

Somerset Council - Exceptional Financial Support – Updated application February 2024

Following from our previous application for Exceptional Financial Support and your email of 8 February 2024, set out below is our updated request for a capitalisation direction to balance the 2024/25 budget and to support to enable a significant reduction in our workforce.

It is likely we will need to make a more significant application for support in 2025/26 to balance the budget.

Background

Somerset Council is a new council formed on 1 April 2023 from the previous four District Councils and the County Council. At the Full Council meeting on 20 December 2023, the Council resolved to formally request a capitalisation direction from DLUHC in order to set the 2024/25 budget and avoid a Section 114 Notice.

The application was made on 11 January 2024 for £77.9m, with £37.9m to balance the 2024/25 budget and £40m for the planned reduction in workforce. If the request for an additional 5% on council tax was approved, then this would be reduced to £60.8m (£20.8m + £40m).

DLUHC confirmed on 5 February 2024 that the request to be given flexibility set out in the provisional finance settlement to increase council tax in 2024-25 beyond national limits, without a referendum, was not approved.

Creating a Financially Sustainable Council

Somerset has recognised its financial challenges early and implemented a range of actions to help address the situation, and to try to create a financially sustainable council over the medium term.

The range of actions taken are based upon **operating as if a section 114 notice had been issued**, as well as developing longer-term solutions. The actions taken include:

- **Financial Reporting** – There has been regular reporting throughout the year covering the 2022/23 outturn, budget monitoring and the 2024/25 budget. From the Quarter 1 report in July 2023, there has been monthly budget monitoring reports to both Scrutiny and the Executive.
- **Outstanding Accounts** - As well as having the challenge of being a new council in April 2023 and having to produce the 2022/23 statement of accounts for five predecessor councils and the Somerset Pension Fund, it inherited some

outstanding accounts for 2020/21 and 2021/22. The backlog has been addressed with only two of the former District Council accounts for 2022/23 outstanding and these are expected to be completed in March 2024.

- **Financial Control Boards Panels** –Five boards and panels have been established to review and challenge spending decisions. They 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.

- **In year Overspend** – Actions have been taken to address the 2023/24 forecast overspend which was £28.6m in Month 3. The actions have seen this reduced £11.1 down to £17.5m which represents an overspend of 3.2% against the net budget.

- **Adults** – Engaging Newton Europe to carry out a diagnostic review of the service and delivering of £10m savings from the transformation programme “My Life, My Future”. The programme is aimed at reducing costs on an ongoing basis by reducing the number of residential placements. There has been a series of deep dive sessions on the Adults’ budget using John Jackson (LGA national expert), PDLB Financial Consultancy Ltd and Newton Europe.

- **Childrens Service** - Childrens 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. A more detailed financial demand model has been developed incorporating the latest forecasts and cost modelling on placements. To review and challenge these assumptions there has been a series of deep dive sessions on them using Peopletoo and PDLB Financial Consultancy Ltd. Edge Public Solution have reviewed school transport operations comprising both mainstream home-to-school transport and SEND transport.

- **Business Rates** – The income for business rates has been reviewed and challenged by LG Futures and the appeals provision has been increased to a more prudent level to account for appeals against the latest revaluations. The appeals provision has been reviewed by Analyse Local.

- **Council Tax** – Ensuring that the Council maximises its income by increasing council tax by the maximum allowed. The Council has also put in place a modern banded Council Tax Reduction scheme for the current year which has been reviewed and uprated for 2024/25. The inherited provision for bad debts has

been reviewed and increased to a more realistic and prudent level in line with comparator councils.

- **Reserves** – A detailed review of reserves has been undertaken to ensure that General reserves are within a risk-based assessment level and some Earmarked Reserves have been repurposed to support the budget. The outcomes of the review have been:
 - A transfer between the Earmarked Reserves to General Reserves of £23.1m to ensure that they remain within the range of a minimum of £30m and maximum of £50m agreed by Council in February 2023 when the budget was set.
 - Setting up a Budget Delivery reserve of £2.5m to cover the costs associated with the delivery of the savings contained within the budget proposals and any delays in delivery of them.
 - Setting up a Reserve for Devolution of Assets & Services – Overhead Costs of £0.6m to support the devolution of services and assets to City, Town & Parish Councils.
 - Repurposing of various Earmarked Reserves to create a MTFP Support Reserve of £36.8m which is being used to support the 2024/25 budget.
- **Minimum Revenue Provision (MRP)** - a new policy for Somerset Council which reflects the latest DLUHC guidance and comments from the external auditor Grant Thornton on predecessor accounts. The MRP budget for 2024/25 has been increased by £4.7m, based upon the new policy of 2.5% of CFR.
- **Financial Resilience** – As a new council there is a lack of comparative data available. This is also true of the DLUHC Office for Local Government (Oflog) website. Using published draft accounts from 2022/23 an independent balance sheet review was undertaken by a specialist consultancy. This compared the new Council to statistical neighbours and the results presented to the Audit Committee on 25 January 2024. It did not highlight any significant areas of concern.
- **Savings** – Identification of £35m of savings for 2024/25 that have been subject to consultation with the public and business sector. The savings proposals over and above those made possible by local government reorganisation, with difficult and unpalatable decisions on non-statutory services.
- **Service & Asset Devolution** – Development of proposals for devolution of assets and services to Parish/Town/City Councils.
- **Disposal of the Commercial Investment Portfolio** - The Council has made a policy decision to dispose of the inherited commercial investment portfolio and the Investment Sub Committee has been set up to oversee this. Jones Lang LaSalle (JLL) have been appointed to review the portfolio and assist with its disposal. The MTFP has therefore factored this into the budget proposals based

upon the forecast by JLL and the 2023/24 budgeted income from the investments of £20.6m has been reduced in 2024/25 and fully removed by 2026/27.

- **Disposal of Assets** – The Executive has tasked the Asset Management Group with developing a clear pipeline of assets disposals.
- **Capital Programme** – A detailed review of all the schemes in the current capital programme with the result being the removal of 26 schemes totalling £56.3m. The proposed 2024/25 – 2026/27 general fund capital programme totals £238.5m and comprises externally funded schemes, those essential for health and safety purposes or to deliver future savings, with a reduced borrowing requirement of £44.5m over the three years. The capitalisation direction for 2024/25 will be fully financed from capital receipts from the disposal of the commercial investments portfolio and other assets.
- **Dedicated Schools Grant (DSG) Deficit** – There is ongoing work with CIPFA to update the Deficit Management Plan (DMP) and reduce down the forecast in year overspends.
- **Housing Revenue Account (HRA)** – Review of the budget and 30 year plan by Altair (external housing consultant) including undertaking a number of scenarios and sensitivity tests. As a result of this a revised more financially sustainable 30-year plan has been developed.
- **Future Opportunities** - Actively engaging in ongoing and new opportunities for education, training and employment through supporting delivery of Hinkley C, Gravity site and the aerospace/defence industries in Somerset.
- **Re-sizing of the Council** - Significant reduction in size of workforce to create a slimmer, more agile Council with fewer office bases. It is estimated this will deliver £20m to £30m of on-going savings, in addition to the those in the Local Government Reorganisation Business Case of £18.5m over three years. The one-off costs of this are estimated to be around £40m.

Balancing the budget

The table below provides a summary of the 2024/25 budget position reflecting the final proposals from the Executive meeting on 7 February that will be considered by Council on 20 February. It shows the changes from the 2023/24 budget to the 2024/25 budget, including the use of £44.5m of one-off items to balance budget.

Changes to 2023/24 budget	£m
Reversals for once off items	19.9
Pressures	109.9
Savings	(35.0)
Changes to pay	13.8
Increase in financing costs	12.9
Increase in funding	(40.1)
Budget gap	81.4
One off items – to balance budget	
Use of Medium-Term Financial Plan Support Reserve	(36.8)
Council Tax Collection Fund surplus	(6.2)
Business Rates Collection Fund surplus	(1.5)
Remaining budget gap	36.9
Capitalisation Direction from DLUHC	(36.9)
Balanced position	0.0

The full details of this are set out in the 2024/25 Revenue Budget report to the 20 February 2024 Council meeting.

The Capitalisation Direction request is a reduction of £1m from our previous application and reflects changes following the final finance settlement, finalisation of savings proposals following public consultation, reduction of commercial investments income and updated Business Rates figures following completion of NNDR1. Details are in the table below:

APPENDIX 17 – Updated Capitalisation Direction request

Changes to Capitalisation Direction request	£m
Previous Capitalisation Direction request to balance the budget	37.9
Additional funding following final finance settlement – Social Care Grant	(5.2)
Additional Funding following final finance settlement – Rural Services Delivery Grant	(0.5)
Updated to budget following consultation with business, public and scrutiny	0.1
Reduction in Commercial investment income (assuming sale of commercial investment portfolio as per Jones Lang LaSalle profile)	1.4
Reduction in Business Rates funding (following completion of NNDR1)	3.2
Updated Capitalisation Direction request	36.9

Future Years

The Section 151 Officers Section 25 Report to the 20 February 2024 Council, attached, highlights significant concerns over the 2025/26 financial year and the ability to balance the budget. The current estimated gap for 2025/26 is £103.9m which is higher than the forecast level of reserves of £74.9m.

Financial Overview	2024/25	2025/26	2026/27
	£m	£m	£m
Total Reserves	76.6	74.9	73.4
Dedicated Schools Grant (DSG) Deficit			(96.2)
Budget Gap (excluding Capitalisation Direction)	(36.9)	(103.9)	(147.8)
Reserves less Budget Gap	39.7	(29.0)	(170.6)

At our meetings you have made it very clear that you are only considering applications for capitalisation directions in respect of 2024/25, but I need to highlight that the Council is very likely to need support with 2025/26.

Summary

The updated Capitalisation Direction request is based upon the budget proposals being considered at Council on 20 February 2024. The request to balance the 2024/25 budget is for £36.9m.

As set out previously, the Council is trying to become financially sustainable, proposals for a significant reduction in the workforce are planned which are estimated to deliver on-going savings of £20m to £30m for 2025/26 (in addition to those in the LGR Business Case) and service efficiencies and reductions. The one-off costs of staff severance are estimated to be in the region of £40m. Further work is being undertaken to assess if some of these costs can be funded from the flexible use of capital receipts.

The total request for 2024/25 is £76.9m, with £36.9m to balance the 2024/25 budget and £40m for the planned reduction in workforce.

I understand from our discussions that final confirmation of our application will not be provided until late March 2024.

Jason Vaughan

Executive Director – Resources & Corporate Services (Section 151 Officer)

Somerset Council



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