

Medium Term Financial Strategy 2020-2023

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Forward Plan Reference:	FP19/12/01		

Summary:

Having tightened the grip on the Councils finances during 2018/19 and developed a robust budget for 2019/20, the Council has refreshed its approach to developing its longer-term financial plans during the summer and autumn 2019. The key drivers underpinning the council's financial strategy are:

- Protecting front line services and promoting prevention;
- Strengthening financial sustainability by taking a long-term view;
- Ensuring robust budgets based on evidence and best practice, and;
- Further strengthening earmarked reserves to appropriate levels.

This paper sets out how the Council has developed its strategy based on these drivers, including the risks and current uncertainties with it. Although final details may change before budgets are set, the fundamental services strengths of this strategy are not expected to alter and include:

- Investing in transforming services to improve lives for residents;
- Investing in communities (through various initiatives lead by the Leader – details will be in the February budget report);
- Avoiding further service cuts, and rather;
- Protecting front-line services and strengthening prevention activities.

Of course, the Council could deliver many further improvements if the Government recognised the on-going increasing demands on core County Council services and allocated extra Government funding more fairly according to need.

The resulting Medium-Term Financial Plan (MTFP 2020-23) and supporting Capital Programme (2020-23) including details of specific initiatives to deliver the above service improvements will be included in the Scrutiny Committee papers early 2020 and then the final budget proposals for Full Council in February 2020. The plans will be founded on robust, evidenced based spending assumptions against which delivery can be tracked and monitored. Forecasting funding assumptions accurately is particularly challenging in view of the Government only planning to detail funding for 2020/21 in

this year's Financial Settlement (which has not yet been announced). Future years will remain uncertain pending a Comprehensive Spending Review (CSR) now proposed for 2020 and set to include a review of Local Government funding through the Fair Funding Review (FFR) and Business Rates Retention Reviews (BRR). Government have indicated that the CSR will cover multiple years.

For 2020/21, although the Government have not been able to announce the Provisional Local Government Financial Settlement due to the General Election, the Government did issue the Spending Round in September 2019 (known as SR2019) and they have now advised local authorities to rely on this for planning purposes. There were three main implications of SR2019 for this Council:

- An indication that authorities will be able to raise General council tax by 2% without the requirement for a referendum and an additional 2% in relation to adult social care;
- A new one-off grant for 2020/21 only for social care of £1bn nationally, of which the County can expect to receive £10.4m. This was unexpected and since it is one-off has not been relied upon to balance the Councils MTFP, and;
- Confirmation that other 'uncertain' grants (such as better care fund, public health), will continue into 2020/21. The existing MTFP had already assumed this, so SR2019 helpfully confirmed these assumptions.

The current MTFP (2019-22) funding assumptions have been up-dated to reflect SR2019. As soon as the Provisional Settlement is published officers will assess the Councils budget planning assumptions and advise members accordingly. It is currently not known whether this will be before or after Christmas.

It is important to emphasise that although the indicative budgets set out in this paper are based on existing Government Policy, the key areas of focus of this strategy are not expected to alter between now and February 2020 regardless of the outcome of the General Election. Clearly though, the Council will review any policy or funding changes that may be announced and flex this strategy and budgets accordingly before proposing the final budget for 2020/21 and longer-term financial plan to the Full Council in February

2020.

Given that the new Social Care grant is currently one off for 2020/21, the MTFP Strategy has been developed on a prudent basis and has allocated this funding to pump prime further transformation. However, if this funding becomes permanent, the Council will have a welcome opportunity to:

- sensibly re-invest and or invest in some of the place-based preventative services (whether delivered directly or through partners and the voluntary sector), beginning to address current and future unmet need and significantly improve the lives of residents;
- recognise the need to invest in the right skills across the council's workforce, and;
- develop stronger financial resilience that enables a measured, pro-active response to future challenges and provides a basis for driving further transformation.

The detailed planning work that has been carried out on the MTFP (2020-23) shows the latest position to be balanced budget for 2020/21, with a revenue requirement to spend £348.270m in 2020/21, and a modest total gap of £9.5m over the second and third years together. Importantly, this position has been achieved with no additional service cuts, rather through service efficiencies and transformation changes. There are still some items which cannot be finalised such as council tax base, national pay awards and the Local Government Finance Settlement, but reasonable assumptions have been made. However, between now and February 2020 the numbers will alter and the Council's approach to balancing the budget across all three years will be finalised. Further consultation with stakeholders will be carried out in January 2020.

A key part of the improved MTFP process has been to consider the capital programme, contingency and reserves alongside the revenue budget, so that one integrated MTFP is produced.

The MTFP process and budget assumptions have been subject to various reviews and based upon sound judgements which adds greater confidence to the robustness of the forward MTFP planning than in the past. The capital programme for

the next 3 years has been subject to review and challenge, with its funding implications included within the MTFP.

The MTFP Strategy recognises that the Council declared a climate change emergency in February 2019 and is now working with partners to develop a Climate Emergency Strategy. When this strategy is adopted, the Council will need a financial strategy that is flexible enough to reflect agreed priorities.

In looking ahead to the MTFP, it is important to consider progress and confidence in the current financial year's budget. Elsewhere on this agenda the Cabinet will consider the month 7 monitoring position that forecasts a balanced budget with £6.4m of the corporate contingency unallocated, 99% of savings either on track or delivered and management actions underway to manage down any adverse variances as much as possible. Further the implications of any current year's budget variations have been reflected in the forward year's budget requirements as relevant. All these elements add greater confidence to the robustness of the forward MTFP planning than in the past.

Through the Improving Lives Programme, the Council is working to transform the Council into one that is sustainable whilst providing the best possible outcomes for the people of Somerset. The Programme is focused on strengthening our enabling functions to ensure the Council can identify and realise benefits through:

- Commissioning creatively and collaboratively;
- Supporting our communities to be strong and resilient;
- Getting Somerset more up to speed with digital solutions and use developing technology to lead the way it delivers services, and;
- Creating a culture that encourages staff to work more creatively and innovatively.

<p>Recommendations:</p>	<p>It is recommended that Cabinet:</p> <ol style="list-style-type: none"> 1. Recognise the strengths of this financial strategy for Improving the Lives of Residents in Somerset. 2. Approve the Medium-Term Financial Strategy as a basis for developing the revenue and capital budgets for the next three years (2020-23) for consultation with businesses and Scrutiny Committees in January / February 2020 ahead of consideration by Cabinet and Full Council in February 2020. 3. Endorse the proposed improvement to long term financial resilience and sustainability achieved through this strategy. 4. Recognise that more could be done if Government allocated more funding on a fairer basis according to rising needs, and therefore endorse further lobbying of Government for: <ol style="list-style-type: none"> a. the new Social Care Grant funding (£1bn nationally) to become permanent; b. delivering a multi-year Comprehensive Spending Review (CSR) that recognises rising service needs and removes the currently uncertainty for Government funding beyond 2020/21, and; c. the necessary additional resources and flexibilities that are likely to be required to support the delivery of Somerset's Climate Emergency Strategy priorities in due course.
<p>Reasons for Recommendations:</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>Furthermore, preparing a robust, balanced and deliverable Budget for the forthcoming financial year, 2020/21, is a Statutory obligation as well as being key to the effective management of the Council and delivery of essential services.</p> <p>The continued lobbying regarding the review of Local Government Funding is necessary to optimise the long-term financial sustainability and stability of the Councils financial position.</p>

Links to County Vision, Business Plan and Medium-Term Financial Strategy:	A robust Medium-Term Financial Plan (MTFP) positions the Council well to achieve the corporate plan and service delivery priorities in a financial sustainable way.
Consultations and co-production undertaken:	<p>High level consultations on the MTFP Strategy approach and financial context have been carried out, and further consultations, as is required will be arranged as the proposals for change are developed, considered by members. These will be done ahead of any required decision making.</p> <p>Discussions to explain the financial context facing the Council in developing this MTFP strategy were held with a range of stakeholders during the autumn. Once detailed proposals are available, and the Provisional Financial Local Government Settlement details are known, further consultation will be carried out in January 2020.</p>
Financial Implications:	This report describes the overall financial position of the Council for future years; all financial implications are described within the report.
Legal Implications:	It is a statutory requirement under the Local Government Finance Act 1992 for the Council to set a balanced budget by 11 March of the preceding financial year, having regards to advice from the Section 151 Officer. The Council is also required to set a council tax requirement and issue precepts to all district councils. These requirements are scheduled to be met at the Full Council meeting on 19 February 2020.
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 key risks are identified on the strategic risk register and particularly within risk ORG0043. This risk is described as:</p> <p><i>“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”</i></p>

The Government helpfully announced their broad intentions for the Local Government Financial Settlement for 2020/21 in Sept 2019, through the Spending Round 2019 (known as SR2019). However, the full details will not be known until the Provisional Local Government Finance Settlement is announced. The General election, held on 12 December 2019, has led to a necessary delay to this announcement. The Government wrote to Local authorities in November 2019 advising them of their intention to publish the Provisional Financial Settlement as soon as practical after the General election and to rely on the information shared in SR2019 for planning purposes in the meantime. As soon as the Settlement is published the council will assess the budget planning assumptions and, advise members accordingly.

It is important to understand that SR2019 referred to 2020/21 only and indicated Governments plans to develop a multi-year Comprehensive Spending Review (CSR) during 020. Uncertainty over funding levels will therefore remain when the Council agrees the MTFP in February 2020 for the final two years of the three-year plan.

As well as uncertainty in Government funding levels, the Council faces substantial on-going challenges to achieve a sustainable balanced budget due to the increasing demand on its key services, especially those for vulnerable children and adults.

It is important that Members understand the risks to approved budgets, maintaining sufficient reserves, balances and contingencies as well as managing a range of mitigations to limit as much as possible potential impacts on core services, especially those prioritised in the County Plan. As the demand for core services continue to rise, savings become ever more difficult to identify and then deliver, transformation initiatives are often complex, and funding levels remain uncertain, it is imperative that expenditure is kept within existing budgets.

Likelihood	4	Impact	4	Risk Score	16
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<p>Other Implications (including due regard implications):</p>	<p><u>Equalities Implications</u> It is essential that decision makers ensure that consideration is given to legal obligations, in particular the need to exercise the equality duty under the Equality Act 2010, to have due regard to the impacts based on sufficient evidence appropriately analysed.</p> <p>This however, does not prevent the Council from making difficult financial decisions, such as decisions which may affect one group more than another. What the duty requires is consideration of all available information, including the potential impacts and mitigations to ensure a fully informed decision is made.</p> <p>There are no specific equalities implications arising from the contents of this report. The development of specific proposals for change will require the preparation of any necessary Equality Impact Assessments to assist with any subsequent decision making.</p> <p><u>Community Safety Implications</u> There are no community safety implications arising from the contents of this report.</p> <p><u>Sustainability Implications</u> There are no sustainability implications arising from this report.</p> <p><u>Health and Safety Implications</u> There are no health and safety implications arising from this report.</p> <p><u>Privacy Implications</u> There are no privacy implications arising from this report.</p> <p><u>Health and Wellbeing Implications</u> There are no health and wellbeing implications arising from this report.</p>
<p>Scrutiny comments / recommendation (if any):</p>	<p>It has not been possible to engage the Scrutiny Committee for Policies and Place with this report due to the recent General Election pre-election period.</p>

1. Background

- 1.1 Throughout the 2018/19 financial year the Council robustly addressed serious financial challenges and when it agreed the balanced budget for 2019/20 in February 2019 it acknowledged the further financial challenges ahead and the need to plan thoroughly to address them in a strategic, rather than tactical manner. The tightened financial grip put in place in 2018/19 resulted in a significant financial turnaround to that financial year's position with an underspend for the year, increased reserves and improvements in the level of in year savings delivered. In February 2019 the Council confirmed that these tighter financial arrangements must and will continue throughout 2019/20
- 1.2 This significant financial turnaround was acknowledged by the external auditor in their value for money (VFM) conclusion for 2018/19 which reached an improved conclusion to 'qualified, except for', considerably better than the previous conclusion of 'adverse'.

In their report to the Audit Committee on 19 September 2019, the auditors said:

"Having considered all the evidence... we are now satisfied that sufficient progress has been made since our Adverse VFM conclusion in 2017/18 to conclude that the financial challenges facing the Council are no longer pervasive to the whole Council".

However, in explaining their rationale for the 'except for' VFM conclusion the auditor said:

"This 'except for' rating recognises that there is still much to do within the Council to return it to a fully sustainable financial position and it is critical that continued effort is directed to ensuring the positive trajectory over the last 12 months continues".

- 1.3 Preparing a robust MTFP, covering multiple years, anchored in the Corporate Plan and priorities of the Council was considered essential in February 2019 and delivering this has been a strong focus for the Council since then. The updated MTFP will cover three financial years, 2020/21 to 2022/23 and draw close links between the revenue planning and capital programme planning.

- 1.4 The Improving Lives Programme has made progress during 2019 to transform and strengthen the key enabling functions and requirements across the organisation. The Programme has refocused managers on the need to promote and focus on prevention; has taken steps to improve our commissioning practice and is developing an innovative system to make it easier to evidence the benefits of our commissioning activity; it has refocused the Council on the benefits of technology and the use of innovative methods to improve and enhance delivery; and it has strengthened the approach to ensure the correct capabilities to transform are present. Some benefits have already been identified through the work of the Improving Lives Programme and these have been reflected within the MTFP proposals where appropriate.

The challenge for the Improving Lives programme over the next three years will be to ensure the Council is able to identify, monitor and realise both financial benefits where a positive community impact is the main objective. The Council will need to invest resources in key transformation projects, identified through the Improving Lives Programme, and ensure the return on this investment is clearly managed.

- 1.5 This report sets out how the budget has been built for 2020-23, revenue and capital, and confirms that the Council will be able to set a robust and balanced revenue budget for 2020/21 and consider detail, firm proposals for 2021/22 and 2022/23. Of particularly crucial importance to this Council in this MTFP period is the need to develop a clear and strong strategy that strengthens the relatively fragile financial resilience. This means further improvement to the level of reserves. A firm capital programme across all three years will also be considered, together with its associated revenue budget implications. The assumptions upon which these plans are based are set out in the report, which also explores the uncertainties and risks that could alter the position ahead of the Full Council meeting in February 2020.

2. Options considered and reasons for rejecting them

- 2.1 The only option is to consider the financial position for the Council and to resolve to address this in line with the Council's priorities and available resources.
- 2.2 Within that requirement, the Council does have some options as to how the budget is balanced for future years. Some of the detail of these options is set out in this report.

3. Developing the MTFP 2020/23

3.1 The approach to developing the MTFP (2020-23) has been significantly strengthened during 2019, with the core improvements being:

- Scenario planning to assess impact of a range of outcomes for both demand areas and funding streams;
- Increased engagement with stakeholders (including members, staff and business community);
- Supportive challenge sessions, chaired by the Chief Executive, with each Director reviewing the evidence underpinning each revenue pressure, saving and capital bid;
- Completion of a Strategic Manager confidence / validation analysis that captures the basis for a level of confidence across the next three financial years for each revenue service area;
- Review by each service of any in-year service revenue variations (through 2019/20 budget monitoring) to assess the extent of any future year implications;
- Consideration of the Grant Thornton (external auditor) advisory activity carried out in August 2019 to assess the level of confidence in forward demand pressures for the core social care demand led activities;
- Deep dive reviews in September 2019, chaired by the Chief Executive of the Improving Lives Programme workstreams to identify the scale and anticipated timing of activities and to scope any revenue budget implications;
- Monthly review by the Senior Leadership Team (SLT) to identify any cross-cutting anomalies and ensure of coherent organisational approach, and;
- Increased Senior Finance Capacity and experience.

Underpinning these changes is the Councils financial strategy that reflects four key drivers as set out in **Chart 1** below.

Chart 1: Key Drivers of the Councils Financial Strategy



This report sets out how the budget has been built for 2020-23, revenue and capital, and the key assumptions. Of particularly crucial importance to this Council in this MTFP period is the need to develop a clear and strong strategy that strengthens the relatively fragile financial resilience. This means further improvement to the level of earmarked reserves.

- 3.2 The MTFP set out in this report has been built on the principle that the Council needs to understand all the funding and demand pressures upon it in order to be able to prepare a robust plan. Therefore, the budget requirement has been estimated with known pressures across all services across all three financial years. Strategic Managers have been actively engaged in confirming the details for their budgets so that there will be no known, hidden pressures such as unmet inflation or legislative changes. All funding assumptions have been reviewed to produce credible estimates. In this way, a full understanding of spend needs and funding levels for the revenue budget are known before considering how they might be addressed in accordance with the priorities of the Council.

- 3.3 For both the core spending needs and core funding assumptions, scenarios were developed for consideration that assessed the risks and sensitivity of each element. This scenario planning has helped identify the most sensible scenario to propose in the MTFP and to inform the level of resilience (through corporate contingency and reserves) it is prudent for the Council to plan for.

4. Key Revenue Assumptions

- 4.1 This section sets out the assumptions and changes to the revenue budget. The tables at the end of the section (**tables 1,2 and 3 on pages 14 and 15**) analysis this across both service and by type of change.
- 4.2 The Council considered the current MTFP (2019-22) and Revenue Budget at its meeting in February 2019. That report proposed a balanced net revenue budget for 2019/20 and illustrated a modest shortfall of £5.221m for the following two years. At the time it was not considered prudent to drive hard for further savings proposals to be developed to reduce this shortfall in view of the lack of a Comprehensive Spending Review (CSR) beyond 2019/20 and the promise of Local Government Funding Reform by Government (in the form of the Fairer Funding Review and Business Rate Retention).

Core Spending Assumptions

- 4.3 To enable a robust MTFP to be developed, service managers have reviewed their known and anticipated service activities with a view to ensuring that all demand pressures are reflected in the budget proposals. Implicit in reviewing service demands, managers also considered the existing savings proposals factored into their budgets and the achievability of these as well as the known or anticipated implications of any transformation activities. All the changes have been subject to supportive challenge sessions to ensure that they are realistic and robust.

The key assumptions impacting on the level of need to spend and changes are set out in **Table 1** below.

Table 1: Core Spending Assumptions and rationale

Description	Key Assumption	Rationale
Demand	Varies per service area	Assessments made in services
Demography	Varies per service area in Adults and Children's services	Assessments made in services
Inflation (General)	Varies per service area	Assessments made in services
Inflation (Contract)	Varies per service area	Contractual and provider agreements
Pay	2.75% for each year	Estimate of current pay negotiations
Pension	0.2% for 2020/21	Pension Actuary initial valuation
Growth	Varies per service area	Assessments made in services
Prior Year Savings Unachievable	Varies per service area	Assessment of likelihood and confidence of delivery of savings
Efficiencies / Transformation	1% productivity	Service delivery plans

Translating these assumptions into indicative financial implications, results in the tables below. **Table 2** shows the changes to the MTFP between each of the financial years based upon the assumptions above by type and **table 3** shows the movements analysed by service.

Table 2: MTFP (2020-23) Indicative Spending Requirement movement by type

Movement Type	2020/21 £m	2021/22 £m	2022/23 £m
Demand (cost and complexity)	5.504	2.657	3.061
Demography (volume)	1.967	2.209	1.750
Inflation (General)	3.093	4.009	4.834
Inflation (Contract)	3.241	3.440	3.720
Legislation Change	(0.050)	0.000	0.000
Pay	5.580	3.426	3.469
Growth	2.597	(2.011)	(0.169)
Prior Year Savings Unachievable	3.333	0.000	0.000
Efficiencies / Transformation	(7.914)	(0.538)	(2.494)
Total movement *	17.352	13.192	14.172

** This means an increase in spend need of £17.352m in 2020/21, a further increase in 2021/22 of £13.192m and an increase of £14.172m in 2022/23.*

Table 3: MTFP (2020-23) Indicative Spending Requirement movement by service

Movements by Service	2020/21 £m	2021/22 £m	2022/23 £m
Adults Services	0.472	5.064	5.100
Children's Services	4.511	2.608	1.098
Economic & Community Infrastructure	7.818	(0.345)	2.182
Public Health	0.100	0.000	0.000
Corporate & Support Services	3.594	0.124	0.295
Non-Service	0.857	5.741	5.497
Total movement	17.352	13.192	14.172

Details of all the changes will be considered in detail at the Scrutiny Committee meetings in January or February 2020 and then further at Cabinet and the County Council meetings in February 2020. It is important to note that the above changes are focused on transforming services and continual improvements and do not involve new service reductions.

Core Funding Assumptions

- 4.4 In September 2019 the Government published a Spending Review (known as SR2019) followed by a technical consultation including more details in October 2019. At the time the Government stated their intention to issue the Provisional Local Government Financial Settlement in early December 2019. However, the General Election planned for 12 December 2019 means that the Government cannot now publish the Financial Settlement until after then. The Ministry for Housing, Communities and Local Government (MHCLG), have written to all local authorities encouraging them to assume the announcements included in the SR2019 are included in the Settlement.
- 4.5 The Government have confirmed their intention to carry out a Comprehensive Spending Review (known as CSR) during 2020 alongside the Fair Funding Review (FFR), the introduction of 75% Business Rate Retention (BRR) scheme and the Business Rates Reset. As such the assumptions for 2021/22 onwards are much less certain.

- 4.6 This report sets out the current assumptions for funding based on SR2019 and when the Provisional Local Government Financial Settlement is announced these assumptions will be validated.
- 4.7 The main implications for this Council of the Spending Round (SR2019) included three main implications for this Council, as summarised below:
- An indication that Councils will be able to raise General Council Tax by 2% without the requirement for a referendum and an additional 2% in relation to adult social care. The latter was unexpected, although the council had planned for a 2% increase for general council tax. Each 1% council tax increase generates approximately £2.5m in additional annual funding;
 - A new one-off grant for 2020/21 only for social care of £1bn nationally, of which the County can expect to receive £10.4m. This was unexpected and since it is one-off has not been relied upon to balance the councils MTFP (2020-23), and;
 - Confirmation that all other grants (such as better care fund, public health, Revenue Support Grant), will continue and in some cases increase by inflation.

Business Rates

- 4.8 The Spending Round 2019 (SR2019) made it clear that there will be no business rate pilots for 2020/21, meaning that the pilot that Somerset authorities are included in for 2019/20 will cease. This is consistent with the assumption made in the existing MTFP meaning no change is necessary. In anticipation of this the Somerset authorities have indicated to Government their preference to revert to a Somerset authorities wide pooling arrangement for 2020/21. This is factored into the budget assumption for 2020/21 and an increase of 2% has been assumed for future years.
- 4.9 Beyond 2020/21, the Government are still intending to introduce a 75% business rate retention system. The Council will actively engage with Government during 2020 to ensure the optimum system to assist Somerset's economy and financial stability.

Revenue Support Grant (RSG)

- 4.10 The previous four-year settlement allocated £6.075m RSG to the Council for 2019/20, and at the time of setting the previous MTFP, it was considered prudent to assume that RSG would cease altogether with effect from 2020/21. Having reviewed this and in line with SR2019, it now seems likely that RSG will continue into 2020/21. MTFP (2020-23) assumptions have therefore been up-

dated to include this grant and from 2021/22 it is assumed that this will be included within the Business Rates figures as part of the introduction of the 75% Business Rates Retention

New Homes Bonus (NHB)

- 4.11 In respect of New Homes Bonus funding it is expected that 2020/21 will be the final year of the current scheme with funding in 2021/22 and 2022/23 being reduced to legacy payments only. The MTFP therefore assumes a further £0.400m will be received in 2020/21 taking the total funding to the year of just over £2m then reducing to just under £1m in 2021/22 and just over half a million in 2022/23.

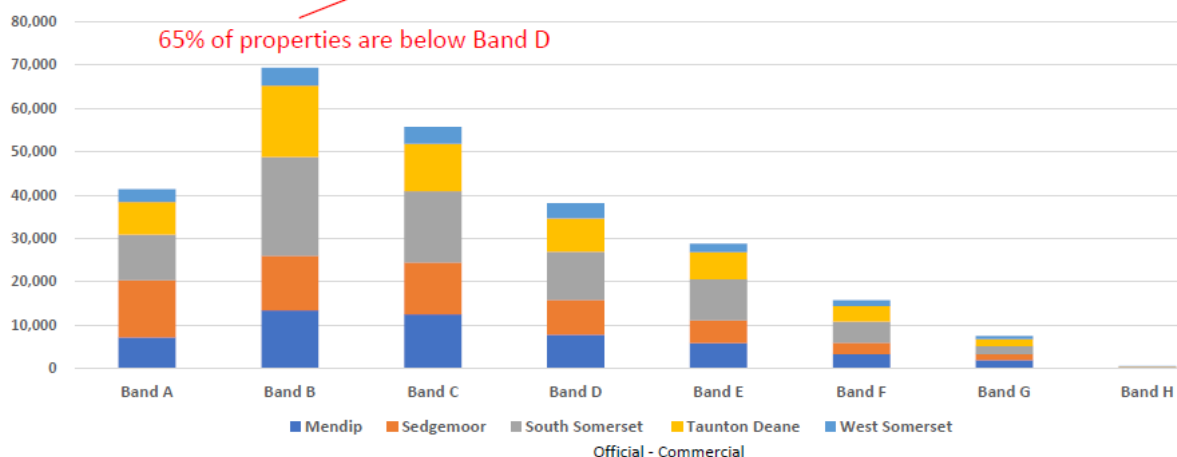
Council Tax

- 4.12 The existing MTFP Council Tax strategy is to increase Council Tax in line with the Government set referendum limit. These new proposals continue that strategy. This is the largest source of income to the council, generating around 77% of total net revenue budget at £256m, with each 1% increase raising around £2.5m annually for the Council. The SR2019 has assumed that council tax will increase by 1.99% (2% being the referendum limit) and a further 2% for Adult Social Precept. Both have been built into the MTFP. For 2021/22 and 2022/23 it is assumed that the general Council Tax limit will continue at 2% and that there will not be any further Adult Social precept increase permitted.
- 4.13 The tax base is calculated by each District Council in December by taking account of the growth in the number of properties, the number of band D equivalent properties and the estimated council tax collection rate. The MTFP assumes an increase of 1.2% across the Somerset for 2020/21 with a slightly reduced rate of growth of 1.1% for 2021/22 and 1% for 2022/23 has been assumed in the MTFP.
- 4.14 The amount of council tax raised in an area is directly impacted on by the banding of properties within that area. For Somerset, the level raised is relatively low because of 65% of council properties being below the average band D level, as illustrated in **chart 2** below.

Chart 2: Number of Properties in each Council Tax Band

Number of Properties in each Council Tax Band

Total number of dwellings on the Valuation List	Band A	Band B	Band C	Band D	Band E	Band F	Band G	Band H	Total
Mendip	7,136	13,442	12,535	7,775	5,829	3,267	1,889	129	52,002
Sedgemopr	13,235	12,530	11,903	8,007	5,231	2,660	1,399	61	55,026
South Somerset	10,499	22,770	16,458	11,184	9,521	4,848	1,882	166	77,328
Taunton Deane	7,590	16,600	10,967	7,722	6,304	3,608	1,589	102	54,482
West Somerset	2,920	4,029	3,895	3,468	1,878	1,295	687	48	18,220
Total	41,380	69,371	55,758	38,156	28,763	15,678	7,446	506	257,058
%	16.1%	27.0%	21.7%	14.8%	11.2%	6.1%	2.9%	0.2%	



However, in mid-January each year district will calculate the actual level of council tax collection for the current year and any variation (surplus or deficit) is paid to / by the County. The MTFP has not built in any surplus or deficit from Councils tax as this is a once-off source of funding. In recent years there has been an overall surplus and if this continuous will be added to reserves to further increase our financial resilience.

Somerset River Authority (SRA)

- 4.15 In response to the severe flooding impact in the county in 2014, for 2016/17 the Government permitted the council, to raise 1.25% council tax through a separate precept to fund the SRA. Although raised by the Council this additional funding has no impact on the council's net spend since the SRA expenditure is managed to equal the funding raised (with any annual variations smoothed through an earmarked reserve). When the MTFP (2019-22) was agreed in February 2019, the Government were close to enacting legislation to establish the SRA authority as a separate entity and so both the funding and the expenditure had been excluded from the planning assumptions beyond 2019/20. However, this legislation 'fell' and so it is now assumed that the SRA continues to be a part of the council's budget going forward.

Other Grants

- 4.16 In addition to core Government funding, such as Revenue Support Grant (RSG), the Government allocates some non-service specific grants albeit to funding activities e.g. lead local flood authority. Whilst these are relatively minor, they are included in the net funding of the Council and values are set out below. SR2019 confirmed that the funding for Better Care fund (BCF) and Improved Better Care fund (IBCF) will continue in 2020/21 are included in the Adults Budget. This is a key area to be address going forward through the Comprehensive Spending Review and Fair Funding during 2020 and the MTFP assumes that funding in future years continues at the current level. A summary of the funding assumptions are included in the **Table 4** below:

Table 4: Core Funding Assumptions and basis

Description	Key Assumption	Rationale
Business Rates	2% growth per year	SR2019
Revenue Support Grant	No change	SR2019
Council Tax Increase	1.99% (referendum limit is 2%)	SR2019
Adult Social Care Council Tax Precept	2%	SR2019
Council Tax – tax base growth	1.2% per year	Previous years trends
Somerset Rivers Authority Council Tax Precept	No change	only increase in funding is due to taxbase changes
Other Grants	various	SR2019

The above assumptions translate into the figures set out in **Table 5** below and these figures will be up-dated as relevant once the Financial Settlement and any other information is received, and then reported in the February 2020 Budget report.

Table 5: MTFP (2020-23) Indicative Funding Assumptions

Funding Assumptions	Indicative net revenue funding requirement		
	2020/21 £m	2021/22 £m	2022/23 £m
Lead Local Flood Authority	(0.080)	(0.084)	(0.089)
Inshore Fisheries Conservation Authority	(0.133)	(0.133)	(0.133)
Extended Rights to Free Travel	(0.611)	(0.611)	(0.611)
New Homes Bonus	(2.040)	(0.979)	(0.567)
Rural Services Delivery Grant	(2.400)	(2.400)	(2.400)
Social Care Support Grant	(4.267)	(4.267)	(4.267)
Total Un-Ring-Fenced Grants	(9.530)	(8.473)	(8.066)
Revenue Support Grant	(6.100)	0.000	0.000
Business Rates (including Top Up)	(73.800)	(82.000)	(83.800)
Council Tax (including ASC Precept)	(256.262)	(264.288)	(272.295)
Council Tax Somerset Rivers Authority	(2.578)	(2.606)	(2.633)
Total	(348.270)	(357.368)	(366.793)

5. Summary of Budgets Proposals

- 5.1 The indicative budgets resulting from the above assumptions for changes in services requirement to spend and funding are set out in **Table 6** below. The table shows that the 2020/21 financial year is balanced with a budget gap of £4.707m in 2021/22 and a further £4.828 in 2022/23 making a cumulative shortfall across the MTFP is £9.535m.

Table 6: Indicative MTFP (2020-23) Budgets

	Indicative net revenue budgets		
Service	2020/21 £m	2021/22 £m	2022/23 £m
Adults Services	126.628	131.692	136.792
Children's Services	87.117	89.725	90.823
Economic & Community Infrastructure Services	74.181	73.836	76.018
Public Health	1.253	1.253	1.253
Key Services	289.178	296.506	304.885
Corporate & Support Services	25.890	26.014	26.310
Non-Service	33.384	39.126	44.623
Service Total	348.452	361.645	375.817
Un-Ring-Fenced Grants	(9.530)	(8.473)	(8.066)
General Reserves	0.000	0.000	0.000
Earmarked Reserves	(0.183)	0.430	0.511
Net Budget Requirement	338.740	353.602	368.262
<i>Financed By:</i>			
Revenue Support Grant	(6.100)	0.000	0.000
Business Rates (including Top Up)	(73.800)	(82.000)	(83.800)
Council Tax (including ASC Precept)	(256.262)	(264.288)	(272.295)
Council Tax Somerset Rivers Authority	(2.578)	(2.606)	(2.633)
Total Financing	(338.740)	(348.894)	(358.728)
Budget (Surplus) / Deficit	-	4.707	9.535

5.2 The above is based on best known and estimated details at this stage and the number is expected to change before the final Budget report is completed in February 2020. This report will include:

- Director assurance narrative regarding their ability to deliver their services within the proposed budgets for their services;
- Details of each proposed efficiency and transformation change, enabling scrutiny, and;
- Proposals for next steps to identify further efficiencies and transformational changes in years 2 and 3 to ensure a balanced budget across the whole MTFP period. (This needs to factor in the uncertainty the council faces as a result of the Local Government Funding review plans).

- 5.3 Given that the new Social Care grant is currently one off for 2020/21, the MTFP Strategy has been developed on a prudent basis and has allocated this funding to pump prime further transformation. However, if this funding becomes permanent, the Council will have a welcome opportunity to:
- sensibly re-invest or invest in some of the place-based services (whether delivered directly by us or through partners and the voluntary sector), beginning to address current and future unmet need and significantly improve the lives of residents;
 - recognise the need to invest in the development of the council's workforce, and;
 - develop stronger financial resilience that enables a measured, proactive response to future challenges and continuing driver for transformation.

6. Capital Programme

- 6.1 The Council approved the current capital programme as part of setting the budget in February 2019. Work has been undertaken during the summer to identify new schemes which are set out in **Table 7** below. All the changes have been subject to supportive challenge sessions to ensure that they are realistic and robust.
- 6.2 The indicative 3-year capital is set out below alongside the funding. The funding reflects the current position but will be updated for any announcement on government grants that would reduce the requirement for borrowing.

Table 7: proposed additional schemes for Capital Programme 2020-23

Service Area	2020/21 £m	2021/22 £m	2022/23 £m	Total £m
Schools - Primary and Secondary Sector	6.255	3.661	3.661	13.577
Local Enterprise Partnership	0	0	0	0
Economic Development	3.142	3.142	1.700	7.984
Highways Engineering Projects	0.970	0.200	0.200	1.370
Highways and Traffic Management	29.139	29.665	30.915	89.719
Support Services	1.669	4.443	1.751	7,864
Somerset Waste Partnership	0	0	0	0
Early Years and Community Services	0	0	0	0
Flood and Water	0	0	0	0
Schools - SEN and Access	0	0	0	0
Other Services	0.939	0.839	1.670	3.448
	42.113	41.949	39.898	123.961

Financing	2020/21 £m	2021/22 £m	2022/23 £m	Total £m
Borrowing	6.583	7.801	7.285	21.669
Capital Receipts	2.030	3.583	2.181	7.793
Capital Fund/ Revenue	0	0	0	0
Government Grants	30.350	30.350	30.400	91.100
3rd Party Contributions	3.151	0.216	0.032	3.399
Estimated funding	42.114	41.949	39.898	123.961

7. Councils Financial Resilience

7.1 There is a statutory obligation on the Council to set a robust, deliverable and balanced budget for the forthcoming financial year. There are several considerations that underpin the judgement about robustness, including:

- How the budget was created, including the reasonableness of the assumptions about pressures and income/funding. Commentary on this is set out in the report above;
- How proposals for change have been developed, tested and reported. The development of proposals is ongoing and will be reported to the Cabinet and Council in January and February 2019;

- The adequacy of any revenue contingency to manage external shocks to the budget without requiring in-year remedial action to control spending. This is referred to below;
- The strength of the mechanisms for monitoring how proposals for change will be implemented. This is referred to below;
- The adequacy of routine budget monitoring to ensure control. Members already receive monthly budget monitoring reports, which have been improved over recent months. While further improvements to the reports are planned it is considered that the data used in the reports is already sound, and;
- The strength of the reserves - which is considered further below.

7.2 In these budget proposals the Council is actively looking across the next three years to maximise the further improvement to the Councils long-term financial resilience and sustainability. Although considerable improvements were made in 2018/19 and have continued into 2019/20, this progress must continue to achieve long-term solid resilience. Full details of the reserve levels in the MTFP (2020-23) will be reported in the February 2020 budget report, while the paragraphs below set out the strategy to develop resilience further that will underpin these numbers.

7.3 Throughout the planning set out above, consideration has also been given to enhancing long-term resilience, particularly in developing the strategies / approaches to the following aspects, each considered in more detail in the following paragraphs:

- Capital receipts flexibilities
- Replenishment of earmarked reserves
- Level of corporate contingency.

Capital receipts flexibility

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

7.5 This 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), an estimated total of £29.9m capital receipts by the

end of 2019/20, of which it expected to have used £17.3m to fund this strategy by 31 March 2020. Looking ahead to the MTFP (2020-23) the Council proposes to eliminate reliance on capital receipts to fund projects to reform services as much as possible, preferring instead to recognise where costs will be on-going in the base budgets and fund transformation investments from earmarked reserves. This has the effect of releasing any capital receipts to either fund the capital programme and or enhance long term financial sustainability through being able to establish best practice approaches to funding of short-life assets (such as vehicles and ICT equipment). The Council is also considering, elsewhere on this meeting's agenda, an Investment Strategy which is clear that the Council will seek to optimise its own property assets more proactively as opportunities arise. Details will be included in the detailed budget proposals to be considered by Full Council in February 2020.

Corporate Contingency

- 7.6 In view of the experience of significant in year adverse service variations, the prudent strategy in the Council has been to sustain a relatively high corporate contingency. This contingency allows the council to deliver within its resources despite unexpected, unplanned spending needs. Examples could include: extreme winter weather affecting the highways or our older residents, or perhaps the inability to deliver a proposal for change following consultation or further investigation. The size of the contingency will depend on the potential risks to the budget that are envisaged.
- 7.7 In setting the MTFP in February 2019, the level of contingency was sustained at £7.2m for 2019/20 to mitigate against recent history of non-delivery within budgets. However, in anticipation of improving resilience through reserves and tighter financial controls, this was reduced to £4.5m for subsequent years. In setting the next MTFP (2020-23) consideration has been given to these improved circumstances, including increased reserves, sustained tighter financial controls and a 7 month in-year position with £6.4m of the corporate contingency yet to be allocated. Alongside a review of the manager budget assurance exercise carried out in late summer 2019, it is considered appropriate to sustain the level of corporate contingency at the reduced level proposed in February 2019 throughout the next MTFP. It is recommended that this be reviewed once 2019/20 financial year is complete and it may be appropriate to reduce further beyond 2020/21

Reserves

- 7.8 The Council holds reserves for two purposes:
- A General Fund, which is in place to afford general resilience in the event of unexpected, adverse events befalling the council, and;
 - Earmarked Reserves, which hold funds for specific purposes
- 7.9 The General Fund was significantly replenished during 2018/19 and is expected to be £19.7m as at the end of 2019/20. This is slightly in excess of the range 3-5% of net revenue budget, that is considered sensible for a local authority. The relatively fragile position for this Council means this higher level is justifiable and the MTFP (2020-23) proposed to sustain this level. As financial resilience continues to strengthen, this level will be reviewed annually.
- 7.10 For earmarked reserves, that is those held for specific purposes, the assessed level for this authority is considered, by the Section 151 Officer, to be too low. This view was confirmed by the external auditor in their value for money conclusion for 2018/19, as set out in **paragraph 9.3** below.

In response, the MTFP strategy proposes an approach that will strengthen this resilience over the period of the MTFP through the addition to reserves for three aspects:

- Short term increases to pump-prime transformation: specifically allocating the one-off additional social care grant to enable service transformation and drive greater and longer-term service and financial benefits and value from this resource;
 - Changes to reflect further improved practice (and therefore resilience e.g. vehicle and equipment replacement reserves / workforce reserve), and:
 - Changes to increase overall resilience.
- 7.11 Further analysis of all earmarked reserves, including the robustness of recovery plans for negative reserves continues and full details of proposed levels of reserves will be included in the February 2020 budget report. This will be alongside a revised policy for managing reserves internally to optimise transparency and accountability.

8. Monitoring the Delivery of Proposals for Change

- 8.1 In order to deliver the Councils financial strategy, the authority has moved away from an MTFP approach based on the savings that can be achieved each year, to a longer-term view which identifies key areas of transformation (large and small) early and tracks progress towards the realisation of identified benefits. The Business Change Team are working with the Finance team to ensure there is a strong benefit tracking system and the right support and capability in place to manage the change required effectively.
- 8.2 The Improving Lives programme transformation activity will pave the way for this early identification through the development of a robust commissioning gateway system and through working alongside managers as part of the service planning cycle. Development for Managers will ensure they are focused on prevention, managing demand and on the benefits of taking a more technological approach to service delivery.

9. Going Concern and the Auditor's Value for Money Assessment

- 9.1 In September 2019, 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).
- 9.2 The Auditors' test that "management have a reasonable expectation that the services provided by the Council will continue for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements". As such the Section 151 Officer (the Director of Finance) prepared a Going Concern Statement for the auditors during the summer 2019 and they concluded that:

"our work confirmed that management's arrangements for assessing going concern are adequate and management's use of the going concern assumption as a basis for the preparation of the financial statements is reasonable. We have not identified any material uncertainties that may cast significant doubt on the Authority's ability to continue as a going concern for the foreseeable future".

- 9.3 The Auditor is also required to give a Value for Money (VFM) assessment each year. Having had an adverse opinion for 2017/18, the auditors carried out a thorough review before reaching an improved conclusion for 2018/19, 'qualified, except for'. Whilst an important acknowledgement of the significant improvements made, the audit did emphasise that:

" This 'except for' rating recognises that there is still much to do within the Council to return it to a fully sustainable financial position and it is critical that continued effort is directed to ensuring the positive trajectory over the last 12 months continues".

- 9.4 The strengthened approach to MTFP planning as discussed throughout this report, is reflective of the Councils response to this improved position and keenness to improve further. As well as addressing service pressures and funding changes, the links between the revenue and capital programme plus the long-term financial resilience of the Council all contribute to the management responses to the recommendations put forward by Grant Thornton.

The Section 151 Officer will include their formal assessment of the robustness and adequacy of the level of reserves and balances, as required in accordance with S25 of the Local Government Act 2003 in the February 2020 budget report. In advance of then it is expected that CIPFA (the Chartered Institute for Public Finance and Accountancy) will have published their analysis of the Councils financial resilience aimed at helping Chief Finance Officers assess financial sustainability. This analysis is backward looking and will not therefore tell the council anything new. It is not a predictive tool, but the work to develop this strategy has absolutely focused on looking forward in the context of the current situation.

10. Timetable and Plan of Action

It is intended that there will be update reports on the development of the MTFP to each meeting of the Cabinet through the period until the Full Council meeting in February 2020. The various Scrutiny meetings will be kept updated also.

Wednesday 18 th December 2019	Cabinet – Full Meeting	Strategy Paper
Friday 24 th January 2020	Scrutiny Policies, Children and Families – Full Meeting	Review of Strategy Paper and Final MTFP Detailed Report
Wednesday 5 th February 2020	Scrutiny Policies and Place – Full Meeting	Review of Strategy Paper and Final MTFP Detailed Report
Wednesday 29 th January 2020	Scrutiny Policies, Adults and Health – Full Meeting	Review of Strategy Paper and Final MTFP Detailed Report
Monday 10 th	Cabinet – Full Meeting	Review Final MTFP

February 2020		
Wednesday 19 th February 2020	Full Council Meeting	Setting of the 2020/21 Revenue Budget and Council Tax, plus MTFP (2020-23) and Capital programme
<i>Wednesday 26th February 2020</i>	<i>Full Council Meeting – RESERVE</i>	<i>Will only go ahead if budget is not agreed at meeting on 19th February</i>

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

11. Background Papers

11.1 Medium Term Financial Plan report to Council – February 2019

[MTFP Plan Feb 2019](#)

11.2 Month 6 Revenue Budget Monitoring Report to Cabinet – Policy and Place Scrutiny November 2019

[Month 6 Revenue Report](#)

11.3 External Audit report to Audit Committee September 2019

[VFM Conclusion](#)

11.4 Grant Thornton (External Auditor) Value For Money demand led services report – link to Scrutiny Adults & Health and Scrutiny Children & Families meetings in October and November 2019

[VFM Report - Scrutiny](#)