



**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 financial position and outlook.
2. To set out the proposed response to the predicted budget deficit and seek approval for a number of measures to address these financial challenges.

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. Local government now needs clarity around future funding as the plan to replace the RSG by moving to 100% retention of business rates has been deferred.
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 adults' social care.
5. When the County Council's budget was approved last February the funding shortfall identified for the next three years was £63 million.
6. Future uncertainty around issues such as the move to 100% retention of business rates due to the enabling legislation being allowed to 'fall away', 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. Despite an announcement that the Government no longer plans to return to a fiscal surplus during the current Parliament, it has come under pressure from a number of factors such as higher interest rates, pressures from Public Sector pay, the effects of inflation on pension benefits, reversals on planned tax rises and welfare cuts. As a result, further pressure is expected to be applied to local government funding in the coming years.

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 has helped reduce uncertainty, funding for the final two years of the Medium Term Financial Strategy (MTFS) is unclear.
9. The February 2017 Budget Report to Full Council forecast a budget shortfall of £63 million 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	Total
	£m	£m	£m	£m
Year on Year Savings requirement (February Report)	17.2	17.9	-	35.1
Adjustments to Savings / Base Budgets	(0.4)	1.7	-	1.3
Review to Pressures and Inflation	(0.4)	(2.3)	11.8	9.1
Increase use of General Fund Balance	4.5	-	-	4.5
New Adult Social Care Support Grant	3.5	-	-	3.5
Changes to New Homes Bonus	0.1	(0.6)	6.6	6.1
Collection Fund Surplus / Deficit	2.4	-	-	2.4
Change in Council Tax Base	(0.3)	(0.1)	(4.6)	(5.0)
Change in Assumptions for Council Tax Increases	6.6	-	-	6.6
Other Corporate Adjustments	(2.2)	-	1.5	(0.7)
Revised Gap	31.0	16.6	15.3	62.9

Facing the Challenge

The Council's response

11. 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. As part of this Plan, Policy Committee in October 2017 approved the Council's approach to tackle these financial challenges.
12. In addition, four detailed departmental strategies will be 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.
13. As part of the drive to deliver services in more efficient ways, three Alternative Service Delivery Models (ASDMs) were established during 2016 to deliver a number of the

Council's services.

14. In October 2017, Policy Committee approved a new approach to the process of setting the Council's budget and over the last few months various efficiencies have been approved through Service Committees, including in-year savings made in Adult Social Care and Health budgets which was reported to Finance and Major Contracts Management Committee in September.
15. The Council will continue to update its Medium Term Financial Strategy (MTFS) to reflect changes in pressures and savings as they are approved throughout the year. The current MTFS shown in Table 2, reflects base budget adjustments, additional government grants and financial issues previously reported to Finance and Major Contracts Management Committee.

Table 2 – Revised Medium Term Financial Strategy

	2018/19 £m	2019/20 £m	2020/21 £m	Total £m
Year on Year Savings Requirement (Feb 2017)	31.0	16.6	15.3	62.9
Change in Pay / Pension Related Inflation	0.8	0.2	1.3	2.3
Additional Pressures Adult Social Care & Health	8.8	(0.8)	(0.9)	7.1
Committee Approved Efficiencies	(6.5)	(4.1)	(2.2)	(12.8)
Adjustments to Savings / Base Budgets	(4.0)	(0.2)	-	(4.2)
Change in Grant Funding	(1.9)	-	(2.1)	(4.0)
Improved Better Care Fund - Grant	(10.0)	5.0	5.0	-
Other Corporate Adjustments	(1.1)	-	(0.1)	(1.2)
Revised Shortfall	17.1	16.7	16.3	50.1

NB: For the report to Council in February 2018 the MTFS will be extended to four years.

Financial planning

16. Measures are in place to address the current significant financial shortfall identified in 2018/19, including the budget review in Children's Services, exploring income generation opportunities and general efficiency savings. These will be reported to the appropriate Committee through the year.
17. In addition, as part of the budget setting process, the Council will review its financial planning assumptions, including cost pressures and inflation. All changes will be detailed in the February budget report.
18. 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.
19. When the MTFS was approved in February 2017, a 1.75% increase to Council Tax

was built into 2017/18. No further increases to Council Tax were built into the MTFS for future years.

20. The 2017/18 Local Government Settlement 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 and Health 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 2017, a 3% increase to the Adult Social Care and Health Precept was built into 2017/18. No further increases to the Adult Social Care Precept were built into the MTFS for future years.
21. When determining the local government settlement, the Government built in an assumption that the Council would take the Social Care Precept and Council Tax in each year of the settlement and reduced the level of Revenue Support Grant we receive accordingly.
22. Council Tax and Social Care Precept policies will be reviewed, alongside other assumptions in the MTFS, and detailed in the 2018/19 Budget Report to Full Council in February 2018.
23. In September 2017, the Department for Communities and Local Government published the 2018/19 Local Government Finance Settlement Technical Consultation Paper. The consultation covered the following proposed approaches to the 2018/19 settlement:-
 - It is proposed that the 2018/19 funding settlement is allocated in accordance with the four year settlement offered to local authorities in 2016/17.
 - Alongside the 2017/18 provisional local government settlement, the Government announced the outcome of the New Home Bonus consultation. It was decided to reduce the number of years for which legacy payments are made from six to five years in 2017/18 and then to four years from 2018/19. In addition, it was decided to set a national baseline for housing growth to sharpen the incentive for councils to deliver more new homes.
 - Expectation is set that current Government Policy remains that any authority proposing a Council Tax increase above 1.99% will be required to hold a referendum.
24. Confirmation of the above approaches will be confirmed at the time of the 2018/19 provisional local government settlement.
25. 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 autumn 2017 has now been delayed until summer 2018. Unfortunately, there were no announcements on this matter in the Autumn Budget Statement.
26. In February 2018, 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 2018.

Other Options Considered

27. This report provides an update of the Budget together with confirming the approach to reviewing the budget for 2018/19.

Reasons for Recommendations

28. 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 2018/19.

Statutory and Policy Implications

29. 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 23/11/17)

The financial implications are stated within the report itself.

Constitutional Comments (GR 05/12/2017)

Pursuant to Part A2 of Part 4 of the County Council's Constitution the Policy Committee has the delegated authority to consider the recommendations set out within this report.

Background Papers Available for Inspection

None

Electoral Division(s) and Member(s) Affected

All