

## **Decision Report**

Committee: Executive

Meeting or Proposed Decision Date – 07 October 2024

Key Decision – Yes

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### **Medium Term Financial Strategy (MTFS) Update 2025/26 to 2029/30**

Chair of Committee: Cllr Bill Revans Leader of the Council and Lead Member for Governance & Communications

Executive Member(s): Cllr Liz Leyshon Deputy Leader of the Council and Lead Member for Finance, Procurement and Performance

Local Member(s) and Division(s) affected: All

Executive Director: Maria G Christofi Interim Chief Finance Officer (S151 Officer)

### **Executive Summary**

1. The purpose of this report is to provide the Executive with an update on the latest Medium Term Financial Strategy (MTFS) position for the Council. Setting out the forecast budget gap over the five-year planning period 2025/26 to 2029/30.
2. The Medium Term Financial Strategy provides the framework for the development of annual budgets in line with the aims of the Council's strategy and priorities. The Medium Term Financial Plan (MTFP), approved as part of the annual budget process, provides a detailed breakdown of how the Council plans to manage its finances to create a balanced budget and achieve its objectives. The MTFP includes detailed projections of income, expenditure, cost of borrowing, savings, and pressures, etc. over the medium-term. The assumptions in the MTFP are being updated in this report following on from the February 2024 Budget setting and April 2024 MTFP report.
3. The background to the current Medium Term Financial Strategy (MTFS) continues to be one of increased uncertainty, with inflationary and interest pressures, the national and global economy, lack of progress on social care reform, continued real term reductions in government funding, and lack of clarity around Local Government funding all adding to the uncertainty.
4. The Council's MTFP (April 2024) recognised that there was still a significant funding gap of £103.896m in 2025/26, and £198.583m across future years to 2028/29. The MTFP has been extended to 2029/30, scenarios have been modelled for 2025/26, and assumptions have been reviewed and updated in the MTFP for all 5 years.

5. Since the Council declared a 'Financial Emergency' in November 2023, the focus has been on working hard to avoid a Section 114 notice by taking the following actions:
  - Reducing the forecast overspends for 2023/24 and now 2024/25
  - Reviewing and reducing budget pressures by taking action to mitigate them
  - Identifying further saving options and delivering them
  - Reducing the capital programme and bids for new schemes
  - Maximising funding and income to the Council
  - Generating capital receipts from asset disposals
  - Disposing of commercial assets
  - Completing the outstanding statement of accounts from South Somerset District Council and the 2023/24 statement of accounts for Somerset Council
  - Reviewing Earmarked Reserves and repurposing them to support the budget
  - Agreeing plans to 'resize' the organisation (workforce transformation) in 2024/25-2025/26 to enable it to become financially sustainable in the future
  - Working with MHCLG on finalising the capitalisation direction.

## **Recommendations**

The Executive are recommended to:

6. Approve the Medium Term Financial Strategy (MTFS) for 2025/26 to 2029/30.
7. Agree that the Council continues with the aim of avoiding a section 114 notice by taking all of the necessary actions and continuing to operate as if one had been issued.

## **Reasons for Proposals**

8. In February 2024, Full Council agreed the Budget for 2024/25, at which time it was recognised that there was a significant funding gap in 2025/26 and across the remaining years of the Medium Term Financial Planning horizon to 2028/29. Earmarked Reserves have been used in both 2023/24 and 2024/25 to close the budget gap. This report provides the Executive with an update to the Medium Term Financial Forecast based on the latest information and assumptions and extends these assumptions to the fifth year 2029/30.

Report Author: Maria G Christofi, Interim Chief Financial Officer (S151 Officer)  
Contact Details: Maria.Christofi@somerset.gov.uk

## Main report and supporting information

### Background and purpose of report



9. The financial challenges facing the Council are significant and the 2024/25 budget was set with significant one-off resources. General use of Earmarked Reserves of £36.800m and Exceptional Financial Support a Capitalisation Directive of £36.884m from Ministry of Housing Communities and Local Government (MHCLG) have been used for 2024/25 to close the budget gap and set a balanced budget for 2024/25.

10. The Medium Term Financial Strategy (MTFS) provides a strategic financial framework and a forward-looking approach to achieving financial sustainability for the Council. The key overriding aim of the MTFS is:

*“To provide a financial framework within which financial stability can be achieved and sustained in the medium-term to deliver the Council’s key strategic priorities and sustainable services.”*

11. The MTFS aids robust and methodical planning as it forecasts the Council’s financial position over a five-year period, considering a number of factors including pressures, major issues affecting the Council’s finances, external economic influences, and local factors. This is particularly important during a period when the Council faces a significant financial challenge. The MTFS recognises the key role that financial resources play in the future delivery of priorities and in enabling the effective planning, management, and delivery of services.

12. The six key objectives of the MTFS are to:

- i. Provide financial parameters within which budget and service planning should take place.
- ii. Ensure that the Council sets a robust balanced and sustainable budget.
- iii. Focus and re-focus the allocation of resources so that, over time, priority areas receive additional resources. Ensuring services are defined on the basis of clear alignment between priority and affordability.
- iv. Ensure that the Council manages and monitors its financial resources effectively. Ensuring that spending commitments do not exceed resources available in each service area. Where ring-fenced government funding is reduced, the service area takes action to reduce expenditure accordingly.
- v. Plan the level of fees, charges, and taxation in line with levels that the Council regard as being necessary, acceptable, and affordable to meet the Council’s aims, objectives, policies, and priorities.

- vi. Ensure that the Council's long term financial health and viability remain sound and that the financial resilience and sustainability is improved and sustained.
13. In February 2024, Full Council agreed the budget for 2024/25 at which time it was recognised that there was a significant funding gap in 2025/26 and across the remaining years of the Medium Term Financial Planning horizon to 2028/29. Earmarked Reserves have been used in both 2023/24 and 2024/25 to close the budget gap.
14. The former government only announced a single year Local Government financial settlement for the 2024/25 financial year. At the time of writing, and with a new government following the general election on 4 July 2024, there is no certainty about what future funding settlements may look like, beyond the indications that could be derived from the Autumn Statement made on 22 November 2023 and the 2024/25 Funding Settlement.
15. There is no indication regarding council tax or adult social care precept increases for 2025/26 and beyond, or indeed future grant streams. There is therefore no certainty regarding funding for 2025/26, notwithstanding that any decisions about council tax will not be made until Council meet in February 2025 to set the Budget and Council Tax for 2025/26.
16. There are a number of pressures in local government Adult Social Care, Children's Social Care, Homelessness and Temporary Accommodation, Inflation, interest rates, and cost of borrowing intensified by insufficient funding following more than 13 years of Austerity.
17. There are pressures forecast within the 2024/25 revenue budget totalling a £8.4m projected outturn overspend within Service Directorates. £7.1m of this pressure relates to Children's Social Care placements. Mitigating action is required by all services with forecast overspends to reduce the pressures so that the Contingency budget of £6m is not fully utilised, and there is no further reduction on the Council's Earmarked Reserves.
18. There are several key uncertainties such as inflation, impact of the cost-of-living crisis, service demographic and demand pressures, future local government funding, whether there will be a continuation of the DSG deficit statutory override, and interest rates which need to be understood as part of the budget setting process. Given the number uncertainty, various scenarios have been modelled to provide low, central, and high scenario estimates for the projected budget gap for 2025/26.

## **2025/26 Budget Gap Scenarios**

19. The previous 2025/26 budget gap was £103.896m. **Table 1** below summarises the individual components that were included in the original MTFP assumptions to arrive at this gap.

**Table 1: Original 2025/26 Budget Gap**

Changes to Budget	2025/26 £m
Budget Gap 2024/25	-
Inflation Non Contractual	25.087
Inflation Contractual	2.904
Pay Inflation	6.155
Demographic & Demand	13.373
Other Pressures	3.648
Previous Agreed Savings	(10.184)
Capital Financing	12.050
Collection Fund Surplus	7.713
Change in Use of Reserves	38.800
Capitalisation Direction	36.884
Council Tax	(21.795)
Settlement Funding Assessment	(10.739)
<b>Budget Gap</b>	<b>103.896</b>

20. The approach to the assumptions in the MTFP has been to assess the current assumptions and model to reflect the outcomes of some of the work that is being taken. Three scenarios have been produced low, central and high estimates for the potential budget gap for 2025/26. The Central scenario is considered to be the one that will be included in the updated 2025/26 MTFP.

**Low:** a better view for a lower inflation environment and the Council's ability to contain demand pressures to a minor level.

**Central:** a realistic view on inflation, coupled with a challenging, but prudent view on the Council's ability to contain and reduce demand pressures.

**High:** a worse view on inflation, coupled with a more pessimistic view regarding the Council's ability to manage demand and other pressures.

21. It is important to note that these are assumptions and that they could be even worse or better than the three illustrative scenarios. **Table 2** below shows the revised budget gap after the changes listed above.

**Table 2: Revised Budget Gap for 2025/26**

Revised Budget Gap for 2025/26	Low £m	Central £m	High £m
Budget Gap MTFP at April 2024	103.896	103.896	103.896
Changes to Budget Gap	(35.650)	(15.100)	25.690
Revised Budget Gap	68.246	88.796	129.586

22. There are a number of assumptions that have been updated including inflation (non-contractual and contractual, capital financing, demographic pressures, pressures other, adult social care precept, and the impact of the in-year forecast outturn pressures rolling forward into the following year's budget. **Table 2** below shows details the changes in each of these categories.

**Table 3: Changes in Estimates based on the Central Scenario**

	2025/26 £m	2026/27 £m	2027/28 £m	2028/29 £m	2029/30 £m
Inflation Non Contractual	(16.000)	(16.000)	(16.000)	(19.000)	4.000
Inflation Contractual	7.000	2.200	-	-	4.000
Pay Inflation	-	-	-	-	-
Demographic & Demand	(5.000)	(6.000)	(12.000)	(15.000)	5.000
Other Pressures	(1.000)	(8.000)	2.000	1.000	1.000
Previous Agreed Savings	-	-	-	-	-
Rolled Forward Pressures	5.900	4.000	4.000	4.000	1.000
Capital Financing	(6.000)	2.000	2.000	2.000	-
Adult Social Care (ASC) Precept	-	7.729	8.196	8.691	-
<b>Total Changes</b>	<b>(15.100)</b>	<b>(14.071)</b>	<b>(11.804)</b>	<b>(18.309)</b>	<b>15.000</b>

**Assumptions:**

- Inflation Non Contractual: to work to hold back increases for non contractual inflation to be managed.
- Inflation Contractual: inflation included as per the contractual obligations that have been advised.
- Pay Inflation: no change in assumptions from previous model of approximately 2% of estimated pay.
- Demographic & Demand: revised to reflect the future potential demand. Following the implementation of Demand Management approaches, to help manage demand and prevent it increasing as previously modelled.
- Other Pressures: revised and reduced to recognise that all should be actively finding ongoing mitigations to offset pressures and prevent these being required.
- Previous Agreed Savings: no change to savings previously agreed - all savings must be delivered to time, profile and value.
- Rolled Forward Pressures: new to reflect estimated pressures that may roll forward from previous year - all should be actively finding ongoing mitigations to offset pressures and prevent these being required.
- Capital Financing: capital programme to be reviewed and reprofiled and will then enable the revenue cost of borrowing to be reprofiled too.
- ASC Precept: revised to be including an estimate of 2% for 2025/26 only, 0% for all other years.
- General Council Tax: estimating 2.99% increase for the first four years and 0% for 2029/30. Also, an assumed increase in tax base growth of 1% for the first four years.

- 2029/30: an additional year has been included with assumptions for growth provision consistent with previous years and no Council Tax or ASC Precept included.

**Table 4: Revised MTFP 2025/26 to 2029/30**

	2025/26 £m	2026/27 £m	2027/28 £m	2028/29 £m	2029/30 £m	Total £m
<b>Budget Gap as Per Council Budget Report 2024</b>	<b>103.896</b>	<b>43.907</b>	<b>22.152</b>	<b>28.592</b>	-	<b>198.583</b>
Changes	(15.100)	(14.071)	(11.804)	(18.309)	15.000	<b>(44.284)</b>
<b>Revised Budget Gap</b>	<b>88.796</b>	<b>29.836</b>	<b>10.348</b>	<b>10.283</b>	<b>15.000</b>	<b>154.263</b>

**Table 5: Summary of Changes to Budget Gap**

	2025/26 £m	2026/27 £m	2027/28 £m	2028/29 £m	2029/30 £m
<b>Service Base Budgets</b>	<b>601.775</b>	<b>587.795</b>	<b>600.630</b>	<b>623.764</b>	<b>647.954</b>
<b>Changes to Budget</b>	<b>74.816</b>	<b>42.671</b>	<b>33.482</b>	<b>34.473</b>	<b>15.000</b>
<b>Budget Gap</b>	<b>(88.796)</b>	<b>(29.836)</b>	<b>(10.348)</b>	<b>(10.283)</b>	<b>(15.000)</b>
<b>Service Budgets</b>	<b>587.795</b>	<b>600.630</b>	<b>623.764</b>	<b>647.954</b>	<b>647.954</b>
<b>Total Income from Grants and Council Tax*</b>	<b>(587.795)</b>	<b>(600.630)</b>	<b>(623.764)</b>	<b>(647.954)</b>	<b>(647.954)</b>

- \* General Council Tax increases have been included at 2.99% for modelling for the years 2025/26 – 2028/29. Adult Social Care Precept has been revised to only include a 2% increase for 2025/26.

A more detailed table of the revised MTFP is in **Appendix A**.

### **Medium Term Financial Strategy (MTFS)**

23. The Council has identified a number of Budget Themes within the MTFS that are being undertaken to deliver savings and balance the 2025/26 budget. **Table 6** shows these themes, as well as the lower and upper ranges of the savings.

**Table 6: Analysis of Savings Themes for 2025/26**

Summary	Lower end of range £m	Upper end of range £m
Efficiency Savings	7	26
Service Levels	32	48
Alternative Service Delivery	1	3
Asset Management	1	3
Financing of Activities	-	2
Income Generation	6	34
<b>Total</b>	<b>47</b>	<b>116</b>

**Reserves**

24. General Fund and Earmarked Reserves forecast balances are within **Table 7** below. It is important to continue to work to reduce any further reductions in reserves and preserve the remaining reserves to ensure financial resilience and sustainability of the Council.

**Table 7: General Fund and Earmarked Reserves Forecast Balances**

Somerset Council Reserves*	Forecast balance as at 31/03/2024 £m	Forecast net transfers to/(from) Reserves £m	Forecast balance as at 31/03/2025 £m
<b>General Fund Reserve</b>	<b>52.374</b>	-	<b>52.374</b>
<b>Earmarked Reserves**</b>	<b>104.672</b>	(49.203)	<b>55.469</b>

\* Subject to 2023/24 External Audit being completed

\*\* Excludes reserves held for accountable bodies, Schools' balances, Housing Revenue Account (HRA), Dedicated School Grant (DSG).

25. The Dedicated School Grant (DSG) negative reserve is not shown in the figures below due to the current statutory override. The current balance is a deficit of £35.940m.

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

26. The MTFP will link pressures, growth, and savings to the delivery of the Council's key priorities within the Council Plan which are:

- a greener, more sustainable Somerset
- a healthy and caring Somerset
- a flourishing and resilient Somerset
- a fairer, ambitious Somerset



## **Other options considered**

27. It is a requirement of good financial management to have a Medium Term Financial Strategy (MTFS) and a forecast of the future financial picture through a Medium Term Financial Plan (MTFP). Scenarios have been modelled for 2025/26, which are illustrated in this report.

## **Key considerations for the Council**

### **Scrutiny comments / recommendations:**

28. The 2025/26 budget preparation and proposals will be considered by the relevant Scrutiny Committees in line with the budget setting timetable.

### **Consultation and feedback**

29. Consultation on any relevant budget proposals shall be considered as part of the budget setting programme and completed in line with the Council's consultation policy.

## **Financial and Risk Implications**

30. It is clear that the scale of financial challenges facing the Council are significant, with the forecast cost of services increasing at a faster rate than the income received. The 2024/25 budget could not be balanced without General use of Earmarked Reserves of £36.800m and Exceptional Financial Support a Capitalisation Directive of £36.884m from MHCLG.
31. The Section 25 Statement from the Section 151 Officer to the 20 February 2024 Council, highlighted the risks regarding a Section 114 notice given the MTFP forecast, and the estimated level of reserves. A clear and significant programme of activities is required in order to avoid the position where a section 114 notice needs to be issued. This programme of activities has commenced.
32. The Medium Term Financial Forecast has identified a budget gap of just under £154.263m over the next five years, with costs in relation to Adults, and Children's social care continuing to rise if actions to manage and reduce these pressures, including future savings are not identified.
33. The deficit on the Dedicated Schools Grant is a major risk. The deficit is projected to continue to increase despite a number of mitigations. The current statutory override is due to finish at the end of the 2025/26 financial year. After this point, if there is no solution from Government and the deficit remained with the Council, then as the forecast DSG deficit would exceed the current level of reserves, a S114 notice would have to be issued.
34. Given the issues set out in this report and despite all 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.

Current Risk Score:

<b>Likelihood</b>	<b>5</b>	<b>Impact</b>	<b>5</b>	<b>Risk Score</b>	<b>25</b>
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Projected risk score if recommended actions are agreed and delivered:

<b>Likelihood</b>	<b>5</b>	<b>Impact</b>	<b>5</b>	<b>Risk Score</b>	<b>25</b>
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## **Legal and Procurement Implications**

35. Section 151 of the Local Government Act 1972 states that every local authority shall make arrangements for the proper administration of their financial affairs.
36. Under Section 114(2) of the Local Government Finance Act 1988, the Section 151 Officer has a duty to make a report when it appears to them that the Council has made or is about to make a decision incurring unlawful expenditure, or has taken or is about to take a course of action which "if pursued to its conclusion" would be unlawful and is likely to cause a loss or is about to enter an unlawful item of account. Under Section 114(3), the Section 151 Officer has a duty to make a report when it appears to them that the expenditure the Council has incurred or proposes to incur in a financial year is likely to exceed the resources (including sums borrowed) available to it to meet that expenditure (note: this report is the one commonly referred to as a Section 114 "notice"). A Section 114 report must be sent to the auditor and every member. Section 115 of the Act then requires the Council to hold a meeting within 21 days to decide whether it agrees or disagrees with the views contained in the report and what action (if any) it proposes to take in consequence of it.
37. 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.
38. 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.

## **HR / Workforce Implications**

39. There are considerable HR implications as a result of the savings targets where staff may be impacted by decisions made. The relevant business cases for these savings will outline the HR implications.

## **Equalities Implications**

40. This report is a high-level update of the medium term financial strategy. The equalities implications will be assessed as part of the final budget proposals and considered before any final decision is made.

## **Community Safety Implications**

41. There are no direct Climate Change and Sustainability implications arising from this report and any implications will be reviewed as part of the final budget proposals.

## **Climate Change and Sustainability Implications**

42. There are no direct Climate Change and Sustainability implications arising from this report and any implications will be reviewed as part of the final budget proposals.

## **Health and Safety Implications**

43. There are no direct Climate Change and Sustainability implications arising from this report and any implications will be reviewed as part of the final budget proposals.

## **Health and Wellbeing Implications**

44. There are no direct Climate Change and Sustainability implications arising from this report and any implications will be reviewed as part of the final budget proposals.

## **Social Value**

45. There are no direct Climate Change and Sustainability implications arising from this report and any implications will be reviewed as part of the final budget proposals.

## Background Papers

- Medium-Term Financial Strategy (MTFS) 2025/26 to 2029/30 report to 08 April 2024 Executive
- 2024/25 Revenue Capital & HRA Budget reports to 20 February 2024 Council
- Section 25 Report from the Section 151 Officer to 20 February 2024 Council
- Letter from DLUHC 28 February 2024
- 2024/25 Financial Strategy report to July 2023 Executive.

## Appendices

- Appendix A: MTFP Five Year Projection

## Report assurance checklist ahead of report publication (for Audit, Executive, Full Council and Scrutiny Committees)

	Officer Name	Date Completed
Legal & Governance Implications	David Clark	26/09/2024
Finance & Procurement	Nicola Hix	26/09/2024
Workforce	Dawn Bettridge	N/A
Asset Management	Oliver Woodhams	N/A
Executive Director	Maria G. Christofi	26/09/2024
Executive Lead Member	Cllr Liz Leyshon	26/09/2024
<b>Consulted:</b>	<b>Councillor Name</b>	<b>Date Completed</b>
Local Division Members	N/A	N/A
Opposition Spokesperson(s)	Cllr Mandy Chilcott	27/09/2024
Relevant Scrutiny Chair(s)	Cllr Bob Filmer	27/09/2024