SOMERSET COUNTY COUNCIL

MEDIUM TERM FINANCIAL PLAN 2011/12 to 2013/14

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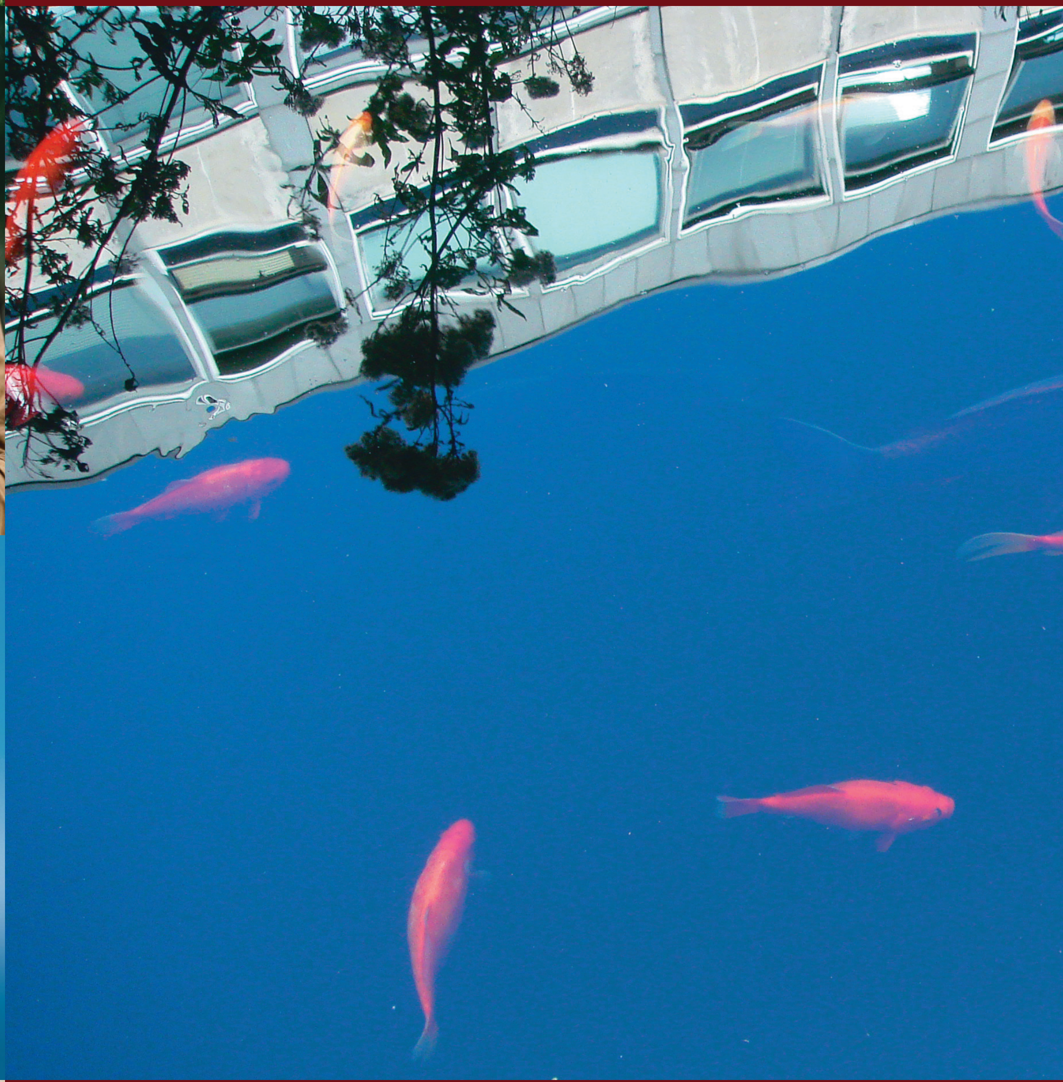

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SOMERSET County Council

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Somerset County Council

Medium Term Financial Plan 2011/12 to 2013/14

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1 Introduction from your Council Leader – Ken Maddock

There are great pressures on us today, yet our grant has been cut by £27 million for this coming year.

Somerset is currently borrowing more than £350 million – and projected to grow to £410 million if we took no action. The cost of repaying those debts is £36 million a year – that's equivalent to £100,000 a day. And a sixteen year old leaving school today in Somerset will be 63 years old by the time the debts are paid off.

Adding to this, demographic pressures are costing us vastly more in terms of social care, child protection, children with learning disabilities and so on.

Therefore we need to spend millions of pounds more - just to stand still. Not to improve services, not to make the lives of our most vulnerable people better, not to help more people – but millions of pounds more just to provide what we do now.

It is a major challenge for our staff and for our budgets.

We have reduced the number of Directors by 40% and senior management as a whole by 15%: We have cut the size of the Cabinet by a third - we have had a recruitment freeze for the past year and half, saving nearly £2 million - and many more back office savings and improvements are in hand which will reap further dividends.

But this is not enough. So we have left no stone unturned in trying to spread the impact as fairly as we possibly can, while protecting the most vulnerable. This has resulted in £34 million in savings for next year alone, a huge achievement.

However, more positives times are on the horizon. We have seen Government approval for a £21 million new relief road for Taunton that will free up development land that could provide 4,000 jobs and 1,000 new homes.

We are at the centre of the EDF proposals for a new reactor at Hinkley Point – a proposal that we now know could lead to 5,600 local jobs for local people over the construction period and put Somerset at the heart of the nuclear power industry.

After a year that has tested us in so many ways, we should celebrate these fantastic prospects that should boost the local economy and bring new jobs to Somerset and focus on working together to bring prosperity that will benefit us all.

Ken Maddock.

Ken Maddock
Leader
Somerset County Council

2 Foreword from the Chief Finance Officer – Kevin Nacey

This Medium Term Financial Plan contains details of the County Council's Revenue and Capital budgets for 2011/12, as approved by the County Council on 16th February 2011.

The opening pages of this document provide background information on the process undertaken to formulate and set the budget, including the local and national context as well as information on the resources available to the authority and how the Government assesses us. Specific elements of the budget can be found in more detail within the appendices.

The budget cycle for 2011/12 started two years ago with the first projections of the budget requirements. However, financial planning is not an exact science and strategies and assumptions are continually reviewed in the light of changing circumstances. The balanced budget position takes into account the much tougher financial climate for the UK economy, the public sector, the Council itself, its employees, taxpayers and local residents.

This has been a difficult budget due to a variety of factors, including dramatically changing inflations rates, significant demographic pressures in both Children's Social Care and Adult Social Care and the changing priorities resulting from economic conditions and its impact upon Local Government funding. This is balanced with the need to maintain and improve the services we provide.

Now more than ever, future service demands will outstrip the resources available. We will therefore need to continue to improve our efficiency and will need to continue the process of reprioritising our spending. This will lead to reductions in lower priority areas being used to support increases elsewhere as we develop a robust budget that will protect our services in the current economic climate and the continuing financial constraints expected in future years.

The following chapters set out the progress we have made towards achieving this.

Kevin Nacey, CPFA,
Service Director – Finance and Property

3 Statement on the Robustness of the Budget Estimates and the Adequacy of the County Council's Reserves

Section 25 of the Local Government Act 2003 places a specific duty on the Chief Finance Officer to make a report to the Authority when it is considering its Budget and Council Tax. The report must deal with the robustness of the estimates and the adequacy of the reserves included within the budget. (For the purpose of the Act, reserves include general balances). The Act requires the Council to have regard to the report in making its decisions.

The preparation of the budget for 2011/12 has been based on detailed impact and risk assessments associated with each budget and the goals and objectives included in the County Council's Business Plan. A number of budgets can be classified as high risk because they are subject to external demands, which are difficult to manage. Other budgets are affected by above average inflation, strong market forces or other factors whose influence is not easy to predict. Details of these budgets, the level of risk they present and the action taken to mitigate the risk is available on request from the Financial Planning Section – contact Paul Deal on 01823 35 6970.

Inevitably, there are financial pressures on the Council. For example, inflation will increase costs even if the level of service provision remains the same. However, the Council faces additional costs due to demographic growth and burdens imposed by the Government, such as increases in Landfill Tax. Wherever possible, additional costs have been kept to a minimum.

It has been necessary to make some budget reductions to meet the targets set by the Cabinet and to ensure that we balance to the funding available. All major budget reductions have been reviewed to ensure that the savings are achievable and where possible, service provision is not affected. Inevitably though, some services will reduce their level of provision.

Details of the additional investment pressures and budget reductions have been provided to Scrutiny Committee and are available on the Council's Website. These projects and programmes of change will be monitored closely to ensure expected benefits are delivered.

The availability of general balances to meet any unforeseen liabilities and provide flexibility during a period of change is a key element of prudent financial management. General balances for 2011/12 are forecast at £8 million. Although this level is deemed as adequate for 2011/12, based on an assessment of the financial risks facing the authority, moving forward our analysis suggests that this will not be sufficient in the longer term. We therefore will need to plan for the replenishment of general reserves within the 2012/13 planning cycle.

In addition to general balances, the County Council also holds earmarked reserves for specific purposes. In line with the Government's guidance, we have reviewed the level of these earmarked reserves and have called upon £5 million to fund redundancy payments. This reduces the forecast as at 31 March 2011 to under £6 million. This is judged to be appropriate in the context of the Medium Term Financial Strategy.

In the light of the information made available during the budget process, and taking account of the considerations set out in this report, it is my view that there is sufficient robustness within the Council's estimates and that the current level of reserves are adequate for 2011/12. However, given the economic climate and its impact upon levels of funding over the period of this Comprehensive Spending Review [CSR], the significant level of change the authority is embarking on and the level of risk incorporated in the budget it is imperative that we plan to replenish general reserves during the 2012/13 planning cycle. Furthermore, all staff are expected to demonstrate robust financial management during the forthcoming year.

Full details of this assessment are available on request from the Financial Planning Section – contact Paul Deal on 01823 35 6970.

Kevin Nacey, CPFA,
Service Director – Finance and Property
(Section 151 Officer)

4 Medium Term Financial Plan and Financial Strategy 2011/12 – 2013/14

4.1 General Introduction

This document provides the financial planning framework for the delivery of services to the residents of Somerset. It sets the context for the resource planning process and its integration with other strategic and local planning documents. It details the review of resources available for the delivery of services and sets out the financial strategy that will provide the framework for the planning of these services.

The demands and expectations of residents and the roles and responsibilities placed on the authority by Central Government are changing all the time. The resources available to the authority are also changing, but these changes are not generally driven by the changing needs of the residents; government economic and political policy largely dictates resource availability. In an environment where the desire to increase and improve services greatly exceeds the capacity of the resources available, the authority needs a clear view on where the limitations are and how it intends to manage services within resource constraints.

Medium Term Financial Planning is a 'rolling' process that operates alongside the County Council's rolling strategic and service planning frameworks. Service priorities and actions are identified looking forward over a three-year period, and forecasts of resources, funding requirements and the savings required to balance the budget are drawn up for each of the three years. As time passes, each of these elements (priorities, resources, funding pressures and savings) will be adjusted to reflect updated information and plans will be drawn up for subsequent years as the 'planning horizon' moves on.

The MTFP and resulting Revenue Budget and Capital Investment Programme set out in this document represent the culmination of the work developing the Council's response to the unique financial challenge of reduced Government Grants, increased demand for council services and a freeze on Council Tax increase. Last year's MTFP identified that we were heading into challenging financial times and that a radical redesign of the Authority including some service cuts would be inevitable. In agreeing the proposals outlined in the following sections, the Council has taken the first of many necessary steps to deal with that challenge.

4.2 Revenue Medium Term Financial Plan – format of this document

This document outlines the Medium Term Financial Plan [MTFP] for the period 2011/12 to 2013/14 and details the strategy that the Council intends to follow in rolling this financial plan forward into the 2012/13 to 2014/15 planning period and beyond.

Within this MTFP document we have included the following sections:

- The Medium Term Financial Planning Process;
- The Local Context;
- The National Context;
- The Local Resources available to the Authority;

- Summary of Budget Pressures;
- Summary of Savings and Service Reductions;
- Partnerships and Pooled Budget Arrangements;
- MTFP Strategy for future years.

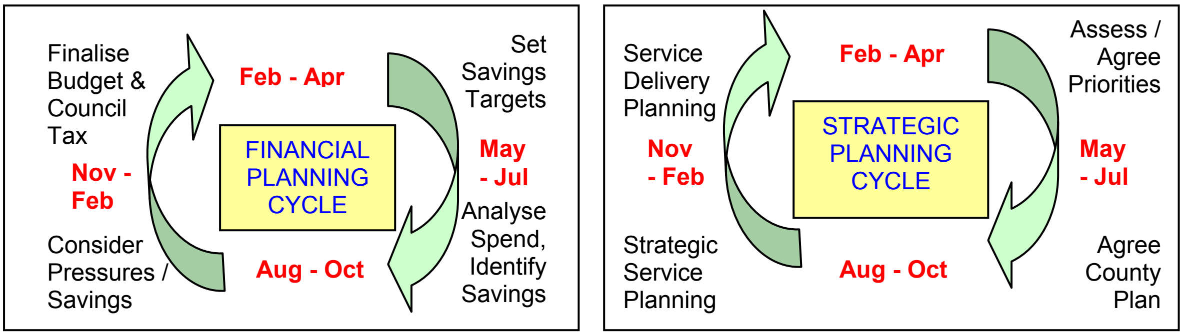
Appendix 1 presents a numerical summary of the three-year financial plan, set against a summary for the current year (2010/11) as shown in Column 1. Column 2 shows the balanced position for next year's budget. Columns 3 and 4 show the projected position for 2012/13 and 2013/14 to be in excess of the projected available resource by some £15.300m – giving indicative savings targets to be set for these years and these will form the basis of future MTFP work.

5 The Medium Term Financial Planning (MTFP) Process

5.1 Introduction to the MTFP Process

Planning for the allocation of resources over the medium term is a cyclical process, and the Medium Term Financial Plan is updated to take account of corporate priorities, resources, and cost pressures on an ongoing basis. Figure 1 below demonstrates the linked timescales of the strategic and financial planning cycles.

Figure 1: Linked timescales of the Strategic and Financial Planning cycles



The development of the 2011/12 budget began two years ago with the first projections of 2011/12 budget requirements. Figure 2 below shows the rolling process diagrammatically.

Figure 2: The Rolling MTFP Process

	MTFP				
Year	**2009/10**	**2010/11**	**2011/12**	**2012/13**	**2013/14**
2009/10	Year 1				
2010/11	Year 2	Year 1			
2011/12	Year 3	Year 2	Year 1		
2012/13		Year 3	Year 2	Year 1	
2013/14			Year 3	Year 2	Year 1
2014/15				Year 3	Year 2
2015/16					Year 3

Throughout the process, the Capital Investment Programme (CIP) is considered alongside the Revenue Budget to allow discussions that are more informed and highlight the full impact of decisions.

5.2 The County Plan

The County Plan sets out the County Council's priorities and identifies the tasks that the Council will seek to deliver over a three-year timeframe. This document can be found on the Council's Website[1].

This MTFP document considers the financial context for the County Plan and the methodology for prioritising and reviewing resources at a corporate level. Service plans will then identify the specific operational and management actions required to deliver the aims and priorities in the Business Plan, within the planned resources available through the MTFP process.

5.3 Public Consultation

The Local Government Act 2000 places a duty on councils to consult local people. In 2001, a White Paper entitled 'Strong Local Leadership – Quality Public Services' set out guidance for councils on their obligations to consult widely with taxpayers on budget setting. The paper states that the best local authorities have:

"Council Tax, charging and revenue plans [that] are based on proper consultation with local people about their willingness to pay for better services…….Council Tax decisions do not take local people by surprise. Members are actively involved at every stage. The Executive takes full responsibility for setting objectives and budgets including tough decisions on priorities….Overview and Scrutiny Committees challenge budgets and monitor spending, delivery and efficiency" (Paragraph 6.20)[2].

In Somerset, consultation is undertaken on the budget and stakeholder priorities annually in line with these Government guidelines through a variety of different methods, including focus groups, surveys within our Your Somerset newspaper, and face to face discussions.

Specifically this year, we engaged with the public on a variety of topics ranging from the overall budget to specific budget proposals including options for redesigning the Library Service and adjusting the threshold for Fair Access to Care. A link to the analysis of the Libraries[3] and the Fair Access to Care[4] consultations can be found on the Council's website.

A summary of the results of our 1,955 responses to the on-line Have Your Say questionnaire can be found on the Council's website[5].

5.4 Financial Planning with partners

The Council works within a number of partnerships, many of which are considered to be at the leading edge, to deliver its aims and priorities. As a lead partner (often the 'Accountable Body') for many of these partnerships, the level of financial contributions to various pooled or aligned budget arrangements needs to be planned alongside our own 'internal' budgets.

Although partnership bodies are strategically highly significant, not all are *financially* significant (in terms of budgets pooled or aligned) – a number of partnership bodies have a strategic role in co-ordinating policy or joint working across agencies but may not have direct responsibility for significant spending.

5.5 Responsibilities for Financial Planning

Overall, responsibility for delivering a balanced budget and a Medium Term Financial Plan to the County Council for approval lies with the Leader and Cabinet. However, the decision making and budget setting process required to deliver the MTFP is supported by a range of officers, each of whom are responsible for different elements. Much of the detailed work of financial planning is carried out by Service Directors, who have responsibility for the:

- Identification of future pressures in service delivery within their areas;
- Management and delivery of efficiency savings;
- Use of ‘external’ sources of funding such as specific grants, fees and charges;
- Reductions in service use of resources and/or standards, where required.

Service Directors are supported by Finance Group Managers, who are also members of the Finance Strategy Group (FSG) led by the Service Director for Finance and Property. This group is responsible for overall corporate resource forecasts and recommending a financial strategy to the Senior Management Board (SMB) for planning purposes. SMB have a role to review the strategy, the competing demands for resources and opportunities for efficiency gains and will support elected members in arriving at final decisions on resource allocation. Information for the process is managed and collated by the Financial Planning Section (within the Corporate Accounting and Technical Services team of the Retained Finance Service) on behalf of FSG.

Throughout the annual planning cycle, regular working meetings are held between FSG, SMB, and Members of the Cabinet. These support the more formal meetings of the Cabinet, Scrutiny Committee, and County Council. Please see the ‘Peer Review’ process documented in **Appendix 2**.

5.6 Initial Funding Assumptions within the MTFP

These are unprecedented times for Local Government with huge cuts in funding over the period of this Medium Term Financial Plan. Yet in times such as these, demand for our services increases. Is it therefore vital to assess the likely level of funding reductions as accurately as possible to allow the Authority to prepare adequately for the future. We therefore reviewed and revised our planning assumptions for reductions in Government Grant from those reported to Council in February 2010, as shown below:

Figure 3 – Change in Grant Funding Reductions

Reducing Balance CASH Adjustment		**2011/12**	**2012/13**	**2013/14**
Previous Reported Assumption	Formula Grant	- 2.0%	- 2.0%	- 2.0%
	Area Based Grant	- 3.0%	- 3.0%	- 3.0%
Revised Planning Assumption	Formula Grant	- 10.0%	- 10.0%	- 5.0%
	Area Based Grant	- 30.0%	- 20.0%	- 10.0%
Revised Impact in Cash Terms	**Formula Grant**	**- £10.989m**	**- £9.891m**	**- £4.451m**
	Area Based Grant	**- £11.636m**	**- £5.430m**	**- £2.172m**
Total Revised Reduction in Cash Terms		**- £22.625m**	**- £15.321m**	**- £6.623m**

Added to this, realistic valuations were required for the additional costs likely to be experienced in the cost of service provision. These include:

- The cost of maintaining services at the present level, i.e. inflation;
- The cost of additional demand for services arising from an increasing and ageing population;
- Changes in Government policy that have an impact on the County Council costs, i.e. Landfill Tax, where the Government has increased the charge by £8 per tonne, per year, over this CSR period; and
- Any additional costs to enhance or redesign services.

In total, across the three-year planning horizon, we estimated that Somerset County Council would have a budget shortfall of around £75m.

6 The Local Profile

6.1 Demography

The County of Somerset is home to 523,500[6] people. Population growth is higher than the national average, with a 6.3% increase in the Somerset County Council area since 1991, and a 19.3% increase since 1981[7]. Over the next 20 years Somerset's population is projected to increase by nearly 15% to 612,200[8].

When compared against the UK national average, Somerset's population is shown to be older, with one in four (25%) of our population above the state pension age, compared to 19% nationally. In fact, West Somerset has the highest proportion of older people (men aged 65 and over, women aged 60 and over) in the UK (34%)[9].

All Somerset residents can expect to live over 2 years longer (and rising) than the national average, with life expectancy for men being 80 years and for women being 84 years[10]. It is projected that by the year 2030, 40% of West Somerset's population will be above the state pension age, of which 23% will be aged 75 or over.

However, this also poses challenges to local services because older people tend to be less healthy, have more trouble accessing services and are more likely to suffer fuel poverty. Yet 86.3% of Somerset residents say they are 'very satisfied' or 'fairly satisfied' with where they live, well above the national average of 78.6%[11].

6.2 Environment

Somerset covers an area of 3,452 square kilometres or 1,333 square miles[12] and has a unique and diverse environment, rich in natural assets. These include outstanding landscapes such as Exmoor National Park, five Areas of Outstanding Natural Beauty such as the Quantock, Mendip, and the Blackdown Hills (as shown in Figure 4 below), and large flat expanses of land including the Somerset Levels. There are internationally renowned heritage sites such as Wells Cathedral, Glastonbury Tor, Montacute House and Barrington Court.

The County Council works in partnership overseeing these areas to ensure they are maintained and developed for people to enjoy. Not surprisingly, the vast majority (84%)[13] of people living in Somerset are satisfied with the quality of the environment.

Somerset has the highest coastline in England and Wales with coastal hills rising to 433m (1421ft) at Culbone Hill within Exmoor National Park[14]. Reaching over 150m in places, the sides of Cheddar Gorge boast the highest inland cliffs in the Country[15].

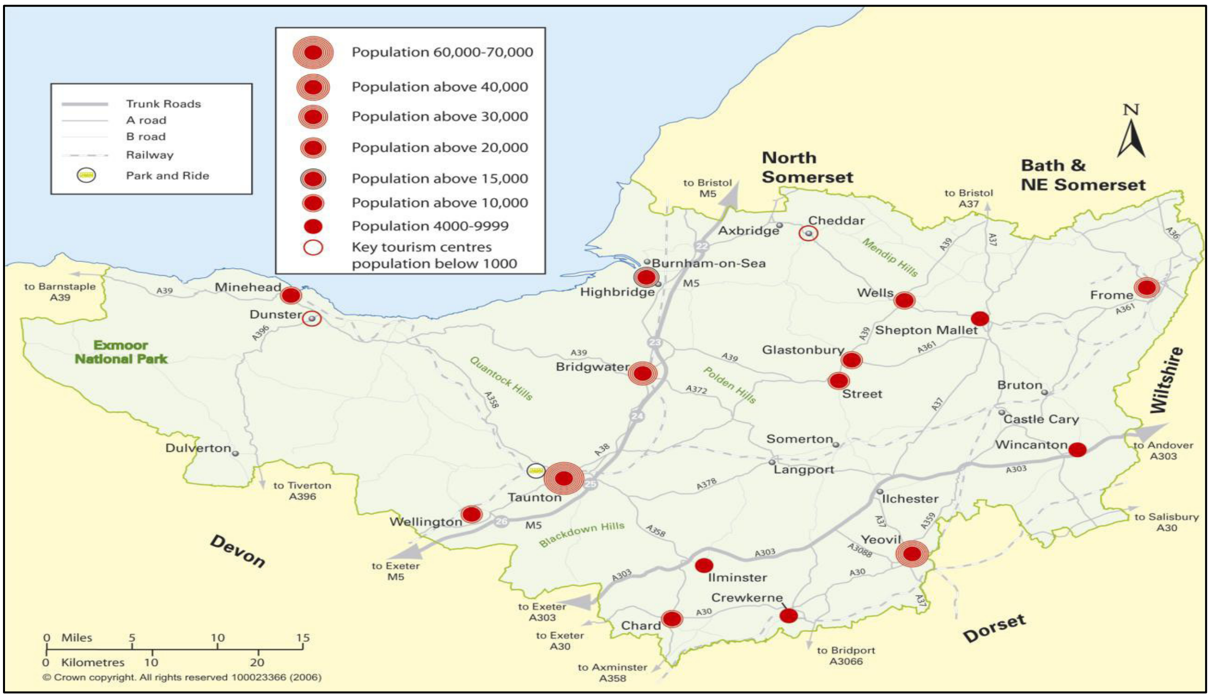
There are approximately 6,605 km of roads in Somerset, and 6,130 km of public rights of way including footpaths, bridleways and Byways[16].

Somerset households produced 256,063 tonnes of waste in 2009/10, of which 48.7% was recycled through kerbside collections, Household Waste Recycling Centres (HWRCs) and Recycling Banks. Of the waste entering HWRCs, 72.2% was recycled[17].

Figure 4: Exmoor National Park and Somerset's Areas of Outstanding Natural Beauty

Approximately a third of the population is concentrated in the largest towns of Taunton, Bridgwater, Yeovil and Frome, as shown in Figure 5 below. The rest of the County is rural and sparsely populated, with a density as low as only 49 people per sq km[18] in the District of West Somerset. Low population density presents challenges for the provision of appropriate transport infrastructure, the viability and accessibility of local services, and employment opportunities.

Figure 5: Map of Population Density[19]



6.3 Education

The dispersed nature of the population is reflected in the delivery of services within Somerset. For example, a third of Somerset's Primary Schools have less than 100 pupils, more than twice the national average[20].

In January 2010, there were 67,134 children and young people on Somerset school rolls (220 Primary; 9 Middle; 30 Secondary and 8 Special Schools). 10.3% of pupils were known to be eligible for and claiming Free School Meals (up from 8.7% the previous year, mirroring a national upward trend). 1.3% of Somerset pupils have a Statement of Special Educational Need[21].

In 2009/10, there were 9,972 Somerset residents in FE colleges and Sixth Form Colleges (of which 958 were studying at colleges outside the county)[22].

There is currently no university in Somerset; however FE colleges have partnerships with regional universities, delivering an increasing number of Higher Education (HE) courses. Provisional approval was granted in 2009 for new University Centres to be created, with the aim of increasing HE learners from 3,300 to 5,600 by 2020[23].

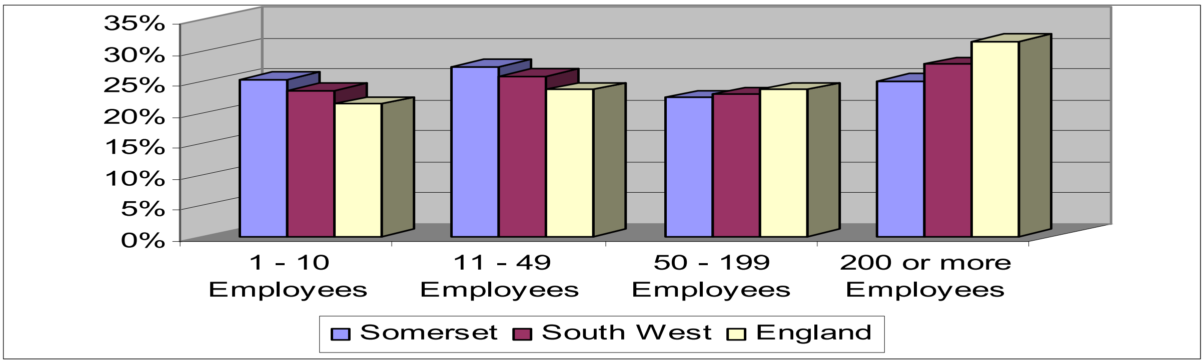
68.6% of the resident population of working age people are qualified to at least Level 2 on the National Qualifications Framework (equivalent to 5 GCSEs at grades A* to C), higher than the British national average of 65.4%. However a lower proportion of people are qualified to Level 4 (equivalent to a Higher National Certificate) than regional and national norms[24].

6.4 Economy

Somerset has a growing business community with a number of businesses that are household names. However, it is characterised by small businesses, where 86%[25] of the all circa 22,000 Somerset firms employ between 1 and 10 people.

However, 25.3% of the workforce works in organisations with fewer than ten employees, compared to 23.5% in the South West and 21.3% in England. Employment in organisations with between 11 and 49 (27.3%) employees also exceeds the regional (25.8%) and national (23.7%) figure. Conversely, only 25.0% of people in Somerset work in organisations with 200 or more employees, compared to 27.8% in the South West and 31.4% in England as a whole[26]. This is shown graphically below in Figure 6:

Figure 6: Somerset's Employment by size of Business



Agriculture is a major business in the county. Farming of sheep and cattle, including for wool and the county's famous cheeses (most notably Cheddar), are traditional and contemporary, as is the more unusual cultivation of willow for basketry. Apple orchards were once plentiful, and to this day, Somerset is known for the production of strong cider.

The nations defence is also an important factor within Somerset's economy.Taunton presently has the United Kingdom Hydrographic Office and is home to 40 Commando Royal Marines. The Royal Naval Air Station in Yeovilton is one of Britain's two active Fleet Air Arm bases and is home to the Royal Navy's Lynx helicopters and the Royal Marines Commando Westland Sea Kings. Around 1,675 service and 2,000 civilian personnel are stationed at Yeovilton and key activities include training of aircrew and engineers and the Royal Navy's Fighter Controllers and surface-based aircraft controllers.

Tourism industry also plays a vital role in the county's economy. The key facts[27] below show just how important it is:

Figure 7: Somerset's Key Tourism Facts

Fact	2007	2008
Visitor related spend	£1.07 billion	£1.08 billion
Number of trips* (day and staying)	16.64 million	16.35 million
Tourism related employment	29,925	31,747
Tourism related employment (FTE's)	22,315	23,549
Proportion of total Somerset employment	8%	9%
All staying visitors:		
- Trips	2.78 million	2.45 million
- Nights	11.06 million	9.7 million
- Spend	£421 million	£409 million
- Nights per trip	3.98	3.96
- Spend per night	£38.10	£42.19
Day trip visitors:		
- Trips	13.8 million	13.9 million
- Spend	£593 million	£623 million
Overseas Visitors:		
- Trips	N/A	0.233 million
- Nights	N/A	2.29 million
- Spend	N/A	£84.4 million
Friends & Relatives Spend	N/A	£46.2 million
Somerset Share of Visitors to Region:		
- Staying trips	11.8%	11.1%
- Staying nights	11.3%	10.5%
- Staying spend	9.2%	8.9%

* *TRIPS not visitors - as one person may make several trips.*

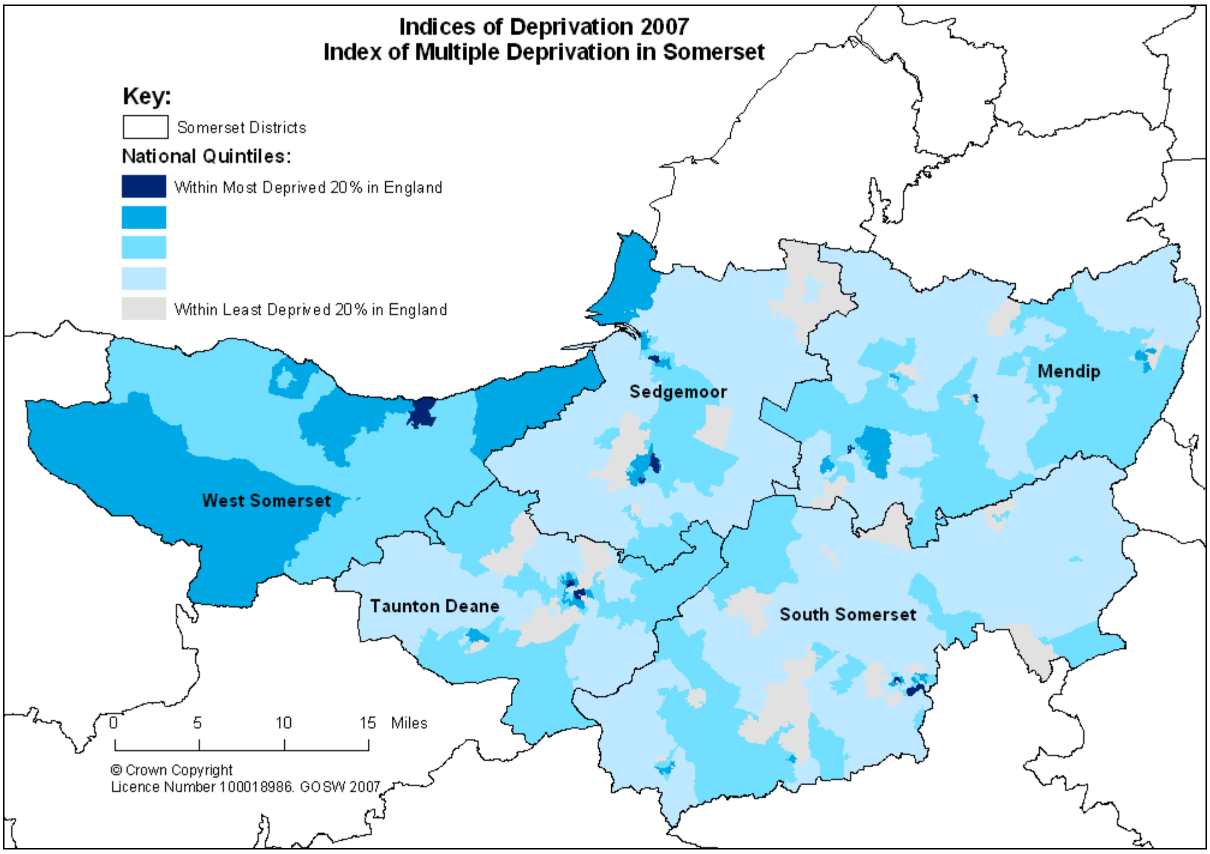
The Glastonbury Festival is the largest greenfield music and performing arts festival in the world and is estimated to generate about £35 million for Mendip's local economy. The festival is attended by 177,500 people[28].

Somerset has a higher proportion of people employed in public administration, education and health (28.8%), wholesale and retail (20%) and manufacturing (13%) than the South West and national averages[29].

The percentage of the population who are economically active is higher than the regional and national average, and the unemployment rate is lower than the regional and national average, with only 2.2% of people living in Somerset claim Job Seekers Allowance[30]. However, men working full-time in Somerset earn nearly 13% less than the UK average and women working full-time earn 14% less than the UK average[31].

There are pockets of deprivation and poverty in both urban and rural areas across the five district areas with young people and the elderly tending to be the most affected, as shown in Figure 8 below.

Figure 8: Somerset's Map of Deprivation



There are 14 areas classified as Lower Layer Super Output Areas[32] (LSOAs) among the most deprived 20% nationally, with 2 within the most deprived 10%. In total, they house around 20,000 people or approximately 4% of the population.

The most prevalent forms of deprivation in Somerset relate to Geographical barriers to housing and services (being a rural County), Education, Skills & Training (lack of qualifications), Income (with a slightly greater impact on children and young people than on older people), and the living environment (due to the condition of housing rather than air quality and road accidents).

7 The National Profile

7.1 Headline Summary

The present economic climate is "arguably the worst" in the last 60 years, and its impacts are likely to be "more profound and long-lasting than people thought" according to the then chancellor Alistair Darling in the summer of 2008.

“Eight out of ten business leaders believe that today’s economic climate is tougher now than during the recession”, according to new research, commissioned by Berkshire Consultancy – September 2010.

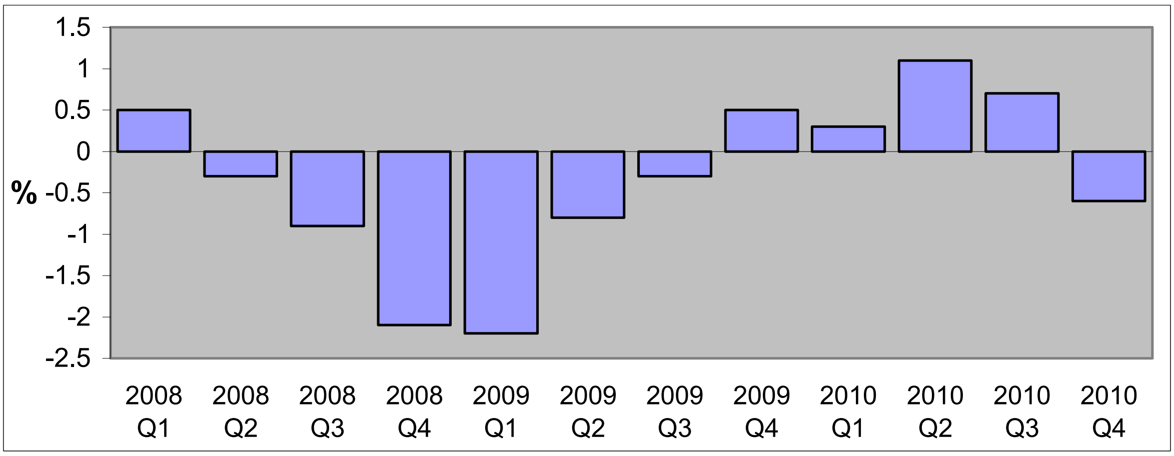
Yet in contrast to the previous economic downturns seen in the 70s, 80s and early 90s, companies and their staff have been working together over the last few years, showing a greater degree of flexibility has businesses and employees work together to avoid mass job losses.

7.2 Economic Data

The economic health of the UK is measured through a statistical index called Gross Domestic Product (GDP) – a measure of a country's economic activity, namely of all the services and goods produced in a year. The economy is seen to be growing if the index is positive, and in recession where the index is negative.

During the past three-years, the GDP index shows that the UK has been through a recession, as shown in the chart below. Economists have been concerned over a possible double-dip recession, where the economy recovers slightly, but then falls back into recession. The latest information (below) shows these fears could be realised, although other factors such as the bad weather conditions experienced during December will have contributed enormously to this.

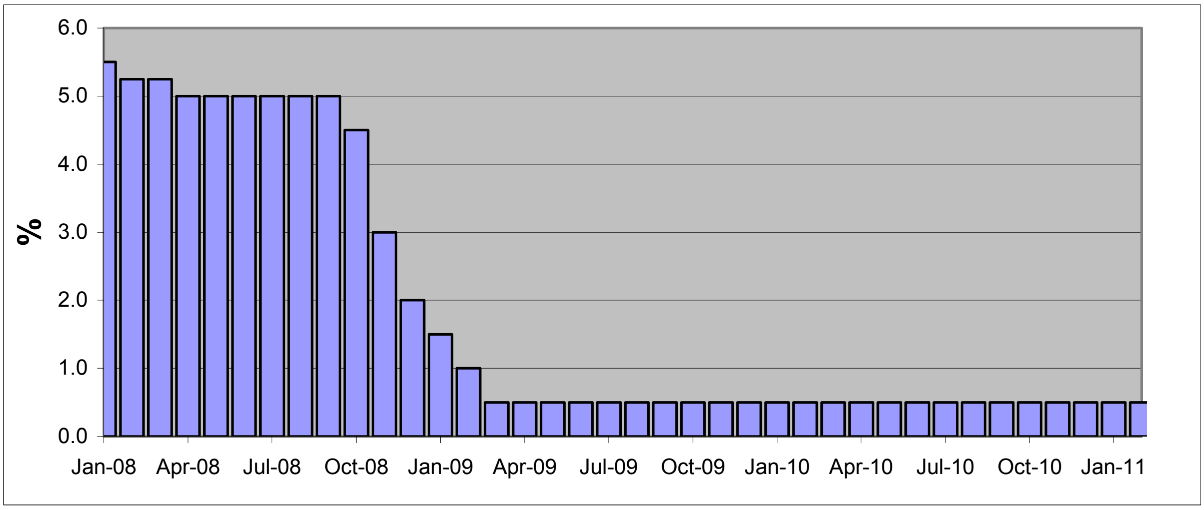
Figure 9 – UK GDP Growth



GDP is used by the Bank of England and its Monetary Policy Committee (MPC) as one of the key indicators in setting the interest rates at which it lends to banks each month. High GDP could be due to high inflation, so the MPC will try to slow the economy by raising interest rates (making it more expensive to borrow and offering savings additional benefits – thereby reducing spending power within the economy).

However, during a recession the MPC can cut interest rates to increase spending power to boost the economy. During late 2008, interest rates were cut sharply, and have now remained at their lowest ever rate for 24 months.

Figure 10 – Bank of England Interest Rate

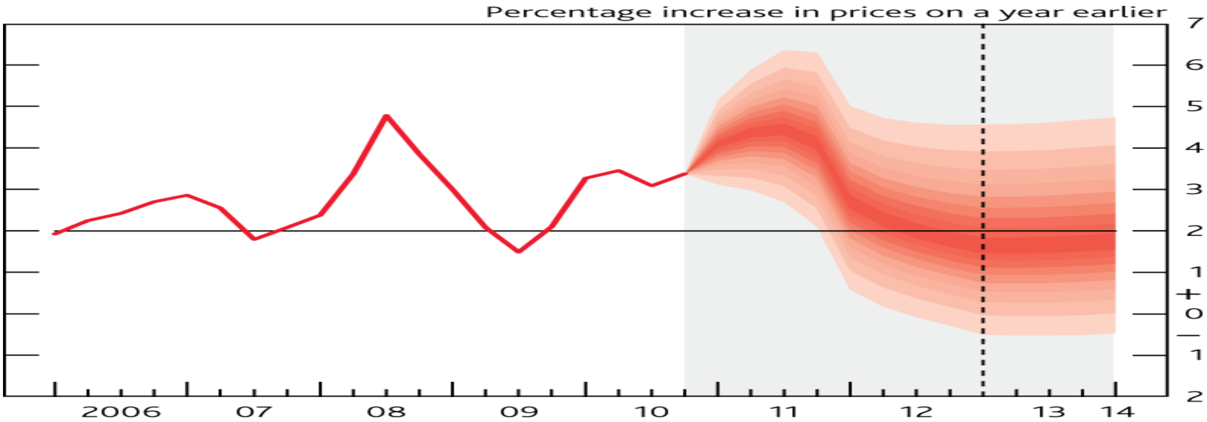


The length of time they have been at this level shows the depth of this recession, and indicates that this policy is not resolving the recession as anticipated. The MPC has therefore adopted an additional measure known as Quantitative Easing to help kick-start the economy. This injected £200bn into the economy to increase the amount of money in the UK's financial system in an attempt to boost bank lending. This does not involve printing more banknotes. Instead, the Bank buys assets from private sector institutions including UK government bonds (known as gilts) and high-quality debt issued by private companies. Making the majority of purchases in gilts allows the Bank to increase the quantity of money in the economy rapidly. Targeted purchases of private sector assets should make it easier and cheaper for companies to raise finance by improving conditions in corporate credit markets.

The MPC's inflation target is 2%, which it believes will provide the UK with a stable, but thriving economy. The measures described above that have been used to control inflation during the last couple of years has had limited success. Price rises on items such as petrol and the impact on the VAT increase has led to inflation remaining well above the 2% target.

The latest Inflation Report, published on the day the Council set its budget, shows that inflation is likely to remain above that target level throughout 2011, and may not fall back until well into 2012.

Figure 11 – Inflation projection based on market interest rate expectations and £200 billion asset purchases



The area covered by the darkest red band in the centre of the fan chart represents a 10% probability. This band contains the Monetary Policy Committee's view of the single most likely outcome. Moving away from the central band, the area covered by each pair of successive identically shaded bands also represents a 10% probability. The coloured bands cover 90% of the likely outcome, so there is a 10% chance that CPI inflation will be outside the shaded range.

During the recession of 1981, unemployment rose to over 3 million, and remained with the manufacturing industries in the north of the country being hit hardest, leading to violent strike actions from various section of the workers, most notably coal miners. This rise was due to the strong value of the Pound, high interest rates and the deflationary impact of Governments attempts to stop the recession.

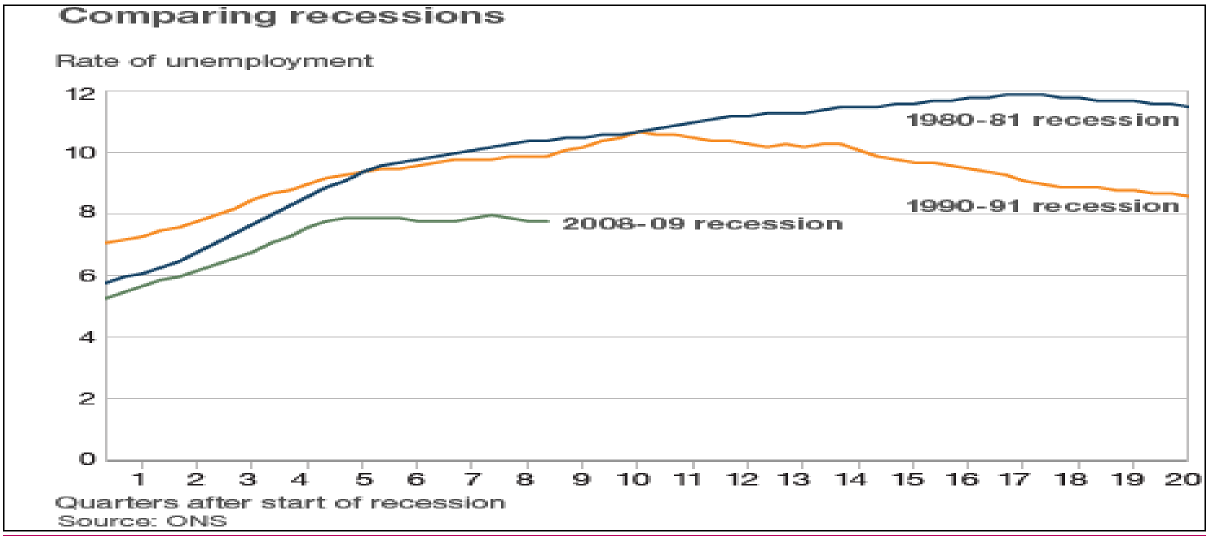
In the 1991 recession, unemployment rose again, to just under 3 million due to the beginning of the Gulf War and the resulting spike in the price of oil. Unlike the 1980s, unemployment fell quicker. From the mid 1990s to 2008, UK unemployment was relatively low. Looking at official statistics, unemployment was fairly close to full employment at just over 3%.

This shows that unemployment is highly cyclical. When the economy goes into recession, unemployment typically has increased to 3 million. However, as stated above, unemployment has been less of a factor during this recession, compared to previous recessions. This is likely to be due to the cause of this recession – the financial crisis and the credit crunch – initially within the US banking system which spread throughout the world's financial institutions with many failing and requiring bailouts from their respective Governments.

The UK housing market has also been affected with the average price of a home plunging rapidly in 2008 before recovering in 2009 and then reaching a plateau in 2010.

The chart below illustrates the differences in the rate of unemployment.

Figure 12 – Comparison on unemployment numbers during recent recessions



7.3 The affect on Local Government

Until now, the public sector as a whole has largely been protected from the latest recession. This is because the previous Government had announced the levels of funding as part of the last multi-year settlement in January 2008 – ahead of the collapse.

However, the election of the new Coalition Government sparked the beginning of the cuts to the public sector – with Local Government widely touted to be hardest hit.

Within 100 days of being elected, the Coalition Government announced an Emergency Budget, with serious reductions to public sector funding amounting to £6.2bn. £1.165bn of which would cut local authority funding mid-way through the financial year, as detailed below.

Figure 13 – 2010/11 Emergency Budget Cuts

Govt Dept:	Revenue	Capital	Dept Total
DfE	£311m – cut to Area Based Grant	n/a	£311m
DfT	£36m – cut to mix of Specific Grants and Area Based Grant	£273m – cut to Specific Capital Grants	£309m
CLG	£457m - cut to mix of Specific Grants and Area Based Grant	£80m – cut to Specific Capital Grants	£537m
DEFRA	n/a	£8m cut to Specific Capital Grant	£8m
TOTAL	**£804m**	**£361m**	**£1,165m**

The impact for Somerset County Council is detailed within Appendix 3.

These cuts signalled what was about to come during the period of the 2010 Comprehensive Spending Review, covering 2011/12 to 2014/15. Details of the national headlines and the local impact can be found in the next section.

8 Local Resources available to the Authority

8.1 Comprehensive Spending Review – Local Government Headlines

The Comprehensive Spending Review (CSR) and the Local Government Finance Settlement Formula Review process determine the shape of the funding settlement nationally.

The Chancellor of the Exchequer, George Osborne delivered the report of the 2010 Spending Review[33] to Parliament on 20 October 2010. The report covered the four-year Spending Review (SR) period of 2011/12, 2012/13, 2013/14 and 2014/15.

Mr Osborne said the Government had *"chosen to spend on the country's most important priorities – the health care of our people, the education of our young, our nation's security and the infrastructure that supports our economic growth"*. Furthermore, around 490,000 public sector jobs are likely to be lost over the period, on average departmental budgets will be cut by 19% over the four-year period and by 2015, the structural deficit will have been eliminated.

Specifically for local authorities, overall revenue funding will be reduced by an average of 7.25% each year, in real terms, over the four years, excluding schools, fire and rescue, and police. However, the annual reduction is not consistent, with deeper reductions in the earlier years, as shown in the table below:

Figure 14 – Headline Reduction in Formula Grant

	2010/11 Baseline	2011/12	2012/13	2013/14	2014/15	SR 2010 Change
£billion	28.0	25.0	23.4	23.2	21.9	- 6.1
% Change		- 10.7%	- 6.4%	- 0.9%	- 5.6%	- 21.8%

Conversely, direct funding to schools is to be protected. Their budget will rise 0.1% in real terms each year, taking funding from £35bn to £39bn. The Chancellor also confirmed an additional £2.5bn "pupil premium" for teaching for disadvantaged pupils. Sure Start budget's are also to be protected in cash terms.

The Spending Review also announced that over £4bn of funding would be moved from their current distribution mechanism into Formula Grant, thereby reducing and simplifying the number of funding sources for local authorities. In addition, all ring-fencing (restrictions over what the money can be used for) is to be removed, with the notable exception of the Dedicated Schools Grant (DSG) – the main form of funding to schools. According to a CLG press release, "*the Government's general intention is that grants rolled into Formula Grant will initially do so in a way which broadly reflects the existing distribution of the grant*".

Contrary to the above, a number of new, separate yet unring-fenced grants relevant to Local Government were also announced. The main changes to grant allocations are tabulated below:

Figure 15 – New Revenue Funding Streams

Grant Name	Description
Early Intervention Grant	Formed from a number of existing grants (mainly Sure Start) for intervention programmes such as teenage pregnancy and youth crime support.
Council Tax Freeze Grant	New funding to allow Authorities who choose to freeze Council Tax in 2011/12 to 'have the resultant loss to their taxbase funded at a rate of 2.5% in each year of the CSR period'
NHS funding to support social care and benefit health	New funding 'to support integrated working between health and social care services, delivering support for social care and health gain'
Learning Disability & Health Reform Grant	Distributed on the basis of the 2010/11 transfers between local authorities and PCTs
New Homes Bonus	New funding 'to incentivise councils to grant planning permission for the construction of new homes, by matching Council Tax receipts for each new home built for a number of years'

Significantly, the Government also announced a major change to the CRC Energy Efficiency Scheme, formerly the Carbon Reduction Commitment that started in April 2010 (a mandatory climate change and energy efficiency scheme whereby organisations purchase allowances equal to their annual carbon emissions).

Initially the money raised through these allowances was to be recycled back into the system in the form of rewards to organisations that reduce their emissions, thereby providing a self-financing financial incentive to reduce energy use. However, the Spending Review states that: "Revenues from allowance sales totalling £1bn a year by 2014/15 will be used to support the public finances, including spending on the environment, rather than recycled to participants". This therefore appears to contribute towards the new funding outlined above – therefore arguably they are not new, but are recycled from one area to another.

The scheme was due to begin taking the first allowance payments in April 2011, with the pay-back scheme due to start in October 2011. However the scheme will now start in 2012 instead to reduce the burden on organisations.

<u>Capital</u>
The Chancellor also announced that total Capital spending will fall by 29%, from £51.6bn in 2010/11 to £40.2bn in 2014/15. Local Authority Capital funding from all departments will fall by around 45%, but within that Education Capital will fall by 60% and CLG Communities falls by 74%. The Government will prioritise Capital investment on areas of greatest economic value, as such high value local transport which will only reduce from £7.7bn to £7.5bn.

The Government is maintaining the important flexibility of Prudential Borrowing, to enable councils and their partners to invest in key local priorities. However, the interest rates on Public Works Loan Board (PWLB) loans have been increased to 1 per cent above UK government gilts, making them less attractive.

8.2 2011/12 Local Government Finance Settlement

The detailed breakdown of the CSR at local authority level is published within the Local Government Finance Settlement.

On 13 December 2010, following a delay of approximately 2 weeks from the expected timeframe, the Secretary of State for Communities and Local Government, Eric Pickles, made a statement to the House of Commons outlining the provisional Local Government Finance Settlements for 2011/12 and 2012/13 which *"sought to achieve a fair and sustainable settlement…it will be progressive and fair"*.

A second 2-year settlement covering the remaining years of the CSR is expected following a review of Local Government Finance during 2011/12, after which Government anticipate adopting a new distributional system which will be effective from 2013/14.

The publication of the Local Government Finance Settlement marks the beginning of a 5-week consultation period, during which Authorities may comment on the overall quantum, the distribution mechanism proposed, the underlying data upon which the formulae are based, and the application of the damping mechanism. Each of these elements is covered in detail below.

8.2.1 Formula Grant [Revenue Support Grant (RSG) + National Non-Domestic Rates (NNDR)]

Formula Grant is the main funding stream of Government Grant to Local Authorities. It forms approximately a third of the Somerset's Net Budget Requirement. It is made up from two main sources, Revenue Support Grant (RSG) and National Non-Domestic Rates (NNDR - the income raised from the collection of business rates) which have been merged to give Authorities a single grant payment. The overall allocations nationally and for Somerset County Council are:

Figure 16 – Headline Formula Grant Allocations (excluding Police Grant)

National Total	2010/11		2011/12		Change	
	£bn	%	£bn	%	£bn	%
Revenue Support Grant	3.122	12.7	5.873	23.6	+ 2.751	**+ 88.1**
National Non-Domestic Rates	21.500	87.3	19.000	76.4	- 2.500	**– 11.6**
Formula Grant	**24.622**		**24.873**		**+ 251**	**+ 1.0**

Somerset County Council	2010/11		2011/12		Change	
	£m	%	£m	%	£m	%
Revenue Support Grant	13.935	12.7	30.733	23.6	+ 16.798	**+ 120.6**
National Non-Domestic Rates	95.963	87.3	99.426	76.4	+ 3.463	**+ 3.6**
Formula Grant	**109.897**		**130.158**		**+ 20.261**	**+ 18.4**

The significant change in Somerset's grant allocation is as a result of the large transfer of existing grant streams into Formula Grant. An explanation of these transfers can be found below in paragraph 8.2.2.1 and within **Appendix 4**.

8.2.2 The Four-Block Model

The methodology for distributing Formula Grant, known as the Four-Block Model, was first introduced in 2006/07 following a wide-ranging review of the grant distribution system. This formula gave the Government the opportunity to move away from a system based around notional spending (what the Government believed each authority should spend), to a new system based on allocating cash according to need. Whilst this system continues to consider the ability to raise income locally, and provides some protection from formulaic changes, overall it has been made less transparent and is subject to a greater degree of ministerial judgment.

Modifications and alterations to the formulae used and updates to the underlying data have been made since its introduction through periodical formula reviews, a 2-way process of development between representatives of Local Government and Central Government known as the Settlement Working Group (SWG), the latest of these happening during the summer of 2010.

As the name suggests, the Four-Block Model comprises four elements:

Relative Needs Block
This block calculates each authority's required funding level per head of population, known as 'need', using specific local demographic data in a series of complex formulae. Each authority's 'need' is then compared to that of other authorities; and those whose 'need' is above the basic level of funding required funded through the central allocation block are given a 'top up'.

The Relative Needs Block is split into seven major service groups, some of which contain smaller sub-groups. These are:

1) **Children's Service**
   a) Youth and Community;
   b) Local Authority Central Education Functions; and
   c) Children's Social Care
2) **Adults' Personal Social Services**
   a) Social Services for Older People (over 65); and
   b) Social Services for Younger Adults (under 65)
3) **Police**
4) **Fire and Rescue**
5) **Highway Maintenance**
6) **Environmental, Protective and Cultural Services (EPCS)**
7) **Capital Financing**

Authorities are then classified according to the services they provide. County Councils like Somerset receive allocations from all service groups except Police and Fire (unless they retain responsibility for fire).

Relative Resources Block
This reduces each authority's calculated grant allocation to reflect their ability to raise resources locally through Council Tax due to the differing mix of properties, known as the Taxbase. The higher the Taxbase, the higher the reduction.

Central Allocation Block
This aims to fund a basic level of service provision. It is calculated by multiplying a fixed amount by the authority's population.

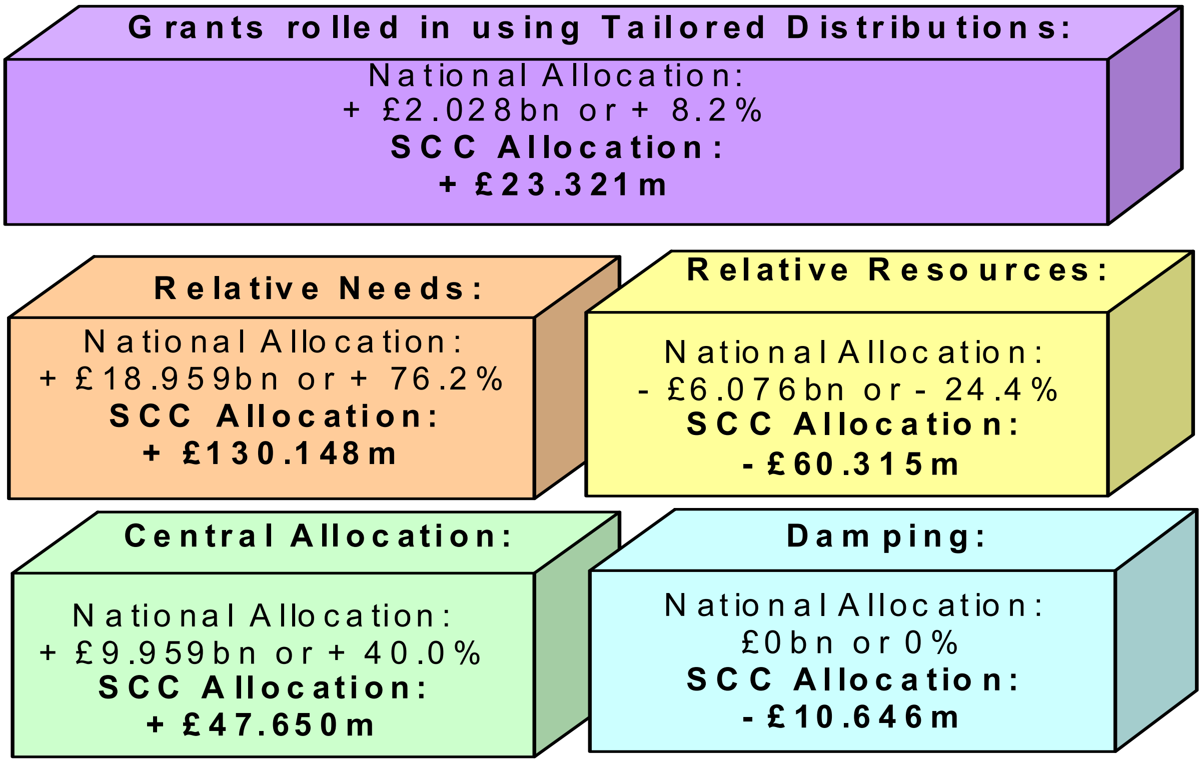
Damping Block[34]
This ensures that each authority's allocation does not differ greatly that that received in the previous year, to provide long term stability. This block is self-financing - the amount required to 'top-up' authorities is exactly the amount taken from those above the floor. (See section 8.2.2.2 for further details).

8.2.2.1 Grants rolled into Formula Grant through Tailored Distribution

Within this year's settlement, the Government have made a significant alteration outside of the SWG discussions which is effectively the creation of a 5th block to accommodate the significant level of grant transfers into Formula Grant. These grants retain their original distribution formulae, rather than use those within the Four-Block Model. This has enabled the Government to keep to its commitment of limiting the redistribution of existing grants to ensure authorities allocations "*broadly reflects the existing distribution of the grant*".

Figure 17 below illustrates the blocks and provides details of the financial value, both nationally and to Somerset County Council.

Figure 17 – The Four-Block Model for 2011/12 and the new '5th Block'



Where damping is included as part of the specific formula, for example within Supporting People (which for several years operated a damping system which reduced Somerset's allocation by 5% per annum), this has been removed to avoid 'double damping'. Therefore the allocations revert back to the Raw Grant levels as calculated by the formulae. However, these Tailored grants are still subject to the overall damping mechanism applied to the Four-Block Model, and therefore in reality the future allocations are very different to those currently received.

There are a number of grants rolling into the Tailored Distribution Block. **Appendix 4** provides a summary of these Grants, how they are distributed and the Raw Grant allocations (i.e. before Damping is applied) for Somerset County Council.

8.2.2.2 Damping

The 4th Block of the Four-Block Model is called Damping. This part of the process guarantees that all authorities' allocations are not hugely different from those received in the previous year, thereby reducing any distributional turbulence caused by data and formula changes to provide long term stability. Due to financial limitations, significant levels of damping are needed within the system to ensure that the model remains within the size of the overall pot. This is applied judgmentally and results in a cash grant settlement that bears little relationship to the underlying 'need' as calculated by the formulae. Many authorities have serious concerns over the sustainability of this system and Government's ability to do anything other than to continue to damp the cash settlements that accrue to local authorities and in particular County Councils.

In order to calculate the maximum year-on-year change, individual authority Formula Grant allocations must be compared to those in the previous year on a like-for-like basis. The previous year's Formula Grant allocation is therefore adjusted for transfers of funding that have occurred in the current year. This creates the baseline or adjusted Formula Grant figure – this allocation is a notional amount and therefore does not affect the actual Formula Grant allocations received in the previous year.

As stated previously, a significant number of grants transferred into Formula Grant from a variety of different funding streams, and therefore the calculation of the Adjusted Base position was more complex than normal. In addition, grant transfers have also been made for switches of responsibility between tiers of authority i.e. District to County. Figure 18 below provides summary details of the calculation of the 2011/12 Adjusted Formula Grant for the purposes of the damping calculation. Full details of this calculation can be found in **Appendix 5**.

Figure 18 – Summary of Somerset County Council's Adjusted Base Calculation

	(£m)
2010/11 Formula Grant	**109.897**
Transfer into Tailored Grants:	
Grants previously funded through Area Based Grant	20.281
Grants previously funded through Specific Grant	0.502
	20.783
Other Grant Transfers:	
Grants previously funded through Area Based Grant	7.376
Grants previously funded through Specific Grant	3.151
	10.527
Transfer between Tiers and Other Adjustments:	
Concessionary Fares	**7.194**
Removal of notional element for Academies	**-1.508**
Adjusted 2010/11 Formula Grant	**146.893**

8.2.2.2.1 Changes to the methodology for Damping

Within the 2011/12 Settlement, and again outside of the 2-way SWG formula development process, the government have significantly altered the process of Damping in two distinct ways.

Historically, Damping was applied to the sum allocated to each authority via the other three blocks within the Four–Block Model (Relative Needs, Relative Resources and Central Allocation). This year, damping has also been applied to the new Tailored Grants. This therefore greatly reduces the level of the grant shown in Figure 18 (above).

Secondly, for the 2011/12 Settlement, the Government have attempted to link the level of Damping applied to Formula Grant with an authority's perceived reliance upon it. For 'Education / Personal Social Services' authorities such as Somerset, the maximum reduction in grant has been determined by ranking the proportion of the 2010/11 Net Budget Requirement funded by Formula Grant; with 151 authorities split into 4 broadly equal bands. Those with a higher proportion (thereby assumed reliance) having less damping applied. The level of the reduction within the four bands is shown in Figure 19 below:

Figure 19 – Levels of Damping applied to 'Education / Personal Social Services' authorities

Band	Range of 2010/11 FG as % of BR	2011/12 Floor Reduction	2012/13 Floor Reduction
Band 1 – most dependent	82.88% - 58.87%	- 11.30%;	- 7.40%
Band 2	58.60% - 49.84%	- 12.30%;	- 8.40%
Band 3	49.75% - 37.89%	- 13.30%;	- 9.40%
Band 4 – least dependent	37.13% - 18.74%	- 14.30%;	- 10.40%

For Somerset County Council, our 'reliance' upon Formula Grant has been assessed as 35.36% - based upon £109.897m as a proportion of £310.812m. This gives a ranking nationally of 118th least reliant upon Formula Grant and therefore places Somerset County Council into Band 4, the highest category of Damping. Therefore, -14.30% has been applied to our Adjusted Grant Allocation in 2011/12 and -10.40% in 2012/13.

As shown within the Figure 19 above, there can be a very small difference between whether an authority is classified in one band or another, thereby building additional 'cliff edges' into the system. Furthermore, an analysis of the 'reliance' by region shows a stark difference between London and Northern Authorities, who are considered to have generally high levels of deprivation, with Southern Authorities who are considered more affluent. This forms an additional layer of Resource Equalisation.

As indicated above, the Damping Block is self-funding – the amount required to 'top-up' authorities who's Raw Grant Allocation (as calculated by the 'Four- Block' Model) is lower than their Adjusted Grant Allocation minus the Damping reduction is taken from those who's Raw Grant Allocation (as calculated by the 'Four- Block' Model) is greater than their Adjusted Grant Allocation minus the Damping reduction.

This is achieved through the application of a 'scaling factor' which means that authorities only receive 28.63 pence for every £1 of any 'excess' funding, with the remaining 71.37 pence getting shared out amongst those authorities that require the 'top-up'.

Figure 20 below demonstrate how damping is applied and Figure 21 illustrates the impact on Somerset and another similar sized Authority, 'Authority X', which benefits from the damping adjustment (known as a 'floor authority').

Figure 20 – How damping is applied to Somerset's 2011/12 Formula Grant

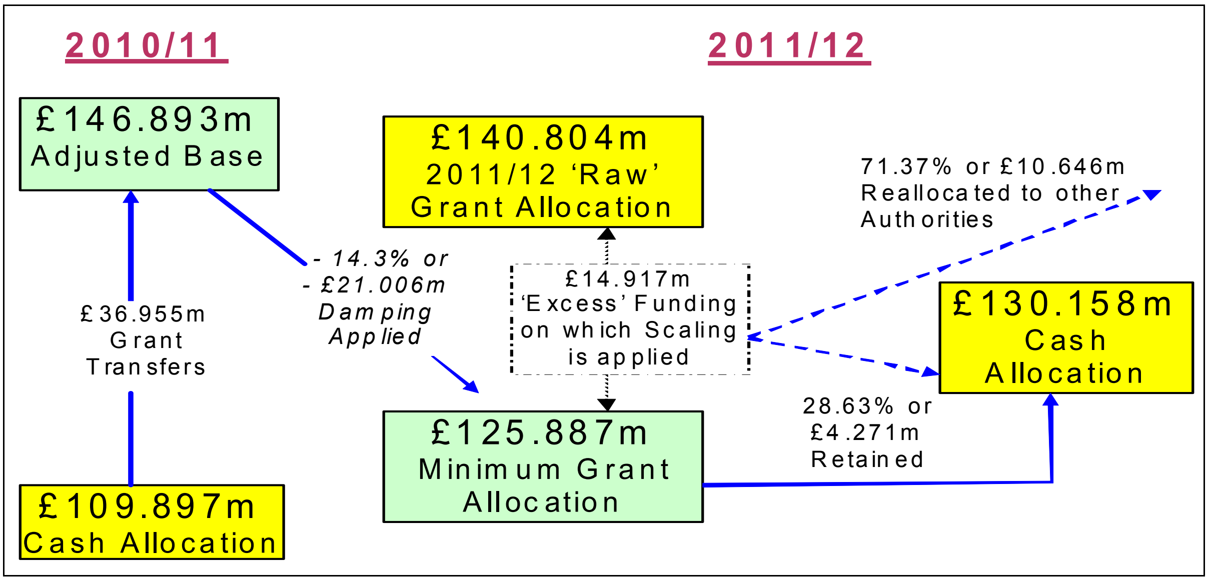
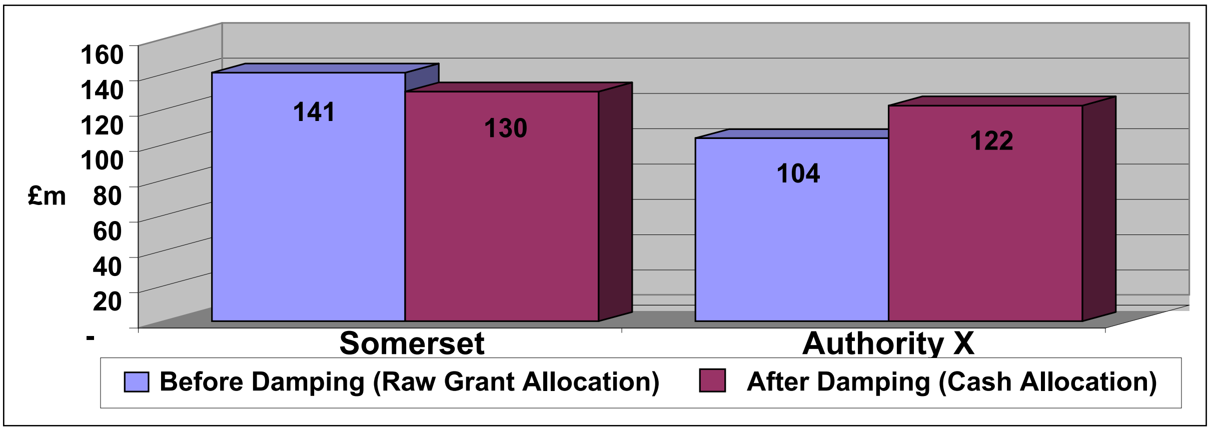


Figure 21 – Illustration showing how Somerset loses while Authority X benefits



Damping is the most significant issue for Somerset County Council as our Raw Grant Allocation is significantly higher that our current cash allocation. Therefore Somerset County Council is a ‘contributory authority’ and has had its ‘raw’ un-damped grant scaled back again in 2011/12 by £10.646m (and a further £12.370m in 2012/13). This is equivalent to adding £54.30 or over 5% to Band D Council Tax.

As Damping smoothes the progress from the cash allocation to the Raw Grant Allocation, it will take many years for Somerset to reach its true funding requirement, if indeed ever (due to changes to distribution methodology). This means that Somerset will continue to receive less money than it needs to adequately fund services, according to Government’s own assessment.

Some degree of ‘damping’ in the system is necessary to ensure that changes to formulae and data do not lead to funding reductions of unmanageable proportions for authorities of reducing need. However, it remains disappointing that the formula contains such a high level of damping as this completely fails to re-distribute funding according to need as indicated by evidence-based formulae.

8.3 Spending Power Index

In addition to damping, the Government has developed a new ‘Spending Power’ index based on some of the funding settlement Authorities receive from Central Government and Council Tax receipts.

As with many elements of local authority funding methodology, the Spending Power Index is hugely judgemental in the elements it includes. Somerset County Council’s ‘Spending Power’ is assessed as:

Figure 22 – Somerset County Council's 'Spending Power'

	2010/11 £m	2011/12 £m
Council Tax income (assumed to be frozen)	200.137	200.137
Formula Grant (after Damping)	146.893	130.158
Early Intervention Grant	19.437	17.795
Learning Disability Grant	0.068	0.070
Migration Impact Fund	0.276	-
Growth Areas, Points and Eco Towns	0.130	-
Aggregates Levy Sustainability Fund	0.330	-
Pitt Review – Surface Water Management	0.035	-
Council Tax Freeze Grant	-	5.030
NHS Funding to support social care and benefit health	-	6.737
Total	**367.306**	**359.927**
Decrease in spending power		**- 7.379**
Percentage decrease		**- 2.01%**

There are a number of issues with the values shown above. These are:

- The 2010/11 Adjusted Formula Grant figure shown contains a number of transfers that do not accurately reflect the funding actually received (as detailed in **Appendix 5**);

- The Early Intervention Grant is formed through merging a number of grants, some of which were previously ring-fenced. It is debatable whether these grants should be included within our 'spend' as if the conditions of the grant are not met, the money must be returned to Government – SCC has no influence over how it's spent;

- The Learning Disability Grant is distributed on the basis of the 2010/11 transfers between local authorities and Primary Care Trust's (PCTs) based on returns made by the council. Somerset County Council already works formally with the local PCT through a 'pooled budget' mechanism. Therefore this funding should not be considered to be solely under SCC's control.;

- The Aggregates Levy Sustainability Fund and Pitt Review – Surface Water Management Grant were distributed via Area Based Grant (ABG). This was made up from approximately 40 individual grants. Whilst some of this grants transferred into Formula Grant or the Early Intervention Grant, there are a significant number of grants within ABG that ceased excluded from the 'Spending Power' Index. This therefore considerably understates the drop in funding between years;

- The NHS Funding to support social care and benefit health is allocated to the PCT not Somerset County Council. Therefore it is debatable whether it should be included within a 'Spending Power' Index;

- Finally, there are significantly levels of income, either through grant or local fees and charges income that are excluded from the index altogether.

The 'Spending Power' Index has been used as an additional method of limiting the reductions from current 2010/11 funding levels through the allocation of a Transition Grant. The maximum reduction across this these allocation was set at -8.8 %, with those authorities losing more than this benefiting from the Transition Grant. The Transition Grant will only be payable in 2011/12 and 2012/13 and is intended, according to CLG, to provide 'a breathing space…for councils to make the changes necessary to live within the reduced provision'. As shown in Figure 22 above, Somerset County Council's 'Spending Power' is assessed to have only dropped by 2.01%, and therefore does not qualify for Transitional Grant.

However, Somerset County Council does not believe that this is a fair representation of the change in its funding from 2010/11. It believes that the funding has reduced as follows:

Figure 23 – Reduction in SCC's Grant funding supporting the 2011/12 Budget

	2010/11 £m	2011/12 £m
Formula Grant (FG)	109.897	130.158
Area Based Grant (ABG) - some of which has subsequently transferred into FG or EIG, the remainder has ceased	38.785	-
Early Intervention Grant (EIG)	-	17.795
Various Other Specific Grants (that have subsequently transferred into FG or EIG) + Concessionary Fares	26.509	-
Total	**175.191**	**147.953**
Reduction from Current levels of Grant Funding		**- 27.238**
Partially Offset by:		
New Council Tax Freeze Grant	-	5.030
Total 'Spending Power'	**175.191**	**152.983**
Decrease in spending power		**- 22.208**
Percentage decrease		**- 12.68%**

When the decrease of £22.208m is compared to our assumption of £22.534m reduction, described in Figure 3, it shows that although we could not have foreseen many of the significant changes to the funding methodology, we were very accurate in our estimations of their impact, and therefore gave a sound base on which Service Managers could work within for the remodelling of service provision.

8.4 The Schools Budget and Dedicated Schools Grant (DSG)

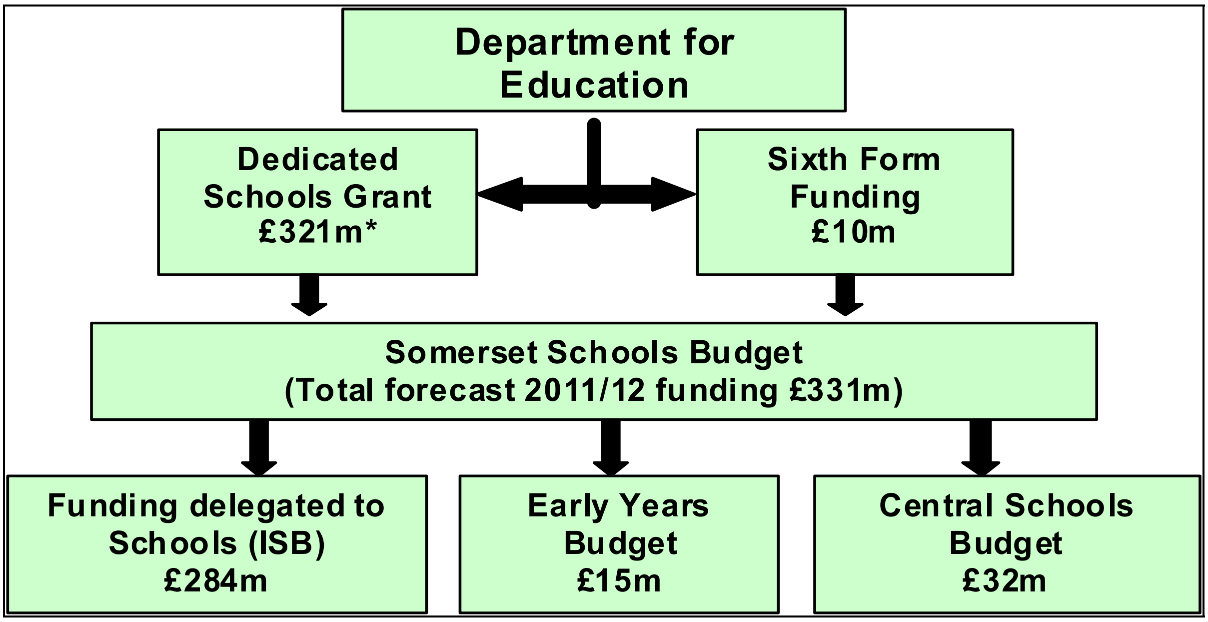
The Schools Budget is funded from specific and ring-fenced grant from the Department for Education (DfE). For this reason, the process of setting the Schools budget is run separately but in parallel with the MTFP.

The largest funding stream is the Dedicated Schools Grant, with the majority being devolved to Individual Schools through a local designed activity-led formula that seeks to provide fair and transparent funding. The remainder is not devolved to schools but is used to support the Early Years provision and services provided via the Central Schools budget.

For Somerset County Council, the 2011/12 forecast Schools Budget totals £331m. Of this, £284m is devolved or delegated to schools through an activity-led funding formula that seeks to provide a fair and transparent method of allocating budgets to schools. The remainder is not devolved to schools but is used to support the Early Years and Central Schools budget.

Figure 24 shows the Structure of the Somerset Schools Budget and Figure 25 shows the key services delivered through these funds:

Figure 24 – The Structure of the Somerset Schools Budget



** Indicative grant using locally collected January 2011 pupil numbers*

Figure 25 – Services delivered through the Somerset Schools Budget

The Individual Schools Budget (ISB) Funds:
o Teachers and teaching assistants; o Librarians, technicians and other support staff; o Support services, supplies, curriculum materials and other resources; o Support for children with additional educational needs, including named pupils with exceptional levels of special educational needs; o Premises costs such as caretaking and cleaning, fuel, water, refuse collection, repairs and maintenance; o Leadership, management and administration costs; o Funding for specific additional costs/provision, such as nursery classes, curriculum protection for small schools, split site costs, etc

Early Years Budget Funds:
○ Free Entitlement for three and four year olds, in school nursery classes and the private, voluntary and independent sector.
The Central Budget Funds:
○ Specialist support for pupils with high levels of Special Educational Need (including out-county); ○ Provision for pupils out of school; ○ Devolved funding for behaviour improvement in schools, and for the development of practical learning opportunities for pupils aged 14-16; ○ Central Early Years activity; ○ Some centrally managed school costs such as insurance, dismissal costs, maternity cover and licences; ○ Budgets combined with LA, grant or other agency funding to support the wider Every Child Matters agenda.

8.4.1 Comprehensive Spending Review Headlines

The Schools Budget nationally (covering 5 to 16 year olds) for 2011/12 to 2014/15 is also part of the CSR 2010, although it is separate from Local Authority funding and is determined through a separate methodology.

The overall headline was that Schools were to be made a priority, and that funding will increase by 0.1% in real terms each year of the Spending Review period. This includes £2.5bn (by 2014/15) of funding for the new pupil premium targeted on the educational development of disadvantaged pupils.

Although schools funding was to remain ring-fenced, funding streams would be simplified, with many specific grants being rolled into the DSG. Also further reductions in bureaucracy would be made for teachers, allowing them to spend more time teaching.

Early Years Provision for disadvantaged children was also to be a priority with an extension from 2012-13 to 15 hours per week of free early education and care to all disadvantaged two year old children.

Sure Start Services were to be protected in cash terms. As previously stated, this forms the basis of the new Early Intervention Grant allocated to the Local Authority.

Reforms to the education system to ensure parents have far greater choice and to allow schools and providers more freedom to innovate was also outlined with support for parents, teachers and community groups to establish Free Schools outside of local authority control to improve standards for all children.

In addition, the CSR promised to honour the commitment to provide capital funding for rebuilding or refurbishing over 600 schools through the Building Schools for the Future programme and investing in new school provision in areas of demographic pressure.

The overall value of these headlines is contained within the summary below:

Figure 26 – Headline Settlement for the Department for Education

	2010/11 Baseline	2011/12	2012/13	2013/14	2014/15	SR 2010 Change
£billion	50.8	51.2	52.1	52.9	53.9	+ 3.1
% Change		+ 0.8%	+ 1.8%	+ 1.5%	+ 1.9%	+ 6.1%

8.4.2 2011/12 Local Government Finance Settlement

As with Local Government funding, the detailed figures at local authority level are published within the Local Government Finance Settlement. However, only provisional figures for 2011/12 have been announced, due to an expected formula review, based upon the DfE's prediction of Pupil Numbers. The Final DSG Allocation is determined by the pupil count in the January preceding the start of each financial year and, on the basis of current estimates, is forecast to be £319.891m for 2011/12. This will not however be confirmed until approximately June.

As with the Local Authority settlement, a number of Grant Transfers have occurred within the Dedicated Schools Grant, equivalent to £615.23 per pupil. Many of these grants will be delegated to schools, however, the total includes funding for Early Years provision and a number of centrally funded activities, such as work to support achievement amongst ethnic minority groups. The final value of the grants locally will depend on the January pupil count but is expected to be in the region of £45m. Following the announcement within the CSR to freeze schools funding on a cash basis, the only increase in the guaranteed per pupil allocations of DSG relates to the grant transfer, taking the funding per pupil from £4,052.34 in 2010/11 to £4,667.57 for 2011/12. The level of DSG is determined by the pupil count in the January preceding the start of each financial year and, on the basis of current estimates, forecast to be £319.891m for 2011/12. This is after adjusting for changes in the detailed pupil count arrangements.

Due to the fact that the final amount of DSG is not confirmed by the DfE until approximately June each year, the Schools Budget must be prepared on the basis of forecasts and assumptions as outlined in the report to the 15 December Cabinet. Proposals have been considered by Somerset Education Policy Team [SEPT] on 20 January before seeking approval of the Schools' Forum on the 27 January in accordance with the School Finance Regulations 2010.

Individual schools' budgets will be determined by the local Activity Led Funding formulae, for which some changes to reflect the grant transfers will be considered by the Schools Forum on 27 January. After formula values are adjusted for unavoidable inflation pressures it is likely that an efficiency factor will need to be applied across all activities. All schools are protected by the operation of the Minimum Funding Guarantee (MFG), which is set at -1.5% per pupil.

Many individual schools will also receive direct grant funding through the Pupil Premium. This allocates £430 per eligible pupil (entitled to free school meals) and £200 for a child recorded on the pupil count as a "Service Child", i.e. with a parent in the Armed Forces. Schools are being supported in their efforts to ensure correct counting for these pupils in order to maximise the grant for Somerset children and young people.

Recommendations in respect of the Schools Budget were scheduled to come to the February Cabinet meeting; however, due to the delay in the announcement and the complexity of the Settlement, it was not possible to include any further detail in the published papers.

8.4.3 Central Expenditure Limit

The amount of funding held as 'central expenditure' is the result of both the pattern of local authority spending and the extent to which a Schools Forum has approved funding to be held for other specific purposes. The central expenditure of a local authority is limited in size by restricting the increase in a local authority's centrally retained expenditure from one year to next to the same percentage as the increase in the Schools Budget.

8.5 Locally Determined Resources:

In addition to Government grants, the Authority has access to locally determined resources. In order to raise additional income, it can charge fees for a wide variety of services, ranging from discretionary services provided through Libraries, to charging a fee for an Adult Education course.

The Council also holds a level of reserves and contingencies sufficient to cover a wide variety of potential outcomes to particular issues. The level of these is analysed to ensure that they are adequate, yet not excessive and therefore not unnecessarily withholding resources from service delivery. The Council's Chief Finance Officer is required to report on "the robustness of the estimates" and the "adequacy of reserves", under Section 25 (1) of the Local Government Act 2003. The report can be found on the Council's website[35]. These reserves and balances can be used to contribute to the overall resources used to finance the revenue budget providing that the "adequacy of reserves" position is not jeopardised.

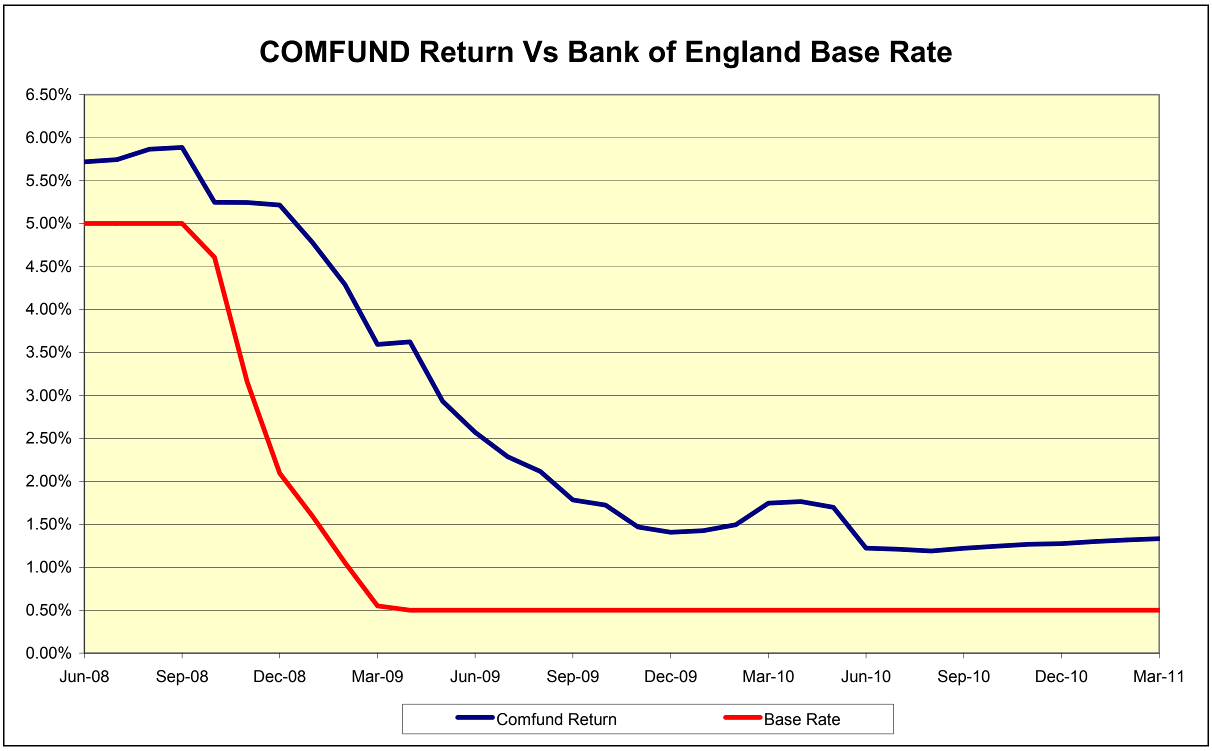
The Council also generates income from the investment of reserves and other balances in the short term. This investment income can contribute to the overall budget. Council funds are invested in the Somerset County Council Co-Mingled Fund (ComFund) during the year, generating income for the Council.

The ComFund was established in 1997 in partnership with Avon and Somerset Police Authority. It is administered by SCC to provide a vehicle for the investment of funds from 'eligible bodies' into the commercial money market to maximise returns within the constraints of minimising risk. 'Eligible bodies' include other Public Bodies and Not-for-profit Organisations.

The term 'Co-Mingled' refers to the fact that each investor shares the risks and returns of the fund. There is no earmarking of an individual investment within any individual loan.

Figure 27 below shows diagrammatically the level of return from the Fund. On average over the course of 2010/11, this been over 1.3% and compares very favourably to the Bank of England Base Rate, which was set at 0.5% throughout the same period.

Figure 27: SCC ComFund Performance 'v' Bank of England Base Rate

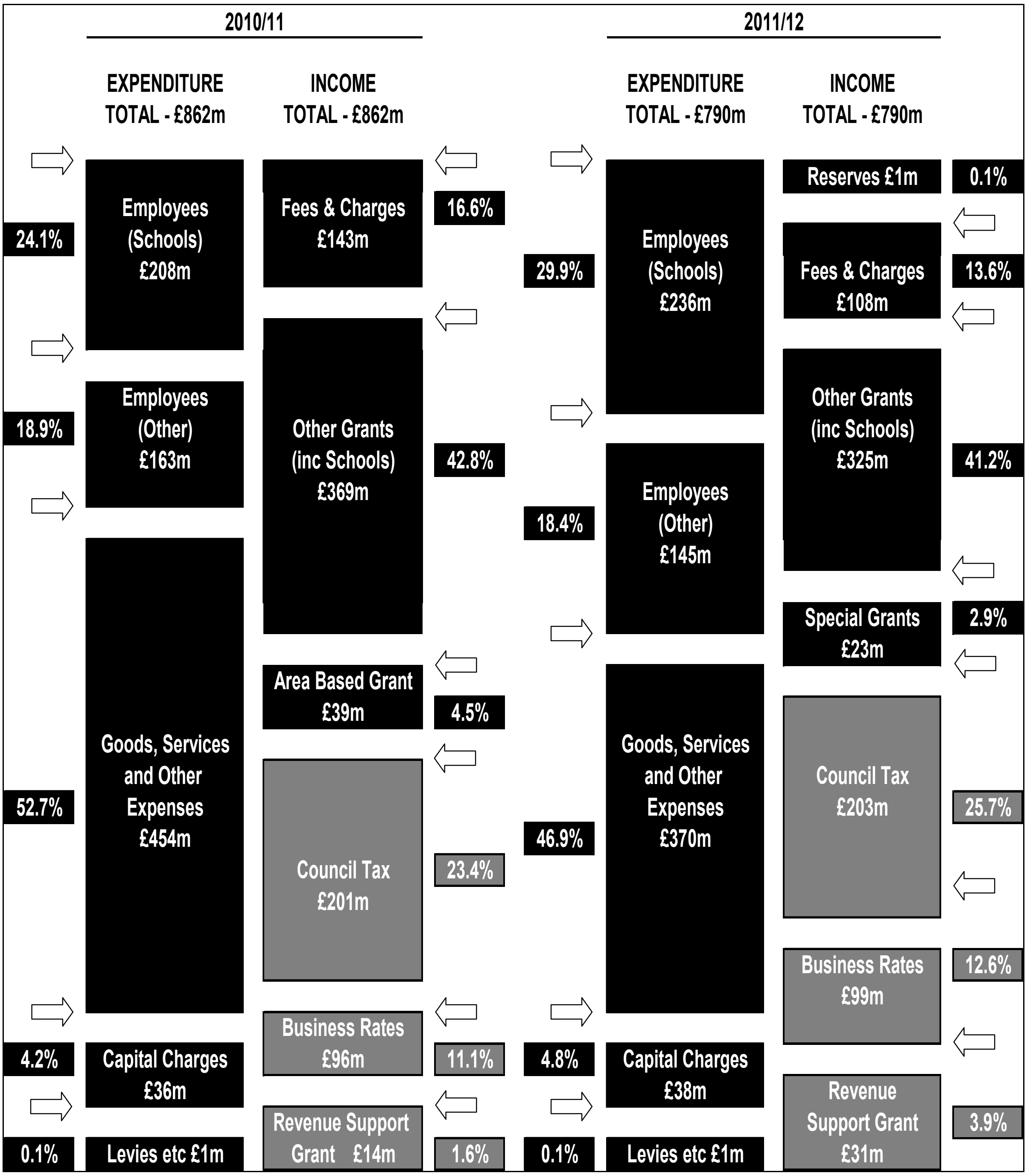


8.6 Budget Requirement and Overall Revenue Resources

The Budget Requirement is a statutory calculation that for the net expenditure that needs to be financed from the Council Tax and Formula Grant after taking account of income from Fees and Charges, and other Grants.

Sections 8.3 and 8.4 above show that the services delivered by the County Council are far greater than those supported purely through the Budget Requirement. This is illustrated within the diagram below (figure 28) which shows the overall level of resources as calculated by the MTFP process, and the overall reduction from 2010/11.

Figure 28: Somerset County Council's planned expenditure



The Grey background colour illustrates the elements that fund the Budget Requirement.

8.7 Capital

Capital investment provides the assets that the Council needs in order to deliver its objectives and services. As at 31 March 2010, the Council has assets valued at £1.114 billion (taken from the latest available audited accounts). Figure 29 summarises by type, the book value of the assets as recorded in the Statement of Accounts.

Figure 29: the Value of Somerset County Council's Assets

Asset Type	Gross Book Value £m
Land and Buildings – operational	774.126
Land and Buildings – non operation	15.651
Vehicles and Equipment	43.034
Roads and Bridges	261.959
Country Parks and Open Spaces	1.060
Assets Under Construction	18.509
TOTAL	**1,114.339**

The replacement cost of these assets is estimated to be substantially higher than these figures, potentially up to £10bn. The estimated Gross Replacement Cost of the county roads alone based on national guidance is approximately £8bn.

There are two key aspects to capital investment:

(i) The replacement or creation of new assets to meet the changing requirements for service delivery as a result of demographic change, national or local policy decisions; or
(ii) The replacement, extension, or improvement of existing assets to secure current service delivery arrangements, the future integrity of the asset and meet more minor changes in service delivery methods that do not need a major renewal or replacement.

Capital Resources are extensively detailed in the Council's Capital Strategy[36]. This document is reviewed periodically; the latest iteration was published in the summer of 2008. The recent changes in the Local Government financing regime, both revenue and capital, mean that the framework for financial planning has changed markedly, hence a full review of this document is underway with a target completion date of July 2011.

8.7.1 Capital Investment Programme (CIP) – Planning Assumptions

Servicing the borrowing used to support the CIP currently costs SCC approximately £36m per annum. This was anticipated to grow by £2.4m in 2011/12 without intervention.

Given this anticipated revenue pressure and the anticipated significant reduction in Government Grant, it was considered essential that the level of borrowing had to be reduced. However, as the early repayment of debt was subject to penalty payments, the mechanisms available for restricting the forecast growth in debt financing costs were a reduction in the CIP, identify alternative funding sources (e.g. Capital Receipts) or a combination of both. In recognition of this, a major review was undertaken of the projects approved within the 2010/11 CIP but not yet started, with a view to radically reducing CIP and the level of borrowing required.

Arising from this review it was proposed to withdraw some £4.153m of current and prior year approvals funded from SCC resources as shown in Appendix 6. CYP Directorate also identified a further £7.599m of grant that could be reallocated from schemes that could be stopped to schemes that were in progress and thereby release SCC resources. Appendix 7 contains the details of the schemes affected.

These proposals assisted in reducing the overall level of anticipated borrowing as reported to Council in February 2010 as well as reducing the MTFP revenue impact of the capital financing charges arising.

In addition to the above, it was deemed necessary to review the level of assets owned by the Authority, particularly the County Farms estate and the number of office buildings, with a view to selling them in order to fund future capital investment. As a result, it was agreed that a number of County Farms would be sold, the details of these and those to be retained can be found in Appendix 8. Furthermore, a proposal has been developed to reduce office accommodation provision and make more effective and efficient use of space through the introduction of increased mobility in the workforce and flexible use of accommodation, including sharing to local District Council's and other partner organisations .

In view of the radical reductions to the proposed CIP, provisional approval was sought ahead of the disclosure of the Local Government Finance Settlement in order to allow the maximum possible time to implement the proposals, and thereby minimise the risks of non-delivery of the expected outcomes. However, the Settlement on 15 December announced a fundamental increase in the level of Capital Grant from that predicted and thus prompted further discussions and the deferral of approval in respect of the proposed CIP.

8.7.2 2011/12 Local Government Finance Settlement

The 2010 Comprehensive Spending Review [CSR] and subsequent Local Government Finance Settlement [LGFS] signalled major changes in the level and nature of capital resources provided to Local Government. The changes are similar in nature to those applied to revenue funding streams, i.e. reduced overall funding and removal of ring-fencing. In addition there was a movement away from Supporting Borrowing allocations (where Government enhanced revenue grant to assist with making loan repayments) in favour of capital grant.

Historically capital investment to meet a basic need was provided by Supported Borrowing. This meant that the government expected local authorities to borrow from the money markets rather than providing a cash sum for investment, but supported authorities by providing an allowance for the annual repayment costs through the Formula Grant. This Government policy was the key driver for the significant increases in external debt (borrowing) experienced in recent years.

The term 'supported borrowing' gives the impression that substantial support is provided from Government. However, this can be misleading. Unfortunately the complexities of the Four-Block Model meant that the actual benefit for Somerset could not readily be established. It is estimated that the Council only received in the region of 10p in every additional £1 that the relative needs element of the formula generated. The supported borrowing allowance incorporated into the formula in

2010/11 was £24.25m, for which the Council could expect roughly £0.200m to be reflected in the Formula Grant. Whereas, the actual impact of borrowing such sums is more in the region of £2m.

However, the Settlement announced that all Capital support would be provided by direct grant rather than through Supported Borrowing. This meant a guaranteed £1 for £1 level of support and will significantly reduce the ongoing impact of capital investment on the Revenue Budget.

In addition all but two of the grants are unring-fenced, allowing the Council complete discretion over how and on which services the grants are invested. The exceptions are the Devolved Formula Capital Grant (DFCG) that is ring-fenced direct to schools and the Capital Maintenance Grant for VA schools. In terms of value of the new grants the impact of the changes is variable, with some major services gaining and some losing. A table summarising the information available is provided in Appendix 9.

Appendix 9 shows that in the Highways and Community service areas the provision is equal to or in excess of previous grant/supported borrowing allocations. The situation in respect of grants to support Education however is rather different. At face value, the numbers suggest that the 2010/11 (£14.567m) and 2011/12 (£14.530m) figures are similar for schools basic need and maintenance. However, the level of DFCG has been cut by nearly 70% from £6.424m in 2010/11 down to a provisional £1.986m (subject to confirmation of pupil numbers). This follows a cut of 30% from the 2009/10 levels of £9.340m. The total cut in this funding since 2009/10 is therefore 80%. The expectation from the DfE is that local authorities will absorb the school shortfall. In addition this funding is also expected to cover the capital maintenance costs of Children’s Centres.

In addition a number of specific grant streams have ceased. These supported the wider need for Children’s Services including two major grants that helped to deliver Early Years and Nursery provision. In light of all these issues the Settlement for Children’s and Educational services is considered unfavourable.

8.7.3 Capital Investment Programme – Revised

The unexpected, but welcome, increase in grant funded capital allocations allowed the authority to revise its Capital Investment Programme, yet continue its drive to reduce the ongoing impact of financing capital investment on the Revenue Budget.

Due to the number of significant issues in the Childrens’ Services and Education sector outlined above, it was thought prudent to fully allocate the DfE resources to the Children and Young Peoples Directorate despite the fact that this is technically unring-fenced. This would maximise the ability to achieve efficiencies within the available resources and wherever possible meet any urgent pressures arising from the significant shift in resources available to schools.

There are some potential risks in the Highways sector. The main Highways contract was WS Atkins is constructed and priced on the basis of a threshold level of throughput in excess of £28m; this includes both Capital and Revenue Budget resources. The impact of the proposed reduction in Revenue spending needed to help deliver a balanced budget in 2011/12 has resulted in the projected net throughput on the contract at the February 2010 capital levels being insufficient to achieve the threshold levels to avoid adverse charges. It was therefore decided that sufficient capital funding should be allocated to ensure that between this and the remaining Revenue Budget, these adverse charges were not invoked.

After applying the above changes, the resulting Capital Investment Programme is therefore similar to that originally planned in February 2010, with a small level of contingency available to meet urgent and immediate unavoidable investment needs. Some significant unmet need remains nevertheless. The table below summarises the totality of the programme, together with the proposed sources of funding:

Figure 30 – Capital Investment Programme – Summary

	2011/12 £m	2012/13 £m
Total Planned Starts	47.423	27.846
Forecast Expenditure Profile	**56.979**	**69.469**
Forecast Financing Profile		
Loans Pool Advances	4.894	3.058
Capital Receipts	6.762	6.833
Capital Fund	0.017	0.003
Grants	40.309	51.423
Contributions	4.997	8.152
Total	**56.979**	**69.469**

The revised Capital Investment Programme will substantially reduce pressure on the Revenue Budget as follows:

- 2011/12 £1.995m (previously pressure £2.430m, now £0.435m);
- 2012/13 £2.700m (previously pressure £1.510m, now £1.190m saving);
- 2013/14 £1.541m saving (not previously included).

In addition, the revised programme also reflects the Core Policy and Objectives proposed in the Capital Strategy update, in that:

- No new additional borrowing is needed;
- By 31/3/2013 balance sheet debt should fall by 20% from 1/4/2009 levels;
- By 31/3/2013 advance provision will have been made for the repayment of debt maturing in 2012/13 and 2014/15;
- A Contingency provision will be available to meet urgent and immediate unavoidable investment needs;
- A capital reserve will be available funded from accelerated County Farm sales in the event that some key risks identified in this report are realised.

8.8 Contingencies, Reserves and Risk Assessment

The Council's financial environment is constantly changing, and the Council continuously updates its priorities in response to levels of demand and emerging needs. The 2011/12 budget contains a contingency to mitigate the impact of unforeseen eventualities. Reserves are required to ensure that the risks that the authority has to face do not destabilise the services provided during the year.

Contingencies and reserves should be set at a level that takes account of the financial risks facing the authority; the greater the level of uncertainty and the higher financial impact of risks, the more likely balances will be needed. Maintaining reserves at a healthy level in order to manage risks is an important aspect of Medium Term Financial Planning.

In 2011/12, the Contingency Provision has been reviewed in light of the considerable uncertainty surrounding the required level of the Redundancy Provision. This is required to meet the cost of specific redundancies that may arise from the proposed savings options included within the 2011/12 MTFP. Whilst this provision has been increased, it is still possible that redundancy costs could exceed the level provided in 2011/12, resulting in a direct impact on reserves. This has been reflected in the forecasts for reserves.

The Council holds two main reserves for budgetary risk management; the General Fund to manage risks in the Revenue Budget, and the Capital Fund to manage risks and provide flexibility within the Capital Investment Programme. Both reserves have been created from Revenue sources of finance, so could be used for any purpose if required.

The appropriate level of General Reserve balance has been calculated by corporate risk management assessments, in order to estimate the size of any potential uninsurable losses and/or unforeseeable events. The risk assessment is based upon an analysis (using an "expected value" methodology) of the potential financial risks and liabilities which could arise but for which no specific budget provision will be made. The Council has determined that General Reserves should be in the range of £7m and £11m.

The authority regularly reviews the reserves position and when reserves are considered to exceed minimum levels, the surplus could be invested in 'one-off' projects to improve service delivery and value for money. An example of such planned use of reserves is the use of the Capital Fund to finance start up costs for the Building Schools for the Future programme. Conversely, when it is likely that greater demand may be placed upon reserves, and they are deemed to be insufficient, it is import to plan their replenishment to adequate levels.

Within the current 3-year MTFP period, it is expected that the number of employees will reduce significantly, with many leaving through redundancy. This can be a costly process and therefore sufficient resources need to be set aside to cover the up-front costs and therefore Contingencies, some Earmarked Reserves and some Capitalisation[37] have been utilised to mitigate the impact upon General Reserves.

Furthermore, given the forecast for redundancies in future years, it is proposed that future planning should incorporate a stretched target for savings in 2012/13 and 2013/14 over and above the service cumulative shortfall shown in the MTFP report to increase the redundancy contingency provision, and to budget for an increase in the level of reserves. As part of this process, the policy of allowing unlimited carry forward of under spends has been suspended. In future specific carry forward requests, where there are existing commitments, will need Cabinet approval. Any other under spend will be considered as corporate resources and returns to General Reserves.

The Statement within the 'Robustness of The Estimates and the Adequacy of Reserves' report can be found on the Council's Website[38]. Figure 31 below details the modelled balances for Somerset County Council over the next 3 years.

Figure 31: Forecast balances for General Reserves and the Capital Fund 2011/12 to 2013/14:

	General Reserves £'000	Capital Fund £'000	Total £'000
Forecast Balance as at 31/03/2011:	**8,102**	**2,588**	**10,690**
Contributions to Revenue Funding	(11,472)	(17)	**(11,489)**
Contributions to Capital Funding	0	(775)	**(775)**
Contribution / Income to Reserves	3,000	1,333	**4,333**
Forecast Balance as at 31/03/2012:	**(370)**	**3,129**	**2,759**
Contributions to Revenue Funding	(11,088)	(87)	**(11,175)**
Contributions to Capital Funding	0	(3)	**(3)**
Contribution / Income to Reserves	3,000	1,033	**4,033**
Forecast Balance as at 31/03/2013:	**(8,458)**	**4,072**	**(4,386)**
Contributions to Revenue Funding	(3,500)	0	**(3,500)**
Contributions to Capital Funding	0	0	**0**
Contribution / Income to Reserves	3,000	1,038	**4,038**
Forecast Balance as at 31/03/2014:	**(8,958)**	**5,110**	**(3, 848)**
Target range:	**7.0m - 11.0m**	**> 5.0m**	**> 12.0m - 16.0m**

9 Budget Pressures

A number of factors create demand for extra resources – new or enhanced services; general inflationary price increases, increasing numbers of people using services and new statutory duties (to name but a few). These factors need to be incorporated into the Medium Term Financial Plan. On a rolling basis, demands are identified looking forward over a three-year planning horizon, and are revised each year as new information emerges.

A full list of the 'pressures' identified and agreed by County Council for 2011/12 can be found on the Council's Website[39]. It should be noted that the pressures are markedly reduced from levels experienced in previous years and include the consequences of the revised Capital Investment Programme and thereby integrate Revenue and Capital planning processes.

9.1 Funding of inflation, pension increases and the Capital Investment Programme

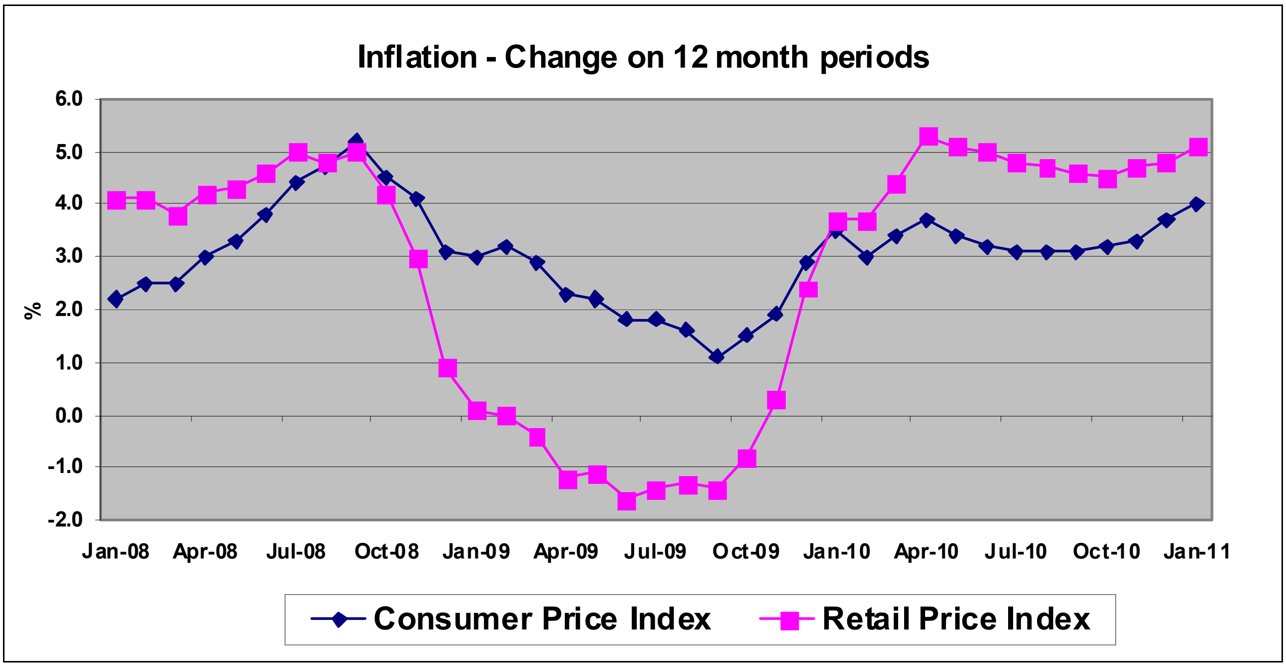
One of the most significant factors creating a demand for extra resources is inflationary pressure – price rises caused by national macro-economic conditions, these are generally outside of the control of service managers.

The Office for National Statistics publishes two main measures of inflation, the Retail Prices Index (RPI) and the Consumer Prices Index (CPI). RPI is the UK's most familiar domestic measure of inflation, while CPI is the main UK measure of inflation for macroeconomic purposes and forms the basis for the Government's inflation target. Both measure the average change from month to month in the prices of goods and services purchased by most households in the United Kingdom. However, there are several key differences between the RPI and the CPI:

- There are differences in the goods and services represented in the basket. For example:
  - The RPI includes Council Tax and mortgage interest payments which are excluded in the CPI;
  - The CPI includes some charges for financial services that are excluded from the RPI;
- The way prices are combined using people's spending patterns are different:
  - The CPI represents a broader population than the RPI – the RPI excludes households with the top 4 per cent of income and excludes some pensioners;
  - The CPI produces weights for items in the basket using a breakdown of household expenditure taken from the National Accounts. The RPI uses the Expenditure and Food Survey (EFS) to calculate weights;
- Different mathematical formulae are used for combining the prices collected for each item in the basket. The formula effect means that the average price for each item in the CPI is always lower than or equal to the average price for the same item within the RPI.

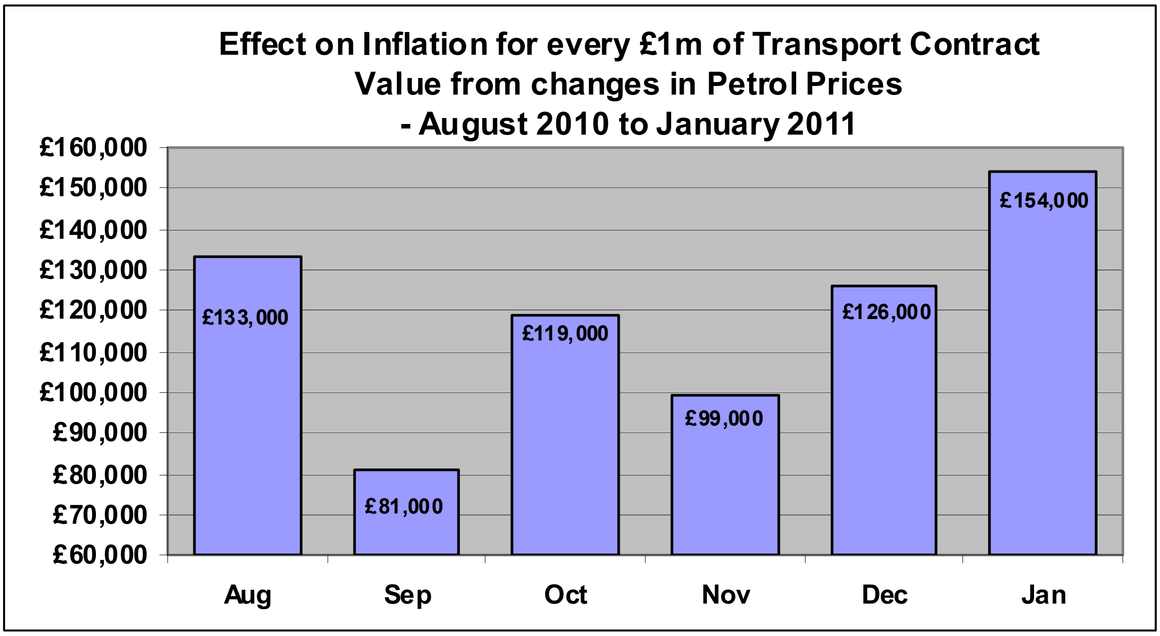
Recent years in particular have been exceptional in terms of inflation. Throughout the last year, inflation was at a relatively high level, especially compared with recent levels. For example, RPI was negative for a large part of 2009/10 following a sharp drop at the end of 2008 and the Consumer Price Index fell below RPI for the first time since 1955. During the first half of the year inflation fell, however, towards the end of 2010, and crucially just before setting the 2011/12 budget, inflation levels began to rise again. This is shown graphically in Figure 32 below:

Figure 32: The movement in Inflation since January 2008.



The financial impact on the budget arising from the above movements can be significant, as illustrated using the change in Petrol prices on the Transport budget. Figure 33 below shows the volatility over the 6 months before the budget was set. This makes it extremely difficult to accurately predict what the costs are likely to be, with under or over estimations impacting upon the level of savings needing to be made from other services.

Figure 33: Impact on changes in Petrol Prices for every £1m of Transport Contract Value



There are a number of different areas of the budget where specific inflation uplifts are applied. These include: Pay, National Insurance, Pension Contributions, Utilities, Contracts with other organisations and General Price inflation.

9.1.1 Pay

Pay inflation takes account of the annual pay awards negotiated at a national level for local government employees, the majority of whom are on Administrative, Professional, Technical and Clerical (APT&C) terms and conditions. The level of the pay award is not usually known at the time of setting the budget, therefore we have to make our best assessment of what level it will be.

Due to the global economic conditions and strong commitment from central government to freeze public sector pay, the June 2010 Emergency Budget announced the government preference for a two-year public sector pay freeze in 2011/12 and 2012/13 for those earning more than £21k per year, but proposed a £250 flat rate pay rise each year for those earning less than that threshold. However, annual pay awards are negotiated between Local Authorities and the Local Government Employers [LGE], not central government.

The LGE ran a series of regional consultations on the following options for 2011/12:

- Option 1 Not to make an offer
- Option 2 To make an offer in line with Government pay policy
- Option 3 To propose a pay cut
- Option 4 To propose a package covering pay and conditions

In view of the extremely challenging financial settlement from the Government and the sizeable budget reductions required to meet the budget shortfall, Somerset County Council supported option 1. Consequently, individual service base budgets were not uplifted, with any costs arising as a result of the LGE's decision being met from Contingencies.

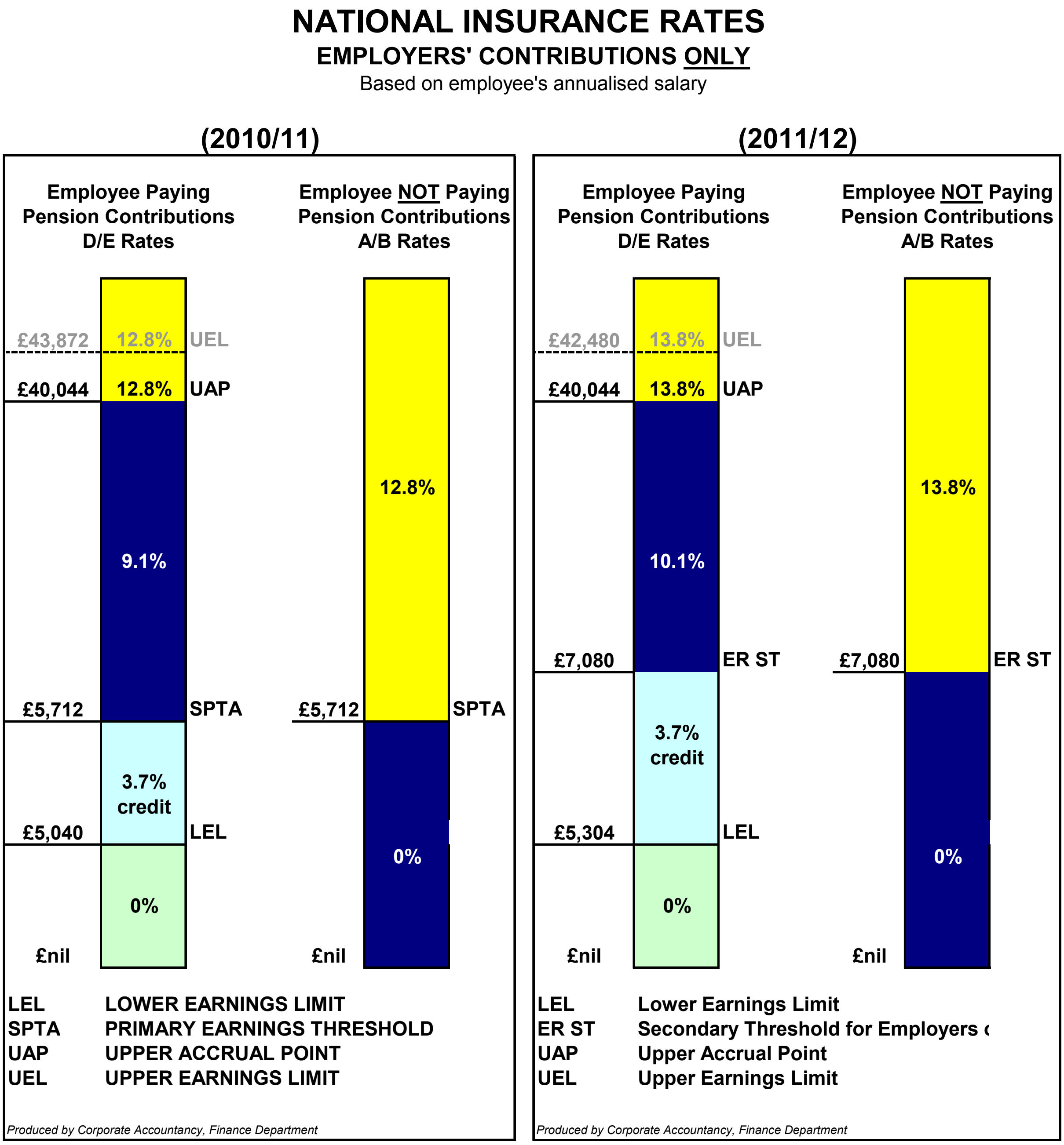
The day after the budget was agreed at County Council, the LGE formally announced the results of the regional consultations and their subsequent decision. The results showed there was virtually no support for option 3 and only a small minority of support for option 2. The vast majority of councils favoured either option 1, option 4 or a combination of both. As a result, the LGE supported option 1 – not to make an offer.

There are however, staff employed on terms and conditions that are have been awarded a pay rise, for example staff who work as education advisers for Local Education Authorities employed on terms and conditions determined by the Soulbury Committee, or the Teachers Pay Scales. This is as a result of multi-year pay award agreed previously, where the latter years of the agreement include 2011/12. Their pay period also operates on a different timescale to the APT&C scheme, running on an Academic Year instead of a Financial Year. Therefore, the budget needed to be uplifted to cover the remaining 5 months (covering April to August 2011).

9.1.2 National Insurance

Once an employee reaches a certain level of salary, they will be liable to pay National Insurance. The employer also has a liability, the level of which is set nationally by the Government. The contribution rates for employers have been reviewed in successive Budget announcements, with rates initially being increased by 1% from 2011/12, and secondly having the thresholds amended to relieve that burden on employers. The charts below illustrate these changes.

Figure 34 – Comparison on Employer's National Insurance Contributions



The impact of these changes have been estimated and overall concluded to be cost neutral. However, the changes impact differently depending on the level of staff pay.

Our analysis suggests that for staff earning under £23k, the employer contributions are reduced, however, for staff earning above £23k, the contributions will be higher.

9.1.3 Pension Contributions

Employer's contributions to staff pension schemes can also create a demand for additional resources that is outside of the control of service managers. Somerset's pension fund assets and liabilities have an actuarial valuation every three years. This provides the recommended level of employer contributions for the three-year period to ensure that there are sufficient resources within the fund to meet expected obligations. The last valuation was undertaken as at 31 March 2007 and indicated that the fund was 95% funded and set an average employer contribution rate of 14.7% of pensionable pay.

The valuation exercise using data from 31 March 2010 will not be complete ahead of finalising the budget. Therefore, an estimate of the likely rate has been factored into the MTFP that reflects:

- The level of funding within the scheme;
- The level of investment returns; and
- Any reform of the benefits or employee contribution rates..

Over the 3-years of this MTFP, we have assumed an increase of 1% per annum (i.e. 16.1% in 2011/12, 17.1% in 2012/13 and 18.1% in 2013/14).

9.1.4 Utilities Inflation

The majority of utility costs are linked to central contracts covering most of our buildings. These contracts are due to be renewed for 2011/12, and therefore we have had to estimate the likely impact on costs.

Using national statistics from the Department of Energy and Climate Change (DECC), we have assessed the likely impact upon unit costs, and as shown in Appendix 10, they indicate a price freeze or possible reduction. In addition, it is necessary to factor in a variance in usage, which is within our own control. We have therefore assumed that the likely reductions in unit price, offset the nominal increase in usage and therefore we have made no adjustments to utilities budgets.

9.1.5 Contractual Inflation

The authority uses a number of external providers for services such as residential care for the elderly, highways maintenance, passenger transport, and waste management). These are managed through significant long-term contracts, each with specific annual inflationary uplifts included that use a variety of indices ranging from Baxter to Annual Survey of Hours and Earnings (ASHE). These are funded through 'contractual' inflationary uplifts. In monetary terms, these contractual obligations have the biggest impact on the budget year-on-year (see Figure 35 below).

A considerable amount on work has been undertaken to renegotiate and/or re-new these contracts in order to reduce their overall future inflationary impact. As an example of this, the Council's Website[40] provides a summary report providing further information on the actions taken to reduce the fees charged within Residential Care and Home Care contracts. Overall, these efforts have proved very successful across many areas, with the costs pressures in 2011/12 being driven down to their lowest levels.

9.1.6 General Price inflation

General Price inflation is measured using the Consumer Price Index (CPI), and covers all remaining areas of the budget not included within the above categories. ,

The rapid changes in CPI have again made it difficult to predict the level of uplift we apply to our budgets. We have therefore included a General Price inflation uplift of 2% in-line with the Bank of England's target rate for CPI. Whilst this is below projections for inflation during 2011/12, some reflection must be taken into account of the tight funding position of the Council, and the ability it has to control and minimise its spending. This therefore allows for some price increases, but also embeds an expectation that services should provide the best value for money and remain within financial limits.

The table below (Figure 35) shows the trend for total extra resources required to meet the various inflationary demands over the period 2007/08 to 2013/14:

Figure 35 – Somerset County Council Annual Inflationary Pressures

Inflation Category	2007/08 £m	2008/09 £m	2009/10 £m	2010/11 £m	2011/12 £m	2012/13 £m	2013/14 £m
Pay Related *	4,242.3	3,392.4	2,200.8	207.4	94.8	52.3	1,234.2
Pensions – employer contributions	1,228.5	388.8	259.3	405.8	930.1	922.1	931.7
Utilities / Energy	not separately identified	- 66.0 ^	119.8	31.0	-	-	-
Contractual	7,891.9	8,757.8	8,377.2	7,004.7	3,633.9	3,547.7	6,501.7
General Price	623.8	189.3	702.0	378.7	629.6	643.0	656.1
TOTAL	**13,986.5**	**12,662.3**	**11,659.1**	**8,027.6**	**5,288.4**	**5,165.1**	**9,323.7**

** Pay Related inflation includes* included annual pay awards for APT&C, Centrally Employed Soulbury Staff or Teachers. It also includes Compensation for Loss of Office – a mainly historical charge to services to reimbursement the pension fund for staff you have retired early in return for enhanced benefits (such as added years service).

^ During 2007, a full review of energy costs was undertaken which found that prices had not increased in line with expectation; where the average level of inflation funded for Gas was 37.8%, whilst Electricity enjoyed an increase of 26.2%. The CPI data suggested that the yearly increase to June 2007 was actually 5.2% for Gas and 6.2% for Electricity. Therefore, the inflationary calculation for 2008/09 included a deflationary element, equivalent to reducing the 2007/08 back to 8% – still above the recorded CPI increases.

9.2 Demographic pressures, new statutory duties and other service issues

Increases in the number of people using a service create demands for additional resources, and these must be planned appropriately to ensure that the needs of vulnerable groups can continue to be catered for in line with corporate priorities. One of the most significant area of demographic pressure in SCC and other upper tier authorities is Social Care for both Adults or Children, where numbers across all client groups are expected to grow over the medium term.

The demand upon the Social Care services in Somerset are projected by identifying individuals who could come into the service in the next year, due to a variety of reasons, and their potential costs. This is then adjusted to reflect the numbers that have actually gained placements compared with the original projection, based upon previous years.

The table below (Figure 36) illustrates the level of these pressures in the relevant budget areas.

Figure 36 – Cost of Social Care Demographic pressures and New Burdens placed upon Somerset County Council

Budget Area	2009/10 £000's	2010/11 £000's	2011/12 £000's	Total £000's
ASC – Older People	510	525	372	**1,407**
ASC – Mental Health	314	323	228	**865**
ASC – Physically Disabled	246	253	179	**678**
Adults with Learning Disabilities	3,470	3,557	2,399	**9,426**
Children's Social Care	250	642	4,345	**5,237**
TOTAL	**4,790**	**5,300**	**7,523**	**17,613**

Any high cost placements in the year that have not planned for would inflate the projections hugely, as would any developments on the 'ordinary residence'[41] issue, with other local authorities no longer paying us for some service users, now situated in Somerset.

Many other factors will create a demand for additional resources at a service level, and extra funding has been factored into the MTFP for a whole range of these. A number of initiatives to improve performance or enhance some aspect of a service have been put forward to decision makers. Reductions in specific government funding streams and extra statutory duties have also created a demand for extra resources in some areas – for example cuts to the Supporting People Programme Grant and additional increases to Landfill Tax.

9.3 Monitoring the impact of resource allocation

If decision makers allocate extra resources to meet a defined goal or outcome, then the investment should have a positive impact on the service concerned – whether it is a new or enhanced service, an improvement in performance, or managing an increased number of service users (in the case of demographic pressures). Over the 2011/12 – 2013/14 period, the impact of decisions will be monitored specifically, as part of the Council's general budget monitoring and performance reporting processes. This will enable decision makers to track the impact of their decisions, and acts as a significant driver to ensure that value for money is obtained through revenue investment decisions.

10 Savings and Service Reductions

Savings are required in the Medium Term Financial Plan to balance the budget. Budget reductions may be achieved through a variety of means, including being more efficient, increasing the level of 'external' funding (such as fees, charges or grant monies) or by reducing the level of a service provided (or even cutting it completely). Wherever possible, directorates are expected to deliver savings through improvements in Value for Money. A full list of the savings identified and agreed by County Council [42] can be found on the Council's Website.

10.1 Aligning Resources with Priorities and the use of Savings Targets

The scale of the savings required in this MTFP round demanded a move away from the normal 'salami-slicing' approach of allocating savings targets to services to a radically different approach. We needed to challenge what we currently do and be innovative in services are delivered in the future. Above all was a need to be realistic about what we can achieve with very limited resources. It was therefore inevitable that service provision would be affected.

We therefore applied the following strategic approach by breaking down services into four distinct categories, where we could:

1) **Do the same or more for the same amount** – core/critical activities to continue but where savings or increased outcomes can be realised;
2) **Divest** – activities that can be stopped altogether, with a full understanding of the consequences and impact on the overall budget;
3) **Do less** – non-core/critical activities which add value and/or are statutory responsibilities.
4) **Do differently** – critical activities where delivery must change.

In addition, each year members receive a summary of key components of around 100 different 'activities' undertaken by the Council (known as Activity Statements). These summaries include information on cost, performance, and where available measures of Value for Money. The data also incorporates information about how the activity contributes to corporate priorities. This information enables members to provide guidance to SMB on where they see their priorities, where there are statutory requirements to be met and where they would find savings (other than efficiency savings) with the minimum adverse impact. Corporate Directors are then able to use this guidance to protect the areas with the highest priority as far as possible and direct consideration of the savings requirements to those areas viewed as a lower priority.

In assessing where savings needed to be made, it was clear that, given the size of the budget gap, the Council's major areas of spend would need to be targeted in order to achieve the necessary reductions in budget. SCC's main areas of spend were as follows:

Figure 37: Somerset County Council – Key areas of Spend

Net Service Budget	Net Revenue Budget £m	% of 2010/11 Net Revenue Budget
Adult Social Care	85,048,400	27.4%
Learning Disabilities	35,791,800	11.5%
Debt Charges (principle and interest)	35,702,600	11.5%
Children's Social Care	29,955,800	9.6%
Partnerships and Community Development	23,193,700	7.5%
Waste Services	22,323,200	7.2%
Highways and Street Management	17,880,500	5.8%
Schools and Achievement	15,171,600	4.9%
SW1 Net Unitary Charge	13,500,100	4.3%
Partnerships	12,251,600	3.9%
	290,819,300	**93.6%**

Saving only a small proportion of the above areas of spend would contribute significantly towards the overall value of savings required, and would protect the other smaller services from the need to make disproportionately large cuts, or indeed the cessation of that service altogether.

Having categorised the services as above, and then prioritised them, this allowed the locally based service accountants to produce estimates of the pressures, including inflation and demographic forecasts, along with any areas where possible savings could be made.

Further Cabinet / Lead Member and SMB ‘Star Chamber’ events were held in the autumn to examine the specific budget proposals put forward by Corporate Directors including the associated detailed risk and impact assessments.

Once all of the budget proposals were collated, the updated budget position was then presented to the Scrutiny Committee to consider in detail, culminating with a summary report to the Cabinet where the options were discussed and formally recommended to County Council for approval.

In order to allow the maximum possible time to implement that proposals, and thereby minimise the risks of non-delivery of the expected outcomes, the opportunity was taken to make early approvals at the November Council meeting. Although this was ahead of the 2011/12 Provisional Local Government Finance Settlement, which detailed the resources allocated to the Authority by the Government, it was clear (based on even the most optimistic assumptions) that those proposals would not be enough to balance the budget and that we would need to find other savings in order to close the budget shortfall. It was therefore approved at the November meeting, that a further extraordinary meeting of the Council would be held in December. The proposals brought to the November Council meeting therefore formed Phase 1 of the process, and those brought to December’s meeting formed Phase 2. Phase 3 would represent all those remaining actions required after the 2011/12 Provisional Local Government Finance Settlement to finalise the budget in February 2011.

10.2 Summary of Savings

The table below provides headline summary values of the savings taken over the 3 phases. There is a subtle yet important split between these savings, with those that take effect in 2011/12 (which may also have impacts in later years) receiving formal approval, and those that start in 2012/13 or indeed 2013/14 being indicative. These will require formal approval in subsequent years.

Figure 38 – Headline Savings Values

	2011/12 £m	2012/13 £m	2013/14 £m	TOTAL £m
Phase 1 – November	(20.352)	(12,230)	(11.066)	(43.648)
Phase 2 – December – Additional	(1.290)	(4.241)	(0.090)	(5.621)
Phase 2 – December – Re-profiled *	(1.725)	0.325	1.400	0
Phase 3 – February	(11.061)	(5.180)	(4.470)	(20.711)
Summary Total	**(34.428)**	**(21.326)**	**(14.226)**	**(69.980)**
Of which:				
Formally Approved	(34.428)	(13.439)	(10.536)	(58.403)
Indicative only	N/a	(7.877)	(3.690)	(11.577)
Summary Total	**(34.428)**	**(21.326)**	**(14.226)**	**(69.980)**

* Re-profiling of Phase 1 savings agreed at November County Council

10.3 Risk and Impact Assessments

All budgetary proposals carry associated risks – whether it is an unacceptable impact on service delivery, equalities, sustainability, crime and disorder, our own staff, or simply a risk of not achieving the saving leading to a service overspend, or a combination of any or all of these. The level of savings required for this year and the next two years of the MTFP is of an unprecedented scale that warrants extra consideration regarding their impact.

As part of the MTFP process each year, officers tasked with compiling savings proposals are asked to consider this wide range of impacts when making their proposals. These individual risks of each proposal are assessed alongside the expected cumulative impact of all proposals, with the expected outcomes used to inform decisions and develop mitigating actions. A number of specific reductions have been mapped to consider their geographical distribution and potential relationship with factors such as deprivation. The outcome of this analysis is not definitive but may become more informative when reductions being considered by other key public sector partners are known.

The assessments have also been published in response to the level of public interest in the budget reductions being considered, and can be found on the Council's Website[43]. Assessments of risks and impacts are continually reviewed and updated as part of the rolling MTFP process.

There must be an appropriate balance struck between on the one hand being aware of the impact and seeking to avoid or mitigate adverse impacts and, on the other hand, the benefit to be gained from making the saving. It is therefore inevitable that a certain, manageable, amount of risk is inherent within the budget. The Senior Management Board (SMB) have therefore updated current policies and practices and risk registers (corporate and operational) to reflect the impact on corporate priorities, the wider delivery of services and the potential impact on partnership organisations. Furthermore, the levels of reserves have been assessed with the knowledge of these potential risks.

11 Key Partnerships And Partnership Budgets

The Council works within a number of partnerships to deliver its aims and priorities; many of which are considered to be at the leading edge. Working in partnerships offers a wide variety of advantages for the residents of Somerset, including benefiting from economies of scale and maximising external funding opportunities as well as reducing bureaucracy and duplication. It also provides a central point of contact for the public, which increases accountability. We wish to continue to harness the benefits of working in this way.

Partnerships can take various forms, some of which are identified below:

- Subsidiary or associated companies and trusts;
- Joint boards;
- Public Private Partnerships, for example, PFI contracts;
- Joint committees;
- Advisory groups;
- Joint consultative committees;
- Partnerships with suppliers;
- Limited companies;
- Accountable body for a partnership;
- Giving grants to partner organisations;
- In-kind support to partner organisations; and
- Joint working.

The financial management of partnerships depends on the mechanism by which funding streams are brought together. Within Somerset, we have a number of different partnerships that treat the funding differently, examples of which are:

11.1 Pooling Budgets

The agencies contribute to a discrete fund by this mechanism. Within this fund or "pool," contributions lose their original identity and are committed and accounted for against the joint aims of the partners. For accountability and legal reasons, a pooled budget is hosted by one of the partner agencies, in accordance with its standards of financial governance and the requirements of the agencies for monitoring and review. Examples of these types of partnerships are:

- Learning Disability Partnership Board;
- Somerset Waste Board; and
- Drugs and Alcohol Advisory Team (DAAT)

11.2 Aligning Budgets

This involves the grouping together of separate budgets to improve the joint planning and deployment of resources by local partners. Decisions are taken collectively about the aligned budget but the individual accounts are still technically held within separate agency budgets to allow them to identify and account for their own contribution. This approach does not require new powers. An examples of this types of partnership is our Community Safety work with the Police..

11.3 Joint Commissioning

The Joint Commissioning structure is made up of a number of groups, carrying out the detailed work and recommending changes and developments relevant to the needs of the population of Somerset. An example of this type of partnerships working is our involvement within the Financial Assessment and Benefits Board.

11.4 Devolving Budgets

This is where the funding and responsibility is passed from one entity to another. The largest example of this is the Individual Schools Budgets.

11.5 Delegating Budgets

This is where the original organisation authorises another entity to act as its representative. The Transformation Programme Partnership Group and the lead Scrutiny Members Partnership Review Group are instrumental in this area and have reviewed our most significant partnerships, those that present the most significant risk to the Council. To do this we identified those that are:

- Financially large in terms of impact and/or commitment;
- Strategically large in terms of impact;
- And/or statutory.

12 Financial Strategy – Principles For 2012/13 – 2014/15

We have included this brief summary of financial planning principles in order to ensure that this document is as up to date as possible. These principles and assumptions will guide financial planning as the MTFP process 'rolls forward' to a new three-year planning horizon:

- We will assume a Council Tax freeze across these years in line with the Administration's aspirations. In addition and in response to the current economic conditions, we will assume no growth in the Taxbase.

- The Formula Grant allocations covering the period 2013/14 and 2014/15 are not yet known. A prudent estimate of a 5% reduction has been included for these years. This will be refined as more information becomes available following the review of the local government finance system;

- Pay, Price, Contractual inflation and Grant Transfers will be subject to scrutiny – a proportionate response to the growing significance of these pressures in the budget setting process. The principle will be to treat contractual inflation as a 'controllable' pressure, in order to focus attention on good procurement practice and incentivise work on obtaining contract efficiencies. In order to develop a more targeted approach to efficiency savings, the Finance Strategy Group will recommend that non-contractual price inflation be fully funded in future years.

- A de-minimis limit for pressure bids of 0.1% of the base budget will be applied as a way of focusing decisions on strategic priorities. For 2012/13 this equates to:

    - £23,700 for the Resources Directorate
    - £62,400 for the Environment Directorate
    - £145,700 for the Community Directorate
    - £79,300 for the Children & Young People's Directorate

- Services will be expected to find cashable efficiency savings wherever possible, through our relentless drive for efficiency.

APPENDIX 1: Medium Term Financial Plan Summary, 2011/12 – 2013/14

	Restated*	*Indicative*		*Estimated*
	2010/11	2011/12	2012/13	2013/14
	£m	£m	£m	£m
RESOURCES:				
Government Formula Grant (RSG & NNDR)	(146.893)	(130.158)	(120.471)	(114.448)
Council Tax (inc. Surplus)	(200.915)	(203.252)	(201.423)	(201.423)
Total Resources:	**347.808**	**(333.410)**	**(321.894)**	**(315.871)**
Base Budget b/fwd	341.604	353.243	338.466	325.894
Inflation	8.027	5.288	5.165	9.324
Standstill Budget Requirement:	**349.631**	**358.531**	**343.631**	**335.218**
Capital Financing	2.436	0.435	(1.200)	(1.541)
Investment in Services: - (Agreed in this and previous budget cycles)	15.116	9.645	5.520	6.989
Total Pressures:	**17.552**	**10.080**	**4.320**	**5.448**
All Savings and Efficiencies: - (Agreed in this and previous budget cycles)	(18.764)	(34.428)	(21.326)	(14.226)
Indicative Savings Target (Future Years):	0.000	0.000	(4.731)	(10.569)
Total Savings:	**(18.764)**	**(34.428)**	**(26.057)**	**(24.795)**
In-Year Contribution To / (From) Reserves and Capital Fund:	**(0.611)**	**(0.773)**	**0.000**	**0.000**
BUDGET REQUIREMENT:	**347.808**	**333.410**	**321.894**	**315.871**
Budget (Surplus) / Deficit	**0.000**	**0.000**	**0.000**	**0.000**
Assumed Annual Change (for planning purposes):				
Annual Band D Council Tax Charge:	**0.00%**	**0.00%**	**0.00%**	**0.00%**
Annual Government Formula Grant:	**5.54%**	**-11.39%**	**-6.59%**	**-5.00%**

All negative figures (in brackets) represent income or budget saving, positive figures represent 'budget pressures' (additional funding) or the base budget position.

* The 2010/11 Original Budget included a number of specific grants which we are required to show Net (reduce expenditure). The strict requirements placed upon these grants have now been relaxed, and within the 2011/12 Budget we must now show them Gross. Therefore the 2010 Budget has been "Restated" to allow meaningful comparisons between financial years in line with accounting convention. The 2010/11 Original Budget of £310.813m has therefore been grossed up by £36.995m, the value of the grant transfers. Without "restating", the position would have been misleading.

Additional supporting detail is available from the Financial Planning section on request – contact Paul Deal on 01283 35 6970.

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APPENDIX 2: 2010/11 Medium Term Financial Plan Decision Making Process

April 20th and May 14th
Senior Management Board / Service Directors / Group Managers –
Budgeting for the Future – Introduction and Background information

⇓

May 17th
Senior Management Board –
Outline MTFP Strategic Planning Core Priorities, Process, and Timetable

⇓

June 15th and July 1st
Senior Management Board / Cabinet –
Introduction to the MTFP – Outline Strategic Planning Core Priorities, Process, and Timetable

⇓

Late July through to Early September
Lead Cabinet Members and Lead Officers –
Capital and Revenue Directorate Star Chamber Reviews

August 9th and 24th
Senior Management Board –
Intermediate updates on current position and timetable

⇓

September 30th
Closed Cabinet –
Senior Management Board introduce Cabinet members to the Proposed Revenue Budget Options and the Capital Investment Programme Options, detailing their impact on service delivery

⇓

October 11th
Senior Management Board / Finance Strategy Group –
Refine all Revenue Pressures, Savings and Inflation, as well as all Capital Investment Bids

⇓

October 15th and 18th
Cabinet / Senior Management Board / Service Directors –
Update on current position and timetable

⇓

October 26th
Scrutiny Committee –
Review current Revenue MTFP position and proposed Revenue Budget Options, compile comments for the Cabinet

⇓

November 1st
Cabinet –
Consider and accept in principle Proposed Revenue Budget Options, having received the recommendations from Scrutiny Committee

November 10th County Council – Agree Revenue Budget Proposals
⇓
November 16th Senior Management Board / Service Directors – Update on current position and timetable
⇓
November 19th and 26th Cabinet / Senior Management Board / Finance Strategy Group – Further review of current Revenue and Capital MTFP position and new proposed Budget Options and profile changes to previous proposals
⇓
December 14th Scrutiny Committee – Review current Revenue MTFP position and New proposed Revenue Budget Options and profile changes to previous proposals, compile comments for the Cabinet
⇓
December 15th Cabinet – Consider and accept in principle Proposed Revenue Budget Options and profile changes to previous proposals, having received the recommendations from Scrutiny Committee
⇓
December 22nd County Council – Agree New Revenue Budget Proposals and profile changes to previous proposals ***(MEETING CANCELLED DUE TO ADVERSE WEATHER CONDITIONS)***
⇓
January 5th 2011 Cabinet / Senior Management Board – Review Local Government Finance Settlement and its impact upon both the Revenue and Capital MTFP position and review options for reducing the budget shortfall
⇓
February 1st Scrutiny Committee – Review current Revenue MTFP position and New proposed Revenue and Capital Budget Options, compile comments for the Cabinet
⇓
February 2nd 2011 Cabinet – Agree provisional Revenue MTFP, Capital Investment Programme and Council Tax levels
⇓
February 16th 2011 County Council – Agree Revenue MTFP, Capital Investment Programme and Council Tax levels

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APPENDIX 3: 2010 Emergency Budget Cuts for Somerset County Council

£3.077m Cut to Area Based Grant

Govt Dept	Specified Grant Name	SCC Recipient Dept	SCC's Cut	Notes
DfE	Broad reduction across all grants	CYPD	£2.341m	The DfE are not proposing to reduce the allocations which local authorities receive in relation to particular grants within ABG, but will reduce the overall amount each authority receives from the Department through ABG. For each local authority this will mean a reduction of 24% in the total allocation for the year.
CLG	Supporting People Administration Grant	Community	£0.365m	Ceasing this grant altogether.
DfT	Road Safety Grant	Environment	£0.319m	This represents a 27% reduction.
HO	N/a	Community / CYPD	£0.052m	The reduction of Home Office Grants has been applied on a pro-rata basis – with each grant being cut by 7.77%.
TOTAL			**£3.077m**	

£3.014m Cut to Specific Capital Grant

Govt Dept	Specified Grant Name	SCC Recipient Dept	SCC's Cut	Notes
CLG	Local Authority Business Growth Incentive (LABGI)	Environment – through the Economic Development Team	£0.117m	This funding has not yet been received, although plans will be in place for its use. These will need to be amended to reflect the 100% loss in grant.
CLG	LAA Performance Reward Grant	Resources – though the Somerset Strategic Partnership	£2.340m [1]	This funding represents a 100% reduction in the outstanding amount claimable on performance against LAA targets (i.e. the second tranche). This funding in split 50:50 between Capital and Revenue. Again, this funding has not yet been received, although plans were in place for its use, including the University of Somerset.

[1] This is the minimum reduction as addition reward is expected from performance on targets where results are not yet finalised

Govt Dept	Specified Grant Name	SCC Recipient Dept	SCC's Cut	Notes
CLG	Housing & Planning Delivery Grant	Environment	£0.005m	Ceasing this grant altogether.
DfE	Play Builders	CYPD	£0.013m	**An Estimate** received from CYP following letter of 16 June from Michael Gove[2]
DfE	Buddying Pilots	CYPD	£0.079m	Local authorities running Buddying pilots will receive no further funding this year, local authorities are expected to mainstream good practice
DfE	0-7 Partnership Pilots	CYPD	£0.231m	Local authorities running 0-7 Partnership pilots will receive no further funding this year, local authorities are expected to mainstream good practice
DfE	The Local Delivery Support Grant for 14-19	CYPD	£0.135m	**An Estimate** based on advice that this will be cut by 30%
DfE	Foundation Learning	CYPD	£0.152m	**An Estimate** based on pro rata adjustment to totals
DfE	Young Apprenticeships	CYPD	£0.092m[3]	**An Estimate** based on a reduction in the number of places from 119 to 93
DfE	Children's Workforce Development	CYPD	£0.070m	**An Estimate** received from CYP following letter of 16 June from Michael Gove
DfE	Training & Development Agency Grants	CYPD	£0.290m	**An Estimate** received from CYP following letter of 16 June from Michael Gove
TOTAL			**£3.524m**	

£3.524m Specific Revenue Grant

Govt Dept	Specified Grant Name	SCC Recipient Dept	SCC's Cut	Notes
DfT	Integrated Transport Block	Environment	£1.155m	75% of £1.540m Direct Grant Element - i.e. Remaining Payments not yet received
DfT	Primary Route Network – Network Funding	Environment	£0.020m	This funding represents 20% of the support for the Marchant's Hill and Mendip Hill schemes

[2] The letter can be access through the following web link: http://www.education.gov.uk/news/news/~/media/Files/lacuna/news/LetterDCS16June2010v2.ashx
[3] This is an estimate based upon national information

Govt Dept	Specified Grant Name	SCC Recipient Dept	SCC's Cut	Notes
DfT	Road Safety Capital Grant	Environment	£0.267m	Ceasing this grant altogether.
DfE	Extended Schools Capital Grant	CYPD	£0.228m	**An Exemplification** based on the application of the national total
DfE	Harnessing Technology Capital Grant	CYPD	£1.228m	**The cut to this grant is two-fold:** **1) An Estimate** based on a cut of 25% (£0.614m) **2) An Estimate** based on 25% (£0.614m) being transferred to pump prime capital alterations for new 'Free Schools'.
DfE	Youth Capital Fund	CYPD	£0.116m	**An Exemplification** based on 50% of £0.231m Direct Grant Element - i.e. Remaining Payments not yet received
TOTAL			**£3.014m**	

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APPENDIX 4: Somerset County Council's Summary of Tailored Grants

Grant	Distribution Method	SCC Allocation (£m)		
		2010/11*	2011/12	2012/13
Local Transport Services *Note, the Road Safety Grant was cut by 27% within the June 2010 Emergency Budget*	Merged, and distributed according to the relative proportion that authorities received in 2010/11 of the: • Road Safety Grant; • Rural Bus Subsidy; and • Detrunking Grant	£1.200 £1.893 0	£1.300	£1.185
Supporting People Programme Grant *Note, the Supporting People Admin Grant was cut within the June 2010 Emergency Budget*	There are 8 sub-blocks, each with their own needs formula. These are: • Older people; • Homeless families; • Young people; • Single vulnerable people (single homeless and mentally ill); • Socially excluded; • People with disabilities; and • Generic services.	£16.478	£20.341	£20.278
Preserved Rights	Two formulae – one for 18-64 years and another for 65+	£1.531	£0.878	£0.849
LSC Staff Transfer Allocations *Note, this Grant was cut by 24% within the June 2010 Emergency Budget*	Allocation made according to the relative proportion each authority received of the LSC Staff Transfer Grant and the LSC Staff Transfer Top-up Grant in 2010/11.	£0.429	£0.389	£0.354
HIV/AIDS Support Allocations	Two formulae – one for HIV Caseload and another for Women and Children Living with HIV.	£0.058	£0.064	£0.069
Housing Strategy for Older People	Formula based on the projected population aged 60 years and over.	£0.220	£0.185	£0.160
Animal Health & Welfare	Allocation made according to the relative proportion each authority received of the Animal Health and Welfare Grant in 2010/11.	£0.224	£0.163	£0.136
TOTAL		**£22.033**	**£23.321**	**£23.032**

Figure shown for 2010/11 is the original allocation, before any cuts applied in the June 2010 Emergency Budget

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APPENDIX 5: Somerset County Council's Adjusted Formula Grant

Grant	Transfer £	Previous Funding Stream
2010/11 Formula Grant	**109,897,342**	
Tailored Grants:		
Local Transport Services (including Road Safety Grant, Rural Bus Subsidy & Detrunking)	1,843,321	Area Based Grant
Supporting People - Programme Grant	16,477,891	Area Based Grant
Preserved Rights	1,530,771	Area Based Grant
LSC Staff Transfer	428,548	Area Based Grant
AIDS Support	58,000	Specific Ring-Fenced Grant
Housing Strategy for Older People	220,000	Specific Ring-Fenced Grant
Animal Health & Welfare Enforcement	224,469	Specific Ring-Fenced Grant
Other Grant Transfers:		
Adult Social Care Workforce	1,447,252	Area Based Grant
Care Matters White Paper	349,053	Area Based Grant
Carers	2,513,421	Area Based Grant
Child & Adolescent Mental Health	712,759	Area Based Grant
Child Death Review Processes	53,471	Area Based Grant
Economic Assessment Duty	65,000	Area Based Grant
Learning & Disability Development Fund	379,570	Area Based Grant
LINKS – Local Involvement Networks	228,171	Area Based Grant
Mental Capacity Act & Independent Mental Capacity	289,344	Area Based Grant
Mental Health	1,337,586	Area Based Grant
Personal Social Services Grant Transfer (including Social Care Reform, Learning Disability Campus Closure Programme, & Stroke Strategy)	3,150,539	Specific Ring-Fenced Grants
Transfer between Tiers:		
Concessionary Fares	7,194,491	District Councils
Other Adjustments:		
Local Authority Central Spend Equivalent Grant (LACSEG)	-1,508,395	Notional top-slice for Academies
Adjusted 2010/11 Formula Grant	**146,892,604**	

Within these transfers, there are several that differ from the allocations actually received during 2010/11. Explanations of the reasons for these are:

Local Transport Services

During 2010/11 SCC received £2.773m (having been cut from £3.092m by the June 2010 Emergency Budget) across the 3 grants (Road Safety Grant, Rural Bus Subsidy & Detrunking). In order to provide a like-for-like comparison with 2011/12, where the Road Safety Grant has ceased, the Government have transferred to each authority their respective proportion of the 2010/11 national total multiplied by the reduced national total, i.e. the total of only Rural Bus Subsidy & Detrunking.

The calculation is as follows:

£2.773m divided by £168.512m multiplied by £112bn = £1.843m

However, in terms of funding the budget, it would not be appropriate to pass all of the reduction in funding onto the specific service, as this would have a significant detrimental affect. Therefore, in line with SCC policy on Grant Transfers, funding adjustments will be ‘passported’ to services at the level of the previous years (original) allocation. However, the service is expected to provide some savings, in line with their vision for future levels of service provision, as per any other service.

Personal Social Services (PSS)
Conversely to the above, SCC’s transfer is higher than the level of grant received during 2010/11. This is again due to allocating a proportionate share of the national total, although this time using the formulae within the Four-Block Model to calculate each authority’s proportionate share. It is assumed that the Formula Grant calculations favour Somerset County Council more than the previous distribution formulae.

Once again, the budget was adjusted for the level of 2010/11 (original) Grant Allocation.

Concessionary Fares
This reflects the transfer of responsibility from Lower Tier Authorities (District Councils) to Upper Tier Authorities (County or Unitary Councils) for the operation of the Concessionary Fares scheme which allows free off-peak bus travel in England for the disabled and people aged 60 and over.

Despite calls from across local government to fund the Concessionary Fares Scheme through Special Grant in the short term, due to the existing Four-Block Model’s inability to accurately transfer funding between tiers of Government without affecting the allocations of authorities that have no responsibility in this area (such as Police or Fire Authorities), the Government have redirected funding through Formula Grant.

The transfer of funding has been undertaken in two ways to reflect that funding was originally allocated via two different funding streams; through Formula Grant to fund the statutory scheme and through Special Grant to allow local discretion to enhance the scheme, for example by extending the timeframe to include peak times. However, in many cases, that grant funding was insufficient and therefore needed to be ‘topped-up’ via Council Tax income.

The Formula Grant element of the transfer uses the 2009/10 Concessionary Travel Net Current Expenditure for each authority, uplifted to reflect 2010/11 market prices by applying inflation at 2.9%, less the 2010/11 allocations of the Concessionary Travel Special Grant for each authority. The table below shows what this means for the geographical area of Somerset:

Summary of the Local adjustment for Concessionary Travel

District Authority	2009/10 Concessionary Fares NCE *	Uplift to 2010 prices^	2009/10 NCE* at 2010 Prices	Less: 2010/11 Concessionary Travel Special Grant Allocations	Transfer Value to SCC
	£m	£m	£m	£m	£m
Mendip	1.375	0.040	1.415	- 0.333	1.082
Sedgemoor	1.402	0.041	1.443	- 0.387	1.056
South Somerset	2.288	0.066	2.354	- 0.408	1.950
Taunton Deane	2.136	0.062	2.198	- 0.404	1.790
West Somerset	0.482	0.014	0.496	- 0.122	0.374
TOTAL	**7.683**	**0.223**	**7.906**	**- 1.652**	**6.252**

** Net Current Expenditure – and the overall amount removed from District Councils*
^ Using GDP Deflator of 2.9%

The second element of the transfer effectively adds back the Concessionary Travel Special Grant. However, the calculation uses a completely different methodology as it uses the formulae within the Four-Block Model. This therefore results in a completely different, and for Somerset, a much lower allocation of £0.943m.

This scheme is demand led and local authorities have minimal control of costs, therefore it is vital that the funding received from government matches the cost of the scheme locally. The result of this transfer does not achieve this as the full cost of operating the scheme is estimated as £7.906m (as shown above), yet Somerset County Council has only been allocated £7.194m (£6.252m + £0.943m). This automatically builds in a budget shortfall which must either be met through additional Council Tax income, or by removing discretionary elements of the local scheme, thereby reducing the quality of the service provision.

As this is a new responsibility for SCC, there is no previous year grant allocation at which the budget could be adjusted. Therefore it was adjusted on the basis of transfer into Formula Grant. The service is expected to manage the discretionary elements of the service to ensure that it can manage within this amount.

Removal of notional element for Academies
This is an arbitrary top-slice paid to academies in recognition of the fact that, as publicly-funded independent schools, they no longer receive a number of services from Local Authorities, and must make appropriate provision for themselves. The size of the top-slice is based upon the Government's expectation of the number of schools that are likely to convert to Academies nationally, with individual authorities proportions calculated according to the notional formulae, rather than the actual or even projected number of academies in the authority area.

At the time of drafting this document Somerset had 3 Academies, and therefore the level of central service provision that Somerset County Council provides has not materially altered, and therefore there are only minor savings possible, if indeed any. Therefore this top-slice of £1.508m is completely out of proportion to the changes locally. Therefore it was not appropriate to pass any of this top-slice on to the specific service. Instead the reduction was managed corporately thereby increasing the overall budget shortfall. This therefore required all services to find a small additional saving, thereby diluting the cut into manageable levels.

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APPENDIX 6: Approvals to be released from the Prior Year and Current CIP

	Borrowing £	Capital Fund £	Capital Receipts £	Grant £	Total £	Ward - Councillor	Comment
SUMMARY							
Community Directorate	320,000	0	0	75,000	395,000		
Environment Directorate	652,000	0	0	10,000	662,000		
CYP Directorate	2,123,803	41,337	0	0	2,165,140		
Resources Directorate	831,699	0	99,359	0	931,058		
TOTAL	**3,927,502**	**41,337**	**99,359**	**85,000**	**4,153,198**		
Community Directorate							
Replacement of Temporary Buildings 2007/08 and 2010/11	70,000				70,000	Bridgwater South – Stephen Gill	Reduction in scope of project pending service review
Beckery	250,000				250,000	Street – Terry Napper	Project structure revised with lower estimated costs allowing approval to be released
Special Needs Housing				75,000	75,000		Uncommissioned element of programme
Directorate Sub-Total	**320,000**	**0**	**0**	**75,000**	**395,000**		
Environment Directorate							
Highways Maintenance	375,000				375,000	Actual schemes to be determined	
Bridge Structures	100,000				100,000	Actual schemes to be determined	
Minor Traffic Schemes	40,000				40,000	Actual schemes to be determined	
Winter Gritter Fleet	2,000				2,000	N/A	Balance of resources not required
Corporate Fleet Management	100,000				100,000		
Gypsy Sites	20,000				20,000		
Environmental Resources	10,000			10,000	20,000		
Trading Standards	5,000				5,000	N/A – central resource	
Directorate Sub-Total	**652,000**	**0**	**0**	**10,000**	**662,000**		

	Borrowing £	Capital Fund £	Capital Receipts £	Grant £	Total £	Ward - Councillor	Comment
Children and Young Peoples Directorate							
Basic Need	4,463				4,463		Unallocated Funds
King Alfred Specialist College	20,316				20,316	Highbridge and Burnham-on-Sea – John Woodman	Balance of resources not required
Street Brookside (Funding Swap to use Grant/release borrowing)	436,877				436,877	Street – Terry Napper	Project continuing using grant funding instead of borrowing
Early Years Sufficency (Stockmore)	300,000				300,000	North Petherton – Derek Alder	
Modernisation – Street Hindhayes	285,000				285,000	Street – Terry Napper	
Modernisation – Huish Episcopi Primary	250,000				250,000	Langport – Derek Yeomans	Support for a school project that the school has decided not to pursue
West Monkton TCRP	15,798				15,798	Staplegrove – Elaine Waymouth	Balance of resources not required
Basic Need – Cotford St Luke	3,200				3,200	Lydeard – John Wilkins	Balance of resources not required
Modernisation Programme	142,221				142,221	Unallocated	Contingency held for unforeseen costs in modernisation programme
Basic Need Additional Classrooms	1,500				1,500	Various	Balance of resources not required
Curry Mallet TCRP	8,937				8,937	Curry Rivel – Derek Nelson	Balance of resources not required
Basic Need Wincanton Land Purchase	40,000				40,000	Wincanton and Bruton – Anna Groskop	Balance of resources not required
AMP Project Development Fees	22,682				22,682		Unallocated Funds
St Dunstans Performing Arts Project	5,358				5,358	Glastonbury – Alan Gloak	Balance of resources not required
Courtfields New Sports Hall	20,000				20,000	Wellington – Andrew Govier	Balance of resources not required
TCRP Wookey Primary	20,000				20,000	Mendip West – Ron Forrest	Balance of resources not required
Maiden Beech TCRP	6,200				6,200	Crewkerne – John Dyke	Balance of resources not required
AMP Project Development Fees	3,600				3,600		Unallocated Funds
Modernisation Grant - Non VA	3,790				3,790		Unallocated Funds
Wells Central / St Cuthberts Footpath	40,000				40,000	Wells – John Osman	

	Borrowing £	Capital Fund £	Capital Receipts £	Grant £	Total £	Ward - Councillor	Comment
RM Bid 361		1,637			1,637		Unallocated Funds
Health and Safety		18,200			18,200		Unallocated Funds
Traffic Hazards School Sites		1,200			1,200		Unallocated Funds
Health and Safety		18,000			18,000		Unallocated Funds
Traffic Hazards School Sites		2,300			2,300		Unallocated Funds
Schools and Achievement	**1,629,942**	**41,337**	**0**	**0**	**1,671,279**		
Localities West Somerset	106,220				106,220		Minehead – Brenda Maitland-Walker
Locality Teams Setting up costs	237,641				237,641		Unallocated Funds
Partnerships	**343,861**	**0**	**0**	**0**	**343,861**		
Foster Carers	150,000				150,000		Unallocated Funds
Children's Social Care	**150,000**	**0**	**0**	**0**	**150,000**		
Directorate Sub-Total	**2,123,803**	**41,337**	**0**	**0**	**2,165,140**		
Resources Directorate							
Quality of Life	6,000				6,000		Unallocated Balance
Old Municipal Buildings	35,000				35,000	Taunton East – Steve Brooks	Balance of resources not required
Contingency	200,000				200,000		Contingency held against unforeseen increases in estimated prices at tender due to inflation
County Farms Estate					219,359	Various	Various projects cancelled due to review of County Farm Estate.
Non compliant Water Valves	25,976				25,976	Various	Programme of work completed balance released
Taunton Castle Museums 10/11	50,000				50,000	Taunton East – Steve Brooks	
Hestercombe 10/11	50,000				50,000	Staplegrove – Elaine Waymouth	
DDA 2010/11	337,500				337,500		
Facilities Management	7,223				7,223	Taunton and Trull – Stephen Martin-Scott	Unallocated Balance
Directorate Sub-Total	**831,699**	**0**	**99,359**	**0**	**931,058**		
TOTAL All Directorates	**3,927,502**	**41,337**	**99,359**	**85,000**	**4,153,198**		

APPENDIX 7: CYPD Reallocated Grant

The Capital Star Chamber requested the Children and Young Peoples Directorate to investigate their ability to reallocate £8m of grant provisionally allocated to a project in Yeovil to alternative projects. This would result in the loss of a project to reorganise and replace three schools in east Yeovil but would enable the Directorate to reduce the amount of borrowing required on other projects elsewhere in the CIP. Some of the grant is ring-fenced so the reallocation can only be made to selected eligible projects elsewhere in the programme. The Directorate has been able to identify some £7.599m of projects to which the grant could be reallocated. This is 95% of the £8m potentially available. The table below summarises the projects affected.

The following project(s) will be stopped to allow the grant funding to be used elsewhere:

CYPD Funding Exchange	Grant Reallocation	Ward – Councillor
Yeovil East Schools - Replacement and Reorganisation involving Penmill Infants, Reckleford Infants and Grass Royal Junior	**- 7,598,887**	Yeovil East – Tony Lock

The following projects will continue using the grant funding released from above instead of borrowing:

CYPD Funding Exchange	Grant Reallocation	Ward – Councillor
Yeovil Holy Trinity	2,000,000	Yeovil South – Dave Greene
Somerset Bridge	1,100,000	North Petherton – Derek Alder
Frome Christchurch	73,925	Frome South – Alvin Horsfall
Burnham-on-Sea Infants	300,000	Burnham-on-Sea North – Peter Burridge-Clayton
Schools and Achievement	**3,473,925**	
SEN Strategy Taunton	720,500	Taunton North – Claire Gordon
BESD Units	880,000	
SEN Specialist Provision Avalon	712,782	Street – Terry Napper
Social Inclusion Mendip PRU (Beckery)	660,032	Glastonbury – Alan Gloak
SAI Glastonbury St Dunstans	391,648	Glastonbury – Alan Gloak
New ASD Units	400,000	
Heathfield ASD Unit	360,000	Staplegrove – Elaine Waymouth
Education and Individual Services	**4,124,962**	
TOTAL reallocated	**7,598,887**	

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APPENDIX 8: County Farms identified either for Sale or to be retained

Farms identified for Sale

HOLDING	FARM NAME	ACRES
ASH PRIORS 06	Kerdon Farm	128.628
ASHILL 01	Parsonage Farm	57.300
CASTLE CARY 02	Thornymarsh Farm	122.422
CASTLE CARY 06	Chestnut Farm	97.900
CHILTHORNE DOMER 01	Higher Oakley Farm	87.730
CHILTON POLDEN 01		44.872
CREWKERNE 02	Higher Folly Farm	62.880
CROSCOMBE 01	Middle Thrupe Farm	56.577
CURRY RIVEL 02		15.681
DONYATT 14	Lower Sea Farm	77.540
DONYATT 17	Peasmarsh Farm	106.881
DONYATT 19	Four Lanes Farm	80.690
DONYATT 22	Hillcombe Farm	90.091
DONYATT 25	Stibbear Farm	45.137
DONYATT 27	Crock Street Farm	80.813
DONYATT 28	Pottery Farm	76.050
DONYATT 30 and DONYATT 33 Pt	Whitney Farm	73.129
DONYATT 31	Haines Farm	81.710
DOWLISH MANOR 01	Oxenford Farm	113.096
DOWLISH MANOR 02	Oxenford Farm	103.476
DOWLISH MANOR 02 Pt	Oxenford Farm	0.445
DOWLISH MANOR 04	Bere Mills Cottage Farm	105.300
EDINGTON 02		3.580
FIVEHEAD 03	New House Farm	158.270
HIGH HAM 02	Fir Tree Farm	110.590
HIGH HAM 11	Ivy Cottage	3.000
HORSINGTON 02	Broad Oak Farm	154.919
LYMPSHAM 03	Batch Farm	71.108
MARK 01	Laurel Farm	59.900
MARK 05		49.320
MARK 08		3.069
NORTH PETHERTON 02		5.882
NYLAND 04	Decoy Pool Farm	88.160
OAKE 02		59.200
QUANTOCK 08	Park Farm	74.868
QUANTOCK 10	White Horse Farm	78.771
QUANTOCK 11	Lower Halsey Cross Farm	61.047
QUANTOCK 12	Merlyns Farm	147.000
QUANTOCK 15	Plainsfield Farm	115.605
QUANTOCK 17	Radlet Common Farm	73.250
QUANTOCK 21	Pepperhill Farm	178.860
WEARE 03	Brinscombe Lane End Farm	128.931

Farms identified to be retained

HOLDING	FARM NAME	ACRES
ASH 01	Meadow Lea Farm	55.303
ASH 03	Durnfield Farm	100.321
BARTON ST DAVID 03	Laurels Farm	40.193
BARTON ST DAVID 05 Pt		15.993
BRENT KNOLL 03		10.309
BRIDGWATER 02	Sandpits Farm	64.980
BRIDGWATER 03	Eastside Farm	102.836
BRUTON 01		8.007
CASTLE CARY 07		13.080
CHISELBOROUGH 02 Pt		14.911
COMBE ST NICHOLAS 02 Pt		1.160
DONYATT 02	Dollings Pool Farm	65.735
DONYATT 03	Dollings Pool Dairy Farm	75.820
DONYATT 06 & 5 Pts	Cold Harbour Farm	122.125
DONYATT 08	Downs Farm	62.840
DONYATT 09	Dunpole Farm	99.830
DONYATT 12	Greenway Farm	125.113
DONYATT 24	Parshalls Farm	72.591
DONYATT 34	Shave Farm	89.139
DONYATT 38	Pond Farm	69.594
EVERCREECH 03		10.944
FORTON 02 Pt		23.361
FORTON 05	Manor Farm	103.278
GLASTONBURY 04		9.807
LOPEN 02	Manor Farm	117.976
LYMPSHAM 01	Selwood Farm	71.110
LYMPSHAM 02	Leaze Farm	111.410
LYMPSHAM 11	East Farm	79.533
MARSTON MAGNA 01 Pt		70.031
MILBORNE PORT 03		14.904
PURITON 01		4.482
QUANTOCK 03	Stowey Rocks Farm	81.290
QUANTOCK 04 and 07 Pt	New Stowey Farm	115.180
QUANTOCK 18	Splatt Farm	77.580
WEARE 02	Brinscombe Lane End Farm	31.419
WEARE 05	Stream Farm	57.899
WEST COKER 01		161.621
WEST MONKTON 01 and 02		10.799
WINCANTON 01	Lawrence Farm	75.308
WOOKEY 02 Pt	Marley Grange	7.109
WOOKEY 02 Pt	North House Farm	13.170

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APPENDIX 9: Central Government Support for Capital Investment

2010/11 Pre July '10 cuts				2011/12	2012/13
Supp'd Borrow -ing £m	Direct Grant £m	Total £m	**UNRING-FENCED GRANTS**	Direct Grant £m	Direct Grant £m
			Highways		
17.845		17.845	Maintenance Block	20.370	19.311
3.081	1.540	4.621	Integrated Transport Block	2.686	2.865
	0.267	0.267	Road Safety		
	0.100	0.100	Specific Road Projects		
20.926	1.907	22.833		23.056	22.176
			Schools Basic Need and Maintenance		
1.748		1.748	Basic Need	4.118	
			Capital Maintenance LA Schools	10.411	
0.992		0.992	Schools Access Initiative		
	6.598	6.598	Primary Capital Programme		
0.521	5.008	5.529	Modernisation Fund		
3.261	11.606	14867		14.529	0
			School Improvement and Other Children Services		
	0.617	0.617	Harnessing Technology		
	0.231	0.231	Youth Capital Fund		
	0.463	0.463	Aiming High Capital Grant		
	2.047	2.047	Surestart Quality & Access or Early Years Grant		
	1.130	1.130	Surestart Children's Centres Phase 3		
	0.419	0.419	Standards Fund Extended Schools		
	0.442	0.442	Playbuilder		
0.061		0.061	Children's Services		
0.061	5.349	5.410		0	0
			Adult Social Care and Community		
			Community Capacity	1.287	1.321
	0.181	0.181	Mental Health		
	0.285	0.285	Adult Social Care		
	0.176	0.176	Adult Social Care ICT Infrastructure		
	0.310	0.310	Adult Social Care Transformation		
	0.168	0.168	Safer Communities		
	1.120	1.120		1.287	1.321
24.248	19.982	44.230	**Total Unring-fenced Resources**	38.872	23.497

			RING-FENCED AND OTHER GRANTS		
			Capital Maintenance VA Schools[4]	1.478	
	1.491	1.491	Locally Co-ordinated VA Schools		
	6.424	6.424	Schools Devolved Formula Capital[5]	1.986	
	1.850	1.850	Schools Harnessing Technology		
	9.765	9.765		3.464	

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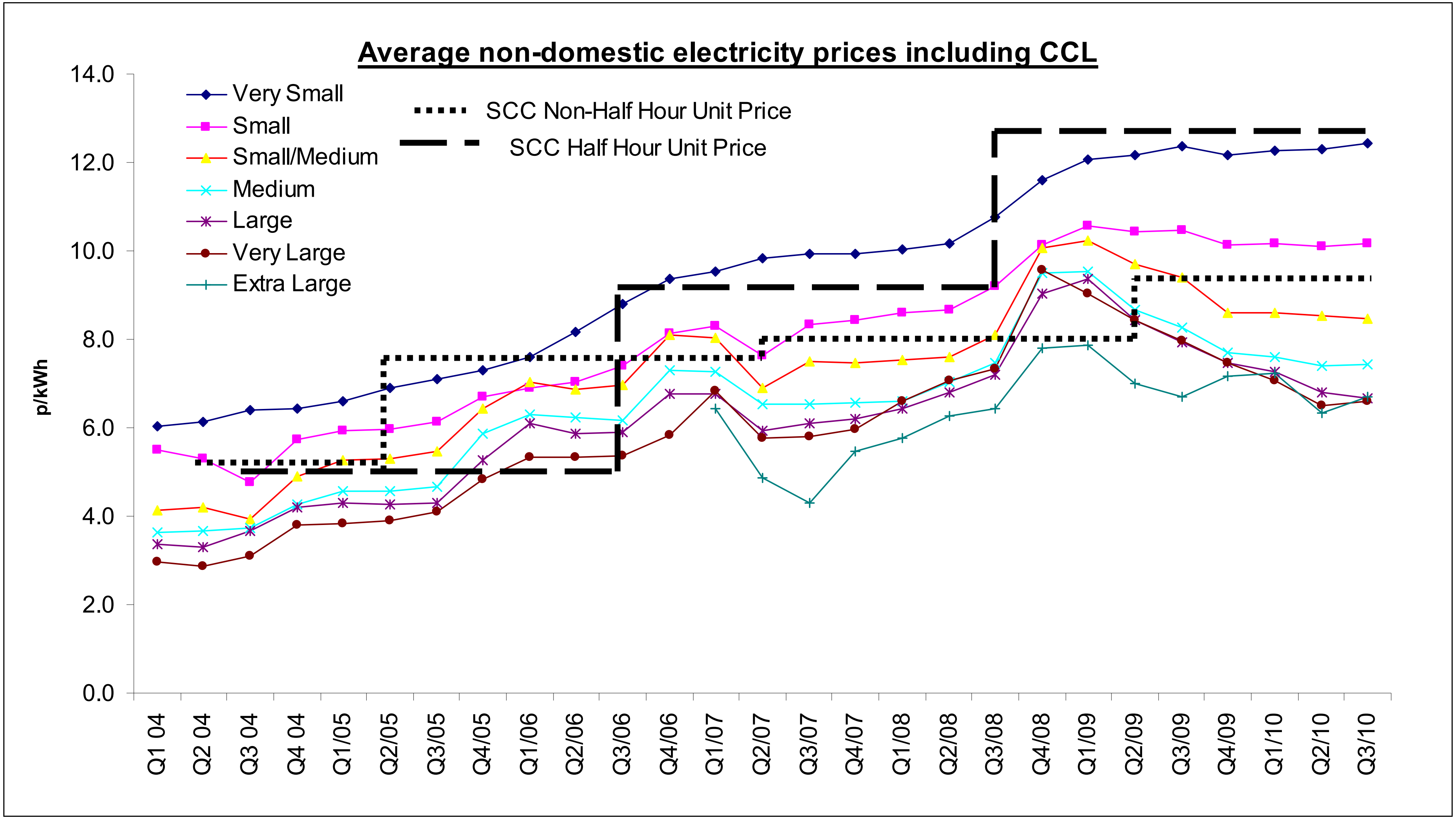
[4] It is unclear whether or not this grant is ring-fenced, historically the management of the grant has been outside the area of control of the local authority being managed by the Department for Education for voluntary aided schools including those managed by the Diocese

[5] This grant is confirmed as ring-fenced, the actual amount will be finalised once the appropriate pupil numbers have been confirmed.


Average non-domestic electricity prices including CCL
p/kWh
14.0
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Very Small
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Extra Large
SCC Non-Half Hour Unit Price
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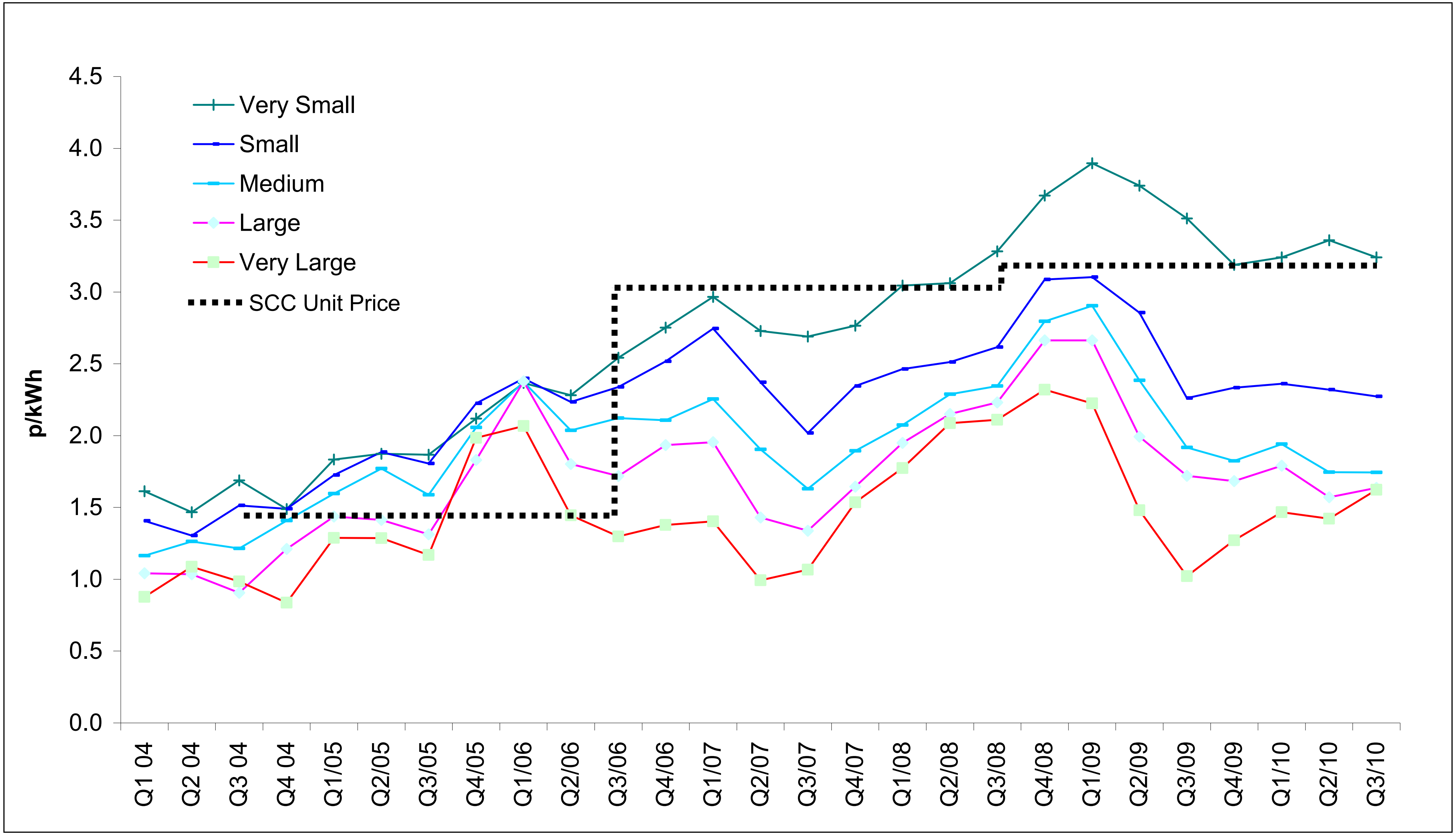

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13 Source References:

(click on the underlined link below to access the source document)

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[32] Super Output Areas (SOAs) were developed to provide geographies that are of approximately consistent size across the country, and whose boundaries would not change over time. Each Lower Layer SOA has a minimum population of 1,000 and a mean population of 1,500, and they are constrained by the boundaries of the wards used for 2001 Census outputs.
[33] 2010 Spending Review
[34] The Government's explanatory paper on Floor Damping Methodology

[35] Chief Finance Officers Report on the 2011/12 Robustness of the Estimates and Adequacy of Reserves

[36] Somerset County Council Capital Strategy

[37] Capitalisation is the spreading of one-off costs over a period of time, instead of writing off the costs in one year. In terms of costs such as Redundancy payments, local authorities must seek approval to capitalise from the Government, who apply strict conditions which must be met before giving approval.

[38] Somerset County Council – Report on the Robustness of the 2011/12 Estimates (Under Section 25(1) of the Local Government Act 2003) and the Adequacy of 2011/12 Reserves and Balances

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