

2025/26 Exceptional Financial Support (EFS) In Principle Agreement

**Ministry of Housing,
Communities &
Local Government****Jim McMahon OBE MP***Minister of State for Local Government and
English Devolution*
2 Marsham Street
London
SW1P 4DF

Councillor Bill Revans
Leader of Somerset Council
By email

20 February 2025

Dear Councillor Revans,

I am writing in relation to Somerset Council's request of 15 January 2025 for Exceptional Financial Support in respect of the financial years 2025-26 and the council's outstanding external assurance review.

Exceptional Financial Support

The Exceptional Financial Support process exists to support those councils facing unmanageable financial pressures. This government understands that fragility in the system has left some councils in difficult positions and recognises that support is required in exceptional circumstances to balance budgets. Going forward, as set out as part of the Local Government Finance Settlement, we are clear that we will continue to work to support local services and put the system back on a sustainable footing.

We recognise however that these reforms will take time. I understand that this is a difficult time for the council and that difficult decisions have been taken locally before this request for support. I appreciate your engagement in this process whilst we move towards wider reform from 2026-27. The Deputy Prime Minister has considered the council's position including all the measures that have been taken locally to support the continued delivery of sustainable services for residents, particularly for those who are most vulnerable.

This letter therefore sets out the department's current position but does not constitute a capitalisation direction.

With respect to the financial year 2025-26, the Deputy Prime Minister is minded to approve a capitalisation direction of a total not exceeding £63 million (inclusive of some support previously agreed for 2024-25 that the council has indicated they intend to utilise in 2025-26).

We will continue to work with you on the final amount of support required for the financial year 2024-25 ahead of issuing any capitalisation directions. Officials will discuss this with officers at your council in due course.

Capitalisation directions may be subject to conditions, which would be set out in any directions should the Deputy Prime Minister decide to exercise her powers as Secretary of State under sections 16(2)(b) and 20 of the Local Government Act 2003. If the Deputy

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Prime Minister decides to give any directions, she is minded to attach the following conditions:

- i. The authority may only capitalise expenditure when it is incurred;
- ii. Where expenditure is capitalised, the authority shall charge annual MRP using the asset life method with a proxy 'asset life' of no more than 20 years.

If the Deputy Prime Minister gives any directions, she will confirm the final amount of capitalisation support and any conditions that will apply in due course. The approval of any capitalisation directions will also be contingent on the council reporting to the department the final amounts identified for which it requires capitalisation for each year, with the agreement of the council's external auditors.

If you are considering financing capitalisation support through capital receipts, I want to make clear at this stage that it is my expectation that councils should avoid the disposal of community heritage assets where possible to protect the public ownership of locally significant sites to ensure residents can continue to benefit from them.

External Assurance Review

In addition to the decision on the council's request for support, I also wish to share with you the external assurance review of Somerset Council carried out by the Chartered Institute of Public Finance and Accountancy (CIPFA) following the in-principle support agreed in February last year.

The reviews are usually published on gov.uk, and we intend to continue with this practice and publish Somerset Council's review in the coming weeks. We will share the review at the same time with your local MPs. Until the review is formally published on gov.uk the council should not share or publish the review.

I would be grateful if you could begin or continue to take steps to implement the review's recommendations. Should you wish to discuss the recommendations, please get in touch with my officials, although we do not require any further correspondence regarding recommendation implementation.

Thank you for your continued support and the support of your officers throughout the external assurance review process and whilst we have considered your request for exceptional financial support. It is our intention to work in partnership with you and your council throughout the process, and I hope you feel that is reflected in the approach taken over the past seven months. Officials will continue to closely support you through the next steps of the process.

Yours ever,

A handwritten signature in blue ink that reads "Jim McMahon".

JIM MCMAHON OBE MP
Minister of State for Local Government and English Devolution