

**REPORT OF THE CHAIRMAN OF FINANCE AND MAJOR CONTRACTS
MANAGEMENT COMMITTEE****BUDGET UPDATE REPORT****Purpose of the Report**

1. To highlight the Council's current and medium term financial position.
2. To set out the proposed approach to tackle the predicted budget deficit.

Information and Advice**Financial context**

3. The Council continues to operate in a challenging financial landscape with funding to local authorities expected to undergo fundamental structural changes over the next few years. What was in the past the main Government grant, the Revenue Support Grant (RSG), is expected to all but disappear by 2020/21. Local government now needs clarity around future funding as the plan to move to a new Business Rates Retention Scheme and a new funding basis across local government is not now expected until 2020/21.
4. At the same time as this transition to a more self-sufficient position many Council services are experiencing continued increases in demand. Many of these services are those directed at the most vulnerable in society, especially in children's and adult's social care.
5. When the County Council's budget was approved last February the funding shortfall identified for the next three years was £54 million.
6. Future uncertainty around issues such as the move to a new business rates retention scheme, the delayed Fair Funding Review, Government funding overall and any implications that may arise as a result of the Brexit negotiations make the position particularly challenging for local authorities.
7. On 29 October 2018, the Chancellor delivered the 2018 Budget Statement. The main announcements that will affect the Council were with regard to additional temporary funding in 2019/20 for areas such as adult social care, children's social care, highways infrastructure and schools capital. The impact of this funding will become clearer at the announcement of the provisional local government settlement in December. The Medium Term Financial Strategy (MTFS) will be amended accordingly and reported as

part of the 2019/20 Annual Budget Report to Full Council.

8. In March 2016, the Secretary of State for Communities and Local Government offered the option of a four-year funding settlement to run until 2019/20. Although this longer term funding settlement did help reduce uncertainty initially, funding for the final three years of the current MTFS is now unclear.
9. The February 2018 Budget Report to Full Council forecast a budget shortfall of £54.2million for the next three years once all the identified savings were taken into account. This shortfall took into account all of the budget pressures (inflation and costs) and reductions in grant funding alongside the savings identified.
10. This financial position is shown in Table 1 below:-

Table 1 – Three-Year Financial Forecast

	2018/19	2019/20	2020/21	2021/22	Total
	£m	£m	£m	£m	£m
Year on Year Savings requirement (February Report)	31.0	16.6	15.3	-	62.9
Change in Pay / Pension Related Inflation	1.6	1.8	2.0	4.1	9.5
Additional Pressures / Inflation	2.0	1.9	0.7	12.5	17.1
Pressures & Inflation Account	4.1	0.3	0.2	0.1	4.7
Committee Approved Efficiencies	(5.2)	(4.7)	(3.2)	-	(13.1)
Adjustments to Savings / Base Budgets	(5.1)	1.6	2.7	-	(0.8)
Change in Grant Funding	(1.2)	2.3	(1.2)	(2.1)	(2.2)
Increase in Council Tax	(9.8)	-	-	-	(9.8)
Increase in Adult Social Care Precept	(6.6)	(3.4)	-	-	(10.0)
Use of / Contribution to Reserves	(9.7)	12.5	(4.7)	1.9	-
Miscellaneous	(1.1)	(0.2)	0.9	(3.7)	(4.1)
Revised Gap	-	28.7	12.7	12.8	54.2

The Council's Current Financial Position

11. As reported to Finance and Major Contracts Management Committee in November 2018, the Council is reporting a forecast overspend of £5.0m in the current financial year. This is mainly as a result of increased demand for children's social care services alongside unavoidably high unit costs of this demand led budget.
12. To address this in-year overspend, a number of budget control measures are in place across the Children and Young People's Committee as follows:
 - Instruction to all Group Managers to scrutinise and restrict all non-essential expenditure. This will be followed up with a further "line by line" budget review.
 - Ongoing challenge and development of existing block contracts for residential care.
 - Proposed increased frequency of Agency Worker Challenge Panels.
 - Bringing forward proposals to increase the number of internal foster carers.
 - Various measures will be implemented through the department's Remodelling

Practice programme (fieldwork staffing arrangements).

13. As part of the budget setting process, Departments have been asked to justify existing pressures and inflation that are approved in the current approved Medium Term Financial Strategy. They have also been asked to consider uncertainties remaining around a number of areas that have not previously been reflected in the budget planning assumptions. The total increase in pressures and inflation bids received by Departments can be seen in the revised MTFS in Table 2 with further detail available in Appendix A. These bids continue to be revised with a view to gaining formal approval as part the Annual Budget Report to Full Council in February 2019.
14. With the significant level of savings that continue to be made by the Council there is a subsequent risk that non-delivery of these savings will place additional pressure on future year budget plans. A potential £0.8m shortfall of savings has been identified by the Improvement and Change sub-committee and therefore has been reflected in the revised MTFS shown in Table 2. This shortfall relates to savings in the Statutory School Transport (£0.6m) and Contracts Review (£0.2m). Again, these issues will continue to be reviewed and will be formally approved as part of the Annual Budget report to Full Council in February 2019 where necessary.
15. In October 2017, Policy Committee approved a new approach to the setting of the Council's budget whereby savings and efficiencies have been approved through Service Committees. As a result of the continuation of this approach a number of Committee Approved Efficiencies have been approved and are shown in the revised MTFS shown in Table 2. It is anticipated that further efficiencies approved by Committees will be reflected in the MTFS as part of the Annual Budget Report to Full Council in February 2019.
16. The Council will continue to update its Medium Term Financial Strategy to reflect changes in pressures and savings as they are approved throughout the year. The current MTFS is shown in Table 2 below:-

Table 2 – Revised Medium Term Financial Strategy

	2019/20	2020/21	2021/22	Total
	£m	£m	£m	£m
Year on Year Savings Requirement (Feb 2018)	28.7	12.7	12.8	54.2
Additional Pressures	10.0	4.4	-	14.4
Savings Shortfall	0.8	-	-	0.8
Committee Approved Efficiencies	(4.5)	(0.1)	(0.3)	(4.9)
Other Corporate Adjustments and Base Budget Adjustments	(0.6)	0.1	(0.1)	(0.6)
Revised Shortfall	34.4	17.1	12.4	63.9

NB: For the report to Council in February 2019 the MTFS will be extended to four years.

Facing the Challenge

The Council's response

17. The County Council's strategic plan for 2017 - 2021, Your Nottinghamshire, Your Future, is a four year plan, reviewed annually, that sets out the strategic ambition for the future of Nottinghamshire and the Council.
18. In addition, four detailed departmental strategies were approved at Policy Committee in January 2018 which have been designed to ensure each Department is designed to offer the best possible services whilst making best use of the Council's resources. Your Nottinghamshire, Your Future will encourage a more commercial approach across the Council, adopting creative and innovative ways of delivering value for money.

Financial planning

19. Measures are in place to address the current significant financial shortfall identified in 2019/20, including a full budget review in Children's Services, exploring income generation opportunities and generating efficiency savings. These will continue to be reported to the appropriate Committee throughout the year.
20. In addition, as part of the budget setting process, the Council will review all of the financial planning assumptions that underpin the Medium Term Financial Strategy. All changes will be detailed in the Annual Budget Report to Full Council in February 2019.
21. Reserves and balances will once again be used to allow time for more transformative approaches to be developed and implemented. Reserves provide a short-term fix but their use only delays the time when a permanent solution needs to be found. The Council also needs to maintain an appropriate level of reserves to guard against unforeseen events. Any required use of the reserves will be presented as part of the budget approval process.
22. When the MTFS was approved in February 2018, a 2.99% increase to Council Tax was built into 2018/19. No further increases to Council Tax were built into the MTFS for future years.
23. The 2018/19 Local Government Settlement recognised the social care funding issues faced by upper tier local authorities by allowing the acceleration of the Adult Social Care Precept. The announcement stated that such local authorities would be able to increase the Adult Social Care Precept by up to 3% in both 2017/18 and 2018/19 but by no more than a 6% increase in total by 2019/20. When the MTFS was approved in February 2018, a 2% increase to the Adult Social Care Precept was built into 2018/19 with a further 1% increase built into 2019/20. As it currently stands, further Adult Social Care Precept increases are no longer permissible.
24. Council Tax and Adult Social Care Precept policies will be reviewed, alongside other assumptions in the MTFS, and detailed in the 2019/20 Budget Report to Full Council in February 2019.

25. In July 2018, the Ministry of Housing, Communities and Local Government published the 2019/20 Local Government Finance Settlement Technical Consultation Paper. The consultation covered the following proposed approaches to the 2019/20 settlement:-
- The Government's intention is that the 2019/20 settlement will confirm the final year of the four year settlement announced in 2016/17. The 2019 Spending Review will confirm overall local government resourcing from 2020/21.
 - The Government intends to increase the baseline for housing growth of 0.4% of council tax base from 2017/18, below which the New Homes Bonus will not be paid. This is due to a 'continued upward trend for house building'.
 - The Government is 'minded to' confirm a Council Tax Referendum Limit of 3% for 2019/20 and a continuation of the Adult Social Care Precept on the existing principles.
26. As reported to Finance and Major Contracts Management Committee in September 2018, the County Council has submitted a bid to the Ministry of Housing, Communities and Local Government to take part in the 75% Business Rates Retention pilot scheme. If successful, as well as leveraging in potential additional income for the County Council, it will also allow Nottinghamshire local authorities to influence the future development of local government funding
27. It is expected that confirmation of the Local Government Settlement Consultation and the outcome of the 75% Business Rates Retention bid will be confirmed at the time of the 2019/20 provisional local government settlement.
28. Further announcements from Government in respect of the Comprehensive Spending Review and the 2019/20 Local Government Settlement are expected over the coming months. In addition, further consultations are expected with regard to the Fair Funding Review and the 75% Business Rates Retention Scheme.
29. In addition, local authorities with responsibility to provide social care and health services have made it clear to government that more funding must be made available. The social care green paper which was expected to be published in summer 2018 has now been delayed until December 2018.
30. In February 2019, the Finance and Major Contracts Management Committee will review the budget following the final local government settlement and grant announcements, in advance of Full Council setting the budget on 28 February 2019.

Other Options Considered

31. This report provides an update of the Budget together with confirming the approach to reviewing the budget for 2019/20.

Reasons for Recommendations

32. To inform members of the financial landscape and budget position; to seek approval for the measures set out in the review of the budget for 2019/20.

Statutory and Policy Implications

33. This report has been compiled after consideration of implications in respect of crime and disorder, data protection and information governance, finance, human resources, human rights, the NHS Constitution (public health services), the public sector equality duty, safeguarding of children and adults at risk, service users, smarter working, sustainability and the environment and where such implications are material they are described below. Appropriate consultation has been undertaken and advice sought on these issues as required.

RECOMMENDATIONS

It is recommended that Policy Committee:

- a) Acknowledges the financial landscape within which the Council is operating.
- b) Agrees that due to the significant financial challenges the Council continues developing measures set out in this report.

Councillor Richard Jackson

Chairman of Finance and Major Contracts Management Committee

Financial Implications (NS 01/11/18)

The financial implications are stated within the report itself.

Constitutional Comments (KK 01/11/2018)

The proposals in this report are within the remit of Policy Committee

Background Papers Available for Inspection

None

Electoral Division(s) and Member(s) Affected

All