

Approach to the updating the Medium Term Financial Plan

Cabinet Member:	Cllr Mandy Chilcott – Cabinet Member for Resources
Division and Local Member:	All
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	Seen by:	Name	Date
	County Solicitor	Honor Clarke	24/6/19
	Monitoring Officer	Scott Wooldridge	24/6/19
	Corporate Finance	Sheila Collins	24/6/19
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	Property	Paula Hewitt / Claire Lovett	24/6/19
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	Local Member(s)	All	
	Cabinet Member	Mandy Chilcott	24/6/19
	Opposition Spokesperson	Liz Leyshon	24/6/19
	Relevant Scrutiny Chairman	Cllr Anna Groskop for Scrutiny Place	24/6/19
Forward Plan Reference:	FP/19/04/11		
Summary:	<p>This report sets out the strategic approach to setting budgets covering the next three years. It highlights the intention for increased engagement with Council Members. And it demonstrates that in times of great uncertainty surrounding levels of Government funding, that this Council is taking a prudent and pragmatic approach to financial sustainability in order to enable, support or provide quality services for residents, businesses and communities.</p> <p>The report sets out the approach for updating the current Medium Term Financial Plan which will cover the next three financial years from 2020/21 until 2022/23. It will ensure the development of</p>		

	<p>proposals to deliver a balanced Revenue Budget for 2020/21 and agree a capital programme for investing in council priorities.</p> <p>As part of the improvements to financial management and to address the uncertainty of funding for local authorities going forward, a risk-based approach looking at Best, Central & Worse case scenarios will be adopted. The report outlines the strategic approach being taken to ensure a sustainable financial platform for the council which will enable it to deliver, support or enable on-going services for people across Somerset.</p> <p>As part of the improvements to increased council member engagement, it is proposed that three all-member briefings will be held at appropriate points in time during the budget setting process.</p>
Recommendations:	<p>Cabinet is recommended to :</p> <ol style="list-style-type: none"> 1. approve the high-level budget setting timetable and the approach for updating the Medium Term Financial Plan, incorporating the 2020/21 revenue budget proposals and the capital programme. 2. Note the progress with a number of key strategies since the Full Council budget meeting in February 2019. 3. note the Council's responses to technical consultations on the future of Local Government Funding submitted in Spring 2019.
Reasons for recommendations	To ensure that the Council can produce a balanced revenue budget for 2020/21.
Links to County Vision, Business Plan and Medium Term Financial Strategy:	The Medium Term Financial Plan is the key link between County Vision, Business Plan and service delivery ensuring resources are targeted to the priorities of the Council whilst ensuring that financial sustainability is secured.
Consultations and co-production undertaken:	No detailed consultations have been undertaken at this time as no proposals for change have yet been developed. However, the approach and timelines have been shared with the Cabinet Member for Resources, the Opposition Spokesperson and the Chairman of the Scrutiny Committee for Policies and Place.
Financial Implications:	The report describes the overall financial position of the Council for future years.
Legal Implications:	It is a statutory requirement under the Local Government Finance Act 1992 for the Council to set a balanced budget by 11 March of the preceding financial year. The Council usually sets its budget at its Full Council meeting in February.

HR Implications:	There are no specific HR implications arising from this report, but as any, relevant specific proposals are created then the normal HR processes will be followed.				
Risk Implications:	<p>The annual review of strategic risk ORG0043, – Sustainable Budget; has been completed to ensure it accurately describes the core finance challenge facing the council in 2019/20, with a longer-term outlook incorporated. This up-date was considered by the Audit Committee on 20 June 2019. It recognises the significant improvement that has been made to the council’s financial stability during 2018/19 and ensures close focus on sustaining that improvement through rigorous monitoring during 2019/20 and the importance of sound longer term financial planning in the context of the unprecedented level of uncertainty over the future of Local Government Funding (with the absence of firm proposals around the Fairer Funding Review (FFR), Business Rate Retention (BRR), and Spending Review).</p> <p>The risk description now states:</p> <p>“Maintaining a balanced budget for 2019/20 and ensuring a sustainable MTFP”. There is a risk to the council’s long-term sustainability if there are significant in-year service overspends, and or if the council suffers significant loss of funding in future years its ability to prepare a robust and sustainable MTFP for 2020/21 onwards may be impacted”.</p> <p>To ensure the appropriate corporate high focus on managing this risk, the risk level remains ‘high’ and will be monitored monthly through the councils risk system and reported to every Audit Committee.</p>				
	Likelihood	4	Impact	4	Risk Score 16
Other Implications (including due regard implications):	There are no other implications arising directly from this paper. As any proposals for change are prepared as part of the budget process appropriate consideration will need to be given to equalities, community safety, sustainability, health and safety, privacy, health and wellbeing and other implications, as necessary.				
Scrutiny comments / recommendation (if any):	Not Applicable				

1. Background

- 1.1** The Council has a Medium Term Financial Plan (MTFP 2019-22) and capital programme that were approved in February 2019 as part of setting the 2019/20 Budget. This report sets out the approach to updating these and developing proposals to deliver a balanced budget for 2020/21.
- 1.2** The Council has made significant progress in addressing the financial challenges it faces and will continue the approach of addressing them in a strategic, rather than tactical, manner. Preparing a robust Medium Term Financial Plan, anchored in the Corporate Plan and priorities of the Council is an essential part of this.

2. Options considered and reasons for rejecting them

- 2.1** The Council is required under the Local Government Finance Act 1992 to set a balanced budget each year but good practice is to adopt a medium term approach to managing the Council's finances. The tactical annual approach has been rejected in favour of a strategic medium term approach.

3. Medium Term Financial Plan

- 3.1** The Medium Term Financial Plan is a key document in that it provides the linkage between the Council's ambitions as set out in its Vision and the actual resources available to deliver services. The Medium Term Financial Plan provides the strategic overview of financial resources of the Council going forward by setting out the gap between the budget requirement to deliver services and the predicted funding available. It is a dynamic document that will change over time as further information becomes available. In February 2019, the Council considered the Medium Term Financial Plan which estimated the budget gap for 2020/21 to be £5.2m with no further gaps in 2021/22. The Council now need to extend the planning horizon to cover 2022/23 and to update the estimates and assumptions with the latest information to develop proposals to balance the budget for the coming year. Alongside this the Council will review the agreed three year Capital Programme, refining the detail for 2020/21 as necessary and extending into 2022/23. Capital and Revenue need to be considered together and this approach will ensure that any revenue impacts of the Capital Programme are built into the Medium Term Financial Plan. By taking this approach a comprehensive picture of the finances over the medium term is built up.

- 3.2** Given that financial planning and forecasting over the medium term is obviously more difficult to accurately predict and that there are significant uncertainties concerning the future local authority funding, the approach adopted will be to produce a Medium Term Financial Plan based upon scenarios concerning the underlying assumptions such as funding from Business Rates. This new approach will provide a Best, Worst and Central Case of the budget gap over the life of the Medium Term Financial Plan. By taking this approach the Council will be able to better understand the impact of changes going forward and be better equipped to develop proactive plans to address the emerging financial picture.
- 3.3** The Medium Term Financial Plan will be updated to reflect known changes including: the current budget monitoring position, service pressures, demographic changes, changes in legislation, the staffing establishment costs and any changes in national funding for councils. Further unknown factors will be reflected in scenarios to enable a likely 'range' on financial challenge to be considered. By building in all of these factors to the Medium Term Financial Plan a clearer picture of the financial challenges over the next 3 years can be identified and sustainable solutions to address them can be developed.
- 3.4** A key part of accurately projecting future years is to ensure that the current years underlying base budget is accurate. To help ensure that this is the case a high level Base Budget Review exercise following the 2018/19 outturn will be carried out. This process will identify any significant variances and ensure that they are built into the Medium Term Financial Plan. The latest budget monitoring report for the current financial year (2019/20) will be reviewed and any items that have impacts in future years will be identified. One difficulty in the past (before 2018/19), has been undelivered savings but with the increased focus that has been implemented as part of the financial imperative work in 2018/19 there is significantly increased confidence that this area should no longer result in any new surprises. (The financial imperative framework resulted in 98% of MTFP 2 savings in 2018/19 being delivered as was reported in the 2018/19 Outturn Report to Cabinet on 10 June 2019).

4. Uncertainty of future Local Government Funding

- 4.1** Government have been developing proposals to amend the that funding mechanism for Councils through their Business Rates Retention Review (BRR) and Fair Funding Review (FFR) since 2016. Currently Governments stated intention is to implement these changes with effect from 2020/21. However, although there have been initial technical consultations, most recently in Spring 2019, no firm proposals are yet known, and no authorities have seen any exemplifications indicating the likely or even potential impact on their funding. This Council has submitted responses to these consultations and evidence to the recent Spending Review 2019 enquiry. At the same time the current Spending Review period ended in 2019/20, and no details of the make up or duration of the next Comprehensive Spending Review (CSR) are yet known. The expectation is that the CSR details will be known as usual in late November / December 2019. These factors together mean authorities face unprecedentedly uncertain times as they look to develop MTFP's for 2020/21 onwards.
- 4.2** In parallel with the MTFP process proposed in this paper, senior officers and members will continue to press local MPs, Government and others, through the LGA, for more funding flexibility that will seek to avoid the worst of the funding challenges that the council could face and achieve certainty to enable sensible planning.

5. Timetable and Approach

- 5.1** It is intended that the Medium Term Financial Planning process will be split into 4 phases: Planning and context setting; Development and proposals; Preparation and Engagement and Confirmation and decision-making. The high-level timetable can be seen in Appendix A.
- 5.2** As part of the engagement process there will be 3 all member briefings at different stages in the process. The first of these is planned for the summer in order to provide context, the second in December to provide an update on the overall position and emerging funding update; with the final one in February to ensure that all members understand the budget proposals prior to the Budget setting meeting. There will also be engagement of Scrutiny Committees throughout the process, with any specific proposals to be presented to Scrutiny at their meetings in December/January.

6. Key Strategies

6.1 At the Council meeting in February 2019, decisions were taken to progress a number of strategies and the narrative below sets out the position on each:

- *Preventative Fund* – Council agreed to set up a fund of £1m to be invested in community projects that prevent issues developing or tackling them early to stop them escalating. A report to Cabinet on 10 June 2019 presented the first proposals which allocated the fund across the following areas:
 - £850k for the Improving Lives to prevent Demand Fund
 - £125k for the Members' Improving Lives Grant Scheme
 - £25k for the Somerset Young People's Fund
- This report will be considered at the Place Scrutiny meeting on 16 July 2019.
- *Capital Receipts Flexibility* – detailed business cases for the anticipated future use have been reviewed and a summary paper considered at the Place Scrutiny meeting on 19 June 2019.
- *Investment Strategy* – Council proposed to develop the investment strategy for non-treasury investments. Work continues to develop the optimum approach for the Council and it is anticipated that this will be presented to the Council in November 2019. This will enable sufficient time to ensure appropriate governance arrangements, consultations and due diligence are carried out before implementation.

7. Background papers

- 7.1
- Council Report – 20th February 2019 – Revenue Budget - Medium-Term Financial Plan 2019-22 – Item 6, Paper C
 - Cabinet Report - 10 June 2019 – on Prevention Fund
 - Place Scrutiny Report – 20 June – Capital Receipts Flexibility

Note:

For sight of individual background papers please contact the report author(s):

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Appendix A – Medium Term Financial Plan 2020/21-2022/23 – Overview of timeline

MTFP 2020-23: Overview

