Nottinghamshire County Council

Report to Finance & Major Contracts Management Committee
06 February 2018

Agenda Item:

REPORT OF THE SERVICE DIRECTOR – FINANCE, PROCUREMENT AND IMPROVEMENT

<u>REVENUE BUDGET PROPOSALS 2018/19</u>
<u>CAPITAL PROGRAMME PROPOSALS 2018/19 to 2021/22</u>
<u>MEDIUM TERM FINANCIAL STRATEGY 2018/19 to 2021/22</u>
<u>COUNCIL TAX PROPOSALS 2018/19</u>

Purpose of the Report

1. To consider the contents of the budget report that will be taken to Full Council on 28 February 2018 with specific reference to:

    - the Annual Revenue Budget for 2018/19
    - the Capital Programme for 2018/19 to 2021/22
    - the Medium Term Financial Strategy for 2018/19 to 2021/22
    - the level of the Council Tax Precept for 2018/19

Background

2. A budget update report was submitted to Policy Committee on 20 December 2017 which set out the financial landscape within which the Council is operating and noted the anticipated budget shortfall of £50.1m over the three years to 2020/21.

3. Since December, 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 2018/19. This report outlines the recommendations that will be submitted for approval to the Annual Budget Meeting on 28 February 2018.

4. This report also sets out the Council's strategic capital priorities including a major £20m investment in road maintenance and renewals across the county, significant investment in schools and provision for a new recycling centre in Rushcliffe.

Managing the Future – A Strategic Response

5. 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 as set out in the new County Council Plan.

6. Your Nottinghamshire, Your Future, the new County Council Plan which sets out the strategic ambition for the future of Nottinghamshire and the Council, was approved at Full Council in July 2017.

7. Your Nottinghamshire, Your Future is structured around four vision statements:

   - A great place to bring up your **family**
   - A great place to fulfil your **ambition**
   - A great place to enjoy your **later life**
   - A great place start and grow your **business**

8. These four vision statements are supported by twelve commitments each of which is underpinned by success factors:

   - Families prosper and achieve their potential
   - Children are kept safe from harm
   - Children and young people go to good schools
   - Nottinghamshire has a thriving jobs market
   - Nottinghamshire is a great place to live, work, visit and relax
   - People are healthier
   - People live in vibrant and supportive communities
   - People live independently for as long as possible
   - People can access the right care and support, at the right time
   - Nottinghamshire is a great place to invest and do business
   - Nottinghamshire is a well-connected County
   - Nottinghamshire has a skilled workforce for a global economy

9. In addition, four detailed departmental strategies have been designed to offer the best possible services whilst making best use of the Council's resources. Each of these strategies were approved at Policy Committee in January 2018. They outline the priorities and programmes of activity that will be pursued in the coming year to achieve delivery of the overall Council Plan. Your Nottinghamshire, Your Future will encourage a more commercial approach across the Council, adopting creative and innovative ways of delivering value for money.

10. This budget report sets out the financial framework around which the County Council will achieve its strategic vision statements and meet the success factors that underpin the Council's twelve commitments. It also sets out significant additions to the capital programme including a £20m major investment in road maintenance and renewals across the county, significant investment in schools and provision for a new recycling centre in Rushcliffe.

Autumn Statement 2017 and Local Government Settlement 2018/19

11. On 22 November 2017, the Chancellor of the Exchequer, the Right Honourable Philip Hammond MP, made his Autumn Budget Statement in the House of Commons. The Office of Budget Responsibility (OBR) also published its Economic and Fiscal Outlook.

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

- The UK economy has slowed this year as households' real incomes and spending have been squeezed by higher inflation. Also, the persistence of weak productivity growth does not bode well for the UK's growth potential in the years ahead. That said, public finances performed better than expected. The combined effects of a better fiscal position now, but weaker prospects looking forward, have led the OBR to revise up their forecast for the budget deficit over the next five years.

- Retail Price Inflation is expected to rise to 4.1% by the end of this financial year but then reduce down gradually over 2018 and 2019. Unemployment forecasts remain broadly flat over the coming quarters before rising slowly towards an equilibrium of 4.5%

13. On 19 December 2017, the provisional Local Government Finance Settlement was announced by the Right Honourable Sajid Javid MP, the Secretary of State for Housing, Communities and Local Government which included the following:

- In October 2016, the Council accepted the offer of a four year funding settlement to run to 2019/20. The third year of this funding settlement has been confirmed.

- An increased council tax referendum principle from 2% to 3% for 2018/19 and 2019/20. This sees a transfer of funding from government grant to local taxation. The council tax referendum principle will continue to be reviewed in line with inflation.

- Confirmation of the continuation of the Adult Social Care Precept including the additional flexibility to raise the precept to 3% this year but by no more than a 6% over the period 2017/18 to 2019/20.

- Further reduction in the number of New Homes Bonus (NHB) payment years from 5 years in 2017/18 to 4 years in 2018/19. NHB will continue to be paid on housing growth above 0.4%. Savings from the NHB in 2017/18 were allocated to upper tier local authorities with responsibility for adult social care as the Adult Social Care Grant. Nothing has been announced for the 2018/19 savings.

- Announcement of the Government's aim to localise 75% of business rates from 2020/21.

- Continuation of the capital receipts flexibility programme for a further three years to 2021/22.

Nottinghamshire Residents' Survey

14. As in previous years the 2017 Nottinghamshire Annual Residents' Satisfaction Survey was carried out using face to face interviews with residents who are representative of the Nottinghamshire population.

15. In addition to the questions around levels of satisfaction the 2017 survey included:

- Questions to measure public opinion on areas of the Council's business which are discretionary.
- Questions on state of the county with regard to the Council Plan's four vision statements that contribute to make Nottinghamshire 'a great place'.
- Questions on future budget proposals

16. The findings of the survey were reported to Policy Committee in January 2018.

Movements in the Medium Term Financial Strategy (MTFS)

17. The Budget report to the February Council in 2017 forecast a budget gap of £62.9m for the three years to 2020/21. The Budget Update report to Policy Committee in December 2017 showed a revised budget shortfall of £50.1m. Since the December report, the MTFS has been rolled forward a year to reflect the four year term to 2021/22 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 localising 75% of business rates income from 2020/21 eventually increasing this to 100% business rates retention. Other areas of uncertainty exist throughout the term of the MTFS such as the outcome of the Social Care Green Paper and the implications of Brexit. 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 2017/18 budget was approved in February 2017, specific pressures and non-pay inflationary pressures totalling £36.2m were identified for the period to 2020/21.

20. A review has been undertaken whereby Departments were asked to both justify existing pressures and identify any new pressures faced over the medium term. Following this review, total specific pressures and non-pay inflationary pressures to 2021/22 total £57.8m. Table 1 below tracks the movement in pressures and inflation that has occurred since February 2017 with details of the revised figures in Appendix A.

21. Within the £57.8m of total pressures, a number of potential pressures have been identified that have a high degree of uncertainty with regard to the likelihood of the pressure materialising, the values involved and the likely profile. As such, a provision of £4.7m has been made within the contingency budget to fund these pressures should they arise.

22. 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.

Table 1 – Movement in Pressures and Inflation

Committee	Original Pressures 2018/19-2020/21 £m	Original non-pay inflation 2018/19-2020/21 £m	Net movement £m	Current Total Requirement 2018/19-2021/22 £m
Children & Young People	(0.2)	0.4	1.7	1.9
Adult Social Care & Public Health	11.3	18.4	14.0	43.7
Community & Place	0.4	5.6	1.1	7.1
Policy	-	0.3	0.1	0.4
Pressures & Inflation A/c	-	-	4.7	4.7
Total	**11.5**	**24.7**	**21.6**	**57.8**

Pay Award Inflation

23. MTFS expectations had included a 1% increase in pay from 1 April 2017, followed by a further 1% increase in each of the subsequent years across the MTFS. In December 2017, local government employers outlined a proposal covering the two years from 1 April 2018. The proposal offers a 2% wage rise from April 2018 and a further 2% in April 2019 with additional increases for the lower paid. As such, the MTFS assumptions have been amended in line with these expectations. This offer is still under consideration by the recognised Trade Unions nationally.

Savings / Efficiencies

24. The MTFS includes previously approved savings options totalling £12.0m from 2018/19. In addition to this, the Council approved a number of efficiencies and base budget reviews through appropriate Committees.

MTFS Assumptions and Projections

25. Similar to previous years a detailed review has been undertaken of the assumptions that underpin the MTFS.

26. By reviewing assumptions and drawing on General Fund Balances and other reserves, the Council is able to deliver a balanced budget for 2018/19. Nonetheless, whilst the Council can set a balanced budget for the next financial year, from 2019/20 onwards, there is a projected budget gap of a further £54.2m 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.

Interest and 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 underspend of at least £0.8m for the current year. The 2018/19 budget for interest and debt repayments has been retained at the current level to meet expected costs in 2018/19. This budget 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, pay award and non-delivery of savings. This is even more critical in an increased risk environment due to uncertainty around 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 2018/19 contingency budget has been set at £5.5m. However, as set out above, an additional contingency of £4.7m (£4.1m in 2018/19) has been provided for further potential pressures.

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 2018/19 which equate to growth of 1.19%. A forecast tax base growth assumption of 1.31% per annum has been factored into the MTFS in 2019/20 and 2020/21 with further growth of 1.19% factored into 2021/22. This is based on the latest estimates provided by the Districts and Boroughs.

Table 2 – Forecast Council Tax base 2018/19

	Taxbase 2017/18	Assumed growth of 1.36% 2018/19	Band D Precept £1351.97	Confirmed % Change	Confirmed Taxbase 2018/19	Band D Precept £1351.97
Ashfield	32,546.20	32,988.74	£44,599,787	1.83%	33,140.50	£44,804,962
Bassetlaw	33,916.77	34,377.94	£46,477,944	0.93%	34,231.95	£46,280,569
Browtowe	33,126.78	33,577.21	£45,395,381	0.97%	33,448.29	£45,221,085
Gedling	36,306.09	36,799.75	£49,752,158	0.91%	36,637.56	£49,532,882
Mansfield	28,894.98	29,287.87	£39,596,322	0.04%	28,905.50	£39,079,369
Newark	37,828.75	38,343.12	£51,838,748	1.30%	38,320.19	£51,807,747
Rushcliffe	41,777.00	42,345.05	£57,249,237	1.99%	42,610.10	£57,607,577
Total	**244,396.57**	**247,719.68**	**£334,909,576**	**1.19%**	**247,294.09**	**£334,334,191**
Additional / (Reduction) of funding in MTFS from confirmed figures						**(£575,385)**

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. A weighted average is factored into the MTFS of £1,000,000 surplus. However, figures confirmed from the District and Borough Councils equate to a surplus of £726,446 for 2018/19, resulting in a reduction of £273,554 for 2018/19. This reduction has been reflected in the MTFS.

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 reforms to the New Homes Bonus were announced. In 2017/18, the funding saved from these reforms were retained in full to fund the Adult Social Care Grant which was distributed to Authorities on the basis of relative need. This was in recognition of the cost pressures faced by Councils with responsibility for providing Adult Social Care services.

35. Further savings made from the New Homes Bonus Reforms in 2018/19 have not been re-distributed to those Councils with responsibility for providing Adult Social Care services. Instead, the Government has increased the Council Tax referendum principle in recognition of continuing and growing social care pressures. For Nottinghamshire, New Homes Bonus funding has reduced by £1.1m in 2018/19.

36. In addition for Nottinghamshire, both the Transition Grant (£2.0m) and the Adult Social Care Grant (£3.5m) funding streams will cease in 2018/19.

Funding Transformation

37. 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.

38. As part of the Provisional Local Government Finance Settlement announced in December 2017 this flexibility was extended for a further three years to 2021/22. It is proposed that transformational costs associated with the Programmes and Projects Team and the implementation of the IT Cloud platform are funded from this new flexibility.

Council Tax and Adult Social Care Precept 2018/19

39. The 2018/19 Provisional Local Government Settlement announced by the Government in December 2017 set out funding plans for councils in England to help them to deliver the services that their residents need. It was confirmed that the referendum threshold has been set in line with inflation, and so setting the core Council Tax referendum principle at 3%. The threshold was set at 2% in 2017/18.

40. The Core Spending Power issued by the Government therefore affirmed the expectation that, in addition to the usual assumptions with regard to tax base growth, Councils would increase their Council Tax by 3%

41. Also in the announcement, it was confirmed that the Adult Social Care Precept will continue including the additional flexibility to raise the precept to 3% this year but by no more than 6% over the period 2017/18 to 2019/20.

42. In determining the local government settlement the Government has assumed that the Council would take the maximum Adult Social Care Precept of 6% over the period 2017/18 to 2019/20 and increase the Council Tax to the maximum level in 2018/19. It is proposed, therefore, that the Council fixes any increase to local taxes to that expected by the Government. So, for 2018/19, it is proposed that Council Tax is increased by 2.99% and the Adult Social Care Precept is implemented at 2% in 2018/19 and a further 1% in 2019/20.

43. There are 60% of properties in Nottinghamshire that are in Band A and B. As a consequence, the majority of households across Nottinghamshire will see a Council Tax increase of less than £1.00 per week. The average increase for all households across the county will be £1.09.

Table 3 – Impact of 2.00% Social Care Precept on Local Tax Levels (County Council Element) 2018/19

Band	Value as at 1.4.91	No. of Properties	% No. of Properties	Ratio	County Council 2017/18 £	County Council 2018/19 £	Change £
A	Up to £40,000	143,260	39.6%	6/9	42.36	60.39	**18.03**
B	£40,001 to £52,000	74,400	20.6%	7/9	49.42	70.45	**21.03**
C	£52,001 to £68,000	61,590	17.1%	8/9	56.48	80.52	**24.04**
D	£68,001 to £88,000	41,060	11.4%	1	63.54	90.58	**27.04**
E	£88,001 to £120,000	22,950	6.4%	11/9	77.66	110.71	**33.05**
F	£120,001 to £160,000	11,030	3.1%	13/9	91.78	130.84	**39.06**
G	£160,001 to £320,000	6,040	1.7%	15/9	105.90	150.97	**45.07**
H	Over £320,000	470	0.1%	18/9	127.08	181.16	**54.08**

Table 4 – Impact of 2.99% Increase on Local Tax Levels (County Council Element) 2018/19

Band	Value as at 1.4.91	No. of Properties	% No. of Properties	Ratio	County Council 2017/18 £	County Council 2018/19 £	Change £
A	Up to £40,000	143,260	39.6%	6/9	858.95	885.90	**26.95**
B	£40,001 to £52,000	74,400	20.6%	7/9	1,002.11	1,033.56	**31.45**
C	£52,001 to £68,000	61,590	17.1%	8/9	1,145.27	1,181.20	**35.93**
D	£68,001 to £88,000	41,060	11.4%	1	1,288.43	1,328.85	**40.42**
E	£88,001 to £120,000	22,950	6.4%	11/9	1,574.75	1,624.14	**49.39**
F	£120,001 to £160,000	11,030	3.1%	13/9	1,861.07	1,919.45	**58.38**
G	£160,001 to £320,000	6,040	1.7%	15/9	2,147.38	2,214.75	**67.37**
H	Over £320,000	470	0.1%	18/9	2,576.86	2,657.70	**80.84**

Table 5 – Recommended levels of Council Tax and Social Care Precept 2018/19

Band	Value as at 1.4.91	No. of Properties	% No. of Properties	Ratio	County Council 2017/18 £	County Council 2018/19 £	Change £
A	Up to £40,000	143,260	39.6%	6/9	901.31	946.29	**44.98**
B	£40,001 to £52,000	74,400	20.6%	7/9	1,051.53	1,104.00	**52.47**
C	£52,001 to £68,000	61,590	17.1%	8/9	1,201.75	1,261.72	**59.97**
D	£68,001 to £88,000	41,060	11.4%	1	1,351.97	1,419.43	**67.46**
E	£88,001 to £120,000	22,950	6.4%	11/9	1,652.41	1,734.86	**82.45**
F	£120,001 to £160,000	11,030	3.1%	13/9	1,952.85	2,050.29	**97.44**
G	£160,001 to £320,000	6,040	1.7%	15/9	2,253.28	2,365.72	**112.44**
H	Over £320,000	470	0.1%	18/9	2,703.94	2,838.86	**134.92**

44. The overall impact of all the changes since the December Policy report are shown in Table 6:

Table 6 – Updated MTFS

	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m	Total £m
Year on Year Savings requirement (December Report)	**17.1**	**16.7**	**16.3**	**-**	**50.1**
Change in Pay / Pension Related Inflation	0.8	1.6	0.8	4.1	**7.3**
Additional Pressures	2.0	1.9	0.7	12.5	**17.1**
Pressures and Inflation Account	4.1	0.3	0.2	0.1	**4.7**
Changes in Savings / Base Budgets	1.4	(3.0)	(2.4)	-	**(4.0)**
Change in Government Grants	2.9	0.1	1.0	(2.1)	**1.9**
Use of / Contribution to Reserves	(11.9)	16.9	(6.9)	1.9	**(0.0)**
Increase in Council Tax 2.99%	(9.8)	-	-	-	**(9.8)**
Increase in Adult Social Care Precept	(6.6)	(3.4)	-	-	**(10.0)**
Other Corporate Adjustments	-	(0.2)	0.8	(3.7)	**(3.1)**
Revised Gap	**(0.0)**	**30.9**	**10.5**	**12.8**	**54.2**

Financial Risks, Balances and Contingency

45. 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.

46. The main financial risks associated with the initial budget proposals are as follows:

- That, given the scale and extent of the savings proposals and the degree of complexity and change, it is highly likely that there could be a degree of non-delivery and slippage of proposals.
- The cost pressures factored into the budget may not be sufficient to meet the underlying cost and demand pressures that actually arise, particularly with regard to increased demand for Adults and Children's Social Care Services, Transport Services, the impact of the National Living Wage, agreement of the pay award, the impact of the Green Paper on Adult Social Care and any extra burdens identified by Central Government.
- The move to 75% retention of business rates from 2020/21 after the conclusion of the four year settlement. Also some uncertainty remains around the revaluation of business rates and associated level of appeals.
- Uncertainty about the implications of Brexit.

47. 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 2018/19 Budget Report.

48. The current level of balances is shown in Table 7. The General Fund Balance is a reserve which is not bound by any specific criteria. Earmarked reserves have to be applied to specific schemes, and a large proportion relates to the reserves that support the PFI schemes in waste and schools. Reserves are "one-off" funds so it is recommended that they are limited to supporting one-off expenditure rather than funding on-going costs.

Table 7 – Current Forecast Level of Reserves and Balances

	General Fund £m	Earmarked Reserves £m	Total £m
Balance as at 1 April 2017	27.7	130.0	**157.7**
Approved use in current year	(5.5)	(24.8)	**(30.3)**
Expected Balance 31 March 2018	**22.2**	**105.2**	**127.4**

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 2018/19 budget setting process. Savings and re-profiling with a total value of £17.5m have been identified in 2017/18 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 Major Contract Management Committee.

51. During the course of 2017/18, some variations to the capital programme have been approved by Policy Committee, Finance and Major Contracts Management 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. These proposals are identified in paragraphs 53 to 68. Schemes will be subject to Latest Estimated Cost (LEC) reports in accordance with the Council's Financial Regulations.

Adult Social Care and Public Health (ASCPH)

52. Since February 2010, £25.0m of capital allocations have been approved into the capital programme to fund Adult Social Care and Public Health Extra Care Schemes. A number of Extra Care schemes have been developed and will continue to be developed with a forecast total cost of £12.0m. The Council is still committed to the delivery of Extra Care schemes however every effort will made to fund these without the need for additional capital expenditure. Consequently, it is proposed that the remaining capital budget of £13.0m is re-allocated to fund key strategic capital priorities across the Council.

    It is proposed that the Adult Social Care and Public Health capital programme is varied to reflect the re-prioritisation of capital resources towards key strategic priorities.

53. **County Horticulture** – A spend to save initiative has been identified by the County Horticulture and Work Training Service following work undertaken with the Commercial Development Unit. A range of initiatives requiring capital funding of £0.4m have been identified which will help support the Council to maintain the service but at a reduced and more sustainable cost.

    It is proposed that the Adult Social Care and Public Health capital programme is varied to support the £0.4m spend to save initiatives identified, funded by capital allocation.

Children and Young People (CYP)

54. **School Building Improvement Programme** - The Department for Education has yet to announce the Schools Capital Maintenance (SCM) grant allocations for 2018/19 onwards. As such, it is proposed that an estimated SCM grant allocation of £5.5m is incorporated into the capital programme for 2018/19 and then reduced by £0.5m per annum to reflect further school conversions to academy. It is also proposed that the 2018/19 grant continues to be top sliced by £0.5m to provide funding to further the School Access Initiative programme.

    It is proposed that the Children and Young People capital programme is varied to reflect an estimated School Capital Maintenance Grant of £5.5m for 2018/19 with a reduction of £0.5m per annum in each of the future years.

55. **School Places Programme** – An analysis of school places sufficiency across Nottinghamshire is undertaken on a regular basis. The provision of school halls will be reviewed as part of the current analysis. A Department for Education grant of £20.5m in 2018/19 is already approved within the Children and Young People's capital programme. It is proposed that estimated further School Places Grant of £2.0m are included in both 2020/21 and 2021/22 of the Children and Young People's capital programme.

    It is proposed that the Children and Young People capital programme is varied to reflect estimated School Places Grant of £2.0m for 2020/21 and 2021/22.

56. **Special Schools Grant** – The County Council received an allocation of £2.5m (£0.8m per annum for three years commencing 2018/19) from the Specialist Provision Capital Grant fund. This funding has been made available to support local authorities to make capital investments in provision for pupils with special educational needs and disabilities. The outcome of a consultation on the use of this funding was reported to the Children and Young People's Committee in January 2018.

It is proposed that the Children and Young People capital programme is varied to incorporate the £2.5m Specialist Provision Capital Grant.

57. **Orchard Special School, Newark** – As part of the 2017/18 Annual Budget Report to Full Council, it was approved that the Council would contribute £5.0m towards the cost of a project to rebuild the Orchard Special School in Newark. Work is on-going to review options and agree upon a final project solution. It is proposed that the Council will contribute a further £2.5m towards the cost of the new school.

It is proposed that the Children and Young People's capital programme is varied to reflect the additional £2.5m contribution towards the cost of a new Orchard Special School in Newark, funded from capital allocation.

58. **Hawthorne Primary Replacement School, Bestwood** – A report to Policy Committee in December 2017 provided Members with a progress update on the replacement of the Hawthorn Primary School in Bestwood. The £5.8m funding for this project is currently included within the School Places Programme line of the CYP capital programme. Given the scale of the project, it is proposed that it is shown separately on the face of the capital programme.

It is proposed that the Children and Young People capital programme is varied to reflect separately the £5.8m replacement school project in Bestwood.

Community and Place

59. **Additional Highways Investment** – In the Community and Place Committee, the Council has identified investment in the highways infrastructure across the county as an important strategic priority. The Road Maintenance and Renewal and Integrated Transport Measures capital programmes are currently funded from Department for Transport capital grant with a £0.5m contribution from the County Council. It is proposed that these programmes are enhanced by a contribution from the Council of £20.0m to 2021/22 to enable further highways improvement works to be rolled out. This additional funding will be profiled as follows:

£m	**2018/19**	**2019/20**	**2020/21**	**2021/22**	**Total**
Road Maintenance and Renewal	3.25	5.00	4.75	4.00	**17.00**
Integrated Transport Measures	0.75	0.75	0.75	0.75	**3.00**
Total	**4.00**	**5.75**	**5.50**	**4.75**	**20.00**

It is proposed that the Community and Place capital programme is varied to reflect the £20.0m additional contribution to the Highways Improvement programme to 2021/22, funded by capital allocation.

60. **Integrated Transport Measures –** The County Council has been successful in securing £1.5m capital funding from the Local Enterprise Partnership for Derby, Derbyshire, Nottingham and Nottinghamshire (D2N2) Sustainable Transport Programme to enable the delivery of four cycle network developments across the county. This is in addition to the £0.7m funding that was approved at the Finance and Major Contracts Management Committee to deliver the West Bridgford cycle network. It is proposed that three further cycle networks are delivered in Arnold / Carlton, Mansfield and Newark on Trent.

It is proposed that the Community and Place capital programme is amended to reflect the additional £1.5m D2N2 funding secured for developing three further cycle networks.

61. **Gedling Access Road (GAR)** – The GAR is a proposed new access road bypassing Gedling Village and is being provided as supporting infrastructure for the mixed-use residential and employment development on the former Gedling Colliery site. Subject to funding arrangements, planning approvals and statutory process, construction of the new road is planned to commence in Winter 2018 with completion in 2020. The Council's £5.4m contribution to the scheme was approved in February 2014. The current funding allocations for this scheme are shown in the table below:

	Funding contribution (£m)					
	2016/17	2017/18	2018/19	2019/20	2020/21	**TOTAL**
County Council	-	0.241	0.163	3.870	1.126	**5.400**
D2N2 LEP LGF	-	0.500	5.400	4.900	-	**10.800**
Developer Contributions / Gedling BC	-	-	3.984	10.759	2.786	**17.529**
Homes and Communities Agency	0.138	0.206	4.144	2.058	0.624	**7.170**
TOTAL	**0.138**	**0.947**	**13.691**	**21.587**	**4.536**	**40.899**

It is proposed that the Community and Place capital programme is varied to reflect the current external funding allocations for the Gedling Access Road scheme.

62. **Southern Growth Corridor** – The A612 Daleside Road Improvement Scheme is funded through the D2N2 as part of £6.1m for bus priority measures. The proposals within the county area include improvements to bus infrastructure under the banner of the Southern Growth Corridor. The £0.3m funding for this work is funded entirely from the total D2N2 funding available.

It is proposed that the Community and place capital programme is varied to reflect the £0.3m D2N2 funding secured for developing the Southern Growth Corridor.

63. **Rushcliffe Recycling Centre** – With additional homes proposed to be built across the Rushcliffe area over the coming years, the County Council considers improving the coverage of recycling centres in the area as a key strategic priority. It is proposed, therefore, to incorporate £2.5m into the Community and Place capital programme to construct a new recycling facility in Rushcliffe.

It is proposed that a £2.5m allocation, funded from borrowing, is incorporated into the Community and Place capital programme to fund a new Rushcliffe Recycling Centre.

64. **Carbon Management** – This energy saving capital programme, which is funded fully from external funding, has been extended and re-phased by the project team. The programme is now forecast to be profiled as follows:

2018/19 – £0.360m
2019/20 – £0.320m
2020/21 – £0.320m
2021/22 – £0.320m

Policy

65. **Journey to the Cloud** – A capital allocation of £4.1m was approved as part of the 2017/18 Annual Budget Report to fund costs associated with moving the Council's ICT service provision from an on-site delivery method to a more flexible, cloud based approach. Since then, the Chartered Institute of Public Finance and Accountancy has published an 'Accounting for the Cloud' guidance document. This sets out that the transition to a Cloud arrangement by its nature represents a shift from a capital intensive infrastructure / software investment to a contractual service subscription model and should therefore be funded from revenue budgets. It is proposed that this transformation project is funded from the extended capital receipts flexibility as announced in the 2018/19 Provisional Local Government Settlement.

It is proposed that Policy Committee capital programme is varied to reflect that the £4.1m Journey to the Cloud project is to be funded from capital receipts flexibility.

66. **Better Broadband for Nottinghamshire (BBfN)** – Following an underspend on Phase 1 of the BBfN programme, £2.6m worth of funding will be returned to the Council. It is proposed that this funding is incorporated into the Policy Committee capital programme to provide further superfast broadband coverage to even more homes and businesses.

It is proposed that the Policy Committee capital programme is varied to reflect the £2.6m that will be used to further the BBfN programme.

67. **Transformation Programme** – As part of the 2017/18 Annual Budget Report, it was approved that transformational costs associated with the Programmes and Projects Team would be funded from capital receipts flexibility in 2017/18 and 2018/19. Now that the capital flexibility has been extended for a further three years, it is proposed that this approach continues to 2021/22.

Capital Programme Contingency

68. The capital programme requires an element of contingency funding for a variety of purposes, including urgent capital works, schemes which are not sufficiently developed for their immediate inclusion in the capital programme, possible match-funding of grants and possible replacement of reduced grant funding.

69. A number of capital bids described above are proposed to be funded from uncommitted contingency across the period to 2021/22. The levels of contingency funding remaining in the capital programme are as follows:-

2018/19	**£1.5m**
2019/20	**£1.5m**
2020/21	**£1.5m**
2021/22	**£1.5m**

Revised Capital Programme

70. Taking into account schemes already committed from previous years and the additional proposals detailed in this report, the summary capital programme and proposed sources of financing for the years to 2021/22 are set out in Table 8.

Table 8 – Summary Capital Programme

	Revised 2017/18 £m	**2018/19 £m**	**2019/20 £m**	**2020/21 £m**	**2021/22 £m**	**TOTAL £m**
Committee:						
Children & Young People*	28.115	37.590	22.603	9.348	6.000	103.656
Adult Social Care & Public Health	4.958	3.218	2.563	0.683	0.683	12.105
Community & Place	43.737	51.245	54.574	31.378	26.092	207.026
Policy	20.661	16.462	10.015	7.185	6.725	61.048
Finance & MCM	0.180	0.180	0.180	0.180	0.180	0.900
Personnel	0.219	0.076	0.000	0.000	0.000	0.295
Contingency	0.000	1.500	1.500	1.500	1.500	6.000
Capital Expenditure	**97.870**	**110.271**	**91.435**	**50.274**	**41.180**	**391.030**
Financed By:						
Borrowing	52.600	49.642	39.914	22.494	18.158	182.808
Capital Grants	44.033	59.077	49.721	26.680	21.922	201.433
Revenue/Reserves	1.237	1.552	1.800	1.100	1.100	6.789
Total Funding	**97.870**	**110.271**	**91.435**	**50.274**	**41.180**	**391.030**

* These figures exclude Devolved Formula Capital allocations to schools.

71. The capital programme for 2018/19 includes £17.5m of re-phased or slipped expenditure previously included in the capital programme for 2017/18.

Capital Receipts

72. 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 2018/19 to 2021/22. Any shortfall in capital receipts is likely to result in an increase in prudential borrowing. Forecasts of capital receipts are shown in Table 9.

Table 9 – Forecast Capital Receipts

	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m	TOTAL £m
Forecast Capital Receipts	7.2	6.9	14.1	14.0	6.0	48.2

73. 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.

74. 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, local authorities have been given the opportunity to use capital receipts to fund one off costs associated with transformation to 2021/22. This approach will be reviewed on an annual basis.

Statutory and Policy Implications

75. 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 where such implications are material they are described below. Appropriate consultation has been undertaken and advice sought on these issues as required.

RECOMMENDATION/S

1) That a report be prepared for County Council on 28 February 2018 based on the budget proposals as set out in this report, including the proposed Council Tax and Adult Social Care Precept increases as prescribed in the Central Government funding model.

NIGEL STEVENSON
SERVICE DIRECTOR – FINANCE, PROCUREMENT AND IMPROVEMENT

For any enquiries about this report please contact:
Keith Palframan, Group Manager – Financial Strategy and Compliance

Constitutional Comments (KK 23/01/2018)

Finance and Major Contracts Management 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 (GME 26/01/18)

The human resources impications are set out within the body of the report. Where there is an impact on staff, the agreed employment procedures will be utilised.

Financial Comments (NS 29/01/2018)

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