

Somerset County Council

Paper **A1**

Cabinet

– 1 November 2010

Item No. 4(i)

MEDIUM TERM FINANCIAL PLAN [MTFP] – 2011/12 TO 2013/14 AND CAPITAL INVESTMENT PROGRAMME [CIP] PROPOSALS

Cabinet Member: Mr D Huxtable – Cabinet Member – Resources

Division and Local Member: All

Lead Officer: Roger Kershaw – Corporate Director – Resources

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Please complete sign off boxes below prior to submission to Community Governance

Report Sign off	Seen by:	Name	Date
	Legal	Susan Carter	22/10/10
	Finance	Steve Alison	22/10/10
	Human Resources	Richard Crouch	21/10/10
	Senior Manager	Kevin Nacey	22/10/10
	Corporate Director	Roger Kershaw	22/10/10
	Cabinet Member	David Huxtable	22/10/10
Forward Plan Reference:	FP/10/07/05		
Summary:	<p>This report:</p> <ul style="list-style-type: none"> Summarises the current position of the 2011/12 to 2013/14 Medium Term Financial Plan [MTFP], and proposals relating to the prior and current Capital Investment Programme [CIP]; Has attached to it as Appendix A, a summary of the individual Revenue Budget Savings Proposals put forward by the Strategic Management Board [SMB], along with Appendix B that contains more detailed information for each proposal; Sets out the proposed timetable for bringing forward budget proposals for decision by Council. <p>The Cabinet will receive the views of the Scrutiny Committee on the report and recommendations from its meeting on the 26 October 2010.</p>		
Recommendations:	<p>The Leader and Cabinet are recommended to:</p> <ul style="list-style-type: none"> Note the progress made in relation to the Revenue Budget and the outstanding projected shortfall of £72.505m across the planning horizon; Note the planning assumptions applied for changes in Formula Grant (being -10%, -10%, -5%) and Area Based Grant and other Specific Grants excluding the Dedicated Schools Grant [DSG] (being -30%, -20%, -10%) on a reducing balance methodology; 		

	<ul style="list-style-type: none">• Note that although the Comprehensive Spending Review [CSR] has provided some headline indications, the detailed Local Government Finance Settlement for 2011/12 and beyond will not be known until after end of November / early December;• Authorise officers in relation to the proposals set out in Appendix B and Appendix C to undertake any necessary public consultation and preparatory work, including specifically:<ul style="list-style-type: none">• Potentially changing the Council's Fair Access to Care eligibility threshold from 'Moderate' to 'Substantial' needs;• The impact of significant cuts in the budget for Library services.• Note the arrangements put in place for consultation with staff and recognised trade unions;• Note that finalised proposals for the forward CIP will be presented to Cabinet on 15th December 2010. <p>The Leader and Cabinet are asked to endorse the following and recommend them to Council on 10th November 2010 for approval:</p> <ul style="list-style-type: none">• The proposals set out in Appendix B and Appendix C and authorise officers to undertake all necessary actions to implement them with immediate effect;• The removal of approvals of £4.153m from the prior and current year CIPs as shown in Appendix C;• The proposed funding exchange from CYP Directorate as outlined in Appendix D;• That £0.205m capital receipts originally allocated to Halcon House should be reallocated to Children's Social Care for the Mendip Children's Centre;• To hold an extraordinary meeting of Council on Wednesday 22nd December 2010 in order to consider further MTFP proposals.
Links to Priorities and Impact on Service Plans:	The MTFP supports the Business Plan and provides the resource framework for the delivery programmes arising from this plan. The MTFP deals with both Revenue and Capital resources needed to deliver effective services.
Financial Implications:	Financial implications are dealt with in the body of this report.
Equalities Implications:	<p>Equalities, Community Safety and Sustainability implications have been considered by services through impact assessments as part of putting forward the savings proposals in Appendix B.</p> <p>Section 6 Human Rights Act 1998 makes it unlawful for a public authority to act in a way which is incompatible with the European Convention on Human Rights. The MTFP proposals include a reduction in spending on the Council's Social Care functions. The extent to which decision on these matters would of necessity lead to the withdrawal of, or significant change to, any particular service with the consequence that any person's Convention Rights, in particular those in Article 8, would be breached, should be considered.</p> <p>Article 8 provides that everyone has the right to respect for his private and family life, his home and his correspondence. There is a right not</p>

	<p>to have this right interfered with by a public authority subject to a number of exceptions including “.in the interests ofthe economic well-being of the country.....”.</p> <p>It appears that the MTFP proposals can be implemented without interfering with any person’s Convention Rights including those in Article 8 so that they do not, in themselves, constitute a breach of Section 6 of the Act. The qualification to the Article 8 right relating to economic necessity would appear to apply in any event.</p>
Risk Assessment:	<p>Risk Assessment implications have been considered by services through impact assessments as part of putting the savings proposals in Appendix B. The overall financial risks to the Authority from this set of proposals are considerable, but this is commensurate with the scale of change we now need to make as a Council. The level of reserves will be a key issue that will require much thought before the Budget is set at the February Council meeting.</p>
Scrutiny Recommendation (if any):	<p>The Scrutiny Committee will review the savings options in Appendix B at its meeting of 26th October. The Chairman of the Committee will provide a verbal summary of the discussions to this meeting.</p>

1. Background

1.1. Economic Climate

- 1.2.** These are unprecedented times for Local Government with huge cuts in funding expected over the period of this Medium Term Financial Plan. Yet in times such as these, demand for our services increases.

The Comprehensive Spending Review [CSR] was published on 20th October 2010 and whilst this has provided some high level indications, the detailed figures at local authority level will not be published until the Local Government Finance Settlement later in November or early December.

2. Movement in the MTFP

- 2.1** Medium Term Financial Planning is a ‘rolling’ process that operates alongside the County Council’s rolling strategic and service planning frameworks. As time passes, priorities, resources, funding pressures and savings are adjusted to reflect updated information, and plans will be drawn up for subsequent years as the ‘planning horizon’ moves on.
- 2.2** At the County Council meeting held on 17th February 2010, a savings target of £9.512 million was set to balance the projected 2011/12 budget and a further £5.831 million required for 2012/13, having taken into consideration proposals for savings of over £31.473m.

Since that time the election of the new Coalition Government has altered the timing and the depth of the cutbacks. As a result we have revised our planning assumptions for the cash reduction in central Government Grant as shown in the table below.

Reducing Balance CASH Adjustment		2011/12	2012/13	2013/14
Previous Assumption	Formula Grant	- 2.0%	- 2.0%	- 2.0%
	Area Based Grant	- 3.0%	- 3.0%	- 3.0%
CURRENT Assumption	Formula Grant	- 10.0%	- 10.0%	- 5.0%
	Area Based Grant	- 30.0%	- 20.0%	- 10.0%

The headline figures published in the Government's Comprehensive Spending Review [CSR] indicate that local authorities will "... face an average loss of grant of 7.25%, in real terms, each year for the next 4 years". It should be noted however that the year-on-year change does not appear to be consistent. No headline information has been provided for potential percentage reductions in Area Based Grant [ABG] or Specific Grants.

Although the Government has announced that some ABG and specific grants will move into other funding streams including Formula Grant and Dedicated Schools Grant, comprehensive information on these movements has not been provided. In light of all this uncertainty and given that any movements in Formula Grant are unpredictable due to the complexity of the distribution formulae; we have not revised our forecasts. It is expected that there will also be reductions in the level of capital grant from that anticipated in February 2010.

- 2.3** The proposed timetable for bringing forward MTFP and Capital Investment Programme proposals for decision is set out in Appendix E. A consultation plan has been developed to ensure that the Council meets its obligations throughout the MTFP process.
- 2.4** Throughout the summer, extensive work has been undertaken through a series of Star Chambers for each Directorate in order to review existing services, along with Revenue and Capital budgets. The conclusion of the Star Chamber work has resulted in the identification of a total of over £43.648m in proposed savings. A summary of which is shown in Appendix A, along with more detailed proposal documents shown in Appendix B.
- 2.5** Whilst this has narrowed the budget gap, a forecast sizeable deficit still remains. Further Revenue Savings options will need to be identified to reduce the current budget shortfall of £34.511 million in 2011/12. Over the three-year medium term, there is a shortfall of £72.505 million and so decisions must be made that will not only resolve the 2011/12 shortfall but contribute towards achieving longer-term stability in the budget whilst minimising the affect on Council Tax. The CSR however does include an announcement that provides each local authority that sets a zero increase in Council Tax for 2011/12 with a grant equivalent to that raised by a 2.5% Council Tax increase. Current estimates are that this will provide in the region of £5m for each of the next 4 years, contributing some £15m to the three-year MTFP position in this report.
- 2.6** The Star Chamber process also reviewed the Capital Investment Programme. Arising from this it is proposed to withdraw some £4.153m of current and prior year approvals funded from SCC resources as shown in Appendix C. CYP Directorate has also identified a further £7.599m of grant that can be reallocated from schemes that can be

stopped to schemes that are in progress and thereby release SCC resources. Appendix D contains the details of the schemes affected. These proposals will assist in reducing the overall level of borrowing anticipated in the report to Council in February 2010 as well as reducing the MTFP revenue impact of the capital financing charges arising. Approval is also sought for the reallocation of the balance of £0.205m from the proceeds of Uplands residential home sale from Halcon House to support the replacement of the Mendip Children's Centre. The project at Halcon House has now been redesigned and funded from other resources.

- 2.7** Further consideration will be given to the MTFP including the Capital Investment Programme at Cabinet on 15th December, the additional County Council meeting on 22nd December and via Scrutiny Committee on 26 January 2010, concluding at Cabinet on 2nd February 2011. This will enable a proposed budget to be presented to Council for decision on 16th February 2011.
- 2.8** Further work on the budget is required over the next few months. Consideration is being given to all areas of the Council's Expenditure. As part of this, it is recommended that the Council conducts further public consultation to include:
- Potentially changing the Council's Fair Access to Care eligibility threshold from 'Moderate' to 'Substantial' needs;
 - The impact of significant cuts in the budget for Library services.

3. Options Considered

- 3.1.** The specific savings proposals are covered in detail in Appendices B, to D. Scrutiny Committee will have considered the proposals outlined on 26th October and will bring a report to Cabinet on the day. In order to balance the budget, it will be necessary for alternative options to be suggested should any of these options be re-examined.

4. Consultations

- 4.1.** A range of consultations will be undertaken by relevant service teams. It is worth highlighting two in particular – Libraries and Adult Social Care. Although much work has already been carried out on the ground, for instance ten well attended focus groups have been held to consult with Library users, both areas will carry out further detailed work over the next three months in line with LGA good practice.
- 4.2.** The Corporate Communications Team will oversee a public engagement exercise in relation to the overall MTFP process. Since April, the team has carried out face-to-face interviews with around 400 members of the public at events. A survey commissioned to investigate public views on services was carried out in April with 1,000 respondents. In late October a second survey will be carried out asking the public about the impact of proposed cuts in services, again with a statistically sound 1,000 respondents. A special edition of the Council newspaper Your Somerset will be produced in November explaining the level of cuts proposed and featuring a feedback section for people to send the Council their views. An online "budget simulator" is also being investigated with a view to give the public the chance to experience the difficulty of setting a balanced budget and making choices over cuts.
- 4.3.** The Council has consulted with its employees and the trade unions at an early stage and this will continue. The trade unions were formally notified on 27 September 2010 and a process of regular consultation with the trade unions at both a corporate and

directorate level has been established and is being rolled out. Each employee has received a letter from the Chief Executive to inform them of the Council's budgetary position and its likely impact. Immediately following the announcement of the CSR, directorates held a number of team briefings in order to provide more detailed information. Consultation with employees will continue as the impact of the budget and on decisions made to balance it, unfold.

5. Implications

- 5.1.** Implication on Equalities, Community Safety, Sustainability as well as Risk Assessments have been considered by services through impact assessments as part of putting forward the savings options in Appendix B.
- 5.2.** The overall financial risks to the Authority from this set of proposals are considerable, but this is commensurate with the scale of change we now need to make as a Council. The level of reserves will be a key issue that will require much thought before the February Council meeting.

5.3. Children & Young People

The proposals brought forward by the Children and Young People's Directorate seek to manage the very challenging constraints on Local Authority funding with sustained demand for intervention and support for the most vulnerable children and a changing landscape in school provision. The proposals have been developed in conjunction with key partners with significant involvement from schools. The eventual impact will be informed by detailed analysis of the outcomes of the Spending Review as grant funding forms the most significant resource for services for children, schools and families.

The key risks associated with the proposals are set out below:

- There is a very real risk that the reduction in preventative work and early intervention across the service will lead, in time, to increased pressure on core services, quite apart from the sustained increase in demand felt locally and nationally. In turn, this presents either a financial risk or a risk to children's safety.
- The reductions in provision for young people present a key risk relating to the capacity of the voluntary and community sector to respond to the changes and this will affect the response of young people and the wider public to the changes. This may affect levels of anti-social behaviour and community safety.
- The key risk resulting from a reduction in support for improving achievement is the potential lack of capacity to respond to vulnerable schools and early years providers in time to protect outcomes for pupils and to avoid school failure. This could be mitigated by the new relationship with schools.
- There is a risk of loss of confidence amongst the parents of children with special educational needs leading to an increased demand for statutory assessments.

The Directorate is working closely with schools and other key partners to design a sustainable and cost-effective service for the future including a compact with schools underpinned by a strong moral purpose: making a difference to the lives and futures of our children and young people in Somerset, supporting them to achieve fulfilment, wellbeing and their full potential in life.

5.4. Community Services

The savings and cuts presented have a significant impact on a range of Community Services. A small proportion of the savings can be achieved through changing services and finding efficiencies. These still have implications for existing users of our services who may oppose the changes. A greater proportion involves cuts in activity. These may lead to some organisations who receive funding from the Council ceasing to trade. In Social Care, some service users and carers will wait longer for assessment and care services. Some adults whose needs are met through housing-related support will cease to receive a service from their provider. This brings significant implications of moving costs to other Public Sector Services such as Social Care, Housing, Health and Police.

5.5. Environment

The constraints on Local Government finance and the need to reduce debt will have a significant impact on Environmental Services. These services rely on both Capital and Revenue funding for core maintenance and service delivery. In addition, investment in infrastructure maintenance, such as highways maintenance, becomes more expensive the longer that it is left. Planned maintenance provides much better value for money than reactive maintenance and preventative treatment, such as surface dressing, provides much better value for money than resurfacing or restoring dilapidated roads. However, significant budget cuts lead to a limited set of choices and the need to react to urgent issues rather than prevent difficulties occurring in a planned way. This results in the risk of increased numbers of people killed and seriously injured on our roads, higher unit costs, significant challenges as backlogs in maintenance increase over time and a higher risk of legal challenge and resultant costs.

Equally, budget reductions will mean that we have to focus on statutory rather than discretionary services. The standards to which many statutory services are delivered will also need to be reduced. Our ability to subsidise bus services and the County Ticket, trading standards, highways development control and regulatory services, including the time taken to deal with modifications to public rights of way, will be affected by this. This will significantly impact on our customers and their satisfaction with our services.

The impact of these proposals will be felt more keenly by Somerset's visitors and residents, our customers, coming hard on the heels of the current year's grant cuts of £1.4m to our Integrated Transport and Road Safety programmes.

5.6. Resources

The key issue for the Resources Directorate is one of risk. It is perfectly right for the Directorate to make its contribution to the savings and cuts required in times of severe resource constraint. Indeed, the Directorate has front-ended the majority of its savings/cuts which in some cases rightly reflect the reduced external activity (e.g. CAA, LAA, National Indicator Set). However, some of the savings/cuts reflect the reductions in corporate activity and support for front line services which inevitably will carry some risk.

Although it is difficult to specifically articulate the types of risk we will face, every effort will be made to ameliorate/eliminate such risks as they are identified.

6. Recommendations

- 6.1.** Please refer to the front section of this report.

7. Reasons for recommendations

- 7.1.** Ultimately, the County Council will determine the budget setting and level of Council Tax on 16th February 2011 via a budget report. This will include a statement on the Robustness of The Budget and Adequacy Of Reserves as required by Section 25 (1) (b) of the Local Government Act 2003, along with the Prudential Indicators relating to the Capital Investment Programme.
- 7.2.** Recommendations are being brought before Cabinet at this early stage in order to maximise the potential savings that can be delivered from 1 April 2011.

8. Background papers

- 8.1.** • Somerset County Council Report – 17 February 2010 – MTFP.

Note: For sight of individual background papers please contact the report author