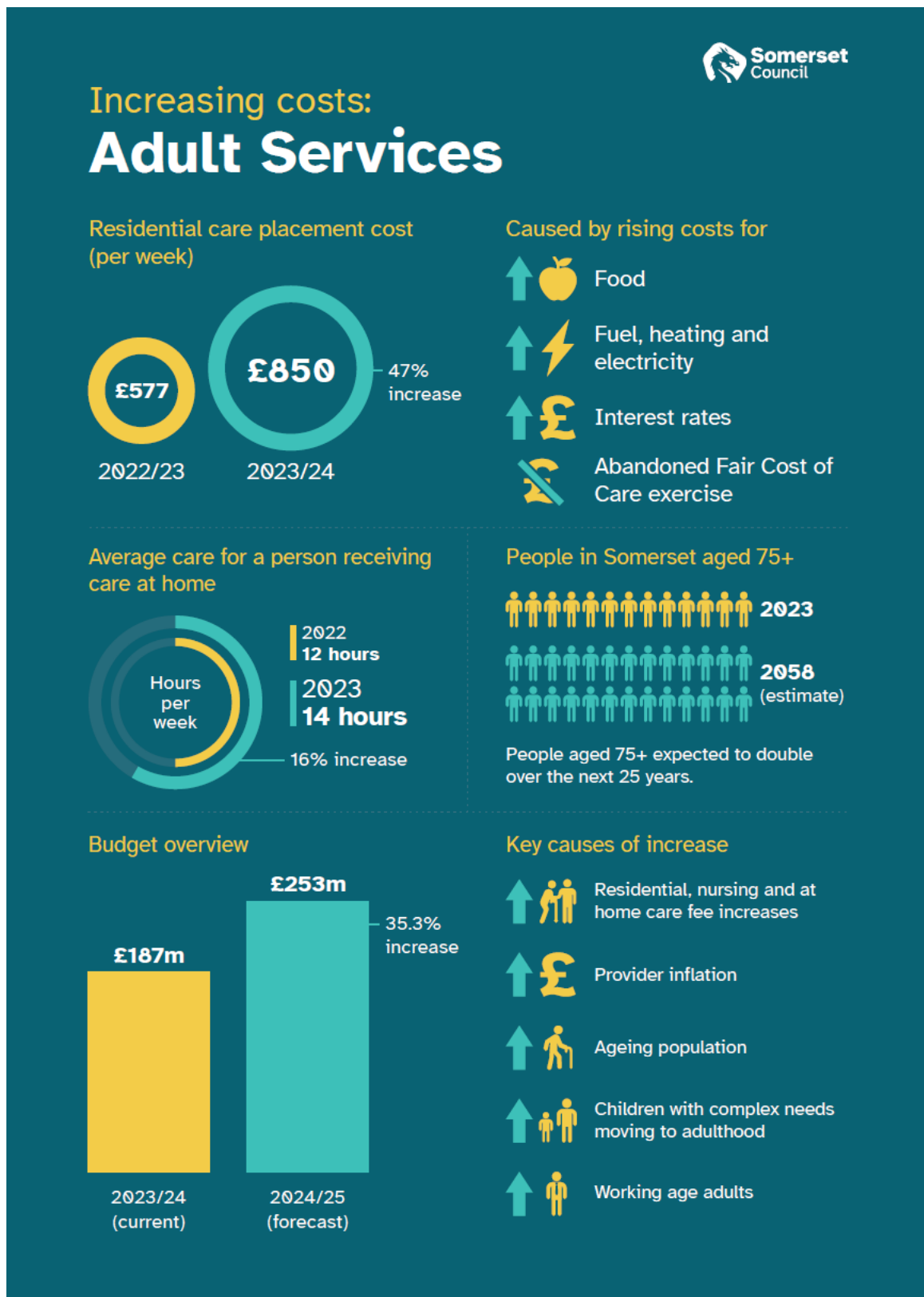


## Our financial context



Adult Social Care Self-Assessment  
**Appendix 2: Our Financial Context – Jan 2024**

The 2023/24 Adult Social Care budget is £185.5m. Whilst the actual overspend in-year is £24.2m, this is off-set by a number of mitigations to reduce this overspend to £14.9m. These include our ‘My Life, My Future’ transformation programme work, one-off funding from the NHS, and robust in-year financial management.

We have re-based the budget for 2024/25 on actuals. This is the first time this has happened in a number of years. The table below shows the breakdown of this:

	2024/25 £000	2025/26 £000	2026/27 £000	2027/28 £000	2028/29 £000
Inflation	59,844	24,087	23,072	24,306	26,114
Demographic Growth	9,368	10,304	9,996	13,864	16,520
Change in Legislation	400	0	0	0	0
<b>Total</b>	<b>69,612</b>	<b>34,391</b>	<b>33,068</b>	<b>38,170</b>	<b>42,634</b>

The proposed Adult Social Care budget for 2024/25 is as follows:

<b>Gross Budget:</b>	<b>£m</b>
Care and Support Provided for Individuals	343.641
Commissioning	2.000
Staffing	18.900

Less

<b>Income:</b>	
Market Sustainability and Fair Cost of Care Fund	10.927
Local Reform and Community Voices	0.350
Discharge Support Grant	5.462
NHS JF/CHC	6.749
Contributions from Individuals	27.532
Better Care Fund	13.903
Improved Better Care Fund	23.371
<b>Pooled Budgets:</b>	
Learning Disabilities	33.697
Carers	0.224
Equipment	1.020
Other	4.000
<b>Net Budget</b>	<b>237.306</b>

Alongside this, Somerset’s Integrated Care Board (ICB) has a challenging financial position. We are working closely together to understand the impact of both the council’s decision making and the challenges we face as an ICB.

### **Financial Emergency**

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. 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 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.

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 £137.3m 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.

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.

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.

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.

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.

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.

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. 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. The [consultation](#) received 5,841 responses via the consultation survey, 17 emails/letters and nearly 400 comments on social media.

The 2024/25 General Fund Revenue Budget and Medium-Term Financial Plan will be presented to Full Council on 20 February 2024.