

Somerset Council

Update on Financial Position January 2024

National Financial Challenges

Many councils across the country and across political parties are finding that expenditure is increasing at a much higher rate than income. Key factors include:

- Children's services increased complexity, demand, cost of placements, SEND and cost of transport
- Adults' services increased demand and cost of residential placements and care at home
- Greater homelessness and increased housing costs
- Inflationary costs including energy, construction, pay awards
- Interest rate rises affecting cost of borrowing
- Growing deficit within educational budgets for High Needs

Somerset's Council Tax Base & Rate

Somerset has an historically low Council Tax compared with similar rural Unitary Councils in the South West, including Dorset, Cornwall & Wiltshire. There are a number of factors:

- Council Tax base is lower due to losing higher banded homes in Bristol & Bath areas to Avon in 1974. While Somerset is close to national average, comparator south west councils have a higher base
- Council Tax was set low in 1993 against national average, still relies on 1991 house values
- Six years of Council Tax freeze at Somerset County Council and some Districts from 2010/11
- Low Council Tax means the Adults Social Care precept is also comparatively low
- Increasingly clear correlation between lower Council Tax income and higher service demand – where Council Tax income is lower, need is generally higher

Local Care Costs

Somerset has a particular situation with regard to increasing costs of Adult Social Care:

- Historically low rates paid for care home and nursing home beds, driven in part by low Council Tax income (increasingly relevant as Government grants have reduced since 2010). Increase from £577 to £850 per week with further increases possible in 24/25
- Low rates no longer viable for providers following: inflation including energy costs & food; increased staffing costs; increased borrowing costs; end of Covid grants which 'masked' low rates for two years
- Care providers' real costs identified by but not covered through Fair Cost of Care exercise
- More complex needs of adults and also children following Covid and lockdowns
- Proximity to Council areas where Council Tax and fees paid for care are higher e.g. Dorset

Factors from Local Government Reorganisation (LGR)

- Loss of corporate memory with 29 senior managers lost to the authority
- Five Statement of Accounts to be signed off by External Auditors, good progress by finance team
- Amalgamation and review of Reserves: General Fund; Earmarked; Reserves held for others
- Revenues & Benefits still on four separate systems
- Cost of borrowing from five Councils: long term; short term; internal borrowing
- Need to harmonise Minimum Revenue Provision across amalgamated capital programme in order to pay off loans at maturity
- Mixed portfolio of commercial investments from four former District Councils with associated borrowing
- Regeneration projects overlapping with commercial investment in some towns

- First stages of One Somerset Business Case completed with Officer Tiers 1 – 3 in place, redundancies agreed July 2023. Work ongoing to confirm officers at Tier 4 with some redundancies agreed at Full Council December 2023
- One Somerset Business Case is now superseded by need to create a viable Somerset Council
- Increased risk of losing good officers while uncertainty continues beyond LGR
- New finance system Microsoft Dynamics introduced on 1st April 2023, with early challenges on budget monitoring

Other Local Factors

- Need for Nutrient Neutrality, up to 18,000 homes awaiting solutions including homes for social rent. Resulting temporary reduction in Council Tax base from 23/24 onwards
- Slippage of Capital programme due to fixed, ring fenced Government grants and increased costs of construction

Opportunities for Somerset

- Government grant for nutrient neutrality solutions agreed in December to re-start housing development in much of Somerset
- Government ring-fenced grants for Levelling Up, Town Deals, Future High Street Funds for regeneration of towns
- Work with the Shaw Trust on Homes and Horizons providing in-Somerset care placements for children and young people, including increased fostering and learning services
- Work with Newton Europe on reablement to reduce numbers of people, working age and older, coming into residential care
- Work with specialist consultants on capitalisation, sale of assets, HR policies and procedures
- Work with Integrated Care Board to ensure best partnership working in health & social care
- Dynamic working policy allowing for hybrid working, reducing number of offices
- Cultural change driven by move to Microsoft Dynamics and other MS software
- Ongoing and new opportunities for education, training and employment through delivery of Hinkley C, iAero and Agratas (on the Gravity site), all in Somerset

Options for Somerset Council 2024/25 and Medium Term

Ongoing dialogue with Department for Levelling Up, Housing and Communities (DLUHC), and Treasury to explore all options for 2024/25 budget setting, the medium term and to avoid Section 114 notice:

- Increasing Council Tax to maximum allowed by Government (4.99% or 9.99% TBC)
- Use of Reserves to balance current year budget and as part of solution for 2024/25
- Surpluses in Council Tax & Business Rates Collection Fund for 2024/25
- Increasing fees and charges in line with inflation
- Savings over and above those made possible by LGR, with difficult and painful decisions on savings in non-statutory services
- Working with partners on all possible continuation of services including more rapid devolution of assets and services to Parish/Town/City Councils
- Sale of Council assets including commercial investments from former Districts
- New outline business case for Somerset Council including reduction in size of workforce to create slimmer more agile Council with fewer offices
- Use of Capital receipts, or borrowing, through a Capitalisation Direction from Government (TBC) to fund the transformation identified by the new outline business case
- Budget setting Full Council meeting is on Tuesday 20th February, for 2024/25 financial year