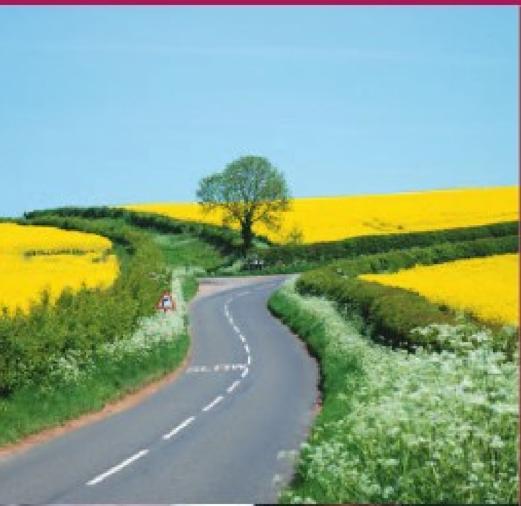
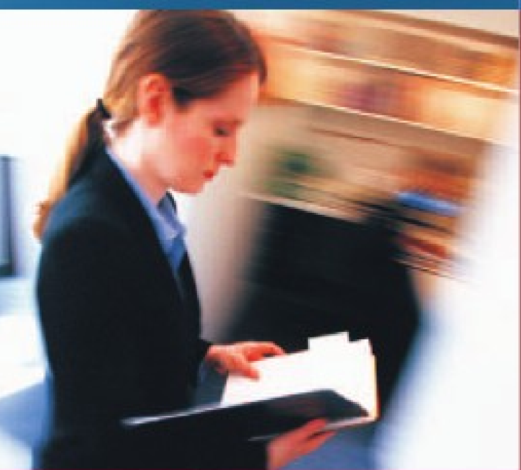


SOMERSET COUNTY COUNCIL

MEDIUM TERM FINANCIAL PLAN 2012/13 to 2014/15

Kevin Nacey CPFA
Director of Finance and Performance
County Hall, Taunton, Somerset TA1 4DY



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Somerset County Council

Medium Term Financial Plan 2012/13 to 2014/15

K. B. Nacey, CPFA,
Director of Finance and Performance,
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1 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 2012/13, as approved by the County Council on 15 February 2012.

The opening pages of this document provide background information on the process undertaken to formulate and set the budget, including contextual information on the resources available to the Authority. Specific elements of the budget can be found in more detail within the appendices.

The budget cycle for 2012/13 started two years ago with the first projections of 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 relatively high 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 core 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,
Director of Finance and Performance

2 Medium Term Financial Plan and Financial Strategy 2012/13 – 2014/15

2.1 General Introduction

This document provides the financial planning framework for the delivery of services to the 525,200 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. These changes are not driven by the changing needs of the residents but by government policy and economic direction. In an environment where the desire to maintain service levels exceeds the capacity of the resources available, the Authority needs a clear view on where the limitations are and how it intends to maximise provision within resource constraints.

Medium Term Financial Planning is a 'rolling' process that operates alongside the County Council's 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 Annual 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. Last year's MTFP identified that we were heading into challenging financial times and that a radical redesign of the Authority, including 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. Foremost amongst this is the development of the Change Programme during which all services will be reviewed to identify their future role within the County Plan and future mode of delivery.

2.2 Revenue Medium Term Financial Plan – format of this document

This document outlines the Medium Term Financial Plan [MTFP] for the period 2012/13 to 2014/15 and details the strategy that the Council intends to follow in rolling this financial plan forward into the 2013/14 to 2015/16 planning period and beyond.

Within this MTFP document we have included the following sections:

- Section 10: Risk and Impact Assessments;
- Section 11: Key Partnerships.

The following appendices are also included containing specific details:

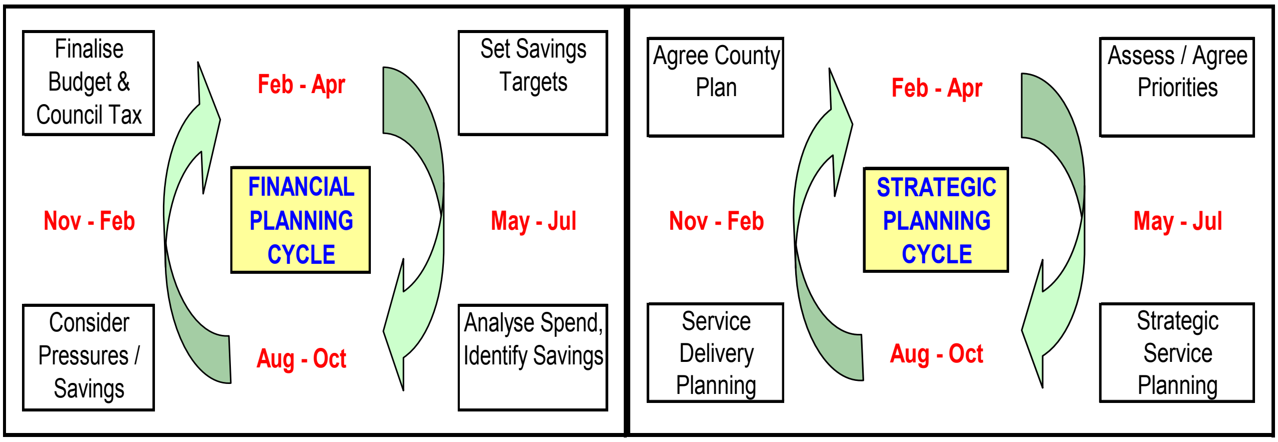
Appendix 1	Shows the decision making process undertaken during the development of this Medium Term Financial Plan;
Appendix 2	Describes the key elements of the Formula Grant Four Block Model;
Appendix 3	Summarises the key intention for the Other Mainstream Revenue Grants;
Appendix 4	Describes the relationship of the Dedicated Schools Grant, Somerset County Council Budget and the Schools Budget;
Appendix 5	Provides some technical information in relation to the Council Tax process;
Appendix 6	Presents a numerical summary of the three-year financial plan, set against a summary for the 2011/12 financial year (Column 1). Column 2 shows the balanced position for the 2012/13 budget. Columns 3 and 4 show the projected position for 2013/14 and 2014/15 to be in excess of the projected available resource by some £45.801m – giving indicative savings targets to be set for these years which will form the basis of future MTFP work;
Appendix 7	Details the breakdown of the 2012/13 gross expenditure as prescribed by the Chartered Institute of Public Finance and Accountancy (CIPFA) Service Reporting Code of Practice (SeRCOP);
Appendix 8	Contains high level Service Control Totals for 2012/13;
Appendix 9	Provides a summary of the 2012/13 Capital Starts Programme grouped by County Plan Priority.

3 The Medium Term Financial Planning (MTFP) Process

3.1 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 the corporate priorities outlined within the County Plan, the resources available and ongoing cost pressures faced. 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



3.2 The County Plan

The County Plan sets out the County Council's priorities and identifies the targets that the Council will seek to deliver during the financial year 2012/13. Each year the County Plan is refreshed to ensure it remains 'fit for purpose'. The 2012/13 plan was approved alongside the Annual Budget on 15 February 2012. This document can be found on the Council's Website[1].

The Plan is structured around three themes:

1. Prosperity – Investing in our future;
2. People and Place – Caring and Protecting
3. Fit for Purpose – Keeping Costs Down

For each theme there are a number of activities for the forthcoming year under a section titled 'we will'. Progress against these 'targets' is assessed throughout the year.

Beneath the County Plan sits the Business Plan which contains the activities, programmes and projects, together with the measures and targets which will be undertaken to ensure delivery of the County Plan.

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

3.3 Developing the Medium Term Financial Plan

The development of the 2012/13 Budget began two years ago with the first projections of 2012/13 budget requirements. Figure 2 below shows the rolling process diagrammatically.

Figure 2: The Rolling MTFP Process

	MTFP				
Year	**2010/11**	**2011/12**	**2012/13**	**2013/14**	**2014/15**
2010/11	Year 1				
2011/12	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	Year 1
2015/16				Year 3	Year 2
2016/17					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.

3.4 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 an ongoing basis using a variety of different methods, including focus groups, surveys within our Your Somerset newspaper, use of Tracker Surveys that record the views and opinions of a diverse statistically sound sample of residents 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 service based budget proposals including a possible charge increase for Blue Badge holders, options for redesigning the Work Preparation Service and Residential Short Breaks for people with Learning Disabilities. A link to the analysis of these consultations can be found on the Council's website[3].

A summary of the Consultations undertaken by the Council throughout the year can be found on the Council's website as an Appendix to the 2012/13 – 2014/15 MTFP Report approved by County Council in February 2012[4].

3.5 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.

3.6 Responsibilities for Financial Planning

Overall, responsibility for delivering a balanced Revenue Budget and Capital Investment Programme for the next financial year and a Medium Term Financial Plan for the following two years lies with the Leader and Cabinet. However, the decision making and budget setting process required to deliver the MTFP is supported by a wide 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 Management Team (FMT) led by the Director of Finance and Performance. This group is responsible for overall corporate resource forecasts and recommending a financial strategy to the Executive Leadership Team (ELT) for planning purposes. ELT 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).

Business Development teams and theme specialists also provide support to Service Directors to ensure that timely and relevant consideration is given by Elected Members to the potential impacts of the proposed decisions, both individually and cumulatively, on the residents of Somerset and specifically those with the protected characteristics set out in the Equalities Act 2010[5]. This information accompanies the service and financial proposals and can be found on the County's website[6].

Throughout the annual planning cycle, regular working meetings are held between Finance Group Managers, ELT, 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 1.

4 The National and Local Context

4.1 The National Context

The causes and impact of the 2008/09 Credit Crunch are well documented. The UK national government deficit had reached a point where the state borrowed one pound for every four it spent. Clearly this position is unsustainable and so the Coalition Government set out its Deficit Reduction Plan initially within the June 2010 Emergency Budget and in detail within the 2010 Comprehensive Spending Review (CSR).

Specifically for local authorities, the 2010 CSR announced that the Local Government Departmental Expenditure Limit (DEL) would reduce by 28% over four years (excluding Schools, Fire and Rescue, and Police). However, the year-on-year annual reduction varies each year with deeper reductions being required in the earlier years. The County Council now has to address at a local level the consequences of national decisions to reduce the UK budget deficit.

However since the CSR in 2010 the economic recovery has been limited as a result of the impact of the Euro Crisis on the UK exports and banking sector. This was recognised in the Chancellor's Autumn Statement to Parliament in November 2011, where George Osbourne intimated that the Deficit Reduction Plan was not achieving the desired results.

> "our debt challenge is even greater than we thought because the boom was even bigger, the bust even deeper, and the effects will last even longer….Britain has had the highest structural budget deficit of any major economy in the world – and the highest deficit in the entire history of our country outside of war….Unsurprisingly, [the Office of Budget Responsibility (OBR)] revised down their short term growth prospects for our country, for Europe and for the world….They expect GDP in Britain to grow this year by 0.9% – and by 0.7% next year."

Reducing or stagnant economic activity limits the extent to which the government can expect increased tax revenues to reduce the deficit. This places greater pressure on the need to reduce expenditure as a means of achieving its economic objectives. Given that central government has expressed a desire to protect as far as possible some key service areas, the future outlook for resources for core Local Government services is one of continuing contraction.

This appears to have been confirmed in the Budget in March 2012 when further reductions in the DEL were announced (see Figure 3). These revised totals mean a year-on-year reduction of 10.2% in 2012/13, 0.4% in 2013/14 and 6.7% in 2014/15.

Figure 3: Headline Reduction in DCLG Departmental Expenditure Limit [DEL]

	2011/12	2012/13	2013/14	2014/15
CSR 2010 projections	£26.6bn	£24.4bn	£24.2bn	£22.9bn
% Change		- 8.3%	- 0.8%	0.0%

	2011/12	2012/13	2013/14	2014/15
March 2012 Budget	£26.6bn	£23.9bn	£23.8bn	£22.9bn
% Change		- 10.2%	- 0.4%	- 6.7%

By far the largest element of the DCLG DEL is the Formula Grant; it seems therefore inevitable that some of this additional reduction will be felt by local government.

4.2 The Local Context

Somerset has a number of characteristics that influence specifically the planning of County Council priorities. In addition there are some key themes that influence decision making. The following sections describe these issues in more detail.

4.2.1 The Local Economy

Public administration, education and health forms the highest proportion of employment in Somerset (29%), with wholesale and retail (20%) and manufacturing (13%) the next largest segments. The cuts to the public sector have the potential therefore to have a significant impact on the local economy through:

- The reduced purchasing power of the Authority itself;
- The impact of decisions on its employees and their ability to spend in the local markets as a result of reductions in the workforce and pay constraint; and
- Reductions in grants, guidance and support provided to voluntary and community groups.

The County Council has to deliver services within the available resources and has to prioritise those resources and seek alternative ways to stimulate and support the local economy as this direct contribution continues to reduce. The County Plan identifies the sort of initiatives that the Council is promoting to facilitate economic robustness including:

- Investment in conjunction with Central Government, local partners and business to deliver Superfast Broadband throughout the County;
- Promotion of and investment in regional transport links;
- Support to local business and inward investors; and
- Initiatives to improve qualifications and opportunity both within schools and through apprenticeships.

The Capital Investment Programme and Revenue Budget incorporate the financial elements of these initiatives.

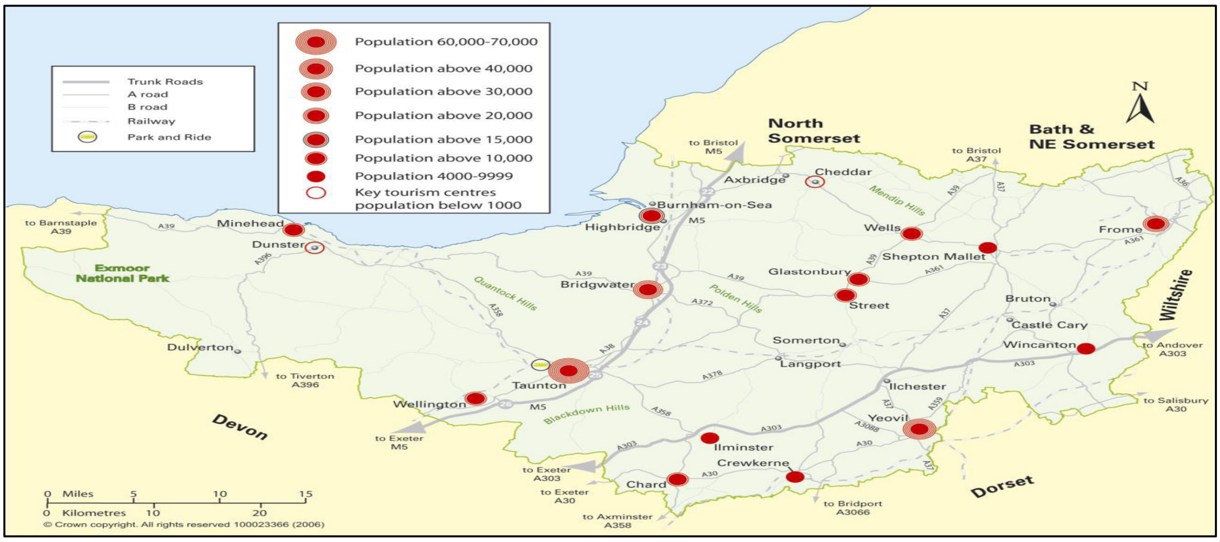
The local economy will also be affected by developments outside the direct control of the County Council but which it may be able to influence. Whilst these may not have a direct impact on the MTFP identified in this cycle, they are of sufficient significance that they may influence future decisions. These include the proposed development of a new power station at Hinkley Point which will have significant transport implications and is likely to influence future demands for housing and hence schools and other County Council services. Other potential areas for influence include improved transport links for the County such as the improvement of the A303 trunk road.

4.2.2 Rurality

Somerset is predominantly a rural county covering 3,452 square kilometres. There are 6,604 kilometres of roads in the county. Footpaths, bridleways and byways cover a further 6,129 kilometres. The majority of the Exmoor National Park lies within our county. The upland areas of the Quantocks, the Mendips and the Blackdown Hills are classed as Areas of Outstanding Natural Beauty (AONBs).

The County has a relatively low population density with a third of the 525,200[7] resident population living in the market towns and larger villages, as shown in Figure 4 below.

Figure 4: Map of Somerset's Population Density



Source: Somerset Intelligence Network – Joint Strategic Needs Assessment 2008

The dispersed nature of the population is reflected in the delivery of services with Somerset having over three times the national average of primary schools with less than 100 pupils. There is also a high reliance on rural transport to access services, work, education and leisure activities.

However, the rural nature of the county is also one of its key assets and contributes to its attraction as a holiday destination. In this context the maintenance of the infrastructure that attracts visitors such as the rights of way network and the local interpretation of the landscape and local history is essential to maintain the quality of the area as an attractive destination.

4.2.3 Demographic Pressure

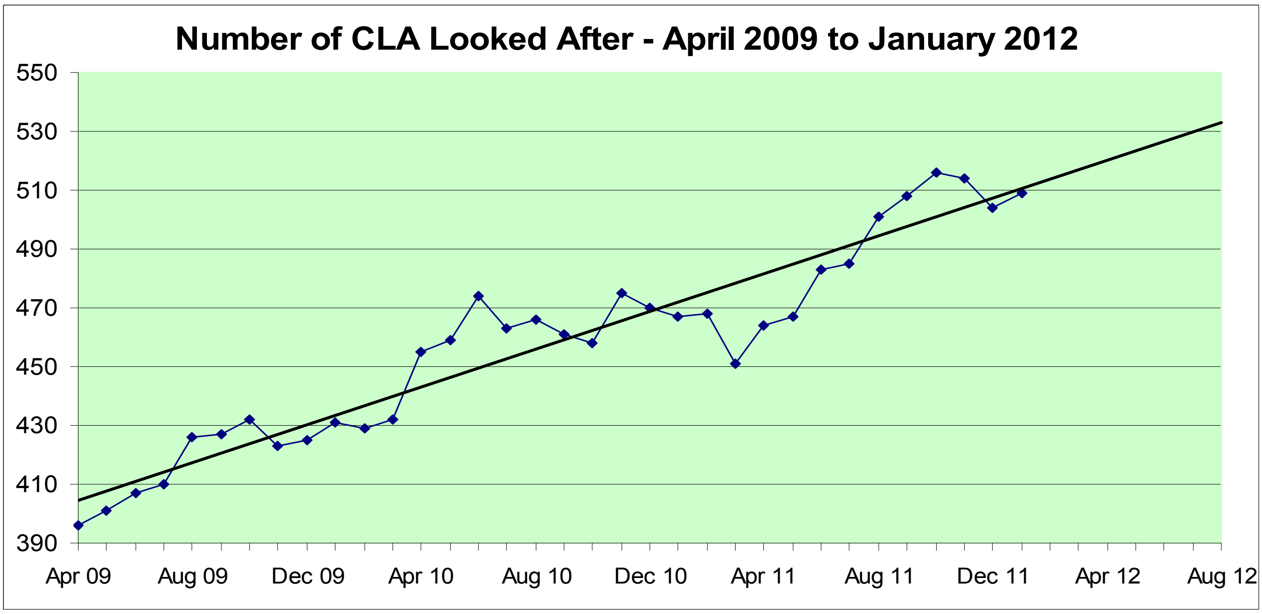
The age profile of the Somerset population creates particular budgetary pressures. In particular when compared against the UK national average, Somerset's population is shown to be older, with one in five (21%) of our population aged 65 and over, compared to 16% nationally. In fact, West Somerset, the most rural of the five District Councils in Somerset has the highest proportion of older people (30% are aged 65 and over) in the

UK, nearly double the UK average[8]. On average Somerset residents can expect to live longer than the UK average, with life expectancy for Somerset men being 80 years from birth and for Somerset women being 84 years from birth[9]. This potentially adds a significant cost pressure on our Adult Social Care services.

The recent increase in the birth rate is also having implications for the demand for school places in the Nursery and Primary sectors. This will be replicated in the Secondary sector in 4 to 5 years time when the current cohort of children reach secondary age. Despite the structural changes in the provision of education with the introduction of Academies and Free Schools, the Local Authority remains responsible for the delivery of the core requirement for basic classroom places. Changes in the pattern of domestic arrangements will also impact on demand for school places as sites are earmarked for new residential developments of a scale that will require new schools to be delivered.

Somerset has also seen a significant increase in the numbers of "Children Looked After" since the Baby Peter incident. Numbers have increased from 396 in April 2009 to 455 by April 2010, and are forecast to increase further to 520 by April 2012. If this trend continues it is likely that a figure of 537 could be reached by mid-year 2012/13, as shown in Figure 5 below. The cost implications of this are considerable as the Council is likely to exhaust the supply on the most cost effective solutions and will have to make placements in the more expensive out of county options. This pressure will be aggravated if, as is likely, neighbouring authorities are seeing a similar need for increased support as pressure on families increases. This will bring the risk that service providers increase prices in order to ration demand.

Figure 5: Change in Children Looked After within Somerset



The population increases significantly at holiday times, as the county is a holiday destination for many. This can be illustrated by the fact that visitors stay 11 million nights and make 15 million day trips to Somerset over a twelve-month period, spending over £1 billion[10]. Nearly 10% of Somerset employment is within the Tourism industry. In this context, the role of the County Council is to ensure that the infrastructure is in place to ensure that the County remains an attractive holiday destination to maintain or increase current visitor levels. Transport links and access to and provision of suitable destinations will be an important role for the County Council.

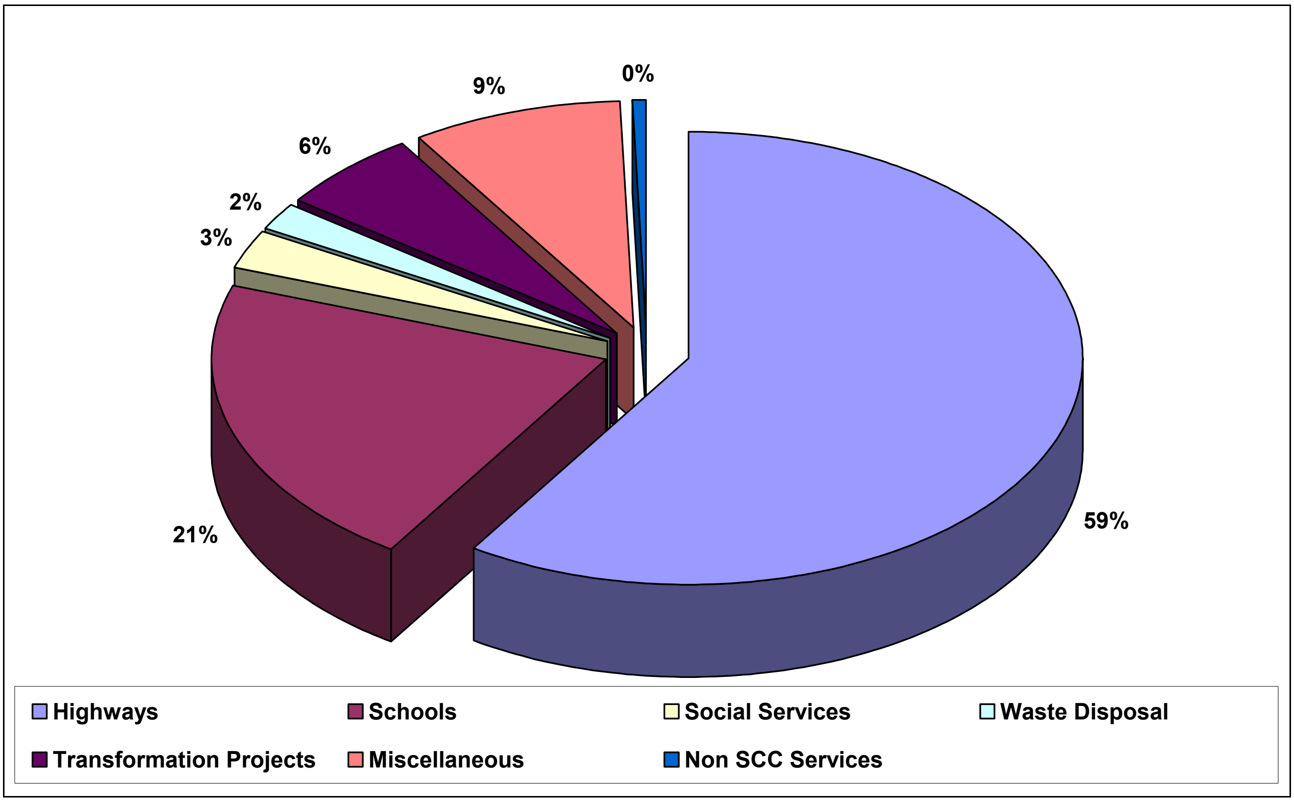
4.2.4 Levels of External Debt

One of the key concerns of the Council's Administration is the level of external debt within the Authority. Indeed one of its manifesto pledges during the 2009 local elections was to reduce levels of borrowing. SCC, like the majority of councils, has borrowed in the past to support its Capital Investment Programme (CIP), the revenue impact of this borrowing being partially supported by Central Government through the Revenue Support Grant. On the 31 March 2012, SCC had long term borrowing of £353.750m as shown in the Statement of Accounts. Of this, £15m is due to be repaid during 2012/13 and a further £9.2m is scheduled to be repaid in 2014/15.

The cost of financing this borrowing is met through the Revenue Budget and the impact of this has to be taken into account. Reducing these costs will ease the pressure to find savings on frontline services. Support for local government capital expenditure is now provided by direct grant, this means that the Council is able to continue to invest in its assets without having to resort to additional borrowing. Provided that this policy continues the impact of borrowing costs to the Revenue Budget will continue to fall.

The County Council borrowing requirements are managed through a Loans Pool. Services use the Loans Pool to provide finance to deliver assets such as highways infrastructure, school buildings and a range of other property, ICT and vehicles across key service areas. An annual provision is made from the Revenue Account to repay a proportion of the principal outstanding and a pro rata share of the interest based on the principal outstanding at the beginning of the financial year. Figure 6 illustrates the Profile of Outstanding Loans Pool Debt by service area at the end of 2010/11.

Figure 6: Profile of SCC's Outstanding Loans Pool Debt by Service Area as at 31 March 2011



Since 2010, the level of central government grant for capital investment has increased significantly as the Government has altered its policy, choosing to issue Grants to Local Government instead of Supported Borrowing Approvals[*]. The County Council therefore has not taken out any new borrowing from external providers to support the Capital Investment Programme. Any new capital projects are now financed entirely from Government Grant, supplemented by proceeds from the sales of assets. As a result, the Debt Servicing Charges to the Revenue Budget will fall by a minimum of £1m per annum and the external debt on the balance sheet will fall during the MTFP period by a minimum of £24.2m. During the MTFP period revenue repayments will exceed planned advances, thus creating the potential to repay external debt early. However, this will require the Council to consider its options to further reduce balance sheet debt subject to external debt repayment terms.

[*] Where the Government enhanced revenue grant to assist with making loan repayments.

5 Future Revenue Resources

The following section considers the revenue resources available to the County Council and the assumptions that have been made to estimate them for the future years of the MTFP. Capital resources and the capital element of the Local Government Finance Settlement are considered in Section 9 alongside the delivery of the Capital Investment Programme.

5.1 Centrally Provided Resources and Future Planning Assumptions

Central Government provides resources to local government through the following mechanisms:

- Unring-fenced Formula Grant;
- Unring-fenced Special Grants, and
- Ring-fenced Specific Grants

These are covered in more detail below.

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

Formula Grant is the main unring-fenced funding stream of Government Grant to Local Authorities. It forms approximately a third of 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). For 2012/13, the Government also merged the second year allocation of the 2011/12 Council Tax Freeze Grant into Formula Grant.

5.1.1.1 Headline Formula Grant Allocations (excluding Police Grant)

Figure 7 shows the headline for Formula Grant announced as part of the 2012/13 Local Government Finance Settlement and compares it to the position for 2011/12. The change in Somerset's Formula Grant allocation since 2011/12 is broadly in line with the reduction set out in the CSR.

Figure 7: Headline Formula Grant Allocations 2012/13 (excluding Police Grant)

English Total	**2011/12**		**2012/13**		**Change**	
	£ billion	**%**	**£ billion**	**%**	**£ billion**	**%**
Revenue Support Grant	5.874	23.0	0.448	1.9	**– 5.426**	**– 92.4**
National Non-Domestic Rates	19.000	74.4	23.119	95.4	**+ 4.119**	**+ 21.7**
Council Tax Freeze Grant	0.652	2.6	0.652	2.7	**0.000**	**0.0**
Formula Grant	**25.526**		**24.219**		**–1.307.**	**- 5.1**

Somerset County Council	**2011/12**		**2012/13**		**Change**	
	£ million	**%**	**£ million**	**%**	**£ million**	**%**
Revenue Support Grant	30.733	22.7	2.291	1.8	**– 28.442**	**– 92.5**
National Non-Domestic Rates	99.426	73.6	118.180	94.2	**+ 18.754**	**+ 18.9**
Council Tax Freeze Grant	5.036	3.7	5.036	4.0	**0.000**	**0.0**
Formula Grant	**135.195**		**125.507**		**– 9.688**	**– 7.2**

It should be noted that within the total Formula Grant figures the split between the RSG and NNDR figures has changed significantly with a much larger proportion of the total coming from NNDR. This is in line with the Government's future funding proposals where, from 2013/14, local authorities will be funded by the business rates raised locally.

Despite the national debt not falling as sharply as anticipated and the potential threat from the Eurozone, the Government chose not to make further cuts to Local Government funding within 2012/13 over and above those provisionally announced. This has enabled Local Government to plan more effectively how it will use its resources.

For Somerset County Council, the only specific change between the two years affecting the resources available to Somerset related to the £1.189m top-slice to adjust the grant for an assumed number of Schools anticipated to convert to Academy status. The transfer was made through the Local Authority Central Spend Equivalent Grant [LACSEG]. An explanation of LACSEG and the other characteristics of the distributional mechanism known as the Four-Block Model can be found in Appendix 2. The remaining £8.499m reduction in funding reflects the Coalition Governments reduction in public spending.

5.1.1.2 Forecast Formula Grant Allocations 2013/14 and 2014/15

Government has not provided individual authority information on Formula Grant levels beyond the 2012/13 financial year. It is expected that the tough economic measures currently in place will continue for the foreseeable future. Although the impact on Local Government spending limits is not known, experience has shown that the sector is unlikely to be a protected service. Therefore if further cuts are required nationally, Local Government may have to bear a disproportionate share of the burden as it has in the past. This appears to have been confirmed in the Budget in March 2012 when further reductions in the DEL were announced (see Figure 3 above). These revised totals mean a year-on-year reduction of 10.2% in 2012/13, 0.4% in 2013/14 and 6.7% in 2014/15.

The Council has always taken a cautious approach to estimating future resources and this approach has again been applied for this MTFP. The Formula Grant forecasts have been revised downwards as part of this MTFP round. The change in the forecast for 2013/14 and 2014/15 is shown in Figure 8 below and amounts to a further reduction of £8.5m in 2013/14 over 2012/13, increasing the total reduction to £14.5m. The 2014/15 forecast has also been revised downwards and is some £10.8m below the revised 2013/14 figure, as shown below.

Figure 8: Future Formula Grant Estimates

Previous Planning Assumptions 2011/12 MTFP	2012/13 Indicative	2013/14 Estimated		2014/15 Estimated	
	£m	£m	%	£m	%
Formula Grant	120.471	114.448	- 5.00	108.726	- 5.00
Council Tax Freeze Grant (4 year)	5.036	5.036	0.00	5.036	0.00
Original Forecast	**125.507**	**119.484**	**- 4.80**	**113.762**	**- 4.80**

Revised Planning Assumptions 2012/13 MTFP	2012/13 Actual *	2013/14 Estimated		2014/15 Estimated	
	£m	£m	%	£m	%
Formula Grant	120.471	108.424	- 10.00	97.582	- 10.00
Additional Academies Top-slice		-2.500		- 2.500	0.00
Council Tax Freeze Grant	5.036	5.036	0.00	5.036	0.00
Revised Forecast	**125.507**	**110.960**	**- 11.59**	**100.118**	**- 9.77**

Movement	**0.000**	**- 8.524**	**- 7.13**	**- 13.644**	**-11.99**

These forecasts are based on the current resource structure for local government. They include an estimate for the continuation of the LACSEG top-slice that may be applied to reflect the transfer of schools to Academy status.

During 2011/12, following legal action by 23 authorities, the Government reviewed the basis of the original LACSEG top-slice applied to local authorities in 2012/13, recognising that not all functions transfer to Academies, some remain with the local authority. The impact of the new methodology on individual authority's funding positions was then assessed against the following principles:

a) Where the revised distribution would lead to an increase in the LACSEG top-slice applied to an individual authority's Formula Grant allocation, this will not be recovered in 2012/13;
b) Where the revised distribution would lead to a decrease in the LACSEG top-slice applied to an individual authority's Formula Grant allocation, that authority will be reimbursed.

This approach was intended to maintain financial stability for authorities covered by (a) and avoid the necessity for them to make reactive cuts to services. SCC believes, due to the relatively high proportion of children now in the Academy sector within the County, that it falls under (a) above and therefore will be protected from further cuts in 2012/13.

The final announcement on the 2012/13 position will not be made until towards the end of the 2012/13 financial year, as it will be based on the numbers of pupils who are at Academies pro rata in that year. However, it is clear that the revised distribution will be reflected within the 2013/14 and future years' settlements. Therefore SCC has assumed an additional top-slice of £2.5m per annum within our Formula Grant forecasts against this risk and this is included in the table in Figure 8 above.

* 2012/13 was the second year of the multi-year Local Government Finance Settlement, and therefore the reduction in Formula Grant and movement within Special Grants were indicatively announced.

At the absolute level, the estimated net year-on-year reduction in Formula Grant of 11.59% and 9.77% is significantly higher than the anticipated year-on-year reduction in the DEL reductions imposed on the DCLG of 0.4% and 6.7%. This higher level however is intended to recognise that key service areas may be protected and therefore the cuts passed on to local government may be higher than the DEL movements.

In addition, from 2013/14, the Government is introducing a number of changes within the Local Government Finance System which could have a significant impact on the Formula Grant that the Council receives and over which the Council has no direct control. No indicative figures have been given for the Local Government Finance Settlements for 2013/14 or 2014/15. Both these years will be subject to some potential movements in resources as a result of the Local Government Resource Review, in particular the planned introduction of the Rates Retention System. In order to achieve the deadlines for a revised settlement in 2013/14 new legislation will be required and will need to be in place by summer 2012 to enable the changes to be effective from April 2013.

The current proposals from Central Government for Rate Retention are extremely complex and are currently subject to considerable uncertainty until the final details are consulted on and published. Despite the implication of the title, business rates retained by local authorities will continue to be subject to calculation and adjustment through a complex model. This will ensure that even if rate collection increases significantly the total amount retained by Local Government will not exceed the national spending limits for Local Government set by Government. Any surplus will be returned to Central Government where it will be used to fund specific grants currently funded by Government from other sources. Any local increase in the business rate footprint (after taking into account Government thresholds) will be reflected in the amount that is retained locally. The model includes a wide range of assumptions and also incorporates the tariffs and top-ups included by Central Government to try to protect those areas where there would be insufficient resources to provide the base line level of service assumed. The distribution model will only be finalised later in the financial year 2012/13 and the local impact will only be clarified after a range of parameters have been incorporated. These include:

- Availability of the latest/baseline Business Rate Data;
- The national forecasts for Business Rates Growth;
- Local Business Rates Growth;
- The Central and Local split of the total pool;
- The Upper and Lower tier allocation of the local element of the pool;
- National and Local Impact of the New Homes Bonus;
- The Baseline for the assessment of the tariffs and top-ups;
- Levy and Safety Nets;
- Possible application and use of localised Pooling arrangements.

The number of variables, along with the national arrangements to manage the transition and incorporate damping arrangements, inhibits any sensible attempt to forecast the impact of these in detail at local level. However, key professional and advisory bodies are now preparing technical models that will assist the Authority to forecast a range of options and plan future resources. In the meantime a cautious estimate of the impact of all these changes is included in the above higher percentage reductions, included in the forecast Formula Grant figures for 2013/14 and future years.

In addition the Government has capped the amount of “new” money it will devote to the New Homes Bonus, which is in its second year of six in 2012/13. Originally it was anticipated that further increases in the New Homes Bonus would be capped. This would mean that further increases are likely to be offset by reductions in Formula Grant, but it would now seem likely that this would actually need to be reflected in the Central/Local split on the Rates Retention calculation.

5.1.2 Unring-fenced Special Grants

In addition to Formula Grant, the Government issue a number of Special Grants. Although these are allocated directly to local authorities according to specific policy criteria (and separate distribution methodologies), Local Authorities are free to use this non-ringfenced funding as they see fit.

5.1.2.1 Headline Special Grant Allocations

The following grants are announced alongside the Formula Grant announcement but, in line with Formula Grant, the information is currently only available for one financial year. The following table (Figure 9) shows the headline figures for Special Grants announced as part of the 2012/13 Local Government Finance Settlement and compares them to the position for 2011/12. Details of the purposes of these grants are contained within Appendix 3

Figure 9: Headline Special Grant Allocations

Government Grant	**2011/12 £m**	**2012/13 £m**	**Change**	
			£m	**%**
Early Intervention Grant	17.795	19.501	+ 1.706	+ 9.6
2012/13 Council Tax Freeze Grant *	0	5.065	+ 5.065	0.0
New Homes Bonus Grant	0.553	1.266	+ 0.713	+ 128.9
Learning Disabilities and Health Reform Grant	0.070	0.086	+ 0.016	+ 22.9
Local Services Support Grant comprising:				0.0
• Lead Local Flood Authorities	0.188	0.461	+ 0.273	+ 145.2
• Inshore Fisheries Conservation Authority	0.134	0.134	0.0	0.0
• Safer Communities Fund	0.493	0.250	- 0.243	- 49.3
• Extended rights to Free Travel	0.468	0.580	+ 0.112	+ 23.9
Total	**19.701**	**27.343**	**+ 7.642**	**+ 38.8**

* The 4-year Council Tax Freeze Grant which operates from 2011/12 to 2014/15 inclusive is contained within the Formula Grant figures see Section 5.1.1 (Figure 8) above

The key movements in the grants between 2011/12 and 2012/13 are due to the following:

- **Early Intervention Grant**

In the Autumn Statement 2011, the Chancellor announced extra funding for Local Authorities. However, this was accompanied by an announcement on the expansion of the 2-year old early education scheme to cover 40% of the most disadvantaged 2-year olds, up from 20% previously. This extra funding was allocated using the Early Years formulae and is included in the 2012/13 grant provision of £19.502m, an increase of £1.629m on the value received in 2011/12.

- **2012/13 Council Tax Freeze Grant**

This is in addition to the 4-year Council Tax Freeze Grant included within the Formula Grant figures. The Government have offered this grant as an additional one-off grant to those Local Authorities which decide to freeze their Council Tax for 2012/13. For Somerset, this provided an additional £5.065m.

- **New Homes Bonus Grant**

The increase in this grant reflects the increase payable as a result of the additional new homes built within the County. This increase of £0.713m is added to the grant payable in 2011/12 and will continue for a further 5 years.

- **Local Services Support Grant**

The increase in grant for lead local flood authorities reflects the developing role for local authorities in flood management as a result of the Flood and Water Management Act 2010. The increase in the Extended Rights to Free Travel is intended to support the local authority duty to support students from low income families to attend schools further from home than the statutory walking limits. By contrast the reduction of the Safer Communities element is due to the transfer of resources to support the new Police and Crime Commissioner.

5.1.2.2 Future Special Grant Estimates

Since the 2011/12 budget was set in February 2011, local forecasts for 2012/13 resources have been reduced. The following table identifies the allocations for 2012/13 and the current assumptions on future allocations:

Figure 10: Future Special Grant Funding Estimates

Previous Planning Assumptions 2011/12 MTFP	2012/13 Estimated	2013/14 Estimated		2014/15 Estimated	
	£m	£m	%	£m	%
Early Intervention Grant	18.894	17.949	-5.0	17.052	-5.0
2012/13 Council Tax Freeze Grant *	n/a	n/a		n/a	
New Homes Bonus Grant **	0.000	0.000		0.000	
Learning Disabilities & Health Reform Grant	0.072	0.068	-5.0	0.065	-5.0
Local Services Support Grant comprising:					
• Lead Local Flood Authorities	0.451	0.438	-5.0	0.416	-5.0
• Inshore Fisheries Conservation Authority	0.134	0.127	-5.0	0.121	-5.0
• Safer Communities Fund **	0.000	0.000		0.000	
• Extended Rights to Free Travel **	0.000	0.000		0.000	
Original Forecast	**19.561**	**18.582**	**-5.0**	**17.653**	**-5.0**

* Not envisaged at time of 2011/12 MTFP

** No information was available at the time of the 2011/12 MTFP on the continuation of these grants which were eventually announced too late to be incorporated into the estimates.

Actual / Future Planning Assumptions 2012/13 MTFP	2012/13 Actual	2013/14 Estimated		2014/15 Estimated	
	£m	£m	%	£m	%
Early Intervention Grant	**19.501**	17.552	- 10.0	15.796	- 10.0
2012/13 Council Tax Freeze Grant*	**5.065**	0	- 100.0	0	0.0
New Homes Bonus Grant	**1.266**	1.266	0.0	1.266	0.0
Learning Disabilities and Health Reform Grant	**0.086**	0.077	- 10.0	0.070	- 10.0
Local Services Support Grant comprising:					
• Lead Local Flood Authorities	**0.461**	0.415	- 10.0	0.373	- 10.0
• Inshore Fisheries Conservation Authority	**0.134**	0.121	- 10.0	0.109	- 10.0
• Safer Communities Fund	**0.250**	0	- 100.0	0	0
• Extended rights to Free Travel	**0.580**	0.522	- 10.0	0.470	- 10.0
Revised Forecast	**27.343**	**19.953**	**- 27.0**	**18.084**	**- 9.4**

Note: The percentage values show the movement from the previous year.

The significant movement between years 2012/13 and 2013/14 is due to the status of the various grants. For example, the 2012/13 Council Tax Freeze Grant is new for that year only (known as one-off), the Safer Communities Fund transfers to the new Police and Crime Commissioners from April 2013 and although the New Homes Bonus continues for a rolling 6-years, the new national resources for this grant are limited and it is expected that any increase over 2012/13 levels will be funded by Central Government via a top-slice from Formula Grant and so should not be considered as additional resources. In view of this, no increase in resources has been assumed for 2013/14 or later years.

5.1.3 Ring-fenced Specific Grants

The Government also issue a number of grants for specific purposes. As with Special Grants, these are allocated directly to local authorities according to specific policy criteria (and separate distribution methodologies), but can only be spent in the prescribed manner. If the local authority does not, or fails to spend it within the limited timescale, it must return the funding to central government.

5.1.3.1 Dedicated Schools Grant – Ring-fenced

The largest single funding stream available for County Council services is the Dedicated Schools Grant [DSG] from the Department for Education [DfE]. This specific grant is ring-fenced to education through the Schools Budget. Because of the close correlation between the budget and the grant, the process of setting the Schools Budget is run separately but in parallel with the MTFP.

The DSG allocation is determined by multiplying the number of pupils attending each school in the January preceding the start of each financial year with a Guaranteed Unit of Funding per pupil. The value for 2012/13 for Somerset has been announced as £4,667.57 per pupil and on the basis of current estimates, the total grant allocation is forecast to be £321.185m for 2012/13. This is before adjusting for recoupment of grant funding for pupils at Academies.

Currently, 30 schools have converted to Academy status, the majority of which being the larger secondary schools where 67% of pupils aged 11-16 now attend an Academy. This significantly reduces the DSG funding as the Government now allocated this money directly to the Academy.

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 1 February Cabinet[11]. Proposals have been considered by Schools' Forum throughout the development of this year's local funding formula, before seeking final approval on the 1 March 2012 in accordance with the School Finance Regulations 2010.

The mechanics of the relationship between DSG, the Local Authority budgets and the Individual Schools Budget are contained within Appendix 4.

5.1.3.2 Public Health Grant – Ring-fenced

As part of the reforms to the National Health Service, the Department of Health confirmed in July 2011 that responsibility for the majority of public health services would transfer from Primary Care Trusts to upper tier local authorities from April 2013. The intention is that the local authorities will be funded for the delivery of these services by a ring-fenced grant which will have clearly defined purposes. The Department of Health is undertaking an extensive exercise to establish the baseline for future funding allocations and has provided an indicative projection for Somerset for 2012/13 of £12.538m. For a variety of reasons, the final figures for 2013/14 and future years will not be made available until late in 2012 when the finalised set of responsibilities will also be available.

This leaves a degree of uncertainty around the MTFP insofar as neither the level of support nor the services to be supported by the County Council are available. The assumption in this document is that the impact will be cost neutral.

5.2 Local Resources and Future Planning Assumptions

In addition to Government grants, the Authority has access to locally determined resources.

5.2.1 Council Tax

Council Tax is the largest element of general taxation received by the Council. The technical aspects of the calculation are contained within Appendix 5. Somerset's precept accounts for approximately 73% of the total Council Tax bill (varies marginally by District Council area). Other preceptors include the Avon and Somerset Police Authority, the 5 District Councils, Devon and Somerset Fire Authority and Town and Parish Councils.

The key components of Council Tax are the taxbase and the Band D Council Tax rate levied. The local eligible taxbase is calculated for a notional number of Band D properties to which are applied discounts or exemptions for various categories of property. The Somerset taxbase has increased steadily for the last 4 years by approximately 1,000 properties per annum or just over 0.5 % as shown in the table below (Figure 11). The 2011/12 to 2012/13 forecast from the District Councils shows an above average increase for 2012/13. However the estimates for the future years 2013/14 and 2014/15 have been based on a more modest increase of 0.50%.

Figure 11: Taxbase Increases within Somerset

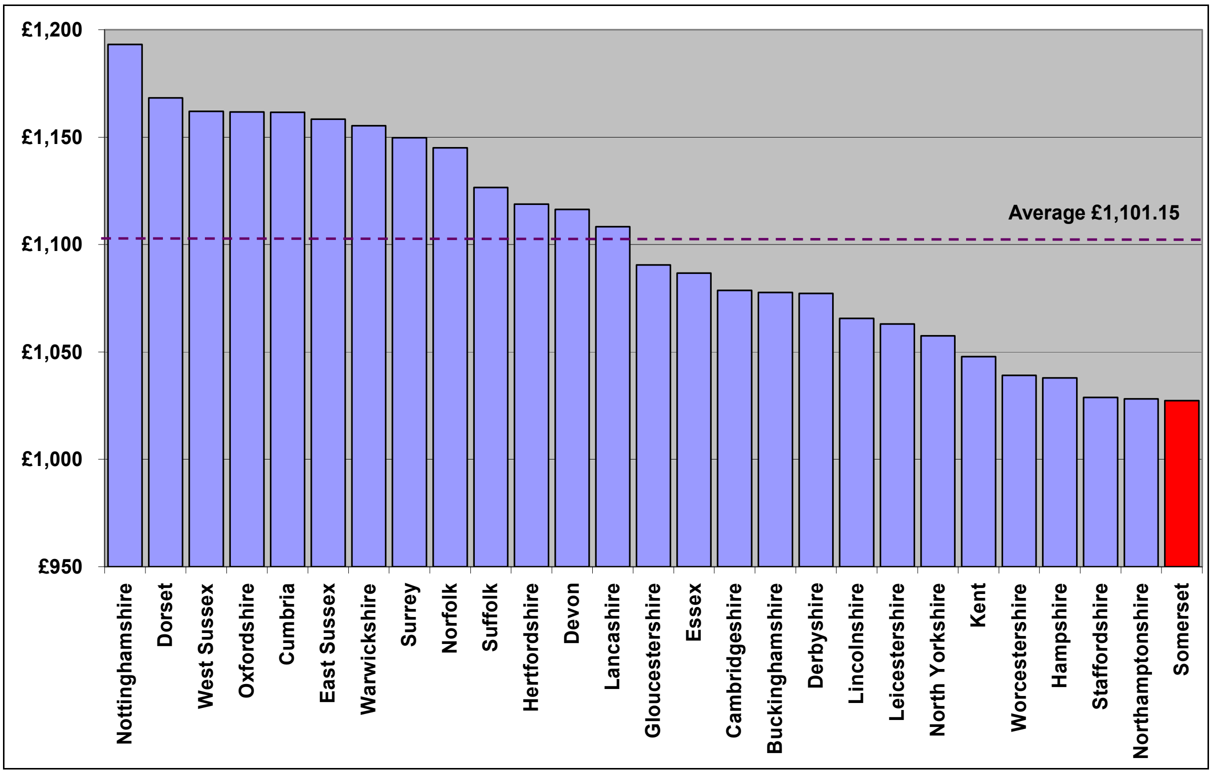
Year	Taxbase	Taxbase Increase	Percentage Increase
2008/09	192,704		
2009/10	193,804	1,100	0.57%
2010/11	194,819	1,015	0.52%
2011/12	196,070	1,251	0.64%
2012/13	198,868	2,978	1.43%
2013/14 estimated	199,863	995	0.50%
2014/15 estimated	200,861	998	0.50%

The SCC Council Tax level for a Band D property has been set at £1,027.30 since 2009/10, having been frozen for 2010/11 and 2011/12. Each 1% increase in the Council Tax would raise some £2m. The current County Plan highlights the continued intention of the Administration to freeze Council Tax for a further year and thereby claim the additional one-off grant funding. This has been reflected in the assumptions in the MTFP. In 2012/13 the value of the income generated through Council Tax can be calculated as £204.297m (being £1,027.30 [Band D Charge] multiplied by 198,868 [Taxbase] = £204.297m).

Given the current County Plan intentions, an assumption has been made for planning purposes that the freeze will continue for 2013/14 and 2014/15.

The Somerset Band D Council Tax is the lowest charge of any Shire County in England as illustrated in Figure 12 below:

Figure 12: Shire Counties 2012/13 Band D Council Tax Charge



The final element of the Council Tax that impacts on the MTFP is the surplus or deficit on collection. This can be extremely variable as economic and other factors change. Historically the level has generally been a surplus but the County's share has ranged from £0.777m in 2009/10 to £3.199m for 2011/12. Whilst an estimate has been made on the movement in the taxbase, a nil estimate (i.e. neither surplus nor deficit) has been made for the remainder of the MTFP period.

In addition to the inconsistency of historical data, there is also a new factor that could adversely affect the District Collection rates as a result of the Localisation of Council Tax Support i.e. Council Tax Benefit. From April 2013, the design of benefit allowances will be determined locally within parameters set by Central Government, including the requirement that it should not adversely affect pensioners. This in conjunction with a 10% cut by Central Government on what used to be an area 100% grant funded. This may result in lower levels of benefit for some low income households and potentially higher levels of default in payment and lower collection rates for the District Councils. A further risk relates to the take up of the new local scheme. Take up is expected to be higher where a scheme is promoted as a discount rather than a benefit. A simple calculation based on the reduction in grant levels suggests that the County Council may be exposed to losses on collection of between £2m and £3m. Given the range of uncertainty and the difficulty in forecasting the impact of the changes no allowance has been made on future surpluses which in the past have supported the delivery of a balanced budget.

In summary, therefore, the planning assumptions within the MTFP for Council Tax are as follows:

Figure 13 Planning Assumptions within the MTFP for Council Tax

	2012/13	2013/14	2014/15
Band D Council Tax *(A)*	£1,027.30	£1,027.30	£1,027.30
% Change in Band D	0.0%	0.0%	0.0%
Taxbase *(B)*	198,868.41	199,863.00	200,861.00
% Change in Taxbase	+ 1.43%	+ 0.50%	+ 0.50%
Estimated Council Tax Due *(A x B)*	£204.298m	£205.319m	£206.345m
Collection Surplus / Deficit (from previous year) *(C)*	£3.199m surplus (2011/12)	£0m Breakeven (2012/13)	£0m Breakeven (2013/14)
TOTAL Council Tax *(A x B) + (C)*	**£207.497m**	**£205.319m**	**£206.345m**
% Change in Council Tax	**+ 2.1%**	**- 1.0%**	**+0.5%**

Note: The percentage values show the movement from the previous year.

5.2.2 Fees and Charges

The Council can also raise additional income through charging fees for a wide variety of services, ranging from Adult Social Care to discretionary services provided through Libraries. Fees and charges apply to services provided both to individuals and organisations outside the direct control of the Authority such as Academies. Overall, SCC estimates that it will raise £125m through fees and charges in 2012/13.

Income generation is a key strategic priority for some services where it can offset a substantial proportion of the revenue costs of the service e.g. Heritage income now recovers 29% of the costs. Elsewhere in Adult Social Care for example the Council has a statutory duty to meet assessed needs and maintaining the real terms level of fees and charges assists with these responsibilities.

Fees and Charges are considered annually alongside the MTFP and where necessary are reported through the Elected Member decision making process. In setting fees and charges, the Council will consider a range of issues as they can result in a change in behaviour by users which may have consequential impacts for the Council. In assessing the level of charges, one or all of the following may be relevant:

- Cost of living and annual benefit increases;
- Market factors;
- Legislation and national guidance and/or rates;
- Demand and potential impact on demand;
- Local Policy Requirements;
- Local Agreements;
- Sustainability of service provision;
- Benchmarking.

Consideration is also given to the structure of charging mechanisms to ensure that they remain relevant and reasonable in the context of the service as a whole. Once determined, the impact of changes in fees and charges is incorporated as appropriate within the overall MTFP.

6 Pressures and Demands for Resources

6.1 Overview

The Council's financial and service environment is constantly changing, and the Council continuously updates its priorities in response to levels of demand and emerging needs.

A number of factors create demand for resources. The most significant of 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, i.e. demographic pressure;
- 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;
- Any additional costs to enhance or redesign services; and
- The cost of repaying external debt.

Each of these is considered in more detail below

6.2 Funding of inflation

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 general 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. In particular, the RPI index includes Council Tax and mortgage interest payments which are excluded in the CPI. The Council therefore uses the CPI for general inflation as it is more representative for the types of goods and services required to deliver Council services.

Throughout the last year, inflation was at a relatively high level, with the CPI index peaking at 5.2% in September 2011. However, towards the end of 2011, and crucially just before setting the 2012/13 budget, inflation levels began to fall rapidly. The financial impact on the budget arising from such movements can be significant and 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. The guiding principle that the Council has historically adopted is that inflation should be fully funded in the interests of transparency of decision making. Without this, there is the risk that reductions in expenditure are hidden as managers have to make decisions to cut services in response to what is a real terms cut in budget, if inflation is not funded.

There are a number of different areas of the budget where specific inflation uplifts are applied. The majority of potential inflation is seen in the core components for service delivery namely pay, pension contributions, utilities, and services delivered through formal contracting arrangements with other organisations. The principle of transparency and allocation of inflation to these areas has been maintained subject to the individual circumstances e.g. timing of contract renewals or renegotiations.

General Price inflation also impacts on Council costs. However the budgets affected are more variable and in this area a decision has been taken to cash limit budgets at 2011/12 levels despite the risk that there may be hidden cuts in terms of purchasing capacity. The following sections describe the issues and outcomes for the key areas of inflation.

6.2.1 Pay

Pay inflation takes account of the annual pay awards negotiated at a national level for local government employees' 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.

During the 2011 Autumn Statement, the Chancellor announced that public sector pay awards would average 1% for each of the two years after the current pay freeze comes to an end. This was to be accompanied with reductions in DELs, with Local Government reducing by £240m in 2013/14 and £497m in 2014/15. Although this announcement did not specify which public employee groups would benefit from this average 1%, the reduction to the Local Government DEL suggests that some public sector workers such as teachers or nurses would be entitled to a higher uplift with Local Government Staff balancing the equation with a lower uplift or continued freeze.

Due to the level of uncertainty surrounding whether Local Government employees would receive an inflationary uplift, or at what level, SCC assumed a level of Contingency that should be sufficient to meet the costs should they arise. On 23 February 2012, subsequent to the County Council formally agreeing the budget, the Local Government Employers formally announced that Local Government pay will be frozen for a third year and staff will not receive an inflationary uplift on their pay in April 2012.

6.2.2 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 subsequent three-year period to ensure that there are sufficient resources within the fund to meet expected obligations over the long term.

The last valuation was undertaken as at 31 March 2010 and indicated that the fund was 74% funded and therefore required additional payments to reduce the deficit. The Actuaries recommended that the employer contribution rate be set at a flat rate of 13.5% for the years 2011/12 – 2013/14. This reflects the on-going financial cost of each new year of service for current staff. In addition, a cash payment should also be made to recover the deficit within the scheme. This is required to ensure that progress is made towards the deficit reduction irrespective of the size of the future payroll. The cash top-up was set at £3.77m for 2011/12, £4.88m for 2012/13 and £5.83m for 2013/14.

The combination of these elements, the flat % rate and the cash top-up, equate broadly to a variable % of pay of 15.7% in 2011/12, 16.3% in 2012/13 and 16.9% in 2013/14. The MTFP for 2012/13 incorporated a rate of 17.1% for budgetary purposes so some provision is already included in forward planning for the year-on-year increase in the cash top-up. We have also assumed an increase of 1% per annum (i.e. 18.1% in 2013/14 and 19.1% in 2014/15) reflecting the fact there is likely to be a reform of the scheme by 2014/15 and the risks attached to the shrinking payroll.

6.2.3 Utilities Inflation

The majority of utility costs are linked to central contracts covering most of our buildings. These contracts were updated and renewed in 2011/12, and therefore we have stability within these areas of cost, with either a price freeze or even a 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 reductions in unit price, offset the nominal increase in usage and therefore we have made no adjustments to utilities budgets.

6.2.4 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 contractualised inflationary uplifts that use a variety of indices ranging from Baxter to Annual Survey of Hours and Earnings (ASHE). These are funded in the Budget through 'contractual' inflationary variations. In monetary terms, these contractual obligations have the biggest impact on the budget year-on-year.

A considerable amount of work has been undertaken to renegotiate and/or re-new these contracts in order to reduce their future inflationary impact. Overall, these efforts have proved very successful across many areas, with the cost pressures in 2012/13 being driven down to their lowest levels. There is however a risk of inflation allowances increasing from 2013/14 (see Figure 15) reflecting the end of a two-year arrangement agreed with Adult Social Care providers as part of the budgetary negotiations undertaken in 2010/11.

6.2.5 General Price inflation

General Price inflation (i.e. non contractrual) has been measured using the Consumer Price Index (CPI), and historically has covered all remaining areas of the budget not included within the above categories. However, the tight funding position of the Council has meant that we have not applied CPI automatically to the remaining budget areas; instead General Price inflation has been restricted to areas beyond the Council's control in terms of volume or purchasing choice such as regulatory increases in National Non-Domestic Rates. In all other areas budgets have been cash-limited at 2011/12 levels. This must be recognised as a real terms cut in resources for services and this will require effective management action such as volume reductions in purchasing levels or efficiency gains through improved procurement methods.

No specific allowances are made for inflation within the Capital Investment Programme. Individual projects within the programme will be subject to a tender procurement process. The Council reserves a portion of Grant as a contingency sum which could be utilised for individual project approvals where the tendered sum exceeds the approved amount by a significant amount. Initial attempts would be made to negotiate the excess out through a review of the tender. Where approvals relate to general programmes, the approval is cash limited so services are required to maximise the provision within the available resources using contract terms and efficient programming.

6.3 Funding Demographic pressures

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. The Council takes the same approach to demographic pressures as it does to inflation, it seeks transparency for decision makers and services are expected to identify the impact of demographic movements and estimate the consequential budgetary impact. Any actions to control or restrict this pressure would normally be expected to be shown as savings or cuts. Some of the major areas of demographic pressures are highlighted below:

6.3.1 Social Care

As outlined previously, one of the most significant areas of demographic pressure in the Revenue Budget in SCC and other upper tier authorities is Social Care, for both Adults and 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 14) illustrates the level of these pressures as currently assessed in the relevant budget areas.

Figure 14: Cost of Social Care Demographic pressures and New Burdens placed upon Somerset County Council

Budget Area	2012/13 £000's	2013/14 £000's	2014/15 £000's	Total £000's
ASC – Older People	285.0	535.0	535.0	**1,355.0**
ASC – Mental Health	285.0	285.0	285.0	**855.0**
ASC – Physically Disabled	0.0 *	258.0	258.0	**516.0**
Adults with Learning Disabilities	2,171.5	2,471.5	2,471.5	**7,114.5**
TOTAL ADULTS	**2,741.5**	**3,549.5**	**3,549.5**	**9.840.5**
Children's Social Care	1,720.0 **	0.0 **	0.0 **	**1,720.0**
Total Social Care Pressure	**4,461.5**	**3,549.5**	**3,549.5**	**11,560.5**

Notes:
* It is expected that the current budget will be sufficient to meet the demand in 2012/13 following a lower than expected increase in 2011/12
** A further £0.800m has been included within Contingencies to cover a potential rapid increase in placements.

These costs can be extremely volatile depending on the needs of individuals. High dependency individuals not currently anticipated in the demographic profiles can result in high cost placements in the year that would inflate the projections hugely. A further risk exists as a result of developments on the ‘ordinary residence’[12] issue, with other local authorities no longer paying us for some service users, now situated in Somerset.

6.3.2 School Places

There are also demographic pressures on the Capital Investment Programme, particularly as a result of the recent increase in the birth rate affecting the schools population and the need for additional basic need classroom space. This is compounded by changes in the geographic population profiles and residential developments associated with all the core population centres.

6.4 Changes in Government Policy impacting on County Council costs

6.4.1 Levies and Taxation

Increases in Government Levies, or new additional statutory duties have created a demand for extra resources in some areas – for example increases to Landfill Tax, and the Carbon Reduction Scheme. No additional funding is provided by government to meet these costs, and therefore we have to redirect funding from other service areas.

6.4.2 Additional Responsibilities

The Chancellor’s Autumn Statement introduced an additional responsibility for Local Authorities to provide more access to early education for disadvantaged 2 year olds, doubling the threshold from the 20% most disadvantaged to the 40% most disadvantaged. Whilst the normal principle is that government departments should fully fund the additional costs of such policies, the value of these changes is generally calculated on a national formulaic basis possibly leading to imbalances in the funding distribution between an authority’s need and the resources available. At a local level there is likely to be some discretion on how the policy is implemented. Depending on the local circumstances, funding may not reflect the impact of these changes and it may be necessary for the Council to increase the level of financial support over and above the level supported by Central Government. Where Government support is provided by unring-fenced grant, the local strategy is to ensure transparency. In these cases the MTFP process would identify the gross estimated local costs and the gross level of grant; services are not expected to offset the grant income against costs. This allows the Council to make genuine local choices over how it utilises unring-fenced resources and local policy decisions on the most appropriate means of delivering the new responsibility.

Additional costs are also being incurred as the Council implements its new legislative responsibilities as Local Lead Flood Authority. It now has a statutory requirement to manage inland flood risks from ordinary water courses, surface water and ground water. The responsibility has grant support through the Local Services Support Grant.

The transfer of key public health responsibilities to Local Government will be one of the largest transfers in of service to Councils for a number of years. Estimates are that the current cost of services are between £12m and £13m, however further information will be needed to clarify exactly what is being transferred and how the support costs and overheads associated with the transfer will be funded. As with all transfers of responsibility, there is rarely an exact match between the funding received and the local costs of delivery and this could well result in additional pressures on the MTFP. At this stage due to high levels of uncertainty, the transfer of responsibilities is assumed to be cost neutral in line with Government expectations.

6.4.3 Other Changes in Responsibility

The Academies policy is also causing indirect pressures on local funding. Whilst technically this is a transfer out of locally authority control, the top-slice being removed from local funding through the Formula Grant top-slice cannot be matched by the loss of costs locally. The Local Authority has to continue to provide support services for schools remaining under Local Authority control and these have residual fixed costs that cannot be reduced despite the assumption by Government of a pro-rata reduction for transfer to Academies. This leaves the Local Authority with a hidden pressure that has to be accommodated because it is losing the benefit of economies of scale.

6.5 Locally generated policies generating additional costs

The County Plan and Change Programme will also give rise to some additional costs that 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. The largest such investment is for the redesign of service provision across the Authority, which itself is one-off and is intended to be the mechanism to identify and deliver a balanced budget from 2013/14. There is also a projected capital investment requirement which is incorporated into the forward programme and is expected to be financed from the capital receipts realised from assets released for sale.

6.5.1 The Change Programme

In order to allow the Council to continue to provide the high quality services we pride ourselves on, we will need to review the ways in which we deliver them. We will need to build new relationship with partners, communities and residents and challenge ourselves to find new ways of working that deliver services to address the needs of our residents.

Our Change Programme will redefine the future shape, role and purpose of the Authority, focussing on protecting vulnerable children and adults; developing the economy and making the organisation more accessible and ‘fit for purpose’ whilst ensuing we provide value for money. This includes a review of our senior management structure and many of our key contracts with service suppliers to release savings and ensure that we have greater flexibility in the future.

Although the Change Programme itself will be self-funding over its lifetime, investment will be required up-front in order to realise the savings, not just to address the known funding shortfall but to prepare the Authority for the future. We have therefore consciously augmented our levels of reserves. As the programme identifies ‘invest to save’ opportunities, these funds will be utilised.

6.5.2 The cost of repaying external debt

Debt servicing is one area of the Council’s budget where the demand for resources is reducing. This is due to the change in Government policy that provides direct grant to fund capital expenditure, instead of supported borrowing allocations. The Administration is committed to reducing borrowing and has restricted the size of the Capital Investment Programme to the total of grants and locally raised capital receipts. If the Government continues to provide capital grant for future years, the Capital Investment Programme could be expected to continue at similar levels. If however the Government returns to supported borrowing approvals, the Authority will have to consider the potential impact on key services if it wishes to maintain the current financing policy. On the basis of the current arrangements continuing, there is an estimated annual reduction in the revenue consequences of borrowing of between £1.25m and £1.75m per annum.

6.6 Revised Assumptions and Impact of Pressures and Demand

Realistic valuations are required for the additional costs likely to be experienced in the cost of service provision. Figure 15 shows the movement within the MTFP estimates for the range of pressures and demands currently identified in the MTFP. Detailed explanations of the non-inflationary pressures can be found on the County's website[13]

Figure 15: Cost Pressures

Previous Planning Assumptions 2011/12 MTFP	2012/13 Estimated	2013/14 Estimated		2014/15 Estimated	
	£m	£m	%	£m	%
Inflation	5.165	9.324	+ 80.52	10.260	+ 10.04
Demography	3.991	4.229	+ 5.98	4.480	+ 5.94
Government Policy	2,987	1.257	- 57.92	1.380	+ 9.79
Service Enhancement	- 0.083	0.525	+ 734.06	0.500	- 4.76
Capital Financing	- 1.200	- 1.541	+ 28.42	-0.769	- 50.10
Original Forecast	**10.860**	**13.794**	**+ 27.02**	**15.851**	**+ 14.91**

Actual / Future Planning Assumptions 2012/13 MTFP	2012/13 Actual	2013/14 Estimated		2014/15 Estimated	
	£m	£m	%	£m	%
Inflation	5.000	9.028	+ 80.57	8.902	- 1.4
Demography	4.462	3.550	- 20.44	3.576	+ 0.75
Government Policy	2.961	1.071	- 63.84	1.123	+ 4.92
Service Enhancement	7.754	- 0.778	- 110.04	0.250	- 132.13
Capital Financing	1.755	- 1.231	- 29.86	-1.324	+ 7.55
Revised Forecast	**18.422**	**11.639**	**- 36.82**	**12.528**	**+ 7.63**

Movement in Pressures	**7.562**	**- 2.154**	**- 15.62**	**-3.323**	**- 20.97**

Note: The percentage values show the movement from the previous year.

It should be noted that the cost pressures outlined above will change during the 2013/14 to 2015/16 MTFP cycle. Although the movement in inflation was favourable during 2012/13, it will be vulnerable in future years to wider national and international influences e.g. fuel prices. 2013/14 also sees the expiry of a two-year agreement with the care sector to control price increases, which is the primary cause of the apparent increase in inflation between 2012/13 and 2013/14. The latter two years of the MTFP will also see the impact of the changes in responsibility described in the earlier section of this document. It should be anticipated that further service pressures will come to light during the next MTFP round.

7 Managing Risk and Financial Stability

7.1 Overview

The MTFP process not only takes account of the resources and pressures that arise from day-to-day activity, it also has to accommodate consideration of the unexpected. This helps protect services against short-term fluctuations in resources or demands, which would otherwise require changes to be made to ongoing service provision. This requires consideration of the Council's financial capacity to manage the unexpected and deal with peaks and troughs in demand. The key mechanisms for managing such uncertainty and delivering financial stability are Contingencies and General Reserves.

In the context of the budget, the financial risks can be broadly grouped into 3 categories:

- **Group 1:**
  Risks that can be identified with some certainty and for which a reasonable estimate of impact can be made e.g. contract inflation. In these cases, service base budgets have been adjusted to reflect the impacts as described in demands and pressures above;

- **Group 2:**
  Risks that can be identified that are more certain to materialise but for which the size and scale of the risk is subject to some unknowns e.g. the possible acceleration over current levels of demographic demand for Children's Social Care. These risks either have a higher level of uncertainty as to whether they will materialise or they cannot be quantified sufficiently to justify full provision within service budgets. In these cases, the Contingency Budget is the most appropriate solution and this is discussed further below;

- **Group 3:**
  Risks that can be identified but for which the likelihood of occurrence, their timing or impact are very uncertain. In these cases, the most appropriate means of delivering financial stability is through reserves and balances to ensure that major year-on-year change or significant in-year pressures do not de-stabilise ongoing services.

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 the potential financial impact of risks, the greater is the need for contingency planning and reserves. Ensuring that they are maintained at a healthy level in order to manage risks is therefore an important aspect of Medium Term Financial Planning. Group 1 risks have been managed as part of the identification of demands and pressures in the core service planning. The Group 2 and 3 risks are considered below in the context of Contingencies and Reserves respectively.

7.2 General Contingency Provision

The Council expects to manage Group 2 risks through the Contingency Budget. In assessing the level of this budget, the key risks have been identified and estimated. These cover a range of issues and include:

- The projected cost of a pay award;
- The year-on-year movement in the numbers of Children Looked After, which has been particularly volatile as a result of a number of high profile child abuse cases

- Service overspends due to the withdrawal of general price inflation;
- Variations between the planned and actual delivery of pressures or savings in 2012/13;
- Increased responsibility in relation to disadvantaged two-year olds and the risk that the numbers of children or the costs are not fully matched by the accompanying increase in Early Intervention Grant;
- Current contract negotiations not delivering the costs or savings anticipated;
- Variations between anticipated and actual redundancy costs;
- One-off issues such as public enquiries.

Careful consideration has to be given to the appropriate size of the Contingency. Corporately the Council has a history of delivering outturn at or slightly below budget, although there may be some significant over and underspends at individual service level. This ability is due in a large part to an active involvement of senior members to budgetary control combined with a pragmatic approach to making suitable Contingency provision and applying it as required during the financial year. The current MTFP will place significant demands on the Council's capacity and in light of this and the issues outlined above the Contingency Budget has been set at £13m for 2012/13.

7.3 Revenue and Capital Reserves

The Group 3 risks would normally be managed through General Reserves. These provide capacity for the Council to manage fluctuations in ongoing demand and smooth the impact of rapid year-on-year change in levels of resources. This provides time for levels of service provision to be adjusted and suitable arrangements to be put in place to mitigate as far as possible the impacts of such fluctuations. The financial climate for local authorities in 2013/14 appears particularly uncertain both in relation to the totality of resources available for the sector and the distribution of those resources. This uncertainty applies both to Capital and Revenue resources and increases the need to ensure that there are sufficient reserves in place to enable the Council to undertake managed adjustments to its activities.

The Council holds two main reserves for budgetary risk management; the General Reserve 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.

7.3.1 Risks affecting General Reserves

The General Reserve is targeted to protect the Council in the event of the more unpredictable risks arising. An exercise has been carried out to estimate the potential financial value of the 'High Impact' / 'Low Likelihood' risks that could have a significant financial impact on the Authority if they arose. This exercise takes account of available contingencies, and represents the additional financial impact that would affect Reserves if available contingencies were fully required. They include risks that could arise as a result of influences outside the direct control of the County Council, such as:

- **Civil Emergencies and Natural Disasters.**

  Gloucestershire, Cumbria and Cornwall have all in recent years experienced serious flooding incidents. Somerset is equally vulnerable with low lying levels and high moors with large river catchments. Whilst every effort would be made to manage such events within the existing budgets, the likelihood is that the Council would need additional resources beyond the capacity of existing budgets and these would have to be met from General Reserves at least in the short term;

- **Pooled Budgets.**

If local health partners were to pull out of pooled budget arrangements at short notice, financial impact would be significant;

- **Institutional Insolvency.**

Our Treasury Management Strategy as adopted at Council on 15 February is prudent and is regularly reviewed. It has an upper investment limit of £25m; however, our exposure to financial loss could be as much as this for each institution that becomes insolvent with that threshold level of investment;

- **Insurance Claims.**

The national culture is becoming increasingly litigious and the Council cannot protect itself entirely from legal challenge from groups or individuals. Although the maximum impact of any single legal claim against the Authority for negligence, for example, is limited to a £2m excess, there remains a potential risk the Authority could face more than one claim in any one year;

- **Central Government Funding**.

The 2012/13 financial year cannot be considered in isolation. The risks attached to funding levels in 2013/14 and later years include continuing Health and School Reforms, the Local Government Resource Review and the Localisation of Council Tax Support (previously know as Council Tax Benefit). These mean that it is becoming increasingly important to hold reserves capable of smoothing this transition and enabling the Council to manage service change in an effective manner.

A range of Group 3 operational and financial risks have also been identified arising from the activity of the organisation itself some of which could result in a multi-million pound impact on the Income and Expenditure Account and capital resources should they materialise. They include:

- **Contract Re-negotiation.**

The Change Programme is expected to generate a significant shift in the way the Council delivers services. A number of key services are delivered through single major contracts. In order to deliver the flexibility desired and described in the County Plan, it may be necessary to re-negotiate some of these contracts in order to realign the operation to the new more flexible environment. This process could result in a one-off cost to the Council that it isn't appropriate, at this stage, to formally budget for, due to the uncertainty around specific services, pending the service reviews. Any costs however would have to be met and Reserves would be an appropriate option to deal with such one-off costs;

- **Acceleration of Savings Options.**

In order to close the budget gap in 2012/13 a decision has been made to accelerate some savings that were originally planned for 2013/14. The Contingency budget recognises that there may be a delay in delivering some savings as this group of saving options represents a higher level of risk. Whilst it is expected that this acceleration is achievable, there is an increased risk that the full year savings may not be realised in 2012/13 as a result of the reduced timeframe;

- **General Deliverability of Savings or Unbudgeted Pressures.**

The budget for 2012/13 includes some £24m of service cuts. This follows two previous years of significant budget reductions totalling in excess of £53m. As the Council's financial capacity reduces in the face of falling resources, its ability to be flexible with remaining budgets also falls. The scale of change and the cumulative impact of a number of savings may have a disproportionate effect on some demographic groups. This may lead to an increase in displacement demand for expensive services such as residential care for the elderly and young people. Historically, there may have been an option to vire resources but the increasing concentration on core services means that there will be greater reliance on General Reserves as funding of last resort. The organisation is also trying to deliver these at the same time as a challenging Change Programme at a time of reducing resources, whilst at the same time continuing to deliver core services;

- **Change Programme.**

This programme is the mechanism being used to identify the savings needed to deliver the £22m shortfall in resources identified in the MTFP for 2013/14. Given that this is in addition to the £11m of savings already identified, this is a significant challenge, since these changes need to be in place for April 2013. A healthy General Reserve position in 2012/13 would assist in mitigating any difficulties faced in identifying or implementing the Change Programme by April 2013.

- **Other Risks**
    - <u>Contractor Failure</u>. The current economic climate may mean that some of the Council's partners and contractors fail financially. This could have consequences both in terms of service provision and additional cost.
    - <u>Reductions in staffing</u> may lead to a reduction in governance roles such as health and safety representatives, first-aiders and fire wardens. These roles are important to the prevention of death and injury. We will need to change our Health and Safety Policy to reflect reductions.
    - <u>Increased Insurance Claims</u> Potential for an increased likelihood of insurance claims should levels of investment result in a material change in the condition and management of the highways network.

7.3.2 Risks affecting Capital Reserves

A number of Group 3 risks have also been identified in relation to the Capital Investment Programme. They include:

- **Predicted Demand.**

There is uncertainty within the Capital Investment Programme surrounding when Basic Need and New Schools Provision might be required. Increases in the birth rate combined with a shift in demographic demand towards the core market towns is leading to a number of schools being oversubscribed. Whilst provision has been included within the Capital Investment Programme, if this trend accelerates it may require further additional investment. Predicting the timing and location of new primary schools has also been particularly difficult in recent years. This requirement is entirely dependant on developers going ahead with new residential developments, so there is a risk that actual demand could exceed these levels;

- **Third Party Contributions.**
Some capital investment projects are financed partially from third party contributions. In the event of the default of a contributor to a capital scheme that is already in progress, it would need to be financed by alternative means. The Capital Fund provides the opportunity for this to happen without an immediate impact on the Revenue Budget;

- **Change Programme (including SMART Office).**
Provision has been made within the Capital Investment Programme during 2011/12 and 2012/13 for the completion of this project. However, until such time as the service reviews are completed, it will not be known whether or not these sums will be sufficient. Historically, the actual level of spend has been below predictions within year, and overall projected overspends have been well under 1% of the 'live' approvals for a number of years. It is reasonable to assume that this level of control can be maintained. With current active approvals in the Capital Investment Programme of £244m, a 1% overspend would equate to £2.44m;

- **Capital Receipts**
The Capital Fund provides cover for capital receipts which are delayed or do not realise their estimated levels. The receipts assumed for the MTFP period include a number of significant sales which are dependant on completion of other projects including Smart Office. A cautious view has been taken on the application of these but significant failure to realise them would mean alternative funding sources would have to be identified, for example the Capital Fund;

- **Pump Priming**
In some cases early development costs of potential capital projects cannot be treated as capital expenditure. Capacity is needed to enable this work to be progressed 'at risk' without impacting on the Revenue Budget;

- **Civil Emergencies and Natural Disasters.**
Whilst these are more likely to require immediate revenue resources in the short term, it is also possible that there could be capital costs associated with reinstating property or infrastructure damaged as a result of an incident.

7.4 Future Levels of Reserves

In 2011/12, the Council was operating with General Revenue Reserves that were considered to be Low to Adequate, at between £7 and £11m. It is expected that the reserves at the end of 2011/12 will have exceeded this and reached £19.3m but this is considered necessary in light of the financial position for 2012/13 and beyond, which have significantly higher levels of risk and uncertainty. Some of the risks described above have a combined potential impact higher than this level of General Reserves.

The purpose of General Reserves however, is not to provide 100% cover for all possible eventualities, this would result in significant resources tied up against events that cumulatively are unlikely to happen. It is therefore important to recognise that those relating, in particular, to the internal changes are more likely to occur than in previous years, as the Council continues to adapt and change. As a result it is appropriate to ensure the provision of a higher level of General Reserves than in recent years. The Council is therefore taking the opportunity to set aside £1.805m from one-off funding received as part of the Council Tax Freeze Grant to supplement reserves. This, in conjunction with the other movements in the revenue position, are expected to return reserves to a position where they will be sufficient to manage any significant movements arising from any of the revenue impacts described above. In particular they will protect the Authority from any delay in the process of implementing the savings targets or the outcomes of the Change Programme.

The Capital Strategy agreed in July 2011 set the projected level of capital reserves at between £3 and £6m. The projected balance at outturn is £3.4m. Given the level of the risks identified above, the 2012/13 Revenue Budget includes an additional transfer of £2.3m into the Capital Fund. This transfer is from one-off sources and is therefore compatible with the use of such resources as the nature of the expenditure likely to be provided from the Capital Fund will be one-off. Assuming that there are no unplanned drawings on this Fund, the projected balance at the end of March 2013 would be £6.7m. This is marginally higher than the projected level of capital reserves in the Capital Strategy but given the level of uncertainties, including the absence of information about future levels of Central Government support from the Department for Education or Department of Health in particular, this is a prudent approach. If the pressures do not materialise, the resources can be committed against future programmes.

7.5 The opportunity cost of holding reserves

A careful balance needs to be maintained between holding too much and too little money in Reserves. If Reserves are too small, this increases the Council's exposure to risk and endangers its capacity to deliver priorities in a planned and prudent fashion. Demand-led services and an environment of ever changing legislative requirements, an increasingly litigious society, combined with reduced funding from Government all threaten financial stability.

Consideration needs to be given to whether holding Reserves is in fact having an adverse effect on front-line services. Using Reserves to support front line services can only have limited benefit since they can only be used once. Most benefit can be gained by using them for one-off expenditure or to bridge a one-year funding gap pending a future revenue stream or planned saving whilst in the meantime enabling services to develop effective mitigating options.

It is important to remember that cash is not idle. The money the Council has in Reserves is invested and the Council benefits from the positive results that our investment strategy delivers. Any investment income generated through the management of cash balances can be available to pay for additional service provision or to increase General Reserves.

We regularly review the Reserves position and if they are considered to exceed maximum levels, the surplus could be invested in 'one-off' projects to improve service delivery and value for money, whether from General Reserves or the Capital Fund. The 'opportunity cost' of holding higher reserves could be viewed as the cost of not funding 'one-off' projects.

8 Balancing the Budget within Overall Revenue Resources

A balanced Revenue Budget is achieved when the expenditure required to meet the County Plan priorities are matched by the resources available.

In total, after assessing the levels of resources available, and the demands and pressures faced by services, we estimated that Somerset County Council would have a budget shortfall of around £81m across the three-year planning horizon. This was spread across all three years of the MTFP with £23.895m required in 2012/13, £33.262m in 2013/14 and £24.004m in 2014/15, after taking into account movements into and out of reserves. In the absence of significant additional resources the Council has to look at ways of reducing expenditure. The scale of the reductions required mean that whilst every effort is being put into finding alternative ways of delivering services, there will be reductions in the service provided.

8.1 Aligning Resources with Priorities & Identification of Expenditure Reductions

In order to deliver the level of change required to achieve a balanced position, all aspects of the Revenue Budget are reviewed. This includes all existing savings proposals from previous MTFPs to determine whether they could be increased or accelerated and known pressures to determine whether they can be managed out, reduced, or delayed. The scale of the savings required in this MTFP round demanded a move away from allocating savings targets to services, to a radically different approach. However, the nature of potential budget reductions has not changed; they still involve the Authority becoming more efficient, increasing external resources such as fees and charges or reducing or cutting service provision. Consideration of the options has been carried out in the context of the County Plan priorities that have emphasised the need to protect the vulnerable and the economic vitality of Somerset. It has also been necessary to be innovative in considering how services are delivered in future. In analytical terms, this has involved asking service managers to consider 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 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 also need to be targeted in order to achieve the necessary reductions in budget. SCC's main areas of spend are shown in Figure 16 as follows:

Figure 16: Somerset County Council – Key areas of Spend

Net Service Budget	2011/12 Net Revenue Budget £m	% of 2011/12 Net Revenue Budget
Adult Social Care	84.643	25.4%
Children's Safeguarding & Care	37.584	11.3%
Debt Charges	35.055	10.5%
Learning Disabilities	28.498	8.5%
Commissioning & Care Support	23.112	6.9%
Waste Services	22.080	6.6%
Strategic, Resources & Commissioning	17.855	5.4%
SW1 Client Function & Unitary Charge	16.073	4.8%
Highways and Traffic Management	15.627	4.7%
Learning and Achievement	15.128	4.5%
	309.923	**93.0%**
SCC Net Budget Requirement	**333.410**	

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

The review has involved a process of challenge at both officer and Elected Member level, including Scrutiny Committee and the Shadow Cabinet, to ensure that the proposals are fully understood and the potential impacts are recognised. In many cases this has led to a change in the predicted value of the proposals, a change in the way it was intended to be delivered and or the timescale for delivery. Particular attention was given to the reductions proposed for 2013/14 to establish whether they could be accelerated in whole or in part to 2012/13 to mitigate the impact in that year of finding additional new proposals. The intention has also been to try to avoid the use of one-off money for the delivery of on-going services e.g. the one year Council Tax Freeze Grant offered by government for 2012/13. Such funds have been applied to 'invest to save' schemes where a one'-off investment is expected to deliver long-term benefits.

8.2 Final MTFP Position as at February 2012

The final 2012/13 – 2014/15 MTFP position, including the Revenue Net Budget Requirement for 2012/13 of £327.968m, presented to County Council is contained within Appendix 6. This position is supported by a total precept of £204.298m and Band D equivalent Council Tax of £1,027.30. The 2011/12 Budget is included for comparison purposes, along with estimates fro 2013/14 and 2014/15.

The service reductions included for 2012/13 amounted to £23.895m with a further £11.465m identified for the forward year 2013/14. No reductions have yet been found for 2014/15 as these are expected to be found through the Change Programme. Conversely, £13.422m (excluding inflation) has been invested in services in 2012/13 in order to meet the challenges they face. In excess of £6m has been estimated across 2013/14 and 2014/15. Detailed explanations of the proposals can be found on the County's website[14]

A high level profile of the 2012/13 gross expenditure position as specified by CIPFA's Service Reporting Code of Practice (SeRCOP) is contained within Appendix 7.

The resulting service control totals that meet the budget for 2012/13 are contained within Appendix 8. Again, 2011/12 is included to aid comparison.

8.3 MTFP Strategy 2013/14 and 2014/15

The revenue budget position for 2013/14 and 2014/15 as shown in Appendix 6 indicates a significant shortfall in resources for each of the two financial years. The cumulative shortfall is currently some £45.801m. The Council is also mindful that the pressure of reducing resources is predicted to continue beyond 2014/15, as a result of the ongoing need to reduce the national deficit. The impacts arising from some key Government policy changes, including the changes to Formula Grant, Public Health, Academies, and reform of Council Tax support are also likely to affect the resources available to the Council. Further details of these and other issues are contained in Section 5 above.

8.3.1 Assumptions for Future Resources

Therefore the budget position for 2013/14 and 2014/15 is based on a cautious estimate of future resources. The following bullets are a reminder of the headline assumptions made in estimating resources for the future years:

- A **10% p.a. reduction in Formula Grant**;
- An additional **£2.5m cut in Formula Grant** over and above the reduction outlined above in relation to an assumed top-slice for academies transfers;
- A **10% reduction in other revenue grants** including Early Intervention Grant. Lead Flood Authorities Grant, Extended Rights to Free Travel, Learning Disabilities and Health Reform Grant;
- **Nil increase in New Homes Bonus** as it is likely that even if the grant is increased it will be financed by a top-slice of the resources going into Formula Grant;
- **Removal of the Safer Communities Grant** altogether on the assumption that the whole grant will be transferred to the Police and Crime Commissioners;
- An Indicative **Council Tax freeze for both 2013/14 and 2014/15** (N.B. each 1% of Council Tax currently yields approximately £2.0m equivalent to £10.27 per Band D property per annum);
- A **prudent 0.5% increase in Council Tax Taxbase for both 2013/14 and 2014/15**

Such an approach is essential with the continuing concerns at national level that the deficit reduction programme is being impeded by the international debt crisis. In addition, for planning purposes it has to be recognised that the number and value of new pressures generally increases as each subsequent year of the MTFP approaches. It is possible that further costs are yet to be identified that will increase the need for expenditure reductions. The £45.801m cumulative shortfall should at this stage therefore be regarded as a minimum requirement.

8.3.2 Review of Pressures

The rolling MTFP process constantly reviews and challenges the pressures experienced by services. Section 6 above details the various types of pressures, including inflation, demography, changes in service provision as a result of changes in policy, and the revenue consequences of the Capital Investment Programme. Section 7.2 details the process of assessing the appropriate levels of Contingencies. Any reduction in these pressures reduces the budget shortfall and the need for reductions in service elsewhere.

8.3.3 Change Programme

In recognition of the scale of the measures needed to deliver a balanced budget in 2013/14 and 2014/15, the Council has embarked on a major programme of change. This will result in a fundamental review of all of its current activity, method of delivery and organisational structure. It will also recognise the need to reflect other major changes in national policy, which will affect the Council, including the Health and Social Care Bill, Academies, Localism Act, and the Open Public Services White paper.

There are also significant local circumstances that are placing demands on the Council's services, particularly those arising from the social care needs of adults and children. The Change Programme will aim to achieve the County Plan vision for the future that will include:

- A smaller, more flexible and more ambitious organisation;
- A different, customer-focussed, approach to commissioning of services;
- A productive, focussed, flexible and motivated workforce.

The Change Programme is now in the 'implementation phase', which is split into three stages, each of which includes a number of service reviews:

- Stage A - October 2011 - March 2012
- Stage B - April 2012 - September 2012
- Stage C - October 2012 - March 2013

The outcomes of the service reviews will form the basis of the revised MTFP, commencing during 2012/13, and are expected to deliver the savings required to balance future years' budgets. Details of the Implementation Phase of the Change Programme can be found in a report to Cabinet on 7 November 2011 - Implementing the County Plan - SCC Change Programme; Implementation Plan - Outline Business Case[15].

8.3.4 Management of the Budget

As previously stated, the Council has a history of delivering outturn at or slightly below budget, although there may be some significant over and underspends at individual service level. It is almost inevitable that significant demands will be placed on the Council's future capacity and the organisation will need to continue delivering robust control of the budget. This is done through devolved budget ownership in conjunction with consideration of individual service overspends that encourage pro-active budget management throughout the organisation, culminating in formal quarterly budget monitoring reports to Cabinet. This approach will be maintained for 2012/13. The situation will however need to be monitored as pressure to deliver change may divert attention from basic budget management.

The Council's budget monitoring and performance reporting process includes monitoring progress in relation to the savings identified as part of the annual MTFP process. This enables management action to be taken as early as possible to adjust forecasts or identify alternative approaches. The impact of investment decisions is also monitored. This enables decision makers to track the impact of their decisions, and acts as a significant driver to ensure that value for money is obtained from investment decisions.

8.3.5 Summary of the future MTFP Strategy

The strategy for 2013/14 and 2014/15 can be summarised as follows:

- Maintenance of a cautious approach to estimating resources as outlined above;
- Continual review and estimation of all existing pressures, especially inflation, key demographic demands and levels of contingency to minimise any unexpected impacts;
- Continue to renegotiate contracts to deliver increased flexibility and efficiency gains and control price inflation;
- Separate and independent estimation of the cost of new responsibilities, based on need rather than available resources;
- Proactive management of the Change Programme to maintain the momentum within the implementation phase;
- Pro-active budget management during 2012/13 to maximise delivery against existing savings proposals and ensure objectives of investment pressures are delivered;
- Continue to treat all unringfenced resources as a corporate resource despite the implied treatment contained in government departmental correspondence;
- Maintain appropriate levels of general reserve during 2012/13 to enable one-off costs to be met in 2013/14 or 2014/15 without recourse to service reductions and/or provide capacity to meet delays in planned service delivery changes arising out of existing expenditure reductions or delays in the implementation of the Change Programme.

9 Capital Investment Planning

Capital investment provides the assets that the Council needs in order to deliver its objectives and services. As at 31 March 2011, the Council had assets valued at £1.113 billion (taken from the latest available audited accounts). Figure 17 summarises by type, the book value of the assets as recorded in the Statement of Accounts.

Figure 17: The Value of Somerset County Council's Assets

Asset Type	Gross Book Value £m
Land and Buildings – operational	778.286
Land and Buildings – non operation	9.339
Vehicles and Equipment	39.595
Roads and Bridges	272.424
Country Parks and Open Spaces	1.518
Assets Under Construction	9.898
Intangible Assets	1.566
TOTAL	**1,112.626**

The replacement cost of these assets is estimated to be substantially higher, potentially up to £7bn. The estimated Gross Replacement Cost of the county roads alone based on the latest survey and guidance is estimated at approximately £5.1bn.

9.1 Capital Investment Programme (CIP) – Planning Assumptions

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; and
(ii) The replacement, extension, or improvement of existing assets to secure current service delivery arrangements, the future integrity of the asset and meet minor changes in service delivery that do not require a major renewal or replacement.

The Capital Strategy contains the overall principles against which the capital elements for the MTFP are prepared. This document is reviewed periodically; the latest iteration was published in the summer of 2011. In addition to addressing the approach of assessing the need for assets, the Strategy also considers the financing context. It contains the following Core Policy, Subsidiary Objectives and Proposed Actions for the remainder of the current quadrennium, as shown in Figure 18:

Figure 18: Key elements of the Capital Strategy

Core Policy	**To maintain investment in assets sufficient to continue the delivery of statutory and core services**
Subsidiary Objectives	• To reduce the level of borrowing required to support current and historical investment below that shown on the Balance Sheet as at 31 March 2009. • To reduce the annual incremental revenue impact of the Capital Investment Programme to a neutral or negative position
Actions	• Create a capital reserve that will enable the Council to respond to investment needs as and when they occur. • Rationalise property assets to release resources for reinvestment whilst maintaining an appropriate portfolio • Consider the Value for Money opportunities offered by planned structural maintenance as against responsive repairs and routine maintenance. • Reduce the liability of holding assets by engaging with communities to develop alternative service delivery options including asset transfer. • Fully utilise resources available for Capital Investment from outside agencies where this does not create ongoing revenue liabilities

It should be noted that the financial impact of investment on the Council's Balance Sheet and Income and Expenditure Account is given high prominence, alongside the basic need for investment and rationalisation of asset holdings. Unlike Central Government, the Council only borrows for capital purposes. This borrowing has an impact on the Income and Expenditure Account, where provision has to be made for the repayment of the debt and associated interest charges. Changes in Government support towards grant rather than supported borrowing is also leading to reductions in the need for external borrowing and subsequently debt repayments. The reduced borrowing need is presenting some issues in respect of Treasury Management see Section 9.5.

9.2 Capital Investment Programme (CIP) – Pressures

Capital pressures can be grouped into those that are specifically identified through the County Plan and those that represent investment in the assets required to maintain core service provision and service continuity. The County Plan includes the following objectives that have potential capital investment implications:

- To bring high speed Broadband to homes and businesses across Somerset by 2015;
- To invest in and improve the county infrastructure, including roads;
- To stimulate investment in new schools and improve the condition of school facilities;
- To make the Council far more flexible and agile in the way it manages and deploys its employees.

The County Plan refers to two asset intensive services, Highways and Schools, but within this are some specific issues that need to be addressed that relate to the wider issues of rurality and demography. These include:

- **Schools Basic Need Provision**

This issue reflects the demographic changes being experienced in Somerset. There has been an increase in the birth rate which is generating pressure for primary school places. In addition, there is a shift in demographic demand towards the core market towns and larger communities. This is leading to a number of schools being oversubscribed in Taunton, Yeovil, Bridgwater and the smaller market towns. The rural nature of much of the county also means that pressure for facilities in rural areas limits the capacity for the Council to realise capital receipts from the release of school assets. This assumes of course that the asset is owned by the County Council rather than the diocese. This is because any fall in pupil numbers in rural schools does not necessarily result in a school becoming unviable or lead to excessive travelling for pupils to alternative locations.

In addition to the marginal movements within the existing school provision, the County is also faced with a further demographic pressure as a result of up to 10 significant new residential developments that will require the provision of new 5-8 classroom primary schools. Unfortunately these are generally not fully supported by developer contributions and can result in a cost to the local authority of up to £5m per school. It is estimated that there could be a need for at least £21m of resources from the County Council. This is before taking into account a recent acceleration in new residential development planning applications. Whilst every effort will be made to negotiate adequate funding from developers through the Community Infrastructure Levy or other arrangements, the risk will remain that this is insufficient to deliver new schools.

- **School Reorganisation and Suitability**

The current local policy for school organisation aspires to improve outcomes for children by replacing the 'Infants, Junior, Secondary' model which remains in some areas of the county, with a 'Primary and Secondary' structure. In addition, there are schools where the structure of the buildings need to be remodelled to meet curriculum standards. The cost of achieving these changes is significant and is estimated at a minimum of £43m.

- **Highways Investment**

The need for investment in the Highways infrastructure, including traffic signals and street lights, remains a significant one, if a steady state is to be maintained in terms of condition.

9.3 Capital Resources and Local Government Finance Settlement

Capital resources available to the County Council are described the Council's Capital Strategy[16]. They include capital grants from Central Government and other agencies, capital receipts, borrowing, capital contributions from third parties, and revenue. These resources have to cover not only the new starts programme but the residual costs of previous years Capital Investment Programmes.

The 2010 Comprehensive Spending Review [CSR] and subsequent Local Government Finance Settlements [LGFS] signalled major changes in the level and nature of capital resources provided to Local Government. They included a movement away from Supporting Borrowing allocations (where Government enhanced revenue grant to assist with making loan repayments) in favour of capital grant. Although the value of grants in 2012/13 has fallen below 2011/12 levels, in line with other areas of Government support, the continued award of capital grants by Central Government departments is again welcomed. The detail of the general capital grants from Central Government for 2012/13 is summarised in Figure 19 below.

Figure 19: Summary of Capital Grant Allocations

2011/12 Total £m		2012/13 Total £m
20.370	Local Transport – Structural Maintenance Block	19.311
2.686	Local Transport - Integrated Transport Block	2.865
10.411	Schools Capital Maintenance	7.458
4.118	Schools Basic Need	2.903
1.287	Community Capacity Grant	1.321
38.872	**TOTAL CAPITAL GRANT AT SETTLEMENT**	**33.858**
0.448	*Local Transport Integrated Transport Block late allocation*[1]	n/a
0.546	*Schools Capital Maintenance late allocation*[2]	n/a
0.994	***NOV/DEC 2011 Additions***	**n/a**

This shows a reduction of £5.014m over the 2011/12 Settlement, largely due to reductions in the DfE grants for schools basic need and maintenance. Whilst the changes to the maintenance grant might have been anticipated due to the transfer of significant numbers of schools into Academies, the reduction in Basic Need is disappointing as the Local Authority remains responsible for the provision of resources to meet all Basic Need requirements, irrespective of whether the final school provision is a Free School, Academy or Local Authority controlled. It has arisen as a result of changes in the distribution methodology, which has led nationally to a shift from rural to urban areas. Locally there is pressure for additional basic need provision due to the increased birth rate, a shift to urban areas and the impact of new residential developments.

In line with the Capital Strategy, the key financing resources for the MTFP are restricted to government grants and locally raised capital receipts. No new borrowing from the financial markets will be utilised for the new capital starts programme, although there remains some reapplication of existing borrowing through the loans pool, to complete the financing of prior year programmes.

A financing package structured in this way will contribute to the Secondary Objectives in the Capital Strategy and will limit any future impact on the Revenue Budget. It will also provide the option to reduce balance sheet debt subject to external debt repayment terms. As a result, the charge to the Revenue Budget will fall by a minimum of £1m per annum and the external debt on the balance sheet will fall during the MTFP period by a minimum of £24.2m. Further reductions in balance sheet debt are expected to be achievable, but will only be made when the terms are favourable and the impact of premia on the Revenue Budget is affordable.

The project to rationalise and reduce the level of assets owned by the Authority is continuing with particular focus on the County Farms estate and the number of office buildings utilised by the Authority. Pilot projects to revise office accommodation provision are nearing completion and are expected to be operational in early summer 2012. This

[1] Department for Transport Notification 14 December 2011
[2] Department for Education Notification 3 November 2011

involves more flexible ways of working and more intensive use of existing buildings, along with the sharing of accommodation with local partners, including District Councils. The cost of the investment required to release the ongoing benefits is expected to be cost neutral in overall terms, once the capital receipts are realised from the sales of surplus property.

The increased use of assumed capital receipts to finance new starts presents the Authority with some risks, insofar as realising asset sales is dependant on external factors such as the wider economy and the local and national property market conditions. If the capital receipts cannot be realised as currently anticipated, the Authority will need to address the shortfall, either through a planned reduction in new investment, or the identification of alternative financing.

9.4 Capital Investment Programme – Revised

The continuation of grant funded capital has allowed the Authority to maintain a substantial Capital Investment Programme, yet continue its drive to reduce the impact of financing on the Revenue Budget.

Following approval of the Capital Strategy in July 2011, a prioritisation mechanism has been created to generate a call down list for selecting the Capital Investment Programme for 2012/13 and indicate current priorities for future investment, once resources are confirmed. The mechanism incorporates a range of criteria including:

- Whether a project has a direct link to the County Plan;
- Whether it generates additional resources or will rely on SCC funding;
- Whether it is be addressing asset condition issues;
- Whether it is addressing the suitability of assets for current service needs;
- The urgency of the investment;
- Whether it contributes to managing key risks;
- Whether there are significant impacts as a result of the proposed investment

The resulting £83.455m capital starts proposed for 2012/13 concentrates on the core objectives of the County Plan as shown in Appendix 9. This is summarised below:

- Some £37.491m is directed to improving the Highways Infrastructure, including delivery of the Taunton Northern Inner Distributor Road;
- Up to £25m (including assumed grant share) will go towards delivering Superfast Broadband access across the county;
- A further £5.500m has been provided for investment to facilitate the benefits of the Change Programme;
- £13.091m delivering core improvements to Schools and Educational Establishments, including basic need, temporary classrooms replacements, facilities for Penrose School in Bridgwater[3], early years facilities and schools access;
- The balance of £2.373m is invested in Other Services including vehicle replacements for Transporting Somerset, learning disability adaptations and equipment.

[3] Penrose School was in the second phase of the Bridgwater Private Finance Initiative and was cut as part of the Government's early cuts in its austerity programme

This starts programme combined with the outstanding commitments from previous years gives rise to the following projected expenditure and financing profiles:

Figure 20: Forecast Capital Expenditure and Financing Profiles

Forecast Expenditure Profile	**2012/13 £m**	**2013/14 £m**	**2014/15 £m**	**Future Years**
Total Outstanding Commitments from prior year programmes	30.655	9.695	4.033	3.125
2012/13 New Starts	43.814	27.400	12.242	0.000
2013/14 New Starts	0.000	24.689	6.637	1.713
2014/15 New Starts	0.000	0.000	25.402	6.419
Total Existing Schemes and New Planned Starts	**74.469**	**61.784**	**48.314**	**11.257**
Capital Grants	54.443	48.279	40.271	8.774
Contributions	1.231	0.937	0.856	0.423
Capital Receipts	11.240	10.446	6.017	1.284
Borrowing (existing)	7.550	2.122	1.170	0.776
Revenue	0.005	0.000	0.000	0.000
Forecast Financing Profile	**74.469**	**61.784**	**48.314**	**11.257**

The proposed financing package will substantially reduce pressure on the Revenue Budget as follows:

- 2012/13 £1.755m reduction;
- 2013/14 £1.231m reduction (based on nominal starts programme);
- 2013/14 £1.324m reduction (based on nominal starts programme)

In summary therefore, the revised programme reflects the following elements of Core Policy and Objectives proposed in the Capital Strategy update, in that:

- No new additional external borrowing is needed;
- By 31 March 2013 balance sheet debt should fall by 20% from 31 March 2009 levels;
- By 31 March 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.

9.5 Impact of Capital Investment on External Debt

Since the enhancement of capital grants by Central Government, the repayments of principal to the central loans pool for capital have exceeded the advances to finance in-year investments. It is this net repayment position that has generated the resources on the Council's Balance Sheet to enable repayment of the debt maturing during the MTFP period and the projected reductions in external borrowing for capital purposes.

The resources generated during the MTFP period will however exceed the expected maturities of £24.2m. This will present the Authority with some issues that will need to be addressed. Historically, the Authority has had surplus resources for capital purposes at the end of a financial year. This was acceptable provided that the resources did not exceed the future demand for borrowing finance in the medium term. The overall position was tested by the Prudential Indicator that requires that the net external borrowing, (i.e. total borrowing less total investments) does not exceed the Capital Financing Requirement for the current and following two financial years. The Authority received interest from the temporary investment of these resources that offset the interest charges incurred, resulting in a broadly neutral impact.

The levels of repayment during the MTFP period are however sufficiently great that the surplus generated will exceed the current maturities by a considerable amount. The market conditions have also changed and the Authority is no longer receiving such favourable interest, so there is a further incentive to limit surplus funds. Both these factors will mean that it is necessary for the Authority to consider its position in some detail as it will not have an intention to borrow for capital purposes against which the resources can be held. In lieu of this, or a change in policy towards borrowing, the Authority will need to consider early repayment of some debt. This option however could come at a cost, depending on the relative face value of the loan agreement and the market interest rates. If market interest rates are below the loans interest rates a penalty premium charge may be incurred, the reverse being true where current market rates exceed the running loan rate. At the time of drafting, the current rates for all Public Works Loans Board (PWLB) loans, which make up approximately 50% of the Council's portfolio, would mean that the Council has to pay a premium, which will have to be charged to the Revenue Budget. The other 50% of the portfolio is made up of Lenders Option, Borrowers Option (LOBO) loans that can only be repaid in response to the exercise of an option by the lender.

The current Treasury Management Strategy commits the Authority to ongoing consideration of the debt structure. Future reviews of debt structure will incorporate consideration of early repayment of existing debt to reduce the surplus and will have to take account of the full potential impact on the Revenue Budget and Reserves. The Treasury Management Strategy for 2012/13 maintains the policy not to accept any option to pay a higher rate of interest on any LOBO loans, meaning that the Authority will exercise its own secondary option to repay the loan should a lender exercise their option. This will have two benefits for the Council, it will utilise the surplus cash resources and reduce Balance Sheet Debt, but cannot be relied upon as a means of managing the increasing cash surplus.

10 Risk and Impact Assessments

All budgetary proposals carry associated risks – whether it is an impact on service delivery, equalities, sustainability, crime and disorder, our staff, a risk of not achieving the saving, 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 Officers consider this wide range of impacts when identifying their savings proposals. The risks against 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.

These assessments have been published in response to the level of public interest, and can be found on the Council's Website[17]. 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, the benefit gained from making the saving. It is therefore inevitable that a certain, manageable, amount of risk is inherent within the budget. The Executive Leadership Team (previously Senior Management Board) have therefore updated current policies, 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 taking into consideration these potential risks.

11 Key Partnerships

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. This offers a wide variety of advantages for the residents of Somerset, including 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, increasing 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
- Somerset Drug and Alcohol Partnership (SDAP)

11.2 Aligning Budgets

This involves grouping together separate budgets to improve the joint planning and deployment of resources by partners. Decisions are taken collectively about the aligned budget, but the individual accounts are still held within separate agency budgets to allow them to account for their own contribution. This approach does not require new powers. An example of this type 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. An example of this type of partnership working is our Financial Assessment and Benefits Board involvement.

11.4 Devolving Budgets

This is where funding and responsibility is passed from one entity to another. The largest examples of these are 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;
- Strategically large
- And/or statutory.

APPENDIX 1: Medium Term Financial Plan Decision Making Process

August 1st 2011 Cabinet / Strategic Management Board – Outline and Agree MTFP Strategic Planning and Change Programme Core Priorities, Process, and Timetable
⇓
October 10th 2011 Cabinet / Strategic Management Board – Introduce and Explain the Detailed Information included within the MTFP Information Pack Update on Local and National Issues, along with current MTFP position Refine all Revenue Pressures, Savings and Inflation, as well as all Unmet Capital Investment Need
⇓
October 11th 2011 Strategic Management Board / Finance Strategy Group – Incorporate Cabinets' views within Revenue Pressures, Savings and Unmet Capital Investment Need Detailed update on the Change Programme following the Design Phase, and agree next steps for the Implementation Phase
⇓
October 17th 2011 Finance Strategy Group – Detailed Peer Challenge of the proposals and assumptions included within the MTFP
⇓
October 18th 2011 Scrutiny Committee Update on Local and National Issues, along with current MTFP position
⇓
November 7th 2011 Cabinet Formal Update on Local and National Issues, along with current MTFP position
⇓
November 15th 2011 Scrutiny Committee Formal Update on Local and National Issues, along with current MTFP position
⇓
November 24th 2011 Strategic Management Board / Service Directors / Finance Strategy Group – Detailed review of MTFP Update and proposed Options for balancing
⇓
November 25th 2011 Strategic Management Board / Service Directors – Review current Revenue MTFP position and seek in principle approval for proposed Budget Balancing Options
⇓
January 6th 2012 Shadow Cabinet Briefing
⇓
January 9th 2012 Cabinet / Strategic Management Board – Review Local Government Finance Settlement and its impact upon both the Revenue and Capital MTFP position and review options
⇓

January 17th 2012 Corporate Risk Management Group review of MTFP proposals
⇓
January 20th 2012 Information and Training on Equality Act 2010 for Cabinet Members and officers
⇓
February 1st 2012 Cabinet Agree provisional Revenue MTFP, Capital Investment Programme and Council Tax levels Equalities Duties Member Training
⇓
February 6th 2012 Scrutiny Committee – Review current Revenue MTFP position and New proposed Revenue and Capital Budget Options, compile comments for the Council
⇓
February 15th 2012 County Council – Agree Revenue MTFP, Capital Investment Programme and Council Tax levels

Click here to return to text

APPENDIX 2: Formula Grant Distribution Mechanism – Four Block Model

2a) Introduction to the Four Block Model

The Four Block Model is the distribution mechanism used to allocate the Formula Grant to Local Authorities. The funding allocations are 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). It should be noted that for 2012/13, the Government also added the second year allocation of the 2011/12 Council Tax Freeze Grant to the Authorities final Formula Grant allocation.

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 for each of 7 major service groups. Each Authority's 'need' is then compared to that of other authorities. Those whose 'need' is above the basic level of funding required, funded through the central allocation block, are given a 'top up'.

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[4]
This ensures that each Authority's allocation does not differ greatly to that received in the previous year, providing long term stability. This block is self-financing - the amount required to 'top-up' authorities below the floor is exactly the amount taken from those above the floor. (See Section 6c below for further details). Damping is the most significant issue for Somerset County Council as our Raw Grant Allocation is significantly higher than our current cash allocation. Somerset County Council is a 'contributory authority' to the damping pool and has had its 'raw' grant scaled back in 2012/13 by £12.370m. This is equivalent to adding £62.20 or over 6% to our Band D Council Tax.

2b) The Tailored Distribution

Within the 2011/12 settlement, the Government made a significant alteration to the way they provided some other grants, in order to incorporate them into the Formula Grant model. This has led to the creation of a 5th block to accommodate the significant level of grant transfers into Formula Grant. This new 'block' is called the "Grants rolled in using Tailored Distribution". These grants retain their original distribution formulae, rather than using 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*".

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4 The Government's explanatory paper on [Floor Damping Methodology]

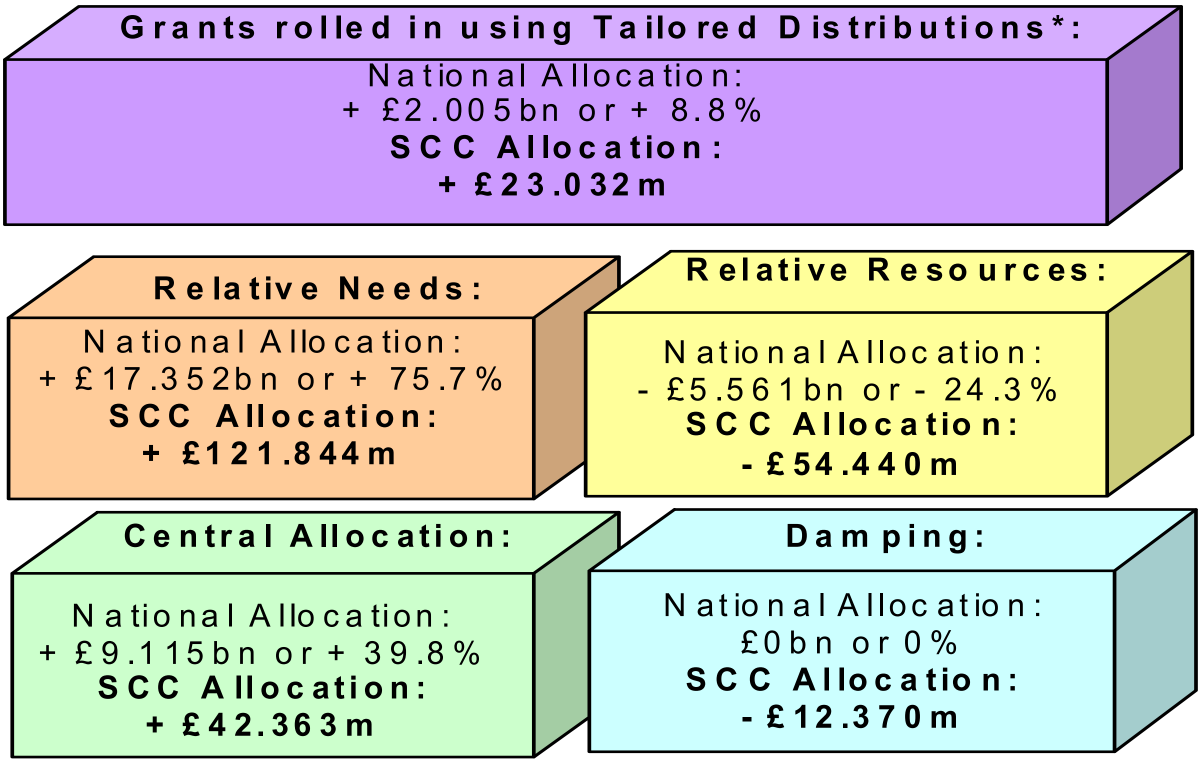
Figure (i) below provides a summary of these Grants, how they are distributed and the Raw Grant allocations (i.e. before Damping is applied) for Somerset County Council.

Figure (i) – Summary of the Tailored Grants

SCC Allocation (£m) 2011/12	Grant	Distribution Method	SCC Allocation (£m) 2012/13
£1.300	**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	£1.185
£20.341	**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.	£20.278
£0.878	**Preserved Rights**	Two formulae – one for 18-64 years and another for 65+	£0.849
£0.389	**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.	£0.354
£0.064	**HIV/AIDS Support Allocations**	Two formulae – one for HIV Caseload and another for Women and Children Living with HIV.	£0.069
£0.185	**Housing Strategy for Older People**	Formula based on the projected population aged 60 years and over.	£0.160
£0.163	**Animal Health & Welfare**	Allocation made according to the relative proportion each authority received of the Animal Health and Welfare Grant in 2010/11.	£0.136
£23.321	**TOTAL**		**£23.032**

Figure (ii) below illustrates the blocks and provides details of the financial value, both nationally and for Somerset County Council.

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



* This includes the Top-Up for Additional Concessionary Fares Funding, mitigating the effect on shire districts of the transfer of responsibility from lower to upper-tier authorities. The funding formula was therefore adjusted to direct this money to shire districts and a top-up was introduced for those authorities that would otherwise lose from this change – one of which was SCC.

The Government are currently consulting on an alteration to the way Local Authorities are funded. Instead of paying locally collected National Non-Domestic Rates centrally for the Government to then redistribute as part of Formula Grant, it is proposed to allow Councils to keep a large proportion of these funds and therefore incentivise business growth in their area. This will require the setting of a funding baseline, on which growth could be measured and it is proposed to use the 2012/13 damped Formula Grant as a baseline – thereby 'locking-in' the judgemental reductions in funding contained within the damping mechanism. More detail on this issue can be found on page 18 of the main report.

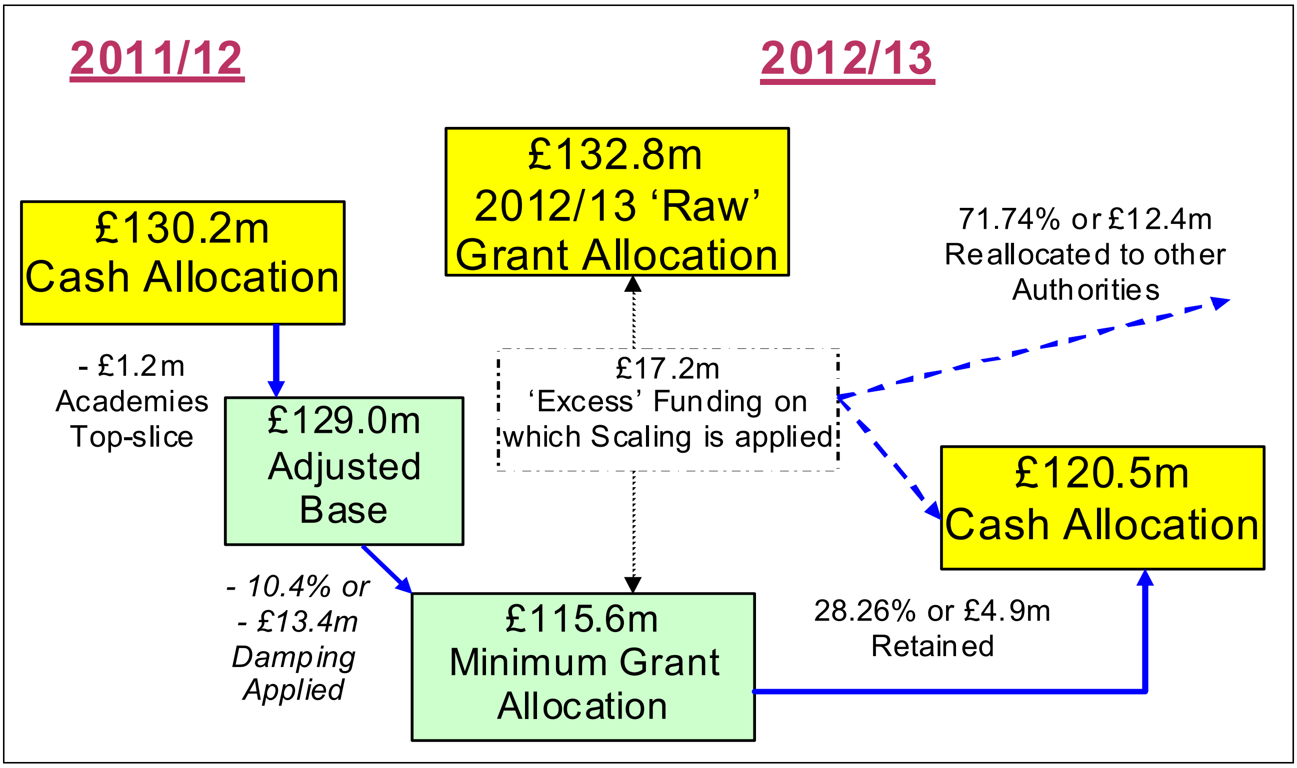
2c) Damping

The 4th Block of the Four-Block Model is called Damping. 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. This therefore reduces any distributional turbulence and provides long-term stability.

Due to financial limitations, significant levels of damping are needed to ensure that the model remains within the size of the overall pot. However, this is applied judgmentally by Ministers and results in a cash grant settlement that bears little relationship to the underlying 'need' as calculated by the formulae, raising serious concerns over the sustainability of this system.

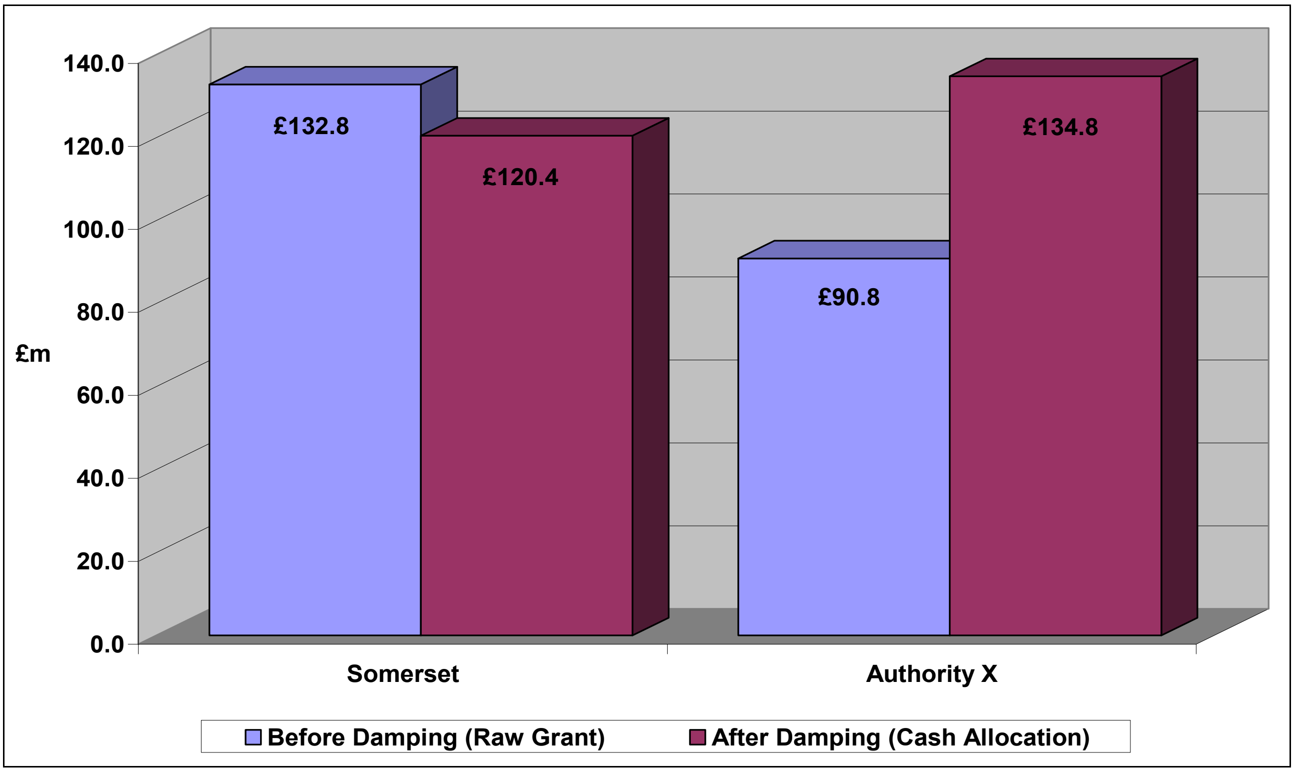
Figure (iii) below demonstrate how damping is applied and Figure (iv) illustrates the impact on Somerset and another similar sized Authority, 'Authority X', which benefits from the damping adjustment (known as a 'floor authority').

Figure (iii) – How damping is applied to Somerset's 2011/12 Formula Grant



Note, Figures rounded to nearest £000 to illustration purposes only

Figure 15 – Illustration showing how Somerset loses while Authority X gains



Damping is the most significant issue for Somerset County Council as our Raw Grant Allocation is significantly higher than our current cash allocation. Therefore Somerset County Council is a ‘contributory authority’ and has had its ‘raw’ un-damped grant scaled back again in 2012/13 by £12.370m. This is equivalent to adding £62.20 or over 6% to our 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.

The Government are currently consulting on an alteration to the way Local Authorities are funded. Instead of paying locally collected National Non-Domestic Rates centrally for the Government to then redistribute as part of Formula Grant, it is proposing to allow Councils to keep a large proportion of these funds and therefore incentivise business growth in their area. This will require the setting of a funding baseline, on which growth could be measured and it is proposed to use the 2012/13 damped formula grant – thereby ‘locking-in’ the judgemental reductions in funding.

2d) Adjusted Formula Grant

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 this was the second year of the multi-year settlement, the adjustments included within the calculation of the Adjusted Base position were minimal, with only an adjustment required for the number of Schools anticipated to have converted to Academies. The transfer was made through the Local Authority Central Spend Equivalent Grant [LACSEG].

2e) Local Authority Central Spend Equivalent Grant [LACSEG].

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 calculating the top-slice, Somerset only had 3 Academies. Therefore, the level of central service provision that SCC provides to non-academy schools has not materially altered. As only minor savings are possible, if indeed any, the top-slice of £1.508m in 2011/12 was 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 funded corporately, thereby increasing the overall budget shortfall. This therefore required all services to find a small additional saving.

Within the 2012/13 settlement, a further £1.189m top-slice was cut from SCC's Formula Grant. However, during 2011/12 a further 27 schools converted to Academy status meaning that Somerset now has an above average number of pupils in Academies. This is far more than the Government anticipated and therefore the Government now consider that the cut to SCC's funding is too low. This position is replicated nationally, and so the Government launched a consultation on how they might be able to increase the level of the overall top-slice, and it is distribution across Authorities. Following widespread concern over this proposal from Local Authorities, the Government did not revisit the 2012/13 top-slice. However, in order to provide financial stability the Department for Education outlined:

a) Where the revised distribution would lead to an decrease in Formula Grant for an individual authority this will not be recovered in 2012/13;
b) Where the revised distribution would lead to an increase in Formula Grant for an individual authority that authority will be reimbursed.

SCC believes it falls under (a) above and therefore will be protected from further cuts. However, the revised distribution will of course be reflected within the 2013/14 and future years' settlements. Therefore SCC has assumed an additional top-slice of £2.5m within our Formula Grant forecasts, against this risk, which is included in the table in Figure 8 on page 17 within the main report.

3a) Early Intervention Grant

As part of the review of Local Government funding in 2010, a number of existing centrally directed grants to support services for children, young people and families, ended. In their place, the Early Intervention Grant (EIG) was introduced based on existing formulae for Early Years Services and Youth Services. Although unring-fenced, the Government expects Local Authorities to use the new funding in support of a wide range of services, including

- Sure Start children's centres;
- Free early education places for disadvantaged two-year-olds;
- Short breaks for disabled children;
- Targeted support for vulnerable young people;
- Targeted mental health in schools;
- Targeted support for families with multiple problems.

3b) Council Tax Freeze Grant, 4 Year and One-Off

All authorities in England who voluntarily froze, or reduced, their Council Tax in 2011/12 are eligible to receive the Council Tax Freeze Grant. The grant is equivalent to a 2.5% increase in an Authority's Band D Council Tax and is payable for four years i.e. until 2014/15. For Somerset, our allocation is £5.036m.

In addition the Government have offered this grant once again to those Local Authorities which decide to freeze, or reduced, their Council Tax for 2012/13. For Somerset, the indicative allocation is an additional £5.065m.

3c) New Homes Bonus Grant

The New Homes Bonus Grant aims to provide a financial incentive to local authorities to encourage housing growth. The amount payable is equivalent to the national average for the Council Tax band of each new home built in a Local Authority area. This grant will be paid for six years for each additional property starting in 2011/12. In two tier areas, County Councils will receive 20% of the total. District Councils will receive 80%.

In 2012/13, 2013/14 and 2014/15 The Department for Communities and Local Government (DCLG) have allocated £250m pa in funding for the scheme. Funding beyond this amount will come from a top-slice of Formula Grant. However, DCLG have stated that funding for the scheme in 2011/12 and 2012/13 will be fully met by the Department and no authority will lose further Formula Grant.

3d) Learning Disabilities and Health Reform Grant

The Learning Disabilities and Health Reform grant reflects the transfer of responsibility for funding and commissioning of services for adults with learning disabilities from the NHS to local authorities. For Somerset in 2012/13, this grant provides £0.086m.

This allocation is significantly lower than that made to similar authorities. This is because Somerset already works very closely with the local Primary Care Trust (PCT) and operates a formal pooled budget arrangement. Therefore there is little point in removing the money from the PCT to be given to us via this the grant mechanism. Instead, in agreement with the PCT they continue to receive the funds and direct them into the pooled budget.

3e) Local Services Support Grant (LSSG)

A number of Grants are combined and issued through a single payment, known as the Local Services Support Grant (LSSG). The LSSG will be paid as unring-fenced funding under Section 31 of the Local Government Act 2003. As unring-fenced funding, there are no terms and conditions attached to its payment and councils have the freedom to use it to meet their locally identified priorities.

In 2012/13, the following grants are distributed through LSSG:

- Inshore Fisheries Conservation Authorities
- Lead Local Flood Authorities
- Community Safety Fund
- Extended Rights to Free Travel

Inshore Fisheries Conservation Authorities
In July 2009 it was announced by the Department for Environment, Food and Rural Affairs (Defra) that, under the Marine and Coastal Access Act, ten Inshore Fisheries and Conservation (IFC) Districts and associated IFCAs will be established in England on 1 April 2011.

The Local Authority's contribution to the new IFCAs is determined by a formula that calculates the proportion of expenses paid by each authority. These proportions will be stipulated in the regulations which create each district but are based on four factors; its relative population, length of seashore, land area covered and the number of Band D Council Tax properties present.

Lead Local Flood Authorities
The funds should fully cover the costs for local authorities of putting into place and carrying out new responsibilities under the Flood and Water Management Act 2010, such as flood mapping, producing risk management plans and supporting community flood awareness groups.

The funds have been allocated based on the individual risk that each Local Authority has. Nationally the funding for 2011/12 totalled £21 million, and rose to £36million for 2012/13 and subsequent years of this Spending Review period. For Somerset County Council, this provided £0.188m in 2011/12 and increased to £0.461m in 2012/13.

Community Safety Fund
This new grant replaced what was previously the Safer, Stronger Communities Fund (SSC Fund) grant. The 2011/12 Community Safety Fund was 80% of the 2010/11 SSC Fund, with the 2012/13 allocation reduced by a further 50%, making the resultant grant 40% of the 2010/11 grant level. This is due to the transfer of resources to support the new Police and Crime Commissioner, which will be 100% complete by April 2013.

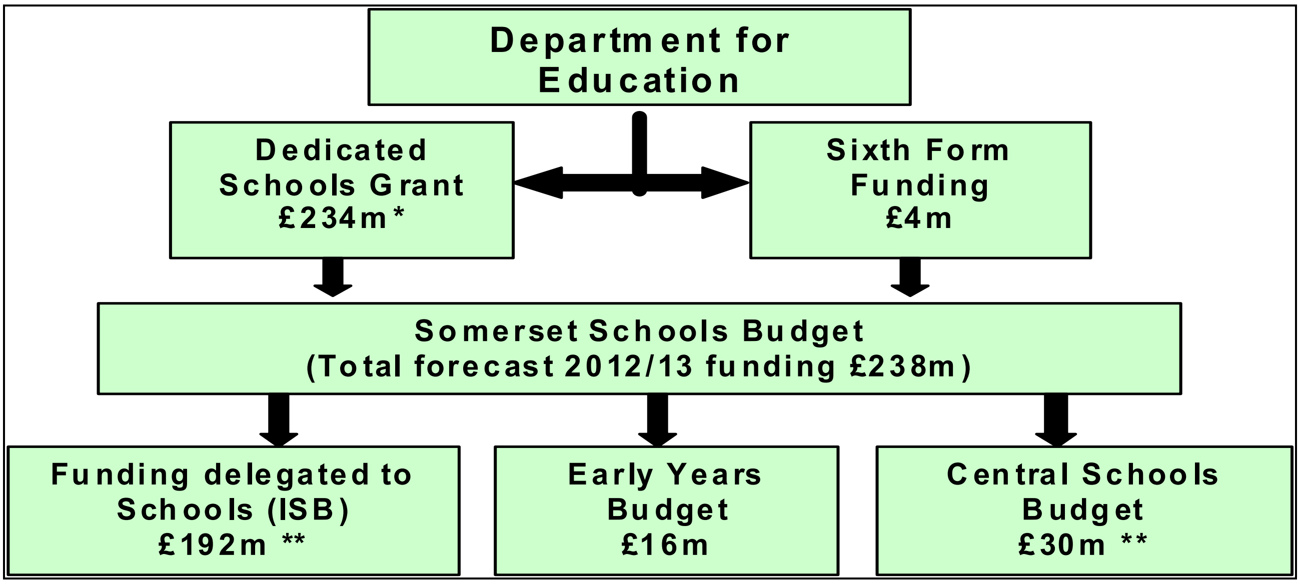
Extended Rights to Free Travel
This grant is a continuation of funding previously received through Area Based Grant. It enables local authorities to support children of low-income families to attend schools further from home than the statutory walking distances.

APPENDIX 4: Dedicated Schools Grant and the Schools Budget

The majority of the Dedicated Schools Grant (DSG) is devolved to Individual Schools through a locally 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.

Figure (i) below shows the structure of the Somerset Schools Budget and Figure (ii) shows the key services delivered through these funds:

Figure (i) – The Structure of the Somerset Schools Budget



* Indicative grant net of recoupment for Academies
** Indicative grant using locally collected October 2011 pupil numbers

Figure (ii) – Services delivered through the Somerset Schools Budget

The Individual Schools Budget (ISB) Funds:
○ Teachers and teaching assistants; ○ Librarians, technicians and other support staff; ○ Support services, supplies, curriculum materials and other resources; ○ Support for children with additional educational needs, including named pupils with exceptional levels of special educational needs; ○ Premises costs such as caretaking and cleaning, fuel, water, refuse collection, repairs and maintenance; ○ Leadership, management and administration costs; ○ Funding for specific additional costs/provision, such as nursery classes, curriculum protection for small schools, split site costs, practical learning, Diplomas and Careers Education 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; ○ Central Early Years activity; ○ Some centrally managed school costs such as insurance, dismissal costs, maternity cover, wide area network and licences; ○ Budgets combined with LA Grant or other agency funding to support the wider Every Child Matters agenda.

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 1st February Cabinet[5]. Proposals have been considered by Schools' Forum throughout the development of this year's local funding formula, before seeking final approval on 1 March 2012 in accordance with the School Finance Regulations 2010.

Many individual schools will also receive direct grant funding through the Pupil Premium. This will increase for 2012/13 in value and scope, allocating £600 per eligible pupil (entitled to free school meals in the last six years) and £250 per child recorded on the pupil count as a "Service Child", i.e. with a parent in the Armed Forces.

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 movement in a local authority's centrally retained expenditure from one year to next to the same percentage as the movement in the Schools Budget.

[5] Somerset County Council – Schools Budget

The largest locally determined funding stream is the income collected from Council Tax. Council Tax is charged by many different types of Authority, including County Councils, District Councils, Police Authorities, Joint Fire Authorities and local Parish Councils. It is charged per house, and the amount charged depends on the valuation Band in which the house falls, its location, and local choices made by each Authority.

There are currently eight Council Tax bands; A to H, based on the Valuation Office Agency's (VOA) assessed value of domestic properties at 1 April 1991 as shown below.

Figure (i) – Council Tax Bandings

Band	House Value	Proportion of Council Tax	
		Weighting	Percentage
A	Under £40,000	6 / 9	66.67%
B	£40,001 - £52,000	7 / 9	77.78%
C	£52,001 - £68,000	8 / 9	88.89%
D	£68,001 - £88,000	9 / 9	100.00%
E	£88,001 - £120,000	11 / 9	122.22%
F	£120,001 - £160,000	13 / 9	144.44%
G	£160,001 - £320,000	15 / 9	166.66%
H	Over £320,001	18 / 9	200.00%

Within Somerset, the number of dwellings within each individual band (known as the Taxbase) as at 31st December 2011 is as follows:

Figure (ii) – Somerset Dwellings across Council Tax bands[6]

Band	A	B	C	D	E	F	G	H	Total (Taxbase)
Mendip	6,780	12,760	11,920	7,150	5,440	3,010	1,690	120	48,870
Sedgemoor	12,490	11,810	10,790	7,560	4,790	2,530	1,370	60	51,410
South Somerset	10,040	21,880	15,510	10,640	8,840	4,540	1,780	170	73,400
Taunton Deane	7,250	15,300	9,570	7,010	5,560	3,280	1,500	100	49,570
West Somerset	2,780	3,850	3,700	3,370	1,810	1,280	680	50	17,510
Somerset	**39,340**	**65,600**	**51,490**	**35,740**	**26,440**	**14,640**	**7,010**	**500**	**240,750**

This is before the application of any discounts or exemptions. Council Tax bills are issued on the assumption that two adults are resident in the property. If there is only one adult resident in the property, the property is not the main home, or if some adults can be disregarded for Council Tax purposes, a discount may be awarded. Where a property is unoccupied, or is solely occupied by certain categories of persons, a Council Tax exemption may be awarded. Inevitably, there will also be some income that cannot be collected, and an allowance is also included for this bad debt. Once these have been taken into account, the 2012/13 taxbase reduces to 198,868.

Tax levels are set as a proportion of the tax a Band D residence would pay. The value of the income generated through Council Tax can be calculated as £204.297m (being £1,027.30 [Band D Charge] multiplied by 198,868 [Taxbase] = £204.297m).

6 Valuations Office Agency – Council Tax Valuations List (31st December 2011)

The Taxbase is continually changing as houses are built or demolished. The numbers within each band also alters through the numbers and values of discounts and exemptions awarded, along with the adjustments required following appeals. In addition, as residents develop and extend their houses, the valuation increases and therefore the house moves up into higher bands. This results in a different value actually being collected than that budgeted – which could be higher or lower. Each Authority therefore gets a proportionate share of the gain or loss on the value collected. Within Somerset, a total of £4.463m was collected over and above that budgeted by all Authorities, and SCC's share of this was £3.199m or approximately 72%. Therefore the total Council Tax Yield included within the 2012/13 budget was £207.496m.

APPENDIX 6: Medium Term Financial Plan Summary, 2012/13 to 2014/15

COLUMN 1			COLUMN 2	COLUMN 3	COLUMN 4
Budget 2011/12 £m	**Description**	**MTFP Report Appendix Reference:**	**Proposed 2012/13 £m**	**Estimated 2013/14 £m**	**2014/15 £m**
353.243	Base Budget b/fwd		329.589	333.147	313.112
5.288	Inflation & Superannuation		5.000	9.028	8.902
358.531	**Standstill Budget Requirement**		**334.589**	**342.175**	**322.015**
9.145	New Service Investment Pressures	Appendix F	5.538	0.422	4.700
0.000	Previously Agreed Service Investment Pressures - THAT HAVE CHANGED	Appendix G	5.430	4.746	0.000
0.000	Previously Agreed Service Investment Pressures - THAT HAVE NOT CHANGED	Appendix H	0.169	(0.041)	0.000
0.500	First Call Items / Technical Adjustments	Appendix I	4.040	(1.285)	0.250
0.435	Capital Financing	Appendix I	(1.755)	(1.231)	(1.324)
10.080	**Total Pressures**		**13.422**	**2.611**	**3.626**
(34.428)	New Savings and Efficiencies:	Appendix J	(1.313)	0.000	0.000
0.000	Previously Agreed Savings and Efficiencies - THAT HAVE CHANGED	Appendix K	(19.535)	(6.632)	0.000
0.000	Previously Agreed Savings and Efficiencies - THAT HAVE NOT CHANGED	Appendix L	(3.047)	(4.833)	0.000
(34.428)	**Total Savings**		**(23.895)**	**(11.465)**	**0.000**
(0.773)	**In-Year Contribution To / (From) Reserves and Capital Fund:**		**3.852**	**(0.280)**	**(0.210)**
333.410	**Budget Requirement**		**327.968**	**333.041**	**325.430**
	LESS:				
(130.158)	Formula Grant (RSG/NNDR)		(120.471)	(105.924)	(95.082)
(1.830)	Council Tax Collection (Surplus) / Deficit		(3.199)	0.000	0.000
201.422	**On-Going Council Tax Precept Requirement**		**204.298**	**227.117**	**230.349**
(201.423)	Locally Collected Council Tax (inc. estimated increases in Taxbase)		(204.298)	(205.319)	(206.345)
(0.000)	**NET SHORTFALL / (SURPLUS)**		**0.000**	**21.797**	**24.004**
(0.000)	*CUMULATIVE SHORTFALL:*		*0.000*	*21.797*	*45.801*

2011/12	***Assumed Change (for planning purposes):***	**2012/13**	**2013/14**	**2014/15**
-11.39%	Known Government Formula Grant (from Adj Base) %:	-6.59%	0.00%	0.00%
0.00%	Estimated future Funding (inc Outcomes of Resources Review) %:	0.00%	-10.00%	-10.00%
0.00%	Notional SCC reduction for additional Academies Topslice %:	0.00%	-2.08%	0.00%
(16.734)	**Formula Grant Financial Impact £m:**	**(8.499)**	**(14.547)**	**(10.842)**

MTFP Budgetary Papers can be found on the Council's Website

APPENDIX 7: Gross Expenditure breakdown over CIPFA's SeRCOP Headings

Service	Employee Costs	Premises Costs	Transport Costs	Supplies & Services Costs	Third Party Costs	Capital Financing	Contributions to / (from) Reserves	Income	2012/13 Net Revenue Budget
	£	£	£	£	£	£	£	£	£
Older People	11,084,100	4,600	761,200	828,720	81,916,490			(33,427,910)	**61,167,200**
Physical Disabilities	88,400		900	86,900	11,850,300			(1,739,600)	**10,286,900**
Learning Disabilities	31,668,180	795,650	545,765	1,513,645	28,142,110			(23,863,750)	**38,801,600**
Mental Health	1,767,300	1,900	248,000	2,598,800	3,934,000			(11,166,600)	**(2,616,600)**
Other Adult Services	145,200	129,000	12,600	3,087,700	4,198,200			(724,900)	**6,847,800**
Sheltered Employment				393,500					**393,500**
Joint Equipment Service	87,840				2,222,520			(1,110,260)	**1,200,100**
Adult Social Care	**44,841,020**	**931,150**	**1,568,465**	**8,509,265**	**132,263,620**	**-**	**-**	**(72,033,020)**	**116,080,500**
Corporate & Democratic Core	217,400	11,000	80,900	1,186,000					**1,495,300**
Non Distributed Costs	178,300							(100)	**178,200**
Central Services to the Public	1,266,700	464,100	117,900	210,000	203,900	372,730		(1,454,230)	**1,181,100**
Other Operating Income & Expenditure	8,313,581	953,784	275,070	5,071,106	70,890			(14,684,431)	**-**
Management & Support Services	9,426,500	4,963,300	84,900	28,197,600	20,200			(12,629,000)	**30,063,500**
Central Services	**19,402,481**	**6,392,184**	**558,770**	**34,664,706**	**294,990**	**372,730**	**-**	**(28,767,761)**	**32,918,100**
Education Services	189,357,807	22,429,590	17,680,327	57,840,730	25,760,657	16,864		(273,180,875)	**39,905,100**
Children's Social Care	20,659,495	1,065,054	2,198,290	4,389,947	14,648,557			(2,899,243)	**40,062,100**
Children's & Education Services	**210,017,302**	**23,494,644**	**19,878,617**	**62,230,677**	**40,409,214**	**16,864**	**-**	**(276,080,118)**	**79,967,200**
Culture & Heritage	1,450,400	125,500	36,900	263,300				(533,100)	**1,343,000**
Recreation & Sport	79,073		6,466	1,404,860	240			(85,839)	**1,404,800**
Open Spaces	1,090,500	20,600	81,600	452,000	244,100			(550,400)	**1,338,400**
Tourism		6,500	300	86,200				(73,000)	**20,000**
Library Service	3,578,700	914,800	92,700	1,223,700	1,200			(1,035,000)	**4,776,100**
Service Management & Support Services	302,800	295,900	1,300	42,100				(190,600)	**451,500**
Cultural & Related Services	**6,501,473**	**1,363,300**	**219,266**	**3,472,160**	**245,540**	**-**	**-**	**(2,467,939)**	**9,333,800**
Agricultural & Fisheries Services		96,400		57,100				(467,900)	**(314,400)**
Coast Protection	27,900		400	5,700					**34,000**
Flood Defence & Land Drainage				40,500	20,000				**60,500**
Regulatory Services	2,008,000	40,000	65,200	354,900	95,500			(846,200)	**1,717,400**
Community Safety (Crime Reduction)				209,000					**209,000**
Community Safety (Safety Services)	97,500		1,000	21,000				(26,400)	**93,100**
Waste Collection	90,600	387,870		16,156,730				(345,740)	**16,289,460**
Waste Disposal		35,500		8,931,300				(27,300)	**8,939,500**
Recycling	943,800	307,900	51,770	13,985,360				(16,863,590)	**(1,574,760)**
									-
Environmental & Regulatory Services	**3,167,800**	**867,670**	**118,370**	**39,761,590**	**115,500**	**-**	**-**	**(18,577,130)**	**25,453,800**

Service	Employee Costs	Premises Costs	Transport Costs	Supplies & Services Costs	Third Party Costs	Capital Financing	Contributions to / (from) Reserves	Income	2011/12 Net Revenue Budget
	£	£	£	£	£	£	£	£	£
Transport Planning Policy & Strategy	5,441,500		348,400	779,900	704,000			(1,497,000)	**5,776,800**
Structural Maintenance	(43,600)		17,700	403,300	259,700			(5,000)	**632,100**
Environmental Safety & Routine Maint	266,300	10,000	2,000	443,000	4,250,700			(259,200)	**4,712,800**
Street Lighting	225,300		13,300	4,000	3,310,500				**3,553,100**
Winter Service			12,600	216,000	1,503,600				**1,732,200**
Traffic Management & Road Safety	954,200	115,000	59,300	202,000	264,500			(184,400)	**1,410,600**
Parking Services	140,000		8,000	4,000				(402,000)	**(250,000)**
Public Transport	472,800	80,600	686,900	7,760,300	2,620,200			(721,100)	**10,899,700**
Management & Support Services		300,400		38,800	20,900			(382,000)	**(21,900)**
Highways & Transport Services	**7,456,500**	**506,000**	**1,148,200**	**9,851,300**	**12,934,100**	**-**	**-**	**(3,450,700)**	**28,445,400**
Other Council Property				30,000					**30,000**
Supporting People					13,425,800			(650,000)	**12,775,800**
Housing Services	**-**	**-**	**-**	**30,000**	**13,425,800**	**-**	**-**	**(650,000)**	**12,805,800**
Community Development	345,200	51,700	35,500	700,500				(14,000)	**1,118,900**
Economic Development	794,790	2,600	21,140	1,044,870				(1,162,700)	**700,700**
Environment Initiatives	108,700		2,000	525,800	3,600			(99,500)	**540,600**
Planning Policy	362,300		3,400	19,500					**385,200**
Development Control	441,900		5,000	79,800				(185,700)	**341,000**
Economic Research		2,000		46,700					**48,700**
Business Support				390,000					**390,000**
Planning Services	**2,052,890**	**56,300**	**67,040**	**2,807,170**	**3,600**	**-**	**-**	**(1,461,900)**	**3,525,100**
Asset Management Revenue A/C				178,500		1,523,000		(433,200)	**1,268,300**
General Balances							164,000		**164,000**
Capital Financing Reserve						34,698,900		(1,316,300)	**33,382,600**
Contingency				13,000,000					**13,000,000**
Interest & Investment Income				12,000				(1,698,900)	**(1,686,900)**
Lease Charges				60,000					**60,000**
Precepts & Levies					777,000				**777,000**
Earmarked Reserves							4,851,600		**4,851,600**
Special Grants					(134,000)			(32,244,500)	**(32,378,500)**
Corporate Area	**-**	**-**	**-**	**13,250,500**	**643,000**	**36,221,900**	**5,015,600**	**(35,692,900)**	**19,438,100**
BUDGET REQUIREMENT :	**293,439,466**	**33,611,248**	**23,558,728**	**174,577,368**	**200,335,364**	**36,611,494**	**5,015,600**	**(439,181,468)**	**327,967,800**

2011/12 Budget £		2012/13 Budget £
	CHILDREN & YOUNG PEOPLE	
22,077,500	Learning & Achievement	19,293,900
19,108,500	Strategy, Resources & Commissioning	18,868,700
38,074,000	Safeguarding & Care	40,212,300
79,260,000	**TOTAL CHILDREN & YOUNG PEOPLE**	**78,374,900**
	COMMUNITY SERVICES	
84,643,400	Adult Social Care	81,510,400
28,498,200	Learning Disabilities Provider	28,480,400
9,418,400	Heritage, Libraries & Business Efficiency	9,368,600
23,111,900	Commissioning Adult Care and Support	21,251,700
145,671,900	**TOTAL COMMUNITY SERVICES**	**140,611,100**
	ENVIRONMENT	
1,137,700	Business Development & Transformation	1,167,200
15,627,500	Highways and Traffic Management	13,873,100
14,265,700	Transporting Somerset & Fleet	13,302,600
5,645,900	Physical Regeneration	4,887,800
3,600,000	Environmental Management & Resources	4,356,700
22,080,000	Waste Services	23,654,200
62,356,800	**TOTAL ENVIRONMENT**	**61,241,600**
	RESOURCES	
1,232,900	Directorate Management	4,400,000
2,754,700	Finance and Property	3,171,200
310,300	Human Resources & Traded Areas	313,600
1,619,300	Registrars & Coroners	1,660,900
16,073,400	Client Function & Unitary Charge	16,504,000
1,703,200	Strategy & Performance	1,695,100
23,693,800	**TOTAL RESOURCES**	**27,744,800**
	NON-SERVICE ITEMS	
622,300	Corporate Costs	491,100
905,400	Contributions	843,200
35,055,400	Financing Transactions	34,024,000
9,670,000	Contingencies	13,000,000
164,000	Contributions to / (from) Earmarked Reserves	164,000
(773,200)	Contributions to / (from) General Reserves	3,851,600
45,643,900	**TOTAL NON-SERVICE ITEMS**	**52,373,900**
356,626,400	**TOTAL BUDGET:**	**360,346,300**
(23,216,000)	**LESS: Special Grants inc Council Tax Freeze Grant**	**(32,378,500)**
333,410,400	**NET BUDGET REQUIREMENT:**	**327,967,800**
	RESOURCES	
130,158,300	Formula Grant (RSG/NNDR)	120,471,200
203,252,100	Council Tax (inc Surplus on collection fund)	207,496,600
333,410,400	**TOTAL RESOURCES:**	**327,967,800**

APPENDIX 9: 2012/13 Capital Starts Programme – by County Plan Priority

Reference	Description	General Resources £m	Specific Grant Support £m	Total £m
	HIGHWAYS			
ENV-C12.02 (i)	Highways Structural Maintenance + Integrated Transport	20.616		20.616
ENV-C12.08 (i)	Street Lighting	0.250		0.250
ENV-C12.09 (i)	Traffic Signals	0.250		0.250
ENV-C12.10	Taunton Inner Distributor Road	1.142	15.233	16.375
	TOTAL HIGHWAYS	**22.258**	**15.233**	**37.491**
Footnote[7]	**SUPERFAST BROADBAND**	**10.000**	**15.000**	**25.000**
RES-C12.03	**CHANGE PROGRAMME**	**5.500**		**5.500**
	SCHOOLS & EDUCATIONAL ESTABLISHMENTS			
CYP-C12.01	Basic Need Classrooms	1.375		1.375
CYP-C12.03	Replacement Poor Condition Temporary Teaching Units	1.240		1.240
CYP-C12.06	Schools Access Initiative	0.600		0.600
CYP-C12.07	Autism Spectrum Disorder	0.400		0.400
CYP-C12.09	Penrose School	3.500		3.500
CYP-C12.10	Children Looked After Accommodation	0.050		0.050
CYP-C12.11	Schools Structural Repair & Maintenance	5.850		5.850
Footnote[8]	Bridgwater Schools PFI	0.076		0.076
	TOTAL SCHOOLS & EDUCATIONAL ESTABLISHMENTS	**13.091**		**13.091**
	OTHER SERVICES			
COM-C12.02	Conservation Management and Enhancement	0.050	0.100	0.150
COM-C12.03	Learning Disability Basic Need	0.400		0.400
ENV-C12.01 (i)	Vehicles	0.876		0.876
ENV-C12.04	Taunton and Bridgwater Canal	0.020	0.020	0.040
ENV-C12.06 (i) & ENV-C12.06 (ii)	Rights of Way	0.278		0.278
RES-C12.04	Desktop Refresh outside SW1 Core Contract	0.629		0.629
	TOTAL OTHER SERVICES	**2.253**	**0.120**	**2.373**
	TOTAL	**53.102**	**30.353**	**83.455**

[7] See Cabinet 28 March 2011 – Superfast Broadband
[8] See Cabinet 28 April 2010 – Building Schools for the Future – Approval of Final Business Case

12 Source References:

1 Somerset County Plan
2 Strong Local Leadership – Quality Public Services
3 Consultation Findings
4 Summary of Consultations Undertaken - Appendix R
5 Legislation.gov.uk Website - Equality Act 2010
6 Somerset County Council – MTFP Budgetary Papers
7 Office of National Statistics – 2010 Mid-Year Population Estimates
8 Office of National Statistics – 2010 Mid-Year Population Estimates
9 ONS Life Expectancy at Birth 3-year rolling average 2008-10 *(with 95% confidence levels)*
10 Visit Somerset – Value of Tourism
11 Somerset County Council – Schools Budget
12 Ordinary Residence
13 Somerset County Council – MTFP Budgetary Papers
14 Somerset County Council – MTFP Budgetary Papers
15 Somerset County Council – SCC Change Programme
16 Somerset County Council – Capital Strategy
17 Somerset County Council – MTFP Budgetary Papers