

Development of the 2018 to 2021 Medium Term Financial Plan

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Forward Plan Reference:	FP/17/05/09		
Summary:	<p>This report introduces the development of the Medium Term Financial Planning (MTFP) cycle for the period 2018/19 to 2021/22. The core function of the MTFP is to forecast the Council's finances in detail and ensure that the Council's priorities outlined in the County Plan can be delivered. This involves the Council considering its financial position for the following four financial years, to develop a strategy that will deliver financial stability in the medium to long term.</p> <p>The new administration will over the coming months develop their plans for the 4 year period. There is however uncertainty nationally around local government finances, as the recent Queen's Speech did not include a finance bill covering 100% business rates repatriation to councils. We have to prepare a 4 year MTFP that does not include the heralded introduction of new burdens and associated funding.</p>		
Recommendations:	<p>That Cabinet notes the forecast MTFP position for the years 2018/19 to 2021/22 as set out in this report and supports the proposed approach to the development of the MTFP.</p>		

Reasons for Recommendations:	The forecast MTFP position shows that current future service pressures significantly outstrip the resources available to the Council. This will require consideration of which services are delivered and improving efficiency and reducing cost for those services, in order to ensure the Council has a sustainable future.					
Links to Priorities and Impact on Service Plans:	<p>The MTFP is the vehicle that allows the Council to identify resources to deliver the County Plan and covers both Revenue and Capital resources.</p> <p>The current County Plan will be refreshed shortly and funding plans will need to follow suit.</p>					
Financial Implications:	There are no direct Financial implications arising from this report over and above those outlined in this report.					
Legal Implications:	There are no direct Legal implications arising from this report.					
HR Implications:	There are no direct HR implications arising from this report.					
Risk Implications:	<p>The key risk is the failure to align the available resources to the priorities of the Council, resulting in the needs of residents not being met. Prior to 17/18 in the previous couple of years, the financial value delivered via approved savings proposals was reduced, reflecting the growing difficulty to achieve savings due in part to the cumulative impact of austerity. This led to a different approach for the MTFP 2017/18: one which is more strategic, which is focussed on the opportunity for savings, is focussed on high cost areas of service and which engages all parts of the council working more collaboratively.</p> <p>The key risk for the development and implementation of the 2018/19 Capital Investment Programme is that the actual costs are higher than estimated. In recent years the capital programme has been extremely well managed. Nevertheless, overspends can arise through unexpected additional works or inflationary costs arising from differences between estimates and tenders.</p> <p>There is a strategic risk that is regularly reviewed in relation to the Council's budget position (ORG0043 to maintain a sustainable budget). As reported to Audit Committee on 29 June, the risk score is at 20 (very high) using financial data as at the end of May 2017. This risk score reflects the on-going financial difficulties that demand in care services is placing on our budgets as reported in the first financial projections for the Revenue Budget 2017/18.</p>					
	Likelihood	4	Impact	5	Risk Score	20

**Scrutiny comments
/ recommendation:**

The scrutiny committees will review the MTFP and consultation feedback at scheduled meetings throughout the MTFP process, with this report being the main focus of the September round of scrutiny meetings. Feedback from last year's process at Scrutiny and from the opposition spokesperson is that savings proposals need to be developed earlier and shared earlier so that they can be more effectively scrutinised.

1. Background

- 1.1.** As outlined in the MTFP report to Full Council on 15 February 2017 and previous budget monitoring reports, the Government has significantly reduced the levels of funding in Local Government. The Council faces on-going challenges both within the current financial year and in developing a balanced budget for its Medium Term Financial Plan 2018/19 to deliver its 2020 Vision.
- 1.2.** The existing Medium Term Financial Plan was approved by Full Council in February 2017 and covered the period 2017/18 to 2021/22. The plan showed a balanced budget for 2017/18, with a shortfall of £19.5m for 2018/19 - 2020/21.
- 1.3.** The financial climate for local authorities is particularly uncertain both in relation to the totality of resources available for the sector and the distribution of those resources. The Council will continue to lobby for fairer funding for Somerset but Members need to be aware that many other councils face similar financial challenges.
- 1.4.** The 2016/17 Revenue Budget outturn report was reported to Cabinet on 14 June. The outturn position showed an overspend of £7.049m (which represents 2.26% of the approved budget). The level of overspend took temporarily the Council's General Reserves balances below the minimum recommended range given the size of the budget and taking into account the annual financial risk assessment. The level of reserves will be replenished by the Council Tax collection fund surplus of around £5m. A survey of county councils recently showed that two thirds of councils had to use reserves to manage budgets and that on average around £4.5m was used.
- 1.5.** In order to respond to these challenges, this report outlines the proposed approach to be taken for the 2018/19 to 2021/22 Medium Term Financial Planning (MTFP) cycle. It identifies forecast budget gaps through to 2021 from which point the Council will need to be self-financing, due to the planned removal of Revenue Support Grant by Government.
- 1.6.** It is proposed that the approach to the development of the MTFP 2018/19 continues with the commissioning led approach to redefining services to meet residents' needs and maximise available resources in favour of the Council's priorities. It is fundamental that the Council takes a longer term approach and will require a significant shift in terms of what services the Council will be able provide in the future.

- 1.7. In most cases no additional funding for inflation or demographic growth will be provided. The potential financial impact has been considered and is thought to be manageable. However, at individual service level it is likely that budget monitoring will indicate areas of projected overspending. It is therefore incumbent on managers to manage the totality of their budgets pro-actively through more efficient procurement or demand management and by managing productivity and staff absences effectively. To help mitigate the impact of rising demand through demographic growth, services have embarked on a range of transformations and our Core Council Programme supports these transformations.

2. Current forecast position

Revenue

- 2.1. The report presented to Full Council on 15 February 2017 identified an estimated cumulative budget shortfall for 2018/19-2020/21 of £19.5m, with the annual shortfall for each year being:
- £12.8m in 2018/19,
 - £4.6m in 2019/20,
 - £2.1m in 2020/21.
- 2.2. The acceptance of the four year settlement offer in 2016 provided greater certainty over levels of some funding. Despite this, funding past 2017/18 still remains only indicative and a number of assumptions were made, such as:
- No inflation or demography pressures
 - Annual Council Tax increases of 1.99%
 - Adult Social Care precept of 2% up to and including 2019/20
- 2.3. The 2017/18 Settlement confirmed the continuation of the ability to levy the Adult Social Care precept, and allows upper tier authorities to increase the 2% to 3% for each of the next two years. However the total increase over the three years to 2019/20 cannot be in excess of 6%.
- 2.4. In terms of the Somerset Rivers Authority, Government stated that the new precepting body will not be in place for 2017/18 and therefore, DCLG confirmed that the County Council and five Districts within Somerset could raise an additional precept on behalf of the SRA for 2017/18 (£ 2.47m). At this stage it is unclear whether the necessary legislation will be in place for 1st April 2018 and our current assumption is that it is therefore likely that DCLG will be asked for permission to continue with the current arrangement.

Capital

- 2.5. At the meeting on 30 November 2016 Full Council approved new capital schemes for 2017/18 at a total value of £107.599m and planned investment for 2018/19 – 2020/21 of £234.702m . Available resources to fund new schemes can come from Government Grants, Capital Receipts, 3rd Party contributions, Revenue contributions or Borrowing.

- 2.6. We are currently assessing our capital investment needs for the coming years. We will also be revising the level of capital receipts required in 17/18 and future years as we need to take advantage of the flexibility allowed to use capital receipts to fund service transformation costs over the next three years.
- 2.7. It is intended as per last year to aim for a November Cabinet and Council meeting to approve the forward programme.

3. 2018/19 MTFP Approach

- 3.1. All indications are that austerity will continue for the foreseeable future. This means that more savings will need to be found. The Council has already implemented many savings meaning the ability to find further significant savings and deliver them is getting tougher and cannot be implemented without significant impacts across traditional local authority services.
- 3.2. The scale of savings still required means that the strategic approach used for the MTFP 2017/18 is recommended again for the Council in order to deliver a balanced budget for 2018/19 and future years. It is therefore proposed to continue with a commissioning led approach incorporating both revenue and capital for the development of the MTFP 2018/19.
- 3.3. The themed approach provided savings options over a three year period and gave services time to plan the required changes. This commissioning led approach to the MTFP process is seen as the long term solution to providing affordable services. This approach means Commissioners working with services, customers, stakeholders and partners to determine the type of service that the authority will need to fund in the future, whilst ensuring services deliver value for money and safeguard our citizens. The approach also allows for greater cross cutting programmes of spend reduction across services and will further integrate the Capital Investment Programme and the Revenue Budget.
- 3.4. In planning for the future financial challenge, Commissioners and Services will again be challenged to develop savings across a number of key themes and many of last year's themes may continue. These were:
 - Technology and People
 - Productivity and Culture
 - Commercial and Third Party Spend
 - Stronger Communities
 - Partnership and Integration
 - Service Redesign
 - Transport
- 3.5. It is proposed specifically that the themes of commercial and third party spend and service redesign are at the centre of our planning over the next few years. Our costs of course are mainly on goods and services (contracts) bought in and on staffing and we will look in depth within our biggest budgets in Adults and Children's Social Care to ascertain how we can keep within budget primarily and deliver savings where it is safe to do so.

4. Proposed Timetable

- 4.1. The main requirement is to ensure that the Council has a balanced budget for 2018/19 in time for approval at February's Full Council Meeting. Future years can be further refined as the MTFP cycle continues. To maximise the benefit from savings, proposals will be brought forward for early approval and implementation in order to help reduce both in year spend and balance the budget for 2018/19.
- 4.2. In order to achieve this it is proposed that the following timetable is used:

Timeframe	Action
Spring / Summer	Commissioners to consider future service provision design and identify the work required under each theme, for both Revenue and Capital purposes
Summer / Autumn	Consultation on specific pieces of work and savings
November	Cabinet and Council approve the Capital Programme
November - February	Approval of Revenue savings under each theme
January / February	Scrutiny Committee discussion of savings proposals
February	Cabinet and Full Council approve 2018/19 Revenue Budget

5. Governance Process

- 5.1. As in previous years the authority's governance process will be applied to the MTFP cycle. Officer decisions will be used for low value savings, ensuring the documentation for public meetings is focused on the more strategic themes. This also allows decisions to be taken throughout the year before being summarised within the Budget Setting papers in February.

6. Consultations

- 6.1. Consultations around setting the budget will be undertaken in a number of ways, including face-to-face, surveys and written questionnaires. The various methods when compiled will provide an extensive and comprehensive level of consultation.
- 6.2. The consultations will reflect different demographic groups, geographic spread and use a variety of methods to provide as reliable a result as possible. Methods include:
- "Listening, Learning, Changing" – A Countywide public engagement and consultation exercise held during the summer and autumn
 - Online Survey
 - Freepost feedback forms printed in the Council newspaper "Your Somerset" which is delivered to every home in the County.
 - Regular face-to-face surveys commissioned from an independent provider.

7. Implications

- 7.1. The Financial implications are included above and there are no direct, Legal, HR, Risk, or Equality implications arising from this report.

8. Background Papers

- 8.1.
- County Council 15 February 2017 Report of Leader and Cabinet – Medium Term Financial Plan 2017/18
 - Cabinet 14 June 2017 2016/17 Revenue Budget Outturn