

**Medium Term Financial Plan 2019/20+ – Initial Assessment and Proposed Approach**

**Cabinet Member(s):** Cllr Mandy Chilcott – Cabinet Member for Resources

**Division and Local Member(s):** All

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	Local Member(s)	All	
	Cabinet Member	Cllr Mandy Chilcott	08/10/18
	Opposition Spokesperson	Cllr Liz Leyshon	08/10/18
	Relevant Scrutiny Chairman	Cllr Leigh Redman Cllr Hazel Prior-Sankey Cllr Anna Groskop	
<b>Forward Plan Reference:</b>	FP/18/05/09		
<b>Summary:</b>	<p>This report sets out the initial assessment of the likely gap between budget requirement and funding sources for the years 2019/20 to 2021/22.</p> <p>The initial assessment of the funding gap for 2019/20 is £19m, which implies that proposals for change of at least this amount will need to be prepared over the autumn period and for consideration by the Scrutiny Committees, the Cabinet and the Council in early 2019. There are initial assessments of further gaps of £7m and £2m in the subsequent years, although additional work is required to finally validate these figures and they are particularly likely to vary due to the as-yet-unknown national funding arrangements.</p> <p>The opportunity of this report is also used to seek Cabinet recommendation to Council to expand the capital investment programme to allow for the purchase of waste vehicles for the</p>		

	<p>Somerset Waste Partnership as a better value for money option than requiring the private sector to provide the vehicles.</p>
<p><b>Recommendations:</b></p>	<ol style="list-style-type: none"> <li>1. That the Cabinet notes the initial assessment of the funding gap for 2019/20, being £19m and notes the proposed timetable for developing the MTFP and actions being taken to prepare proposals for change to address the funding deficiency and service pressures.</li> <li>2. That the Cabinet agrees to recommend to County Council that it approves the expansion of the Capital investment Programme in 2019/20 to commit a sum of up to £10m to facilitate the purchase of waste vehicles and depot infrastructure for the Somerset Waste Partnership, provided that it can be proved that this offers better value for money than the vehicles being supplied by the private sector provider.</li> </ol>
<p><b>Reasons for Recommendations:</b></p>	<p>Preparing a coherent, confident and realistic Medium Term Financial Plan (MTFP) for the County Council is essential to ensure that the corporate plan and service delivery priorities of the Council can be achieved, and that financial sustainability can be secured.</p> <p>With regard to the waste vehicles and depots, it is believed that funding the vehicles via the public sector will offer better value for money to Somerset Waste Partnership. Tendering for the new contract is underway hence the need to secure approval at this time.</p>
<p><b>Links to County Vision, Business Plan and Medium Term Financial Strategy:</b></p>	<p>Preparing a coherent, confident and realistic Medium Term Financial Plan (MTFP) for the County Council is essential to ensure that the corporate plan and service delivery priorities of the Council can be achieved, and that financial sustainability can be secured.</p>
<p><b>Consultations and co-production undertaken:</b></p>	<p>No detailed consultations have been undertaken at this time as no proposals for change have yet been developed. However, this report has been shared with the Cabinet Member for Resources, the Opposition Spokesperson and the Chairman of the relevant Scrutiny Committee.</p> <p>Consultation with the Somerset Waste Partnership and the Somerset Waste Board has been undertaken in regard of the proposal on waste vehicles.</p>

<p><b>Financial Implications:</b></p>	<p>The only specific financial implications created by this report are those in regard of the expansion of the Capital Investment Programme to allow for the purchase of waste vehicles and depots. The expansion could be up to £10m and will only occur if the revenue costs of this borrowing are more than paid for by the revenue benefits received through the Waste Partnership.</p> <p>Otherwise, the report describes the overall financial position of the Council for future years.</p>
<p><b>Legal Implications:</b></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>The proposal to fund the purchase of new waste collection vehicles through the Public Works Loan Board has been incorporated into the tendering process and draft contract for the kerbside waste collection contract which is currently being procured by the Somerset Waste Partnership to commence in 2020.</p>
<p><b>HR Implications:</b></p>	<p>There are no specific HR implications arising from this report, but as any, relevant specific proposals are created then the normal HR processes will be followed.</p>
<p><b>Risk Implications:</b></p>	<p>The key risks are identified on the strategic risk register and particularly within risk ORG0043. These include:</p> <ol style="list-style-type: none"> <li>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;</li> <li>2. The failure to address areas of overspend that are occurring in 2018/19, which may impact in the next financial year.</li> </ol> <p>The Government's continued deficit reduction programme has significantly reduced the levels of funding available to local government. The Council faces substantial on-going challenges to achieve a sustainable balanced budget due to this and the increasing demand on its key services, especially those for vulnerable children and adults.</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. As savings become ever more difficult to identify and then deliver, it is imperative that expenditure is kept within existing budgets.</p>

	<b>Likelihood</b>	<b>5</b>	<b>Impact</b>	<b>5</b>	<b>Risk Score</b>	<b>25</b>
<b>Other Implications (including due regard implications):</b>	<p><b><u>Equalities Implications</u></b></p> <p>There are no specific equalities implications arising from the contents of this report.</p> <p><b><u>Community Safety Implications</u></b></p> <p>There are no community safety implications arising from the contents of this report.</p> <p><b><u>Sustainability Implications</u></b></p> <p>There are no sustainability implications arising from this report.</p> <p><b><u>Health and Safety Implications</u></b></p> <p>There are no health and safety implications arising from this report.</p> <p><b><u>Privacy Implications</u></b></p> <p>There are no privacy implications arising from this report.</p> <p><b><u>Health and Wellbeing Implications</u></b></p> <p>There are no health and wellbeing implications arising from this report.</p>					
<b>Scrutiny comments / recommendation (if any):</b>	Not applicable.					

## 1. Background

- 1.1. The Council in February 2018 and the Cabinet as recently as September 2018 have spent much time debating and making decisions upon the financial situation of the Authority. As has been stated, this has resulted in £143m of savings being agreed over this and previous years. There are further financial challenges ahead and the Council needs to plan thoroughly to address them in a strategic, rather than tactical, manner. Preparing a robust MTFP, anchored in the Corporate Plan and priorities of the Council is essential.
- 1.2. This report looks forward, particularly, into the final year of the four-year settlement, 2019/20. This local authority, like most others, accepted the four-year settlement as, while it brought a great deal of financial pain through funding reductions, it also brought some certainty with regard to future financial settlements and allowed longer term planning. Looking over the horizon beyond 2019/20 is now much more unpredictable, with many more assumptions having to be made. Further work is needed to assemble a draft MTFP covering the period to 2021/22, although the initial assessment is of further gaps of £7m and £2m in 2020/21 and 2021/22 respectively. Much more information and detailed

evaluation is needed about those years before a more accurate assessment can be made.

- 1.3. Given the proximity of the 2019/20 budget decision process, culminating in the Council meeting in February 2019, it is important to commence planning for the funding gap, estimated at this stage as being £19m.
- 1.4. The Somerset Waste Partnership is currently tendering for Recycle More – a new method of waste collection that will result in additional materials being collected at kerbside. This will commence roll-out across the County from April 2020. Under the guidance of the Waste Board, this is following a dialogue-based procedure, with significant input from the tenderers.

As part of the new service, there is a need to replace vehicles, equipment and potentially depots (the recycling fleet is nearing the end of its life in any event). The potential outlay is up to £25m. Most tenderers are interested in an arrangement whereby all the Councils within the Waste Partnership fund the vehicles through PWLB borrowing, in return for a discount to the contract price. A similar arrangement is already in place with the existing collection contractor.

Provided that the contract discount offered is sufficient to cover the costs of borrowing, opportunity cost and the Minimum Revenue Provision (MRP), this would offer a relatively safe and almost immediate financial benefit to all Councils willing to borrow.

## **2. Options considered and reasons for rejecting them**

- 2.1. The only option is to consider the financial challenges for the Council and to resolve to address them in line with the Council's priorities and available funding.
- 2.2. In regard of the proposals regarding waste vehicles, the alternative option is to allow the private sector bidders to include provision within their proposals. However, given the additional cost of private sector financing, early evaluations show this to be a more expensive option. In dialogue with the prospective tenderers for the Recycle More contract, they have indicated a strong preference for the Somerset Waste Partnership partners to be prepared to finance the vehicles and depot infrastructure and would prefer to tender on this basis. Evidence from other similar contracts show that similar funding arrangements, taking advantage of the comparatively low rates available under the Public Works Loan Board (PWLB), are increasing.

## **3.0 Key Messages**

- 3.1 The Council considered a report entitled 2018/19 Medium Term Financial Plan (MTFP) and Revenue Budget at its meeting in February 2018. That report proposed a balanced budget of £316.882m for 2018/19 and illustrated future deficits of £8.615m in 2019/20; £5.848m in 2020/21; and £1.087m in 2021/22. It is now essential that these figures are reviewed and revised in order to set realistic base budgets for 2019/20 and beyond.
- 3.2 At this stage, no detailed work has been undertaken on the years beyond

2019/20, but some initial review has been carried out on 2019/20. This indicates that the deficit in that year will be nearer £19m. Appendix A shows how what has changed since the original deficit figure, in February 2018, of £8.615m.

### **3.3 There are several areas to highlight, with a number of assumptions:**

- 3.3.1 The principle has been adopted that the budget requirement will be estimated with all known pressures across all services. That is, there will be no known, hidden pressures such as unmet inflation or legislative changes. In addition, where there are prior year, unachievable savings, derived from some of the themes, then these will be reversed out. In this way, a full understanding of the pressures on the revenue budget can be understood before considering how they might be addressed in accordance with the priorities of the Council.
- 3.3.2 This issue particularly affects Children's Services, where considerable work has been undertaken to seek to create a base budget that is understood and felt to be realistic by not only the Children's Services Management Team, but also by the rest of the Senior Leadership Team (SLT), the Cabinet and the Scrutiny Committee. Appendix A shows that £14.5m has been added to the budget in 2019/20 and this allows for the ongoing impact of the savings agreed by the Cabinet in September 2018. In addition, there will be sums added within the generic headings of "inflation", "undelivered savings", etc. within the core budget preparations.
- 3.3.3 It is considered that some of the savings identified in earlier years, for delivery either before or in 2019/20, will not be successfully delivered. This has led to nearly £7.4m of savings being reversed: £5.8m generally and £1.6m in regard of procurement savings specifically.
- 3.3.4 Some additional funding is identified, as it was for 2018/19 in the September budget report. This includes an estimate of S31 grant, of business rates surplus and of council tax surplus. Care is needed here to balance the need to estimate as much funding as possible, while not overstretching the estimate and leaving a deficit in-year.
- 3.3.5 Following from the September Cabinet meeting £10.514m has been allowed for the estimate of the cumulative, new savings agreed at that meeting.
- 3.3.6 There is a £3.5m provision for the ongoing pressure caused by the proposed change of providing adult learning disability services. However, this is a worst-case provision and it is intended to reduce this sum as further plans are drawn up. In addition, the Director for Adults Services is considering how the Service might meet any residual pressure from within the Service's own means. So, while this pressure may be mitigated, it would mean that Adult Services would have less potential to contribute to balancing the budget beyond dealing with its own pressures.
- 3.3.8 A review of capital receipts flexibility is required. The assumed gap of £19m allows for enough receipts at this stage and assumes that the transformation proposals will satisfy the criteria; further work is needed to validate this. Any challenge to the status of any proposal or any funding source, will result in more pressure on the budget.

### **3.4 Timetable and Plan of Action**

- 3.4.1 It is intended that there will be update reports on the development of the MTFP to each meeting of the Cabinet through the period until the Full Council meeting in February 2019. The various Scrutiny meetings will be kept updated also.
- 3.4.2 At the next Cabinet meeting it is intended to present the validated projected budget requirement and funding availability over the full MTFP period up to 2021/22; this will enable longer-term planning and will inform the shorter-term decisions so that they are kept in line with longer term intentions and actions.
- 3.4.4 In the immediate foreseeable future, the Senior Leadership Team (SLT) are developing proposals which seek to bridge the gap for 2019/20 in the first instance. October is a key month in this planning and preparation; the SLT intends to have draft proposals ready for discussion with members by the end of this month. Given the challenge of both pace and creating deliverable proposals for the September Cabinet meeting, it must be appreciated that doing the same all over again is an even bigger ask of both officers and members. This is alongside the need to control the revenue budget tightly and deliver all of the savings that are currently in the pipeline. The consequential impact on services of any proposals is likely to be significant.
- 3.4.5 Meanwhile, senior officers and members will continue to press our local MPs, MHCLG and others, through the LGA, for more funding flexibility that will seek to avoid the worst of the funding challenges that we have identified.

### **4.0 Background Papers**

- 4.1 Medium Term Financial Plan report to Council – February 2018
- 4.2 Month 4 Revenue Budget Monitoring Report to Cabinet – September 2018

## Appendix A – Revised MTFP 19/20 Gap

		2019/20
		(£m)
Feb 2019/20	Original Gap	8.615
Prior-Year Savings at risk	Unachievable savings	5.876
	Already provided for within Children's rebase	-0.775
<b>Additional Pressures - not included in Model</b>		
<b>Adult Services</b>		
	Review To Improve Lives	3.059
	Day Services for Learning Disability	3.500
	Over provision for inflation	-0.012
<b>Childrens</b>		
	Resetting the budget	14.511
	less allocation already made	-5.000
	Demography	1.000
	Placements contractual inflation	0.380
<b>ECI</b>		
	Additional service pressures	0.150
	Additional Waste Inflation, Demography and Landfill Tax	0.967
	Revenue costs of developing A303/A358	0.125
<b>C&amp;SS</b>		
	Procurement savings undeliverable (cumulative up to 2018/2019)	1.556
	Various service pressures	0.931
	Capital Receipts flexibility	1.658
<b>Funding</b>		
	Additional grants payable to the authority under S31 of the Local Government Act 2003	-1.750
	Additional Non-Domestic rates retained under the rates retention scheme	-1.200
	Collection Fund (Council Tax) Surplus payable to the authority from billing authorities	-1.500
	Sub-total	<b>32.091</b>
<b>MTFP 2 Savings</b>		
	19/20 impact (excluding Children's - in rebase)	-10.514
<b>In-Year Savings identified</b>		
	Sheltered Housing	-1.000
<b>Additional Funding</b>		
	Application of CRF to fund additional pressure	-1.658
<b>MTFP Revised Gap (1st Draft)</b>		<b>18.919</b>