Nottinghamshire County Council

Report to Finance & Property Committee
08 February 2017

Agenda Item: 4

REPORT OF THE SERVICE DIRECTOR – FINANCE, PROCUREMENT AND IMPROVEMENT

REVENUE BUDGET PROPOSALS 2017/18
CAPITAL PROGRAMME PROPOSALS 2017/18 to 2020/21
MEDIUM TERM FINANCIAL STRATEGY 2017/18 to 2020/21
COUNCIL TAX PROPOSALS 2017/18

Purpose of the Report

1. To consider the contents of the budget report that will be taken to Full Council on 23 February 2017 with specific reference to:

   - the Annual Revenue Budget for 2017/18
   - the Capital Programme for 2017/18 to 2020/21
   - the Medium Term Financial Strategy for 2017/18 to 2020/21
   - the level of the Council Tax Precept for 2017/18

Background

2. A budget update report was submitted to Policy Committee on 16 November 2016 which set out the financial landscape within which the Council is operating and noted the anticipated budget shortfall of £54.6m over the three years to 2019/20. The report also provided an update on the budget consultation.

3. Since November, the Council has carried out a full review of the budget pressures and underlying assumptions within the Medium Term Financial Strategy. The Council has also received provisional information on the level of funding it can expect in 2017/18. This report outlines the recommendations that will be submitted for approval to the Annual Budget Meeting on 23 February 2017.

Autumn Statement 2016 and Local Government Settlement 2017/18

4. On 23 November 2016, the Chancellor of the Exchequer gave his first Autumn Statement since the referendum vote to leave the European Union. The Office of Budget Responsibility (OBR) also published its Economic and Fiscal Outlook.

5. The following announcements in the Autumn Statement and OBR report were key:

   - The public sector deficit has been cut by almost two thirds since 2009/10 but, despite this, borrowing and debt remain high and the OBR has expressed a view that the economic and fiscal outlook for the UK has deteriorated since the referendum. Forecasts for economic growth have subsequently been revised downwards over the whole forecast period due to uncertainty associated with Brexit. Retail Price Inflation is expected to rise to 3.6% during 2018 with unemployment forecasts revised upwards to a peak of 5.5% in mid-2018.

- There has been a reduction to the 2017/18 Local Government Settlement Funding Assessment of 10.6% compared to 2016/17. As part of this there has been an overall reduction in Revenue Support Grant of 30.7%

6. On 15 December 2016, a provisional Local Government Finance Settlement was announced, which included the following:

   - In October 2016, the Council accepted the offer from the Secretary of State for Local Government the option of a four year funding settlement to run to 2019/20. The second year of this funding settlement has been confirmed.

   - It was confirmed that the 2.00% Council Tax Referendum Principle would remain in place.

   - In addition, it was announced that 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.

   - Reforms to the New Homes Bonus were also announced. The savings from these reforms will be retained to fund a new £240m Adult Social Care Grant which will be distributed on the basis of relative need. This will be available for local authorities temporarily in 2017/18. The Government also announced that it will be implementing wider planning reforms which may result in further changes to the New Homes Bonus in future years.

Managing the Future – A Strategic Response

7. Delivering savings will become increasingly more challenging following successive reductions in Government funding and rising demand for services over a number of years. The stark economic and fiscal backdrop for public finances calls for a strategic rather than a piecemeal response.

8. Consequently, a number of high-level strategic approaches to tackling the budget shortfall are being developed that support this fundamental transformation. These strategies build on the Council's existing planning framework and include the following initiatives - Smarter Ways of Working, Commercial Strategy, Alternative Service Delivery Models, Digital by Design, Promoting Independence, Adult Social Care Strategy and Remodelling Children's Care.

Budget Consultation

9. The 2017/18 budget consultation was carried out in two phases with the first phase beginning on 22 August 2016 and the second phase ending on 13 January 2017. In total there were 6,209 responses.

10. The first phase of the budget consultation was incorporated into the Annual Residents Satisfaction Survey which was carried out between 22 August and 3 October 2016.

Questions in this first phase focused on satisfaction with Council services and where residents felt spending should be prioritised.

11. There were a total of 4,974 responses with the survey conducted face to face and also available to all residents through the Council's website and printed copies at all the County's libraries. Results and analysis were reported to Policy Committee on 14 December 2016.

12. The results and analysis from the first phase of the budget consultation also contributed to the formulation of proposed new approaches and ways of working in which the Council could operate in the future to meet its budget challenge.

13. The second phase of the budget consultation focused on to what extent residents agreed or disagreed with these proposed new approaches with an opportunity to add any additional comments or suggestions.

14. The Survey was carried out between 14 December 2016 and 13 January 2017. The Survey was sent out to 2,917 members of the Council's Citizens' Panel with an email address (from the total of 5,412 panel members) through the Council's email bulletin system. In line with the statutory duty to consult with business groups the survey was also sent to key stakeholders in the Nottinghamshire Business Engagement Group and to local businesses who had subscribed to the Council's business email bulletin.

15. This methodology was selected so it could be delivered at zero cost by using existing Council digital channels. It also ensured all respondents had participated or were at least aware of the first stage of the budget consultation.

16. There were a total of 1,235 responses, with 391 respondents who added further comments or suggestions. The results are summarised in Appendix B.

Movements in the Medium Term Financial Strategy (MTFS)

17. The Budget report to the February Council in 2016 forecast a budget gap of £50.2m for the three years to 2019/20. The November report to Policy Committee showed a revised budget shortfall of £54.6m. Since the November report, the MTFS has been rolled forward a year to reflect the four year term to 2020/21 and a rigorous review of the Council's MTFS assumptions has taken place. The impact of these is set out in the paragraphs below.

18. It should be noted that the four year settlement accepted by the Council concludes in 2019/20. Following this, there is much uncertainty surrounding the move to 100% retention of business rates. Other areas of uncertainty exist throughout the term of the MTFS such as other Government funding issues and the implications of the European Referendum result. As such, the MTFS will continue to be reviewed regularly to ensure that it reflects the latest information available.

Revised Pressures and Running Cost Inflation

19. When the 2016/17 budget was approved in February 2016, specific pressures totalling £28.8m were identified in respect of children's and adult social care for the period to 2019/20. A further expectation of £45.2m for specific inflationary pressures were also included.

20. Departments have been encouraged to manage any new pressures within existing resources. In addition, existing pressures have been reviewed.

21. In recent years, no uplift has been provided for inflation on non-pay items, except where a specific business need has been identified. It is proposed that this approach is continued for the duration of the MTFS.

22. Table 1 tracks the movement in pressures and inflation that has occurred since February with details of the revised figures in Appendix A.

Table 1 – Movement in Pressures and Inflation

Committee	Original Pressures 2017/18-2019/20 £m	Original non-pay inflation 2017/18-2019/20 £m	Net movement £m	Current Total Requirement 2017/18-2020/21 £m
Children & Young People	**2.2**	**0.4**	**3.7**	**6.3**
Adult Social Care & Health	**9.2**	**23.9**	**5.6**	**38.7**
Transport & Highways	**-**	**3.0**	**0.7**	**3.7**
Environment & Sustainability	**-**	**3.4**	**0.8**	**4.2**
Finance & Property	**-**	**0.3**	**0.2**	**0.5**
Cross Committee	**-**	**0.2**	**(0.2)**	**-**
Total	**11.4**	**31.2**	**10.8**	**53.4**

Pay Award Inflation

23. MTFS expectations had included a 1% increase in pay from 1 April 2016, followed by a further 1% increase in each of the subsequent years across the MTFS. In April 2016, a pay award of 1% was agreed across local government effective from 1 April 2016 to March 2018 (with larger increases for the lowest paid). This agreement equated to the cumulative expectation in the MTFS. An assumed increase of 1% per annum from 2018/19 onwards has remained unchanged. Also, funding is set aside in contingency for National Living Wage Foundation and larger increases for the lower paid.

Savings / Efficiencies

24. The Medium Term Financial Strategy includes previously approved savings options totalling £23.6m from 2017/18. In addition to this, the Council approved a number of efficiencies and base budget reviews through appropriate Committees.

MTFS Assumptions and Projections

25. In addition to the reductions in budget pressures and inflation, a detailed review has been undertaken of the assumptions that underpin the MTFS. A similar review was undertaken in previous years. This resulted in a reduced level of corporate contingencies, along with a range of other adjustments, to help deliver a balanced budget. This has diminished the level of flexibility previously available and led to the Council adopting a higher level of financial risk than in previous years.

26. This approach has helped to avoid deeper reductions in services in 2016/17. In addition, by drawing on General Fund Balances and other reserves, the Council is able to deliver a balanced budget for 2017/18. Nonetheless, whilst the Council can set a balanced budget for the next financial year, from 2018/19 onwards, there is a projected budget gap of a further £62.9m across the duration of the MTFS. Further proposals as to how the budget will be balanced for the following three years, will need to be made over the coming months. This will be an immediate priority for the administration after the County Council elections in May 2017.

Interest & Borrowing

27. The level of borrowing undertaken by the Council is heavily influenced by the capital programme and the associated expenditure profile of approved schemes. Slippage can result in reduced borrowing in the year, although this will still be incurred at a later date when schemes are completed. Interest payments are based on an estimated interest rate which can also fluctuate depending on the market rates at the time the borrowing is undertaken. The level of external borrowing undertaken will also increase as the Council's level of reserves declines, as this effectively reduces the Council's ability to borrow internally.

28. The Council's position is monitored regularly in relation to these two variables and the latest budget monitoring report forecasts an overspend of at least £0.8m for the current year. The 2017/18 budget for interest and debt repayments has therefore been increased by £1.0m to reflect the overall position. This will continue to be closely monitored to ensure interest and debt payments are adequately provided for in future years.

Contingency

29. An acceptable minimum level of contingency is needed for unforeseen events, redundancy payments and non-delivery of savings. This is even more critical in an increased risk environment due to a more optimistic view of budget pressures. Given the in-year budget adjustments, there is a need to replenish the contingency budget and this is reflected in the MTFS assumptions.

30. As part of the budget construction process the base level for the contingency budget has been reduced by £1.0m. However, estimated cross committee pressures have been added for future allocation to Departments. These include the November increase of the Living Wage Foundation rates paid to Authority Employees, Business Rates Revaluations and the Apprenticeship Levy. The net reduction is £0.7m.

Tax Base

31. As new houses are built the council tax base increases. Over the last 5 years the growth rate has fluctuated due, in part, to the challenging economic climate. Each of the District Councils were asked to provide their tax base forecasts for each of the four year review period. These forecasts have been incorporated into the MTFS.

32. The District and Borough Councils have provided tax base estimates for 2017/18 which equate to growth of 1.60%, an increase of £1.1m. In part this may be due to the recovery in the housing market and wider economy as well as the concerns relating to Localised Council Tax Benefit not materialising in full.

Council Tax Surplus/Deficit

33. Each year an adjustment is made by the District and Borough Councils to reflect the actual collection rate of Council Tax in the previous year. Sometimes this gives rise to a surplus, payable to the County Council, or a deficit which is offset against the future years' tax receipts. In 2017/18, a weighted average is factored into the MTFS of £2,000,000. However, figures confirmed from the District and Borough Councils equate to a surplus of £3,330,419 for 2017/18, resulting in an increase of £1,330,419 for 2017/18. This has been factored into the MTFS as a one-off additional resource.

Government Grants

34. Further reductions in Government funding had already been anticipated as part of the four year settlement and reflected in the MTFS accordingly. As part of the Local Government Settlement, however, reforms to the New Homes Bonus were announced. The funding saved from these reforms will be retained in full to fund a new £240m Adult Social Care Grant which will be distributed to Authorities on the basis of relative need. This is in recognition of the cost pressures faced by Councils with responsibility for providing Adult Social Care services and will be available for local authorities in 2017/18.

35. For Nottinghamshire, these changes have resulted in lower New Homes Bonus funding of £0.7m and a new Adult Social Care Grant of £3.5m in 2017/18, a net £2.8m increase of funding in 2017/18.

36. The National Funding Formula consultation for Schools and High Needs was undertaken in 2016. As a result of this, the 2017/18 Schools Revenue announcement set out changes to the Education Services Grant; the retained duties element of the grant will be transferred into the schools block and the general element will be removed from September 2017. The MTFS has been amended to reflect this reduction in grant.

Costs of Redundancies

37. The Council seeks to maximise the use of voluntary redundancies to minimise the impact of any redundancies. Other Human Resource policies, such as retraining and redeployment, will also be used wherever possible to minimise the number of compulsory redundancies. The costs of either voluntary or compulsory redundancy are the same.

38. The costs of lump-sum retirement payments and the on-going pension costs are met from the Pension Fund and are not a cost to the Council budget. Redundancy payments and any Pension Strain costs are met by the Authority.

39. Two Section 188 notices have been published in 2016 on the 12th September and 10th October respectively on the basis of previously agreed savings proposals. It is likely that the actual implementation of any redundancies will occur in the next financial year so a provision will be set aside in the current year. This is in keeping with previous practice and, as per accounting guidance, will cover the anticipated redundancy costs only, leaving the remaining pension strain to be paid in 2016/17 or 2017/18.

Funding Transformation

40. The current capital receipts policy is to set these against previous years' borrowing thereby reducing the impact of the Minimum Revenue Provision on the revenue accounts. The Chancellor announced in the 2015 Autumn Statement, however, changes to the rules for their use. From 1 April 2016, for a three year period, local authorities are able to spend any revenues they generate from selling surplus assets to fund expenditure on projects that:-

- Generate on-going revenue savings in the delivery of public services,
- Transform service delivery to reduce costs
- Transform service delivery in a way that reduces costs or demand for services in future years for any of the public sector delivery partners.

41. It is proposed that transformational costs associated with the Programmes and Projects Team in both 2017/18 and 2018/19 are funded from this new flexibility.

Council Tax and Adult Social Care Precept 2017/18

42. The four year settlement offered by the Government as part of the 2016/17 Local Government Settlement included assumptions that Council Tax would be increased by 1.75% per annum and local authorities would implement an Adult Social Care Precept of 2% in each year.

43. The 2017/18 Local Government Settlement re-affirmed the expectation that, in addition to the usual assumptions with regard to tax base growth, Councils would increase their Council Tax by 1.75%.

44. Also in the 2017/18 announcement, the Government has recognised the social care funding issues faced by upper tier local authorities by allowing the acceleration of the Adult Social Care and Health 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.

45. In determining the local government settlement the Government has assumed that the Council would take the Adult Social Care Precept and increase Council Tax by 1.75% It is proposed, therefore, that the Council fixes any increase to local taxes to that expected by the Government, i.e. Council Tax is increased by 1.75% for 2017/18 and the Adult Social Care Precept is implemented at 3% in 2017/18. Future year changes to Council Tax levels will be reviewed as part of future MTFS reviews.

Update to November Policy Committee Report

46. The overall impact of all the changes since the November Policy Committee report are shown in Table 2:

Table 2 – Summary of Post November Changes

	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m	Total £m
Year on Year Savings requirement (November Report)	**14.3**	**20.7**	**19.6**	**-**	**54.6**
Roll forward of MTFS	-	-	-	18.3	**18.3**
Adjustments to Savings / Base Budgets	0.3	0.4	(0.3)	-	**0.4**
Review to Pressures and Inflation	(2.0)	(0.3)	(2.3)	(2.0)	**(6.6)**
Adjustments for Pay/Pensions Costs	1.4	(0.3)	(0.3)	0.2	**1.0**
Changes in Interest and Borrowing	1.0	0.3	-	(0.4)	**0.9**
Increase use of General Fund Balance	(2.2)	2.2	-	-	**-**
New Adult Social Care Support Grant	(3.5)	3.5	-	-	**-**
Changes to New Homes Bonus	0.7	(0.5)	-	-	**0.2**
Collection Fund Surplus / Deficit	(1.3)	1.3	-	-	**-**
Change in Council Tax Base	(1.1)	(0.3)	(0.1)	(0.6)	**(2.2)**
Change in Assumptions for Council Tax Increases	0.8	6.6	-	-	**7.4**
Increase of ASC Precept 3%	(9.4)	-	-	-	**(9.4)**
Other Corporate Adjustments	1.0	(2.6)	-	(0.2)	**(0.2)**
Revised Gap	**-**	**31.0**	**16.6**	**15.3**	**62.9**

Financial Risks, Balances & Contingency

47. The County Council is legally obliged to set a balanced budget for each financial year. Additionally, a four year medium term financial strategy is required. As previously reported, there are significant risks and uncertainties associated with the current operational environment that local authorities are operating within, both short and medium term. It is therefore of paramount importance that the County Council takes appropriate measures to mitigate against these risks, whilst acknowledging that, given the level of uncertainty overall, contingency plans may not be sufficient.

48. Adequate levels of balances and contingency need to be maintained in order to provide short-term flexibility to manage unforeseen events, and to allow for the necessary longer term changes to be implemented. Central Government continues to encourage local authorities to use reserves to support their transformation agenda. More detail regarding the need to hold balances will be reported to Full Council as part of the 2017/18 Budget Report.

Capital Programme and Financing

49. Local authorities are able to determine their overall levels of borrowing, provided they have regard to the Prudential Code for Capital Finance in Local Authorities published by CIPFA. It is, therefore, possible to increase the capital programme and finance this increase by additional borrowing provided that this is “affordable, prudent and sustainable”. This is in addition to capital expenditure funded from other sources such as external grants and contributions, revenue and reserves. The revenue implications of the capital programme are provided for and integrated within the revenue budget.

50. The Council’s capital programme has been reviewed as part of the 2017/18 budget setting process. Savings and re-profiling with a total value of £26.0m have been identified in 2016/17 as part of this exercise. These savings, along with capital reserves and contingencies, will be used to fund new inclusions. The capital programme is monitored closely in order that variations to expenditure and receipts can be identified in a timely manner. Any subsequent impact on the revenue budget and associated prudential borrowing indicators will be reported to the Finance and Property Committee.

51. During the course of 2016/17, some variations to the capital programme have been approved by Policy Committee, Finance and Property Committee and by the Section 151 Officer in accordance with the Council’s Financial Regulations. Following a review of the capital programme and its financing, some proposals have been made regarding both new schemes and extensions to existing schemes in the capital programme.

52. Discussions are on-going with the Education Funding Agency (EFA) to agree a solution to rebuild the Orchard Special School in Newark. It is proposed that the Council contributes £5m of capital funding, in addition to the land that it owns, towards the cost of a new school. Alongside the capital investment in the Orchard Special School, a full review of Special School provision in the County is being undertaken. The outcome of this review will be reported to Finance and Property Committee in due course.

53. The detail of the capital programme will be reported to Council as part of the budget report.

Revised Capital Programme

54. The summary capital programme and proposed sources of financing for the years to 2020/21 are set out in Table 3.

Table 3 – Summary Capital Programme

	Revised 2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m	TOTAL £m
Committee:						
Children & Young People*	25.711	33.063	36.771	7.500	7.500	110.545
Adult Social Care & Health	4.011	5.638	4.507	4.049	8.577	26.782
Transport & Highways	40.562	31.756	21.589	22.857	19.122	135.886
Environment & Sustainability	2.724	2.044	1.200	1.600	1.600	9.168
Community Safety	0.100	-	-	-	-	0.100
Culture	0.735	6.382	-	-	-	7.117
Policy	0.255	3.765	3.767	0.727	-	8.514
Finance & Property	11.235	14.276	7.402	5.552	5.010	43.475
Personnel	0.252	0.070	0.070	0.070	0.070	0.532
Economic Development	5.242	4.526	2.200	1.000	1.000	13.968
Contingency	0.000	1.000	1.000	1.000	1.000	4.000
Capital Expenditure	**90.827**	**102.520**	**78.506**	**44.355**	**43.879**	**360.087**
Financed By:						
Borrowing	32.268	56.851	33.967	20.113	19.637	162.836
Capital Grants †	56.324	44.072	43.719	23.422	23.422	190.959
Revenue/Reserves	2.235	1.597	0.820	0.820	0.820	6.292
Total Funding	**90.827**	**102.520**	**78.506**	**44.355**	**43.879**	**360.087**

* These figures exclude Devolved Formula Capital allocations to schools.
† Indicative Government funding for Transport and Schools is included in 2018/19 to 2020/21.

55. The capital programme for 2017/18 includes £26m of re-phased or slipped expenditure previously included in the capital programme for 2016/17.

Capital Receipts

56. In preparing the capital programme, a full review has been carried out of potential capital receipts. The programme still anticipates significant capital receipts over the period 2017/18 to 2020/21. Any shortfall in capital receipts is likely to result in an increase in prudential borrowing. Forecasts of capital receipts are shown in Table 4.

Table 4 – Forecast Capital Receipts

	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m	TOTAL £m
Forecast Capital Receipts	**4.9**	**9.0**	**12.9**	**13.1**	**11.0**	**50.9**

57. The Council is required to set aside a Minimum Revenue Provision (MRP) in respect of capital expenditure previously financed by borrowing. In recent years, the Council has

sought to minimise the revenue consequences of borrowing by optimising the use of capital receipts to reduce the levels of MRP in the short to medium term.

58. As such, the Council's strategy is to apply capital receipts to borrowing undertaken in earlier years, rather than using them to fund in-year expenditure. Although this will be presented as a higher level of in-year borrowing, the overall level of external debt will be unaffected. As set out above, in addition to this strategy, for 2017/18 and 2018/19, local authorities have been given the opportunity to use capital receipts to fund one off costs associated with transformation. This approach will be reviewed on an annual basis.

Statutory and Policy Implications

59. This report has been compiled after consideration of implications in respect of crime and disorder, finance, human resources, human rights, the NHS Constitution (Public Health only), the public sector equality duty, safeguarding of children and vulnerable adults, service users, sustainability and the environment and ways of working and where such implications are material they are described below. Appropriate consultation has been undertaken and advice sought on these issues as required.

RECOMMENDATION

1) That a report be prepared for County Council on 23 February 2017 based on the budget proposals as set out in this report, including the proposed Council Tax and Adult Social Care Precept increases as expected by Central Government.

NIGEL STEVENSON
SERVICE DIRECTOR – FINANCE, PROCUREMENT AND IMPROVEMENT

For any enquiries about this report please contact:
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Constitutional Comments (KK 30/01/2017)

Finance and Property Committee has responsibility for the financial management of the Authority including recommending to Council the financial strategy, annual revenue budget, annual capital budget, asset management plan and precept on billing authorities. The proposal in this report is therefore within the remit of this Committee.

Human Resources Comments (MT 16/01/2017)

The human resources implications are set out within the body of the report.

Trades union colleagues have been consulted as part of the Section 188 process via departmental Joint Consultative and Negotiating Panels and invited to local consultation meetings with staff to discuss the detailed implementation of the proposals. Monthly updates to the trades union side have been provided as part of Central Joint Consultative and Negotiating Panels and the opportunity provided to raise and resolve any issues arising.

Financial Comments (NS 27/01/2017)

The financial implications are set out in the report.

Background Papers and Published Documents

Except for previously published documents, which will be available elsewhere, the documents listed here will be available for inspection in accordance with Section 100D of the Local Government Act 1972.

- Consultation response dashboard

Electoral Division(s) and Member(s) Affected
All