

Somerset County Council

Cabinet
15th November 2017

The Medium Term Financial Plan - Update

Cabinet Member(s): Cllr David Hall – Cabinet Member for Resources and Economic Development

Division and Local Member(s): All

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	Seen by:	Name	Date
	County Solicitor	Honor Clarke	1/11/2017
	Monitoring Officer	Julian Gale	1/11/2017
	Corporate Finance	Kevin Nacey	1/11/2017
	Human Resources	Chris Squire	1/11/2017
	Senior Manager	Kevin Nacey	1/11/2017
	Cabinet Member	David Hall	1/11/2017
	Opposition Spokesperson	Simon Coles	7/11/2017
	Relevant Scrutiny Chairman	Tony Lock	7/11/2017
Forward Plan Reference:	FP/17/05/09		
Summary:	This report updates members on the progress made and the timetable for agreeing the MTFP for 2018/19 and subsequent years. It covers both revenue and capital expenditure and alerts members to the risks and uncertainties in our funding streams at present. It also updates members on when we are likely to know with more certainty what funds will be available to help balance our MTFP for next year and beyond.		
Recommendations:	That Cabinet notes the forecast MTFP position for 2018/19 and notes the likely timetable of announcements of key funding decisions by government that will determine our own course of actions.		
Reasons for Recommendations:	There is currently a level of uncertainty around our funding for next financial year. Although the previous four-year settlement is still in place and has helped financial planning, Somerset CC has some bids for central government funding for which we will not know the outcome for a couple of months perhaps. This makes decision-making difficult and therefore this report highlights those issues and suggests a timetable given that uncertainty.		

Links to Priorities and Impact on Service Plans:	The MTFP is the vehicle that allows the Council to identify resources to deliver the County Plan and covers both Revenue and Capital resources.						
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:	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.						
	There is a strategic risk that is regularly reviewed in relation to the Council's budget position (ORG0043 to maintain a sustainable budget).						
	<table border="1"> <tr> <td>Likelihood</td> <td>4</td> <td>Impact</td> <td>5</td> <td>Risk Score</td> <td>20</td> </tr> </table>	Likelihood	4	Impact	5	Risk Score	20
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Scrutiny comments / recommendation:	The scrutiny committees will review the MTFP and any proposals formulated as per the timetable attached to this report.						

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.
- 1.2. The existing Medium Term Financial Plan was approved by Full Council in February 2017 and covered the period 2017/18 to 2020/21. 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 current budget monitoring reports are included in today's agenda and set the context in which the Council is aiming to set future budgets. The level of overspend in Children's Services is a dominant factor in all of the activities that underpin the MTFP themes. We are all working hard across finance,

commercial and procurement, legal, IT and HR, alongside the service to reduce costs but improve the service.

- 1.5. In July 2017, the Cabinet agreed to continue the current approach of identifying savings using the previous MTFP themes. This is an outcome led, commissioning 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 but funding uncertainty is making that more difficult.

2. Current forecast position

- 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 introduction of greater levels of funding via the Improved Better Care Fund, together with a stabilisation of costs in both Adult Social Care and Learning Disabilities services has helped to reduce forecast pressures for SCC overall. The continued benefit of the Adult Social Care precept is also helping to keep costs closer to budget available. With these factors the current forecast budget gap for 2018/19 has reduced to £7.6m and is close to balancing for the two years ahead. This is subject to two significant factors; the resources required to support Children's Social Care and the capital financing required to support the capital investment programme.
- 2.3. To close the gap the strategy is to target two specific MTFP themes to generate more from these than is already planned in 2018/19. The first is the Commercial and third party spend theme, essentially reducing our contract spend through procurement opportunities or rethinking how we approach the market for the provision we need. The second theme is the service redesign theme, whereby we are trying to identify a number of smaller projects that manage demand or find efficiencies within a service but may need some redesign of processes or a rethink of the service offer to our residents.
- 2.4. The forecast gap of £7.6m is much lower than we have had in previous years. This is because we had already identified savings through our longer term themed approach. We still need to identify further savings opportunities initially by reviewing all of our current contracts, especially those up for renewal, to close the budget gap. Currently, it is expected that half of the identified gap can be found under each targeted theme. If this is not possible, the intention is to use some of the expected collection fund surplus for 2018/19 to balance the budget. Last year's surplus was over £5m and we could therefore safely use £3m of this, if insufficient savings are identified through the themes.
- 2.5. The other factor that may affect our budget deliberations is the possibility of being given Business Rates pilot status. We have submitted a bid with all

district councils in Somerset to government and we will not hear if we are successful until around the time of the provisional finance settlement in late December. If the bid to be a pilot is approved, SCC could gain between £3.5m to £4.0m to support its revenue budget pressures. In addition, the pilot would create a fund to invest in economic development projects in Somerset of a similar amount.

- 2.6.** In summary, at this stage we are therefore not setting specific savings proposals before Cabinet but we have a clear approach to identify procurement opportunities first and foremost, then some service redesign projects and depending upon this and the result of the BRR pilot bid, we will put a plan before Cabinet in January or February to close the budget gap for 2018/19.

Forecast Budget Gap for 2018/19	£7.6m
Estimated Commercial and Third Party savings	£2.0m to £3.5m
Estimated smaller Service Redesign savings	£2.0m to £3.5m
Use of collection fund surplus as part of the base budget	To balance

3. Capital Investment Programme

- 3.1.** The analysis and evaluation of bids for capital resources is being progressed but at this stage it is not clear how much resource SCC will have towards funding its needs. The scale of the schools programme is considerable but we do not know how much we can expect in DfE grant. We have also submitted a bid to the Housing Infrastructure Fund in conjunction with Taunton Deane and Sedgemoor councils that would fund around £80m of infrastructure projects supported by the three councils. If this bid is successful, the resources to support the capital investment programme for SCC could be increased by £15m.
- 3.2.** At present we have been advised of our highways grant at around £24m and some other smaller educational grants which gives a total known funding through grant of £29m. If we can secure further grant via the DfE for basic need and some specific projects and we are successful in our Housing Infrastructure Fund bid, we may have as much as £50m towards our investment needs. The range of possible funding is therefore considerable and so we will need to wait until we have more security of funding before we can allocate it to the evaluated bids.
- 3.3.** The shortage of capital funds is a known issue for all county councils and representations have been made to DCLG through the consultations on the Fairer Funding Review over the summer that government has to recognise the pressures on councils to meet the growing need. The national push to increase the number of houses built is being addressed in Somerset but the consequence is a need to match this with highways and schools infrastructure. Of course, there is a lag between the investment required by councils and the additional council tax that ensues from the new housing. The increase in the taxbase may be as much as £2m if the scale of development is approved under the HIF bid. The developer contributions have never been enough to cover this up-front investment and it seems the viability in some

developments is putting a downward pressure on their willingness or ability to agree to s106 contributions. This only serves to create a bigger pressure on SCC and other councils to meet the infrastructure costs themselves.

- 3.4.** In summary, the likely scale of the capital investment needed will exceed our available resources but we have to await the outcome of announcements by government before we can gauge the real gap. The programme will therefore not be presented until we have that information, and this is not likely to be before the February Cabinet and Full Council meetings.

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.
- 4.2.** In order to achieve this it is proposed that the following timetable is used:

Timeframe	Action
22nd November	The Government's Autumn Statement
Week beginning 18th December	Local Government Provisional Finance settlement Likely announcement of BRR pilots
17th January	Report to Cabinet on settlement and further MTFP update
24th to 30th January	Scrutiny meetings to look at MTFP plans – revenue and capital
7th February	Cabinet meeting to approve MTFP
21st February	Full Council meeting to approve revenue budget for 18/19, the capital investment programme for 18/19 and the overall MTFP

5. Background Papers

- 5.1.**
- County Council 15 February 2017 Report of Leader and Cabinet – Medium Term Financial Plan 2017/18
 - Cabinet 14 June 2017 MTFP Development report