Medium Term Financial Strategy 2019 - 2022
Cabinet Member(s): Cllr Mandy Chilcott – Cabinet Member for Resources
Division and Local Member(s): All
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	Cabinet Member	Cllr Mandy Chilcott	10/12/2018
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	Relevant Scrutiny Chairman	Cllr Anna Groskop	Sent 10/12/2018
Forward Plan Reference:	FP/18/11/12		
Summary:	Over the Autumn months Somerset County Council has been developing budget proposals for the financial years 2019/20 to 2021/22, known as the Medium Term Financial Plan (MTFP). While the Council is only obliged to set a balanced budget for the forthcoming financial year, it is key to the successful delivery of its objectives that plans are developed for a further two years. Planning beyond 2019/20 is made more challenging by the lack of detailed public finance information from the Government; 2019/20 is the final year of the four-year settlement period and a Comprehensive Spending Review (CSR) is being prepared by the Government for consultation in 2019. The detailed work on the County Council's finances has shown that the Authority has a requirement to spend £338m on delivering its services to residents in 2019/20. Consequently, this report analyses the funding available and determines the gap between that and an affordable level of spending. The analysis shows that the funding falls short of need by £28m over the next three years, so the Council will need to consider what it delivers and how it is delivered in order to reduce spend in line with funding. Other councils, particularly 'shire' authorities, face similar situations.		

Summary:	Against the projected £15m gap for 2019/20, firm proposals have been developed and will be presented to members at the scheduled Scrutiny, Cabinet and Full Council meetings in the new year. Some of the solutions to the 2019/20 gap do not continue into 2020/21, so while the gap starts at £13.4m, when account is taken of the one-off solutions it grows to £16.6m. Outline plans and ideas are developed that will address all but about £5m of this gap. And given that there is a new settlement and formula expected for that year, with no extension of the gap in the following year, it is not considered prudent to drive hard for further savings proposals to be developed at this time. Since the Cabinet meeting in September 2018, when further proposals for change were accepted for implementation in 2018/19, good progress has been made by the Council in terms of consistent delivery of the proposals and ongoing management of the budget. Recent monitoring reports show achievement of the proposals for change in excess of 96%, and a resultant reducing overspend, down to the level of £2.368m based on spending to the end of month 7. There is now confidence that there will be an underspend at the end of this year, which means that the Council's reserves can be partially restored, which will support the resilience of the Council and hence the MTFP.
Recommendations:	**1. That the Cabinet reviews the latest position set out in this report and comments upon the preparation of the MTFP in advance of the presentation of specific proposals for change, in January, which will address the projected funding gap of £15m for 2019/20.** **2. That the Cabinet requests that the Senior Leadership Team bring forward specific proposals for change, that will address the £15m funding gap in 2019/20 and for these to be prepared and presented to the Cabinet meeting in February 2019, following consultation with all Scrutiny Committees in January 2019.** **3. That the Cabinet agrees to withdraw the proposal to consult on the potential reduction of financial support to the public transport and college bus network (proposal ECI-12, appendix C2.b.03 of Cabinet papers 12 September 2018)**

Reasons for Recommendations:	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. Furthermore, preparing a robust, balanced and deliverable budget for the forthcoming financial year, 2019/20, is a statutory obligation as well as being key to the effective management of the Council and delivery of essential services. Further to the work undertaken on the consultation arrangements for proposal ECI-12, it is now considered that this proposed reduction in financial support should not proceed, hence there is no value in the consultation being undertaken.
Links to County Vision, Business Plan and Medium Term Financial Strategy:	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.
Consultations and co-production undertaken:	No detailed consultations have been undertaken at this time, but such consultation as is required will be arranged as the proposals for change are developed, considered by members and ahead of any required decision making.
Financial Implications:	This report describes the overall financial position of the Council for future years; all financial implications are described within the report.
Legal Implications:	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, having regards to advice from the Section 151 Officer. The Council is also required to set a council tax requirement and issue precepts to all district councils.
HR Implications:	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.

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<tr>
<td rowspan="2">Risk Implications:</td>
<td colspan="6">The key risks are identified on the strategic risk register and particularly within risk ORG0043. These include:

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 are occurring in 2018/19, which may impact in the next financial year.

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.

The delays to the scheduled government announcement of the provisional local government finance settlement continues to provide uncertainty to all local authorities when developing their MTFPs. It is anticipated that announcements will be made prior to the end of 2018 so that our budget assumptions can be assessed, and members advised accordingly.

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.</td>
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<td>Likelihood</td>
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<td>5</td>
<td>Risk Score</td>
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Other Implications (including due regard implications):	**<u>Equalities Implications</u>** 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. 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 informed decision is made. There are no specific equalities implications arising from the contents of this report. The development of specific proposals for change will require the preparation of any necessary Equality Impact Assessments to assist with any subsequent decision making. **<u>Community Safety Implications</u>** There are no community safety implications arising from the contents of this report. **<u>Sustainability Implications</u>** There are no sustainability implications arising from this report. **<u>Health and Safety Implications</u>** There are no health and safety implications arising from this report. **<u>Privacy Implications</u>** There are no privacy implications arising from this report. **<u>Health and Wellbeing Implications</u>** There are no health and wellbeing implications arising from this report.
Scrutiny comments / recommendation (if any):	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 well as monitoring the delivery of savings and control of the current budget. 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 Local Government Financial 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 about 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.

1.3. It is intended that the Council meeting in February 2019 will be able to set a robust and balanced budget for 2019/20 as well as to consider financial plans for 2020/21 and 2021/22. This report sets out how the budget has been built for 2019/20, including the assumptions upon which it is based, with additional material in regard of the period 2020 to 2022.

1.4. The MTFP set out in this report has been built on the principle that the Council needs to understand all the funding and demand pressures upon it in order to be able to prepare a robust plan. Therefore, the budget requirement has been 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.

1.5. Although originally anticipating receiving the Provisional Local Government Financial Settlement for 2019/20 on 6 December 2018, the Government have now announced a delay until later in December (precise date not yet known). The funding assumptions set out in this paper are therefore best estimates and the actual implications will be reflected in the final MTFP proposals presented to Cabinet in February 2019. However, based on the Chancellor of the Exchequer's Autumn Budget announcements in October 2018, significant changes to these assumptions are not expected.

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. Within that requirement, the Council does have some options as to how the budget is balanced for future years. Some of the detail of these options is set out in this report.

3. Key Assumptions

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 net revenue budget of £317.882m for 2018/19 and illustrated future deficits of £8.615m in 2019/20; £5.848m in 2020/21; and £1.087m in 2021/22. These figures have been reviewed and revised to set realistic base budgets for 2019/20 and beyond.

3.2 When the MTFP 2019/20 development report was prepared for the Cabinet meeting in October 2018, no detailed work had been undertaken on the years beyond 2019/20, but an initial review had been carried out on 2019/20. That work indicated that the deficit in that year was estimated to be nearer £19m. The further detailed work that has been undertaken and is presented in this report, including technical adjustments and proposed policy changes, shows that the gap yet to be resolved by further proposals for change is £15m.

Spending Assumptions

3.3. To ensure there is a robust MTFP is developed, services have focused on ensuring that all demand pressures are reflected in the budget proposals. Table 1 below summarises these service pressures by types, whilst Table 2 shows the assumptions by Service Area (including funding assumptions), with a brief explanation of each in the paragraphs below the tables.

Table1: Service Pressures by type over MTFP (2019-22) period

Pressure Type	2019/20 (£)	2020/21 (£)	2021/22 (£)
Demand	22,767,600	2,469,700	1,179,000
Demography	1,548,900	1,606,500	1,459,000
Inflation (General)	2,542,800	606,700	821,100
Inflation (Contract)	3,426,200	3,461,600	3,737,406
Legislation Change	1,561,600	0	100,000
Pay	3,611,722	(50,000)	0
Previously Unfunded	1,077,408	0	0
Prior Year Savings Unachievable	14,820,592	3,333,200	0
Total	**51,356,822**	**11,427,700**	**7,296,506**

3.4 In 2019/20 a large proportion of the demand pressure is due to the children's services rebasing which is explained in more detail in a later section. Of the £3.612m pay pressure above, £3.017m is to cover the 2% pay award (including incremental increases, employer's National Insurance and pension contributions.) There are inflationary pressures totalling £14.596m over the three-year MTFP period across all services, the majority relating to specific contracts for services.

3.5 In Table 2 below, Adults and Health pressures of £8.040m in 2019/20 will be partly offset by £3.059m Reviewing to Improve Lives (RTIL) (which is part of the savings solutions). Also £2.351m of this pressure is offset against the adult social care (ASC) precept.

Children's: Most of the below pressure, (£21.640m) is due to rebasing the Children's budget, however £7.904m of this rebasing figure is offset by in-year savings. This leaves £2.184m of additional pressures and £4.836m of prior year savings unachievable (mostly Technology and People (TAP) and Transport related).

Economic & Community Infrastructure: £2.906m of the 2019/20 ECI pressures generally relate to contract inflation. The remaining £1.178 relates to prior year unachievable savings (mostly TAP)

Corporate & Support Services: £2.596m of the 2019/20 pressure relates to changes in legislation (i.e. ICT licence costs) and underfunding of budgets in previous years. A further £3.780m of the pressure relates to unachievable savings (TAP and Commercial/third party spend savings)

Non-Service: £3.023m of the pressures relate to pay pressures (2% pay award). The remaining pressures are mostly related to the Capital Programme for 2018/19 and 2019/20

Table 2: Adjustments by Service area over MTFP (2019-22)

Service	2018/19 Budget	Savings & Other Adjustments	Pressures & Unachievable Savings	2019/20 Indicative Budget
Adults Services	141,148,900	(16,628,400)	8,040,270	132,560,770
Children Services	65,895,200	(9,670,600)	28,659,300	84,883,900
Economic and Community Infrastructure Services	66,546,600	(3,231,100)	4,084,600	67,400,100
Public Health	1,023,000	(400,000)	125,500	748,500
Key Services	**274,613,700**			**285,593,270**
Corporate and Support Services	20,576,600	(2,730,600)	6,376,163	24,222,163
Non-service items (inc Debt Charges)	34,697,100	(2,582,100)	3,320,989	35,435,989
Support Services & Corporate	**55,273,700**			**59,658,152**
Un-ring Fenced Grants	(12,579,700)	1,502,700	0	(11,077,000)
General Reserves	3,912,600	(1,912,600)	0	2,000,000
Earmarked Reserves	(900,000)	1,828,525	750,000	1,678,525
Insurance Fund	164,000	360,500	0	524,500
Capitalisation Flexibility and Capital Fund	(2,602,400)	2,134,400	0	(468,000)
Net Budget Requirement	**317,881,900**			**337,909,447**
Financed By				
Revenue Support Grant	(16,082,100)	10,006,600	0	(6,075,500)
Individual Authority Business Rates Baseline	(14,275,200)	(1,862,100)	0	(16,137,300)
Business Rates Top-up	(51,426,400)	(795,100)	0	(52,221,500)

Business Rates Collection (Surplus) / Deficit	321,800	(321,800)	0	0
Business Rates Collection Pool	(500,000)	(300,000)	0	(800,000)
Council Tax Collection (Surplus) / Deficit	(3,163,100)	163,100	0	(3,000,000)
Locally Collected Council Tax (inc. est. Taxbase increases)	(215,378,600)	(9,273,600)	0	(224,652,200)
Council Tax Adult Social Care	(14,871,400)	(2,506,200)	0	(17,377,600)
Council Tax Somerset Rivers Authority	(2,506,900)	(26,100)	0	(2,533,000)
Budget (Surplus) / Deficit & Totals	**0**			**15,112,347**

3.6 To ensure a robust MTFP (2019-22) is prepared it is necessary to acknowledge where savings identified to be achieved in earlier years, for delivery either before or in 2019/20, will not be successfully delivered. This has led to £18.154m of savings being reversed over the MTFP period across a range of service areas including £6.822m relating to Technology and People (TAP), £1.609m procurement (Commercial and Third Party spend), £2.667m relating to Transport savings and £3.059m relating to Learning Disabilities purchased services (RTIL) specifically. A detailed schedule of all those to be reversed will be included in the Cabinet meeting in February 2019.

3.7 Following decisions made at the September 2018 Cabinet meeting some £13.611m has been allowed for the 2019/20 impact of the cumulative, new savings agreed at that meeting including those being delivered as a result of the Children’s rebasing work described below (£7.230m). At that time it was intended that there might be a saving arising from the reduction of financial support to the public transport and college bus network and there was to be formal consultation carried out over the winter period. In September no figure was attached to this saving as that work had not been carried out. It is now recommended that this saving proposal is withdrawn and a recommendation is formally made in this regard.

3.8 The largest change has been in regard of the Children's Services budget. In 2016/17 the Council approved the Children and Young People's plan, which set out the vision for service delivery over a 3-year period. The plan set out the financial resources available to the Service, indicating that additional one-off investment of £6m was needed in year 1, reducing to £3.3m and £0.9m in the following years following the inadequate Ofsted rating received in March 2015. However, the overspend during those 3 years increased from £3.9m in year 1 to the £22m that was reported in month 4 of this year as illustrated in Table 3 below:

Table 3: Children's Services net budget 2013/14 to 2018/19

	Budget £m	Expenditure £m	Variance £m
2013/14	67.465	66.061	-1.404
2014/15	64.703	67.350	2.647
2015/16	72.370	77.068	4.698
2016/17	76.532	80.469	3.937
2017/18	73.846	83.565	9.719
2018/19	66.314	88.635	22.321*

**Prior to one-off rebase of £17.951m (£5m from contingency and 12.951m from latest rebase), also includes all MTFP savings for 2018/19*

3.9 These overspends have primarily been in relation to the increasing number of external placements for looked after children and increasing costs of placements. The Director of Children's Services reports that the increased placement costs relate to three elements – the sufficiency of foster and residential care placements for children with complex needs – the impact of child exploitation and associated abuse - and the legacy of poor practice for a number of children when the Council was 'inadequate' for children's services. Another factor that has influenced the level of expenditure in the service has been the continuing challenge of recruiting a permanent social work workforce which has resulted in the need to appoint locums at significant cost to the Council. The commissioning function within Children's Services was primarily staffed under an invest-to-save agenda, which, due to the financial position of Children's Services as a whole, did not lend itself to these posts securing permanent funding.

3.10 Additional statutory burdens set out by central government such as Special Guardianship, Staying Put and Unaccompanied Asylum Seeking Children have been placed upon the service with significantly insufficient funding. For those burdens where there was grant funding, such as the SEND Reform grant, the funding has now ceased, but the statutory duties remain unchanged. Approval was also given by Cabinet for improvements to the fees and allowances scheme for foster carers in October 2017, but no additional funding was allocated to the service at that time.

3.11 Due to the overall financial position of the Council, the Service was required to put forward MTFP savings, which were agreed without sufficient plans in place for delivery. Ultimately some of these savings were unachievable, hence adding to the overspend. Over a number of years the service, as with the rest of the Authority, was not allocated funding for demography or inflation and this has cumulatively impacted on the service, especially given that a significant element of the budget relates to contractual costs for external placements and transport.

3.12 To address these deficiencies, the budget has been rebased and aims to ensure that Children's Services has a budget that is appropriate for the current and projected level of activity and statutory duties. Projected changes in activity and known additional statutory burdens have been accounted for through pressure bids within the MTFP.

3.13 To provide appropriate sign off from the service and hence commitment to the budget, during the rebasing, discussions were held with members of the Children's Service Directorate Management Team as well as Strategic and Service Managers to ensure sufficient input from the service. The methodology for the rebase was also discussed with the external consultants commissioned by the Local Government Association (LGA) (People Too), who agreed that the budget had been built in the most appropriate way.

3.14 To support Children's Services in delivering a balanced outturn position in 2019/20 (and in 2018/19) the Finance Service will scrutinise the expenditure position providing challenge and support where it is needed the most. Financial reports will be produced monthly for discussion at Senior Management Team (SMT) meetings where management actions will be expected to be formulated to address any adverse change in projection. There will be continued Finance attendance at relevant service meetings along with regular finance meetings with budget holders and additional budget management training provided if required. Financial Performance Review Meetings (FPRMs), chaired by the Chief Executive, will continue to be held during the year to focus on areas of high spend. The proposed centralisation of all finance related functions into the Children's Finance Service will aid better financial control and Finance will also work with HR and Organisational Development to ensure that establishment control is always linked with budget. In addition to the delivery of all proposals for change is routinely scrutinised via the Financial Imperative Team to Senior Leadership Team (SLT), so any drift from delivery targets is identified at a very early stage, with corrective measures then implemented.

Funding Assumptions

3.15 The funding for the council's revenue budget comprises several key elements: core government allocations (e.g. revenue support grant, new homes bonus, business rates etc), service specific grants (e.g. Dedicated Schools Grant - DSG, Public Health etc), fees and charges and council tax. This report sets out the current assumptions for core Government funding and council tax. When the Provisional Local Government Financial Settlement is announced by Government these assumptions will be validated. Government have recently delayed the announcement until mid-December (precise date not known), although on the basis that this Settlement represents the fourth year of the previously announced four-year settlement offer, significant changes to assumptions are not expected.

3.16 Details of many service specific grants for 2019/20 are also expected to be announced in the coming weeks and the Cabinet report in February 2019 will include details of these allocations. Information on the funding impacts is shown in Table 2 above.

Comprehensive Spending Review and Fair Funding Review

3.17 In 2015 the Government announced a four-year financial settlement for core government funding, with 2019/20 being the final year. Since then they have also initiated a wider review of local government funding (known as the Fair Funding Review) and indicated that this will come into operation with effect from 2020/21. Although ‘technical’ consultations were expected during the summer and autumn of 2018, which may have helped inform budget planning assumptions, any clear indication of the proposed reforms remains unknown meaning the implications for councils funding beyond 2019/20 is uncertain. For the purposes of budget planning it has therefore been sensibly assumed that there will be no change in the trajectory of the council’s core funding (e.g. budget planning assumes RSG ceases in 2020/21). Throughout 2019 officers will actively engage with Government to understand implications at the earliest opportunity.

3.18 Further uncertainty exists as the Government have also not yet indicated the period (i.e. number of years) for the next Comprehensive Spending Review (CSR) and more details, including exemplifications, are not expected to be known until at least summer 2019.

Business rates

3.18 After 2019/20 the Government have announced a stated intention of introducing a 75% business rate retention system. They are currently discussing the scope and nature of these changes and to help inform the new system they have invited authorities to apply to be a business rate pilot area during 2019/20. Somerset County Council has applied jointly with the districts and boroughs to be a two-tier pilot and expects to hear whether the application has been successful as part of the Local Government Financial Settlement announcements later in December 2018. It should be noted that if unsuccessful the Council has applied to operate under separate pooling arrangements with all district and boroughs on the same basis as in the current year.

3.19 Under either scenario the Council can anticipate a benefit and the current, prudent MTFP assumption is a gain of £0.8m in 2019/20 from the business rate pool. If successful as a pilot additional funding would be expected and details will be included in the February 2019 budget report.

3.20 However, since the Government intend to operate a different local government funding system from 2020/21, including for business rates, no assumed gain, from a pilot or a pooling arrangement, has been reflected in the budget for 2020/21 onwards.

3.21 Even under the current 50% business rate retention arrangements, introduced in 2016/17, the council is less certain of funding than in the past when business rates were all held centrally by Government and distributed to authorities through core funding (e.g. RSG), because the risk of variability in collection levels now lies with the local authorities and not Government. Whilst the Somerset districts and boroughs helpfully share their estimates of collection levels it is inevitable that the actual levels of collection are not known until the end of a financial year.

3.22 By necessity, in developing the MTFP (2019-22) assumptions have therefore had to be made about the expected collection levels. Considering this and the current economic uncertainty relatively prudent assumptions about any growth in business rates (of 2%) has been made.

3.23 Under the current business rate retention arrangements, upper tier authorities are allocated additional funding to ensure they retain sufficient business rates to deliver local assessed needs (determined by Government and subject to review as part of the Fair Funding Review (FFR)), known as Top-up grant. The Government inflate this amount annually meaning the council expects to receive £52.222m top-up grant in 2019/20. In the absence of details of any potential alternative local government funding system from 2020/21, a sensible budget planning assumption is to increase this by 2% annually in 2020/21 and 2021/22.

3.24 Finally, in relation to business rates, the Government have nationally awarded small businesses with business rate relief and agreed to compensate each local authority for the foregone business rates in the form of a ‘Section 31’ grant. For this council this is estimated to be £1.750m in 2019/20 and a planning assumption at similar levels has been made for future years.

Revenue Support Grant (RSG)

3.25 The previous four-year settlement allocated £6.075m RSG to the council for 2019/20, a significant reduction of £10m from the previous year. As the Council accepted the four-year offer, this is the assumed level of funding in 2019/20, although yet to be confirmed in the settlement. Whilst no announcement will be made about future years, the Government’s stated intention is to end RSG, so no RSG has been assumed for 2020/21 onwards.

New Homes Bonus (NHB)

3.26 Since 2017/18 the Government have been reducing the number of years for which NHB grant is payable (from 6 to 5 years from 2018/19 and to 4 years from 2019/20) and have introduced (from 2018/19) a threshold below which local authorities do not receive the grant. The effect is to reduce the expected grant over the MTFP period from £2.235m in 2019/20 to £1.624m by 2021/22.

3.27 It should be noted that there will be a more significant reduction in funding experienced by the County’s districts and boroughs because they receive 80% of the value of NHB grant, whilst the County Council receives 20%. The reduction in this grant therefore sees considerable government funding diverted from Somerset residents.

Council Tax

3.28 It is worth noting that each 1% council tax increase raises around £2.3m annually for the council and this amount increases marginally each year as the number of properties paying council tax increases. Each district and borough estimate the annual increase in property numbers and up-dates these estimates periodically. The latest information available indicates an increase of 1% across the council and this growth has been reflected in planning assumptions for 2019/20. Based on recent experience, a similar rate of growth has been assumed for the latter years.

3.29 However, in mid-January each year district and borough’s update the County on the actual level of council tax collection and any variation (surplus or deficit) is paid to / by the county. In recent years there has been a significant surplus and to help manage budgets smoothly, the Council has assumed a prudent level of surplus in budget planning. For 2019/20 a surplus of £3m is assumed. Once the County Council receives the absolute surplus / deficit position for 2018/19 (by mid Jan), the reasonableness of this assumption for 2019/20 will be reviewed. (For 2018/19 planning assumptions are

£3.2m surplus; any variation from this will add to or reduce the outturn position for 2018/19 and either contribute to or draw upon reserves).

Somerset Rivers Authority (SRA)

3.30 In response to the severe flooding impact in the county in 2014, for 2016/17 the Government permitted the council, by exception, to raise 1.25% council tax through a separate precept to fund the SRA. Although raised by the council this additional funding has no impact on the council's net spend since the SRA expenditure is managed to equal the funding raised (with any annual variations smoothed through an earmarked reserve). Beyond 2019/20 the MTFP assumes that the government enact the proposal to establish the SRA authority as a separate entity and so both the funding and the expenditure have been excluded from the planning assumptions.

Adult Social Care Support Grant

3.31 For 2018/19 the Government allocated a 'one off' grant to support ASC spending. However, in the autumn 2018 the Government have announced further one-off funding for 2019/20: winter pressures funding of £2.5m to assist with effective discharge from hospital services and a further £4.3m to support adults and children's services manage increasing demands. Looking into future years, no assumption about additional one-off funding is made at this stage.

Non-Service Specific Grants

3.32 In addition to core Government funding, such as RSG, the government allocates a few non-service specific grants albeit to funding activities e.g. lead local flood authority. Whilst these are relatively minor, they are included in the net funding of the council and values are set out below. As for many other areas, prudent assumptions have been made for future years based on best known information.

Table 4 below shows the total core funding assumed for the MTFP period based on the sensible assumptions discussed above and figures will be up-dated as relevant once the Financial Settlement and any other information is received and reported in the February budget report.

Table 4: MTFP (2019-22) Core Funding Assumptions (excludes service specific grants and other income)

2018/19 Funding	Un-ring Fenced Grants (section 31)	2019/20 Indicative Funding	2020/21 Indicative Funding	2021/22 Indicative Funding
(16,082,100)	Revenue Support Grant	(6,075,500)	0	0
(72,100)	Lead Local Flood Authority	(76,400)	(80,300)	(84,300)
(132,700)	Inshore Fisheries Conservation Authority	(132,700)	0	0
(386,600)	Extended Rights to Free Travel	(367,300)	(348,900)	(331,500)
(2,475,000)	New Homes Bonus	(2,235,200)	(1,884,800)	(1,623,800)
(337,600)	Local Reform and Community Voices	(320,700)	(304,700)	(289,500)
0	S31 Business Rates Cap (NDR relief)	(1,750,000)	(1,785,000)	(1,820,700)
(2,402,600)	Rural Services Delivery Grant	(1,928,000)	(1,928,000)	(1,928,000)
(6,773,100)	Adult Social Care Support Grant	0	0	0
0	Social Care Support Grant	(4,266,700)	0	0

(28,661,800)	Total Un-ring Fenced Grants	(17,152,500)	(6,331,700)	(6,077,800)
2018/19 Funding	**Business Rates (NDR) and Council Tax**	**2019/20 Indicative Funding**	**2020/21 Indicative Funding**	**2021/22 Indicative Funding**
(14,275,200)	Individual Authority Business Rates Baseline	(16,137,300)	(16,460,100)	(16,789,300)
(51,426,400)	Business Rates Top-up	(52,221,500)	(53,265,900)	(54,331,200)
321,800	Business Rates Collection (Surplus) / Deficit	0	0	0
(500,000)	Business Rates Collection Pool	(800,000)	0	0
(3,163,100)	Council Tax Collection (Surplus) / Deficit	(3,000,000)	0	0
(215,378,600)	Locally Collected Council Tax (inc. est. Taxbase increases)	(224,652,200)	(232,067,800)	(239,090,600)
(14,871,400)	Council Tax Adult Social Care	(17,377,600)	(17,574,400)	(17,726,700)
(2,506,900)	Council Tax Somerset Rivers Authority	(2,533,000)	0	0
(301,799,800)	**Total Business Rates & Council Tax**	**(316,721,600)**	**(319,368,200)**	**(327,937,800)**
(330,461,600)	**TOTAL FUNDING**	**(333,874,100)**	**(325,699,900)**	**(334,015,600)**

3.33 Since the Spending Review 2015, the Chancellor of the Exchequer has permitted local authorities to help deliver more efficient and sustainable services, by allowing authorities to spend up to 100% of their capital receipts on the revenue costs of reform projects. Although initially this flexibility on the use of capital receipts was limited to those receipts received between 1 April 2016 and 31 March 2019, this was extended for a further three years in the Local Government Financial Settlement published in February 2018.

3.34 Somerset County Council has previously made use of this flexibility to reform services to become more efficient and sustainable: since 1 April 2016, the council has received (or anticipates), a total of £21.227m capital receipts by the end of 2018/19, of which it expected to have used £16.005m to fund this strategy by 31 March 2019. Looking ahead to the MTFP (2019-22) the Council proposes to fund a further £6.290m of projects to reform services and a schedule of these projects and associated revenue savings will be included in the detailed budget proposals to be considered by Full Council in February 2019.

3.35 Even though the Capital Programme for the period 2019/20 to 2022/23 is subject to separate consideration by Cabinet in January 2019, the revenue impact of the proposals has been built into the draft revenue budget now. Account has also been taken of the proposed, revised Minimum Revenue Provision (MRP) policy, that will need separate consideration by the Council in February 2019. That policy adopts a new basis of “useful economic life” of the asset as the basis for the charge to revenue, while ensuring that there is enough funding in the MRP reserve, at the critical points. The impact is a reduction in the MRP charge to revenue over the next few years compared to the implications of the previous policy.

3.36 Table 5 below shows the benefit of adopting the revised MRP policy and the impact of the proposed capital programme (2019-23), on the annual revenue budget requirement.

Table 5: Budget implications of updated capital programme and MRP policy

	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m

Additional cost of proposed capital programme (2019-2023)	-	0.086	1.398	1.865	2.295
Benefit of revised MRP policy	4.349	3.714	3.438	3.079	2.758
Total revenue budget impact	**4.349**	**3.628**	**2.040**	**1.214**	**0.463**

Proposed Budgets by Directorate

3.37 The budgets resulting from the above assumptions, by directorate, are set out in Table 6 below

Table 6: MTFP (2019-22) Indicative Net Budgets by Service and associated funding

2018/19 Budget	Service	2019/20 Budget	2020/21 Indicative Budget	2021/22 Indicative Budget
141,148,900	Adults Services	132,560,770	133,598,770	135,224,770
65,895,200	Children Services	84,883,900	84,936,500	86,376,300
66,546,600	Economic and Community Infrastructure Services	67,400,100	68,166,800	70,197,406
1,023,000	Public Health	748,500	748,500	748,500
274,613,700	**Key Services**	**285,593,270**	**287,450,570**	**292,546,976**
20,576,600	Corporate and Support Services	24,222,163	24,227,963	24,240,063
34,697,100	Non-service items (inc Debt Charges)	35,435,989	39,161,989	41,817,289
329,887,400		**345,251,422**	**350,840,522**	**358,604,328**
(12,579,700)	Un-ring Fenced Grants	(11,077,000)	(6,331,700)	(6,077,800)
3,912,600	General Reserves	2,000,000	2,000,000	2,000,000
(900,000)	Earmarked Reserves	1,678,525	970,395	1,522,289
164,000	Insurance Fund	524,500	421,500	421,500
(2,602,400)	Contribution To / (From) Reserves, Capitalisation Flexibility and Capital Fund	(468,000)	0	0
317,881,900	**Net Budget Requirement**	**337,909,447**	**347,900,717**	**356,470,317**
	Financed By			
(16,082,100)	Revenue Support Grant	(6,075,500)	0	0
(14,275,200)	Individual Authority Business Rates Baseline	(16,137,300)	(16,460,100)	(16,789,300)
(51,426,400)	Business Rates Top-up	(52,221,500)	(53,265,900)	(54,331,200)
321,800	Business Rates Collection (Surplus) / Deficit	0	0	0
(500,000)	Business Rates Collection Pool	(800,000)	0	0
(3,163,100)	Council Tax Collection (Surplus) / Deficit	(3,000,000)	0	0
(215,378,600)	Locally Collected Council Tax (inc. est. Taxbase increases)	(224,652,200)	(232,067,800)	(239,090,600)
(14,871,400)	Council Tax Adult Social Care	(17,377,600)	(17,574,400)	(17,726,700)
(2,506,900)	Council Tax Somerset Rivers Authority	(2,533,000)	0	0
0	**Budget (Surplus) / Deficit**	**15,112,347**	**28,532,517**	**28,532,517**
	Actual gap assuming prior year balanced and gap closed (as per model)		13,420,170	0

3.38 Table 6 above shows, at the bottom line, the budget gaps in each year. The shaded line shows the cumulative gap if the gap in the previous year is not addressed. The line below shows the individual gap in each year, if the gap of the previous year is fully addressed in an ongoing and sustainable way. The gap between budget requirement and funding is £15.112m in 2019/20 and plans to address this are being developed for discussion with members during January and February 2019.

3.39 As indicated throughout this report, a sound MTFS will enable the Council to plan over a period beyond the immediate financial year, will enhance its ability to develop a sustainable budget, will emphasise its going-concern basis and will address some of the deficiencies that led to an adverse VFM opinion from the Auditor (see sections below). As is shown in the table above, there is a gap between planned expenditure and funding of £13.420m in 2020/21 with no extension of the gap in 2021/22. The latter position reflects that no further funding losses are currently known between 2020/21 and 2021/22 and that there is an assumption of a slower increase in some of the more intense spending drivers; e.g. in adults and children's services.

3.40 In building the 2019/20 budget, attention has been paid to the impact of ongoing and new pressures and savings that will continue beyond 2019/20 or start in later years. It is important to recognise the risks and the opportunities that the finances of one financial year can present to another, particularly in regard of successive years. Indeed, the projected gap of £13.420m for 2020/21 could be broken down into £9.153m, being the base gap – mainly driven by the loss of the final element of RSG (£6.024m) plus inflation, pay and demographic changes. The remaining £4.267m reflects the loss of the Social Care Grant that is to be received in 2019/20 only. That is, the modelling starts from the assumption that the entire funding gap from the previous year is resolved on a sustainable basis, so that the only gap to be resolved is the new one arising in that particular year. In this case the Grant does not continue from 2019/20, so needs to be added back to the base gap for 2020/21. The other £2.5m for Adult Social Care is assumed to be matched by expenditure, so when it ends then the expenditure will also end.

3.41 In addition, there are some proposals for change that, should they be agreed for 2019/20, do not continue for more than one year, or at least not at the same rate. There are currently savings to the value of £3.201m that do not continue from 2019/20 to 2020/21; this adds to the gap in 2020/21 and makes it £16.620m before any further actions are taken.

3.42 While it is appreciated that there is much uncertainty about the funding for 2020/21 due to the anticipation of the new Comprehensive Spending Review and the Fair Funding Review, it is prudent to plan around the information currently known. At present we have assumed a "flat cash" approach beyond 2019/20 having allowed for the removal of the last element of RSG.

3.43 An initial strategy for 2020/21 and 2021/22 can be based around the developing outturn position in 2018/19. It is anticipated that there will be sufficient underspend to allow for the reserve position to be partially replenished; an estimate of £5m is reasonable at this time. This would mean that the General Fund at the end of 2019/20 could reach £15m when the annual contributions for 2018/19 and 2019/20 are taken into account. This would release three sums from the annual revenue budget: the £2m annual contribution to the General Fund; approx. £3m from the contingency; and £5m that is currently planned to replenish earmarked reserves (this will have been achieved through other routes). In addition, there are savings to the value of £3.301m that are either full year effects or new savings in the pipeline for development already.

If all of the above opportunities are pursued then the residual gap will be in the region of £5m by 2021/20. Given that there is a CSR to come in 2019, it might be unwise to seek proposals for change in order to fully bridge this gap. Indeed, the gap is only a little more than the social care grant that has been allocated to us on a one-off basis. It might just be a hope, but the government might seek to substantiate this funding on an ongoing basis.

4. Ensuring a Robust and Balanced Budget

4.1 There is a statutory obligation upon the Authority to set a robust, deliverable and balanced revenue budget for the forthcoming financial year. There are several considerations that will underpin the judgement about robustness.

These include:

- How the budget was created, including the reasonableness of the assumptions about pressures and income/funding. Commentary on this is set out in the report above;
- How proposals for change have been developed, tested and reported. The development of proposals is ongoing and will be reported to the Cabinet and Council in January and February 2019;
- The adequacy of any revenue contingency to manage external shocks to the budget without requiring in-year remedial action to control spending. This is referred to below;
- The strength of the mechanisms for monitoring how proposals for change will be implemented. This is referred to below;
- The adequacy of routine budget monitoring to ensure control. Members already receive monthly budget monitoring reports, which have been improved over recent months. While further improvements to the reports are planned it is considered that the data used in the reports is already sound;
- The strength of the reserves. There is comment on this below.

4.2 **Contingency** (£7.226m for 19/20 and beyond) – while every effort is made to plan the budget in as much detail as possible, it is inevitable that unplanned events will occur. Such events could be extreme winter weather affecting the highways or our older residents, or perhaps the inability to deliver a proposal for change following consultation or further investigation. It is therefore prudent to ensure that there is a contingency set aside to mitigate the impact of such events. The size of the contingency will depend on the potential risks to the budget that are envisaged.

4.2.1 When the proposals for change are being prepared, then confidence values are assessed for each one. These are intended to judge the likelihood of delivery having considered the current ability to estimate the value of the saving that might arise, the timing of it and any challenges in making it happen at all. The overall assessment of confidence values then impacts the size of the contingency required, as this would be a potential source of funding for any undelivered proposals, after all other alternatives are exhausted.

4.2.2 Given that the base budget for 2019/20 has taken account known pressures, including rebasing the budget for children’s services and the reversal of previously unachieved savings, then it is reasonable for the contingency to be less than that for 2018/19 (£7.8m). The proposals for change are not yet fully developed so the contingency is being held at £6.2m (compared to the previously planned £7.3m) for 2019/20, hence releasing £1.1m to support the revenue budget on an ongoing basis.

4.3 **Reserves** – these form an important part of the resilience of the Authority. The Council has both earmarked reserves, which hold funds for specific purposes, and a General Fund, which is in place to afford general resilience in the event of unexpected, adverse events befalling the Council.

4.3.1 At the end of the financial year 2018/19, it is estimated that the earmarked reserves will total £11.511m (subject to review later in the year). However, it is expected that the sums earmarked for other bodies (e.g. Somerset Rivers Authority) and requiring the strongest protection (e.g. the Insurance Fund Reserve) total £19.589m. This means that, should these funds be called upon then there is a deficit of £8.078m on the earmarked reserves. The only source of funding would be the General Fund, which would reduce that sum from £13.874m to £5.796m. With the addition of the planned £2m contribution to the General Fund in 2018/19, then that Fund ends the year at £7.796m, about half of the sum that would be judged to be adequate for a council of this size.

4.3.2 In response to this deficit position for earmarked reserves, the draft revenue MTFP (2019-22) includes proposals to replenish the Buildings Maintenance Indemnity Scheme (BMIS) and Repairs & Maintenance (R&M) reserves to the value of £2.078m in 2019/20 and £1.370m in 2020/21 respectively. Whilst assisting with the financial resilience, nonetheless, the overall level of reserves will remain very low. Considering ongoing funding uncertainty, a prudent proposal is to allocate about £2m to earmarked reserves in 2021/22 to aid longer term financial resilience.

Further, if there is the opportunity during the remainder of the 2018/19 financial year to bolster reserves then that would be prudent and would offer the potential to increase resilience and adjust base budgets in future years; e.g. the ongoing contribution to the General Fund (£2m) and the contingency contributions may not be as high as currently assumed. Options for increasing reserves include

- removing one or more of the current negative reserves (which would off-set reliance on the General Fund;
- directly boost the General Fund, and or;
- review the purpose of all other existing earmarked reserves and identify potential to re-allocate resources if no longer justifiable.

Further analysis of all earmarked reserves, including the robustness of recovery plans for negative reserves, will continue and full details of proposed levels of reserves will be included in the February 2019 budget report.

4.4 **Monitoring the Delivery of Proposals for Change**

4.4.1 During 2018/19 more rigorous monitoring of the proposals for change, agreed in February and September 2018 and in prior years, has been undertaken through the Business Change Team. This comprises of Change Team members working alongside those responsible for the proposals to monitor, encourage and assist progress towards delivery. Any deviation from the plan that will secure successful delivery of the savings is flagged early so that remedial action can be taken. In this way any likelihood of non-delivery is brought to light early, remedial action is then undertaken and the potential for an overspend is reduced significantly.

4.4.2 Current monitoring shows that the Council is on track to deliver (or replace where necessary) over 95% of the MTFP proposals for change that have already been agreed for 2018/19 and 2019/20. Therefore, confidence can be taken from the delivery progress and from the monitoring mechanism.

4.5 **Going Concern and the Auditor's Value for Money Assessment**

4.5.1 In July 2018, Grant Thornton, our external auditors reminded us that they were required to "obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern" (ISA (UK) 570).

4.5.2 The Auditors' test that "management have a reasonable expectation that the services provided by the Council will continue for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements". Grant Thornton's conclusion was that they were "satisfied that the Going Concern basis is appropriate for the 2017/18 financial statements". This test will be no less important when the 2018/19 accounts are being prepared and audited. Indeed, given the pressures on local government in general and on Somerset County Council in particular, it is arguable that assurances about the going concern status of the Council will be more important, hence the need to consider the MTFP for the period beyond 2019/20.

4.5.3 The Auditor is also required to give a Value for Money (VFM) assessment each year, the verdict for 2017/18 was an adverse opinion. The summary of the opinion was that their "…work on Strategic Financial Planning has concluded that the Council does not have proper arrangements in place to ensure sustainable resource deployment. We therefore anticipate issuing a qualified 'adverse' value for money conclusion, concluding that the Council does not have proper arrangements to secure economy, efficiency and effectiveness in its use of resources". Since that opinion was issued, considerable work has been undertaken by the Finance Team and the wider organisation to address the concerns about financial planning, financial control and budget monitoring amongst other things. The preparation of a robust MTFP and the presentation of this strategy paper are key management responses to the recommendations put forward by Grant Thornton.

4.6 **Timetable and Plan of Action**

4.6.1 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.

4.6.2

Wednesday 19th December 2018	**Cabinet – Full Meeting**	**Strategy Paper**
Wednesday 23rd January 2019	**Scrutiny Place – Full Meeting**	**Review Final MTFP Detailed Savings Report**
Friday 25th January 2019	**Scrutiny Children's – Full Meeting**	**Review Final MTFP Detailed Savings Report**
Wednesday 30th January 2019	**Scrutiny Adults & Health – Full Meeting**	**Review Final MTFP Detailed Savings Report**
Monday 11th February 2019	**Cabinet – Full Meeting**	**Review Final MTFP Detailed Savings Report**
Wednesday 20th February 2019	**Full Council Meeting**	**Setting of the 2019/20 Somerset County Council Revenue Budget**

Wednesday 27th February 2019	*Full Council Meeting – RESERVE*	*Will only go ahead if budget is not agreed at meeting on 20th February*

Note: The Scrutiny, Cabinet and Council meetings will receive the detailed proposals for review.

5. Background Papers

5.1 Medium Term Financial Plan report to Council – February 2018

5.2 Month 4 Revenue Budget Monitoring Report to Cabinet – September 2018