The Executive are asked to:

a) note the update to the five year revenue and capital Medium Term Financial Plan, as at December 2015, with solutions proposed to address projected budget shortfalls; and

b) note the next steps and timescales for finalising the MTFP and setting the 2016/17 revenue budget.

1. SUMMARY OF REPORT

This report provides an update to the five year Medium Term Financial Plan, (MTFP), which was presented to Executive on 8th September and 20th October 2015.

We have reviewed and updated our core revenue and capital resource assumptions, challenged unavoidable growth spend which is incorporated within the MTFP and worked through more solutions in order to address the financial challenges that we face.

In October 2015, we reported that, with all plans accounted for, we still needed to find between £5.5m and £8.6m over the next three financial years to balance the books. The difference between the two figures reflected key risk items, particularly around future resource assumptions. We have revised the figures and mitigated high risk items to produce one set of figures to present the ‘most likely’ budget scenario.

Having developed many new service plans, as at December 2015, we remain short of circa £1.28m in relation to a balanced revenue budget for 2016/17. We are continuing to work through further options to address this gap.

Clearly all figures remain provisional subject to the Autumn Statement and Spending Review which, although delivered on 25 November 2015, still needs to be worked through.
in order to understand the full financial impact on North Somerset Council. Amendments and updates will continue to be worked up throughout December and January 2016.

In terms of capital, we are proposing a 5 year investment programme of £192m with recommended allocations for 2016/17 and indicative allocations for future MTFP years. We will retain an element of capital ‘headroom’ in order to prioritise and respond to key investment opportunities such as significant match funded grants.

As previously reported, the council has delivered circa £55m of revenue savings since 2010. With further savings more difficult to come by, delivering and maintaining a sustainable local income stream is crucial to our financial planning model linking with the core strand of ‘growth’ within the new corporate plan.

2. POLICY

The MTFP is a core strategic document which will support the delivery of the Council’s Corporate Plan. The legal requirement is to produce a robust revenue budget for the 2016/17 financial year along with relevant Council Tax bandings and rates. This will be published and approved by Council in February 2016.

The current approved revenue MTFP covers the period 2015/16 to 2017/18. The proposed integrated revenue and capital MTFP will cover the period 2016/17 to 2020/21.

3. DETAILS

3.1 Revenue Resources

Our five year revenue resource estimate was detailed in the September 2015 Executive Report. We have further refined this forecast to take account of:

- separated Revenue Support Grant from other revenue government grant funding;
- reviewed Revenue Support Grant assumptions linked to government announcements;
- updated assumptions on the timing and scale of delivery of major development schemes;
- removed the assumption that we will receive ‘new burdens’ funding to offset additional national insurance costs resulting from legislative changes and
- accounted for estimated collection fund surplus in current year and revised assumptions for future year Council Tax and Business Rates collection rates

A growingly significant element of our revenue resources is our ability to grow our council tax base linked to planned developments across North Somerset. The number of new house builds assumed over the MTFP period are detailed in Figure 1

**Figure 1: Number of assumed new houses added to Council Tax base**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Band D Equivalent</td>
<td>906</td>
<td>996</td>
<td>1,249</td>
<td>1,405</td>
<td>1,301</td>
</tr>
<tr>
<td></td>
<td>804</td>
<td>914</td>
<td>1,145</td>
<td>1,295</td>
<td>1,208</td>
</tr>
</tbody>
</table>
Our total revised revenue resources for the next 5 years, as at 24th November 2015, are detailed in Figure 2 below:

Figure 2: our five year revenue resource forecast as @ 24 November 2015:

<table>
<thead>
<tr>
<th></th>
<th>2015/16 £000</th>
<th>2016/17 £000</th>
<th>2017/18 £000</th>
<th>2018/19 £000</th>
<th>2019/20 £000</th>
<th>2020/21 £000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government Grant - RSG</td>
<td>26,488</td>
<td>20,154</td>
<td>15,054</td>
<td>10,771</td>
<td>6,688</td>
<td>4,500</td>
</tr>
<tr>
<td>Govt Grants - Business Rates</td>
<td>2,083</td>
<td>2,086</td>
<td>2,089</td>
<td>2,093</td>
<td>2,096</td>
<td>1,764</td>
</tr>
<tr>
<td>New Homes Bonus Grant</td>
<td>5,530</td>
<td>6,597</td>
<td>6,769</td>
<td>7,516</td>
<td>8,488</td>
<td>9,209</td>
</tr>
<tr>
<td>Council Tax Base</td>
<td>86,194</td>
<td>88,201</td>
<td>89,654</td>
<td>91,035</td>
<td>92,395</td>
<td>93,608</td>
</tr>
<tr>
<td>Freeze Grant / increases</td>
<td>954</td>
<td>1,911</td>
<td>2,872</td>
<td>3,865</td>
<td>4,867</td>
<td>5,881</td>
</tr>
<tr>
<td>Business Rates Income</td>
<td>28,425</td>
<td>29,690</td>
<td>31,462</td>
<td>32,311</td>
<td>33,010</td>
<td>33,668</td>
</tr>
<tr>
<td>Use of Reserves</td>
<td>689</td>
<td>271</td>
<td>288</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Collection Fund Surplus</td>
<td>1,135</td>
<td>900</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Funding for National Insurance</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>151,498</strong></td>
<td><strong>149,810</strong></td>
<td><strong>148,188</strong></td>
<td><strong>147,591</strong></td>
<td><strong>147,544</strong></td>
<td><strong>148,630</strong></td>
</tr>
</tbody>
</table>

The above revenue resource estimates are based on the existing business rate retention regime, i.e. North Somerset retains 49% of any growth above a defined baseline locally. The Chancellor announced, on 5th October ’15, that there will be a phased move to 100% local government business rate retention between now and 2020. Details of this policy change remain unclear hence any financial impact will need to be modelled into our resource assumptions prior to finalising the 2016/17 budget in February 2016.

Likewise, significant investment decisions entered into through the West of England, (WoE), City Deal arrangements are assumed to be protected from any proposed changes to localised rate retention. The four WoE councils have recently written to government to seek clarification on this point.

An assumption has been made that the government will continue to provide a ‘freeze grant’ to councils who do not increase their council tax from one year to the next. Should this grant be removed in the 25 November Spending Review, the council will have to reconsider its strategic position in terms of setting future council tax levels.

Creating sustainable local income streams are fundamental to robust financial planning. Figure 3 demonstrates the dramatic reduction in our reliance on revenue support grant over future years, being only 4% of our total revenue resources by 2020/21. With the introduction of new business rate retention legislation, it is likely that grant funding will disappear completely by 2020.
3.2 Revenue Growth

We have continued to challenge down the number, and value, of material revenue growth items to be incorporated within our 5 year MTFP. A ‘consume your own smoke’ approach has been adopted for smaller value items of under £100k for which departments are expected to generate mitigating actions through regular budget monitoring and management. Clearly this approach carries an element of risk for service departments which have had to absorb a number of reductions over recent years.

Consolidated growth proposed within the budget is detailed in Figure 4:

**Figure 4: Revenue growth items within the 5 year MTFP (24 November 2015)**

<table>
<thead>
<tr>
<th></th>
<th>2016/17 £000</th>
<th>2017/18 £000</th>
<th>2018/19 £000</th>
<th>2019/20 £000</th>
<th>2020/21 £000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employee Related costs</td>
<td>1,005</td>
<td>475</td>
<td>475</td>
<td>875</td>
<td>475</td>
</tr>
<tr>
<td>National Insurance change in legislation</td>
<td>1,400</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Utilities increases @ 5%</td>
<td>150</td>
<td>150</td>
<td>150</td>
<td>150</td>
<td>150</td>
</tr>
<tr>
<td>Borrowing to support capital investment</td>
<td>550</td>
<td>340</td>
<td>800</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Increase cost of front line services</td>
<td>200</td>
<td>1,300</td>
<td>200</td>
<td>200</td>
<td>950</td>
</tr>
<tr>
<td>Adult Social Care Growth</td>
<td>1,400</td>
<td>1,240</td>
<td>1,160</td>
<td>1,060</td>
<td>1,501</td>
</tr>
<tr>
<td>Children's Services Growth</td>
<td>400</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Re-basing existing income lines</td>
<td>335</td>
<td>-100</td>
<td>-100</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Back office &amp; digital change costs</td>
<td>482</td>
<td>165</td>
<td>165</td>
<td>165</td>
<td>165</td>
</tr>
<tr>
<td>Reversing legacy MTFP pressures</td>
<td>555</td>
<td>-45</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Changes to Government Grants</td>
<td>1,140</td>
<td>690</td>
<td>450</td>
<td>450</td>
<td>450</td>
</tr>
<tr>
<td><strong>Growth within MTFP (Dec '15)</strong></td>
<td><strong>7,617</strong></td>
<td><strong>4,215</strong></td>
<td><strong>3,300</strong></td>
<td><strong>3,000</strong></td>
<td><strong>3,791</strong></td>
</tr>
</tbody>
</table>
Employee Related Costs

These allow for a staff pay award of 1% per annum for each of the 5 years within the MTFP along with the anticipated increase in superannuation costs resulting from the tri-annual review of North Somerset Council pension fund liabilities (due in 2016 and 2019).

As per previous years, an assumed vacancy rate of 4% has been applied to salary budgets to reflect regular staff turnover. It is assumed that the cost of staff increments will be absorbed by departments, being offset through new employees commencing at the bottom of salary grade.

A one off increase to the base budget of circa £1.4m will be required to fund additional National Insurance costs due to a government change in national pension arrangements which will take effect from April 2016. Previous versions of our MTFP assumed that government ‘new burdens’ funding would be forthcoming to address this additional cost. However, having undertaken benchmarking with other councils, we have now removed this funding from our resource assumptions.

Borrowing costs of capital investment

Included in this growth is the February 2015 commitment to increase capital investment in our highways infrastructure. Borrowing costs for approved City Deal schemes are also factored in along with estimated borrowing costs of other major capital investment projects.

Increased cost of front-line services

This includes a revenue commitment to increase on-going highways spend, (in addition to capital investment), the price uplift required for major contract renewals and increased revenue requirements upon completion of major road, bus and rail transportation schemes.

Over the course of the five year MTFP period there will be a need to revise major contract terms, conditions, prices and service specification for the majority of our core front line services including waste, leisure and highways. Inevitably there will be additional costs incurred to cover such things as inflation and contractual uplifts. We have added such costs as ‘growth’ within our assumptions and have developed a series of mitigating actions to deliver financial savings which will be detailed later in the report.

Other than significant, multi-million pound, contracts and elements of social care, there has been no inflation allocation for various smaller scale contracts within this budget.

Adult Social Care Growth

As previously detailed, we are adopting a robust ‘cost and volume’ approach to both adult and children social care within our revised MTFP. The ‘growth’ figures accepted within the budget reflect the ‘do nothing’ scenario, following existing demographic and cost trends. For example, we know that increased life expectancy will result in people living longer and we also know that the base cost of care will continue to rise to reflect provider increases in costs through pay, inflation etc.
The five year budget that we have set for adult social care reflects the anticipated client numbers and average costs as detailed in **Figure 5**

**Figure 5: Adult Social Care Client Numbers and Average Costs**

<table>
<thead>
<tr>
<th></th>
<th>Volume of Clients Supported</th>
<th>Average Cost per Client</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015/16</td>
<td>2,918</td>
<td>-</td>
</tr>
<tr>
<td>2016/17</td>
<td>2,964</td>
<td>46</td>
</tr>
<tr>
<td>2017/18</td>
<td>3,042</td>
<td>78</td>
</tr>
<tr>
<td>2018/19</td>
<td>3,113</td>
<td>71</td>
</tr>
<tr>
<td>2019/20</td>
<td>3,185</td>
<td>72</td>
</tr>
<tr>
<td>2020/21</td>
<td>3,193</td>
<td>8</td>
</tr>
</tbody>
</table>

In summary, the number of clients that the budget will support will increase by 275, or 9%, over the 5 year period whereas the average cost per client is expected to fall by £190, (1.1%), reflecting a number of proactive interventions primarily around reshaping the mix of services from high cost placements. Without interventions, the average price per care package would rise in relation to increase in provider costs, inflation etc affecting our care contract prices.

**Children’s Social Care Growth**

£400k has been added to the base budget for 2016/17 to meet with the existing costs of post care cases which is projecting an overspend in the 2015/16 financial year. Post 16/17, only limited growth is anticipated as the department works on mitigation to prevent more children entering the care system.

The value of mitigations outweigh the requirement for growth and the two have been netted off in the revised MTFP with the resulting 5 year budget provision reflecting the numbers and average costs as detailed in **Figure 6**.

**Figure 6: Children Social Care Numbers* and Average Costs**

<table>
<thead>
<tr>
<th></th>
<th>Volume of Children Supported</th>
<th>Average Cost per Child</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015/16</td>
<td>203</td>
<td>-</td>
</tr>
<tr>
<td>2016/17</td>
<td>197</td>
<td>(6)</td>
</tr>
<tr>
<td>2017/18</td>
<td>197</td>
<td>0</td>
</tr>
<tr>
<td>2018/19</td>
<td>198</td>
<td>1</td>
</tr>
<tr>
<td>2019/20</td>
<td>197</td>
<td>(1)</td>
</tr>
<tr>
<td>2020/21</td>
<td>197</td>
<td>0</td>
</tr>
</tbody>
</table>

* Please note that the cost and volume for children looked after includes the main types of provision. There are a small number of children in alternative provision types that are not reflected in the numbers detailed above
Through prevention and active management, it is planned to retain the overall ‘children looked after’ figure at around 210 to 240 across the 5 years.

The reduction in overall budget relies on a significant lowering of £8,574, (24%), off the average price of care package per child. This business model is primarily focused on reducing reliance on high cost residential placements, replacing with lower cost, quality of life fostering support in the local community.

Obviously the demand led services of adult and children social care remain highly volatile and susceptible to significant change. Cost and volume data will be updated on a quarterly basis and incorporated within regular budget monitoring reporting throughout 2016/17.

Re-basing Existing Income lines

This growth is to re-address some of the legacy under-achievement of income targets that remain within the 2015/16 base budget reflected in regular monitoring reports. The largest item relates to a cashflow issue on Carlton Street car park which will require £200k in 2016/17 with this requirement being reversed out over the following two financial years as Dolphin Square Phase 3 is implemented and becomes fully operational.

Back office and digital change costs

A number of services have now been transferred into the Agilisys contract with corresponding financial savings detailed within this budget report. Contractually, there is the need to pay limited contract inflation over the coming years and additional costs will also be incurred to implement our digital transformation programme, (in areas such as mobile working). Again, the financial benefits from digital transformation outweigh the growth figures incorporated in the budget.

Reversing Legacy MTFP Pressures

In setting the 2016/17 revenue budget, and five year outlook, departments were required to generate as many tangible on-going savings as possible alongside the bigger income generating proposals from planned growth and wider transformation budget savings plans.

As a starting point, we wanted to ensure that any legacy, on-going pressures within the 2015/16 base revenue budget were reversed to provide a realistic base position for 2016/17. In undertaking this exercise £260k was identified in People & Communities, £250k in Development and Environment and £45k in Corporate Services (which is felt could be added back and achieved in 2017/18).

The level of savings put forward by departments, and accepted within this indicative budget, far outweighs the £555k growth proposed to address existing budget pressures.

Changes to Government Grants

The biggest figures within this growth category are the withdrawal of the Adult Social Care reform grant, (anticipated as £540k with effect from 2016/17), and the continuing reduction
in Public Health funding which has been accounted for at a rate of £450k, (approx. 6%), reduction in each year.

The current benefit that we receive from being part of the Somerset Business Rate pooling arrangement, (£190k), is anticipated to end in 2017/18 as changes to local retention of business rates start to impact.

Smaller reductions are also factored in to reflect changes to housing benefit and council tax support grants.

3.3 Revenue Budget Savings Plans

North Somerset has delivered circa £55m of revenue savings since 2010 with £15m of savings set within the current, 2015/16, financial year. Public sector austerity means that inevitably further savings plans are integral to robust financial planning alongside, as mentioned, the need to build and retain sustainable income through business rates and council tax.

In this budget, we are putting forward further savings proposals of £21.5m of which £17.5m being delivered over the first three years of the MTFP. This is detailed in Figure 7 below.

Figure 7: Budget Savings Proposals as at 24th November 2015

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Income proposals</td>
<td>-841</td>
<td>-495</td>
<td>-385</td>
<td>-200</td>
<td>-200</td>
</tr>
<tr>
<td>Borrowing &amp; Investments</td>
<td>-400</td>
<td>-510</td>
<td>-100</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Review of assets + capital investment</td>
<td>-50</td>
<td>-300</td>
<td>-250</td>
<td>-500</td>
<td>0</td>
</tr>
<tr>
<td>Changes to major contracts</td>
<td>-2,040</td>
<td>-670</td>
<td>-20</td>
<td>-250</td>
<td>0</td>
</tr>
<tr>
<td>Further reduction in management</td>
<td>-150</td>
<td>-200</td>
<td>-200</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Service reviews &amp; efficiencies</td>
<td>-1,101</td>
<td>-754</td>
<td>-361</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Digital transformation</td>
<td>-120</td>
<td>-300</td>
<td>-330</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Cost &amp; volume plan for children’s</td>
<td>0</td>
<td>-400</td>
<td>-250</td>
<td>-450</td>
<td>-300</td>
</tr>
<tr>
<td>Children’s non-social care savings</td>
<td>-900</td>
<td>-23</td>
<td>-66</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Adult Social Care (ASC) interventions</td>
<td>-1,081</td>
<td>-794</td>
<td>-1,150</td>
<td>-980</td>
<td>-1,040</td>
</tr>
<tr>
<td>ASC commissioning and contracts</td>
<td>-1,120</td>
<td>-662</td>
<td>-945</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Housing related proposals</td>
<td>-127</td>
<td>-51</td>
<td>-19</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Transport related proposals</td>
<td>-90</td>
<td>-120</td>
<td>-165</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td><strong>Total savings identified</strong></td>
<td><strong>-8,020</strong></td>
<td><strong>-5,279</strong></td>
<td><strong>-4,241</strong></td>
<td><strong>-2,380</strong></td>
<td><strong>-1,540</strong></td>
</tr>
</tbody>
</table>

Income Proposals

£200k per annum of this figure relates to standard year on year uplifts of existing charging arrangements linked to either Retail Price Index, (RPI), or other relevant indicator.

There are a number of new income lines proposed within the Development & Environment department which, although small in nature, amount to circa £261k on-going from 2016/17. Examples include trading income from the Bay Café, (£40k), contractual income share from crematoria, (£60k), pre-application planning advice and other planning related income.
which, although struggling in recent years, is now showing an upward trend, (£45k), new seafront concession opportunities, (£30k), additional income from summer events, a potential second tranche of beach huts sales and sponsorship opportunities.

The on-street car park income surplus which is currently generating circa £300k per annum above budget will be brought into the base budget to offset planned additional revenue spend on highways (which is included within growth figures in section 3.2).

2017/18 and 2018/19 include anticipated increase in leisure income linked to the council’s leisure strategy which will consider invest to save proposals in areas such as expanding gym and water provision.

**Borrowing and Investments**

Proactive treasury management, (TM), is a useful tool for any medium to large organisation. With a turnover in excess of £400m, existing loans of circa £130m and cash balances at any one time of £50m, choices around how and when to invest, and how to plan for future borrowing requirements need to be carefully considered.

Whilst balancing risk with reward, we will adhere to the advice of our Treasury Management advisors, (ArlingClose), whilst challenging our existing TM strategy to explore opportunities for further revenue savings.

Actions will include investing an element of our portfolio in longer term vehicles such as Property Funds, revising our approach to how we repay the principal element of our loans, (the Minimum Reserve Provision), and modelling future benefits attainable from rescheduling legacy debt of circa £15m which is North Somerset's share of the ex-Avon authority. We will also consider using one off reserves, (from the strategic review of financial reserves work), to either delay and / or negate the need for future borrowing to support approved capital investment plans.

**Review of Assets and Capital Investment**

£500k of this relates to the Community Access Review, an element of our transformation programme that will challenge the need, and best use of co-ordinated assets within geographical patches across North Somerset. Scope for review will include Libraries, Children's Centres, other community assets and, where possible, local school provision.

Detailed plans are yet to be formed for the £500k, with only £50k incorporated into the 2016/17 budget and further savings scheduled for the following two financial years. However at 10% of the total 'in scope' revenue spend of circa £5m, it is envisaged that this level of savings is achievable alongside improving the accessibility and quality of services provided in local communities.

We will continue to review council ownership of pockets of land and buildings, looking to divest ourselves of revenue maintenance costs whilst seeking financial return through capital receipts.

An ambitious figure of £500k additional revenue savings has been added to the 2019/20 indicative budget with the aim at re-prioritising our capital investment programme to either
deliver a commercial revenue return or accelerate business rates and council tax income through structured growth.

**Changes to Major Contracts**

These savings plans relate to a number of strategic debates that we are currently having across several different service areas. Individual contracts and amounts can't be itemised as this could either be commercially sensitive or impact upon on-going negotiations with existing or potential providers.

One figure that can be referenced is £400k per annum saving resulting from the TUPE transfer of the Sure Start team and function as part of a wider commissioning strategy (as detailed in a recent Executive report).

Other areas where we are looking to drive efficiencies and/or redefine existing service levels and delivery methods include:

- approved savings generated through the Agilisys support services contract;
- negotiations on the future delivery of the council’s waste services;
- on-going negotiations / options appraisal on future delivery of leisure services;
- consideration of the short, and longer term options for the delivery of highways services

**Further Reductions in Management**

Previous versions of the MTFP have required us to slim down the organisations management tiers and numbers to be a leaner, more efficient outfit. To date we have already reduced management costs by circa £350k.

This MTFP requires a further £500k reduction profiled over the next three financial years with plans being developed as to where these reductions will occur (the first of which being the pending restructure of management within the Development & Environment (D&E) directorate).

**Service Reviews and Efficiencies**

Each directorate is proposing a number of service and efficiency review some of which impacting upon staff numbers, others redefining service levels or changing the way in which services are delivered.

The largest area is within the Corporate Services directorate where reviews of Human Resources, Legal Services (including the use of external legal support), Financial Services, Client Services, Internal Audit and Scrutiny aim to net over £600k per annum by year three.

Similar reviews in the other two directorates are also targeted to deliver substantial six figure on-going savings. Whereas corporate initiatives such as challenging and co-ordinating services in compliance with the approved ‘One Council’ Target Operating Model will generate £300k per annum, review of learning and development activity £100k, adopting ‘nudge theory’ to influence public behaviour £120k and changes to procurement practices and operations £240k per annum.
A provisional savings figure of £150k for 2017/18 and beyond has also been set for sharing digital platforms with other public service providers across North Somerset such as Health.

As part of the 2016/17 revenue budget we also intend to adopt a more forward looking policy for granting discretionary business rates relief to organisations that best support our corporate priorities and add significant value to the local economy. This policy change will not generate significant financial savings but will enable us to spread such much needed financial support to a wider range of worthy organisations.

**Digital Transformation**

Financial savings of circa £750k per annum will be delivered through the council’s digital transformation programme by:

- providing a new, user-friendly website;
- introducing a new digital customer platform and replacing the existing case records management system;
- enabling mobile working technology and
- focusing greater digital transactional activity through ePayments

Savings will be realised through a combination of staffing efficiencies, being able to work smarter, reduced demand through enabling residents to ‘self-help’ via enhanced technological platforms increasing income collection levels through more efficient and reliable invoicing and payments.

**Cost & Volume planned interventions – Children’s**

As stated within the growth section of this report, we are not anticipating a significant fall in the number of children that we support under our statutory obligations.

Using a Social Impact Bond, (SIB), we will work alongside a private sector partner on improving prevention for those children being deemed as being on the ‘edge of care’. This is primarily viewed as a ‘cost avoidance’ measure to prevent certain children entering the care system in the future. The SIB will have limited impact on those already within the care system hence a prudent savings amount of £500k has been set across the MTFP period (£300k of which is not anticipated until 2019/20)

Greatest internal focus on intervention is in respect of the ‘mix’ of care provided to existing and future looked after children. There is an ambitious drive to more than halve the reliance on high cost residential placements from the current level of 16 to just 6. This will be achieved through sustained and structured support for ‘growing’ the in house fostering resource and service as well as reviewing the effectiveness of our current adoption processes. This work is clearly aimed at improving the quality of care and life opportunities for young people as well as delivering financial savings.

Successfully implemented, the average cost of a child supported is planned to drop from £35,470 to £26,896 by 2020/21, a reduction of 24%. Progress will be closely tracked through regular budget monitoring reports.
Children’s non-social care savings

Numerous savings plans will be enacted across a range of other children’s services budget headings the largest of which being within ‘Learning and Achievement’ which aims to shrink by circa £650k per annum. This will be achieved through actions such as reviewing ‘home to school’ transport arrangements, reviewing vacant posts / structures in the Education Welfare, Youth Employment, Vulnerable Learners and Early Years’ services and maximising the department’s ability to increase traded income.

Circa £300k will be reduced across the Children’s Support and Safeguarding budgets mainly through reducing vacant post, challenging structures and reducing contributions made to outside bodies through existing contracts.

Adult Social Care (ASC) planned interventions

There are a number of planned interventions in adult social care which aim to contain the existing increase in demand and spend by circa £5m by 2020/21.

Around £2m relates to a deliberate and focused channel shift in the mix and type of care provided with more emphasis placed on better quality of life and more affordable community based services. One example relates to developing more ‘extra care’ provision in North Somerset to reduce reliance on high cost residential placements for learning disabled clients.

Circa £700k will be achieved through expanding enablement and re-ablement services in order to cap and reduce demand through supporting people earlier in the care process thus preventing care needs becoming more complex and costly.

Another £1m will be achieved through consistent and structured ‘outcome reviews’ for existing clients. This is aimed at ensuring consistency of care support provided and constructively challenging existing packages of care as to their impact, in terms of outcomes for the client, and cost.

Other interventions include:

- Re-tendering the domiciliary care service into four discrete geographic patches. Rationalising the number of care providers that we commission through and benefiting from resulting economies of scale;

- Reviewing the use of disabled facilities grants to enable more people to live in their own homes for longer;

- Challenging our income forecasts in terms of client contributions based upon recent trends and anticipated care demands over the next five years and;

- £250k in 2016/17 through additional property income linked to the legal charges that we hold to offset accumulated care costs.

Although we are anticipating the number of clients supported to continue to rise over the MTFP period, (as detailed in Figure 5), our planned interventions aim to retain, and slightly reduce, the average cost per care package. All interventions have been incorporated within
our cost and volume business model, detailing the expected number of client numbers and reducing average cost per client for each of the five years.

**ASC Commissioning, Contracts and Channel Shift**

There are circa £2.7m other savings proposed across the remainder of adult social care budget headings. A significant element of this, (approx. £700k), will be challenging existing contracts with outside agencies where we are aiming to phase in up to 20% savings over the next three financial years.

We will be reviewing current demand and call against our day care contracts to determine whether clients can be better serviced through ‘direct payments’, giving greater independence and freedom of choice. We are planning to deliver circa £575k through this structured review.

Reviewing and revising services to dementia patients aims to generate £200k whereas £240k is planned through challenging how existing domiciliary care is provided including the need for ‘double care assistant’ cases, more proactive take up of the community meals service and reviewing how best to deliver client transportation services.

We aim to deliver £300k by challenging how initial assessments to the service are made to include increasing the potential for client ‘self-assessments’ and working with care providers to provide ‘managed assessments’ in order to reduce demand on our in house qualified assessment staff.

With the growth in demand for direct payments made to clients we have noticed that, in some cases, excessive balances are being built up and spend not matching the assessed level of payments made. We will review all of our direct payment cases to ensure consistency and appropriate deployment of care funds. We envisage that this review could generate in the region of £300k

There are a number of other, smaller scale, savings planned in order to propose an affordable and realistic adult social care budget moving forward. Continuing to work with our partners in the Clinical Commissioning Group, (CCG), and wider health economy, remains crucial to providing an integrated and sustainable care service into the medium to long term.

**Housing Related Proposals**

We are proposing savings of just under £200k across housing related service budgets. £60k of this will be through improved income generation, £35k through implementing efficiency measures with the remainder being achieved through challenging and revising current staffing levels.

**Transport Related Proposals**

Around £320k of the savings will be achieved through looking at how we can better integrate and co-ordinate our client transportation services across the Development & Environment and People and Communities departments as well as revising our
concessionary fares scheme to be more in line with the national scheme, (and West of England partners).

### 3.4 Revenue Budget Setting for 2016/17 and 5 year outlook

In previous versions of the MTFP we have produced two scenarios reflecting the ‘most likely’ and ‘risk based’ figures. We have now refined the ‘most likely’ model through reducing elements of highest risk from our assumptions.

Accumulating our assumptions on revenue resources, growth forecasts and proposed budget savings plans produces a five year MTFP budget position as detailed in **Figure 8**

***Figure 8: Indicative 5 year Revenue MTFP***

<table>
<thead>
<tr>
<th>Year</th>
<th>2016/17</th>
<th>2017/18</th>
<th>2018/19</th>
<th>2019/20</th>
<th>2020/21</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue Resources</td>
<td>£149,810</td>
<td>£148,188</td>
<td>£147,591</td>
<td>£147,544</td>
<td>£148,630</td>
</tr>
<tr>
<td>Base Spend per previous year</td>
<td>£151,498</td>
<td>£149,810</td>
<td>£148,188</td>
<td>£147,591</td>
<td>£147,544</td>
</tr>
<tr>
<td>Growth</td>
<td>£7,617</td>
<td>£4,215</td>
<td>£3,300</td>
<td>£3,000</td>
<td>£3,791</td>
</tr>
<tr>
<td>Savings</td>
<td>-£8,020</td>
<td>-£5,279</td>
<td>-£4,241</td>
<td>-£2,380</td>
<td>-£1,540</td>
</tr>
<tr>
<td>Revised Base Spend</td>
<td>£151,095</td>
<td>£148,746</td>
<td>£147,248</td>
<td>£148,211</td>
<td>£149,795</td>
</tr>
<tr>
<td>Gap / (surplus) per annum:</td>
<td>£1,284</td>
<td>557</td>
<td>-£343</td>
<td>£667</td>
<td>£1,165</td>
</tr>
</tbody>
</table>

The Spending Review and Autumn Statement announcement made on 25 November 2015 will require us to continue to challenge the robustness and accuracy of these assumptions over the coming weeks. At this stage, the detailed impact of the spending review on North Somerset is difficult to determine. However, in ball-park terms, we are not expecting material changes to our assumptions on core revenue funding.

What is particularly unclear is the impact, and treatment of specific grants. There is little mention of any Council Tax freeze grant and, with the reference to increasing council tax by up to 2% to specifically fund social care demand and growth, the council will need to form a strategic view on the setting of council tax over the coming years.

Indications are that further challenging cuts will continue in areas such as Public Health and Education Services grants which will require further re-prioritisation and service reductions in certain areas.

At the time of publishing this report, we still have a revenue gap to find of **£1.28m** for 2016/17. We will continue to work through the detail of resources available and bring further budget savings plans to the table in order to present a robust, balanced 2016/17 budget to Council in February 2016.

2017/18, and beyond, MTFP figures are clearly indicative at this stage and will be kept under constant review through regular budget monitoring. The medium term horizon will change significantly as the government crystalises and issues their detailed plans for 100% local business rate retention by the year 2020.
3.5 Capital

Similar to revenue, we have challenged and forecasted what our likely capital resources will be over the next five years. In many cases the figures represent an informed judgement as capital grants, in particular, are only announced on a year by year basis.

The MTFP capital resource estimates are detailed in Figure 9.

Figure 9: our five year capital resource forecast

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-Ringfenced Grants</td>
<td>11,300</td>
<td>9,148</td>
<td>21,479</td>
<td>8,872</td>
<td>8,772</td>
<td>8,772</td>
<td>68,343</td>
</tr>
<tr>
<td>Non-earmarked Resources</td>
<td>4,530</td>
<td>2,050</td>
<td>3,300</td>
<td>3,300</td>
<td>3,300</td>
<td>500</td>
<td>16,980</td>
</tr>
<tr>
<td>Reserves</td>
<td>1,595</td>
<td>40</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>1,635</td>
</tr>
<tr>
<td>Ring-fenced Grants</td>
<td>11,247</td>
<td>7,127</td>
<td>18,822</td>
<td>30,313</td>
<td>2,875</td>
<td>380</td>
<td>70,764</td>
</tr>
<tr>
<td>Ring-fenced Borrowing</td>
<td>6,089</td>
<td>9,160</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>15,249</td>
</tr>
<tr>
<td>Developer Contributions</td>
<td>9,899</td>
<td>1,217</td>
<td>2,000</td>
<td>2,000</td>
<td>2,000</td>
<td>2,000</td>
<td>19,116</td>
</tr>
</tbody>
</table>

| Capital Available                          | 44,660  | 30,742  | 47,601  | 44,485  | 16,947  | 11,652  | 192,087 |

A large proportion of capital resources are already allocated to approved projects. In addition, some of the ring-fenced grants and borrowing are only available for specific projects - hence if these projects are not undertaken the funding will be withdrawn. This is a similar situation for many of the S106, (developer contributions), receipts which can only be used for specific purposes.

Proposed New Capital Allocations

As reported in the October budget and MTFP report, we are recommending a new approach to how future capital grant funding is allocated to departments with, initially, only 90% being directly pass-ported to the recipient service area in order to free up an element of capital resource for wider investment prioritisation (subject to specific grant conditions and constraints).

This will create an unallocated MTFP capital resource of circa £11.8m for wider re-prioritisation against which there will be the following demands:

- core corporate plan and political investment priorities;
- returning the 10% grant funding to the areas for which it was intended;
- continue previous investment trends in street lighting, DFG's and maintenance of corporate/leisure assets etc.;
- top up developer contributions to provide infrastructure within new developments
- fund cross-cutting and regeneration projects as they emerge;
- fund IT and emerging transformation projects

We will continue to explore ways of increasing the overall capital resources available such as match funding opportunities, optimising outcomes from City Deal proposals and attracting external funding, in order to expand the £192m capital resource envelope.
3.6 Financial Reserves and Long term borrowing

We have been undertaking a strategic review of the level of financial reserves that we hold and amount of long term borrowing that we are exposed to since May 2015. This is particularly pertinent when considering the perceived ‘excessive local government reserves’ as referred to in the national press over recent months.

Financial reserves held by North Somerset at the end of 31 March 2015 were £56.7m as detailed in Figure 10

Figure 10: Financial Reserves held at 31 March 2015

![Graph showing financial reserves from 2011/12 to 2014/15.]

The council’s ‘working balance’ is a key reserve which represents prudent and effective financial risk management. With a net revenue budget of £151m and an annual turnover of over £400m there is inherent and significant risk in the operation and delivery of our budget.

For example major deviations from our planned budget in any given year could include:

- growth in adult or children social care above planned level;
- extreme winter causing added pressure on highways budget and care demand;
- material changes to local government resource allocations;
- major claims against the council for damages / injuries;
- not delivering the planned housing or business growth in within the intended timescales resulting in delays in funding

Whereas there is no stated best practice, industry benchmarking indicates that retaining a working balance of at least 5% of net revenue budget is appropriate. Assuming that our net revenue budget for 2016/17 will be circa £149.8m we should be aiming to retain a working balance next year of at least £7.5m. The 2015/16 revenue budget replied upon a ‘draw down’ against reserves of £500k which, when applied against the March 2015 balance of £8.1m will leave us with the required working balance going forward. However, this does rely on us delivering a balanced budget in 2015/16 (month 7 monitoring is currently forecasting a £780k overspend). This will be kept under review throughout the remainder of 2015/16.
The larger figure of £48.6m detailed in figure 10 represents a multitude of reserves which have been set up for specific purposes. For example, £5m relates to School Balances which, although held on our accounts, the council has no control or influence over.

More than £20m of reserves are capital reserves awaiting deployment against planned major capital projects for example major transportation schemes, school building projects, economic development and regeneration projects and planned highways capital investments.

Other significant earmarked reserves include insurance, employee severance and transformation implementation where financial amounts put aside match with anticipated future liabilities and spend in the respective areas.

Our 2015 strategic review of financial reserves has identified circa £4.8m of ‘one off’ reserves that can be redistributed as part of the 2016/17 budget setting and MTFP refresh. £550k of this has been allocated to remedial and health and safety work at the former Tropicana site has approved by Executive in October 2015. Assumptions have been made within the Treasury management savings stated in this budget that an element of this funding will be used to partially offset the need for future borrowing. However, potential other demands against this funding will include:

- topping up the Working Balance at 31 March 2016 to retain 5% of net revenue budget;
- adding to the capital investment budget to increase the overall £192m resources available;
- invest to save options regarding future service delivery options;
- dampening any adverse impact from the 25 November 2015 Spending Review on the 2016/17 revenue budget (i.e. if the actual resources available to us next year are significantly worse than our current assumptions)

**Long term borrowing**

For a number of years, like the majority of other councils, have utilised preferential rates from the Public Works Loan Board, (PWLB), to borrow money to support our capital investment programme. In recent years, this has been escalated with the inclusion in our capital programme of major transportation schemes and other strategic projects approved through the City Deal partnership with our West of England partners.

The council’s long term debt as at November 2015 stands at £139.88m, (including £15.65m of ex Avon debt), with an annual charge to the revenue budget of over £15m which reflects both interest payments on loans and the repayment of principal (Minimum Revenue Provision). With increased borrowing requirements and reducing revenue budgets, the percentage of our net revenue budget being spent on furnishing debt will exceed 10% for the first time in 2016/17 (as detailed in Figure 11)

Whereas borrowing will remain an integral part of our future financial planning, having certainty around the financial returns and service outcomes from capital investment will require careful analysis and business modelling to ensure that the resulting charge against revenue account is affordable and sustainable.
4. CONSULTATION

Consultation on the refreshed MTFP will run simultaneously with the emerging new Corporate Plan. Scrutiny of the budget setting process has been broken down into three discrete sections and opened up to constructive challenge to all Council members:

- **Stage 1:** 8th September 2015 Executive report – challenging the 5 year revenue and capital resource assumptions: Scrutiny on 12th October 2015;

- **Stage 2:** 20th October 2015 Executive report – challenge the growth expenditure commitments included within 5 year MTFP and indicative savings plans to address the budget gap: Scrutiny on 4th November 2015;

- **Stage 3:** 8th December 2015 Executive report – challenge the budget savings proposals for delivering a 5 year balanced MTFP. Scrutiny on 15th December 2015

Along with the Corporate Plan, we engaged with Town and Parish Councils in October 2015 and have meetings planned with other key partner organisations such as the Police and Health over the coming weeks.

An article will be placed in the January 2016 edition of ‘North Somerset Life’ magazine to inform and engage with the general public on our financial challenges and high level budget savings proposals.

Ultimately the revised Corporate Plan, the refreshed MTFP and detailed 2016/17 revenue budget will be approved by Council in February 2016.

**Figure 12** details the timeline and shows how the MTFP links with Corporate Plan, service and team planning, and setting individual staff objectives.
5. **FINANCIAL IMPLICATIONS**

In July 2015 the government made a clear indication for the Spending Review that financial cuts to non-protected services would continue over the medium term stating as much as 25% to 40% in some areas over the next four years. In addition, the Chancellor’s announcement on 5th October 2015, on the future of local business rate retention, will throw further complexity into future year finances. The Autumn Statement and Spending Review announced on 25 November 2015 has provided some top level messages, but there remains significant uncertainty about how strategic direction and policy directives will filter down into detailed resource allocations for individual Councils.

The ongoing financial challenges for local government underline the need to ensure that financial planning and service planning are integrated. The Corporate Plan has therefore been developed alongside the refresh of the Medium Term Financial Plan, and both will be signed off together. The financial implications of any projects and initiatives stemming from the Corporate Plan – one off costs and ongoing revenue costs or savings- will be identified to ensure that commitments are realistic, and that projects which maximise the Council’s resources are prioritised.

6. **RISK MANAGEMENT**

We have maintained an active revenue and capital risk register throughout the budget setting and MTFP process as detailed in both the September and October 2015 Executive reports.

Individual risk scores have increased and decreased as more information has become available and mitigation enacted. At the time of publishing this report the key significant financial risks are detailed in Figure 13
### Figure 13: Key Revenue & Capital risks as at 30 November 2015

<table>
<thead>
<tr>
<th>Risk area</th>
<th>Initial Risk Score</th>
<th>Potential mitigation</th>
<th>Risk Score After Mitigation</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Legacy overspending through not delivering a balanced budget in 2015/16.</td>
<td>4 5 20</td>
<td>Continue robust monitoring and bringing forward further mitigating items. Month 7 showing an improving financial position.</td>
<td>3 4 12</td>
</tr>
<tr>
<td>2 Potential impact of the Living Wage on future care contract costs.</td>
<td>4 5 20</td>
<td>Continue to work with care providers and lobby government, (through the LGA), for appropriate funding.</td>
<td>3 5 15</td>
</tr>
<tr>
<td>3 Lack of clarity re availability of Council Tax Freeze Grant from 2016/17 onwards</td>
<td>5 4 20</td>
<td>Agree a strategic approach to setting Council Tax for North Somerset over MTFP period</td>
<td>5 3 15</td>
</tr>
<tr>
<td>4 Unknown impact of the proposed 100% Business Rate retention policy on our resource assumptions</td>
<td>5 5 25</td>
<td>Continue to monitor updates from government. Undertake scenario planning around absorbing various specific grants</td>
<td>5 4 20</td>
</tr>
<tr>
<td>5 Level of reduction on specific grants still unknown. Public Health, Education Services etc.</td>
<td>5 4 20</td>
<td>Continue to monitor updates from government. Model impact of various percentage cuts</td>
<td>5 3 15</td>
</tr>
<tr>
<td>6 Not achieving the £8m required savings to deliver a balanced 2016/17 revenue budget</td>
<td>4 5 20</td>
<td>Monthly monitoring through DMTs and CMT. Quarterly updates of social care cost &amp; volume progress</td>
<td>3 5 15</td>
</tr>
<tr>
<td>7 Unable to deliver the housing and business growth to planned timescales</td>
<td>4 5 20</td>
<td>Strong governance through D&amp;E management team and Project Boards. Formal quarterly updates in budget monitoring.</td>
<td>3 5 15</td>
</tr>
<tr>
<td>8 Level of capital grants not as estimated, or discontinued.</td>
<td>4 5 20</td>
<td>Maintain good track record in delivery of projects, and effective links with LGA/other networks. Maintain strong WoE links on City Deal and devolution.</td>
<td>3 5 15</td>
</tr>
<tr>
<td>9 Developer contributions may not meet full development needs.</td>
<td>5 5 25</td>
<td>Introducing new Community Infrastructure Levy, prioritisation of needs and additional funding sources.</td>
<td>4 4 16</td>
</tr>
</tbody>
</table>

Key: $P = \text{Probability} / I = \text{Impact} / S = \text{(Risk) Score}$

These items are currently not within our overall budget calculations but are kept under constant review and revision.
7. **EQUALITY IMPLICATIONS**

In considering its vision, ambitions and financial planning the Council should be mindful of its Public Sector Equalities Duties to have due regard to the need to:

- eliminate unlawful discrimination
- advance equality of opportunity; and
- encourage good relations between groups.

As per previous years, we will undertake thorough Equality Impact Assessments, (EIA), for all significant budget savings plans which will be incorporated within the MTFP budget papers and presented to Council in February 2016.

8. **CORPORATE IMPLICATIONS**

The Corporate Plan and MTFP are vital tools to help align effort across the organisation and ensure that services are all pulling in the same direction. With continuing national austerity, it is essential that the council’s limited resources continue to be prioritised and allocated to the areas of greatest need.

9. **OPTIONS CONSIDERED**

We could continue with the approach of purely a three year revenue MTFP which has been largely successful in delivering a year on year balanced budget over recent years. However with further cuts on the horizon, it is considered that a fully integrated revenue, capital, borrowing and financial reserves five year plan is preferable.

A range of scenarios and savings proposals will be considered in the development of the MTFP.

**AUTHOR**

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**BACKGROUND PAPERS**

MTFP & 2015/16 Budget Setting Report (February 2015)
Corporate Plan 2011-15
Budget update and MTFP Executive Report 8th September 2015
Corporate Plan Executive Report 8th September 2015
Budget update and MTFP Executive Report 20th October 2015