Appendix AA - Executive Report

Decision Report / Scrutiny Report

Decision Report - Executive Decision
Forward Plan Reference: FP/25/01/02
Decision Date – 05 March 2025
Key Decision – Yes

Revenue and Capital Budget and Council Tax 2025/26 and Medium Term Financial Strategy 2025/26 - 2029/30

Executive Member(s): Cllr Liz Leyshon, Deputy Leader of the Council and Lead Member on Resources and Performance
Local Member(s) and Division: All
Lead Officer: Maria G. Christofi – Interim Chief Finance Officer (Section 151 Officer)

Executive Summary

1. This report sets out for the Executive consideration and recommendation to Council the proposed Revenue Budget, Capital Programme, Treasury Management Strategy and Council Tax for 2025/26 and the Medium-Term Financial Strategy & Plan (MTFS & MTFP) for the period 2025/26 to 2029/30.

2. The Local Government Finance Settlement (LGFS) announced on 3 February 2025, included confirmation of the MHCLG decision in relation to the application to increase the Council Tax above the referendum limit. Somerset Council is permitted to increase the Council Tax by a further 2.5%, therefore by a total of 7.49% for 2025/26. The final decision on the level of Council Tax will be made by the Full Council at its budget setting meeting. This raises an additional £9.180m of income, thereby leaving a remaining budget gap of £43.000m. Council Tax alone is not sufficient to close the budget gap and therefore the Council is dependent upon the 'in principle' approval and receipt of Exceptional Financial Support (EFS) by the Ministry of Housing Communities and Local Government (MHCLG) of £43.000m in the form of a Capitalisation Direction in order to set a Balanced and Legal Budget for 2025/26. The approval from MHCLG regarding EFS was received on 20 February 2025.

   Exceptional Financial support may be approved by MHCLG in the form of either:
   - A Council Tax increase in excess of the current referendum limit of 3% + 2 % Adult Social Care Precept; and/or
   - One-off Capitalisation Direction (i.e. enabling revenue expenditure to be funded by the Council's capital resources (either borrowing or capital receipts)

3. Had the application not been approved by MHCLG, the Council would have been unable to set a lawful and balanced Budget at its budget meeting on 5 March 2025 and

the Section 151 Officer would have been required by statute **to issue a Section 114 Notice under Section114(3) of the Local Government Finance Act 1988 in relation to 2025/26**. This report is written with fundamental reliance upon the 'in principle' approval of the Capitalisation Direction of £43.000m and the assumption that final approval will be forthcoming once the Council has satisfied all conditions set out in the Minister's letter of 20 February 2025. **The EFS sum is required to enable a legally Balanced Budget to be set and to avoid the Section 151 Officer being required to issue a Section 114 Notice in relation to 2025/26.**

4. The issuing of a Section 114 Notice under Section 114(3) of the Local Government Act 1988 is an extremely serious position for a local authority to be in and has severe consequences for a Council's ability to continue to deliver valued non statutory and statutory services to the public. A Section 114 Notice should be avoided wherever possible and should only be issued by the Section 151 Officer as a last resort, when all other measures, including liaison with Government in relation to EFS have been exhausted.

5. This report provides an overview of the Council's financial position and the national economic context and uncertainty and risk for local government in relation to continued absence of long-term funding plans for the local government sector. The report takes account of the Local Government Finance Settlement (LGFS) issued on 3 February 2025 and all work achieved to date to seek to balance the Budget for 2025/26, together with proposals for Council Tax and the Council's reliance upon EFS in 2025/26 to achieve a Balanced Budget.

6. In November 2023, Somerset Council declared a Financial Emergency and introduced a range of financial control measures. To enable it to meet and close the Revenue Budget gap for 2024/25, the Council applied to Government for EFS in the form of a one-off capitalisation direction totalling £76.884m of which £40.000m was allocated to meet the costs of transformation and redundancy and £36.884m was applied together with one-off utilisation of Earmarked Reserves of £36.800m.

7. The EFS Capitalisation Direction (CD) approved in principle by MHCLG for the 2024/25 budget provided only a temporary (one off) funding solution, allowing the Council time to develop and deliver its medium to long term plans to stabilise the organisation and to secure a financially sustainable operating model for the medium to long term.

8. A range of management control measures have been implemented to contain expenditure within the overall approved 2024/25 budget of £639.611m, which at Quarter 3 is forecasting an underspend of £20.065m against the approved budget after allocation of EFS and Earmarked Reserves. This includes a forecast underspend of £14.005m within Service Directorates and £0.060m in general grants. The Corporate Contingency of £6.000m remains unallocated but has been released into the forecast, leading to a revenue forecast underspend of £20.065m overall. The underspend of £20.065m will reduce the drawdown from Earmarked Reserves to £19.434m which was allocated to balance the 2024/25 Budget.

9. In addition, the development of Transformation and Savings plans has taken place in order to work towards securing a Balanced Budget for 2025/26 and over the period of the MTFP. However, the Council has not yet progressed its plans at sufficient scale and pace to balance the 2025/26 budget nor to achieve financial sustainability over the period of the MTFP to meet its Best Value Duty without additional support.

10. As reported in February 2024 to the Full Council, the Council faced an original Budget gap for 2025/26 of £103.896m. On 7 October 2024 the Executive agreed the reviewed and updated assumptions in the MTFS and MTFP to a revised Budget gap of £88.796m. The 2 December 2024 report to Executive, prior to the announcement of the Provisional Local Government Finance Settlement (LGFS), included additional net savings of £34.950m that were agreed by Executive in December 2024, resulting in a budget gap of £53.846m rising to £119.313m by 2029/30. Further savings of £2.918m and Growth pressures of £57.642m were considered and endorsed by the Executive on 3 February together with the proposed schedule of changes to fees and charges for 2025/26.

11. An application for EFS was made in January 2025 seeking a combination of a Council Tax increase above the referendum limit and/or a Capitalisation Direction to meet the calculated budget gap at that point. Further progress has been made to identify savings and reduce budget pressures together with consideration of the Final LGFS announced on 3 February 2025. Note: The EFS application sought permission to increase the Council Tax for 2025/26 above the 3% referendum threshold and requested a further capitalisation direction to meet the remainder of the budget gap. In addition, it is proposed that an Adult Social Care precept of 2% is levied in line with government confirmation of the permissible increase.

12. The Final Settlement issued on 3 February 2025 included confirmation of the MHCLG decision in relation to the application to increase the Council Tax above the referendum limit. Somerset Council is permitted to increase the Council Tax by a further 2.5%, therefore by a total of 7.49% for 2025/26. The final decision on the level of Council Tax will be made by the Full Council at its budget setting meeting. If agreed this would raise an additional £9.180m of income, thereby leaving a remaining Budget gap of £43.000m.

13. In order to set a Robust and Balanced Budget for 2025/26, the Council is reliant upon the 'in principle' approval of a Capitalisation Direction of £43.000m and will be required to accept any terms issued by MHCLG and to take any required actions specified by the Deputy Prime Minister in order to secure final approval. MHCLG issued an 'in principle' approval of the Capitalisation Direction on 20 February 2025. This confirmed the maximum value of the Capitalisation Direction of £63.000m including a reprofiling of £20.000m from 2024/25 in respect of transformation and redundancy costs into 2025/26.

14. A Capitalisation Direction essentially gives permission for the local authority to account for day-to-day operational expenditure as capital expenditure. This expenditure when incurred may be financed from the Council's internal capital resources, i.e. Capital Receipts and/or Borrowing. The timescale for securing final approval of the Capitalisation Direction will therefore be once the financial outturn for 2025/26 is determined in approximately May 2026. The 'in principle' approval received on 20 February 2025 therefore provides the most robust assurance available at budget setting, that the required funding will be permitted, subject to the Council meeting any associated conditions.

15. The Interim Chief Finance Officer (Section 151 Officer) proposes that, the one-off Capitalisation Direction of £43.000m will be funded by Capital Receipts in the first instance, with any balance met from Borrowing. However, the Capitalisation Direction will only provide a temporary solution to close the remaining 2025/26 Budget gap.

16. **The ‘in principle’ confirmation of available EFS support is the minimum assurance that is required to enable the Interim Chief Finance Officer (Section 151 Officer) to make what is a fundamental and critical budget assumption in relation to the funding that is required to balance the Budget, and therefore to advise Members that the Council’s Budget for 2025/26 is robust.** The Budget setting meeting has therefore been re-scheduled for 5 March 2025, as the Minister’s letter could potentially have been issued as late as 28 February 2025. The letter together with any associated conditions that the Council will need to accept in order to access the EFS support must be available for Council to take an informed decision based upon robust budget estimates that are assured by the statutory Section 151 Officer’s assurance report in accordance with Section 25 of the Local Government Act 2003. Members are required to consider the Section 25 report in taking their decisions on setting the budget and council tax under s31A of the Local Government Finance Act 1992.

17. All Elected Members of the Council have a legal responsibility to set a Balanced Budget for 2025/26 by 11 March 2025. To achieve this, all proposed savings will need to be approved and delivered and in addition, a combination of the proposed additional Council Tax increase and Capitalisation Direction under EFS is required. Failure to agree a Balanced Budget will result in the legal requirement for the Section 151 Officer to issue a Section 114 notice. The implications of a Section 114 Notice are set out in the interim Chief Finance Officer’s (Section 151 Officer) Section 25 Report elsewhere on this agenda and in **Appendix A**.

18. The Budget gap in 2026/27 is forecast to be £101.384m in 2026/27 increasing to £190.041m by 2029/30, evidencing that the Council is not financially sustainable in the medium term based upon its current operating model, transformation and savings plans, local income streams and expected funding received from Government.

19. The Council must develop Transformation programme and plans at scale and pace to establish a new plan for recovering its financial position. The scale of transformation savings necessary to be developed and implemented in order to balance the MTFP in 2026/27 will be £101.384m in 2026/27 increasing to £190.041m by 2029/30 in order to achieve financial sustainability.

20. Cost reductions at this significant scale will need to be delivered organisation wide covering both statutory and non-statutory services. However, it is highly likely that the Council will be unable to develop and implement further new transformation and savings plans in time to fully close the 2026/27 budget gap. It is likely to require further EFS approvals from Government for 2026/27 and possibly beyond in order to allow time to transition to an operating model that can be delivered at a cost that falls within sustainable income streams over the medium term. Further dialogue with MHCLG will be necessary in this regard.

21. The Council's forecast Revenue Reserves at 31/03/2025 are £98.886m. Increasing to £110.969m over the period of the MTFP to 2029/30, assuming that the Council is able to deliver further transformation and savings to Balance the Budget in 2026/27 (and /or secure further EFS) onwards without relying on Reserves to fund the forecast deficit. **Paragraph 133 and Table 17** set out the theoretical impact on reserves if they were applied to meet the deficit and shows that they would be exhausted by the end of the 2026/27 financial year. Note: This is not an option actually open to the Council as General Fund deficits in reserves are not permitted, (except for the DSG Statutory Override as agreed by Government) however it illustrates the Council's critical financial position.

22. Reserves have been significantly depleted as a result of drawing on them to balance the Budget in previous years, as opposed to delivering the required level of savings to achieve financial balance. This is unsustainable and the **minimum recommended level of reserves of £31.104m should not be breached**. Reserves are therefore not available to balance the 2025/26 budget and should not be relied upon to balance the budget over the MTFP. Once the Council has set a robust Balanced Budget in a sustainable way the rebuilding of financial resilience must be addressed by rebuilding of Earmarked Reserves.

23. The Council is already in receipt of an 'in principle' agreement of £76.884m EFS in the form of a Capitalisation Direction for 2024/25 and to secure this approval the Council must respond swiftly to implement the recommendations set out in the EFS assurance review report conducted by CIPFA during 2024 and recently received from MHCLG.

24. In addition, the Council's External Auditor, Grant Thornton LLP issued its Interim Auditor's Annual Report for 2023/24 in January 2025. This report included **2 Statutory Recommendations** under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. This was considered by Audit Committee on 30 January 2025 and an extraordinary Full Council meeting on 12 February 2025.

25. The External Auditors issued 2 Statutory Recommendations in their Interim Auditor's Annual Report for year ended 31 March 2024:
    - **Statutory Recommendation 1:**
      The Council should develop detailed savings plans at pace to deliver the savings targets set out in the MTFS in order to reduce reliance on one-off resources and rebase the Council's budgets to a financially sustainable level.
    - **Statutory Recommendation 2:**
      The Council should develop the overarching transformation business case and detailed business cases for individual workstreams that will deliver service transformation and contribute to delivering the Council's ambitious savings targets. The funding required to deliver transformation, and the new target operating model, should be identified and a funding plan developed. This should be undertaken at pace in order to deliver the savings required to balance the 2025/26 budget.

26. This position may result in additional recommendations being made and/or intervention measures being taken by MHCLG to address the Council's failure to meet its Best Value Duty in relation to financial sustainability. Nationally, several local authorities are subject

to formal Best Value intervention by MHCLG in relation to failure to achieve their Best Value Duty. Intervention ranges from the requirement for the local authority to work with an MHCLG appointed independent assurance board, through to appointment of independent Commissioners who oversee the running of the Council through its financial recovery phase. Commissioners would come into the Council and take over the decision making of the Council.

27. The report includes several appendices as set out in the table below. These provide more detailed information that should be used to support Members in their decision making:

Appendices:	
A	Section 25 Report – Section 151 Officer Report on the Robustness of the Estimates and Adequacy of Reserves Annexes: Annex Ai 2025/26 Exceptional Financial Support (EFS) In Principle Agreement Annex Aii 2024/25 Exceptional Financial Support (EFS) In Principle Agreement Annex B Directorate Budget Assurance Statements: (i) Adults Services & Housing (ii) Children's, Families & Education (iii) Community, Place & Economy (iv) Resources, Strategy & Transformation (v) Finance & Procurement (vi) Chief Executive
B(i)	New Savings
B(ii)	2024/25 Savings for delivery in 2025/26
B(iii)	All Savings
C	New Growth
D	Proposed Revenue Budget 2025/26
E	MTFP Movements since October 2024 Executive
F	MTFP Five Year Projections
G	Medium Term Financial Strategy 2025/26 – 2029/30
H	Fees and Charges for approval 2025/26
I	Specific Revenue Grants Schedule 2025/26
J (i)	Dedicated Schools Grant (DSG) Forecast spend
J (ii)	Summary DSG Settlement 2025/26
K	Parking Account 2025/26
L	Cumulative Equalities Impact Assessment
M	2025/26 Budget Consultation Feedback
N	Earmarked Reserves Forecast

Appendices:	
O	Capital Investment Strategy
P	New Capital Schemes
Q (i)	Capital Programme Summary 2025/26-2029/30
Q (ii)	Capital Programme Full Schemes 2025/26-2029/30
R(i)	Treasury Management Strategy including Prudential Indicators
R(ii)	Minimum Revenue Provision Policy
S	Flexible Use of Capital Receipts Strategy
T	Non-Treasury Investment Strategy 2025/26
U	Calculation of Council Tax Requirement 2025/26 – provisional
V	Council Tax Scenarios

Recommendations

28. It is recommended that Executive consider, agree and recommend to Full Council:

In respect of the Robustness of the Budget

a. Note the conclusions of the Council's Interim Chief Finance Officer (Section 151 Officer) in their Section 25 report (**Appendix A**) confirming the robustness of the Budget estimates and the adequacy of the level of reserves for 2025/26 and their warning about the forecast deficits and the lack of Financial Sustainability over the period 2026/27 to 2029/30.

In respect of the General Fund Revenue Budget 2025/26

b. Having considered the detailed Equalities Impact Assessments **Appendix L**, approve the Savings and Income generation plans outlined in **Appendices B(i) B(ii)** and **B(iii).**

c. Approve the additional funding for new Growth requirements set out in **Appendix C**.

d. Approve the General Fund Net Revenue Budget for 2025/26 of £622.089m and the individual Executive and Service Directorate Budgets for 2025/26 as outlined in **Appendix D**.

e. Note the MTFP Movements set out in **Appendix E** from the report that was presented to Executive in December 2024.

f. Note the MTFP for the next five years set out in **Appendix F** and the MTFS 2025/26 – 2029/30 Strategy Document set out in **Appendix G**.

g. Approve the changes to the Fees and Charges schedule for 2025/26 set out in **Appendix H**.

h. Note the Specific Revenue Grants Schedule 2025/26 set out in **Appendix I**

i. Note the Parking Account for 2025/26 set out in **Appendix K**

j. Note the MTFP Cumulative Equalities Impact Assessment set out in **Appendix L**

k. Note the 2025/26 Budget Consultation Feedback set out in **Appendix M**

l. Note and agree that the 2025/26 Budget has been balanced. The budget includes £43.000m of Exceptional Financial Support from MHCLG in the form of a Capitalisation Direction which enables operational expenditure to capitalised.

m. Note and accept that conditions will be attached to the Exceptional Financial Support Capitalisation Direction that Somerset Council will need to accept and fulfil.

In respect of the Dedicated Schools Grant (DSG)

n. Note that the forecast spending on the Dedicated Schools Grant, set out in **Appendix J(i)** is forecast to exceed the funding provided by government by £33.914m in 2025/26 and is projected to reach a cumulative deficit of £99.125m by 31 March 2026.

o. Note the overall Dedicated Schools Grant allocation of £481.393m for 2025/26 and breakdown by block set out in **Appendix J(ii)**.

In respect of the Earmarked Reserves

p. Note that the level of General Reserves is maintained within the risk-based assessment range of £31.104m minimum to £62.208m maximum level.

q. Note the Earmarked Reserves reprofiling as set out in **Appendix N**.

r. Note the overall estimated position of Earmarked Reserves outlined in **Table 17** and the proposed use of reserves detailed in **Appendix N** which includes the estimated use of Earmarked Reserves during the year.

In respect of the General Fund Capital

s. Consider and approve the Capital Investment Strategy for 2025/26 to 2029/30 set out in **Appendix O**

t. Approve the £235.103m new Capital proposals 2025/26 to 2029/30 set out in **Appendix P**

u. Approve the revised Capital Programme of £1,077.384m 2024/25 to 2029/30, as set out in **Appendices Q(i) and Q(ii)**

In respect of the Treasury Management Strategy and Prudential Indicators 2025/26

v. Approve the Treasury Management Strategy 2025/26 set out in **Appendix R(i)**
w. Approve the Minimum Revenue Provision 2024/25 & 2025/26 set out in **Appendix R(i)**

x. Approve the Non Treasury Investment Strategy 2025/26 set out in **Appendix T**

In respect of Council Tax

y. Approve the calculations for determining the Council Tax requirement for the year 2025/26 in accordance with the Local Government Finance Act 1992 set out in the Council Tax Resolution in **Appendix U**.

z. Agree to continue the Council Tax precept of £14.65, included in the overall band D Council Tax for the shadow Somerset Rivers Authority (representing no increase for 2025/26). This results in a Council Tax Requirement of £3,112,887 for the Somerset Rivers Authority.

aa. Approve the increase in Council Tax for a band D property for Somerset Council, including the Somerset Rivers Authority Precept, by £129.43 for 2025/26, giving a Band D Council Tax of £1,857.61 per year, being:

i) The General Band D Council Tax by 5.49%, £94.87, being the maximum permitted without a referendum and the additional 2.5% permitted by the Ministry of Housing Communities and Local Government as part of the Local Government Finance Settlement for 2025/26; and

ii) The Adult Social Care Precept by 2.00%, £34.56.

bb. Approve a Special Expenses rate of £151,509 as detailed in **Appendix U**.

cc. Approve the precept requirement of £394,863,503 (including Special Expenses Rate) £394,711,994 (excluding Special Expenses Rates).

dd. Approve the 7.49% increase formal Council Tax resolution, **in Appendix U,** for Council Tax incorporating:

- 5.49% General Council Tax (including an additional 2.5% EFS) and
- 2.00% Adult Social Care Precept and
- Note the precepting bodies precepts as below:

	2024/25 £	**2025/26 £**	**Increase %**
Somerset Council	1,498.80	1,593.67	5.49
Somerset Council – Social Care	229.38	263.94	2.00
Somerset Council Total	**1,728.18**	**1,857.61**	**7.49**
Police and Crime Commissioner	279.20	293.20	5.01
Devon and Somerset Fire Authority	99.68	104.68	5.02
Sub-Total	**2,107.06**	**2,255.49**	**7.04**
Special Expenses Average	1.11	0.71	(36.04)
City, Town and Parish Council (average) - **Provisional**	158.86	182.42	14.84
Total	**2,267.03**	**2,438.62**	**7.57**

ee. Note the Council Tax Scenarios set out in **Appendix V**

Reasons for Proposals

29. The Council must approve its Revenue Budget and set the Council Tax by 11 March 2025 in relation to 2025/26. All councillors have a legal responsibility to set a balanced budget by this deadline. In addition, the Council has a Best Value Duty to demonstrate financial sustainability through the delivery of a balanced MTFP over a period of at least 3 years.

30. The recommendations enable the Council to progress towards meeting its statutory responsibility to set a Balanced Revenue Budget for 2025/26 and the requirement to secure financial sustainability over the period of the MTFP. The setting of the Revenue Budget and Council Tax is part of the Council's budget and policy framework. It cannot be delegated and requires Full Council approval.

31. As part of the budget and policy framework, it is also necessary to approve the capital investment programme, treasury management strategy and fees & charges. These are included within this report, together with their implications for the 2025/26 revenue budget and the MTFP to 2029/30.

32. The Housing Revenue Account (HRA) 2025/26 rent setting report was considered by Executive on 3 February and approved by Council on 12 February 2025. The overall HRA budget report and capital programme for 2025/26 are considered elsewhere on this agenda.

33. The Council is required to take a systematic, coherent and controlled approach to addressing its financial challenges over the medium term, whilst enabling the delivery of its priorities as set out in the Council Plan.

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Appendix AA - Executive Report

Main report and supporting information

Background and purpose of report

Background

34. 2025/26 will be the third financial year of operating as Somerset Council following Local Government Reorganisation (LGR) when the unitary authority became operational on 1 April 2023.

35. 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 to avoid a Section 114 Notice being issued and to recover the financial position of the Council.

36. The Council's financial position remains critical and must be addressed swiftly and robustly in agreeing the financial strategy for 2025/26 to 2029/30 that will need to be supported by further phases of service transformation at scale in order to achieve financial sustainability over the medium term.

37. The Council was reliant upon Government support to set a balanced budget for 2024/25. MHCLG approved EFS in principle in the form of a one-off Capitalisation Direction totalling £76.884m of which £40m was allocated to meet the costs of transformation and redundancy and £36.884m. This was applied together with one-off utilisation of Earmarked Reserves of £36.800m to meet the revenue budget gap in 2024/25.

38. The Budget included approved savings of £35m in 2024/25, rising to £45.2m by 2026/27. The MTFP was not balanced as part of this process, and the budget gap for 2025/26 stood at £103.898m, rising to £198.583m by 2028/29 which the Council recognised as a significant financial challenge.

39. As set out in a letter from the Minister to the Leader of the Council on 27 February 2024, approval of the 2024/25 EFS allocation was given 'in principle'. However, it did not constitute final approval of the requested Capitalisation Direction. In order to secure approval of the Capitalisation Direction for 2024/25, the Council was required to:

- **Undergo an external assurance review to assess the Council's financial position and its financial management practices, producing productivity plans to improve service performance and reduce wasteful expenditure.**

  This review was undertaken by CIPFA during 2024. The Council received a number of recommendations for improvement during December 2024.

- **Produce a Transformation plan to secure the delivery of cost reductions to establish a balanced medium term financial position and incorporate any recommendations raised by the assurance review.**

40. The Council has developed Transformation and Savings plans during 2024/25. However, these are not currently at a scale which achieves a balanced Budget in 2025/26 or over the term of the MTFP and therefore do not achieve financial sustainability for the organisation.

41. The updated position set out within this report for the period of 2025/26 to 2029/30 shows that the Council remains in need of EFS for 2025/26 and is likely to be reliant upon a further EFS application in 2026/27 given that it faces a Budget gap of £101.384m in 2026/27 increaseing to £191.041m by 2029/30. Therefore, further transformation at scale is required to achieve a financially sustainable position.

42. Conditions applying to the Capitalisation Direction upon final approval are:
    - **Expenditure may only be capitalised when it is incurred;**
    - **Where expenditure is capitalised the Authority shall charge Minimum Revenue Provision (MRP) using the proxy 'asset life' of no more than 20 years in accordance with government guidance;**
    - **Where the Capital Financing Requirement (CFR) is increased as a result of capitalisation under the direction, any further external borrowing from the date of the letter up to but not exceeding the increase in the CFR must be obtained from the PWLB and will be subject to 1 percentage point premium[1] above the interest rate that the loan would otherwise be subject to. This requirement applies to any future refinancing of the borrowing. The requirement did not apply to borrowing for the HRA.**

43. The value of the Capitalisation Direction cannot be finalised and approved until the relevant financial year's accounts have been produced which is around May/June 2025 in respect of 2024/25 financial year. There is a requirement for external audit review. Whilst the nature of this review is not specified, this could require an audit opinion to be issued, the statutory deadline for the completion of the audit for 2024/25 accounts is 27 February 2026 and this is therefore the latest timescale in which a Capitalisation Direction would be expected to be approved in relation to 2024/25 financial year

44. The Medium Term Financial Strategy (MTFS) provides the framework for the development of annual budgets in line with the objectives and priorities of the Council's Plan. The 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.

45. The assumptions in the MTFP have been updated further since those reported in October 2024 following further work, the publication of the Final LGFS published on 3 February 2025 and the Council's engagement with MHCLG on its EFS application.

[1] Within the policy statement the Minister for MHCLG announced that the 1% premium would no longer apply from 2025/26.

46. The External Auditors issued 2 Statutory Recommendations in their Interim Auditor's Annual Report for year ended 31 March 2024:
    - **Statutory Recommendation 1:**
      The Council should develop detailed savings plans at pace to deliver the savings targets set out in the MTFS in order to reduce reliance on one-off resources and rebase the Council's budgets to a financially sustainable level
    - **Statutory Recommendation 2:**
      The Council should develop the overarching transformation business case and detailed business cases for individual workstreams that will deliver service transformation and contribute to delivering the Council's ambitious savings targets. The funding required to deliver transformation, and the new target operating model, should be identified and a funding plan developed. This should be undertaken at pace in order to deliver the savings required to balance the 2025/26 budget

Purpose of the report

47. The purpose of this report is to present the proposed budget for 2025/26 and MTFP to 2029/30, taking account of all the work undertaken during the budget development process and taking account of the Final LGFS and MHCLG decision on EFS.

48. The MTFS provides a strategic financial framework and a forward-looking approach to drive the achievement of 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."

49. 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 serious financial challenges and is unable to balance its Budget without reliance on EFS. The MTFS details the requirement for further transformation to enable the Council to operate within its financial means and demonstrates the key role that financial resources play in the future delivery of priorities and in enabling the effective planning, management, and delivery of services.

50. The seven 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 to priorities and 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 including rebuilding useable reserves

vii. Ensure the Transformation programme delivers cashable savings to enable the Budget to be balanced in a sustainable way.

Pressures and Risks

51. In preparing the MTFP, a range of pressures and risks to the Council's financial position have been identified.

Pressures

52. Pressures that have been taken into account are as follows:

53. **Adult Social Care** – Increasing demographic pressures on demand and escalation of care need in Adult Social Care

54. **Homelessness** - The Council is experiencing an increase in the number and complexity of homelessness cases and a need for Temporary Accommodation.

55. **Children's Social Care** – Increasing levels of demand and increased complexity of need driving further cost increases, particularly in relation to external residential care on which there is reliance due to insufficient supply of suitable foster care placements.

56. **Inflation –** An increase in the Waste contractual costs as well as Adults and Children's Social Care placements and Homelessness accommodation. Also previous year's high inflation still included in the costs of expenditure.

57. **Interest Rates** – Increasing the capital financing costs and the revenue cost of borrowing.

Risks

58. National and economic risks impacting the Financial Strategy include the following:

- **Economic growth:** The inability to attract and retain investment, stimulate local business growth, and implement economic development strategies will result in stagnant or declining economic performance, reduced employment opportunities, and diminished public revenue, ultimately impacting the quality of local public services and increased financial instability.
- **Climate change and the environment**: Failure to prioritise and address climate change impacts will result in environmental degradation, public health crisis, widening social inequality and economic stability, infrastructure damage and budget pressures from emergency response costs and funding shortfalls.

- **Interest rates:** The inherent challenge of predicting interest rates could lead to significant budget pressures or savings in capital financing costs. Whilst much of the Council's debt is fixed rate, the requirement to replace maturing loans exposes the Council to interest rate volatility.
- **Inflation and pay:** Increases in inflation (pay and non-pay) reduce the Council's ability to provide essential services.
- **Tax changes:** Employer's National Insurance Contributions impact on the Council's supply chain and any changes in landfill tax will impact upon waste disposal costs.
- **Uncertainty due to Spending Review and Fair Funding Review:** Uncertainty in these areas leads to a risk of delayed and inefficient spending on services and projects.

59. Budget risks include the following:
    - **Market Driven Costs:** General supplies service cost increases due to the consequential impact of increases in Employers' National Insurance Contributions (NIC), which suppliers will seek to pass on to the Council where these are contractual. In addition the National Living Wage increase that is welcomed for all employees, however can have an additional cost impact for local authorities.
    - **Contract failure:** Due to risk of suppliers and contractors defaulting as a result of financial difficulties due to economic factors including Employer's NIC increases.
    - **Demographic demand:** Significant increases in demand generally for statutory and essential services put pressure on the service and may lead to increased unit costs.
    - **Adult Social Care:** Increasing demographic pressures on demand and escalation of care need in Adult Social Care combined with higher care fees being claimed by providers to offset their rising costs in excess of inflation. The Council is also experiencing an increasing number of Self Funding social care clients becoming eligible for local authority funded support. These are difficult to predict and may result in increased financial pressures
    - **Homelessness:** In line with the national issue affecting many local authorities across the country, the Council is experiencing an increase in the number and complexity of homelessness cases and a need for temporary accommodation. This is coupled with an increase in the cost of provision, especially in relation to bed and breakfast accommodation. The Local Housing Allowance (LHA) within Housing Benefit Subsidy is proving to be insufficient to meet these costs resulting cost pressure to the General Fund Budget.
    - **Children's Social Care:** Increasing levels of demand and increased complexity of need may drive further cost increases, particularly in relation to external residential care upon which there is reliance due to insufficient supply of suitable foster care placements and limited provision within Homes and Horizons.
    - **Triennial valuation of Pension Fund:** A triennial valuation will take place using data from the 31 March 2025 with revised employer contribution rates from 1 April 2026. The outcome of the valuation may have an impact on latter years in the MTFP.

- **Contractual inflation:** The increased cost of Employer's NIC in excess of government compensation funding could put pressure on budgets.
- **The cumulative impact of savings plans:** Increasing challenges of achieving the on-going significant budget reductions of organisational transformation to maintain levels of service provision.
- **Budget implementation:** Due to potential delay or underachievement of planned savings.
- **Capacity and Capability:** Reduction in capacity due to planned staff reductions and potential lack of skills and expertise to develop and deliver transformation and change.
- **Pooled Fund Investments – International Financial Reporting Standard 9 (IFRS9) Removal of Statutory Override:** The change to IFRS9 in 2018 would have potentially resulted in significant financial issues for local authorities, so a Statutory Override was introduced to allow the changes in Fair Values to continue to be held on Balance Sheet. This override was initially granted for a 5-year period (ending on 31/03/23) and subsequently extended it for a further 2 years (ending on 31/03/25). MHCLG have recently consulted Local Authorities as part of the Local Government Finance Settlement in relation to the planned end to the Statutory Override. Following the consultation, MHCLG remains of the view that the Override should not be extended beyond 1 April 2025. Any new investments must comply fully with the IFRS requirements as set out in the new Code. MHCLG has stated that in respect of historical investments and reflecting on the financial position of the local authority sector, that they are considering the potential for additional transitional support and they will continue to work with the sector.
- **Statutory override Dedicated Schools Grant (DSG):** Continuing significant increases in the number of Children with an EHCP is driving escalating costs in the High Needs Block within DSG as detailed in the report. The cumulative **DSG deficit is forecast to reach £99.125m by March 2026** when the statutory override ringfencing this deficit from General Fund reserves is due to expire. Without a Government led solution to aligning service demand, costs and funding, the position is financially unsustainable. Whilst the Council is developing and implementing revised deficit management plans, these are unlikely to fully resolve the scale of the financial pressures. A removal of the statutory override before a solution is achieved which also addresses funding of deficits, will result in the exhaustion of the Council's revenue reserves, **resulting in the Interim Chief Finance Officer (Section 151 Officer) being required to issue a Section 114 Notice**.

60. Effective risk management can reduce the call on reserves and the need to hold them, but there will always be a need for reserves and contingencies in local authority finances because some things are inherently uncertain and defy risk management interventions. The MTFP includes the consideration of the requirement for contingencies and reserves to manage risks should they materialise.

61. Service Directorates will be expected to take all reasonable action to mitigate the pressures and risks that may emerge during the financial year 2025/26 that are in excess to their Budget allocations. There has been a Risk Provision Budget of £3.000m

and also a Contingency Budget of £12.000m included in the budget. These have been provided in the event that Service Directorate and organisational corporate actions prove to be insufficient to resolve any pressures or risks the Risk Provision and the Contingency would be available corporately to absorb the costs in year 2025/26. Therefore, enabling the Useable Reserves to be preserved.

Section 151 Officer Section 25 Report

62. Section 25 of The Local Government Act 2003 requires the Chief Financial Officer (CFO) & Section 151 Officer to report to the Council on:
    - the robustness of the estimates made for the purpose of the budget calculations;
    - the adequacy of the proposed financial reserves.

63. The Council is required by law to take this report into account when making its decisions in relation to setting the Annual Budget and setting the Council Tax.

64. Section 26 of the Local Government Act 2002 places an onus on the Interim Chief Finance Officer (Section 151 Officer) to ensure the Council has established a minimum level of reserves to be retained to cover any unforeseen demands that could not be reasonably defined within finalising the proposed Budget.

65. The Interim Chief Finance Officer & Section 151 Officer's report is contained elsewhere on this agenda and incorporated at **Appendix A**. It is an extremely important report and sets the context within which Members are required by law to consider the 2025/26 Budget and MTFP including the Capital Investment Strategy and Treasury Management Strategy.

MTFP Assumptions

66. The MTFP has been updated for changes in key assumptions in relation to Government funding following receipt of the Final LGFS, and changes to other income, expenditure and savings since the October 2024 report. Significant assumptions and/or changes are summarised in **Table 1** and explained further below.

67. **Table 1** below, summarises the movement in the budget gap since the October report to the Executive. This includes the impact of changes to Government funding through the Final LGFS, local funding assumptions, expenditure pressures and savings and the impact of an additional 2.5% of Council Tax allowed by MHCLG following the Council's application for EFS. There is a remaining Budget Gap of £43.000m in 2025/26 increasing to £190.041m by 2029/30.

68. Initial Savings proposals were presented to the Executive in December 2024 totalling £43.950m for 2025/26 with previous years savings of £9.000m substituted. Further Savings proposals were then presented to Executive in February 2025 of £2.918m.

69. In addition to the savings previously considered, a further saving of £0.700m in relation to budget realignment in the Community, Place and Economy budget related to a reduction in energy cost for street lighting is proposed and a savings of £0.365m in relation to consistency of parking policy.

70. Budget growth proposals for 2025/26 of £57.642m were considered by the Executive in February 2025, this was an additional £21.715m more than the October 2024 MTFS assumptions.

71. In addition to the growth previously considered, there are two additional Growth items totalling £0.473m. An amount of £0.200m has been included in the budget to incorporate the new role of Chief Finance Officer (Section 151 Officer) as a result of the organisation restructure considered by Council on 12 February 2025. There is a further proposal of £0.273m regarding Anti-social Behaviour Team.

72. Corporate assumptions have been revised for Growth regarding Demand, Demographics and Inflation in futures years.

73. The MHCLG approval 'in principle' of the Council's application for £43.000m of EFS via a Capitalisation Direction has enabled the achievement of a legally Balanced Budget for 2025/26 and the avoidance of the requirement for the Interim Chief Finance Officer (Section 151 Officer) to issue a Section 114 Notice. Further information on the use of EFS to balance the Budget is set out at paragraphs 124 to 123.

Table 1: MTFP Movement in the Budget Gap Since October 2024 (Appendix E)

	2025/26 £m	2026/27 £m	2027/28 £m	2028/29 £m	2029/30 £m
Budget Gap (October Executive)	**88.796**	**29.836**	**10.348**	**10.283**	**15.000**
Additional Growth	21.715	(0.884)	(0.272)	-	-
Further Growth Proposed	0.473	21.405	13.139	4.901	10.100
Increase Contingency	6.000	-	-	-	-
Risk Provision	3.000	-	-	-	-
Other Corporate Items	0.213	(0.098)	-	-	6.144
Savings – already agreed	(46.868)	(0.505)	(0.575)	-	-
Savings Substitution	9.000	-	-	-	-
Further Savings Proposed	(1.065)	(0.524)	(0.575)	-	-
Budget Gap Before Funding Changes	**81.265**	**49.754**	**22.640**	**15.184**	**31.244**
LGFS Additional Grant Funding	(12.031)	12.863	3.951	4.086	-
Extended Provider Responsibility Payment	(9.288)	2.788	-	-	-
Collection Fund (Surplus)/Deficit	(8.279)	8.279	-	-	-
Council Tax	1.106	(0.115)	0.191	0.528	-
Change in Business Rates	6.915	(5.436)	2.648	2.806	-
Capital Financing	(7.507)	(9.380)	0.717	0.175	0.272
Contributions to Reserves	-	-	5.000	-	-

Appendix AA - Executive Report

	2025/26	2026/27	2027/28	2028/29	2029/30
Revised budget Gap at 03 February before EFS	**52.180**	**58.753**	**35.147**	**22.778**	**31.515**
EFS - Further 2.5% Council Tax	(9.180)	(0.369)	(0.384)	(0.399)	-
Revised budget Gap before EFS - Capitalisation Direction	**43.000**	**58.384**	**34.763**	**22.379**	**31.515**
Cumulative Budget Gap before EFS	**43.000**	**101.384**	**136.147**	**158.526**	**190.041**

*LGFS (Local Government Finance Settlement)

74. **Table 2** shows the updated MTFP for the period 2025/26 to 2029/30 based on the information contained within this report. **Appendix F** shows a more detailed breakdown regarding Growth and Savings categories.

Table 2: Updated MTFP 2025/26 to 2029/30

	2025/26 £m	2026/27 £m	2027/28 £m	2028/29 £m	2029/30 £m
Base Budget	**601.775**	**622.089**	**616.915**	**628.642**	**645.812**
Growth	64.533	56.470	44.307	37.324	31.244
Savings	(54.017)	(0.214)	(0.565)	0.019	-
Savings Substitution	9.000	-	-	-	-
Capital Financing	(1.487)	(2.980)	2.717	2.175	0.272
Technical Adjustments	8.935	(0.098)	-	-	-
Remove Prior Year Capitalisation Direction	36.884	-	-	-	-
Funding Changes within Services	(0.334)	0.031	0.032	0.032	-
Reverse Prior Year Use of Reserves	(0.200)	-	-	-	-
Use of Reserves	0.253	0.253	5.253	5.253	5.253
Net Budget Requirement Before EFS	**665.342**	**675.552**	**668.658**	**673.444**	**682.581**
Core Grants	(89.626)	(81.361)	(81.582)	(81.582)	(81.582)
Council Tax (incl. ASC, SRA and Special Expenses)	(385.684	(410.732)	(427.238)	(444.408)	(444.408)
Business Rates	(129.574)	(125.075)	(125.075)	(125.075)	(125.075)
Estimated Collection Fund Surplus	(8.279)	-	-	-	-
Net Income Stream	**(613.162)**	**(617.168)**	**(633.895)**	**(651.065)**	**(651.065)**
Revised Budget Gap Before EFS	**52.180**	**58.384**	**34.763**	**22.379**	**31.516**
EFS - Further 2.5% Council Tax	**(9.180)**	**-**	**-**	**-**	**-**
Revised Budget Gap Before Capitalisation Direction (CD)	**43.000**	**58.384**	**34.763**	**22.379**	**31.516**
EFS - Capitalisation Direction	(43.000)	43.000	-	-	-
Total Budget Gap – Incremental	**-**	**101.384**	**34.763**	**22.379**	**31.516**
Total Budget Gap – Cumulative	**-**	**101.384**	**136.147**	**158.525**	**190.041**

Income Streams

75. The Council's income is made up of a range of grants received from Government together with council tax for which levels are controlled by Government and business rates income which is subject to a nationally controlled income distribution system.

76. The Government published the Provisional Local Government Finance Settlement (LGFS) on 18 December 2024. This was a one-year settlement ahead of a Spending Review that is planned to be undertaken in the Spring of 2025. Alongside it, the Government also published the first phase of its consultation on the long overdue review of the methodology for distributing Local Government Funding and has committed to publish a 3 year settlement for the period 2026/27 to 2028/29 following the review.

77. The Government published the Final LGFS on 3 February 2025 and the impact upon the MTFP assumptions is set out in the remainder of this report. The LGFS has provided additional funding over and above that which was assumed in the last update of the MTFP in October 2024.

78. While the additional grant funding of £12.031m in the LGFS is welcomed and contributes to easing some of the financial pressures, it is insufficient to achieve a Balanced Budget for 2025/26. Further, it should be noted that a number of the additional government funding sources announced for 2025/26 are for one year only and/or do not give a reliable indicator of allocations in future years. The LGFS therefore provides no certainty from which to plan future years, and the Council will need to reassess its MTFP position further subject to the Spending Review and revisions of the local government funding formula during 2025/26.

79. The detail of the LGFS for Somerset is shown in the tables below.

Table 3: Somerset Local Government Settlement Figures

	2023/24 £m	2024/25 £m	2025/26 £m
Settlement Funding Assessment (SFA)	93.353	97.240	99.487
% Change		4%	2%
SFA Made up by: Revenue Support Grant	7.932	8.458	9.816
Baseline Funding Level	85.421	88.782	89.671
Local Share of Business Rates Top up grant	88.166 (2.745)	91.696 (2.914)	92.614 (2.943)

Core Spending Power (CSP)

80. Somerset's overall CSP for 2025/26 is £2,260 per dwelling. This represents an assumed annual increase in CSP of 6.5% or £116 per dwelling in 2025/26. Compared to 2024/25 as summarised in **Table 4**. The cash increase in CSP was £37.495m (6.5%) compared to 6.8% nationally.

Table 4: Core Spending Power

Elements of Core Spending Power	2024/25 £m	2025/26 £m
Settlement Funding Assessment	97.240	99.487
Compensation for under-indexing the business rates multiplier	17.645	18.541
Council Tax Requirement excluding parish precepts	361.072	383.431
Improved Better Care Fund	23.373	28.834
Social Care Grant	51.005	59.493
ASC Market Sustainability and Improvement Fund	10.927	10.927
Discharge Fund	5.461	-
Children's Social Care Prevention Grant	-	1.376
Employer National Insurance Contributions Grant	-	5.297
New Homes Bonus	1.871	4.356
Rural Services Delivery Grant	4.147	-
Services Grant	0.575	-
Domestic Abuse Safe accommodation Grant	1.224	1.526
Adjustment for rolled in grants	1.233	
Total	**575.772**	**613.267**
Increase in CSP		37.495
Annual % Change in CSP		6.5%
	£	**£**
CSP Per Dwelling	2,144	2,260
Increase in CSP by Dwelling		116

Council Tax Income

81. The referendum limit is set at 3%[2] for upper tier authorities together with a 2% increase in the Adult Social Care Precept (a total of up to 5%) without the requirement for a referendum for 2025/26. The increases in Council Tax being assumed in the MTFP model for 2025/26 is 2.99% and 2% respectively and is therefore within the maximum permissible increase without an application for EFS (see paragraphs 127 to 131).

82. Nationally, Council Tax income has increased as a proportion of total Council income as measured by the CSP over the last 10 years as the level of RSG has reduced. It should be noted that the Government measure of CSP assumes that local authorities increase the Council Tax by the maximum each year. Any local decision to set a lower Council Tax is not recognised by Government when measuring and comparing relative resources between local authorities.

[2] Councils are effectively limited to 2.99% increase to avoid the risk of accidentally triggering a referendum

83. Over the period of 2010/11 to 2015/16 some of the Council's predecessor authorities took decisions to freeze Council Tax in return for one off grant from the Government. This has limited growth in income from Council Tax on an ongoing basis since. For the period of the freeze, the loss of Council Tax was £61.120m, whilst the cumulative loss of income (and therefore CSP) to 2024/25 is estimated to be in region of £294m. As at the formation of Somerset Council this represents approximately £27m per year lost revenue from the council tax income base. The Council's EFS application requested permission from MHCLG to increase the Council Tax in 2025/26 above the 3% referendum threshold without a referendum in order to recover some of the lost income in future years. An increase in Council Tax provides a sustainable income stream to close the Budget gap as opposed to a Capitalisation Direction which uses one off Borrowing or Capital Receipts to meet ongoing operational expenditure for one year and is not financially sustainable. See paragraphs 127 to 131.

84. Somerset has a relatively low Council Tax base with 15.9% of dwellings in Band A, and 26.5% in Band B. This is a higher proportion than the national Band A and B percentage and means that a greater proportion of our residents pay a Band A and B than most comparable Councils. Every 1% of Council Tax raises approximately £3.672m of income per year. The average Band of Somerset properties is below Band D. There are 64.4% dwellings within Bands A to C.

Table 5: Effect of Assumed 4.99% Per Annum (P.A.) Total Increase in Somerset element of Council Tax and ASC Precept for 2025/26

Effect of assumed 4.99% p.a. total increase in Somerset element of Council Tax for 2025/26				
Band	% of dwellings per band *	2025/26 4.99% increase		
		Council Tax £	Annual Increase £	Weekly Increase £
A	15.9	1,209.61	57.49	1.11
B	26.5	1,411.21	67.07	1.29
C	22.0	1,612.81	76.65	1.47
D	14.8	1,814.41	86.23	1.66
E	11.4	2,217.61	105.39	2.03
F	6.2	2,620.81	124.55	2.40
G	2.9	3,024.02	143.72	2.76
H	0.3	3,628.82	172.46	3.32

* Based on the number of dwellings on the valuation list as at 15 September 2024

Adult Social Care Precept and future of Social Care Funding

85. The 2% Adult Social Care Precept is due to end on 31 March 2026. Government has to date made no announcement to confirm that the ASC Precept will continue beyond this date and therefore the MTFP assumptions have been revised to assume no Adult Social Care Precept will be permitted from 2026/27 onwards.

86. The Government announced on 3 January 2025 an independent commission with the objective of transforming social care. The first phase will report in 2026 to identify the critical issues facing adult social care and make recommendations for reform and improvement over the medium term. The second phase will report in 2028, making longer-term recommendations for transformation of adult social care. Given the

timescale of the review, it is important that the Government provide clarity as soon as possible on the interim funding arrangements and whether the ASC Precept will continue beyond 2025/26 to enable more certainty in the MTFP forecasts. The 2% ASC precept raises approximately £7.344m per year.

Support and Help

87. In addition to the Exceptional Hardship scheme, the Council remains committed to assisting taxpayers through all means to help in financial situations. This includes, but is not limited to:
    - Creating payment plans with a frequency to suit both the taxpayer and the Council to either avoid arrears building or to address arrears that have built.
    - Maximising incomes by establishing possible entitlement to DWP benefits to achieve financial sustainability.
    - Working closely with the Council Tax team to identify vulnerable residents who are in arrears to ensure details of their benefit claims remain correct and that those who aren't already in receipt of CTR are advised to claim.
    - Reviewing CTR claims frequently to ensure the most up to date information is being used to ensure the taxpayer is receiving the correct level of entitlement.
    - Continued use of and referral to the Household Support Fund to assist those most vulnerable with their finances. The Autumn Statement has confirmed the continuation of the Household Support Fund into 2025/26 and so this will continue to be built into plans.
    - Ensuring that Single Person Discounts are awarded to those who are eligible.
    - Working closely with agencies such as the Department for Work and Pensions to identify forthcoming changes and the effects they will have on our residents so that mitigations can be considered.
    - Signposting to agencies such as Citizen's Advice for holistic debt help so that financial sustainability can be achieved.
    - Checking a taxpayer's possible entitlement to DWP benefits to maximise their income.
    - Financial assistance through Exceptional Hardship payments for those in most need.

88. It is recognised that the circumstances of each individual taxpayer are not the same and so a 'one-size fits all' approach is not taken. Discussion will take place with each individual taxpayer and the most appropriate advice will be given to that person. Where it is appropriate to do so, the account of assisted individuals will be monitored to ensure that advised action has been taken. For example, a Council Tax Reduction claim has been made by the taxpayer where advised to do so, an agreed payment plan is being kept to by the taxpayer etc.

89. The service is continuing to change and improve and we will always look for additional ways of assisting the taxpayer to meet their commitments.

Somerset Rivers Authority (SRA)

90. Permission was given to Somerset County Council and the former District Councils within Somerset to raise an additional precept on behalf of the Somerset Rivers Authority in 2016/17, whilst the Government considered whether to put in place

legislation to create a new precepting body. Government has since stated that the workaround will remain in place until such time as the precepting body is created.

91. The SRA is a unique partnership in that it is funded directly by Somerset residents through a small additional charge per household on council tax. This charge was established in 2016/17 explicitly to fund the activities of the SRA. In 2025-26 this will amount to £3.113m.

Business Rates Income

92. Each year Local Authorities are required to provide details of expected Business Rates income for the following year, and this is done via the Non-Domestic Rates NNDR1 return. This **calculation was made and signed off under delegated authority by the Interim Chief Finance Officer (Section 151 Officer). The assumptions regarding Business Rates income have** been revised in the MTFP (**Tables 1 and 2 and Appendices E and F).** The forecasts for the new Business Rates income for 2025/26 have been revised. This has reduced the Business Rates income for 2025/26 and reduced the income assumptions further in 2026/27. These have remained flat lined for the remainder of the MTFP until more information regarding the national review of Business Rates. The estimated business rates income to be collected and retained as Somerset's local share is estimated as below and includes the share of the forecast estimated deficit on the Business Rates Collection Fund as at 31 March 2025. The 2025/26 figures are based on retention of 49% of local business rates.

Table 6: Business Rates Retention Funding Estimate

	2025/26 Estimate £
Share of Business Rates Yield (49%)	92,435,293
Rates yield from renewable energy and designated area	2,097,043
Tariff to Government	(2,943,491)
Levy Payment	(518,069)
S31 Grant funding for Reliefs	38,502,713
Share of Estimated Deficit as at 31 March 2025	(123,708)
Net Retained Business Rates Funding	**129,449,781**

Changes in local funding sources

93. Updates to the funding that are included in the budget for 2025/26 include:
- The finalisation of the estimated Collection Fund balances and deficit as at 31 March 2025;
- The finalisation of the Council's 2025/26 Tax Base; and
- The finalisation of the Council's own estimate of the level of business rates that will be retained locally in 2025/26.

94. The estimated surplus on the Collection Fund in relation to Council Tax at 31 March 2025 is £10.089m which is apportioned between Somerset Council, the Police & Crime Commissioner for Avon and Somerset and the Devon & Somerset Fire and Rescue

Authority. Somerset Council's share of this surplus is £8.403m. This figure has been included as a one off in the resources available to the Council's General Fund as part of the Budget for 2025/26.

95. There is an estimated deficit on the Business Rates Collection Fund totalling £0.252m. Of this amount Somerset Council will contribute 49% towards it with Central Government contributing 50% and the Devon & Somerset Fire and Rescue Authority contributing 1%. As such the deficit for Somerset Council amounts to £0.124m.

96. The Council Tax base is the number of properties in Bands A to H in the Unitary Authority expressed as an equivalent number of Band D properties. The Interim Chief Finance Officer (Section 151 Officer) has calculated under delegated authority a Council Tax Base of 212,483.78 for the year 2025/26, assuming a collection rate of 98.0%.

97. The Tax Base is calculated by taking the list of properties by tax band as supplied to the Council by the external Valuation Office, (an executive agency of HM Revenue & Customs (HMRC)) as at 30 November 2024. This list is then adjusted for various factors to calculate a chargeable number of properties per tax band.

98. The factors adjusted for include:

- Properties which will be entirely exempt, so no tax is payable e.g. those occupied entirely by students
- Properties which will attract a 25% reduction e.g. those with a single adult occupier
- Properties which will attract a 50% reduction e.g. those where all the adult residents qualify for a reduction (certain Care Homes for example)
- Properties which attract a 100% levy because they have been unoccupied for over 1 year
- Properties which attract a 200% levy because they have been unoccupied for 5 years or more
- Properties which attract a 300% levy because they have been unoccupied for 10 years or more
- Properties which will be treated as being in a lower band because they have been adapted for a severely disabled person
- Properties which will be on the valuation list, but which attract discounts or disablement relief or are exempt, for only part of the year
- Properties which are in receipt of Local Council Tax Support
- Properties which are in receipt of a local discount

99. The calculated chargeable number of properties per tax band is then converted into "band D equivalents" by applying the factors laid down by legislation. These are set out in the table below:

Band	A	B	C	D	E	F	G	H
Ratio	6/9	7/9	8/9	9/9	11/9	13/9	15/9	18/9

Social Care Grants

100. The national Social Care Grant allocation for 2025/26 is £5.924bn up from £5.044bn in 2024/25. The Council's Social Care settlement for 2025/26 marks a step forward in addressing the growing needs of the county's population. With an increasing demand for social care services, the settlement outlines the provision and funding to ensure that residents receive the necessary support and care. The 2025/26 Social Care grant for Somerset is £59.493m, an increase from £51.005m in 2024/25.This is split 60% to Adults Social Care and 40% to Children's Services. The Local Authority Better Care grant for 2025/26 is £28.834m, this grant now also includes the Discharge Fund.

New Homes Bonus

101. A consultation took place during 2021 on the future of New Homes Bonus from 2023/24 onwards, with the changes anticipated alongside other planned reforms to Local Government finance. As these reforms are still delayed the New Homes Bonus grant has continued as a single year allocation. The original assumption in the MTFP was for no grant in 2025/26. The allocation for Somerset has increased from £1.871m in 2024/25 to £4.356m in 2025/26.

Extended Provider Responsibility Payment

102. This is a new scheme designed to shift the financial and physical responsibility of managing packaging waste from taxpayers to producers. Under this scheme, producers of packaging waste are required to fund the full cost of collecting, sorting, treating, and recycling packaging waste. Local authorities will receive payments to contribute to the net costs of managing household packaging waste. The allocation for Somerset Council in 2025/26 is £9.288m. The details of how the scheme will operate and how funding will be distributed is expected to be advised.

103. In the first year (April 2025 to March 2026), local authorities will receive a basic payment based on existing data. From the second year (April 2026 to March 2027), the payment will be adjusted based on data submitted by local authorities to the Scheme Administrator. On this basis, the MTFP includes a prudent assumption that this grant will continue, however at a lower amount than allocated for 2025/26, therefore £6.500m has been built in for 2026/27 onwards.

Rural Services Delivery

104. The Rural Services Delivery Grant (RSDG) has been abolished in the 2025/26 financial year. This decision has resulted in a loss of £4.147m for Somerset Council. The government has repurposed the funding to target areas with the highest levels of deprivation, and lowest council tax raising ability through the single year Recovery Grant.

Services Grant

105. The Services grant has been discontinued. This decision has resulted in a loss of £0.524m for Somerset Council.

Specific Grants

106. A number of separately identified specific grants have been retained under the Local Government finance system and are set out in **Appendix I**. The main ones relate to Dedicated Schools Grant, Public Health Grant and Section 31 Business Rate Compensation Grant. The Section 31 Grant is Un-ringfenced and is used as a general resource within the Budget. At the time of drafting this report several grants for 2025/26 have yet to be issued, including the Benefits Administration Grants.

One off Grants for 2025/26

107. **Children's Services Prevention Grant –** the allocation in England of this grant for 2025/26 is £269.674m and has been allocated on a one-off basis for 2025/26. The basis of allocation will be consulted upon for future years. Somerset's allocation in 2025/26 is £1.376m. This grant aims to provide financial assistance to programmes and initiatives that focus on early intervention and prevention, ensuring that children grow up in safe, nurturing environments that foster their development and well-being.

108. **The Homelessness Prevention Grant –** awarded in England for 2025/26 is £633.240m. This is a £192.879m increase on the 2024/25 total. The Council has been allocated £3.609m for 2025/26, this is an increase of £0.998m from 2024/25. The grant will be subject to a ringfence of 49% of the total to be spent towards prevention activity – Temporary Accommodation spending cannot be part of this ringfence.

109. **Recovery Grant** – the national allocation for Recovery Grant is £600m. This has primarily benefited urban areas with relatively high levels of deprivation and with a relatively low council tax base. Somerset is not included within the group of authorities receiving this support and has therefore received no allocation for the Recovery Grant in 2025/26.

Public Health Grant

110. The Department for Health & Social Care (DHSC) has published the Public Health grant allocations for 2025/26. The grant funding has increased nationally by 5.4% in cash terms from £3.659bn to £3.858bn. For the year 2025/26, the Council has received a Public Health Grant of £24.386m from the central government. This is an increase from £23.129m from 2024/25. This funding will be distributed across various health programs and services, strategic priorities, and planned initiatives aimed at improving the health and well-being of the residents of Somerset ensuring that the needs of the local population are met effectively.

Public Health priorities are to help:

- People, families and communities take responsibility for their own health and wellbeing.
- Families and communities thrive and be resilient.
- Somerset people to live independently.

Total Net Revenue Stream – General Fund

111. **Table 7** sets out the net revenue stream from Core Grants, Business Rates and Council Tax for 2025/26.

Table 7: Total Net Revenue Stream

	2025/26 £m	2026/27 £m	2027/28 £m	2028/29 £m	2029/30 £m
Core Grants	(89.626)	(81.361)	(81.582)	(81.582)	(81.582)
Council Tax (incl. ASC, SRA & Special Expenses)	(385.684)	(410.732)	(427.238)	(444.408)	(444.408)
Business Rates	(129.574)	(125.075)	(125.075)	(125.075)	(125.075)
Estimated Collection Fund Surplus	(8.279)	-	-	-	-
Net Income Stream	**(613.162)**	**(617.168)**	**(633.895)**	**(651.065)**	**(651.065)**

Expenditure – Budgeted Growth

112. There are a number of Directorates that have pressures emerging for 2025/26. The area of pressures are Inflation, Demographic and Demand and other budget pressures for 2025/26 (as detailed in **Table 9**). There are also forecast overspends or areas of pressures within the 2024/25 in year position that are being addressed in the growth proposals. The following tables detail the growth proposals by Directorate and Type for 2025/26 of £58.115m reducing to £56.192m by 2027/28. Further detail can be found in **Appendix C**.

Table 8: Growth Proposals by Directorate

	2025/26 £m	2026/27 £m	2027/28 £m	2028/29 £m	2029/30 £m	Total £m
Adult Services & Housing	14.683	-	-	-	-	14.683
Children, Families & Education Services	19.620	-	-	-	-	19.621
Community, Place & Economy	13.140	(0.884)	(0.272)	-		11.984
Resources, Strategy & Transformation	9.272	(0.767)	-	-	-	8.505
Corporate	1.400	-	-	-	-	1.400
Total	**58.115**	**(1.651)**	**(0.272)**	**-**	**-**	**56.192**

Table 9: Growth Proposals by Type

	2025/26 £m	2026/27 £m	2027/28 £m	2028/29 £m	2029/30 £m	Total £m
Demographics & Demand	13.648	(0.767)	-	-	-	12.881
Other Pressures	20.176	(0.884)	(0.272)	-	-	19.020
Inflation (Contractual)	1.757	-	-	-	-	1.757
Inflation (Non-Contractual)	11.804	-	-	-	-	11.804
Rolled Forward Pressures	10.730	-	-	-	-	10.730
Total	**58.115**	**(1.651)**	**(0.272)**	**-**	**-**	**56.192**

Savings Proposals

113. Previous reports have identified and agreed savings proposals totalling £46.868m for 2025/26, with a substitution of £9.000m. There are further proposed new savings of £1.163m, taking the total net savings for 2025/26 to £39.031m. **Table 10** details a summary of proposals reported to the Executive on 2 December 2024 and 3 February 2025, together with further new proposals.

Table 10: Summary of Savings Proposals

	2025/26 £m	2026/27 £m	2027/28 £m	2028/29 £m	2029/30 £m	Total £m
Savings Approved as at February 2024 Council or earlier	(9.984)	0.291	0.011	0.019	-	(9.664)
Savings Approved as at December 2024 Executive	(40.050)	-	-	-	-	(40.050)
Saving Substitution Approved as at December 2024 Executive	9.000	-	-	-	-	9.000
Savings Approved as at February 2025 Executive	(2.918)	0.019	-	-	-	(2.899)
Total savings previously agreed	**(43.952)**	**0.310**	**0.011**	**0.019**	**-**	**(43.613)**
New Savings Proposals February 2025 **(Appendix B(iii))**	(1.065)	(0.524)	(0.575)	-	-	(2.164)
New savings proposals	**(1.065)**	**(0.524)**	**(0.575)**	**-**	**-**	**(2.164)**
Savings to be delivered	**(45.017)**	**(0.213)**	**(0.565)**	**0.019**	**-**	**(45.777)**

114. **Table 11** summarises all savings proposals by Directorate and **Table 12** categorises the savings by type.

Table 11: Summary of all Savings by Directorate

	2025/26 £m	2026/27 £m	2027/28 £m	2028/29 £m	2029/30 £m	Total £m
Adults & Housing	(5.485)	-	-	-	-	(5.485)
Children, Families & Education	(1.933)	-	-	-	-	(1.933)
Communities, Place & Economy	(6.560)	(0.281)	(0.583)	-	-	(7.424)
Resources, Strategy & Transformation	(0.150)	0.050	-	-	-	(0.100)
Finance & Procurement	(0.335)	0.018	0.018	0.019	-	(0.280)
Corporate	0.500	-	-	-	-	0.500
Attributable to all services	(31.054)	-	-	-	-	(31.054)
Total	**(45.017)**	**(0.213)**	**(0.565)**	**0.019**	**-**	**(45.776)**

Table 12: Summary of all Savings by Savings Type

	2025/26 £m	2026/27 £m	2027/28 £m	2028/29 £m	2029/30 £m	Total £m
Efficiency	(11.042)	0.018	0.018	0.019	-	**(10.987)**
Service Levels	(26.467)	(0.016)	(0.017)	-	-	**(26.500)**
Alternative Service Delivery	(1.899)	0.019	-	-	-	**(1.880)**
Asset Management	(1.595)	-	-	-	-	**(1.595)**
Financing of Activities	(1.839)	0.098	-	-	-	**(1.741)**
Income Generation	(2.175)	(0.332)	(0.566)	-	-	**(3.073)**
Total	**(45.017)**	**(0.213)**	**(0.565)**	**0.019**	**-**	**(45.776)**

115. In constructing the draft budget, it is necessary for the costs of all savings proposals involving staff to take into account the estimated redundancy costs flowing from proposals. The savings have been developed based upon redundancy and upfront costs associated with such changes being funded and contained within central budgets. This expenditure will be funded from a combination of EFS Capitalisation Direction and eligible use of Capital Receipts in accordance with the Flexible Use of Capital Receipts Strategy.

Fees and Charges for 2025/26

116. The Council's fees and charges proposal broadly falls into three categories:
- Discretion of the Council on service provision, standards, and charges
- The requirement to deliver a set service on a cost recovery basis only
- The requirement to deliver a service against a fee set by Government

117. Where the Council has sole discretion, services have been asked to propose increases to their charges that give full cost recovery as a minimum whilst also maximising the income of the council without creating a risk of user numbers dropping. Services have to consider not only their costs of delivery but also any local competition, pricing the Council out of a market will have a negative impact on income for Somerset Council and could result in a loss of service.

118. The proposals for 2025/26 in **Appendix H** have worked towards this with the exception of the Harbour fees. To deliver a full cost recover for this service would result in price increases that would be unsustainable for service users and so it is proposed that this will continue to be a service that is subsidised by the tax payer.

119. For services where income cannot exceed actual costs, it is necessary to establish the cost by considering the resources, overheads, systems and administration of providing the service and set a fee based on that assessment. It is not unusual for the fee income to over or under recover based on the volume of customers being estimated, and therefore increases or decreases to fees may be necessary to maintain the cost recovery only basis over the period of the MTFP. It also means that should our cost of resources reduce, through workforce reduction, we must factor this into our proposed fee.

120. There are a number of fees that are set by Government, therefore the Council has no involvement in the setting of those fees and Members have no ability to influence the proposals of these.

Revenue Costs of Borrowing

121. The Revenue Budget includes a corporate budget to meet the revenue costs of borrowing to finance capital expenditure. This includes the annual principal repayment of debt known as the Minimum Revenue Provision (MRP) and interest paid on external borrowing. Capital expenditure includes the Council's Capital Programme and expenditure capitalised under the statutory direction of MHCLG in accordance with the conditions of approved EFS that has been necessary to balance the 2024/25 and

2025/26 budget. The Council will use available Capital Receipts to fund the Capitalisation Direction in the first instance but has provided for the revenue impact of borrowing should this be necessary. **Table 13** summarises the total annual revenue cost of financing the Council's borrowing and expresses this as a proportion of the total net revenue income stream available to the Council over the medium term.

Table 13: Proportion of Financing Costs to Net Revenue Stream

	2024/25 Forecast £m	2025/26 Budget £m	2026/27 Budget £m	2027/28 Budget £m	2028/29 Budget £m	2029/30 Budget £m
MRP	22.523	22.823	25.601	26.393	32.768	34.565
Interest Payable	26.400	38.539	41.169	42.669	43.469	43.769
Grant regarding Gravity (estimated)	-	(0.788)	(2.075)	(4.000)	(10.500)	(13.950)
Total Revenue Cost of Borrowing	48.923	60.575	64.696	65.062	65.737	64.384
Net Revenue Stream/Budget	**563.228**	**622.342**	**617.168**	**633.895**	**651.065**	**651.065**
Proportion of Net Revenue Stream	**8.69%**	**9.73%**	**10.48%**	**10.26%**	**10.10%**	**9.89%**

122. The Council's level of borrowing is 9.73% of the net revenue stream in 2025/26. This rises to just over 10% in 2026/27 therefore any future borrowing will need to be limited to maintain this at a sustainable level below 10%. Further information in relation to the Capital Investment Strategy, Treasury Management Strategy, Non Treasury Investment Strategy and the Minimum Revenue Provision Policy is set out in **paragraphs 142 to 159** and **Appendices O, R(i), T and R(ii)** respectively.

Central Contingency and Risk Provision Budget

123. Based upon the assessment of the range and complexity of risks (**paragraphs 61 and 62** in the uncertain economic environment within which the Council is operating, the Interim Chief Finance Officer (Section 151 Officer) has determined that it is necessary to increase and hold Contingency and Risk Provision budgets of £15.000m (equivalent to 2.4% of Net Income Stream) on an ongoing basis:

- Establish a Corporate Risk Provision Budget of £3.000m for the purpose of helping to manage unknow or unforeseen risks following the first action that is the Service Directorate taking every action that they can to mitigate the risk.
- Increase the Central Contingency Budget from £6.000m to £12.000m for the purpose of being the next point of call following the Risk Provision Budget being exhausted.

Remaining Budget Gap

124. **Table 14** summarises the 2025/26 budget and MTFP position resulting from the budget development work undertaken over the course of the year together with the confirmed government funding via the settlement.

125. This demonstrates that the Council's forecast operating expenditure in 2025/26 after all planned savings and known pressures and available income, exceeds its available annual income stream by £52.180m (8.5%). This is unsustainable in the medium term

and the Council is unable to achieve a legally Balanced Budget without reliance on Exceptional Financial Support (EFS) in 2025/26.

Table 14: 2025/26 Budget Gap before Exceptional Financial Support

	2025/26 £m
Net Expenditure	665.342
Net Revenue Stream	(613.162)
Budget gap	**52.180**
% of Net Revenue Stream	**8.5%**

126. In order to avoid the requirement for the Section 151 Officer to issue a Section 114 Notice, the Council has secured MHCLG 'in principle' approval for Exceptional Financial Support (EFS) in relation to 2025/26. EFS may be in the form of:
    - A Council Tax increase in excess of the current referendum limit of 3% in relation to 2025/26; and/or
    - A Capitalisation Direction to allow revenue expenditure to be funded from capital resources.

    The Council has applied for a combination of:
    - an additional Council Tax increase that will raise additional income on an ongoing basis.
    - Capitalisation Direction which enables day to day operational expenditure to be capitalised on a one off basis in 2025/26 and funded from Capital Receipts from asset disposals and/or Borrowing.

Exceptional Financial Support – Additional Council Tax 2.5% and Capitalisation Direction £43.000m

127. Within the LGFS announcement on 3 February, MHCLG has confirmed that Somerset is one of only six authorities that received the permission to increase its Council Tax above the 3% referendum limit, without a referendum following their EFS application.

128. In a written statement on 3 February 2025 the Deputy Prime Minister and Secretary of State for Housing Communities and Local Government stated that several applications had been received from local authorities and it has sought to limit the number and scale of additional increases in order to avoid very high increases to protect the vulnerable. The Government has not agreed to an increase where councils have asked to increase council tax by a very high amount in a single year or by high amounts in successive years. Some applications were totally rejected. Increases have been agreed only for councils with amongst the lowest levels of council tax and where it is expected that, even after the increase, residents will still be paying less than the average compared with similar councils.

129. The decision for Somerset Council is that it may increase the Council Tax by an additional 2.5% above the 3% referendum limit which will raise an additional £9.180m of ongoing income to support the ability to balance the budget for 2025/26. In addition, a 2% increase in the ASC Precept is proposed, resulting in a total increase in council

tax of 7.49%. The final decision on the level of Council Tax will be made by the Full Council in considering the budget at is meeting on 5 March 2025.

130. **Table 15** below details the effect of a 7.49% increase in the Somerset Council element of Council Tax for 2025/26

Table 15: Effect of Assumed 7.49% P.A. Total Increase in Somerset Element of Council Tax for 2025/26

Effect of assumed 7.49% p.a. total increase in Somerset element of Council Tax for 2025/26				
Band	**% of dwellings per band ***	**2025/26 7.49% Increase**		
		Council Tax £	**Annual Increase £**	**Weekly Increase £**
A	15.9	1,238.41	86.29	1.66
B	26.5	1,444.81	100.67	1.94
C	22.0	1,651.20	115.05	2.21
D	14.8	1,857.61	129.43	2.49
E	11.4	2,270.41	158.19	3.04
F	6.2	2,683.22	186.96	3.60
G	2.9	3,096.02	215.72	4.15
H	0.3	3,715.22	258.86	4.98
*Based on the number of dwellings on the valuation list as at 15 September 2024				

131. **Table 16** details the impact on the budget gap of raising Council Tax by a further 2.5% (i.e. 7.49%) which generates an additional £9.180m of income from 2025/26 on an ongoing basis and reduced the Budget gap to £43.000m. In the absence of sufficient Transformation and Savings plans, a Balanced Budget can only be achieved in 2025/26 through the approval of a £43.000m Capitalisation Direction (CD) under EFS. A Capitalisation Direction provides only a one year funding solution and therefore adds to £43.000m to the budget gap in 2026/27 onwards.

Table 16: Budget Gap After Exceptional Financial Support – Capitalisation Direction

	2025/26 £m	2026/27 £m	2027/28 £m	2028/29 £m	2029/30 £m
Net Expenditure	665.342	675.552	668.658	673.443	682.581
Net Revenue Stream	(622.342)	(617.168)	(633.895)	(651.065)	(651.065)
Budget GAP before CD	**43.000**	**58.384**	**35.147**	**22.778**	**31.515**
% of Net Revenue Stream	6.9%	9.5%	5.5%	3.4%	4.8%
EFS - Capitalisation Direction -	(43.000)	43.000			
Total Budget GAP - Incremental	**-**	**101.384**	**34.763**	**22.378**	**31.516**
Total Budget GAP - Cumulative	**-**	**101.384**	**136.147**	**158.525**	**190.041**

Reserves

132. The Interim Chief Finance Officer (Section 151 Officer) recommends that an appropriate level of General Fund Balance is approximately 10% of the Net Revenue Budget at £60.000m, the minimum level for the General Fund Balance is 5% of the Net Revenue Budget which is equivalent to £31.104m for 2025/26. In addition, it is recommended that a Business Risk Reserve is maintained at its current level of £40.732m approximately 7% of the Net Revenue Budget and increased over time to be the equivalent of 10% of the Net Revenue Budget over the period of the MTFP. The MTFP includes an estimated budgeted contributions to the Business Risk Reserves of £7.500m from 2027/28 to work towards achieving the recommended levels in order to manage the financial risks facing the Council. The Reserves **Appendix N** includes a revised presentation to summarise into the following Earmarked Reserves:

- Business Risk Reserve
- Insurance Reserve
- Private Finance Initiative Reserve
- Corporate Reserves
- Collection Fund Risk Reserve
- Service Directorate Reserves

133. **Table 17** shows the forecast unrestricted Earmarked Reserves (EMRs) and General Fund (GF) balance for the MTFP period and the impact that is based upon this 2025/26 budget and MTFP. This details that reserves will reduce from £108.123m to £105.905m in 2025/26 given the ability to rely upon the approved Capitalisation Direction via EFS for £43.000m.

134. However, the forecast Budget deficit of £101.384m in 2026/27 will result in the exhaustion of available reserves to an estimated £4.221m based upon current forecast pressures, savings and known income and funding streams. This would occur if no further management action was taken to develop and deliver further transformation and savings plans at a sufficient scale and pace during 2025/26 for approval and

implementation in 2026/27. A Section 114 Notice will need to be issued in respect of 2026/27. This is because the forecast Budget gap exceeds the estimated level of reserves.

Table 17: Potential Impact of Forecast MTFP Deficit on Usable Reserves

	2024/25 £m	**2025/26 £m**	**2026/27 £m**	**2027/28 £m**	**2028/29 £m**	**2029/30 £m**
Opening Balance Unrestricted EMRs & GF Balance	**117.578**	**108.123**	**105.905**	**4.221**	**(127.224)**	**(280.750)**
MTFP Planned contributions/(drawdowns)	(9.455)	(2.218)	(0.300)	4.701	5.000	5.000
Closing Balance of Unrestricted EMRs & GF Balance	**108.123**	**105.905**	**105.605**	**8.923**	**(122.224)**	**(275.750)**
Budget Deficit (cumulative)	(36.884)	(43.000)	(101.384)	(136.147)	(158.525)	(190.041)
Exceptional Financial Support	36.884	43.000	-	-	-	-
Closing Balance Unrestricted EMRs & GF Balance after Budget Deficit	**108.123**	**105.905**	**4.221***	**(127.224)***	**(280.750)***	**(465.791)***

* The Reserves would all be depleted in 2026/27 and a Section 114 Notice will need to be issued. For the future years the forecast significant deficits are just illustrative of the Budget gap compared to the level of reserves – deficits are not permitted.

Implications of Failure to Achieve a Balanced Annual Budget and MTFP

135. The alternative to an application for EFS, is for the Section 151 Officer to issue a Section 114 Notice. This would have extremely serious implications and would result in a range of onerous actions to suspend all but the most essential expenditure. Council would need to meet within 21 days of the Section 114 Notice to agree new plans to reduce expenditure by making significant reductions to or cease services to the public in order to meet the remaining savings of £43.000m required to balance the Budget for 2025/26. The inability to set the Council Tax and bill households would also have a significant adverse impact upon the Council's cashflow position. Further information on the implications of a Section 114 Notice is contained within the Section 25 report of the Interim Chief Finance Officer (Section 151 Officer) elsewhere on this agenda and included at **Appendix A**.

136. CIPFA's advice to Section 151 Officers is that they should explore all feasible options before issuing a Section 114 Notice. This should be the last resort given the potentially catastrophic implications that would follow in terms of the impact upon the provision of Council services. Obtaining 'in principle' approval of a Capitalisation Directive of £43.000m via EFS from MHCLG is the Council's only realistic option in order to avoid a Section 114 Notice in relation to the 2025/26 Budget.

137. The forecast net expenditure in 2025/26 and 2026/27 is between 6.9% and 9.5% higher than the Council has available income after an additional 2.5% council tax increase. It is therefore essential that the Council develops further Transformation programmes and plans to reduce its cost base further by between 10-15% during 2025/26 in order to have a realistic prospect of Balancing the Budget in a sustainable way (without one offs) for 2026/27 and achieving a financially sustainable position in the medium term to secure the Council's financial future. It is likely that further EFS will be required in 2026/27 to support the Council to achieve this transition. The Council is currently unable to meet its Best Value Duty to demonstrate financial sustainability over the medium term.

138. Given that the Council is already in receipt of an ‘in principle’ agreement of £76.884m EFS in the form of a Capitalisation Direction for 2024/25 and has been unable to balance the 2025/26 Budget without further reliance upon EFS, this may result in additional recommendations being made and/or intervention measures being taken by MHCLG to address the Council’s failure to meet its Best Value Duty in relation to financial sustainability.

139. Nationally, several local authorities are subject to formal Best Value intervention by MHCLG in relation to failure to achieve their Best Value Duty. Intervention ranges from the requirement for the local authority to work with an MHCLG appointed independent assurance board, through to appointment of independent Commissioners who oversee the running of the Council through its financial recovery phase. Commissioners would come into the Council and take over the decision making of the Council.

140. The Council’s External Auditor Grant Thornton LLP issued its Interim Auditor’s Annual Report for 2023/24 in January 2025. This report included 2 Statutory Recommendations under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014 and required discussion at Full Council and a public response. The report was considered by the Audit Committee on 30 January 2025 and Full Council on 12 February 2025. Proposed management actions to address the 2 Statutory Recommendations are detailed in the associated report.

141. The 2 Statutory Recommendations issued by the External Auditors in their Interim Auditor’s Annual Report for year ended 31 March 2024 are as follows:

- **Statutory Recommendation 1:**
  The Council should develop detailed savings plans at pace to deliver the savings targets set out in the MTFS in order to reduce reliance on one-off resources and rebase the Council's budgets to a financially sustainable level.
- **Statutory Recommendation 2:**
  The Council should develop the overarching transformation business case and detailed business cases for individual workstreams that will deliver service transformation and contribute to delivering the Council's ambitious savings targets. The funding required to deliver transformation, and the new target operating model, should be identified and a funding plan developed. This should be undertaken at pace in order to deliver the savings required to balance the 2025/26 Budget.

Capital Investment Strategy

142. The Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code for Capital Finance in Local Authorities (2017) introduced a requirement for local authorities to produce a Capital Investment Strategy to demonstrate how capital expenditure, capital financing and treasury management activities contribute to the provision of desired outcomes and take account of stewardship, value for money, prudence, sustainability, and affordability. The Capital Investment Strategy also includes the arrangements for capital investment in the Housing Revenue Account.

143. The objective of the Prudential Code is for the Capital Investment Strategy to give a high level overview of how capital expenditure plans of local authorities are affordable,

prudent, and sustainable and that treasury management decisions are taken in accordance with good professional practice and in full understanding of the risks involved.

144. It requires authorities to consider capital expenditure and investment plans in the light of overall organisational strategy and resources, to ensure that decisions are made with sufficient regard to the long-term financial implications and potential risks to the authority.

145. This report presents the Capital Investment Strategy for 2025/26 in **Appendix O** which sets out the proposed Capital Programme for 2025/26 with future years projected to 2029/30. The Capital Investment Strategy is an annual requirement that must be approved by Full Council.

Capital Programme

146. The Capital Programme is approved by Full Council. The proposed Capital Programme covers the period 2025/26 to 2029/30 and includes reprofiled expenditure from 2024/25 following the review undertaken and reported to Executive at Quarter 3.

147. Given the Council's current financial situation and economic conditions of high interest, inflation and ever-increasing demand for services, the Council has limited ability to finance capital through borrowing given the revenue consequences. A strict capital investment approach is in operation, with grant funded schemes being favoured, and opportunities to reduce future pressures. Priority is also given to allocating funding for health and safety related schemes.

148. Capital investment decisions have implications for the Revenue Budget. The revenue costs of each proposed capital project are considered to ensure that the impact can be incorporated within the Council's financial plans and to demonstrate that the investment is affordable. Revenue implications include the capital financing costs of prudential borrowing as well as any changes to running costs associated with the asset or wider benefits to the Council such as the delivery of ongoing revenue budget savings or additional income. For the proposed capital programme 2025/26 to 2029/30 these have been factored into the 2025/26 revenue budget setting process and MTFS.

149. **Table 18** below summarises the total planned investment over the period of the MTFP for the General Fund and HRA together with a summary of external and internal (capital receipts and borrowing) funding. Further analysis is included at **Appendices Q(i) and Q(ii)**.

Table 18: Capital Programme 2024/25 to 2029/30

Directorate	2024/25 Forecast £m	2025/26 Budget £m	2026/27 Budget £m	2027/28 Budget £m	2028/29 Budget £m	2029/30 Budget £m	Total £m
General Fund Capital Programme							
Adults Services and Housing	1.827	1.887	1.812	0.531	-	-	**6.057**
Children, Families, and Education Services	13.621	14.314	26.243	26.806	2.680	2.400	**86.063**
Community, Place, and Economy	92.329	105.074	136.782	128.439	62.393	51.393	**576.410**
Resources, Strategy, and Transformation	2.796	8.071	8.705	4.755	-	-	**24.326**
Capitalised Transformation Costs	40.000	45.000	-	-	-	-	**85.000**
Total General Fund Capital Programme	**150.573**	**174.345**	**173.541**	**160.532**	**65.073**	**53.793**	**777.857**
HRA Capital Programme							
Total HRA	**51.387**	**63.133**	**65.903**	**50.970**	**37.463**	**30.671**	**299.527**
Total Expenditure	**201.960**	**237.478**	**239.444**	**211.502**	**102.536**	**84.464**	**1,077.384**
External Contributions - Section 106/CIL	3.800	6.572	16.084	3.288	-	-	**29.744**
External Grants	103.350	96.360	102.693	95.416	31.271	13.782	**442.873**
Capital Receipts	47.434	59.749	3.501	2.970	-	-	**113.654**
Major Repairs Reserve	14.096	15.322	15.334	15.336	15.309	15.159	**90.556**
Borrowing	33.279	59.475	101.832	94.492	55.956	55.523	**400.557**
Total Funding	**201.960**	**237.478**	**239.444**	**211.502**	**102.536**	**84.464**	**1,077.384**

150. This report recommends new bids totalling £235.103m are added to the Capital Programme and shown in **Table 19** below alongside existing programmes. A summary per directorate is shown in **Table 18** above for General Fund Investment. Details of the new schemes together with the funding attributable to each scheme are detailed in **Appendix P**.

Table 19: General Fund Capital Programme – New Schemes 2025/26 to 2029/30

General Fund Capital Programme	2024/25 £m	2025/26 £m	2026/27 £m	2027/28 £m	2028/29 £m	2029/30 £m	Total Budget £m
General Fund : Approved Projects and 2025/26 Bids							
Approved capital Projects	150.573	70.395	85.875	85.911	-	-	**392.754**
Approved capital Project: Gravity	-	20.000	43.000	34.000	32.000	21.000	**150.000**
2025/26 bids submitted: Conditional	-	5.554	11.878	7.883	0.335	0.055	**25.705**
2025/26 bids submitted: Corporate	-	78.396	32.788	32.738	32.738	32.738	**209.398**
Total Services: General Fund	**150.573**	**174.345**	**173.541**	**160.532**	**65.073**	**53.793**	**777.857**
External Contributions - Section 106/CIL	3.800	6.572	16.084	3.288	-	-	**29.744**
External Grants	96.379	87.832	98.668	93.538	30.393	13.782	**420.593**
Capital Receipts	40.746	45.186	0.743	2.829	-	-	**89.504**
Borrowing	9.648	34.755	58.046	60.876	34.680	40.011	**238.016**
Total Funding General Fund	**150.573**	**174.345**	**173.541**	**160.532**	**65.073**	**53.793**	**777.857**

151. Schemes reprofiled have been included in the Capital Programme set out in **Appendix Q(i) and Q(ii)**.

Non-Treasury Investment Strategy

152. The Non-Treasury Investment Strategy covers “Other Investments” and is prepared according to statutory guidance issued under the Local Government Act 2003 as amended, the Treasury Management Code of Practice, and The Prudential Code for Capital Finance in Local Authorities. Non-Treasury Investments are essentially policy approved commercial investments made to deliver corporate objectives as set out in the Capital Investment Strategy and MTFS.

153. For the purposes of this Investment Strategy, an investment is any financial or non-financial asset of the authority which is held partially to generate a financial return. Investments include loans made by the local authority to wholly owned companies or associates, to a joint venture, or to a third party. The strategy does not include pension fund or trust fund investments which are subject to separate regulatory regimes, or treasury investments which are detailed separately in the Treasury Management Strategy.

154. Non-treasury management investments are defined under the CIPFA Prudential Code as including all investments for service or commercial purposes. This may include:

- Commercial purposes - taken or held primarily for financial return (or profit) and are not linked to treasury management activity or directly part of delivering services. For example, holding shares in companies, issuing loans to companies or third parties, holding non-financial assets (e.g. property)
- Service purposes - investments taken or held directly for the delivery of public services (e.g. including housing, regeneration and local infrastructure) or joint working with others to deliver such services. They may or may not involve financial returns, but returns will not be the primary purpose of the investment.

155. Whilst such investments usually include capital expenditure, they may also include transactions that are not treated as capital expenditure, that are revenue expenditure.

156. **Appendix T** sets out the Non-Treasury Investment Strategy 2025/26 for approval which is a requirement of the CIPFA Prudential Code.

Treasury Management Strategy

157. The Council's Treasury Management Strategy is prepared in accordance with government regulations and the CIPFA TM Code. It is a comprehensive framework designed to ensure the effective and efficient management of public funds. It encompasses policies, procedures, and guidelines that govern the investment, borrowing, and financial risk management activities of the local authority. The primary objectives of the strategy are to safeguard public money, followed by maintaining liquidity and then achieving optimal returns but not at the expense of security and liquidity as required by Government regulations. **Appendix R(i)** sets out the Treasury Management Strategy 2025/26 for approval.

Minimum Revenue Provision (MRP) Policy

158. The Minimum Revenue Provision (MRP) policy is prepared in accordance with the Local Authorities (capital finance and accounting) (England) Regulations 2003 (the Regulations) as amended, and the CIPFA Prudential Code for Capital Finance in Local Authorities. It is a vital financial component of the Budget Framework that ensures the prudent management and repayment of debt over the long term. The Regulations mandate that local authorities set aside funds each year in a prescribed way in order to cover the future repayment of their total borrowing, thus maintaining fiscal responsibility and budgetary sustainability. The repayment of borrowing is revenue cost to the General Fund Budget. **Appendix R(ii)** sets out the MRP Policy for the Council for 2024/25 and 2025/26.

Capital Receipts Flexibility and Efficiency Strategy

159. With effect from 2016/17 Local Authorities have had the option to use up to 100% of Capital Receipts to fund eligible revenue costs of Transformation projects and release savings as detailed in the Local Government Act 2003 Sections 16(2)(b) and 20. In December 2024 within the Provisional Finance Settlement the Government extended the period for which Flexible Use of Capital Receipts regulations can be applied up to 2030. They also relaxed the rules around the eligibility of redundancy costs to enable the inclusion of non-statutory redundancy costs from 2025/26. **Appendix S** sets out the proposed Flexible Use of Capital Receipts Strategy for 2025/26 and the projects that are proposed to be funded by the permitted flexibility.

Transformation Programme

160. Somerset Council is facing significant financial challenges, driven largely by increasing cost and demand in Children's and Adult services. The Council recognises that fundamental change is required to create a financially sustainable Council and needs to

implement a transformation programme to change the way services are delivered in the future.

161. The External Auditors issued 2 Statutory Recommendations in their Interim Auditor's Annual Report for year ended 31 March 2024, recognising how critical transformation programmes are to the success of Balancing the Budget:
    - **Statutory Recommendation 2:**
      The Council should develop the overarching transformation business case and detailed business cases for individual workstreams that will deliver service transformation and contribute to delivering the Council's ambitious savings targets. The funding required to deliver transformation, and the new target operating model, should be identified and a funding plan developed. This should be undertaken at pace in order to deliver the savings required to balance the 2025/26 budget

162. The Council is committed to developing a clear and robust transformation programme with multiple robust business cases that delivers cashable savings beyond 2025/26 but also identifies the activities, actions, and initiatives necessary to achieve savings in future years.

163. To achieve this, the Council will create an overarching robust Transformation Business case, along with individual detailed robust Business Cases for individual workstreams. These will drive service transformation and contribute to meeting the Council's ambitious savings gaps as detailed in the MTFS & MTFP to close the **Budget gap of £190.042m from 2026/27 – 2029/30** as detailed in **Table 2** and **Appendices E & F**.

164. The funding required to deliver transformation, and the new target operating model, has been identified £25.000m as part of the Flexible Use of Capital Receipts Strategy as well as £0.686m Revenue Transformation reserve. A comprehensive funding plan will be developed to ensure these needs are met. This will be undertaken at pace to deliver the savings required to balance the 2026/27 Budget.

165. The Council will continue the review and correlate new service design blueprints to inform the detailed robust Business Cases to the transformation programme and new target operating model. Service performance will need to continue to be reviewed during the transformation programme to identify any adverse performance caused by potential capacity issues and mitigating actions in a timely manner. This should include KPIs to manage performance and improve productivity and clear articulation of the outcomes that should be achieved as part of the transformation.

166. For the Council's overarching Transformation programme the following have been identified so far for exploration:

    - **Automation and Technology Development** – EHCP automation, business support services review
    - **Digital Front Door, Customer Service Improvement** –contract review and web development, customer channel management

- **Systems Review and Consolidation** –review and rationalisation/consolidation of systems and development
- **Cross Council Commissioning, Demand Management and Prevention** – Residential care, fostering, housing, redesign of SEND, mental health
- **Alternative Service Delivery and Service Devolution** –continuation and development of service devolution to Town and Parish Council partners and other alternative service delivery
- **Service Redesign and Development** – redesign of services including review and development, service/contract alignment

167. Good progress has been made with transformation activity in Adult Social Care and Workforce, but it is critical this is embedded to ensure the good performance and financial benefits crystallise. Development of further transformation opportunities beyond the current programme must continue.

168. For the Adults programme the following have been identified so far for exploration:

- **Continuing healthcare (CHC) provision** – to implement a CHC team and review practice
- **S117** – To be reviewed with Health
- **Learning Disabilities Pooled Budget** – to be reviewed with Health
- **My Life My Future Transformation Mental Health/Physical Disability and Sensory loss** – continuation of this programme
- **Demand Management** – through early help prevention neighbourhood and community solutions
- **Re-enablement Recommissioning** – To deliver a new reablement service for both the community and to support discharges from hospital. During 2025/26 for implementation, April 2026

169. Robust consideration should be given to the timing and validation of the Children and Families services transformation programme's current and new savings schemes, with the continued use of scenario planning, with greater emphasis placed on predicting and modelling future demographic trends, and critical path analysis to help develop financial assumptions and cashable savings.

170. Children and Families services need to develop a clear strategy for exploring future transformation opportunities, particularly regarding shaping the provider market and determine what investment may be required to realise this.

171. Robust Business cases need to be prepared with sufficient analysis of risk in terms of values and phasing. The Transformation Board framework and Scrutiny Committee need to provide robust challenge to budget and savings assumptions.

172. For the Children's programme the following have been identified so far for exploration:

- **Homes & Horizons Wave 3** – Discussion of the potential provision of 6-9 beds through DfE Wave 3 funding, if the application is successful (application window closes February 2025). If the application is not successful, delivery of 2-4 beds through existing SC capital funding
- **Fostering Intervention and Support Team** – supporting stability in foster care and intensive transition planning and support for children moving from residential to foster care
- **Helping families earlier** – Developing the Best Start in Life offer and using new Grants to support incoming government social care and education reforms, putting earlier help on a statutory footing
- **Contracting** – increase number of residential beds in Somerset, using additional block contracts
- **Internal Foster Care** – Increasing number of long-term internal and independent agency foster homes
- **Independent Foster Agency** – Increasing number of long-term foster homes.
- **Reunification** – helping children return to their families, reducing the need for long term care.
- **Continuing Healthcare Provision** – ongoing review of children eligible for Continuing Health Care.
- **Developing local school provision** – increasing school places, developing Pupil referral units and improving information collection and sharing for children in education settings

Education Funding and Dedicated Schools Grant (DSG) 2025/26

167. Somerset Council as an education authority receives the following funding to passport/administer to local schools and retain to fund central functions:

- The Dedicated Schools Grant (DSG), which is split into four blocks, each with its own formula to calculate the funding to be distributed to each local Authority, and with specific regulations on what each block of funding can be spent on.
- Universal Infant School Meals (UIFSM)
- Pupil Premium Grant (PPG)
- Devolved Formula Capital Grant
- PE and Sports Premium
- Early Careers Teachers Grants

Dedicated Schools Grant (DSG)

168. The allocations for the 2025/26 financial year were published by the Department for Education (DfE) on 18 December 2024. Adjustments to the allocations are made throughout the year for academy schools recoupment, high needs provisions and for early year's provisions. The Central Schools Services Block (CSSB) is generally fixed for the year.

169. The DSG is a ring-fenced grant and must be deployed in accordance with the conditions of grant and the latest School and Early Years Finance (England) Regulations. Detailed guidance for each block is contained within various operational documents issued by the Education Funding & Skills Agency (EFSA). The DSG settlement for 2025/26 is set out in **Table 20** below, the amount received is £591.423m, an increase of 10.68% from 2024/25.

170. Schools Forum meets a minimum of four times a year and the papers for the meetings can be found on the following link: https://www.somerset.gov.uk/children-families-and-education/school-life/somerset-schools-forum/

171. **Table 20** sets out the detailed DSG allocations for 2025/26 compared to 2024/25 as published by the DfE on 18th December 2024.

Table 20: DSG Allocations

DSG Block	2024/25 £m	2025/26 £m	(Increase) / Decrease £m	%
Schools Block : For distribution through the formula for mainstream schools and academies				
	388.980	416.883	(27.903)	(7.17)%
Growth funding	2.147	1.510	0.637	29.67%
Total School Block	391.127	418.393	(27.266)	(6.97)%
Central Schools Services Block: For local authority core functions, admissions and historic commitments				
	4.620	4.472	0.148	3.20%
High Needs Block: Funding for pupils with special educational needs in mainstream, special and independent special schools, for pupils in alternative provision and local authority or commissioned services for high needs pupils				
	87.405	94.860	(7.455)	(8.53)%
Early Years Block: Funding for the early year entitlement includes: • Funding for the universal 15 hours entitlement for all 3 and 4 years olds • Funding for the additional 15 hours entitlement for all 3 and 4 years old children of eligible working parents • Funding for the 15 hours entitlement for 2 years olds receiving additional support • Funding for the 15 hours entitlement for 2 years old children of eligible working parents (to be extended to 30 hours from 1 September 2025) Funding for the 15 hours entitlement for 9 month old up to 2 year old children of eligible working parents from September 2024 to be extended to 30 hours from 1 September 2025)				
	51.215	73.698	(22.483)	(43.90)%
TOTAL DSG	**534.367**	**591.423**	**(57.056)**	**(10.68)%**

Schools Block

172. The DSG Schools Block (SB) funds primary and secondary schools through the school's funding formula, provides premises funding and growth funding for new and growing schools or bulge classes. The Growth fund specifically addresses financial pressures arising from significant growth in pupil numbers. It helps local authorities manage the costs associated with opening new schools or expanding existing ones to accommodate more students.

173. The vast majority of the schools block allocation is pupil driven with different funding rates for primary pupils and secondary pupils. The funding rates are known as Primary Units of Funding (PUFs) and Secondary Units of Funding (SUFs). For Somerset these figures are: PUF (£5,611), SUF (£6,947). These funding rates are then multiplied by the pupil numbers on the October 2024 census and other factors are added (split sites, rates and PFI) to give a total required budget of £419.477m. The funding of £416.883m set out in **Table 20** is not sufficient to pay the National Funding Formula with a gap of £2.300m after allocation of £0.294m of growth fund. This is primarily due to increases in deprivation factors between October 2023 and October 2024.

174. Several options were considered to close the gap of £2.300m. Four options were presented to the Schools Forum meeting on 15 January 2025. The final decision on the formulae is the responsibility of the Local Authority, however Schools Forum must be consulted.

175. Following this meeting, Schools Forum voted that their preference was to set the minimum funding guarantee at 0% and to close the shortfall by reducing the Age Weighted Pupil Unit funding by 1.03%.

176. The School Block funding includes £3.613m National Non-Domestic Rates (NNDR) funds which will be retained by the ESFA due to centralising the payments of NNDR on behalf of schools.

Central Schools Services Block

177. The Central Schools Services Block (CSSB) funds services provided by the local authority centrally for all schools and academies, such as the admissions service. The total allocation for 2025/26 is £4.472m. This is a reduction of £0.148m from the allocation for 2024/25 as shown in **Table 20**.

178. The CSSB is split into two elements, historical commitments (£1.623m) and ongoing commitments (£2.849m). From 2020/21 the ESFA included a mandatory reduction of 20% per annum in the historical elements of this block. Funding for ongoing commitments is calculated using two factors, a basic per pupil factor, through which LAs receive most of the funding, and a deprivation per-pupil factor. The ongoing reduction expected of 20% per annum will continue to put pressure on Local Authority central resources.

Early Years Block

179. The Early Years Block provides funding for all early years entitlements as explained in **Table 20**. This is an increase of £22.483m from the allocation for 2024/25.

180. Early Years Funding regulations state that at least 96% of available early years funding must be passported to early years providers. Therefore, a maximum of 4% can be utilised by the authority to fund central functions that support early year provision. As in prior years, Somerset Council proposes to centrally retain 3% of the Early Years Block for 2025/26. This rate was agreed by Schools Forum on 15 January 2025.

181. All providers are consulted annually on the distribution of the early years funding formula and the central spend. The Hourly Rates proposed and agreed by Schools Forum are set out in **Table 21** below. These represent a small increase in the rates provided through the national funding mechanism in 2024/25.

Table 21: Early Years Rates

Rates	2024/25 Actual	2025/26 Proposed	Increase	
	£	£	£	%
3 & 4 Year Olds	5.23	5.47	0.24	4.6%
2 Year Olds	7.16	7.39	0.23	3.2%
Under 2 Year Olds	9.78	10.02	0.24	2.5%

High Needs Block

182. The Authority receives the funding for the High Needs Block (HNB) based on a national funding formula set by the DfE. The HNB funds places in special schools, resource units and alternative provision, and top up funding for pupils with Education, Health & Care Plans (EHCPs) in all settings including non-maintained special schools, independent special schools, and further education colleges. Under the High Needs National Funding Formula (NFF) there is an area cost adjusted basic entitlement of £4,660 (Element 1) for special schools. This gives a basic entitlement of £7.386m (1,585 places).

183. The allocation for the HNB has increased by £7.455m from £87.405m in 2024/25 to £94.860m in 2025/26 as illustrated in **Table 20**. There will be a total net adjustment to the import/export element in July to reflect actual movement. This is a net adjustment to reflect the difference between high needs pupils and students living in one local authority and attending a school or college in another.

184. The Authority funds special schools, alternative provisions and resource provision on two elements, a core place funding element which is a fixed rate and a top up element which is based on the individual pupils' specific needs.

Dedicated Schools Grant Deficit and Deficit Management Plan

185. The actual, current forecast and projected DSG deficits to 31 March 2026 are shown in **Table 22**. The DSG position is forecast to reach a **cumulative DSG Deficit of £99.125m by 31 March 2026**. Further information setting out the DSG income, expenditure and DSG Deficit Reserve position is set out in **Appendix J**.

Table 22: Dedicated Schools Grant Deficit

Dedicated School Grant Deficit	31/03/2024 Actual £m	31/03/2025 Forecast £m	31/03/2026 Forecast £m
DSG Deficit Balance brought forward 1 April	(20.730)	(33.911)	(65.211)
In-year Deficit	(13.181)	(31.300)	(33.914)
DSG Deficit Balance carried forward as at 31 March	**(33.911)**	**(65.211)**	**(99.125)**

186. As one of the conditions of the Dedicated Schools Grant, local authorities with DSG deficits are required to prepare and implement a DSG Deficit Management Plan. The Department for Education (DfE) recognises that in some cases it may take several years to recover any DSG deficits.

187. The Authority shared its Deficit Management Plan with the DFE in January 2024, however it is recognised that costs in the High Needs Block continue to escalate. Therefore, the authority is in the process of refreshing its DSG Deficit Management Plan with support from external consultants. The refreshed plan will be shared with Schools Forum and Members when complete.

188. Local authorities are facing increased demand for services for pupils with Special Educational Needs and Disabilities (SEND). By December 2024, Somerset had issued 5,672 Education Health and Care Plans (EHCP) for pupils with SEND, which is an increase of more than 220% in the last four years (Dec 2020: 2,535 EHCP's). As well as the significant increase in numbers, there has been an increase in the complexity of pupils' needs.

189. The allocated DSG for children with High Needs is insufficient to meet the cost of high needs provision and has resulted in overspending and setting a budget with contributions from the DSG Reserve (that is already in deficit) in the High Needs Block for Somerset since 2018/19.

190. This is a national issue being experienced by many local authorities and in 2020, the Government introduced a statutory override for a period of three years (up to end of March 2023). The override allowed local authorities' DSG deficits to be ringfenced from the wider local authority reserves, so that the accumulating deficit was not required to be met by General Fund reserves. Subsequently, the Government agreed to extend the DSG statutory override by a further three years and the override is now due to end on 31 March 2026. This was intended to provide more time for the sector to work to find solutions to manage demand and its escalating costs. However, no solution has been found, and many authorities continue to experience escalating costs that exceed available grant allocations with the DSG Deficit Reserve continuing to increase year on year.

191. **The Local Government Finance Settlement for 2025/26 states that the statutory override and accounting for Dedicated Schools Grants (DSG) deficits is due to end on 31 March 2026.** The settlement consultation advised that the Government

intends to set out plans for reforming the SEND system in further detail during 2025/26 and that this will inform any decision to remove the statutory override. The removal of the statutory override without a government led solution to addressing the cumulative deficit and aligning funding and the cost of demand, presents a significant risk to the financial resilience of the Council. **By 31 March 2026, the forecast cumulative DSG deficit of £99.125m is at a scale which would exceed the forecast level of Earmarked Reserves and General Fund Reserves. If the Council does not have sufficient Reserves the Interim Chief Financial Officer (Section 151 Officer) will be required by law to issue a Section 114 Notice**.

Other Education Funding

Universal Infant Free Schools Meals (UIFSM)

192. Schools will also receive funding for UIFSM for eligible children in reception, Year 1 and Year 2 on the school's roll at the October 2024 and January 2025 census days. Each meal taken by an eligible pupil attracts a per meal value. An allocation assumes that pupils will take 190 school meals over an academic year, providing a per eligible pupil annual amount. The amount provided in the 24/25 academic year will be £2.58 per meal (£490 per year).

Pupil Premium Grant (PPG)

193. The Pupil Premium Grant provides funding for:

- Raising the attainment of disadvantaged pupils of all abilities to reach their potential.
- Supporting children and young people with parents in the regular armed forces.

194. It is allocated for all pupils who have been eligible or are eligible for free school meals during the last six years (FSM6), looked after children, children who have ceased to be looked-after and service pupils, at the following rates per-pupil for the financial year 2024/25:

- Primary FSM6 pupils: £1,480
- Secondary FSM6 pupils: £1,050
- Looked-after children: £2,570
- Children who have ceased to be looked-after: £2,570
- Service children: £340

195. For the financial year 2024/25 the authority received an amount of £22.590m Pupil Premium Grant. The Government has not yet announced the funding for 2025/26.

Capital Grants

196. Each year, the DfE allocates funding to help maintain and improve the condition of school buildings and grounds. This funding is made up of:

- School Condition Allocations (SCA), given to eligible bodies responsible for maintaining school buildings.

- Devolved Formula Capital (DFC), allocated to schools and other eligible institutions.

Teachers' pay additional grant 2025/26 (TPAG), Teachers' Pension additional grant 2025/26 (TPECG) and Core Schools Budget Grant 2025/26 (CSBG)

197. The TPAG, TPECG and CSBG supports schools with the September 2023 teachers' pay award, the April 2024 increase in pension contributions and the pay awards for teachers and support staff from April and September 2024. This funding is being split between mainstream schools, special schools and alternative provision (AP), early years, and 16 to 19 provision. The split reflects relative pupil numbers, and core funding amounts, across these different types of provision.

198. All of the grants will be rolled into the core schools funding in 2025/26 for mainstream schools and incorporated into one separate grant for special schools and PRUs.

PE and Sports Premium

199. Schools with primary pupils receive funding to make additional and sustainable improvements to the quality of their physical education (PE), physical activity and sport. There are not anticipated to be any changes to this grant for 2025/26. Funding is expected to consist of a £16,000 lump sum and an amount per pupil of £10 for 2025/26.

Early Careers Teachers Grants

200. Some schools will receive Early Careers Teachers grant funding as a contribution to the training and mentoring.

Links to Council Plan and Medium-Term Financial Plan

201. It is important the Council considers how best it can continue to meet its policy objectives within the tighter financial constraints that it now faces. This requires a level of prioritisation, and the budget plans focus on the following key policy outcomes, as set out in the Council's vision.
    - A Healthy and Caring Somerset
    - A Flourishing and Resilient Somerset
    - A Greener, More Sustainable Somerset
    - A Fairer, Ambitious Somerset

Other options considered

202. The Council has a legal duty to set a balance Budget each year and these proposals fulfil that requirement.

Key considerations for the Council

Scrutiny comments / recommendations:

203. This report is being presented to the Corporate and Resources Scrutiny Committee on 24 February 2025. Any comments/recommendations arising from this meeting will be provided as a verbal update or an addendum to this report.

Consultation and feedback

204. Online consultation with residents, business and stakeholders on the proposed budget ran from 13 December 2024 until 15 January 2025. The feedback from the consultation has been considered as part of the budget report. A full report detailing the feedback is included in **Appendix M**.

205. The authority has a statutory duty under Section 65 of the Local Government Finance Act 1992 to consult with business ratepayers on its budget. This consultation will be in February 2025.

Financial and Risk Implications

206. The financial implications are set out throughout the Executive report and at **Appendix A**.

207. The statutory Section 25 Report of the Interim Chief Financial Officer (Section 151 Officer), on the robustness of estimates and adequacy of reserves, that the Council must have regard to when setting the budget and Council Tax is detailed in **Appendix A**.

173. The advice of the Interim Chief Financial Officer (Section 151 Officer) is that this report is written with fundamental reliance upon the ‘in principle’ approval of the Capitalisation Direction of £43.000m and the assumption that final approval will be forthcoming once the Council has satisfied all conditions set out in the Minister’s letter of 20 February 2025. Now that the Council has received **the approval of the Exceptional Funding Support Capitalisation Direction application** detailed above, the proposed 2025/26 Budget is robust and the level of reserves and balances in the draft budget is **just adequate**. **The EFS sum is required to enable a legally Balanced Budget to be set and to avoid the Section 151 Officer being required to issue a Section 114 Notice in relation to 2025/26.**

208. Regarding the medium-term financial position, the Interim Chief Financial Officer (Section 151 Officer) notes that no assurance can be given until the Government has set out its future spending plans in the Spending Review that is due to take place in Spring 2025 and until the Government has completed the long awaited Fair Funding Review that will determine how funding is allocated to individual local authorities. This is due to take place during 2025/26 and will inform a three year financial settlement for local government for 2026/27 to 2028/29. Until future funding is confirmed the Interim Chief Financial Officer (Section 151 Officer) is not in a position to confirm that any of the Medium Term Financial Strategy is robust and achievable. Members are also referred to the budget risks set out in **Appendix A** and within paragraph 59 of this report.

209. Given the issues set out on this report and despite all of 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:

Likelihood	5	Impact	5	Risk Score	25

Projected risk score if recommended actions are agreed and delivered:

Likelihood	5	Impact	5	Risk Score	25

210. Unless there is a significant change to the current funding regime or continued and on-going government support is provided, it is likely that a Section 114 Notice will need to be issued in respect of 2026/27. This is because the forecast Budget gap exceeds the estimated level of reserves.

Legal and Procurement Implications

211. Local authorities owe a fiduciary duty to Council taxpayers, which means they must consider the prudent use of resources in the short and long term, including control of expenditure, the need to strike a fair balance between the interests of Council taxpayers and the community's interest in adequate and efficient services, and the need to act in good faith in relation to compliance with statutory duties and exercising statutory powers.

212. 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.

213. Section 31A of the Local Government Finance Act 1992 requires billing authorities to calculate their Council Tax requirements in accordance with the prescribed requirements of that section. The function of setting the Council Tax is the responsibility of Full Council. The function of preparing estimates and calculations for submission to Full Council is the responsibility of the Executive. The Council is required by the 1992 Act to make estimates of gross revenue expenditure and anticipated income, leading to a calculation of a budget requirement and the setting of an overall budget to ensure proper discharge of the Council's statutory duties and to lead to a balanced budget. The budget should include sufficient allowances for contingencies and financial reserves.

214. Full Council is responsible for setting the overall budget framework, but where proposed savings are an estimate requiring further analysis they will be subject to officer or Executive approval, which 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 particular savings cannot be met within the allocated budget or in compliance with any specific statutory framework, but if this is not sufficient any reconsideration of the overall budget framework would be referred to Full Council. The Local Government Act 2003 and associated regulations set out rules in relation to use of capital reserves. Section 15 requires local authorities to have regard to relevant statutory guidance. The statutory guidance on flexible use of Capital Receipts confirms that local authorities cannot borrow to finance service delivery, however, they can use Capital Receipts from sale of assets to finance the revenue costs of reforming services. The guidance states that qualifying expenditure is expenditure on a project that is designed to generate ongoing revenue savings in the delivery of public services or transform service delivery in a way that reduces costs or demand for services in future years. The Council is expected to publish an annual Flexible Use of Capital Receipts Strategy, although this can be included in wider strategy documents.

215. Section 25 of the Local Government Act 2003 requires the Council to have regard to the report of the Chief Finance Officer (Section 151 Officer) as to the robustness of the estimates made for the purposes of the calculations and the adequacy of the proposed financial reserves in making the calculation of its budget requirement.

216. Section 114 of the Local Government Finance Act 1988 outlines the duties of the chief finance officer of a relevant authority. The Chief Finance Officer (Section 151 Officer) is required to make a report under this section if it appears to them that the expenditure of the authority incurred (including expenditure it proposes to incur) in a financial year is likely to exceed the resources (including sums borrowed) available to it to meet that expenditure.

217. Under section 106 of the Local Government Finance Act 1992 if a payment of Council Tax that a member is liable to make has been outstanding for two months or more at the time of a meeting, the Member must disclose the fact of their arrears (though they are not required to declare the amount) and cannot vote on any of the following matters if they are the subject of consideration at a meeting:

- Any decision relating to the administration or enforcement of Council Tax, and
- Any budget calculation required by the Local Government Finance Act 1992 underlying the setting of the Council Tax,

Failure to comply with these requirements is a criminal offence

The contents of this report are, and the decisions taken on it will be, matters which might affect the making of the Annual Budget Calculation

HR / Workforce Implications

218. A number of the potential savings proposals will have staff implications and the approved HR processes and policies will be followed.

Equalities Implications

219. The impact of setting a budget will have specific implications on those protected under the Equality Act 2010. The Council's budget planning framework is supported by the development of Equality Impact Assessments (EIAs) for the budget proposals, identifying possible disproportionate impact in relation to the protected characteristics as described within the Equality Act 2010. The EIAs will also identify potential mitigation where applicable. Individual equality impact assessments form part of the decision making on the specific proposals needed to balance the budget in February 2025. There is also a cumulative Equalities Impact Assessment included in **Appendix L** which details any equalities impacts.

Community Safety Implications

220. The Equality Impact Statement outlined in **Appendix L** outlines key implications from the savings proposals outlined in **Appendix B**.

Climate Change and Sustainability Implications

221. The Equality Impact Statement outlined in **Appendix L** outlines key implications from the savings proposals outlined in **Appendix B**.

Health and Safety Implications

222. The Equality Impact Statement outlined in **Appendix L** outlines key implications from the savings proposals outlined in **Appendix B**.

Health and Wellbeing Implications

223. The Equality Impact Statement outlined in **Appendix L** outlines key implications from the savings proposals outlined in **Appendix B**.

Social Value

224. The Equality Impact Statement outlined in **Appendix L** outlines key implications from the savings proposals outlined in **Appendix B**.

Background Papers

- 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
- Medium-Term Financial Strategy (MTFS) 2025/26 to 2029/30 report to 8 April 2024 Executive
- 2024/25 Financial Strategy report to July 2023 Executive
- Medium Term Financial Strategy (MTFS) Update 2025/26 to 2029/30 report to 7 October 2024 Executive
- Budget Proposals 2025/26 to 2029/30 report to 2 December 2024 Executive

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- Budget 2025/26 Savings, Pressures, Fees and Charges 3 February 2025 Executive

Appendices

A	Section 25 Report – Section 151 Officer Report on the Robustness of the Estimates and Adequacy of Reserves Annexes: Annex A(i) 2025/26 Exceptional Financial Support (EFS) In Principle Agreement Annex A(ii) 2024/25 Exceptional Financial Support (EFS) In Principle Agreement Annex B Directorate Budget Assurance Statements: (i) Adults Services & Housing (ii) Children's, Families & Education (iii) Community, Place & Economy (iv) Resources, Strategy & Transformation (v) Finance & Procurement (vi) Chief Executive
B(i)	New Savings
B(ii)	2024/25 Savings for delivery in 2025/26
B(iii)	All Savings
C	New Growth
D	Proposed Revenue Budget 2025/26
E	MTFP Movements since October 2024 Executive
F	MTFP Five Year Projections
G	Medium Term Financial Strategy 2025/26 – 2029/30
H	Fees and Charges for approval 2025/26
I	Specific Revenue Grants Schedule 2025/26
J(i)	Dedicated Schools Grant (DSG) Forecast Spend
J(ii)	Summary DSG Settlement 2025/26
K	Parking Account 2025/26
L	Cumulative Equalities Impact Assessment
M	2025/26 Budget Consultation Feedback
N	Earmarked Reserves Forecast
O	Capital Investment Strategy
P	New Capital Schemes
Q (i)	Capital Programme Summary 2025/26 – 2029/30
Q (ii)	Capital Programme Full Schemes 2025/26 – 2029/30
R(i)	Treasury Management Strategy including Prudential Indicators
R(ii)	Minimum Revenue Provision Policy
S	Flexible Use of Capital Receipts Strategy
T	Non Treasury Investment Strategy 2025/26
U	Calculation of Council Tax Requirement 2025/26
V	Council Tax Scenarios

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

	Officer Name	Date Completed
Legal & Governance Implications	Jill Byron / Alyn Jones	18/02/2025
Finance & Procurement	Nicola Hix	18/02/2025
Workforce	Dawn Bettridge	16/02/2025
Asset Management	Chris Hall	16/02/2025
Executive Director	Maria G Christofi	21/02/2025
Executive Lead Member	Cllr Liz Leyshon	18/02/2025
Consulted:		
Local Division Members	N/A	N/A
Opposition Spokesperson	Cllr Diogo Rodrigues	18/02/2025
Relevant Scrutiny Chair	Cllr Steven Pugsley	18/02/2025