

## **Section 151 Officer assessment of the need to issue a Section 114 Notice: August 2024**

My personal style is one of openness and transparency and this is the approach I have adopted in dealing with the financial challenges that Somerset Council faces. The approach has ensured that members, staff, MHCLG, external auditors and partners are very aware of the financial position and that there are “no surprises”.

As part of this approach, I have made regular assessments of the council’s financial position during the year as follows:

- 26 September 2023 - Letter to DLUHC & CIPFA – Setting out the financial challenges facing council.
- 21 October 2023 – Assessment of the need to issue a Section 114 Notice
- 13 January 2024 – Assessment of the need to issue a Section 114 Notice
- 20 February 2024 – Section 151 Officers Section 25 Report to full council on the 2024/25 Budget in respect of the Robustness of the Budget Estimates and Adequacy of Reserves

These assessments have been shared with Duncan Sharkey, Chief Executive, in his role of Head of Paid Service and David Clark, Service Director Governance Democratic & Legal, in his role as Monitoring Officer. I have also shared the assessments with:

- MHCLG - Nico Heslop and Jonathan Orr at MHCLG
- External Auditors - Barrie Morris, Grace Evans and Dan Povey at Grant Thornton
- Internal Auditors – David Hill and Alastair Woodland at SWAP
- CIPFA – Rob Whiteman
- Leader & Deputy Leader - Cllrs Bill Revans and Liz Leyshon
- Leader & Deputy Leader of the opposition – Cllrs David Fothergill and Mandy Chilcott
- Chair & vice Chair of Scrutiny – Cllrs Bob Filmer and Henry Hobhouse
- Chair & vice Chair of Audit Committee – Cllrs Mike Hewitson and Andy Sully
- Executive Leadership Team
- Deputy Section 151 Officer – Nicola Hix

Given that my last working day with Council is 16 August 2024, it is appropriate that I complete a further assessment and I am also copying this note to Maria Christofi who will become the Interim Chief Finance Officer (s151) following my departure.

## **2023/24 Revenue Budget**

Given the changes in the external financial environment with rising inflation and increases in the Bank of England base rates, monitoring of the budget during the year has been critical. Despite the introduction of a new finance system and not having in place a permanent staffing structure below Service Directors until the later part of the year, there has been formal monthly budget monitoring reports during the year to the Executive and Scrutiny Committees.

For Month 2 ahead of the formal report an emerging issues paper was produced and shared with Executive members and Corporate Leadership Team. This highlighted a potential overspend of £40m for 2023/24. The first formal report at Month 3 forecast an overspend of £28.6m.

A number of actions taken during the year to address the potential in-year overspend and these include:

- Directorate level financial controls that were agreed by the Executive as part of the month 3 Budget Monitoring report and cover:
  - Delivery of 2023/24 savings.
  - Staffing establishment controls.
  - Underspending opportunities from 2022/23.
  - Transaction limits.
  - Local schemes of delegation.
  - Non-critical spend.
  - Value engineering.
  - Exploring alternative funding mechanisms.
- **No PO, No Pay** – On the back of the introduction of the new finance system, tackling and working with services on ensuring the follow good financial management practice and issue Purchase Order when committing funds.
- **Financial training** – There has been a significant investment in the training of staff on the new finance system to enable them to use and understand the new processes which assists with more accurate budget monitoring processes.
- **Control Boards** - I felt that the Directorate level financial controls were not having the desired impact and need strengthening. A number of daily and weekly control boards have been put in place: -
  - 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.
- **Staff messaging** – The intranet, staff and management briefings have all been utilised to publicise the financial position and the need to reduce down the in-year overspend.
- **Declaration of a Financial Emergency** – The 8 November 2023 Executive declared a financial emergency and acknowledges that urgent actions need to be taken to address the position including the setting up of the Financial Focus Group and the introduction of further financial controls to limit spending.

The Council's 2023/24 revenue budget included over £40.9m of approved MTFP transformation, savings, and income generation proposals (TSIGP). As the end of the financial year, 78% has been delivered against this target. This has improved from what was reported at quarter 3, where 70% of savings were forecast to be delivered.

**Performance of Agreed Transformation, Savings, and Income generation Proposals as at the end of March 2024 (Outturn)**

Service Area	Approved Savings £m	Over-achieved £m	Achieved £m	Unachieved £m
Adults Services	10.5	0.0	6.6	3.9
Children & Family Services	4.6	0.0	3.2	1.4
Public Health	0.1	0.0	0.1	0.0
Communities Services	1.5	0.0	1.1	0.3
Climate & Place	7.9	0.0	7.6	0.3
Strategy, Workforce & Localities	0.6	0.0	0.6	0.0
Resources & Corporate Services	4.7	0.1	2.5	2.2
Non-Service	11.0	0.0	10.3	0.7
<b>Total</b>	<b>40.9</b>	<b>0.1</b>	<b>32.0</b>	<b>8.8</b>

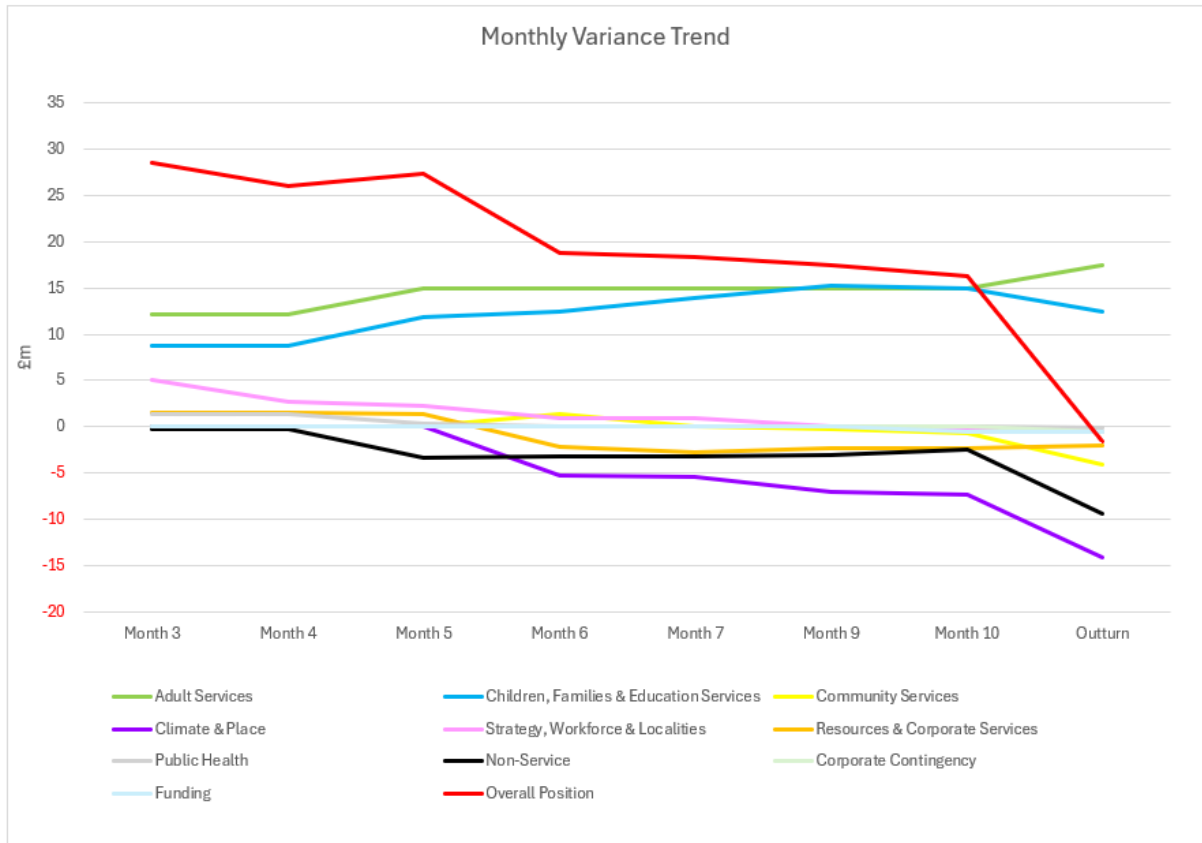
**Unachieved savings total £8.8m (30%) and include:**

- **Adult Services – Total savings £10.5m, £3.9m (37%) unachieved.**

- My Life, My Future savings. Longer rollout than originally anticipated. £3.9m of the £5.0m saving will now be achieved in 2024/25.
- **Children & Family Services – Total savings £4.6m, £1.4m (31%) unachieved.**
  - Family Intervention: £0.5m (unachieved) - a review of the original savings assumptions has been undertaken and an alternative delivery model proposed.
  - Homes to Inspire: £0.3m (unachieved) – delays in Homes and Horizons pods and annexes opening.
  - Diagnostic Review of Children’s Services £0.6m (unachieved) – the Impower report identified potential savings including delivery of approximately 6 to 8 step downs from residential to in house fostering over the next 3 years, however these savings will not be delivered in 2023/24. In-house foster placements have increased by two on average for the financial year which would result in a saving of £0.4m if those young people were to have gone into residential care however the overall pressure in residential external placements eliminates any potential savings.
- **Communities Services – Total savings £1.5m**
  - Community Services have achieved all £1.5m MTFP savings in 2023-24, either through the initial savings plan or alternative mitigations within the service.
- **Climate & Place – Total savings £7.9m.**
  - Climate & Place have achieved all £7.9m MTFP savings in 2023-24, either through the initial savings plan or through alternative mitigations within the service.
- **Resources & Corporate Services – Total savings £4.7m, £2.2m (47%) unachieved.**
  - Consolidation of Maintenance & Facilities Management Services: £20k unachievable due to timing of transfer and legacy contract costs being higher than anticipated means part of the saving not achieved. The service is works towards achieving this saving in 2024/25.
  - Northgate Yard – Rental Income: £0.2m (unachieved). Void units and rent-free periods means this income target is unachievable. The service is actively seeking new tenants, however rent-free periods would still apply meaning any income will now fall into 2025/26. This property is being recategorised as an investment for yield property for 2024/25.
  - Mobile Devices. £42k (unachieved) the saving is due to be delivered 2024/25.
  - Consolidation to single Electronic Payment System: £45k (unachieved) to be delivered in 2024/25 (part of second Dynamics phase.)

- Dividends from Companies: £1.7m (unachieved) Trading of battery storage operations not as good as forecast. This budget pressure will be funded from the investment risk reserve.
  - Data Centre Consolidation: £50k (unachieved) Linked to office rationalisation therefore saving will not be achievable this year.
  - Environmental Health IT: £39k (unachieved) No activity in the programme to realise this saving, it is included on the transition matrix to flag that activity needs to take place.
  - App Rationalisation: £1k (unachieved) Expected target date for delivery November 2024.
  - Housing Benefit Admin Grant (2% increase): The increase in the Government Grant, was less than anticipated resulting in this £28.4k saving being unachievable.
  - Subscriptions: £5k (unachieved) No activity in the programme to realise this saving, it is included on the transition matrix to flag that activity needs to take place.
  - Property Rationalisation and Divestment: £69k (unachieved) Full saving not achieved in 2023/24 due to accounting adjustments required to correct previous recharges. The saving is on track to be delivered going forward as the building is now occupied by SCIL and on a full cost recovery basis.
- **Non-Service – Total savings £11.0m, £0.7m (6%) unachieved.**
    - LGR Staffing savings. Base budget savings of £0.687m and £2.6m has been achieved. Any shortfalls in the savings have been achieved through staff vacancies and will be achieved through the Workforce programme planned staff reductions.

It is clear from the graph below that although the overall position is positive with an underspend for the year there is wide range of variances within the individual services. This was reviewed when setting the 2024/25 and as a result substantial increases to the Adults to Childrens budgets.



## **Housing Revenue Account (HRA)**

The 2023/24 Outturn is an underspend of £0.8m on the HRA.

The capital outturn position for 2023/24 was £43.708m. A net budget return of £0.171m is being proposed across the HRA Capital Programme. A carry forward of £57.317m is being proposed for schemes in 2024/25 and future years.

The Month 3 position in 2023/24 is a forecast overspend of £2.359m and action needs to be taken to address this. However, it should be seen in context of a healthy reserves position. Unearmarked reserves are currently £12.859m which is £9.137m above the recommended minimum balance of £3.722m. Earmarked reserves are projected to be £0.209m.

## **Capital Budget**

The 2023/24 capital budget has an underspend of £0.9m with £195.2m of slippage into 2024/25.

## **Schools**

The position in respect of Dedicated Schools Grant (DSG) was a £15.2m overspend for the year which will take the cumulative deficit to £35.9m. This is slightly better than the February forecast of the overall deficit increasing to £38.1m. The Government put in place the statutory override until the end of the 2025/26 financial year which is when the deficit would need be offset against the council reserves. Unless the statutory override is extended or the deficit funded by the DfE, then this is likely to cause a Section 114 notice to be issued.

A project has been scoped and is beginning work to grip the plans to manage activity needed to address the growing deficit on the Dedicated Schools Grant (DSG). Initial activity has been focusing on understanding the pent-up demand in the backlog of requests for Education, Health, and Care Plan assessments and 144 children's cases have been resolved. Additional capacity for complex High Needs financial modelling and monitoring work is being funded from the DfE grant.

The revenue reserves of the 118 Local Authority maintained schools were provisionally £17.7m by 31 March 2024 (£19.8m on 31 March 2023). Projections for 2024/25 indicate a sharp downturn in the forecast for most schools, with overall revenue reserves expected to decrease by around £8.5m during the year and move into overall deficit during 2025/26.

## Treasury Management

The level of external debt reduced from £803.7m at the start of year by £10.7m down to £793m.

	<b>Balance on 31-03-23</b>	<b>Debt Matured / Repaid</b>	<b>New Borrowing</b>	<b>Balance on 31-03-24</b>	<b>Increase/ Decrease in Borrowing</b>
<b>General Fund</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Intra-Unitary Loans	53.0	(53.0)	0.0	0.0	(53.0)
Short Term Borrowing	191.5	(213.5)	118.0	96.0	(95.5)
PWLB	234.8	(5.0)	160.0	389.8	155.0
LOBOs	108.0	(15.0)	0.0	93.0	(15.0)
Fixed Rate Loans	57.5	0.0	0.0	57.5	0.0
<b>Total General Fund</b>	<b>644.8</b>	<b>(286.5)</b>	<b>278.0</b>	<b>636.3</b>	<b>(8.5)</b>
<b>HRA</b>					
Short Term Borrowing	15.0	(15.0)	0.0	0.0	(15.0)
PWLB	140.8	(12.2)	25.0	153.7	12.8
LOBOs	0.0	0.0	0.0	0.0	0.0
Fixed Rate Loans	3.0	0.00	0.0	3.00	0.0
<b>Total HRA</b>	<b>158.8</b>	<b>(27.2)</b>	<b>25.0</b>	<b>156.7</b>	<b>(2.2)</b>
<b>Total</b>	<b>803.7</b>	<b>(313.7)</b>	<b>303.0</b>	<b>793.0</b>	<b>(10.7)</b>

The inherited investment portfolio of £295.75m from the five legacy councils, was reduced by £103.6m to £192.15m by the end of the year. The reduction was mainly due to £98m of Section 256 funding held in relation to NHS Somerset which has now been released, with no such funds being held at the end of year.



## **Audit of Statement of Accounts**

The new council inherited a number of outstanding accounts from the predecessor organisations. The position was Mendip and Sedgemoor for 2020/21, South Somerset, Mendip and Sedgemoor for 2021/22 as well as having to complete the 5 sets for 2022/23.

It is clear from various section 114 notices that have been issued recently that there is a pattern of having outstanding accounts. This obviously represent a significant risk to the new council and has been an area of priority.

The current position is that the only outstanding accounts are for 2022/23 in respect of South Somerset, and these are near sign off from external audit. Completing these is key to finalising the first set of accounts for Somerset Council.

## **Annual Audit Report**

Grant Thornton has produced their Annual Audit Report which was considered by the Audit Committee on 25 January 2024 and by full Council on 20 February 2024.

In completing this assessment, Grant Thornton have looked at the arrangements in place for the continuing authority Somerset County Council and three of the legacy District Council's (South Somerset District Council, Somerset West and Taunton District Council, and Sedgemoor District Council) for the 2022/23 financial year. Grant Thornton was not the appointed auditor for Mendip District Council for 2022/23. EY will be producing the Annual Audit Report for Mendip for the March 2024 Audit Committee.

Grant Thornton have made no statutory recommendations to the Council as a result of their findings but have made seven key recommendations and six improvement recommendations.

## **Internal Audit**

In terms of the key financial report during the year, SWAP have concluded the following:

- Budget Monitoring & Reporting – Reasonable
- Budget Planning and Assumptions – Reasonable
- Accounts Receivable – Limited
- Creditors – Reasonable
- Main Accounting - Limited

## Reserves

A key part of the work in bringing the 5 councils together has been to review the various reserves held by the predecessor councils and rationalise them. This work has also identified those reserves held on behalf of others such as the LEP, Somerset Rivers Authority, Schools etc which cannot be used to support council general services. The table below summarise the position of reserves that the council has available to support its general fund services following the 2023/24 outturn and 2024/25 budget setting process.

<b>Somerset Council Reserve</b>	<b>Balance at 01/04/23 £m</b>	<b>Net transfers £m</b>	<b>Balance as at 31/03/24 £m</b>	<b>Forecast Change £m</b>	<b>Balance as at 31/03/25 £m</b>
General Fund Balance	49.842	2.284	52.125	0	52.125
Earmarked Reserves	114.831	(9.955)	104.876	(49.731)	55.146
<b>Total</b>	<b>164.673</b>	<b>(7.671)</b>	<b>157.001</b>	<b>(49.731)</b>	<b>107.271</b>

The risk-based level of General Reserves for 2024/25 has been set by Council as being between the minimum level of £30m and the maximum level of £60m. Although the level of General Fund reserves is comfortably maintained within this level the table also shows the significant use of Earmarked Reserves in 2024/25 to support the budget. The financial strategy for balancing the 2024/25 included the use of the £37m in the MTFP Support Reserve on the basis that this enable the council to have sufficient time to develop significant on-going savings such as the downsizing of the workforce to enable the 2025/26 budget to be balanced without the significant use of once off resources.

## **2024/25 Revenue Budget**

The 2024/25 revenue budget proposals took account of the 2023/24 budget position as Month 9 and other known changes. The budget estimates 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.

A summary of the key changes is from 2024/25 to 2026/27 is set out in the table below:

<b>Changes to Budget</b>	<b>2024/25</b>	<b>2025/26</b>	<b>2026/27</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
Budget from previous year	0.0	0	103.9
Reversals for once off items	19.9	7.7	0.0
Revised starting point	19.9	7.7	103.9
Pressures	109.8	45.0	53.6
Savings	(35.0)	(10.0)	0.3
Changes to pay	13.8	6.1	6.1
Increase in financing costs	12.9	12.0	4.4
Increase in funding	(47.6)	(32.5)	(20.5)
Change in Use of Reserves	(36.9)	38.6	0.0
Capitalisation Direction	(36.9)	36.9	-
<b>Budget Gap</b>	<b>0</b>	<b>103.9</b>	<b>147.8</b>

The table below shows the breakdown of pressures by service and shows the significant increase in funding in both the Adults and Childrens budgets.

<b>Total Pressures by Directorate</b>	<b>2024/25</b>	<b>2025/26</b>	<b>2026/27</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
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>109.9</b>	<b>45.0</b>	<b>53.6</b>
<b>Cumulative Total</b>	<b>109.9</b>	<b>154.8</b>	<b>208.4</b>

The table below summarises the savings proposals by directorate 2024/25 to 2026/27.

<b>Total Savings by Directorate</b>	<b>2024/25</b>	<b>2025/26</b>	<b>2026/27</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
Adults Services	(9.8)	(1.6)	0.0
Childrens, Families and Education	(9.6)	(1.9)	0.0
Communities Services	(2.9)	(0.6)	0.0
Climate & Place	(5.5)	(1.4)	0.3
Strategy, Workforce & Localities	(0.6)	(0.1)	0.0
Resources & Corporate Services	(2.6)	(0.5)	0.0
Public Health	0.0	0.0	0.0
Local Government Reorganisation	(4.0)	(4.4)	0.0
<b>Total</b>	<b>(35.0)</b>	<b>(10.5)</b>	<b>0.3</b>
<b>Cumulative Total</b>	<b>(35.0)</b>	<b>(45.5)</b>	<b>(45.2)</b>

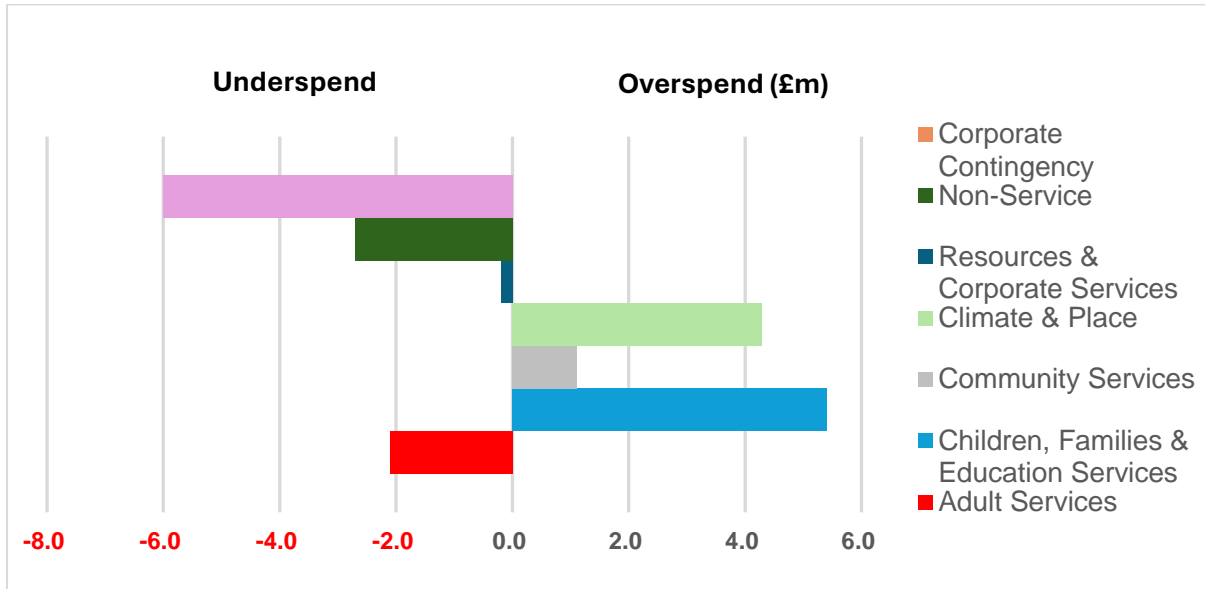
In terms of the detailed changes between the 2023/24 budget and the 2024/25 these are summarised in the table below.

<b>Service Area</b>	<b>2023/24</b>	<b>2024/25</b>	<b>Change</b>
	<b>Current Budget</b>	<b>Budget</b>	<b>£m</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
Adult & Health Services	181.3	239.4	58.0
Children & Family Services	126.1	142.0	15.9
Community Services	37.0	35.5	(1.5)
Climate & Place	94.2	93.9	(0.3)
Strategy, Workforce & Localities	25.5	24.7	(0.7)
Resources & Corporate Services	23.3	27.7	4.4
Public Health	1.0	1.0	0.0

Corporate Areas:			
Pay award	-	10.3	10.3
Debt financing	40.7	53.6	12.9
Other Corporate costs	13.7	10.6	(3.1)
Capitalisation Direction	-	(36.9)	(36.9)
<b>Net Budget Requirement</b>	<b>542.8</b>	<b>601.8</b>	<b>59.0</b>
<b>Financed by:</b>			
Council Tax	(335.5)	(357.8)	(22.2)
Flexible Use of Capital Receipts	(4.0)	0.0	4.0
New Homes Bonus	(3.8)	(1.9)	1.9
Rural Services Delivery Grant	(3.2)	(4.1)	(0.9)
Services Grant	(3.2)	(0.5)	2.7
Social Care Support Grant	(39.2)	(51.0)	(11.8)
Revenue Support Grant	(7.9)	(8.5)	(0.5)
Business Rates	(122.2)	(128.4)	(6.3)
Council Tax Somerset Rivers Authority	(3.0)	(3.1)	0.0
Special Expenses	(0.2)	(0.2)	0.0
Business Rates Collection (Surplus) / Deficit	6.1	(1.5)	(7.6)
Council Tax Collection (Surplus)	(6.7)	(6.2)	0.4
General Reserves	-	-	-
Earmarked Reserves	(19.9)	(38.5)	(18.6)
<b>Total Financing</b>	<b>(542.8)</b>	<b>(601.8)</b>	<b>(59.0)</b>

The end of July 24 (Month 3) position is a forecast underspend of £0.2m for 2024/25. This is summarised below and is obviously a significant improvement from the same period the previous year.

The key areas of variance at Month 3 are:



The table below show the detailed breakdown under each service.

Service Area	Current Expenditure Budget £m	Current Income Budget £m	Current Net Budget £m	Full Year Projection £m	Month 3 Variance £m	A/(F)	RAG Status	Movement From Month 2 £m
<b>Adult Services</b>								
Adult Social Care Operations:								
Physical Disability/Sensory Loss/65 Plus	166.1	(27.9)	138.2	135.8	(2.4)	(F)	Green	(2.4)
Mental Health	43.3	(6.3)	37.0	35.8	(1.2)	(F)	Green	(1.2)
Learning Disabilities	145.3	(7.7)	137.6	136.7	(0.9)	(F)	Green	(0.9)
Adult Social Care - Commissioning	21.7	(94.9)	(73.2)	(70.8)	2.4	A	Red	2.4
<b>Adult Services Total</b>	<b>376.4</b>	<b>(136.8)</b>	<b>239.6</b>	<b>237.5</b>	<b>(2.1)</b>	<b>(F)</b>	<b>Green</b>	<b>(2.1)</b>
<b>Children, Families &amp; Education Services</b>								
Children & Families	114.2	(16.2)	98.0	103.1	5.1	A	Red	5.1
Commissioning & Performance	18.3	(7.3)	11.0	10.6	(0.4)	(F)	Green	(0.4)
Education	58.8	(26.3)	32.5	33.2	0.7	A	Red	0.7
Childrens Services	0.4	0.0	0.4	0.4	0.0	-	Green	0.0
<b>Children, Family &amp; Education Services Total</b>	<b>191.7</b>	<b>(49.8)</b>	<b>141.9</b>	<b>147.3</b>	<b>5.4</b>	<b>A</b>	<b>Red</b>	<b>5.4</b>
<b>Community Services</b>								
Executive Director - Community Services	0.0	0.0	0.0	0.0	0.0	-	Green	0.0
Housing	10.7	(4.1)	6.6	6.7	0.1	A	Amber	0.1
Customer Services	9.1	(3.3)	5.8	5.8	0.0	-	Green	0.0
Cultural Services	12.7	(3.6)	9.1	9.1	0.0	-	Green	0.0
Regulatory & Operational Services	24.5	(11.5)	13.0	14.0	1.0	A	Red	1.0
<b>Community Services Total</b>	<b>57.0</b>	<b>(22.5)</b>	<b>34.5</b>	<b>35.6</b>	<b>1.1</b>	<b>A</b>	<b>Red</b>	<b>1.1</b>
<b>Climate &amp; Place</b>								
Climate, Environment & Sustainability	66.7	(8.7)	58.0	61.0	3.0	A	Red	3.0
Infrastructure & Transport	50.1	(26.9)	23.2	24.2	1.0	A	Red	1.0
Economy, Employment & Planning	18.1	(9.9)	8.2	8.5	0.3	A	Red	0.3
Accountable Bodies	4.1	(0.5)	3.6	3.6	(0.0)	(F)	Green	(0.0)
<b>Climate &amp; Place Total</b>	<b>139.0</b>	<b>(46.0)</b>	<b>93.0</b>	<b>97.3</b>	<b>4.3</b>	<b>A</b>	<b>Red</b>	<b>4.3</b>

Service Area	Current Expenditure Budget £m	Current Income Budget £m	Current Net Budget £m	Full Year Projection £m	Month 3 Variance £m	A/(F)	RAG Status	Movement From Month 2 £m
<b>Strategy, Workforce &amp; Localities</b>								
Partnership & Localities	3.1	(0.2)	2.9	2.9	0.0	-	Green	0.0
Strategy & Performance	7.6	(1.1)	6.5	6.5	0.0	-	Green	0.0
Workforce	10.1	(3.9)	6.2	6.2	0.0	-	Green	0.0
Governance, Democratic & Legal Services	11.2	(1.4)	9.8	9.8	0.0	-	Green	0.0
<b>Strategy, Workforce &amp; Localities Total</b>	<b>32.0</b>	<b>(6.6)</b>	<b>25.4</b>	<b>25.4</b>	<b>0.0</b>	<b>-</b>	<b>Green</b>	<b>0.0</b>
<b>Resources &amp; Corporate Services</b>								
Finance & Procurement	119.3	(104.9)	14.4	14.6	0.2	A	Amber	0.2
Strategic Asset Management	19.3	(24.0)	(4.7)	(4.4)	0.3	A	Red	0.3
Information Communication Technology	20.1	(2.9)	17.2	16.5	(0.7)	(F)	Green	(0.7)
<b>Resources &amp; Corporate Services Total</b>	<b>158.7</b>	<b>(131.8)</b>	<b>26.9</b>	<b>26.7</b>	<b>(0.2)</b>	<b>(F)</b>	<b>Green</b>	<b>(0.2)</b>
<b>Public Health</b>	<b>1.0</b>	<b>0.0</b>	<b>1.0</b>	<b>1.0</b>	<b>0.0</b>	<b>-</b>	<b>Green</b>	<b>0.0</b>
<b>Corporate Management</b>	<b>1.5</b>	<b>(0.1)</b>	<b>1.4</b>	<b>1.4</b>	<b>0.0</b>	<b>-</b>	<b>Green</b>	<b>0.0</b>
<b>Non-Service</b>	<b>74.8</b>	<b>(5.9)</b>	<b>68.9</b>	<b>66.3</b>	<b>(2.6)</b>	<b>(F)</b>	<b>Green</b>	<b>(2.6)</b>
<b>Traded Services Total</b>	<b>1.8</b>	<b>(1.8)</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>-</b>	<b>Green</b>	<b>0.0</b>
<b>Total Service Position</b>	<b>1,033.9</b>	<b>(401.3)</b>	<b>632.6</b>	<b>638.5</b>	<b>5.9</b>	<b>A</b>	<b>Red</b>	<b>5.9</b>
Corporate Contingency	6.0	0.0	6.0	6.0	(6.0)	(F)	Green	-6.0
<b>Total After Contingencies</b>	<b>1,039.9</b>	<b>(401.3)</b>	<b>638.6</b>	<b>638.5</b>	<b>(0.1)</b>	<b>(F)</b>	<b>Green</b>	<b>(0.1)</b>
Reserves	(38.5)	0.0	(38.5)	(38.5)	0.0	-	Green	0.0
Council Tax	0.0	(361.1)	(361.1)	(361.1)	0.0	-	Green	0.0
Business Rates	0.0	(128.4)	(128.4)	(128.4)	0.0	-	Green	0.0
Grants	0.0	(66.0)	(66.0)	(66.1)	(0.1)	(F)	Green	(0.1)
Collection Fund Surplus/Deficit	0.0	(7.7)	(7.7)	(7.7)	0.0	-	Green	0.0
Flexible Use of Capital Receipts	0.0	0.0	0.0	0.0	0.0	-	Green	0.0
Capitalisation Direction	0.0	(36.9)	(36.9)	(36.9)	0.0	-	Green	0.0
<b>Total Position</b>	<b>1,001.4</b>	<b>(1,001.4)</b>	<b>0.0</b>	<b>(0.2)</b>	<b>(0.2)</b>	<b>(F)</b>	<b>Green</b>	<b>(0.2)</b>

The table below provides a summary of progress against the £35m of savings built into the 2024/25 budget proposals.

Service Area	Approved Savings £m	Over-achieved/ on track to overachieve £m	Achieved £m	On-track £m	At Risk £m	Unachievable £m
Adults Services	9.8	3.9	0.9	8.9	0.0	0.0
Children & Family Services	9.6	0.0	0.5	4.9	4.2	0.0
Public Health	0.0	0.0	0.0	0.0	0.0	0.0
Community Services	2.9	0.0	0.0	2.8	0.1	0.0
Climate & Place	5.6	0.0	0.7	3.2	1.7	0.0
Strategy, Workforce & Localities	0.5	0.0	0.4	0.1	0.0	0.0
Resources & Corporate Services	2.6	0.0	0.4	2.1	0.0	0.1
Non-Service	4.0	0.0	0.0	4.0	0.0	0.0
<b>Total</b>	<b>35.0</b>	<b>3.9</b>	<b>2.9</b>	<b>26.0</b>	<b>6.0</b>	<b>0.1</b>
Percentages	100%	11%	8%	75%	17%	0%

It will be very important that if any savings are at risk or considered unachievable then alternative replacement savings need to be identified and delivered.



## Updated MTFP and Financial Strategy

The 2025/26 Financial Strategy was considered by the Executive and approved by full Council in April 2024. Based upon this, the 2023/24 outturn and the current years Month 3 budget monitoring position, I have updated the MTFP and Financial Strategy below.

It shows that the Council is financially sustainable and can balance its budget over the medium term as long as it delivers on the savings identified in the Financial Strategy. It will be important that if there is any slippage, action is taken to address it and identify mitigations.

### MTFP - Updated July 2024

Ref	Description	2025/26	2026/27	2027/28	2028/29	Risk
		£m	£m	£m	£m	
1	Budget Gap - Feb 2024	103.9	147.8	170.0	198.5	1
<b>Updates for 2023/24 Outturn</b>						
2	2023/24 Savings not delivered	8.8	8.8	8.8	8.8	1
3	Adjustment for savings that will be delivered but delayed	(5.1)	(5.1)	(5.1)	(5.1)	1
4	Review of bad debts	6.0				1
5	Collection Fund surpluses	(3.8)	(3.0)	(3.0)	(3.0)	1
<b>Updates following 2024/25 Budget Monitoring</b>						
6	2024/25 Budget Monitoring issues					
	- Month 3 forecast is on budget	0.0	0.0	0.0	0.0	1
7	2024/25 Savings at risk of non-delivery					
	- Unachievable savings	0.2	0.2	0.2	0.2	1
	- At Risk savings	5.6	5.6	5.6	5.6	1
	- Required replacement savings	(5.8)	(5.8)	(5.8)	(5.8)	3
8	<b>Updated Budget Gap</b>	<b>109.8</b>	<b>148.5</b>	<b>170.7</b>	<b>199.2</b>	

### Financial Strategy for Balancing the Budget

#### Efficiency Savings

9	2023/24 Outturn & Base Budget Review	(7.0)	(8.0)	(9.0)	(10.0)	1
10	Commissioning	(5.0)	(5.0)	(5.0)	(5.0)	1
11	Third Party Spend	(3.0)	(3.0)	(3.0)	(3.0)	1

12	Review of Pressures (33% reduction)	(15.0)	(32.7)	(48.3)	(66.5)	2
<b>Service Levels</b>						
13	Reducing Service Levels/Stopping Service	(1.0)	(1.0)	(1.0)	(1.0)	1
14	Workforce Programme (Staffing Reductions)	(35.0)	(40.0)	(40.0)	(40.0)	2
15	Council Tax Reduction Scheme	(2.0)	(2.0)	(2.0)	(2.0)	1
<b>Alternative Service Delivery</b>						
16	Alternative Service Delivery	(1.0)	(1.0)	(1.0)	(1.0)	1
<b>Asset Management</b>						
17	Rationalisation of Council Offices	(1.0)	(2.0)	(3.0)	(3.0)	2
<b>Financing of Activities</b>						
18	Review of Treasury Management	(2.0)	(3.0)	(3.0)	(3.0)	1
19	Review of Transport Fleet	(0.5)	(0.5)	(0.5)	(0.5)	1
<b>Income Generation</b>						
20	Income from Services	(4.0)	(8.0)	(12.0)	(16.0)	2
21	Council Tax	(5.8)	(5.8)	(5.8)	(5.8)	1
22	Council Tax – above referendum limits	0.0	0.0	0.0	0.0	1
23	Business Rates	0.0	0.0	0.0	0.0	1
24	Review of Government Grants	(2.0)	(2.0)	(2.0)	(2.0)	1
<b>Transformation Activities &amp; Further Savings</b>						
25	New Transformation Programme (1% of net Budget)					
	- 1% of Net Budget of £588m for 2025/26	(2.9)	(5.9)	(5.9)	(5.9)	3
	- 1% of Net Budget of £625m for 2026/27		(6.3)	(6.3)	(6.3)	2
	- 1% of Net Budget of £656m for 2027/28			(6.6)	(6.6)	2
	- 1% of Net Budget of £689m for 2028/29				(6.9)	2
26	My Life My Future (Stretched Target)	(2.0)	(3.5)	(4.0)	(4.3)	2
27	Review of Capital Programme	(3.0)	(3.0)	(3.0)	(3.0)	2
28	Review of commercial property portfolio/ repay debt	(6.0)	(6.0)	(6.0)	(6.0)	2
		<b>(98.2)</b>	<b>(138.6)</b>	<b>(167.3)</b>	<b>(197.7)</b>	

<b>Remaining Gap</b>	<b>11.6</b>	<b>9.9</b>	<b>3.4</b>	<b>1.5</b>
<b>Available Reserves</b>				
29 General Fund	(52.1)	(45.5)	(35.7)	(32.2)
Reserves required to balance budget	11.6	9.9	3.4	1.5
Adjusted General reserves	(40.5)	(35.7)	(32.2)	(30.8)
30 Review & Repurpose of Earmarked Reserves	(5.0)			
Available General Reserves	(45.5)	(35.7)	(32.2)	(30.8)
31 Risk Based Level of Reserves	30.0	30.0	30.0	30.0
32 Surplus of Reserves above risk-based level	(15.5)	(5.7)	(2.2)	(0.8)

## Commentary

- Budget Gap** - This is based upon the forecast in February 2024 that was reported to Council as part of the 2024/25 budget setting report.
- 2023/24 Savings not delivered** - Based upon the report presented to Executive in July 2024.
- Adjustment for savings that will be delivered but delayed** - Adults My Life, My Future £3.9m, Childrens - Homes to Inspire £0.3m, IT Mobile devices & electronic payment system £0.1m, Assets - Property rationalisation £0.1m and Local Government Reform Staff savings £0.7m.
- Review of bad debts** - Provision for write off of bad debts from inherited debt portfolio based upon initial analysis. Business rates have already been reviewed by analyse local and adjusted.
- Collection Fund surpluses** - Year-end review of Council tax has identified £7.7m surplus carried forward and business rates £0.5m. Based upon previous year's £3m estimated to be the surplus going forward as tax base growth is assumed at 1%.
- 2024/25 Budget Monitoring issues** - Ongoing items identified in the Month 2 budget monitoring report to July 2024 Executive.
- 2024/25 Savings at risk of non-delivery** - Agreed strategy is that any shortfalls will be covered within services by new savings.
- Updated Budget Gap** - Taking February 2024 position and updating it for 2023/24 outturn and 2024/25 Month 2 budget monitoring position.
- 2023/24 Outturn & Base Budget Review** - Overall underspend in 2023/24 of £2m but this masks Adults overspend of £17.4m and Childrens of £12.4m. These variances have been adjusted for in the 2024/25 budgets for those services. The underspend across the rest of the Council was £31.7m. There were some one-off savings within this figure, but it is reasonable to assume that £7m of savings can be identified for 2025/26 and a further £1m in subsequent years.
- Commissioning** - A review of the commissioning practice and arrangements across the council has been agreed by Council in April 2024 as part of the Financial Strategy and is expected to yield savings of £5m.

- 11 **Third Party Spend** - This includes savings from third party spend. Peopletoo have carried out an initial review and identified the areas where savings can be delivered.
- 12 **Review of Pressures (33% reduction)** - The February 2024 MTFP include significant cost increases from price increases and increased demands totalling £201.2m. With £45m for 2025/26, £53.6m for 2026/27, £47.3m for 2027/28 and £55.3m for 2028/29. Adults were £148m and Childrens £21.2m of this total. With reduced inflation and the rebasing of the budget it is estimated that 33% of the cost pressures could be reduced.
- 13 **Reducing Service Levels/Stopping Service** - The Financial Strategy includes a range of between £1m and £3m. Given the organisational capacity the lower end of range has been assumed.
- 14 **Workforce Programme (Staffing Reductions)** - The programme is a key element of the 2024/25 Financial Strategy with the authority looking to significantly reduce its workforce by over 20%. The figures require approximately 1,000 posts to be removed from staffing establishment. The Voluntary Redundancy programme was the first step and has resulted in 200 posts being identified and there are approximately 200 vacancies. The process for the removal of the other posts has begun with draft structures being developed and currently costed ahead of a consultation process in September. The figures are based upon the upper end of the range to take account of other savings from staff turnover budgets, agency budgets, overtime budgets and other associated budgets such as IT licenses.
- 15 **Council Tax Reduction Scheme** - Consultation on reviewing the CTRS scheme for 2025/26 has started and will be reported to Council in December 2024 for approval.
- 16 **Alternative Service Delivery** - The Financial Strategy included a range of between £1m and £3m. Given the current organisational capacity the lower end of range has been assumed.
- 17 **Rationalisation of Council Offices** - The Financial Strategy included a range of £1m to £3m for the rationalisation of council offices. The former Somerset West and Taunton Council offices have now been let to the NHS. Further savings are anticipated in future years.
- 18 **Review of Treasury Management** - Based upon the 2023/24 outturn which had a saving of £9.5m on debt management costs, savings of £3m should be achievable given that there are short term loans of approx. £100m. Interest rates are anticipated to reduce down to 3%-4% over the next 18 months.
- 19 **Review of Transport Fleet** - Savings from the rationalisation of the inherited fleet from the 5 councils.
- 20 **Income from Services** - Increases in income from services were not included within the February 2024 MTFP figures. It is estimated that an additional £5m per annum could be generated by reviewing charges, subsidies and the introduction of new charges.
- 21 **Council Tax** - This is the estimate of the additional income from empty properties and second homes that will be generated from the change in policy.
- 22 **Council Tax – above referendum limits** - A request for an additional 5% in council tax was made to (the then) DLUHC but rejected by the Minister. This would have generated an additional £17.1m of on-going income. Similar requests will be made for 2025/26 but no additional income has been assumed at this stage.
- 23 **Business Rates** - Future estimates of business rates growth has already been factored into the MTFP assumptions based upon Pixel and LG Future modelling. No additional income from business rates is therefore anticipated.

- 24 **Review of Government Grants** - The MTFP forecast has been based upon Pixel & LG Future models but no allowance for increases BCF and iBCF have been factored in and the figures for Rural Services Delivery Grant were favourable in 2023/24.
- 25 **New Transformation Programme (1% of net Budget)** - No savings from the new transformation programme such as savings from digital, rationalisation Revs & Bens, new Payroll HR system etc. have been factored into the MTFP assumption. A target of 1% of the net budget per annum is assumed with the implementation costs being funding from capital receipts. Assumed 50% for 2025/26 given organisational capacity and the focus on the workforce reduction.
- 26 **My Life My Future (Stretched Target)** - The MTFP assumed savings of £10m over 2 years from this programme. The stretched target reaches £14.3m and could be achieved by 2028/29.
- 27 **Review of Capital Programme** - A full review of capital programme is required and based upon the 2023/24 outturn there are opportunities to reprofile and remove schemes.
- 28 **Review of commercial property portfolio / repayment of debt** - Commercial portfolio valued at £200m with £80m sales planned / in progress and required to fund capitalisation direction. A review of the commercial portfolio is being undertaken to see if it makes sense to retain some or repay down debt. £6m income / saving on debt costs can be assumed.
- 29 **General Fund** - This is the estimated level of General Fund (unallocated) reserves.
- 30 **Review & Repurpose of Earmarked Reserves** - There has been a process of reviewing and repurposing reserves inherited from the 5 legacy councils. A further review is required, and it is estimated that at least £5m can be repurposed to the General Fund to support the budget.
- 31 **Risk Based Level of Reserves** - Council has approved that General Fund should be maintained between £30m and £60m.
- 32 **Surplus of Reserves above risk-based level** - This is the level of General Reserves over and above the risk based minimum level.

## **Key risks**

Below are some of the key risks to the council's financial suitability:

- **Workforce reduction (Re - Sizing of the Council)** – This is the biggest element of the Financial Strategy with a target of £35m for 2025/26 rising to £40m of on-going savings. The voluntary redundancy programme has delivered 200 posts and represent a very positive start, but the next phase is critical. Consultation on the new structure is due to start at the end of September and it is important that this deadline is met if the full savings for 2025/26 are to be delivered.
- **Delivery of Savings** – Regularly monitoring of the savings built into the budget is vital and any potential shortfalls in delivery needs to be quickly addressed with replacement savings being identified and delivered.
- **Children's budget** – There is a history of overspending in Children's services and delivery of the 2024/25 budget is essential. The 2023/24 budget was overspent by £12.3m but pressures of £26.5m were added in for the 2024/25 budget. Despite these additional resources, the Month 3 budget monitoring forecast is for an overspend of £5.4m for 2024/25.

- **Transformation Programme** – A comprehensive organisational wide transformation programme that clearly identifies investment requirements and savings across multiple years is in development but needs to be completed and closely monitored. A target of 1% of the net budget has been assumed but with a lower target for 2025/26 given organisational capacity and focus upon the workforce reductions.
- **Disposal of Assets** – The overall financial strategy for 2024/25 is based upon the disposal of both Commercial and non-commercial assets of £36.9m to fund the Capitalisation Direction as well as the estimated £40m for exit costs associated with the downsizing of the council. Given the nature of property transactions, members views, staffing changes and the external market, this remains an area of concern that will need to be carefully monitored.
- **Dedicated School Grant (DSG)** – It is widely expected that the current statutory override will be extended given the widespread deficits across the upper tier councils. If this is not the case, then it is highly that a section 114 notice would be required.
- **Financial Capacity** – Retaining and keeping key finance staff, when the current market is so competitive, is essential. The new staffing structure from April 2025 with section 151 moving from Executive Director to Service Director level is also a risk.

### **Summary & Conclusion**

The council is now in a more positive financial with:

- 2023/24 underspend of just under £2m
- General Reserves of over £52m
- 2024/25 budget monitoring forecasting an underspend of £0.2m
- Approved Financial Strategy and updated MTFP showing that the budget can be balanced over the medium term.

However, there remains several significant risks that will need to be carefully monitoring and if things change, the council will need to be agile and react quickly to the changing circumstances and taken decisive action.

Considering all of the above, my assessment is that I **do not** need to issue a Section 114 Notice.

**Jason Vaughan FCCA, CPFA, IRRV (Hons)**  
**Executive Director – Resources & Corporate Services (Section 151 Officer)**  
**Somerset Council**