

Somerset County Council

Cabinet
12 February 2018

2018/19 Medium Term Financial Plan (MTFP) and Revenue Budget

Cabinet Member(s): Cllr David Hall - Cabinet Member for Resources and Economic Development
 Division and Local Member(s): All
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	Local Member(s)	All	
	Cabinet Member	Cllr David Hall	22/1/18
	Opposition Spokesperson	Cllr Simon Coles	30/1/18
	Relevant Scrutiny Chairman	Cllr Leigh Redman Cllr Hazel Prior-Sankey Cllr Tony Lock	30/1/18
Forward Plan Reference:	FP/17/08/09		
Summary:	<p>This report sets out proposals and supporting information to enable the Leader of the Council and the Cabinet to recommend the following to Full Council at its meeting on 21 February 2018:</p> <ol style="list-style-type: none"> 1. Proposed Revenue Budget for 2018/19 2. Level of Council Tax precept for 2018/19 <p>Information contained in this report is based on the Provisional Local Government Finance Settlement and final figures should be announced on the 5th February.</p>		
Recommendations:	<p>The Leader and Cabinet are recommended to agree and recommend to Full Council:</p> <ol style="list-style-type: none"> 1. The 2018/19 Revenue Budget which sets <ol style="list-style-type: none"> i. Net Revenue Budget of £316,881,900; ii. Council Tax Requirement of £230,250,000; iii. A Council Tax increase of 5.99% (including a 3% precept for Adult Social Care) giving a Band D value of £1,192.16; 		

	<p>iv. Specific savings targets as shown in Appendix A after having due regards to the potential impacts identified in this report and its appendices</p> <ol style="list-style-type: none"> 2. Continuing the Council Tax precept of £12.84 within the base budget for the shadow Somerset Rivers Authority (representing no increase). This results in a Council Tax Requirement of £2,506,900; 3. Delegation of powers to the Leader of the Council and the Section 151 Officer to finalise budget proposals and recommendations to Full Council on the 21st February 2018 if changes are required to reflect the Final Local Government Financial Settlement and ensure that a balanced budget is considered at Full Council. <p>The Leader, Cabinet and Council are recommended to note:</p> <ol style="list-style-type: none"> 4. Whilst the Council is able to present a balanced budget for 2018/19, it is on the basis that all savings proposals included are achieved;
<p>Reasons for Recommendations:</p>	<p>To enable the County Council to meet its statutory requirements in respect of:</p> <ul style="list-style-type: none"> • Determining a balanced budget; • Setting a Council Tax Requirement; • Issuing Precepts on the District Councils. <p>The recommendations also recognise the separate responsibilities for:</p> <ol style="list-style-type: none"> 1. The County Council to set the Annual Budget for 2018/19 2. The Leader of the Council, Cabinet and Officers to manage services, approve savings proposals and make changes within the overall envelope of the agreed budget, Schemes of Delegation and the Council's Financial Regulations.
<p>Links to Priorities and Impact on Service Plans:</p>	<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>Consultations and co-production undertaken:</p>	<p>Last year we held a large number of consultations with the public via our Tracker Surveys and "Listening, Learning, Changing" events, consulting over 7,000 residents. The level of council tax increase proposed this year is consistent with the feedback we received. This year's increase for the SCC core Council Tax element is in line with inflation and central government has increased the cap accordingly to reflect that. Special dispensation has been given to all councils with responsibility for Adult Social Care to raise a precept to increase funding for this service, and it is expected in government's financial assumptions that all councils will do so.</p>

<p>Financial Implications:</p>	<p>In order to calculate a balanced budget the Council estimates all future income and expenditure requirements; taking into account movements to or from reserves.</p> <p>The financial implications arising from this report are included within the detail of the report.</p>						
<p>Legal Implications:</p>	<p>It is a statutory requirement under the Local Government Finance Act 1992 for the Council to set a balanced budget by 11 March of the preceding financial year.</p>						
<p>HR Implications:</p>	<p>The normal consultation and engagement with staff and recognised trade unions is being adhered to, and staff will be kept informed of the implications of all proposed decisions. It is estimated that a 45 day consultation with the unions will be necessary, as current savings proposals indicate the loss of more than 100 posts.</p>						
<p>Risk Implications:</p>	<p>The key risks are:</p> <ol style="list-style-type: none"> 1. Slippage or under achievement of the proposed savings within the 2018/19 budget as there are limited resources available to address any significant in-year overspends and maintain a sustainable budget; 2. The failure to address areas of overspend that occurred in 2017/18 in the next financial year. <p>The Government's continued deficit reduction programme has significantly reduced the levels of funding available in Local Government. The Council faces substantial on-going challenges to achieve a sustainable balanced budget</p> <p>It is important that Members understand the risks to approved budgets, maintaining sufficient reserves, balances and contingencies as well as managing a range of mitigations to limit as much as possible potential impacts on core services, especially those prioritised in the County Plan.</p> <p>As savings become ever more difficult to identify and then deliver, it is imperative that expenditure is kept within existing budgets.</p> <table border="1" data-bbox="515 1675 1463 1711"> <tr> <td>Likelihood</td> <td>5</td> <td>Impact</td> <td>5</td> <td>Risk Score</td> <td>25</td> </tr> </table>	Likelihood	5	Impact	5	Risk Score	25
Likelihood	5	Impact	5	Risk Score	25		
<p>Other Implications (including due regard implications):</p>	<p>It is essential that decision makers ensure that consideration is given to legal obligations, in particular the need to exercise the equality duty under the Equality Act 2010, to have due regard to the impacts based on sufficient evidence appropriately analysed.</p> <p>This however does not prevent the Council from making difficult financial decisions, such as the reductions in service or decisions which may affect one group more than another. What the duty requires is consideration of all available information, including the potential impacts and mitigations to ensure a fully</p>						

	<p>informed decision is made.</p> <p>The proposals included within as part of the MTFP process, represent the direction of travel for the authority. Where known the equality impact of the proposals is summarised in Appendix E.</p> <p>There are a number of individual decisions that will subsequently arise as a result of delivering savings which will be subject to the production of equality impact assessments in line with the Council's equality impact assessment guidance.</p>
Scrutiny comments / recommendation (if any):	All Scrutiny Committees met in January and the outcomes of the discussions will be made available to Cabinet and Full Council.

1. Background

- 1.1. The setting of the annual budget is one of the most important decisions the County Council makes each year. It is when the Council determines its income from council tax and the resource framework in which the Council will operate. It also delegates authority to Directors to manage the budget within the parameters set out in the Council's Constitution and Financial Regulations.
- 1.2. The County Council is operating in the most challenging conditions it has faced. The Medium Term Financial Plan continues to be set against a backdrop of uncertainty regarding funding in the longer term. What is certain is the continuing loss of government grant, an increasing level of demand for many services and a statutory need to be met to provide school places. The Council is at a point where only fundamental transformation will ensure a sustainable financial platform on which the council can continue to deliver for its residents.
- 1.3. Over the year ahead we will have to review all services in terms of their outcomes and their affordability. It is clear that Children's Services particularly, but also some parts of Adult Services, will need an injection of new funding by 2020. The Government has promised to augment Council resources with increased access to Business Rates and we must manage within existing resources until then. We will have to look carefully at our current spending plans to see what can be reduced maybe in the short to medium term to find funds to increase budgets for those services under the greatest pressure. The result of the latest Ofsted inspection is favourable but we will need to continue to invest to improve further. There will need to be a review mid-way through the next financial year to re-align some of our budgets to ensure that investment is possible.

2. Key Messages

- 2.1. Local Government continues to be the area which faces the largest reduction in funding across public services. As a result, the Council faces an extremely challenging financial environment with a continued requirement to make substantial savings over the medium term. The 2018/19 budget is designed to enable the Council to manage the unprecedented financial challenges faced. While the overall level of savings for the next few years is lower than the last few years, the difficulty in achieving the savings is greater.

- 2.2. Recommendations to Cabinet to close the budget gap include increasing council tax by 5.99%, including the Adult Social Care precept at 3%. This will help reduce the pressure to make savings and provide much needed funding to Adult Social Care to meet service demand.
- 2.3. In summary, therefore, the estimated £13m gap will be closed by raising an additional 1% on the general council tax (£2.1m), some revisions to more corporate non-service budgets (£1.8m) and £8.845m of service savings as per Appendix A.
- 2.4. The Band D charge last year for SCC was £1,124.79
The 2.99% increase for basic Council Tax will add £33.63
The 3% Adult Social Care precept will add a further £33.74

The SCC Council Tax charge for a Band D property will therefore be £1,192.16. This will be a £67.37 increase for the year and represents an increase of £1.30 per week on average for SCC's element of the overall bill.

- 2.5. All of the above figures are subject to slight variation when we finalise the Full Council papers as the final local government financial settlement had not been announced before these papers were issued.

3. Local Government Financial Settlement

- 3.1. On 19 December 2017 the Secretary of State for Communities and Local Government Sajid Javid MP announced the Provisional 2018/19 Local Government Finance Settlement. The announcement set out provisional funding allocations for 2018/19 which were originally announced in December 2015 as part of the multi-year settlement offer. It also marked the start of a four week consultation period ending on 16 January 2018.
- 3.2. The main announcements from the settlement were
 - An “aim” to localise 75% of business rates from 2020-21 and implementation of the new needs assessment;
 - Confirmation of the continuation of the Adult Social Care precept including the flexibility to raise the precept to 3% this year but by no more than 6% over the 17-18 to 19-20 period;
 - Increased council tax referendum principle from 2% to 3% for 2018-19 and 2019-20;
 - Continuation of the Capital Receipts flexibility programme for a further three years until 2021/22;
 - Rural Services Delivery Grant reduction for 2018/19 has been cancelled, providing a £500k increase in our expected funding;
 - Revisions to the calculations for business rates baselines and New Homes Bonus that for SCC effectively reduces our available funding by £475,000;

- In addition to those already announced; ten 100% business rates retention pilots have been accepted for 2018-19, but Somerset was not successful in its bid;
 - Consultation in the spring on “fair and affordable options” to tackle negative RSG in 2019-20. This does not affect SCC but it does affect some district councils in Somerset.
- 3.3.** The Final Settlement is expected to be announced on the 5 February 2018 and any update will be provided to Full Council when known.

4. 2018/19 Revenue Budget Approach

- 4.1** In July 2017, the Cabinet agreed to continue with the new approach adopted in 2017/18 of identifying savings across Themes. This is an outcome-led approach aimed at redefining services to meet resident’s needs and to maximise available resources for the Council’s priorities. It remains critical that the Council takes a longer term, strategic approach, despite the fact that uncertainty over funding beyond 2020 makes that more challenging.
- 4.2** The Council has developed savings proposals required to close the estimated gap of £13m. The focus for delivering savings will be primarily through a comprehensive review of all existing and planned contracts, reducing our third party spend. Some of the savings in our contractual expenditure will be made via better procurement, working with our supply chain to reduce rates and unit costs but we must also try to reduce demand and the volume of activity put through those contracts. In some instances we will have the opportunity to revisit contracts about to expire and this provides the chance to rethink how we approach the market for the provision required and really examine what outcomes are most needed.
- 4.3** The second area of focus will involve trying to identify a number of smaller projects that will manage demand or find efficiencies within services. This will entail looking at our staffing and particularly management levels throughout the organisation to see if we can use technology better to try and see where any further efficiency can be made.
- 4.4** We have lost a further £10m in government grant and without a more permanent solution likely until 2020/21, we need to look to fund statutory and high priority services through a combination of savings and by increasing council tax.
- 4.5** The new service savings for 2018/19 of £8.845m are shown under themes in Appendix A. In addition to the value of new savings identified for 2018/19, we still need to deliver those savings planned for 2018/19 that were identified under the themed approach last year. These are shown in Appendix B.

5. Revenue Budget

- 5.1.** On the basis that the Revenue Budget savings proposals are accepted as detailed in this report, a balanced budget requirement of £316,881,900 has been

achieved; as shown in Appendix C and future (surplus) / deficits are

- £8.615m in 2019/20
- £5.848m in 2020/21
- £1.087m in 2021/22

5.2. This gives an overall cumulative shortfall of £15.550m for the MTFP period. The previous acceptance of the four-year settlement offer has provided some certainty over levels of some funding. However estimates for funding beyond 2018/19 are only indicative and assume:

- A Council Tax increase of 2.99% for 2019/20 dropping back to 1.99% in future years (subject to political approval);
- An Adult Social Care precept of 1% in 2019/20;

6. MTFP Governance

6.1. The savings included at Appendix A and B, and requested for approval by Cabinet to Full Council in February, will be delivered through subsequent separate decisions, via the Leader of the Council, Cabinet, Cabinet Members or Officers, following the Council's established decision making processes

7. Council Tax Precept (Appendix D)

7.1. Somerset County Council (SCC)

In accordance with section 75 of the Localism Act 2011, the Leader and Cabinet are asked to propose to Full Council, a council tax requirement of £215,378,600 for 2018/19, relating to SCC representing a Council Tax charge of £1,103.15 for a Band D property. This represents a 2.99% increase for next year.

7.2. Adult Social Care (ASC)

The Adult Social Care precept was introduced in the 2016/17 Settlement for local authorities, with social care responsibilities to collect an additional precept to generate new funding, to be spent exclusively on adult social care services. The 2018/19 Settlement has confirmed the continuation of the ability to levy this precept, and allows upper tier authorities to increase the 2% to 3% for this year. However the total increase over the three years to 2019/20 cannot be in excess of 6%.

The Leader and Cabinet are asked to propose to Full Council a council tax requirement of £14,871,400 relating to ASC representing a Council Tax charge of £76.17 for a Band D property. We are recommended to show the cumulative precept this way by DCLG, to show the total committed to Adult Social Care since the precept was introduced. This represents a 3% increase for 2018/19.

7.3. Somerset Rivers Authority (SRA)

Permission was given to SCC and the five Districts within Somerset to raise an additional precept on behalf of the Somerset Rivers Authority in 2016/17, whilst the government 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.

SCC was allowed to raise an additional precept equivalent to up to 1.25% of the 2015/16 Band D charge of £12.84 for the SRA.

The Leader and Cabinet are asked to propose to Full Council a council tax requirement of £2,506,900 relating to the SRA funding requirements for 2018/19.

8. Schools Funding

- 8.1.** The Schools Budget is funded entirely from ring-fenced government grant, therefore the process of setting the budget is managed separately but in parallel with the MTFP.
- 8.2.** Detailed recommendations in respect of the Schools and Early Years Funding Formulae have been provided following consultation with the Schools Forum and the Compact Executive.

A Key Decision will be taken by the Cabinet Members for Children and Young People and Resources in February 2018, once final values are known, setting the schools formula values and the allocation of the Dedicated Schools Grant between blocks.

9. Implications

9.1. Financial Implications

The financial implications arising from this report are included within the detail of the report.

Council will recall approving a revised Scheme of Members' Allowances in July 2017 following the election of the new Council. The changes made reflected the revised governance arrangements of the Council and included an indexing provision linking increases in the Basic Allowance and Special Responsibility Allowances to officer pay awards. This mechanism will be applied automatically when the officer pay award for 2018/19 is agreed. Beyond this, the Joint Independent Remuneration Panel is not recommending any changes to the Council's Scheme so the current Scheme will continue to apply for 2018/19 with the figures updated as necessary to reflect the pay award. The proposed 2018/19 Annual Budget reflects this.

9.2. Legal Implications

The Council is required to set a balanced budget, and in considering the budget, Council must have regard to the advice of its Chief Financial Officer, appointed under section 151 of the Local Government Act 1972.

The Council is required to issue any precept or precepts in accordance with section 40 of the Local Government Finance Act 1992.

If during 2018/19, the Section 151 Officer considers that the level of planned

expenditure is greater than the available resources, then under Section 114 of the Local Government Act 1988 the Section 151 Officer is under a duty to produce a report to the Cabinet and for a Full Council meeting to be held within 21 days to consider it, and agree mitigating actions to achieve a balanced budget.

Under section 25 of the Local Government Act 2003 the Chief Financial Officer is required to report on the robustness of the estimates made for setting the budget and on the level of reserves.

The setting of the budget is a function reserved for Full Council, but the Cabinet is required to consider the recommendations it wishes to make to Full Council.

Members are reminded that Section 106 of the Local Government Finance Act 1992 applies to this meeting. Members who are two months or more in arrears with their Council Tax must declare this to the meeting and must not vote on budget recommendations, as to do otherwise can be a criminal offence.

9.3. HR Implications

The nature and scale of the savings required means that there will be implications on posts and employees. In line with the usual MTFP processes, the Council has engaged with its recognised trade unions throughout the year and is currently in collective consultation. Dialogue and engagement will continue as the budget position and impacts become clearer.

Over 100 posts are likely to be affected by the proposals. The authority will look to meet any staff savings through vacancy management and voluntary redundancy where possible; however compulsory redundancies are significantly more likely to occur than in previous years.

9.4. Risks and Impacts

Over the last couple of years, the financial value delivered via approved savings proposals has reduced, reflecting the difficulty of the proposals and the fact that all 'quick wins' have been taken.

Mitigation plans have to date been put in place to try to ensure that the Authority does not overspend. Nevertheless, this risk to the delivery of the 2018/19 budget is highlighted as previous mitigating actions are limited. Any overspends during 2018/19 will become a pressure on the allocated contingency budget and general reserves, but it should be highlighted that these funding sources are limited and cannot support significant overspends.

The Strategic Risk Management Group meets regularly, together with the Section 151 Officer and produces regular reports to the Senior Leadership Team regarding the Risk Register. The latest projections in respect of the council's financial and staffing resources, performance management and the levels of risk that the Council is managing, along with recommended mitigations and remedial actions is under constant review by SLT.

The Section 151 Officer will set out any specific risks and mitigations for the proposed Revenue Budget and MTFP as part of his 'robustness of estimates and the adequacy of reserves and balances' report to Full Council on 21 February.

10. Background Papers

- 10.1.
- County Council 15 February 2017: [Report of the Leader and Cabinet](#);
 - Cabinet 10 July 2017 [MTFP Development report](#)
 - Cabinet 15 November 2017: [Medium Term Financial Plan 2018/19 – Proposed Capital and Revenue Savings](#);
 - [Provisional local government finance settlement](#): England, 2018 to 2019.