

Decision Report

Committee: Executive

Meeting or Proposed Decision Date – 02 December 2024

Key Decision – Yes

Budget Proposals 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 (Section 151 Officer)

Executive Summary

1. The report sets out for approval by Executive budget proposals for consultation that have been identified as part of the budget process. New savings are proposed for 2025/26 of **£43.950m**.
2. This report sets out progress to date on delivering the full budget for 2025/26. Further work will be undertaken before Full Council to finalise a balanced budget and set the Council Tax for 2025/26 on 19 February 2025.

Recommendations

3. The Executive are recommended to:
 - a) Agree the new Budget Savings for 2025/26 of **£43.950m** as set out in **Appendix A**.
 - b) Agree the substitution of the **£9.000m** saving in 2025/26 as per **paragraph 22**.
 - c) Note the revised 2025/26 **budget gap of £53.846m** after taking into account the proposed savings and substitution.
 - d) Recommend the savings and substitution to Full Council.
 - e) 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

4. The Council must set a balanced budget and Council Tax by 11 March of the preceding financial year. Full Council is due to meet 19 February 2025. This report provides the Executive with an update on new savings proposals.

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Main report and supporting information

Background and purpose of report

5. 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.

6. 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.”

7. 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.

8. 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.

9. 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.

10. 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 Chancellor's Autumn Statement made on 30 October 2024 and the 2024/25 Funding Settlement.
11. There has been no confirmation 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.
12. There are a number of pressures in local government Adult Social Care, Children's Social Care, Homelessness and Temporary Accommodation, Cost of Living crisis, Inflation, Interest rates, and Cost of borrowing intensified by insufficient funding following more than 13 years of Austerity. As well as further pressures arising from the Autumn statement with regard to the increased costs resulting from the Employer's National Insurance Contribution (NIC) changes announced, and National Living Wage.
13. The 2024/25 General Fund Revenue Monitoring report as at Quarter 2 is now **forecasting a balanced revenue position** (on-budget). There is a forecast **underspend of £2.419m within Service Directorates**, £0.060m in general Grants and £6.000m within the Contingency budgets, leading to a **revenue forecast underspend of £8.479m** within budget lines. **The £8.479m will reduce the drawdown from Earmarked Reserves to £28.321m** which were budgeted to balanced the 2024/25 budget. There are ongoing pressures of £18.378m being offset by one-off and ongoing savings. All ongoing pressures will need to identify mitigating actions in order to balance at outturn and prevent the pressures rolling forward into the 2025/26 budget.
14. 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.

Budget Assumptions

15. The assumptions in the budget are as follows:
 - 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: all savings must be delivered to time, profile and value.
- Rolled Forward Pressures: all should be actively finding ongoing mitigations to offset pressures and prevent this provision 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.

2025/26 Budget Gap

16. The 2025/26 original budget gap as at February 2024 was £103.896m.

17. The assumptions in the MTFP have been assessed and three scenarios were produced low, central and high estimates for the potential gap for 2025/26. The Central scenario was included in the updated 2025/26 to 2029/30 MTFP considered by the Executive on 7 October 2024. The revised 2025/26 budget gap after these changes is £88.796m **Table 1** illustrates this.

Table 1: MTFP October 2024

	2025/26 £m	2026/27 £m	2027/28 £m	2028/29 £m	2029/30 £m
Expenditure	676.591	630.466	634.112	658.237	662.954
Funding	(587.795)	(600.630)	(623.764)	(647.954)	(647.954)
Budget Gap (incremental)	88.796	29.836	10.348	10.283	15.000
Budget Gap (cumulative)	88.796	118.632	128.980	139.263	154.263
Council Tax Assumptions	4.99%	2.99%	2.99%	2.99%	0.00%

Revenue Budget and Proposals

18. The Budget Report to Council in February 2024 included £34.977m of savings planned for delivery during 2024/25 and a total of £10.218m in later years. There are also rolled forward savings of £3.900m that are currently being delivered in 2024/25. Total savings to be delivered in 2024/25 now stands at £38.877m. Agreed savings for 2024/25 to 2028/29 therefore stand at £49.095m. It should be noted that the savings already agreed are taken into account and expected to be delivered in full to tie and profile as part of the MTFP assumptions in arriving at the remaining budget gap.
19. The Council identified a number of Budget Themes within the MTFS that are being undertaken to deliver savings and balance the 2025/26 budget. **Table 2** shows these themes, as well as the lower and upper ranges of the savings.

Table 2: 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
Total	47	116

20. Work has been ongoing on to create robust savings proposals and closed the budget gap and produce a balanced budget for 2025/26 as well as address the budget gap across the medium term. Once agreed the savings will move into implementation to ensure they are fully implemented before 31 March 2025.
21. Savings proposals totalling **£43.950m** have been identified so far. The proposals are set out in **Appendix A. Tables 3-6** summarise the savings per Executive Directorate, Savings Themes and Type.

Table 3: Five Year Savings by Executive Directorate

	2025/26 £m	2026/27 £m	2027/28 £m	2028/29 £m	2029/30 £m
Adult Services & Housing	(3.900)	-	-	-	-
Community, Place & Economy	(2.150)	-	-	-	-
Children, Families & Education Services	-	-	-	-	-
Resources, Strategy & Transformation	-	-	-	-	-
Corporate	(3.900)	-	-	-	-
Workforce Programme	(34.000)	-	-	-	-
Total	(43.950)	-	-	-	-

Table 4: Five Year Savings by Savings Themes

	2025/26 £m	2026/27 £m	2027/28 £m	2028/29 £m	2029/30 £m
Efficiency Savings	(5.500)	-	-	-	-
Service Levels	(37.900)	-	-	-	-
Alternative Service Delivery	(0.050)	-	-	-	-
Asset Management	(0.500)	-	-	-	-
Financing of Activities	-	-	-	-	-
Income Generation	-	-	-	-	-
Total	(43.950)	-	-	-	-

Table 5: Five Year Savings by Savings Type

	2025/26 £m	2026/27 £m	2027/28 £m	2028/29 £m	2029/30 £m
2023/24 Outturn & Base Budget Review	(1.600)	-	-	-	-
Commissioning	(3.900)	-	-	-	-
Workforce Programme	(34.000)	-	-	-	-
Council Tax Reduction Scheme	(3.900)	-	-	-	-
Alternative Service Delivery	(0.050)	-	-	-	-
Rationalisation of Council Offices	(0.500)	-	-	-	-
Total	(43.950)	-	-	-	-

22. Savings of £9.000m currently included within the MTFP will be substituted as part of the Workforce Programme Savings in 2025/26.

23. The remaining budget gap for 2025/26 after taking into account these proposals is £53.846m. **Table 6** below shows the £119.313m remaining gap over the five-year MTFP period.

Table 6: MTFP December 2024

	2025/26 £m	2026/27 £m	2027/28 £m	2028/29 £m	2029/30 £m	Total £m
Revised Budget Gap before savings proposals	88.796	29.836	10.348	10.283	15.000	154.263
Proposed Savings	(43.950)	-	-	-	-	(43.950)
Substitution	9.000	-	-	-	-	9.000
Remaining Budget Gap / Savings to be identified December 2024	53.846	29.836	10.348	10.283	15.000	119.313

Further Work on Savings

24. Although this report sets out a number of specific proposals for Members' consideration, significant further work continues to identify further savings that could robustly be delivered in 2025/26. Any further savings will be incorporated into the February 2025 budget report.

Pressures

25. 2024/25 Quarter 2 budget monitoring contains ongoing pressures of £18.378m. **Table 7** summarises these per Executive Directorate. There is an expectation that Service Directorates identify ongoing mitigating actions and implemented them to prevent these pressures rolling forward into the 2025/26 budget.

26. There are continued pressures in Adult Social Care, Children's Social Care, Homelessness and Temporary Accommodation, Cost of Living crisis, Inflation, Interest rates, and cost of borrowing intensified by insufficient funding following more than 13 years of Austerity.

Table 7: 2024/25 Ongoing Pressures

	£m
Adult Services & Housing	-
Community, Place & Economy	1.354
Children, Families & Education Services	14.807
Resources, Strategy & Transformation	2.097
Corporate	0.120
Total	18.378

Reserves

27. General Fund and Earmarked Reserves forecast balances are within **Table 8** 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 8: 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
General Fund Reserve	52.374	-	52.374
Earmarked Reserves**	104.876	(38.667)	66.209

* Subject to 2023/24 External Audit being completed

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

28. The Dedicated School Grant (DSG) negative reserve is not shown in the figures below due to the current statutory override. The current **DSG balance is a deficit of £35.940m**. However, the DSG deficit is **forecast to increase to £64.199m by year end**. Mitigating actions need to be identified and implemented to prevent this deficit increasing and to have an impact on reducing the deficit being carried forward.

Links to Council Plan and Medium-Term Financial Plan

29. 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

30. 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).

Key considerations for the Council

Scrutiny comments / recommendations:

31. This report was presented to Scrutiny for Corporate & Resources Committee, on 25 November 2024.

Consultation and feedback

32. 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.

33. Budget Consultation will be commencing in Late November.

Financial and Risk Implications

34. 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.

35. 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.

36. The Medium Term Financial Forecast has identified a **budget gap of just under £119.313m over the next five years** (following savings proposals and a substitution), with costs in relation to Adults, Children's social care and Homelessness continuing to rise if actions to manage and reduce these pressures, including future savings are not identified.
37. The deficit on the **Dedicated Schools Grant is a major risk and is forecast to be £64.199m** at year end. 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 Section 114 notice would have to be issued.

Other Issues and Risks

38. Economic uncertainty continues to be a significant risk as changes in external economic conditions affect investment returns (including Pension Fund), interest rates and inflation.
- There continues to be no certainty regarding Government Funding beyond 2025/26 as well as changes to the distribution of the funding for 2025/26.
 - Delivery of all agreed savings to time, value and profile. Any failure to deliver all agreed savings to time, value and profile, will have an adverse impact on the budget assumptions set out in paragraph 15 above
 - Significant cost pressures in rising demand and demographic increases due to escalations of care need, complexity of need, cost of living crisis and a growing population within Adults and Childrens Social care and Homelessness.
 - Any changes in legislation or new responsibilities imposed on local government "new burdens" without these being fully funded.
 - Any tax changes such as the Employer's National Insurance Contribution (NIC) changes that have increased costs for all employers.
 - Increase in costs through increase in National Living Wage.
39. 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.
40. The current savings proposals do not close the budget gap in a sustainable way. Further work is being undertaken to reduce and close the budget gap. However, if a balanced budget cannot be achieved **there is the risk of further Exceptional**

Financial Support being required or a Section 114 notice would have to be issued.

Current Risk Score:

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

Likelihood	3	Impact	4	Risk Score	12
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Next Steps

41. The initial budget proposals will be presented to Executive. They will be considered by the Council's scrutiny committees as set out in **Table 9** below prior to final proposals being considered by Executive again in February 2024 together with any proposals for Council Tax including Adult Social Care precept increases for onward submission to Council.

Table 9: Committee Dates

Committee Type	Report	Date
Corporate & Resources Scrutiny (& all Scrutiny Committees)	Budget Proposals 2025/26 to 2029/30	25/11/2024
Executive	Budget Proposals 2025/26 to 2029/30	02/12/2024
Corporate & Resources Scrutiny (& all Scrutiny Committees)	Budget 2025/26, Council Tax & MTFS	29/01/2024
Executive	Budget 2025/26, Council Tax & MTFS	03/02/2024
Full Council	Final Budget Proposals	19/02/2024

Legal and Procurement Implications

42. Section 151 of the Local Government Act 1972 states that every local authority shall make arrangements for the proper administration of their financial affairs.

43. 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.

44. Full Council is responsible for setting the overall budget framework. Some of the savings proposed will be subject to further analysis and have been included as an estimate. If the Executive, in considering these proposals, does not agree that the

savings can be met within the parameters of the Policy and Budget Framework previously set by Full the Executive will not be able to determine the matter and will need to recommend a proposed course of action to Full Council.

45. 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.

HR / Workforce Implications

46. There are HR implications as a result of the savings proposals included within this report where staff may be impacted by decisions made. The relevant business cases for these savings have outlined the HR implications.

Table 10: Proposed Reduction in Full Time Equivalent (FTE)

Executive Directorate	FTE net reduction
Adult Services & Housing	83.9
Community, Place & Economy	240.5
Children, Families and Education Services	52.3
Resources, Strategy & Transformation	232.8
Total	609.5

47. The Council is consulting with staff and Trade Unions regarding the savings proposals and the likely impact on staff. Directors will work to minimise the final number of compulsory redundancies.

Equalities Implications

48. In summary, section 149 of the 2010 Act requires the Council, when exercising its functions, to have ‘due regard’ to the need to:

- a) Eliminate discrimination, harassment and victimisation and any other conduct that is prohibited by or under the Act (which includes conduct prohibited under section 29);

b) Advance equality of opportunity between people who share a relevant protected characteristic and those who don't share it;

c) Foster good relations between people who share a relevant protected characteristic and those who do not (which involves having due regard, in particular, to the need to tackle prejudice and promote understanding).

49. Under the Public Sector Equality Duty (PSED) the relevant protected characteristics are:

- Age
- Disability
- Gender Reassignment
- Pregnancy & Maternity
- Race
- Religion
- Sex
- Sexual Orientation

50. In respect of the first aim only i.e. reducing discrimination, the protected characteristic of marriage and civil partnership is also relevant.

51. Having due regard to the need to 'advance equality of opportunity' between those who share a protected characteristic and those who do not includes having due regard, in particular, to the needs to:

- Remove or minimise disadvantages suffered by persons who share a relevant protected characteristic that are connected to that characteristic;
- Take steps to meet the needs of persons who share a protected characteristic where those needs are different from the needs of persons who do not share that characteristic;
- Encourage those who share a relevant protected characteristic to participate in public life or in any other activity in which participation by such persons is disproportionately low.

52. Further, section 149 provides that the steps involved in meeting the needs of disabled persons that are different from the needs of persons who are not disabled include, in particular, steps to take account of disabled persons' disabilities.

53. Compliance with the duties in section 149 may involve treating some persons more favourably than others, but that is not to be taken as permitting conduct that would otherwise be prohibited under the Act (which includes breach of an equality clause or rule, or of a non-discrimination rule).

54. Equality Impact Assessments are carried out to establish whether changes proposed to existing and/or new policies, services or decision outcomes are likely to have an impact, either positive or negative, on groups with protected characteristic status as defined by the Equalities Act 2010.

55. The full Equality Impact Assessment will be presented alongside the Budget 2025/26 report when it is considered by full Council in February 2025.

56. A Equality Impact Assessment has been completed for each budget proposal.

Community Safety Implications

57. There are no direct Community Safety implications arising from this report and any implications will be reviewed as part of the final budget proposals.

Climate Change and Sustainability Implications

58. 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

59. There are no direct Health and Safety implications arising from this report and any implications will be reviewed as part of the final budget proposals.

Health and Wellbeing Implications

60. There are no direct Health and Wellbeing implications arising from this report and any implications will be reviewed as part of the final budget proposals.

Social Value

61. 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) Update 2025/26 to 2029/30 report to 07 October 2024 Executive
- Medium-Term Financial Strategy (MTFS) 2025/26 to 2029/30 report to 08 April 2024 Executive
- 2024/25 Revenue Capital & Housing Revenue Account (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: New Savings Proposals 2025/26 to 2029/30

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

	Officer Name	Date Completed
Legal & Governance Implications	David Clark / Jill Bryon	17/11/2024
Finance & Procurement	Nicola Hix	17/11/2024
Workforce	Dawn Bettridge	19/11/2024
Asset Management	Simon Lewis	N/A
Executive Director	Maria G. Christofi	17/11/2024
Executive Lead Member	Cllr Liz Leyshon	17/11/2024
Consulted:	Councillor Name	
Local Division Members	N/A	N/A
Opposition Spokesperson(s)	Cllr Diogo Rodrigues	19/11/2024
Relevant Scrutiny Chair(s)	Cllr Bob Filmer	19/11/2024