultation exercise
- Appendix 9: Strategic Risks associated with the budget
- Appendix 10: Detailed reserves position
- Appendix 11: Use of Reserves 2024/25
- Appendix 12: Dedicated Schools Grant 2024/25
- Appendix 13: Letter from DLUHC on Exceptional Financial Support
- Appendix 14: Council Tax Resolution – to follow

## Report Sign-Off

	<b>Officer Name</b>	<b>Date Completed</b>
Legal & Governance Implications	David Clark	29/01/2024
Communications	Peter Elliott	29/01/2024
Finance & Procurement	Nicola Hix	29/01/2024
Workforce	Dawn Bettridge	28/01/2024
Asset Management	Oliver Woodhams	29/01/2024
Executive Director / Senior Manager	Jason Vaughan	29/01/2024
Strategy & Performance	Sara Cretney	29/01/2024
Executive Lead Member	Cllr Liz Leyshon	29/01/2024
Consulted:		
Local Division Members	All	
Opposition Spokesperson	Cllr Mandy Chilcott Deputy Leader of the Opposition and Opposition Spokesperson for Resources and Performance	Sent report on 26/01/2024
Scrutiny Chair	Cllr Bob Filmer, Chair - Scrutiny Corporate & Resources Committee	Sent report on 26/01/2024