

Medium Term Financial Plan – Overview and Medium Term Financial Plan for Economic & Community Infrastructure and Corporate & Support Services

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1. Summary

- 1.1.** The report summarises the key messages from the Medium Term Financial Strategy (2019-22) report presented to Cabinet on 19 December 2018 (attached as an Appendix) to enable Scrutiny of relevant service areas ahead of the more detailed budget report being presented to Cabinet and Full Council in February 2019. Given that this Scrutiny Committee has a role in reviewing the overall budget proposals, then this paper seeks to give sufficient information for that as well as service specific information for scrutiny. Scrutiny of the budgets for Children's Services and Adults Services will take place through the respective scrutiny committees.
- 1.2.** The Council recognises the on-going financial challenges confronting it and hence the importance of setting a robust budget for 2019/20 as well as laying foundations for the financial plans for 2020/20 and 2021/22. That means that all the known funding and service demand pressures have been reflected in the budget alongside proposals for reducing spend and hence producing a balanced budget for 2019/20. This produces indicative budgets for each service and this report focuses on those services for which this Scrutiny Committee is responsible.

- 1.3. By way of context, it is important to be aware that since the Cabinet Strategy paper was prepared, the provisional Local Government Financial Settlement has been published by the Ministry of Housing, Communities and Local Government (MHCLG), on 13 December 2018. The final Settlement can be expected early in the new year, although significant change is not anticipated. Alongside the core funding announcements issued in the Settlement, the Council has also received confirmation of several Special and Service specific grants from Government departments. The County's district and borough authorities (the Council Tax collecting authorities) have further up-dated their estimates for the numbers of properties liable for Council Tax next year.
- 1.4. Full details for the funding that the Council will receive will be included in the Cabinet and Full Council reports being prepared for February 2019, while this paper focuses on understanding the services spending requirements and proposed further savings required to be delivered.
- 1.5. It is important for Members to understand the on-going risks within approved budgets, the levels of reserves, balances and contingencies, as well as the mitigations aimed at limiting the impact on core services, especially those prioritised in the County Plan. Relevant links will be drawn out in the detail below.

2. Issues for consideration / Recommendations

- 2.1. Against a gross revenue budget of more than £800m annually, and a net revenue budget need for 2019/20 of £338m, (as reported in December 2018), the MTFP Strategy paper showed that funding falls short of spending need by £28m across the next three years. This means the Council must consider what it delivers and how it is delivered to reduce spending in line with funding.
- 2.2. After applying proposed corporate solutions, details of which will be set out in the February 2019 Revenue Budget report, there remained a gap between spending requirement and funding available across all services of £15m in 2019/20 (before the implications of the recent Settlement are factored in). It is not anticipated that these will make a significant difference to the overall financial challenges the Council faces as most of the improved figures are not envisaged to be sustainable beyond 31 March 2020. However, there may be some opportunity to partially replenish some earmarked or General reserves, which would then have a beneficial impact on the resilience of the Council rather than directly on core services.
- 2.3. In the meantime, this paper sets out the relevant service pressures and movements that made up that gap as well as details of the relevant service additional savings to be considered to produce a balanced budget for 2019/20.
- 2.4. This Committee is therefore **requested** to review the overall 2019/20 budget and MTFP preparations as well as the specific proposals relating to Economic and Community Infrastructure and Corporate and Support Services so they can comment on them, offer assurance to Cabinet and/or identify any matters for consideration that they would like to highlight to the Cabinet.

3. Background

3.1. Spending and Savings Assumptions

- 3.1.1. This section sets out the main changes to spend and the forecast to deliver previously planned savings for each key service, followed by a summary of the indicative budgets across the MTFP period (2019-22).
- 3.1.2. The movements represent changes from the existing MTFP (2018-21) agreed in February 2018 and adopt the previously Cabinet agreed key principle of ensuring robust, transparent budgets are set for 2019/20 onwards. This will place the council in the best position to effectively monitor service spending needs and funding.
- 3.1.3. For each service, the heading in the following paragraphs reflects the net budget for 2019/20 alongside the net movements for service pressures and savings proposals for each of the three years of the MTFP: 2019/20, 2020/21 and 2021/22.

3.2. Overview

- 3.2.1. The Scrutiny for Policies and Place Committee has responsibility for scrutiny of the overall budget of the County Council. With this in mind the Committee will wish to assure itself of the robustness of the preparations of the 2019/20 budget and the MTFP. The detailed report considered by the Cabinet meeting on the 19th December 2019 is linked here [MTFP Strategy Report](#), and the Committee is invited to review the details of the ingredients of the MTFP and to offer comments thereon to the Cabinet.

3.3. Economic & Community Infrastructure: Indicative net budget for 2019/20 £67.400m, net movements: 2019/20 £0.853m; 2020/21 £0.767m; 2021/22 £2.031m

- 3.3.1. ECI services have worked hard to remain in budget over the last few years. However, these services can be affected by extreme weather events, residents behaviour (for example waste volumes) and economic trends. It is impossible to predict extreme weather and economic trends a year in advance accurately. The savings agreed in September 2018, have been delivered and as far as possible impacts have been mitigated.
- 3.3.2. **Pressure movements:**
- 3.3.3. **Table 1** below sets out the incremental service pressures within Economic & Community Infrastructure budgets over the MTFP period followed by an explanation for each.

Table 1: Pressure movements by type for Economic & Community Infrastructure

Type of Pressure	2019/20 (£m)	2020/21 (£m)	2021/22 (£m)
Demand	0.361	1.597	-
Inflation (Contract)	1.699	2.019	2.131
Inflation (General)	0.125	-	-
Legislation Change	0.200	-	0.100
Pay (Service Specific)	0.201	-0.050	-

Previously Unfunded	0.320	-	-
Prior Year Savings Unachievable	1.178	0.414	-
Total	4.084	3.979	2.231

3.3.4. Demand Pressure £0.361m/£1.597m/£0.000m

There is a need for additional budget to replenish Library book stock, and to account for stock that is no longer suitable for circulation (£0.361m in 2019/2020, reducing to £0.211m per annum thereafter).

2020/21 includes the loss of a time limited contractual discount agreed with our waste disposal contractor, and the transfer of disposal from landfill to our long-term Energy from Waste agreement from April 2020 (£1.747m). The contract discount only runs until the new facility is operational.

Ordinarily, there would be a demographic pressure for waste disposal volumes linked to the household growth within Somerset. However, the recent trend as reported to the Somerset Waste Board throughout 2018/2019 is that current waste volumes are down on budget and previous years, and that the demographic pressure from new households can therefore be absorbed.

3.3.5. Inflation (Contract) Pressure £1.699m/£2.019m/£2.131m

ECI has several external contracts around Waste, Highways, Transport, Property and utilities. Estimates have been made of inflationary uplifts that are required under the various contracts. The Waste pressures (including landfill tax) were discussed and approved at the Somerset Waste Board on Friday 14th December 2018. There are still considerable pressures on utility prices and transport provision. However, all the contractual inflation pressure has been calculated in line with the terms of the contracts.

3.3.6. Inflation (General) Pressure £0.125m/£0.000m/£0.000m

This is additional revenue budget for developing our responses to Highways England's Development Consent Order applications for A303/A358 improvements.

3.3.7. Legislation Change Pressure £0.200m/£0.000m/£0.100m

There are costs of compliance with the new Street Works Permitting regulations, new costs associated linked to membership of the Sub National Transport Board, as approved by Cabinet in July 2018. Additional pressures come from the loss of rental income from County Farms, as the estate reduces.

3.3.8. Pay Pressure (Service Specific) £0.201m/-£0.050m/£0.000m

There is an historic pressure within ECI in relation to a small number of previously unfunded posts and a short-term reliance on consultancy staff for some planning positions due to recruitment and retention difficulties.

3.3.9. Previously Unfunded Pressure £0.320m/£0.000m/£0.000m

The non-schools Repairs and Maintenance budget is not sufficient for the needs of the current estate. There has been an in year contingency release for 2018/2019

that now needs to be part of the permanent budget.

3.3.10. Prior Year Savings Unachievable £1.178m/£0.414m/£0.000m

This includes a number of small unachievable or potentially double-counted elements of larger savings. This also includes Technology and People programme (TAP) savings for 2018/19 and subsequent years as described above.

3.3.11. The TAP programme was originally intended to be a 5-year programme commencing late in 2016 and due to conclude in 2021 having made workforce related savings of approximately 10% of salary costs (£7.58m) in that time. To date the programme has achieved £600k of directly attributable savings and a further £294k of partially attributable savings. It is also anticipated that the Adults service will deliver a further £439k of savings in 19/20 as a direct result of the performance insight and targeted improvement opportunities provided by the systems review across locality areas.

3.3.12. The programme has also significantly contributed to service savings made across the organisation as an enabler for example, reduction in travel expenditure due to the introduction of Skype for Business. Furthermore, a conservative estimate of 600 working hours have been saved daily from faster power up and log speeds further to the introduction of new devices and Windows 10 functionality.

3.3.13. The programme closed before the anticipated end date due to the financial imperative focus which has reviewed future MTFP saving targets and reset the 2019/2020 budget. This resulted in a decision to reabsorb the future years attributed service TAP related savings into an overall organisational target. This decision was based on a confident assumption that the foundation has been laid and tools made available for ongoing technology and people transformation aligned to the organisational redesign which will determine the shape and size of the organisation in the future. Fundamental to delivering ongoing savings and future sustainability will be a focus on the behavioural shifts necessary to change the cultural mindset of the organisation.

3.3.14. **Other movements:**

3.3.15. **Table 2** below sets out the incremental service movements (savings and adjustments) within Economic & Community Infrastructure budgets over the MTFP period followed by an explanation for each.

Table 2: Other movements by type for Economic & Community Infrastructure

Type of Movement	2019/20 (£m)	2020/21 (£m)	2021/22 (£m)
In Year Savings (MTFP 2)	-2.406	-0.200	-0.200
Prior Year Savings	-0.851	-0.480	-
Technical Adjustments (SRA)	0.026	-2.533	-
Total	-3.231	-3.213	-0.200

3.3.16. In Year Savings -£2.406m/-£0.200m/-£0.200m

These include all MTFP2 savings for ECI that were considered by Cabinet in September where the saving is ongoing into 2019/20 and onwards. This also includes a subsequent decision on the Household Waste Recycling Centre contract

extension agreed by the Waste Board.

3.3.17. Prior Year Savings -£0.851m/-£0.480m/-£0.000m

This includes savings agreed in previous MTFP rounds scheduled for 2019/20 onwards. These comprise the TAP, (£0.725m in 2019/20 and £0.414m in 2020/21), reduced agency spend (£0.157m in each year), and the rationalisation of parts of the property estate (£0.110m in 2019/20 and £0.050m in 2020/21).

3.3.18. Technical Adjustments £0.026m/-£2.533m/£0.000m

This relates to the Somerset Rivers Authority, which precepts separately for its funding, although it is managed by SCC staff. The 2019/20 adjustment is due to an increase in the tax base. Beyond 2019/20 the MTFP assumes that the Government enact the proposal to establish the SRA authority as a separate entity and so both the funding and the expenditure (£2.533m in 2019/20) have been excluded from the planning assumptions. If the Council continues to be a precepting body beyond 2019/20 then the income and expenditure will be re-introduced to the budget with no net effect on the Council's finances.

3.3.19. **Indicative Service Budgets:**

After reflecting the movements above, the indicative budgets for the MTFP period (2019-22) are set out in the table below.

Table 3 Three-year budget for Economic & Community Infrastructure (ECI) compared to the current 2018/19 budget.

Service	2018/19 Budget £m	2019/20 Indicative Budget £m	2020/21 Indicative Budget £m	2021/22 Indicative Budget £m
Economic & Community Infrastructure	66.547	67.400	68.167	70.197

3.4. **Corporate & Support Services: Indicative net budget for 2019/20 £24.222m, net movements: 2019/20 £3.645m; 2020/21 £0.006m; £2021/22 £0.012m**

3.4.1. Customers and Communities:

Customers and Communities Services have worked hard to drive efficiencies and improvements throughout the Authority as well as delivering significant savings in their own teams. There is a planned boost to base budget largely to cover inflation and legislative changes as well as a structural underfunding within ICT. There is also corporate recognition that some cross-directorates savings have not been delivered in full. The spending plan for the next three years leaves Customers and Communities Services in a strong position to deliver essential transformational change across the Authority.

3.4.2. HR & OD Service:

The HR&OD Service has provided significant support to the Financial Imperative

Programme over the last few months and will continue to do so, which combined with a reduction in resources is beginning to impact on the ability of the Service to deliver BAU and fully support other Services projects and programmes as well as progress those in HR & OD. However, the service continues to work hard to prioritise the work in order to minimise any risks to the Authority. For 2019/20 the Service will prioritise the continuing work to embed the People Strategy in the organisation, delivery and implementation of the organisational design work, on-going support to the transformation programmes in Children’s Services and Adult Social Care along with other Council transformation programmes. Income generation opportunities will continue to be maximised, although maintaining the current levels is likely to be challenging as factors outside the control of the service may have an influence e.g. conversion of schools to academies and in particular multi academy trusts. The Service continues to remain within budget along with delivering the MTFP savings agreed in September 2018.

3.4.3. Finance Service:

While the Finance Service has undergone restructuring and downsizing in recent years, there were no planned reductions in staffing arising from the additional proposals put forward to Cabinet in September 2018 and there are no such proposals contained within this MTFP. It is important to retain a robust Finance Service while the Council is addressing the financial challenges that it is currently confronting. The budget for the Finance Service will enable existing resources to be maintained. In addition, efforts will be made to identify how support to budget holders can be improved in 2019 through better processes and systems. This will, in turn, improve budget monitoring in 2019/20 and should provide for better information upon which members and officers can make effective decisions.

3.4.4. **Pressure movements:**

3.4.5. **Table 4** below sets out the incremental service pressures within Corporate & Support Services budgets over the MTFP period followed by an explanation for each.

Table 4: Pressure movements by type for Corporate & Support Services

Type of Pressure	2019/20 (£m)	2020/21 (£m)	2021/22 (£m)
Inflation (Contract)	0.113	-	-
Inflation (General)	0.006	0.012	0.012
Legislation Change	1.357	-	-
Pay (Service Specific)	0.363	-	-
Previously Unfunded	0.757	-	-
Prior Year Savings Unachievable	3.780	0.829	-
Total	6.376	0.841	0.012

3.4.6. Inflation (Contract) Pressure £0.113m/£0.000m/£0.000m

This is the increased costs of IT Microsoft Licences compared to 2018/19.

3.4.7. Legislation Change Pressure £1.357m/£0.000m/£0.000m

The Council is no longer able to capitalise IT Licences under new accounting

regulations as we are moving from our own systems to the cloud. This means costs fall on revenue as opposed to previously being capitalised (£1.300m). There is also a small number of pressures on the Coroners budget in relation to pathology and other services.

3.4.8. Pay Pressure (Service Specific) £0.363m/£0.000m/£0.000m

There are several specific staff related cost pressures for 2019/20 within Corporate and Support Services that the Council is obliged to fund, (in addition to the expected pay increases for all staff), which are included here. These include the transfer of funding responsibility from the Police for Coroners Officers, (officers that carry out investigations into deaths on behalf of the Somerset Coroner). There are also historic underfunding of officer and member costs and the need to support the administration of the apprenticeship scheme. The funding of these pressures will reset the base budgets from 2019/20.

3.4.9. Previously Unfunded Pressure £0.757m/£0.000m/£0.000m

This is to recognise historic underfunding of the IT Services revenue budget (£0.670m). This was already recognised as a pressure within the forecasts provided to Cabinet in February 2018. There are also smaller unfunded pressures within Committee Services and Finance.

3.4.10. Prior Year Savings Unachievable £3.780/£0.829m/£0.000m

These include the TAP proposals for 2018/19 and subsequent years as described above. There are also a number of previous procurement targets that have not been possible to realise. These have been reported previously through budget monitoring.

3.4.11. **Other movements:**

3.4.12. **Table 5** below sets out the incremental service movements (savings and adjustments) within Corporate & Support Services budgets over the MTFP period followed by an explanation for each.

Table 5: Other movements by type for Corporate & Support Services

Type of Movement	2019/20 (£m)	2020/21 (£m)	2021/22 (£m)
In Year Savings	-0.957	-	-
Prior Year Savings	-1.774	-0.835	-
Total	-2.731	-0.835	-

3.4.13. In Year Savings -£0.957m/£0.000m/£0.000m

These include all savings for C&SS that were considered by Cabinet in September 2018 where the saving is ongoing from 2019/20. These include significant reduced costs from restructures within Customers and Communities, Commercial and Procurement and IT Services.

3.4.14. Prior Year Savings -£1.774m/-£0.835m/£0.000m

This includes savings from previous MTFP rounds for 2019/20 onwards for TAP and Agency Spend.

3.4.15. Indicative Service Budgets:

After reflecting the movements above, the indicative budgets for the MTFP period (2019-22) are set out in the table below.

Table 6 shows the indicative three-year budget for Corporate & Support Services compared to the current 2018/19 budget.

Service	2018/19 Budget £m	2019/20 Indicative Budget £m	2020/21 Indicative Budget £m	2021/22 Indicative Budget £m
Corporate & Support Services	20.577	24.222	24.228	24.240

3.5. Non-Service: Indicative net budget for 2019/20 £35.436m, net movements: 2019/20 £0.739m; 2020/21 £3.726m; 2021/22 £3.655m

3.5.1. The non-service area of the Council's budget covers items that are held centrally such as bank charges, and financing transactions (investment income) contingencies, contributions (e.g. Inshore Fisheries & Conservation Authority and Environment Agency Levy's) and corporate costs (e.g. audit fee, pension deficit and subscriptions). These areas are not part of the Council's key services but are a cost to the authority overall. Some of these costs, such as Pension Deficit and Pay Award are later redistributed to the key services.

3.5.2. Pressure movements:

Table 7 below sets out the incremental service pressures within Non-Service budgets over the MTFP period followed by an explanation for each.

Table 7: Pressure movements by type for Non-Service

Pressure Type	2019/20 (£m)	2020/21 (£m)	2021/22 (£m)
Demand	0.208	0.888	1.179
Inflation (General)	0.086	0.595	0.809
Legislation Change	0.005	-	-
Pay	3.022	1.000	1.000
Total	3.321	2.483	2.988

3.5.3. Demand Pressure £0.208m/£0.888m/£1.179m

The proposed 2019/20 capital programme has an element funded by borrowing. The principal element is accounted for as Minimum Revenue Provision (MRP). This additional need for borrowing impacts on the revenue budget from 2020/21 onwards. The additional budget needed in 2020/21 is £0.888m and £1.179m in 2021/22. The MRP policy has been revised and the savings generated from this are reported below within the technical adjustments.

3.5.4. Inflation (General) Pressure £0.086m/£0.595m/£0.809m

The 2019/20 capital programme also incurs interest on additional borrowing leading to pressures of £0.086m in 19/20 (£0.595m in 2020/21 and £0.809m in 2021/22).

3.5.5. Legislation Change Pressure £0.005m/£0m/£0m

There is a minor pressure in 2019/20 of £0.005m due to increasing online payment charges following legislative changes. More customers are using credit cards/business cards, instead of debit cards to pay Somerset County Council and this attracts a higher transaction fee percentage. Worldpay Group (payment processing company) also increased their fees in the summer of 2018/19 however, a new system is being developed which should reduce these fees.

3.5.6. Pay Pressure: £3.022m/£1.000m/£1.000m

The agreed pay increase of 2% for 2019/20 has resulted in an additional pressure of £3.017m. An additional £1.000m has been assumed for 2020/21 and 2021/22. This pay pressure includes increments, employer National Insurance and pension contributions and has been adjusted for non-local authority funded staff. The other £0.005m pay pressure is due to the apprenticeship levy scheme being underfunded in previous years. As the pay bill for the council has increased the Levy should also be increased.

3.5.7. **Other movements:**

Table 8 below sets out the incremental service movements (technical adjustments) within Non-Service budgets over the MTFP period followed by an explanation for each.

Table 8: Other movements by type for Non-Service

Type of Movement	2019/20 (£m)	2020/21 (£m)	2021/22 (£m)
Technical Adjustments	- 2.582	1.243	0.667
Total	- 2.582	1.243	0.667

3.5.8. Technical Adjustments: (£2.582m)/£1.243m/£0.667m

Change to our Minimum Revenue Provision (MRP) policy:

A revised approach to the calculation of the Minimum Revenue Provision (MRP) has been applied, taking advantage of new and more flexible regulations that came into effect from 2018/19. The MRP is a provision made in the accounts for the repayment of long term debt when it becomes due. The revised calculation has reduced the capital financing budget required by £3.714m in 2019/20. This on-going saving has been reduced by pressures of £0.276m in 2020/21; and £0.359m in 2021/22. The MRP policy saving includes a reduction to the estimated cost of the 19/20 capital programme, mentioned below.

- 2018/19 Capital Investment Programme:

The 2018/19 capital programme approved by Full Council on 21st February 2018, created additional revenue pressures of £1.727m in 2019/20 (£2.001m in 2020/21; and £0.481m in 20 21/22). The additional cost of the 2018/19 programme has been

partially offset by programme delays (referred to as slippage), that have reduced the estimated cost of borrowing by £0.342m in 2019/20 (£0.365m in 2020/21; and £0.504m in 2021/22).

- Pensions Deficit:

An additional pressure of £0.299m has been identified for the Council's Local Government Pension Scheme deficit repayment in 2019/20, as per the 2016 actuarial valuation report. The 2020/21 and 2021/22 pressure will not be known until the 2019 valuation is concluded but has been estimated as an additional £0.306m for each year. As an element of the pensions deficit is charged to schools and funded through their Dedicated Schools Grant (DSG) the budget requirement in 2020/21 has been reduced by £1.000m (on-going) for this recharge.

- Contingency:

In 2018/19 the revenue budget contingency was set at £7.801m; a substantial element was used to support the overspend in Children's Services. A further large sum has been set aside to underpin the confidence ratings of the MTFP proposals for change, although to date that has not been drawn upon. Given that the financial position of the Council is improving as is its financial control, it is appropriate to reconsider the amount of the contingency required in future years. The proposed contingency for 2019/20 is £7.223m and there are future planned reductions in 2020/21 and beyond.

3.5.9. Indicative Service Budgets:

After reflecting the movements above, the indicative budgets for the MTFP period (2019-22) are set out in the table below.

Table 9 shows the indicative three-year budget for Non-Service compared to the current 2018/19 budget.

Service	2018/19 Budget £m	2019/20 Indicative Budget £m	2020/21 Indicative Budget £m	2021/22 Indicative Budget £m
Non-Service	34.697	35.436	39.162	42.817

3.6. Other (Reserves & Capital): Indicative net budget for 2019/20: -£7.342m, net movements: 2019/20 £3.161m; 2020/21 -£0.343m; 2021/22 -£0.448m

This area of the Council's budget covers items such as special grants, and reserves transactions (general fund, earmarked and insurance fund). This also covers capital receipts flexibility transactions and any changes to the capital fund from the capital programme. These items are not part of the council's key services.

3.6.1. Pressure movements:

Table 10 below sets out the incremental service pressures within the reserves and capital area budgets over the MTFP period followed by an explanation for each.

Table 10: Pressure movements by type for Other Services

Area of Pressure	Type of Pressure	2019/20 (£m)	2020/21 (£m)	2021/22 (£m)
Earmarked Reserves	Prior Year Savings Unachievable	0.750	0.250	-
Total		0.750	0.250	-

3.6.2. Prior Year Savings Unachievable £0.750m/£0.250m/£0.000m

A planned prior year thematic saving in regard of “Exploring Regional Services” is now regarded as unachievable. This saving was previously held against a reserve and this is likely to have contributed to its non-delivery. The plans were to draw £0.250m per year from the reserves starting in 2017/18 until 2020/21 (£1.000m in total). The entire £1.000m has been reversed over the MTFP period with £0.750m being reversed in 2019/20.

3.6.3. **Other movements:**

Table 11 below sets out the incremental service movements (savings & adjustments) within the reserves and capital area budgets over the MTFP period followed by an explanation for each.

Table 11: Other movements by type for Other Services

Area of Movement	Type of Movement	2019/20 (£)	2020/21 (£)	2021/22 (£)
Earmarked Reserves	Prior Year Savings	-250,000	-250,000	-
Earmarked Reserves	Technical Adjustments	2,078,525	-708,130	-448,106
General Reserves	Technical Adjustments	-1,912,600	-	-
Insurance Fund	Technical Adjustments	360,500	-103,000	-
Capital Receipts	Technical Adjustments	2,134,400	468,000	-
Total		2,410,825	- 593,130	- 448,106

3.6.4. Prior Year Savings -£0.250m/-£0.250m/£0.000m

See above details on “Exploring Regional Services” saving (R17-043). -£0.250m was planned in 2019/20 and a further -£0.250m in 2020/21.

3.6.5. Technical Adjustments: £2.661m/-£0.343m/-£0.448m

- Earmarked Reserves £2.079m/£0.708m/-£0.448m:

There are plans that have been built into the MTFP period to replenish some of the negative reserves. For this purpose, a one-off contribution of £2.079m will be used to pay off the Buildings Maintenance Indemnity Scheme (BMIS) reserve in 2019/20 with a further £1.370m (one-off) used to pay off the Repairs & Maintenance (R&M) reserve in 2020/21. Due to ongoing funding uncertainty, a prudent proposal is in place to contribute £0.922m to earmarked reserves in 2021/22 to aid longer term

financial resilience.

- General Reserves Fund -£1.912m/£0m/£0m:

There are ongoing plans over the MTFP period to contribute £2.000m to the general fund each year. This may not be needed for 2020/21 and 2021/22 if there are no further draws on the fund in 2018/19 and 2019/20, but at this point the Council is assuming the £2.000m contribution each year will be required. In 2019/20 the Council is making a one-off adjustment of -£1.912m to reduce the contribution to the general fund from £3.913m to £2.000m

- Insurance Fund £0.361m/-£0.103m/£0m:

To increase the resilience of our Insurance Fund, the Council makes an additional contribution each year (of £0.164m) over and above the usual service contributions. As part of the service review for this year's MTFP, a number of historic costs (not recharged to service) were identified. As these costs were reducing the resilience of the Insurance Fund, the Council is proposing to contribute an additional £0.361m during 2019/20. This increase has been reduced by £0.103m in 2020/21 to leave an ongoing contribution of £0.422m from 2020/21.

- Capital Receipts Flexibilities £2.134m/£0.468m/£0m:

The 2015 Spending Review gave local authorities the opportunity to fund the revenue costs of transformation projects from capital receipts.

The 2019/20 budget reduction of £2.134m comprises reducing the 2018/19 base budget of £2.602m for completed elements of transformation (being £1.000m for support services and £1.601m for LD Discovery). This is offset by a budget requirement of £0.468m for further transformational costs in relation to the Discovery contract, to be funded from capital receipts (reversed out in 2020/21).

3.6.6. Indicative Service Budgets:

After reflecting the movements above, the indicative budgets for the MTFP period (2019-22) are set out in the table below.

Table 12 shows the indicative three-year budget for the reserves and capital area budgets compared to the current 2018/19 budgets.

Service	2018/19 Budget £m	2019/20 Indicative Budget £m	2020/21 Indicative Budget £m	2021/22 Indicative Budget £m
Un-ring-Fenced Grants	-12.580	-11.077	-6.332	-6.078
General Reserves	3.913	2.000	2.000	2.000
Earmarked Reserves	-0.900	1.679	0.970	0.522
Insurance Fund Contribution To / (From) Reserves,	0.164	0.525	0.422	0.422
	-2.602	-0.468	-	-

Capitalisation Flexibility and Capital Fund				
Total	-12.006	-7.342	-2.940	-3.134

4. Funding Assumptions

4.1. The Medium Term Financial Strategy (2019-22) report presented to Cabinet on 19 December 2018, included core funding assumptions made, ahead of the Provisional Local Government Financial Settlement, in determining the overall level of resource expected to be available to the Council. This paper is attached here to enable Scrutiny of these overall funding assumptions. The detailed budget report being presented to Cabinet and then full Council in February 2019 will include up-dates as a result of the Provisional Settlement received on 13 December 2018. In addition the Cabinet will receive information on the proposed use of Capital Receipts Flexibilities, which will also be presented to the Audit Committee on 31 January for assurance purposes, alongside the Treasury Management Strategy and the Investment Strategy.

4.2. In addition, the paragraphs below explain the non-service specific assumptions reflected in the budget figures in the Cabinet Strategy paper.

4.3. *Additional Council Tax Collection Fund Surplus in 2019/20 (£3m)*

Whilst collecting council tax, the district councils (referred to as billing authorities) are acting as agents of the Council. At the end of each financial year, this arrangement results in a potential surplus or deficit on each billing authorities Collection Fund account. The year-end position will be largely dependent on the accuracy of the billing authorities tax base estimates and their collection rates. In recent years, the final year-end position has been a surplus in excess of £4m so the Council has prudently estimated a surplus in 2019/20 of £3m. The districts have a statutory obligation to notify the Council of their actual surplus or deficit by 15 January 2019, so this figure will be updated in the final budget report to Cabinet and Full Council in February 2019. There has been no surplus assumed for 2020/21, so the 2019/20 surplus has been reversed out in 2020/21.

4.4. *Business Rates pool gain for 2019/20 (£0.800m)*

The pooling of business rates is a voluntary arrangement between the Council and several local district councils made possible by the Business Rates Retention scheme which allows local authorities to retain locally a proportion of any growth in business rates income. The Pool is funded from "levies" on business rates growth which would otherwise be paid over to central government and is based on the principal that no member will be worse off because of joining the arrangement. Based on the gains received from previous years pooling arrangements, the Council has prudently estimated the benefit of membership in 2019/20 to be £0.800m. This gain is not assumed in 2020/21 as it is not certain whether the option to form a Pool will be available.

5. Further Savings Proposals

- 5.1.** The MTFP Strategy report to Cabinet in December 2018, showed that there was a funding shortfall of £15m to produce a balanced budget for 2019/20. Services have developed proposals for further reductions in service budgets that would ensure a balanced budget for 2019/20 and that, in some cases, also contribute to additional savings in 2020/21.
- 5.2.** Savings proposals totalling £8,512m are detailed in the table at Appendix A 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.
- 5.3.** For Policy and Place Scrutiny the detailed proforma's for the relevant Proposals for Change and Impact Assessments for this committee can be found at Appendix B.
- 5.4.** Within the ECI proposals, a £225k savings target relates to Waste Services. There are no detailed proposals for Change submitted as part of Appendix B as Cabinet are asked to endorse the savings target to the Somerset Waste Board to make savings to this value as part of setting its 2019/20 budget.
- 5.5.** In addition, and for your 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 can therefore be assumed in the overall 2019/20 budget position.
- 5.6.** Therefore, in balancing the £15m funding shortfall for 2019/20, a total of £15,411m of savings have been identified, of which £8,512m require Cabinet endorsement and then Full Council decisions in February 2019.
- 5.7.** Within the budget for each year is a revenue contingency, which is aimed to provide some resilience in the event that some savings cannot be delivered to the extent planned. It has been assessed, through the use of confidence factors, that the contingency sum is sufficient to address any potential shortfalls to allow for a balanced budget in 2019/20.

6. Consultations undertaken

- 6.1.** Some of the savings proposals contained within this report will require consultations. Within appendix A the proposals and values of savings can be seen

7. Implications

- 7.1.** There are significant financial implications and these are identified throughout the report.
- 7.2.** The detailed proposals for change can be seen in appendix B. These detail any legal implications associated with each change proposal.

- 7.3. The nature and scale of the savings required means that there will be HR implications arising from this report these can be seen within the detailed proposals for change in appendix B.

8. Background papers

- 8.1. Revenue Budget 2019/20 and [MTFP Strategy Report](http://democracy.somerset.gov.uk/documents/s9180/Medium%20Term%20Financial%20Strategy%20-%20Report%20v2.pdf) to Cabinet 19 December 2018
<http://democracy.somerset.gov.uk/documents/s9180/Medium%20Term%20Financial%20Strategy%20-%20Report%20v2.pdf>

Appendix A: Summary of Savings Proposals from 2019/20

£,000	Proposals for Decision				Proposals requiring consultation				TOTALS for Proposals for Decision and Proposals Requiring Consultation			
	No. Proposals for Change	Max 19/20	..of which is ongoing savings	<u>Additional ongoing savings from 20/21</u>	No. Proposals for change	Max 19/20	..of which is ongoing savings	<u>Additional ongoing savings from 20/21</u>	No. Proposals for change	Max 19/20	..of which is ongoing savings	<u>Additional ongoing savings from 20/21</u>
Adults Services	6	2937.0	2937.0	219.0	0	0.0	0.0	0.0	6	2937.0	2937.0	219.0
Children's Services	6	1701.0	925.7	0.0	0	0.0	0.0	0.0	6	1701.0	925.7	0.0
ECI	25	1651.2	1234.2	20.0	0	0.0	0.0	0.0	25	1651.2	1234.2	20.0
Corporate Services	9	1482.9	1117.9	76.5	2	740.0	740.0	54.2	11	2222.9	1857.9	130.7
Financial Adjustments	0	0.0	0.0	0.0	0	0.0	0.0	0.0	0	0.0	0.0	0.0
TOTALS	46	7772.1	6214.8	315.5	2	740.0	740.0	54.2	48	8512.1	6954.8	369.7