

Revenue Budget - Medium Term Financial Plan 2019-22**Cabinet Member(s):** Cllr Mandy Chilcott – Cabinet Member for Resources**Division and Local Member(s):** All**Lead Officer:** Peter Lewis, Director of Finance**Author:** Peter Lewis, Director of Finance**Contact Details:** 01823 359028

	Seen by:	Name	Date
	County Solicitor	Honor Clarke	28/01/19
	Monitoring Officer	Scott Wooldridge	28/01/19
	Corporate Finance	Peter Lewis	28/01/19
	Human Resources	Chris Squire	28/01/19
	Property	Paula Hewitt / Claire Lovett	28/01/19
	Procurement / ICT	Simon Clifford	28/01/19
	Senior Manager	Peter Lewis	28/01/19
	Commissioning Development Team	commissioningdevelopment@somerset.gov.uk	29/01/19
	Local Member(s)	All	
	Cabinet Member	Cllr Mandy Chilcott	28/01/19
	Opposition Spokesperson	Cllr Liz Leyshon	29/01/19
	Relevant Scrutiny Chairman	Cllr Anna Groskop	28/01/19
Forward Plan Reference:	FP/18/11/05		
Summary:	<p>Following the Medium Term Financial Strategy paper considered by Cabinet on 19 December 2018, this report now sets out in more detail the proposals to deliver a balanced budget for 2019/20. It also sets out proposals for 2020/21 and 2021/22 that develop the Council's financial resilience over the long-term while also supporting the delivery of the Council's key priorities within the Council's vision to create:</p> <ul style="list-style-type: none"> • A thriving and productive County that is ambitious, confident and focussed on improving people's lives; • A county of resilient, well-connected and compassionate communities working to reduce inequalities; • A county where all partners actively work together for the benefit of residents, communities and businesses and the environment, and; • A county that provides the right information, advice and guidance to enable residents to help themselves and targets support to those who need it most. <p>Despite the on-going reductions in Government funding, and the increasing demand for core services, such as in children's and adult services, the Council continues to make progress in delivering quality services to residents, within the resources available to the organisation.</p>		

A key announcement to inform the detailed planning for 2019/20 was the provisional Local Government Financial Settlement, published on 13 December 2018. This confirmed many of the planning assumptions, for example the limits on council tax increase permissible without a referendum: 3% for general council tax and a cumulative 6% over three years (2017-2020) for adult social care. Having applied a total of 5% in the prior two years, this report proposes the final 1% increase in adult social care council tax flexibility is taken up in 2019/20.

The Council also welcomed the announcement as part of the Financial Settlement that Somerset has been accepted as a 75% Business Rate Pilot alongside the County's district and borough councils for 2019/20. This presents an opportunity to develop partnership working across local government in Somerset to benefit the economic prosperity of the County as well as apply some relief to the financial challenges of each partner. However, since this is a one-year pilot, the opportunities will be limited.

Planning beyond 2019/20 with certainty remains a significant challenge since 2019/20 is the final year of the four-year settlement period and a Spending Review (SR) is being prepared by the Government for consultation in 2019 and due to apply from 2020/21. Alongside a new SR, the Government are also reviewing the system behind funding allocations (known as the Fair Funding Review) and have published two further consultations as part of the Financial Settlement for response by 20 February 2019: Business Rate Reform consultation and Relative Needs and Resources consultation.

Alongside the provisional Financial Settlement, a number of other service specific grants have also recently been announced which have been built into the financial plan. Broadly these have confirmed the previous planning assumptions, although overall the Council has an estimated additional funding of £1.424m across areas known so far. Although confirmation has been received the Authority will be receiving an allocation the actual amounts are not known at the time of writing, so our service teams have estimated (based on past allocations and service knowledge) the possible value of the award.

Within the planning assumptions, there are also several grants (totalling £9.347m) where the Authority has yet to receive any formal confirmation. As above, the service teams have used their service knowledge and past allocations to determine the value (if any) of allocations due in 2019/20 and concluded that £9.347m is a reasonable estimate. Any variations to the estimates will be reported to members during the year through the budget monitoring process.

As reported in the Medium-Term Financial Plan Strategy paper in December 2018, the detailed work on the County Council's finances showed that the Authority requires to spend £338m on delivering its services to residents in 2019/20. It also showed that the funding available fell short of that and after implementing several initiatives a further set of proposals for change to the value of £15.411m were required for 2019/20 to set a balanced budget. Of this sum, decisions

relating to approximately £6.899m of proposals have already been made and details of the remaining £8.512m of proposals are set out in this paper for consideration by Cabinet and recommendation to the Council accordingly.

Across all three years of the MTFP (2019-22), the financial analysis in December 2018 showed that the funding falls short of need by £28m in total (including the £15.411m above), so the Council needs to consider what it delivers and how it is delivered to reduce spend in line with funding.

This report includes details of actions necessary to manage spend down as well as details of further change plans to ensure a robust and balanced budget is prepared for 2019/20 for consideration and approval by members.

Whilst this paper sets out detailed proposals for 2019/20, including risks and equality implications, and outline plans for 2020/21 and 2021/22, in view of a new settlement and formula expected for these latter years, it is not considered prudent to drive hard for further savings proposals to be developed at this time. It is, however, essential to recognise that any proposals not agreed for 2019/20 will have a negative effect on 2020/21 and beyond.

Elsewhere at this meeting, the quarter three 2018/19 budget monitoring position for the current financial year reflects the continued good progress in delivery of in year proposals agreed in September 2018 and ongoing management of the budget: forecasting an underspend of £1.067m. As advised in December 2018, opportunity has been taken to partially replenish the Council's diminished reserves, which will support the financial resilience of the Council and hence the MTFP 2019-22.

Overall, it is considered that the budget for 2019/20 and the MTFP for the period to 2022 have been prepared on a robust basis, identifying known pressures and making reasonable assumptions about future funding and other potential pressures. In particular there has been a focus on ensuring that the financial provision for Children's Services is rebased to provide a realistic budget for the continued improvement journey in that area. The improved projection for the General Fund reserve will further support the Council through future uncertainties, especially the outcome of the Spending Review 2019 and the outcome of the Fair Funding Review, both impacting 2020/21.

Recommendations:

That the Cabinet agree and recommend to Full Council to:

1. Agree a gross revenue budget of £776.640m and a net revenue budget in 2019/20 of £327.578m
2. Agree the application of up to £2.791m in 2019/20 of capital receipts to fund the revenue costs associated with reforming services, subject to further development and review of business cases.

3. Delegate authority to the S151 Officer, in consultation with the Chief Executive and the Director for Customers & Communities – Corporate Affairs to review all business cases before agreeing to the use of capital receipts or the Invest to Save reserve.
4. Agree the replenishment of depleted reserves as follows:
 - a. Create Invest to Save earmarked reserve of £2.852m to ensure resources are available to support further service reform;
 - b. Addition of £2.000m to the General Fund, from the base budget provision, to bring the balance up towards a reasonable level for a Council of this size, and;
 - c. Contribute an additional £2.079m to repay the Buildings Maintenance Insurance Scheme (BMIS) deficit reserve as the scheme has now ended;
 - d. Addition of £0.360m to the Insurance Fund to partially replenish the fund to enable it to support likely claims against the Council.
5. Agree the actions required to manage the gap to be reduced to £15.112m in 2019/20:
 - the reversal of previously identified savings and technical adjustments totalling £18.154m as set out in paragraph 4.5 and [Appendix A](#)
 - approve the revised Minimum Revenue Provision (MRP) statement and policy ([Appendix B](#)), which delivers a saving in 2019/20 of £3.714m;
 - the reduction of the corporate contingency by £0.575m to £7.226m for 2019/20;
 - the use of the additional one-off Adult Social Care grant of £2.498m to meet the requirements set out by Government for this grant;
 - the use of the additional one-off Social Care grant of £4.267m for social care pressures, and;
 - approve the removal of the staff unpaid leave saving of £0.454m following rejection of the proposal by the Unions.
6. Agree the proposals for change (as set out in [Appendix D](#) and [Appendix E1-E5](#)) necessary to set a balanced budget for 2019/20, totalling £8.512m, and delegate the implementation to the relevant director(s) following due process.
7. Agree that due regards have been taken to any equalities implications identified and risk implications prior to any decision being taken in relation to the recommendations in this report, noting the initial equalities impacts as set out in [Appendix C](#).
8. Agree that the savings target relating to Waste Disposal costs (£225k) is endorsed to the Somerset Waste Board to consider agreeing to make savings to this value as part of setting its 2019/20 budget.

9. Agree the Strategy for the Flexible use of Capital Receipts (CRF) as set out in this report, in section 4.38.
10. Agree to keep the Scheme of Members' Allowances unchanged for 2019/20.
11. Note that the Leader of the Council, Cabinet Member for Resources, Chief Executive and Section 151 Officer will oversee and monitor the delivery of the proposals for change and report on progress as part of the budget monitoring reports.
12. Delegate authority for the development of any additional alternative proposals for change that may be necessary to the Chief Executive in consultation with the Section 151 Officer and relevant Director(s).
13. Agree that the Cabinet and the Council have reviewed and confirmed that account has been taken of the Section 151 Officer's assessment of the robustness of estimates and adequacy of reserves as set out in section 6 of this report.
14. Agree the Reserves and Balances Policy Statement in [Appendix K](#)
15. Agree to increase the level of the general Council Tax by 2.99%, which will provide a further £7.057m to support the Councils expenditure.
16. Agree to increase Council Tax by a further 1% for the adult social care precept, which will provide a further £2.360m to support the growth in demand for services.
17. Agree to continue 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 £2.542m
18. Agree to set the County Council precept for band D Council Tax at £1,239.73 which represents a 3.99% uplift. This is a rise of £0.91 per week for a Band D property, as set out in [Appendix H](#).
19. Note that the amount of council tax payable for dwellings listed by valuation band, calculated in accordance with the proportion set out in Section 5(1) of the Local Government Act 1992, shall be as follows:

Valuation Band	Amount (£)
A	826.48
B	964.23
C	1,101.98
D	1,239.73
E	1,515.23
F	1,790.72
G	2,066.22
H	2,479.46

20. Agree that the district councils are requested to make payments totalling £245.415m to Somerset County Council of sums due under precepts calculated in proportion to their council tax Band D equivalents as follows:

District	Total Precept (£)
Mendip District Council	50,204,172.57
Sedgemoor District Council	50,300,400.42
South Somerset District Council	74,713,661.66
Somerset West & Taunton	70,196,965.35
Total	245,415,200.00

21. Note that the district councils are required to make payments of precept by equal instalments of the above sums on the following dates:

18	April	2019	18	October	2019
22	May	2019	18	November	2019
21	June	2019	17	December	2019
22	July	2019	20	January	2020
20	August	2019	18	February	2020
19	September	2019	18	March	2020

22. Additionally, note that payments be made by the district councils (or to them) in respect of the estimated surplus/(deficit) on their collection funds by the 31 March 2019*

*although the final value of both the Council Tax and Business Rates collection fund surplus/(deficit) have yet to be confirmed by districts, the Council has estimated a surplus of £3.000m for the council tax collection fund and a break-even (£nil) position for the business rates. To avoid late changes to the budget, any changes to funding will be applied to the General Fund.

23. Agree to maintain the Council Tax rate set above after the Final Local Government Settlement.

24. Delegate powers to the Section 151 Officer following consultation with the Leader of the Council, to finalise budget proposals following receipt of the Final Local Government Settlement.

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 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.

	<p>The council is required by law to make a statement on the Minimum Revenue Provision. This is the annual provision made from the Revenue Budget in line with our statutory requirements and is central to managing debt liabilities and generating the potential for headroom for new borrowing if affordable and required.</p> <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 2019/20 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 County Vision, Business Plan and Medium Term Financial Strategy:</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>Consultations and co-production undertaken:</p>	<p>No detailed consultations have been undertaken at this time, but such consultation as is required will be arranged as the agreed proposals for change are developed and implemented by the relevant directors.</p>
<p>Financial Implications:</p>	<p>This report describes the overall financial position of the Council for future years; all financial implications are described within the report.</p> <p>The Council's financial position has been set out in this report. Members are under a legal obligation (Local Government Finance Act 1992) to set a balanced budget and in doing so are obliged, under normal administrative principles, to take into account the various relevant factors, particularly in respect of consultation and equalities. Members are entitled to exercise their political judgement, paying due regard to the relevant factors rather than being absolutely determined by them.</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>The proposals in this report 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; • Making a statement on the Minimum Revenue Provision. <p>The provisions of section 25, Local Government Act 2003 require that, when the Council is making the calculation of its budget requirement, it must have regard to the statement of the chief finance (s.151) officer as</p>

	<p>to the robustness of the estimates made for the purposes of the calculations and the adequacy of the proposed financial reserves. It is essential, as a matter of prudence that the financial position continues to be closely monitored. In particular, members must satisfy themselves that sufficient mechanisms are in place to ensure both that savings are delivered and that new expenditure is contained within the available resources. Accordingly, any proposals put forward must identify the realistic measures and mechanisms to produce those savings.</p> <p>The report sets out the relevant considerations for Members to consider during their deliberations and Members are reminded of the need to ignore irrelevant considerations. Members have a duty to seek to ensure that the Council acts lawfully.</p> <p>Members are also individually 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.</p>
<p>HR Implications:</p>	<p>There are no specific HR implications arising directly from this report, but the Council will follow its HR policies and processes as directors implement agreed, relevant specific proposals for change.</p>
<p>Risk Implications:</p>	<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 enough 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> <p>The key risks are identified on the strategic risk register and particularly within risk ORG0043. These include:</p> <p>1 The availability and use of reserves and the revenue contingency: these are critical in being able to manage peaks in demand and costs incurred. This report recognises the need for adequate reserves and contingencies and aims to adopt a reasonable approach to maintaining both.</p> <p>2 The potential for overspends in specific demand led service budgets: these seem to be more stable in recent months although the outlook for some demand led areas can alter relatively quickly. The risk of overspends continues to be mitigated through detailed budget review and challenge sessions which are generating an improved understanding of the budget and hence actions, which are delivering improved control of expenditure within all services.</p>

3 Setting a balanced budget for 2019/20: this report sets out the principles of the creation of the budget and how resources can be allocated to deliver priority services.

This risk is reassessed on a monthly basis to determine if the likely of the risks set out in the register can be reduced. Given the assessment in this report, it is felt that the likelihood score can reduce following consideration and approval of the budget for 2019/20 in February 2019.

Likelihood	5	Impact	5	Risk Score	25
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Equalities Implications

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.

The public sector equality duty is that a public authority must, in the exercise of its functions, have due regard to the need to:

- (1) eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Equality Act 2010;
- (2) advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it; and
- (3) foster good relations between persons who share a relevant protected characteristic and persons who do not share it

What the duty requires is consideration of all available information, including the potential impacts and mitigations to ensure a fully informed decision is made.

Any decision made in the exercise of any function is potentially open to challenge if the duty has been disregarded. The duty applies both to Full Council when setting the budget and to Cabinet when considering particular decisions.

Equality Impact Assessments (EIAs) have been undertaken for each of the savings proposals, where necessary, and an overarching EIA commentary has been included within this section and in [Appendix C](#).

Cumulative Equality and Diversity Impacts for the 2019/20 Medium Term Financial Plan (MTFP) (see [Appendix C](#))

Based on the proposals put forward within this report there are a number of impacts, which, when looked at together, could have combined impacts on characteristics protected under the Equality Act 2010. They are:

- There are a number of proposals that could affect **disabled people**. This could be through what services are available for people to access, the services that are available being reduced or their ability to navigate Somerset independently.

Other Implications (including due regard implications):

- **Women** are also more likely to be impacted by a combination of proposals. As women are still more likely to provide a child or adult caring role they could be disproportionately affected by the changes to support services for disabled people and young people.

When considering these identified cumulative impacts, it is also worth considering the outstanding elements from decisions taken in-year. This could be because the decision has been delayed due to consultation being completed or a phased implementation to a decision already taken. When these are looked at they can contribute or create new cumulative impacts such as:

- **Women** could be further impacted with the remainder of the reductions in funding to Advice Services. The additional reductions in youth services could place more of a burden on women who are more likely to be the main care givers in a home. This could then be further impacted by reductions to support provided to families.
- Taking these additional savings into account there could be a cumulative impact on **young people**. This would be through a further reduction in youth services, and the support provided to their parents through the GetSet services.

There are some mitigations identified within the individual proposals to minimise the impacts identified. This includes

- working with the voluntary and community sector to provide some of the support services we currently provide
- providing sign posting and advice on alternative areas of support and services

Community Safety Implications

There are no community safety implications arising from the contents of this report.

Sustainability Implications

There are no sustainability implications arising from this report.

Health and Safety Implications

There are no health and safety implications arising from this report.

Privacy Implications

There are no privacy implications arising from this report.

Health and Wellbeing Implications

There are no health and wellbeing implications arising from this report.

Scrutiny comments / recommendation (if any):	Each Scrutiny Committee will have considered the budget and proposals for change relating to their respective service areas before the Cabinet meets. Feedback from the Scrutiny Committees will be made available to the Cabinet at their meeting.
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1. Introduction

- 1.1. The current financial climate faced by the Council means focused attention to setting a robust balanced budget for 2019/20 and proposals for the subsequent two years has been an extensive process. It has involved the Cabinet and Scrutiny Committees, commencing with a strategic, top down process starting in the late summer and continuing to develop detailed budget proposals throughout the autumn that take account of the Council priorities anchored in the Corporate Plan.
- 1.2. The Cabinet has been actively engaged in this planning process, formally through a Cabinet paper in September 2018 proposing in-year actions to manage the forecast overspend budget position for 2018/19 and in December 2018 to consider the strategic direction of the MTFP for the period 2019-22.
- 1.3. This paper builds upon the report presented to the Cabinet in December 2018. It sets out the technical details of the provisional Local Government Financial Settlement, how this impacts the budget for 2019/20 and it describes the proposals for change for consideration by Cabinet for recommendation to the Full Council meeting on 20 February 2019. Information on the potential budgets for the financial years 2020/21 and 2021/22 is also set out in this report, not least because of the strong inter-relationship between the financial years.

2. National context for Public Finances

- 2.1. Whilst the provisional Local Government Financial Settlement for 2019/20 detailed below gives certainty for the Council's core Government funding for 2019/20, this is the final year of the current four-year Spending Review meaning that the funding for 2020/21 and 2021/22 is much less certain. Both the Chancellor of the Exchequer in his Autumn Statement (29 October 2018) and the Secretary of State for the Ministry of Housing, Communities and Local Government (MHCLG) when he announced the provisional Settlement on 13 December 2018, have acknowledged the desire of the sector for an early and a multi-year Settlement into 2020/21 and beyond, although no firm proposals exist. Contrary to some media reports suggesting that 'austerity is over', the Institute of Fiscal Studies analysis has identified that despite the Government's

continued trend of announcing additional resources to top up previous plans, set out in the four-year settlement in 2016, these have not kept pace with rising spending pressures. They comment that the reduction in public spending is expected to continue until 2022/23 and that, as in the past, non-NHS departments will face further real terms cuts of around 6.5% beyond 2020. Indeed, the Local Government Association has estimated that authorities face a funding gap of £3.2 billion in 2019/20, so there seems to be no prospect of the financial pressures easing soon.

2.2. In the autumn of 2018 the Government announced some additional funding for Adult Social Care as follows:

- *2018-19 Winter Pressures Grant*

In early October the Secretary of State for Health and Social Care Matt Hancock announced the Winter Pressures Grant; an additional £240m in 2018-19 for social care to prevent bed-blocking. Whilst recognising the reductions in Delayed Transfers of Care (DToc) the Minister said, *“This additional funding is intended to enable further reductions in the number of patients that are medically ready to leave hospital but are delayed because they are waiting for adult social care services”*. The £240m has been allocated according to the adult social care relative needs formula, which for this Council means £2.498m.

- *2019-20 Winter Pressures Grant and Social Care Support Grant*

In the autumn Budget the Chancellor announced a repeat of the £240m Winter Pressures Grant for 2019/20 and, although allocated on the same basis as for 2018/19, there is a requirement to pool these funds into the Better Care Fund (BCF) via the improved BCF.

- An additional £410m for adults and children’s social care was also announced and this council will receive £4.267m. Whilst the money is un-ringfenced MHCLG has said that “the funding has been given in response to councils’ concerns about pressures on adult and children’s social care services and the expectation is that councils will use the funding to meet those pressures”.

2.3. The provisional Settlement reiterates the Government’s intention to publish a green paper on Adults’ Social Care. Although no precise date is known, the Secretary of State for MHCLG has indicated that this will be published ‘soon’ and in the summer the Government had confirmed that it will include proposals for younger adults as well as support for older people.

2.4. Further, the Government have published their 10-year NHS plan in January 2019, which sets out how they aim to improve the quality of patient care and health outcomes and includes outlining how it will spend the £20.5 billion budget announced by the Prime Minister in summer 2018. Although details are not yet known this does indicate a commitment to increased NHS funding which may adversely impact on the funding available for local government.

2.5. Nationally all sections of the Dedicated Schools Grant are facing cost pressures with the most significant pressure on the High Needs Block. This national position applies to this Council and as part of the management actions to address the pressures a detailed High Needs Deficit Recovery Plan is being progressed with Somerset Schools Forum to identify action required to bring spend back in line and set clear additional action to address the recovery the cumulative deficit position.

2.6. The second year of the Governments national 2% pay offer for local government

workers is in 2019/20 and although the Government are funding these costs for NHS pay, this is not the case for local government and therefore local authorities must absorb the extra spending pressure from within the reducing funding available from central Government. For this Council, the 2% pay pressures (including increments) amounts to £3.017m, which has been budgeted for accordingly. There is no clarity about likely awards beyond 2019/20, so the MTFP (2019-22) proposals include a provisional pay award budget of £1m for the latter two years.

2.7. Alongside the Settlement figures for 2019/20, the MHCLG have launched two consultations relating to the on-going review of future funding of Local Government, both with a response deadline of 21 February 2019:

- Fair Funding Review proposals, which will determine the relative needs and resources distributions across local authorities, and;
- the future system design of Business Rates Retention, which will specify the details for business rate reform and increased local retention.

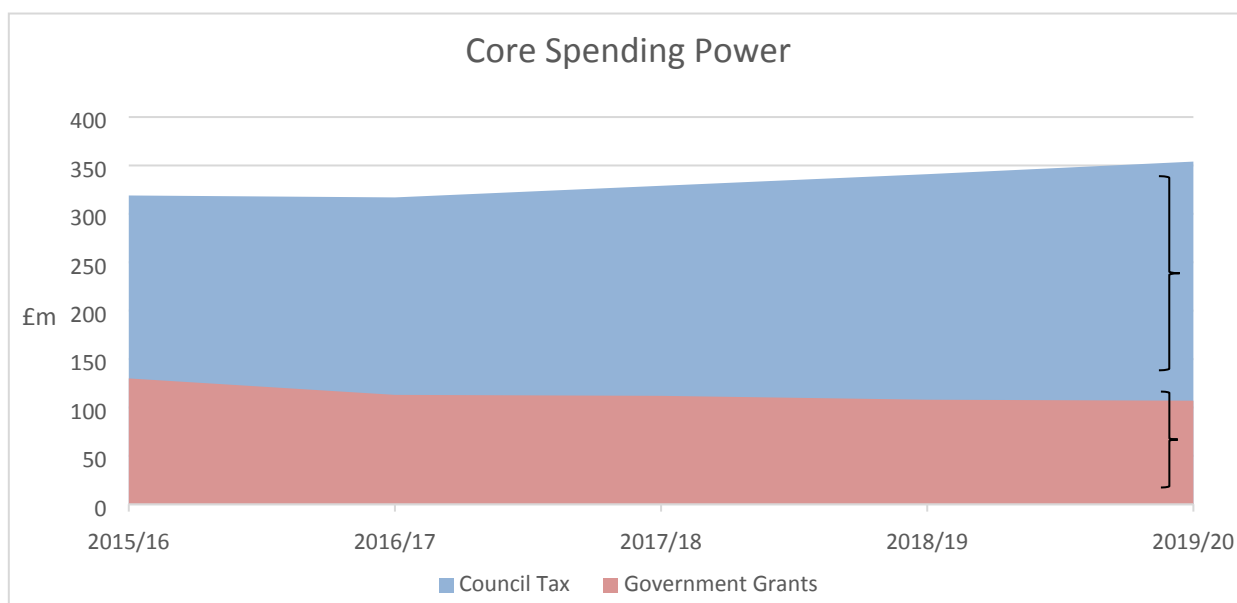
2.8. The Government have reiterated their plan to implement the reformed funding system with effect from 2020/21 and published an expected timeline for consultation over the summer 2019, with detailed exemplifications (where an authority may be able to assess the likely financial impact for them), available in the autumn 2019. Therefore, this MTFP includes prudent assumptions for the latter two years, broadly that the Councils' level of core funding will continue as for 2019/20 i.e. no material difference for future years. The Council will pro-actively engage with the Government in the development of the new system to ensure an improved share of the funding allocation for Somerset residents.

2.9. The key points emerging from the provisional Local Government Financial Settlement are:

- No change to allocations for authorities, including this Council, who took up the four-year deal except for the removal of 'negative Revenue Support Grant (RSG)' from the settlement via forgone business rate receipts. Somerset was not impacted by the negative RSG and hence received no benefit of this additional funding.
- General Council Tax precept increase threshold, above which a referendum would be required, was confirmed as expected at 3%. This will raise £7.057m for the Council.
- The Adult Social Care precept increase threshold will remain at 2%, with a total not exceeding 6% between 2017-20. Having already increased by 5% in the previous two years, this means the limit for this council is 1% in 2019/20, which will raise an additional £2.360m.
- A total of 15 new 75% BRR pilot areas, for 2019/20 only, were announced. This includes Somerset and the continuation of 100% pilots in Devolution Deal Areas in 2019/20 plus 75% BRR pilots in London, Berkshire, Buckinghamshire, East Sussex, Hertfordshire, Lancashire, Leicestershire, Norfolk, North & West Yorkshire, Northamptonshire, North of Tyne, Solent authorities, Staffordshire & Stoke, West Sussex and Worcestershire. This will generate an estimated additional gain for Somerset area of £6.7m, with £3.4m being allocated to a county wide pot for use to generate economic growth across the area and the County Council specifically a receiving a gain of an estimated £1.2m.

- An increase of £16m to a national total of £81m for the Rural Service Delivery Grant was announced. This is an increase from £1.928m to £2.403m for this Council.
- An additional £20m has been awarded to support housing growth and will be paid via New Homes Bonus (NHB), taking the national total up to £918m. This increases the Council's funding by £0.155m to £2.390m for 2019/20. The Government have increased this allocation to enable the Government to sustain grant allocations based on housing growth above 0.4%. Further, a consultation how to incentivise housing growth most effectively is expected in 2019.

2.10. Within the provisional Settlement, the Government publishes what it calls an analysis of 'core spending power (CSP)' for each authority. This makes assumptions about the level of each authority's own local resources (i.e. Council Tax) and combines this with the core funding allocations made by Government. The stated aim of this analysis is to ensure Government allocates its grant reductions to achieve a roughly equal percentage change in authorities' CSP totals while keeping its own expenditure within HM Treasury limits. This aim is what led to the negative RSG position as part of the four-year settlement in 2016/17. Although not directly affected by negative RSG, this Council, alongside others, has seen its proportion of government grant and local funding alter considerably over the last five years, from 41%:59% in 2015/16 to 30%:70% in 2019/20, as illustrated by the chart below:



2.11. The above shift is despite the Government having amended the grants included and it now includes improved BCF and adult social care support grant. Whilst the national increase between 2018/19 and 2019/20 is 1.03%, the increase for this Council is 3.8%, although this does assume the maximum increase in council tax by all authorities.

2.12. As well as core funding details announced through the provisional Settlement various other service specific grants have also recently been confirmed and details are explained later in this report. However, at the time of this report, the Council awaits confirmation of £9.347m of service specific grants and the budget proposals have been built on the basis that the level of spending will match the levels of grant assumed and be adjusted accordingly if relevant.

2.13. Due to the absence of any Spending Review after 2019/20, and in view of the upcoming

review of local government funding promised by Government through the FFR and BRR reviews, together with the economic uncertainty around how the UK will leave the EU, there is a high level of uncertainty in planning the level of funding beyond 2019/20.

3. Local context – Council Plan priorities

- 3.1. The Councils MTFP (2019-22) budget is set to ensure that the Council can deliver on the priorities set out in the County Vision which acknowledges the need to refocus increased resources into prevention and demand management over time in line with the improving lives strategy and to support the longer-term sustainability of the Council.
- 3.2. Our Vision is all about improving lives by creating:
 - A thriving and productive County that is ambitious, confident and focussed on improving people's lives;
 - A County of resilient, well-connected and compassionate communities working to reduce inequalities;
 - A County where all partners actively work together for the benefit of our residents, communities and businesses and the environment in which we all live, and;
 - A County that provides you with the right information, advice and guidance to help you help yourself and targets support to those who need it most.
- 3.3. The Council has a Business Plan and supporting Service Plans which set out how the Council's Vision will be delivered, identify the budgets allocated and how performance will be monitored. These are currently in the process of being refreshed to reflect the councils core offer and MTFP proposals.

4. Medium Term Financial Plan (2019-22)

4.1. 2018/19 Budget Position

The quarter 3 budget monitoring report, based upon actual spending to the end of December 2018, shows a projected underspend to the year-end of £1.067m. This is a 0.3% variance on a revenue budget of £317.882m. In addition to this projected underspend, opportunity has been taken to make a further contribution to reserves and to release some pressure on the need to use Capital Receipts Flexibilities to support the revenue budget. Both of these adjustments will further improve the resilience of the Council and the robustness of the accounts.

- 4.2. Controlling the 2018/19 budget has been a priority of the Council for several months and is it welcome that the focus and efforts are producing the benefit of a projected underspend. This is particularly important considering the challenging financial position the Council must address from 2019/20 onwards to ensure a financially sustainable position. Delivering robust control of current spending is essential to laying the foundations for managing a challenging budget for 2019/20. In addition, producing an underspend in 2018/19 will enable a partial replenishment of the reserves, which will improve the resilience of the Council and hence its ability to address the financial uncertainties beyond 1 April 2020.

4.3. Next three financial years: 2019/20 to 2021/22

Over the autumn months Somerset County Council has been developing budget proposals for the MTFP (2019-22). The Strategy paper to Cabinet in December 2018 up-dated on the considerable progress made to ensure a robust MTFP was developed that recognised all service demands, was realistic about whether previous savings proposed were deliverable and adjusted funding assumptions to reflect the most current prudent knowledge.

- 4.4. In December 2018 the detailed work on the Council's finances showed that the Council needs to spend a net £338m on delivering its services to residents in 2019/20, and that funding available across the three-year MTFP period fell short of need by £28.533m, £15.112m being the gap in 2019/20, as illustrated in Table 1 below:

Table 1: Indicative Budgets and funding shortfall as at December 2018

2018/19 Budget £m	Service	2019/20 Indicative Budget £m	2020/21 Indicative Budget £m	2021/22 Indicative Budget £m
141.149	Adults Services	132.561	133.599	135.225
65.895	Children Services	84.884	84.937	86.376
66.547	Economic and Community Infrastructure Services	67.400	68.167	70.197
1.023	Public Health	0.749	0.749	0.749
274.614	Key Services	285.593	287.451	292.547
20.577	Corporate and Support Services	24.222	24.228	24.240
34.697	Non-service items (inc Debt Charges)	35.436	39.162	42.817
329.887	Support Services & Corporate	345.251	350.841	359.604
(12.580)	Un-ring-Fenced Grants	(11.077)	(6.332)	(6.078)
3.913	General Reserves	2.000	2.000	2.000
(0.900)	Earmarked Reserves	1.679	0.970	0.522
0.164	Insurance Fund	0.525	0.422	0.422
(2.602)	Capitalisation Flexibility and Capital Fund	(0.468)	0.000	0.000
317.882	Net Budget Requirement	337.909	347.901	356.470
0.000	Financed By	0.000	0.000	0.000
(16.082)	Revenue Support Grant	(6.076)	0.000	0.000
(14.275)	Individual Authority Business Rates Baseline	(16.137)	(16.460)	(16.789)
(51.426)	Business Rates Top-up	(52.222)	(53.266)	(54.331)
0.322	Business Rates Collection (Surplus) / Deficit	0.000	0.000	0.000
(0.500)	Business Rates Collection Pool	(0.800)	0.000	0.000
(3.163)	Council Tax Collection (Surplus) / Deficit	(3.000)	0.000	0.000
(215.379)	Locally Collected Council Tax (Inc. est. Tax base increases)	(224.652)	(232.068)	(239.091)
(14.871)	Council Tax Adult Social Care	(17.378)	(17.574)	(17.727)

(2.507)	Council Tax Somerset Rivers Authority	(2.533)	0.000	0.000
0.000	Budget (Surplus) / Deficit	15.112	28.533	28.533
Actual gap assuming prior year balanced, and gap closed			13.420	0.000

4.5. **Prior year savings unachievable or alternative funding sources identified**

A key principle of the MTFP budget build has been to ensure all budgets are robust and deliverable, meaning that several previously agreed savings that are not now deliverable and or are to be funded from alternative sources, have been recognised in the proposed budgets. This includes a total of £18.154m across 2019/20 and 2020/21 and, as indicated in the December Strategy paper, a schedule of all the adjustments is attached in [Appendix A](#) for member consideration.

The main changes related to: alternative funding for Learning Disabilities purchased services (Review to Improve Lives), £3.059m; and the reversal of prior year savings for: technology and people (TAP) initiatives £6.846m; £2.749m linked to procurement (Commercial and Third Party spend), and £2.667m relating to Transport savings.

4.6. **Actions taken to manage gap down requiring Cabinet approval**

Beyond the above there are several other actions required to manage the gap down to £15.112m in 2019/20 that are now set out below for Cabinet consideration and approval:

- Following a change to the Minimum Revenue Provision (MRP) policy after taking advantage of new and more flexible regulations but still complying with the requirement to be affordable, the Council will make a saving of £3.714m in 2019/20 by reducing the budget requirement. The MRP is a provision made in the accounts for the repayment of long-term debt when it becomes due. The updated policy is attached in [Appendix B](#) for approval.
- It is considered prudent to reduce the corporate contingency by £0.100m to £7.226m in recognition of the improved financial outlook.
- The use of the additional one-off Adult Social Care grant of £2.498m to meet the requirements set out by Government for this grant (net nil impact on the budget).
- Additional one-off Social Care grant funding of £4.267m was announced in the Chancellors Autumn Statement 2018, to be made available in 2019/20. This has, in effect, been applied to the rebasing of the Children's Services budget that was undertaken in September 2018.
- The proposal to save £0.454m in 2019/20 through Council staff taking compulsory unpaid leave, has been rejected through a Union ballot meaning the saving will now not be delivered.

4.7. The above changes are summarised in Table 2 below bringing the 2019/20 budget gap down from £23m to £15m.

Table 2 – Summary of actions already taken to manage the 2019/20 gap

2019/20 Budget Gap	Shortfall £m	Increase £m	Decrease £m
Gap as at Nov 2018	22.739		
Impact of revised MRP Policy	19.025		3.714

Reduce Contingency - Ongoing	18.925		0.100
ASC/CSC Grant	14.658		4.267
Unpaid Leave Pressure	15.112	0.454	
2019/20 Budget Shortfall as at Cabinet Strategy paper in Dec 2018	15.112		

4.8. **Pressures and Savings built into the MTFP**

The December 2018 Cabinet MTFP Strategy paper also considered the high-level service pressures and other movements, including savings previously agreed by Cabinet, and in January 2019 more detail has been shared with the respective Scrutiny Committees; their comments will be shared with the Cabinet and full Council to consider.

4.9. Tables 3 and 4 below set out the total service pressures by type and by service respectively for consideration by members and full details were included in the Scrutiny papers.

Table 3 – Services Pressures by type

Type of Pressure	2019/20 £m	2020/21 £m	2021/22 £m
Demand	22.516	2.470	1.179
Demography	1.549	1.607	1.459
Inflation (Contract)	3.426	3.462	3.737
Inflation (General)	2.568	0.607	0.821
Legislation Change	1.562	-	0.100
Pay	3.586	0.950	1.000
Previously Unfunded	1.077	-	-
Prior Year Savings Unachievable / alternative funding identified	14.821	3.333	-
Total	51.105	12.428	8.297

Since the December Strategy paper there have been some changes to the pressures which are as follows:

- Pay pressure: As the Council has not received any details beyond 2019/20 the Council has included a pay award of £1m for these last two years.
- There have also been some other minor adjustments in 2019/20 which decrease the pressure by £0.252m.

4.10. **Members Allowances 2019/20**

The Joint Independent Remuneration Panel recommend that the current Scheme of Members' Allowances should continue unchanged for 2019/20. This follows consultation with Group Leaders where no issues were raised for consideration by the Panel. The recommendation also recognises that the Basic Allowance and Special Responsibility Allowances will increase automatically in line with any officer pay award under the indexing mechanism recommended previously by the Panel and agreed by the Council. The proposed annual budget for 2019/20 reflects this recommendation.

The table below by Service illustrates that the main pressure area is within Children's

Services, which has led to the previous Cabinet decisions to rebase the Children's budget that is now reflected in the MTFP (2019-22).

4.11. Table 4 – Pressures by Service

Service Area	2019/20 £m	2020/21 £m	2021/22 £m
Adults Services	8.040	2.191	1.626
Public Health	0.126	-	-
Children's Services	28.407	2.683	1.440
Economic & Community Infrastructure	4.084	3.979	2.231
Corporate & Support Services	6.376	0.841	0.012
Non-Service	3.321	2.483	2.988
Earmarked Reserves	0.750	0.250	-
Total	51.105	12.428	8.297

4.12. Savings and other adjustments in the MTFP

A summary of savings and other adjustments that have previously been shared in the Cabinet Strategy paper, and subsequently with the Scrutiny Committees in January 2019, are set out below in Table 5 by service for the three-year MTFP period. This includes; prior year savings agreed in previous MTFP rounds, in-year savings agreed by Cabinet in September 2018 and, technical adjustments.

4.13. Table 5 – Savings and other adjustments by Service

Service Area	2019/20 £m	2020/21 £m	2021/22 £m
Adults Services	-16.628	-1.153	
Public Health	-0.400		
Children's Services	-9.419	-2.631	
Economic & Community Infrastructure	-3.231	-3.213	-0.200
Corporate & Support Services	-2.731	-0.835	
Non-Service	-2.582	1.243	0.667
Earmarked Reserves	1.829	-0.958	-0.448
General Reserves	-1.913		
Insurance Fund	0.361	-0.103	
Capital Receipts	2.134	0.468	
Total	-32.580	-7.182	0.019

4.14. Since the Strategy Paper in December, there have been two adjustments made to the budgets in 2020/21 and 2021/22:

- For 2019/20 and 2020/21 - a review of the Councils Pension Fund Deficit charge that is allocated across services which has changed the proportion allocated to school's budget (i.e. funded from their Dedicated Schools Grant) by an additional £1.000m on-going from 2020/21, and;
- For 2021/22 – a reduction in the Contingency budget of £0.425m.

4.15. ***New Change proposals to balance the Budget 2019/20***

As requested in the December Cabinet meeting, further details of proposed service changes that produce a balanced budget for 2019/20 are now included for consideration and approval by members, in conjunction with the equality impact assessment (detailed in [Appendix C](#)). Although increasingly challenging for services to deliver further service reductions year on year, focused effort over the autumn has enabled services to identify changes that prioritise services for those in most need within the County and manage expenditure within the resources available.

- 4.16. Savings proposals totalling £8.512m are detailed in the table at [Appendix D](#) and are categorised by those that require a saving decision to take effect from 1 April 2019, and those that require a decision to consult. Of these proposals, £6.955m are on-going and an additional £0.370m has been identified for 2020/21.
- 4.17. The detailed proforma's for Proposals for Change and Impact Assessments can be found at [Appendix E1-E5](#) and [Appendix C](#).
- 4.18. Within the ECI proposals, a £0.225m savings target relates to Waste Services. There are no detailed proposals for change submitted as part of [Appendix E5](#) as Cabinet are asked to endorse the savings target to the Somerset Waste Board to ask them to make savings to this value as part of setting its 2019/20 budget.
- 4.19. In addition, and for information, there are a number of 2019/20 savings proposals and financial adjustments which total £6.899m, where decisions have already been taken. These decisions have followed due process to meet governance requirements and have been assumed in the overall 2019/20 budget position.
- 4.20. Therefore, in balancing the £15.112m funding shortfall for 2019/20, a total of £15.411m of savings have been identified, of which £8.512m require full Council decisions in February 2019 as the remainder have been subject to decisions through the Cabinet in recent months.

4.21. ***Monitoring the Delivery of Proposals for Change***

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.

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 been agreed for 2019/20. Therefore, confidence can be taken from the delivery progress and from the monitoring mechanism.

4.22. ***Proposed actions to reduce the 2020/21 budget gap***

Whilst the solutions set out above for 2019/20 impact to a degree on the gap in 2020/21 onwards, there are other actions proposed that reduce this to £5.221m, as set out below and summarised in Table 6 below that:

- Of the further savings proposals for 2019/20 of £15.411m, a total of £3.157m are one-off savings in 2019/20, which therefore further increase the 2020/21 gap to £16.577m;
- Some of the 2019/20 savings have a greater impact in 2020/21 due to full year effect of proposed changes, to the value of £0.893m;
- To reduce the corporate contingency from £7.226m estimated as at 31 March 2020 by £2.664m in view of the increased financial resilience of the Council;
- Benefit of £3.070m due to earlier than originally planned replenishment of negative earmarked reserves;
- Benefit of £2.000m through removal of a previously planned contribution to the General Fund as it is now intended to ensure that the General Fund is replenished to its target amount by the end of 2019/20, per the reserves table elsewhere in this report;
- Forecast benefit of further £1.260m service savings because of outline change plans expected to impact in 2020/21. These will need further refinement during 2019/20 to ensure that they are deliverable and can then be presented for member consideration;
- Up-dated information from districts increases the Council Tax base in 2019/20 and 2020/21 to the value of £1.305m, and;
- Increased New Homes Bonus (NHB) grant allocation of £0.155m following the provisional Settlement in which the Government allocated additional funds to maintain the grant threshold at 0.4% housing growth.

4.23. Table 6: Updated Budget Shortfall 2020/21

Movement	Shortfall £m	Increase £m	Decrease £m
Gap as at December 2018 Strategy Report	13.420		
Add back one-off savings	16.577	3.157	
Less Additional ongoing savings	15.684		0.893
Reduce contingency	13.020		2.664
Replenishment of earmarked reserves	9.950		3.070
Remove contribution to general fund	7.950		2.000
Full year effect of pipeline savings	6.690		1.260
Council Tax Base Increases	5.385		1.305
Increased New Homes Bonus allocation	5.221		0.164
2020/21 Budget Shortfall	5.221		

- 4.24. On the basis that the 2019/20 budget balances, following delivery of the developed proposals for change (to be agreed by Council), that the proposals set out in the table above are deliverable and that the remaining £5.221m gap for 2020/21 can be bridged, then a further, small contribution from the corporate contingency of £0.425m in 2021/22 would balance that year also.
- 4.25. However, there are, of course, many funding assumptions to be validated during 2019 that will impact these numbers. Hence, in view of the uncertainty regarding the wider funding of local government from 2020/21, it is not considered prudent to drive hard for further savings proposals to be developed at this time to reduce the £5.221m estimated shortfall from 2020/21.

4.26. Funding and Spend Changes since December 2018

Since the Cabinet Strategy Paper was taken to Cabinet in December 2018, there have been a few changes in the funding available to the Council over the MTFP period. The changes have been:

- An update from the Somerset districts on the numbers of properties liable to pay council tax, increases the amount of council tax the Council can raise as follows: an additional £0.852m in 2019/20; £1.305m in 2020/21 and 2021/22), and;
- The 2019/20 provisional Local Government Settlement, announced in December 2018, has increased the funding available to the Council:
 - Increased local retention of business rate growth because of the Council has been successful in becoming a 75% Business Rates Retention (BRR) Pilot for 2019/20 of £1.2m– further details of this successful bid can be found in the Business Rates Pilot Bid section on page 27;
 - An increase of the Rural Services Delivery Grant from £1.928m to £2.403m;
 - An increase of £0.155m for NHB to £2.390m, allocated by the government to enable them to sustain grant allocations based on housing growth above 0.4%, and;
 - A revision to the level of funding the Council can estimate to gain from the current BRR pooling arrangements from £0.800m to £1.1m as a result of confirmation that the pooling gain will be additional to the 75% BRR pilot gains.

4.27. Summary movements to funding and spending for MTFP (2019-22)

Table 7 below summarises all the movements described above since the December Cabinet Strategy paper and confirms a balanced budget for 2019/20 and a shortfall of £5.221m for the following two years subject to delivery of all proposed new change plans.

Table 7: Funding and spend changes in MTFP since Cabinet Strategy Report

Description	2019/20	2020/21	2021/22
	£m	£m	£m
Opening budget b/fwd.	348.987	340.118	335.476
Pressures:			
- Non-Service Items (inc Debt Charges)	3.297	-4.438	1.370
- Pay and Price Inflation		1.000	
- Other Changes	0.009	-3.696	-0.425
Net Expenditure Requirement	352.293	332.984	336.421
Available Funding b/fwd.	333.874	326.698	335.476
Provisional settlement related:			
- Increase in Business Rate Local Growth because of successful BRR Pilot Bid	1.200	0.000	0.000
Increased Business rates pooling gain	0.300	0.000	0.000

- Change in non-specific/general grants	0.655	0.000	0.000
Council Tax base related			
- Increase in Council Tax/Tax Base/Collection Fund	0.853	0.461	0.945
Available Funding	336.882	327.159	336.421
Savings Agreed	15.411	0.604	-5.221
Shortfall to balance the budget	0.000	5.221	5.221

4.28. Indicative Service Budgets and financing proposals

The above converts into indicative budgets for each service with overall financing proposals as summarised in Table 8 and then detailed below.

Table 8: Indicative Service Budgets and Financing requirements

Service	2018/19 Budget £m	2019/20 Indicative Budget £m	2020/21 Indicative Budget £m	2021/22 Indicative Budget £m
Adults Services	141.149	125.964	125.083	126.709
Children Services	65.895	81.683	84.011	85.451
Economic and Community Infrastructure Services	66.547	64.902	65.823	67.853
Public Health	1.023	0.649	0.749	0.749
Key Services	274.614	273.197	275.665	280.761
Corporate and Support Services	20.577	21.216	21.456	21.468
Non-service items (inc Debt Charges)	34.697	35.436	36.498	41.589
Support Services & Corporate	55.274	56.652	57.955	63.058
Un-ring-fenced Grants	(12.580)	(9.304)	(6.487)	(6.233)
General Reserves	3.913	2.000	0.000	(0.424)
Earmarked Reserves	(0.900)	4.976	(0.400)	0.522
Insurance Fund	0.164	0.525	0.422	0.422
Capitalisation Flexibility and Capital Fund	(2.602)	(0.468)	0.000	0.000
Pipeline Savings Required	0.000	0.000	(1.260)	(2.696)
Assumed the previous year gap is closed	0.000	0.000	0.000	(5.221)
Net Budget Requirement	317.882	327.578	325.894	330.188
Financed By				
Revenue Support Grant	(16.082)	0.000	0.000	0.000
Individual Authority Business Rates Baseline	(14.275)	(52.204)	(16.460)	(16.789)
Business Rates Top-up	(51.426)	(25.858)	(53.266)	(54.331)
Business Rates Collection (Surplus) / Deficit	0.322	0.000	0.000	0.000
Business Rates Collection Pool	(0.500)	(1.100)	0.000	0.000
Council Tax Collection (Surplus) / Deficit	(3.163)	(3.000)	0.000	0.000

Locally Collected Council Tax (Inc. est. Tax base increases)	(215.379)	(225.435)	(233.281)	(241.186)
Council Tax Adult Social Care	(14.871)	(17.438)	(17.666)	(17.882)
Council Tax Somerset Rivers Authority	(2.507)	(2.542)	0.000	0.000
Budget (Surplus) / Deficit	0.000	(0.000)	5.221	(0.000)

4.29. Council Tax and Precept

There are three elements to the council tax precept raised: general council tax, adult social care specific precept and, uniquely to Somerset, funding raised for the Somerset Rivers Authority. The proposed Council Tax precepts for the Council are set in [Appendix H](#) and details explained below.

4.30. Somerset Rivers Authority

The Somerset Rivers Authority (SRA) was launched on January 31, 2015 to play a key role in flood protection for the county. It is run by a Board of partners from the five District Councils, Somerset County Council, the Environment Agency, the Parrett and Axe Brue Internal Drainage Boards, the Wessex Regional Flood & Coastal Committee and Natural England.

- 4.31. Since 2016/17, Somerset County Council and the five district councils have had the power to raise a shadow precept of up to 1.25%, for funding the Somerset Rivers Authority. This precept equates to £12.84 per year for a Band D property and will raise £2.542m in 2019/20 (£2.575m in 2020/21; and £2.606m in 2021/22) based on current estimates of the Council's tax base.
- 4.32. It is the Government's intention for the SRA to become a precepting authority, but this requires an act of Parliament and there is currently no timeline for when this will come into effect. Until the SRA can raise their own precepts, the authority will continue to raise a separate precept on behalf of the SRA and provide them with a budget to match the level of precept received. As the SRA precept is passported to the SRA, the precept has no impact on the Council's budget.

4.33. **General and Adult Social Care Council Tax**

The 2019/20 council tax base is 197,958.57 Band D equivalents and is set out across the districts and borough councils in Table 9 below. The table also shows the sums due under precepts from the respective authorities.

Table 9: Tax Base and Precept 2019/20

District/Borough Council	Tax Base number	Precept £
Mendip	40,496.05	50,204,168.07
Sedgemoor	40,573.67	50,300,395.91
South Somerset	60,266.07	74,713,654.96
Somerset West and Taunton Council	56,622.78	70,196,959.05
Total	197,958.57	245,415,177.99

4.34. The impact of a 2.99% increase in Council Tax for General Fund purposes and a further 1% for Adult Social Care considered in the budget proposals outlined in paragraph 5.1 imply a precept requirement of £245.415m and a Band D council tax of **£1,239.73**.

4.35. In 2018/19, the limit to how much Council Tax can be increased by each year changed from 1.99% to 2.99% (without the need for a referendum). It has also been possible (since 2016/17) for the Council to raise an additional precept to fund Adult Social Care pressures. As 2019/20 is the final year of the Government's 4-year Financial Settlement, it is currently unclear whether either of these flexibilities will be extended to 2020/21 and 2021/22. To ensure the Council set a prudent budget from 2020/21 onwards, the Council has assumed the Adult Social Care precept will cease and the cap on general council tax increases will reduce back down to 1.99%. Table 10 below confirms the percentage council tax increases assumed in the budget modelling over the MTFP period.

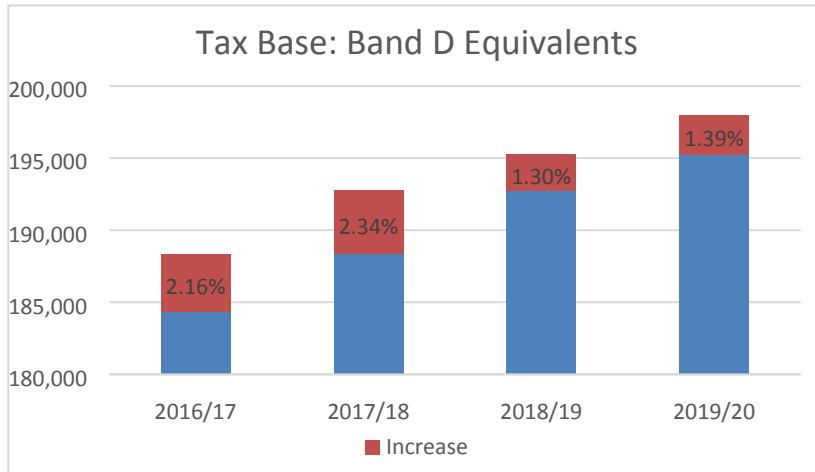
Table 10 - % council tax increase assumed for 2019/22

	2019/20	2020/21	2021/22
Adult Social Care	1.00%	0.00%	0.00%
General Council Tax	2.99%	1.99%	1.99%
TOTAL	3.99%	1.99%	1.99%

4.36. **Somerset Local Tax Base 2019/20**

The MTFP for 2019/20 incorporates a 1.39% (£3.2m) increase per annum in the council tax base based on estimates from Somerset district and borough authorities. This is an increase at a similar level as in 2018/19 and reflects a slight reduction in the scale of increase over the last three years. Table 11 below shows how the forecast increase in tax base next year compares with previous years.

Table 11: Change in the County Council's tax base



4.37. The amount of council tax payable for dwellings listed in each valuation band, calculated in accordance with the proportion set out in Section 5 (1) of the Local Government Finance Act 1992, shall be as follows:

Valuation Band	Amount (£)
A	826.48
B	964.23
C	1,101.98
D	1,239.73
E	1,515.23
F	1,790.72
G	2,066.22
H	2,479.46

4.38. Capital Receipts Flexibility (CRF)

The Secretary of State issued the flexible use of capital receipts directive in 2016. This was for an initial 3-year period which has subsequently been extended to cover up to March 2022. The directive gives local authorities the freedom to use capital receipts from the sale of their own assets to help fund the revenue costs of transformation projects and release future revenue savings.

4.39. 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 expects to have used £16.005m to fund this strategy by 31 March 2019. [Appendix F](#) summarises the business cases for initiatives, which have applied capital receipts to fund revenue expenditure.

4.40. Looking forward to the MTFP period (2019-22) the Council proposes to fund a further £6.885m of projects to reform services. [Appendix G](#) summarises the initiatives to which capital receipts are planned to be applied to fund the revenue expenditure. These will be backed by robust business cases. These business cases will demonstrate that: the initiative will generate future savings or reduce future costs, and the costs being funded are implementation or set up costs and not on-going operational costs otherwise funding from this source will not be allocated. The council also proposes creating an invest to

save revenue reserve to capture proposals that might not meet the full statutory definition under the directive but still benefits the Council's transformation. Business cases will still be required to access funds from the invest to save sources.

4.41. 75% Business Rates Retention (BRR) Pilot

To test increased business rates retention and to aid understanding of how the Government transition into a reformed business rates retention system in April 2020, local authorities were invited to apply to become 75% business rates retention pilots for 2019/20 only. This Council applied jointly with all the Somerset district authorities (Mendip, Sedgemoor, South Somerset, West Somerset and Taunton).

The provisional Local Government Settlement announced that the Somerset application was successful.

The pilot allows the Somerset area to retain 75% of locally collected business rates instead of the 50% retained under the current scheme. The exact level of benefit to the Council cannot be fully determined since the gain will depend upon actual business rate collection levels, although a prudent benefit based on best estimates indicates a gain of £1.200m in 2019/20 specifically for this Council. However, across the whole area, gains will be greater and Somerset authorities have agreed a share of the benefits as set out below:

Table 12: 75% BRR Pilot – Somerset Pool gain

	75% BRR Pilot Gain (£m)
Somerset County Council	1.2
Other pool members	2.1
County-wide pot	3.4*
Total Gain	6.7

**under the terms of the bid, the Council will receive an additional £3.4m in 2019/20 which will be held in an earmarked reserve to be used to fund local projects, determined in partnership and designed to generate economic growth in the Somerset area.*

- 4.42. The Council only benefits from the increase in local business rate growth, as the Government adjusts the Authority's core funding (referred to as the Settlement Funding Assessment) by rolling several grants into the business rates baseline (the level of business rates funding government believes the Council requires) to account for the increase in business rates being retained under the 75% scheme. As the adjustment to our Settlement Funding Assessment does not take account of any business rate growth during the year, 75% of the growth is retained within the pool.
- 4.43. The provisional Financial Settlement announced an increase to its Rural Services Delivery Grant allocation in 2019/20, which has provided the Council with an additional £0.500m. however, as this grant allocation has been rolled into the business rates baseline adjustment mentioned above, the Council will benefit from this additional allocation through an increase in retained business rates rather than through receipt of the grant directly. The Council's allocation of Revenue Support Grant (RSG) will also be rolled into the Government's adjustment, and there was no change to the 2019/20 allocation we had previously estimated.
- 4.44. Also included in the business rates retention scheme are other grants (referred to as S31 rates relief grants). These grants (payable under S31 of the Local Government Act 2003) are designed to reimburse local authorities for reduced business rates income because of the Government's decision to implement national business rate relief (such as small

business rate relief; and public house rate relief). The S31 grant also includes an amount in relation to our business rate top-up grant, to allow for inflationary pressures. As these grants are directly linked to the value of business rates retained, it is likely the Council will benefit from an additional allocation, given the fact more business rates are being retained locally. However, the actual level of S31 grant won't be confirmed for some time, so Council has made no further adjustments to the budget assumptions.

- 4.45. Under the terms of the pilot bid, the member authorities were required to form a business rates pool, like the pooling arrangements entered in previous years. The principle behind the pooling arrangement will remain the same as before and is that authorities within the pool receive a benefit from reduced tariff payments (made to government as part of the business rates retention scheme). This benefit is estimated by the pools lead authority (Mendip DC) and was previously estimated at £0.800m for this Council. Early indications suggest the actual gain to the Council in 2019/20 is likely to be closer to £1.100m, so the budget assumptions have been updated to include the additional £0.300m.
- 4.46. As the gains identified above (totalling £2m) are only one-off in 2019/20, the Council intends to use the additional funding to create an Invest to Save reserve. This reserve (totalling £2.852m when we include £0.852m from an increase in our council tax income from revised tax base estimates) will be used to fund internal projects designed to improve the Council's efficiency and drive down future revenue costs. The table below shows how the additional business rates gain and reserve contribution impacts on the overall 2019/20 budget gap.

4.47. **Table 13: Impact of the successful pilot bid and proposed invest to save reserve**

2019/20 Budget Gap	£m	Increase £m	Decrease £m	Comment
2019/20 Budget Shortfall as at 19th Dec	15.112	-	-	
Settlement BRR Pool gain	14.812	0.000	0.300	As per settlement Dec 18
Settlement BRR Pilot gain	13.612	0.000	1.200	As per settlement Dec 18
Settlement RSDG increase	13.112	0.000	0.500	As per settlement Dec 18
Council Tax base increases	12.260	0.000	0.852	As per DC and BC updates
Invest to Save Fund (reserve)	15.112	2.852	0.000	Improving resilience
2019/20 Balanced Budget	15.112	2.852	2.852	

4.48. **Special and Service Specific Grants**

As a local authority, a proportion of our funding is received from Central Government as a grant. There are generally two types of grant, Special and Service Specific, with the distinction based on the rules surrounding the way in which the Council can spend the grant.

4.49. Service Specific Grants

Service specific grants are grants that are distributed outside of the local government settlement and come with strict rules on what the Council can and cannot spend the funding on. An example of a service specific grant would be the Public Health grant, where the grant can only be used by the authority in fulfilling its responsibilities as a public health authority.

4.50. Special Grants

Unlike service specific grants, a special grant (also referred to as non-specific) can be spent on our core activities (such as salaries and other day-to-day running costs), as there are no specific rules on how the Council can spend the funding. An example of a special grant would be the Revenue Support Grant (RSG).

4.51. Most government grants awarded to the Council have now been announced for 2019/20 and all known allocations are set out in [Appendix I](#). The value of confirmed grants, with some assumption in value, in 2019/20 amounts to £323.267m and there is £9.347m of estimated grant. Futures years are included in the [appendix](#).

4.52. The overall change (from what the Council has previously estimated) for non-specific grants, are included within the [appendix](#):

- Increased New Homes Bonus funding of £0.158m (to £2.390m) for 2019/20;
- The removal of Revenue Support Grant (previously estimated to be £6.076m) as this now forms part of the revenue stream from our successful Business Rates pilot bid;
- The removal of Rural Services Delivery Grant (previously estimated to be £1.928m but increased to £2.403m in the Provisional Settlement), as this grant has also been rolled -up in the successful Business Rates pilot bid for 2019/20.

4.53. The Council is still awaiting confirmation for a number of small non-service specific grants that have been included in the budget estimates for 2019/20. The estimated 2019/20 allocation for these grants is £0.821m, and at the time of writing there is no indication these allocations will not be confirmed. If the actual allocations for these grants is lower than the £0.821m assumed, the Council will consider reducing its Contingency budget to cover the difference and avoid the need for any last-minute service cuts.

5. Revenue Budget Proposals for 2019-22

5.1. After consideration of the Financial Settlement announcement, the budget assumptions for price inflation, business rates and council tax and the savings proposals, net revenue expenditure of £327.578m is proposed for 2019/20, an increase of £10.696m (3.4%) compared to 2018/19, as shown in the table below.

Table 14: Summary of Change in Budget

Service	2018/19 Budget £m	Savings & Other Adjustments £m	Pressures & Unachievable Savings £m	2019/20 Indicative Budget £m
Adults Services	141.149	(23.225)	8.040	125.964
Children Services	65.895	(12.620)	28.407	81.683
Economic and Community Infrastructure Services	66.547	(5.729)	4.085	64.902
Public Health	1.023	(0.500)	0.126	0.649
Key Services	274.614			273.197
Corporate and Support Services	20.577	(5.737)	6.376	21.216
Non-service items (inc Debt Charges)	34.697	(2.582)	3.321	35.436

Support Services & Corporate	55.274			56.652
Un-ring-Fenced Grants	(12.580)	3.276	0.000	(9.304)
General Reserves	3.913	(1.913)	0.000	2.000
Earmarked Reserves	(0.900)	1.829	0.750	4.98
Insurance Fund	0.164	0.361	0.000	0.525
Capitalisation Flexibility and Capital Fund	(2.602)	2.134	0.000	(0.468)
Net Budget Requirement	317.882			327.578
Financed By				
Revenue Support Grant Individual Authority	(16.082)	10.007	0.000	0
Business Rates Baseline	(14.275)	(38.229)	0.000	(52.504)
Business Rates Top-up	(51.426)	25.568	0.000	(25.858)
Business Rates Collection (Surplus) / Deficit	0.322	(0.322)	0.000	0.000
Business Rates Collection Pool	(0.500)	(0.300)	0.000	(0.800)
Council Tax Collection (Surplus) / Deficit	(3.163)	0.163	0.000	(3.000)
Locally Collected Council Tax (Inc. est. Tax base increases)	(215.379)	(10.057)	0.000	(225.435)
Council Tax Adult Social Care	(14.871)	(2.567)	0.000	(17.438)
Council Tax Somerset Rivers Authority	(2.507)	(0.035)	0.000	(2.542)
Budget (Surplus) / Deficit & Totals	0			0

- 5.2. The net revenue budget in the table above represents the expenditure incurred by service net of any income received from external sources. The table below shows the gross budget by service, which gives a better indication of the total expenditure incurred by each service.

Table 15: Gross budget by service

	2019/20	2020/21	2021/22
Gross Budget by Service	£m	£m	£m
Adults Services	216.513	216.312	218.618
Public Health	20.824	20.924	20.924
Children Services	357.486	357.142	353.214
Economic and Community Infrastructure Services	99.522	100.841	103.513
Corporate and Support Services	30.816	31.056	31.068
Non-Service	44.509	38.300	36.232
Trading	6.971	6.971	6.971
Budget Gap - savings still to be identified	0.000	-5.221	0.000
TOTAL	776.640	765.325	770.540

- 5.3. The table below shows the proposed budget for 2019/20, compared to that for 2018/19, and the indicative budgets for 2020/21 and 2021/22, including funding sources.

Table 16: Indicative Budgets 2019/20 to 2021/22

Service	2018/19 Budget £m	2019/20 Indicative Budget £m	2020/21 Indicative Budget £m	2021/22 Indicative Budget £m
Adults Services	141.149	125.964	125.083	126.709
Children Services	65.895	81.683	84.011	85.451
Economic and Community Infrastructure Services	66.547	64.902	65.823	67.853
Public Health	1.023	0.649	0.749	0.749
Key Services	274.614	273.197	275.665	280.761
Corporate and Support Services	20.577	21.216	21.456	21.468
Non-service items (inc Debt Charges)	34.697	35.436	36.498	41.589
Support Services & Corporate	55.274	56.652	57.955	63.058
Un-ring-fenced Grants	(12.580)	(9.304)	(6.487)	(6.233)
General Reserves	3.913	2.000	0.000	(0.424)
Earmarked Reserves	(0.900)	4.976	(0.400)	0.522
Insurance Fund	0.164	0.525	0.422	0.422
Capitalisation Flexibility and Capital Fund	(2.602)	(0.468)	0.000	0.000
Pipeline Savings Required	0.000	0.000	(1.260)	(2.696)
Assumed the previous year gap is closed	0.000	0.000	0.000	(5.221)
Net Budget Requirement	317.882	327.578	325.894	330.188
Financed By				
Revenue Support Grant	(16.082)	0.000	0.000	0.000
Individual Authority Business Rates Baseline	(14.275)	(52.504)	(16.460)	(16.789)
Business Rates Top-up	(51.426)	(25.858)	(53.266)	(54.331)
Business Rates Collection (Surplus) / Deficit	0.322	0.000	0.000	0.000
Business Rates Collection Pool	(0.500)	(0.800)	0.000	0.000
Council Tax Collection (Surplus) / Deficit	(3.163)	(3.000)	0.000	0.000
Locally Collected Council Tax (inc. est. Tax base increases)	(215.379)	(225.435)	(233.281)	(241.186)
Council Tax Adult Social Care	(14.871)	(17.438)	(17.666)	(17.882)
Council Tax Somerset Rivers Authority	(2.507)	(2.542)	0.000	0.000
Budget (Surplus) / Deficit	0.000	(0.000)	5.221	(0.000)

6. Robustness of Estimates, Adequacy of Reserves and the Management of Risk

6.1. Reserves and Balances

Section 25 of the Local Government Act 2003 requires S151 Officers to report to their authorities about the robustness of estimates and the adequacy of reserves when determining their budget and level of council tax. Authorities are required to consider their S151 Officers' reports when setting the level of council tax. As Director of Finance (holding the role of S151 Officer for the County Council) I have provided the following assurance.

- 6.2. Over recent years, and during 2018/19 in particular, the Council has found itself struggling to contain expenditure within budget. The consequence of this has been the use of reserves to support revenue expenditure, significantly overspending budgets, the need for a substantial contingency and, in 2018/19, mid-year intervention to identify further proposals for change in order to bring the budget back under control. A further consequence of this uncertainty is an apprehension in the Council about the accuracy of the budget and financial control and the unwanted, adverse external scrutiny of the Council.
- 6.3. In September 2018 the Cabinet approved a number of proposals for change to deliver reduced spending within the financial year and for future years. This, combined with a more rigorous savings tracking regime, improved budget monitoring and some one-off funding, has produced a reducing projected budget overspend, to the point where it is now predicted that the Council will underspend at the 2018/19 financial year end.
- 6.4. Since September 2018 the Council has been developing the Medium Term Financial Plan for 2019 – 2022; three financial years, with a clear focus on producing a balanced budget for the financial year 2019/20. Part of the challenge of managing prior year budgets was that they contained savings proposals that were ill-defined and they did not contain all of the pressures that the Council services might be expected to encounter. This approach was changed for this MTFP with a clear direction to reverse out unrealistic savings proposals, to identify all pressures and to provide the best assumptions about the future funding that could be produced. I am satisfied that the most appropriate information and assumptions have been made in developing the 2019/20 budget and MTFP and that there are no known pressures that are being left unmanaged.
- 6.5. In order to address the funding gap for 2019/20 future proposals for change have been developed and are presented for consideration for the Council with this report. I am satisfied that those proposals have been created and assessed with due rigour to ensure that they are deliverable and will have the desired impact on reducing spending within 2019/20 (and beyond where they continue). Furthermore, each proposal has been assessed for confidence in delivery, with the confidence ratings then informing the contingency provision that may be required to offset any non-delivery. It is reassuring that the confidence assessment is more positive than it was for the September 2018 proposals, perhaps indicating a level of increased maturity in producing them.
- 6.6. The contingency provision is referred to in the paragraphs below and I am satisfied that the proposed sum of £7.226m for next year is adequate to deal with both unachieved savings and other events for which the contingency may be called upon.
- 6.7. As at September 2018, the General Fund reserve was assessed as being £7.790m as at 31 March 2018, after taking account of negative reserves and those which the Council holds on behalf of others. The Council is proposing to take advantage of some one-off funding during 2018/19 and the likely underspend to either directly contribute to

the General Fund or to reduce some negative reserves, which will have the impact of increasing the General Fund balance as at 31 March 2019 to £12.704m. There are further planned contributions in 2019/20, as shown in [Appendix K](#), which will produce a balance of £17.693m as at 31 March 2020. This is in line with the Policy set out in [Appendix J](#) and will provide some interim support for 2020/21 if the SR2019 and Fair Funding Review produce an unexpectedly adverse outcome for Somerset County Council. Bolstering the General Fund in this manner will also offer the opportunity to reduce ongoing revenue budgets (contribution to reserves and contingency) in future years as there will be an adequate safety net through the balance sheet.

- 6.8. In regard of 2019/20 it is therefore possible to assess the developed budget and proposals as robust and the reserves and contingency as adequate. The latter offers appropriate risk mitigation in the event that savings proposals are not delivered, or unexpected events occur. This should not, of course, imply that managing the Council's finances in 2019/20 will be easy; the same robust control and monitoring will be required as has been applied in the latter part of 2018/19. With a change in leadership of the Finance Service during 2019/20, close attention will need to be given to the capacity and development of the team to ensure that it can support the Council through the challenges ahead.
- 6.9. 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).
- 6.10. 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.
- 6.11. The MTFP set out in this report clearly shows a balanced budget for 2019/20 but does not yet show a balanced position for 2020/21 and beyond. This is mainly because the Council, like other local authorities, does not have good quality information about the funding arrangements for 2020/21 and beyond. Therefore, the Council is recommended to adopt an MTFP that recognises the pressures on the Council and anticipates a "no change" funding settlement. In that case, the Council has proposals that reduce any projected gap to a manageable level in 2020/21 and 2021/22, especially bearing in mind the likely level of General Fund reserves.
- 6.12. However, in considering the future, the Council must adopt a longer-term approach for delivering services that enable it to manage the demand pressures and funding shortfalls in more strategic manner, thereby avoiding the production of year to year proposals for change. The Council is just about to start a whole-organisation change project that is seeking to address the pressures upon its services and how it more effectively uses its resources to improve the lives of its residents. It is essential that this project is driven at pace throughout 2019/20 in order to deliver real, transformational change in time for the new financial year in 2020/21.

- 6.13. 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 the proposals in this report are key management responses to the recommendations put forward by Grant Thornton.
- 6.14. In assessing the robustness of this budget, I have drawn on the advice of service chief officers that the service priorities for 2019/20 can be delivered within the available resource envelope for each service. These colleagues include, but are not limited to, the statutory chief officer roles of Director of Adult Services, Director of Children's Services, the Director for Public Health plus the Director for Economic and Community Infrastructure, the Director for Customers and Communities – Corporate Affairs and the Director for HR and OD.

Peter Lewis
FCPFA
Section 151 Officer

6.15. ***General Fund***

The Council holds a General Fund to provide a cushion against any unexpected short-term budgetary pressures or a major unexpected event (see Reserves and Balances Policy Statement - [Appendix K](#) for further details). The level of the balance is not prescribed, and the Council aims to keep a reasonable balance that is justifiable in the context of local circumstances and risks facing the Council, while not tying up council taxpayers' money unnecessarily. The balance at 1 April 2019 is forecasted to be £12.704m.

- 6.16. To achieve this sensible balance, since 2018/19, the Council has budgeted for an annual contribution of £2.000m each year to ensure the general fund remains at a level the S151 Officer (Interim Director of Finance) deems prudent for this Council.
- 6.17. During 2018/19, the Council has rebased the service budgets most under pressure to ensure they are robust. This work, in conjunction with the additional revenue savings approved by Cabinet in September 2018 have helped improve the Council's financial position. To continue this improvement, the MTFP keeps the plan to contribute £2.000m in 2019/20 and plans further repayment of negative reserves (see paragraph 6.7 for further details). Both will further strengthen the General Fund position.
- 6.18. As a consequence of this improved position from 2019/20, the MTFP removes the annual £2.000m contribution from 2020/21. This reduces the pressure on revenue budgets but will be kept under review to mitigate against any unforeseen pressure on the General Fund during the MTFP period.
- 6.19. Over the current MTFP period, the balance of the Council's General Fund is forecast to be:

- £12.704m – as at 1 April 2019
- £17.693m – as at 1 April 2020
- £17.693m – as at 1 April 2021
- £18.615m – as at 31 March 2022

See [Appendix L](#) for details of the movement over the MTFP period.

6.20. **Earmarked Reserves**

Earmarked reserves are funds set aside for specific purposes and to mitigate against potential future known or predicted liabilities. They are agreed by the Cabinet. The forecast total balance for all earmarked reserves brought forward at 1 April 2019 is £13.535m, an increase (of £10.714m) from the £2.821m brought forward on 1 April 2018.

- 6.21. Included within these balances are reserves set-aside to cover future costs for specific legislative responsibilities (such as Public Health and Somerset Rivers Authority), as such the Council are unable to change the purpose of these funds. After allowing for the values on these reserves, the remaining reserves, which the council can utilise, have a negative balance of -£6.086m at 1 April 2019 an improvement of £10.430m, from the -£16.516m brought forward at 1 April 2018.
- 6.22. These negative reserves have arisen from the Council policy in previous years of holding reserves in a negative position, to spread the revenue costs of projects that were expected to be higher in the early years then gradually reduce over time (referred to as budget smoothing). This policy required some form of repayment plan put in place to 'repay' the reserve in future years.
- 6.23. To ensure the authorities on-going financial resilience these negative reserves have been reviewed and a repayment plan put-forward to repay several of the reserves during the MTFP (2019-22). Within these budget assumptions, the Council plans to repay:
- £2.079m in 2019/20, to clear the outstanding Buildings Maintenance Indemnity Scheme (BMIS) and has now closed; and
 - £0.910m in 2019/20, to clear the outstanding Learning Disabilities Equalisation reserve.
- 6.24. The Councils' negative Dedicated Schools Grant (High Needs Block) reserve has arisen due to the significant pressure on the authorities High Needs budget (for children and young people with special educational needs and disabilities (SEND) from their early years to 25) over the last few years. The Council is continuing to progress the High Needs Block deficit recovery plan, with the main areas of focus being:
- Places, Capital Build and Independent Provision;
 - Pupil Referral Units, Alternative Provision and Outreach Support;
 - Improvements to the SEND team and annual review process, and;
 - Review of SEND Support Services.
- 6.25. For another of the Council's remaining negative reserves, business plans are currently being drawn-up to enable the trading activity at Dillington House to make a surplus and then repay the deficit on its trading activities' (projected to stand at £1.373m by 31 March 2019 within a short timeframe.

- 6.26. As part of the Council's drive to ensure greater financial stability and service transformation, the Authority plans to increase the capacity of its Invest to Save reserve to provide additional revenue support for future projects designed to generate long-term efficiencies and reduce future revenue costs. This reserve will be boosted through a one-off contribution of £2.852m in 2019/20, possible because of the additional funding from council tax base improvements and the provisional financial Settlement: council tax base increase (£0.852m); increased Rural Services Delivery Grant (£0.500m) and the one-off gain (£1.5m) from the Councils successful 75% Business Rates Retention bid in 2019/20. Any drawdowns from this reserve will need to be supported by robust business cases to provide evidence of the potential efficiencies, as any successful bid will be required to repay the amount being awarded. This will ensure the reserve is available to the Council for the long-term and will avoid the need for any future top-ups.
- 6.27. Details of all the Councils earmarked reserves (including planned use over the period of the MTFP (2019-22) is attached in [Appendix J](#) of this report.
- 6.28. **Corporate Contingency**
- A contingency budget is a base budget provision that the Council puts aside for one-off, unexpected costs within the year. It is common for unexpected costs to occur, for example due to exceptional weather events, so a contingency budget enables prompt mitigating action to be taken without disrupting the remainder of the annual budget for services. Use of the contingency budget is approved by the S151 Officer and is subsequently reported to members.
- 6.29. The Section 151 Officer believes it is prudent to set the following contingency budget over the current MTFP period:
- 2019/20 £7.226m
 - 2020/21 £4.562m
 - 2021/22 £4.138m
- 6.30. The rebasing of the Authority's most under pressure budgets, through the use of savings approved by Cabinet in September and additional one-off funding allocations, has enabled the Authority to better understand its cost base, reduce the impact of unexpected costs on its revenue budgets and to replenish some reserves. Therefore, it is possible to reduce the amount of contingency the Authority needs to hold moving forward as the Council's budget will be on a more secure footing, savings delivery is more effective and budgetary control is improved. The contingency has been reduced over the MTFP period to £4.138m in 2021/22.
- 6.31. The policy of putting aside a reduced contingency will be reviewed throughout the period and additional allocations will be considered in future years if the Council's budget comes under pressure and/or budgetary control is at risk.

7. Future Financial Risks

7.1. There is a considerable amount of change in the external environment facing the council over the MTFP period. This offers some opportunities, but also potential financial risk and volatility over the medium term. These include:

- The fact that the way the UK leaves the EU may impact on the economic performance and state of the nation's public finances.
- The review of local government funding proposed under the Fair Funding Review and the move to 75% local Business Rate Retention from 2020/21. Currently the Government are consulting on the proposed changes, although at this stage these are high level principles and it is not expected that authorities will be clear of the definite future arrangements nor see exemplifications of the likely financial impact until late summer / autumn 2019 – which will leave relatively little time to develop plans for budgets for 2020/21 onwards.
- The absence of a Spending Review beyond 2019/20 leaves all authorities uncertain about the overall framework of future funding allocations as between the different government departments and priorities. The recent publication of the NHS 10-year plan, announcing additional funding increase the likely strain that other public sector services, including local government may have to bear.
- Although service budgets have been re-based going into 2019/20 to ensure as robust budgets as is possible, there remains volatility in demands for care services in particular, both in terms of volumes and complexity. The position anticipated now could therefore change significantly.
- Any legislative changes not yet known about could impact on the Council's responsibilities and therefore spend pressures.

Throughout the next financial year, the Council will continue to keep the MTFP under review and report back to members with up-dated plans if necessary.

8. Background Papers and Appendices

8.1. Medium Term Financial Plan Strategy report to Cabinet – December 2018

8.2. Month 9 Revenue Budget Monitoring Report to Cabinet – January 2019
Revenue Budget Report 2019-22 to Scrutiny Adults – 30 January 2019
Revenue Budget Report 2019-22 to Scrutiny Children's – 25 January 2019
Revenue Budget Report 2019-22 to Scrutiny Place – 23 January 2019

Appendices:

[A: Prior Year Savings Unachievable](#)

[B: Minimum Revenue Provision Policy Statement](#)

[C: Summary of Equality Impacts MTFP 2019/20](#)

[D: Proposals for Change 2019/20](#)

[E1: Summary of Savings Proposals for Cabinet](#)

[E2: Adults & Health Services Proposals for Change](#)

[E3: Children's Services Proposals for Change](#)

[E4a: Corporate Services Proposals for Change Consultations](#)

[E4b: Corporate Services Proposals for Change Decisions](#)

[E5: ECI Services Proposals for Change](#)

[F: Capital Receipts Flexibility up to 2018/19](#)

[G: Capital Receipts Flexibility for 2019/20 onwards](#)

[H: Council Tax Precepts](#)

[I: Government Grants 2019-22](#)

[J: Earmarked Reserves details](#)

[K: Reserves and Balances Policy Statement](#)

[L: General Fund movements 2019-22](#)