

Report



Meeting: **CABINET**

Date: **10 JANUARY 2007**

agenda item number

REPORT OF THE LEADER, DEPUTY LEADER AND CABINET MEMBERS FOR FINANCE & PROPERTY AND PEOPLE & PERFORMANCE

MEDIUM-TERM FINANCIAL STRATEGY 2007/8 TO 2009/10 AND BUDGET PROPOSALS 2007/8

1. Purpose of the Report

To consult on:-

- 1.1 The proposed medium-term financial strategy for 2007/8 to 2009/10.
- 1.2 The level of revenue expenditure for 2007/8, including variations needed to achieve this level, and implications for 2008/9 and 2009/10.
- 1.3 Proposals for capital expenditure and sources of finance for the years 2007/8 to 2009/10.
- 1.4 Possible Council Tax increases for 2007/8.

2. Process

- 2.1 Under the County Council's constitution, the Cabinet makes initial budget proposals and issues them for wider consultation with the public, representatives of business ratepayers and other stakeholders. The process is also scrutinised by a Select Committee of Elected Members from all political parties.
- 2.2 Any responses arising from this consultation will need to be considered by Cabinet before it makes its final budget proposals on 7 February 2007. These will be debated at the County Council budget meeting on 22 February 2007. The County Council has a statutory responsibility to issue its precept for 2007/8 by 28 February 2007.
- 2.3 The proposals are interim for 2007/8 because the complete figures for portfolio budgets and central items will not be finalised until the end of January. The final figures on the Formula Grant settlement and Council Tax

collection levels will also not be available until then. Hence these budget proposals are based on best estimates of what the final figures are likely to be.

3. Background

3.1 The County Council is committed to improving the quality of life for people in Nottinghamshire. This is at the heart of the new Strategic Plan, "All together better", in which five priorities are identified,

- Nottinghamshire to be a safer place to live with a strong sense of community
- To improve the health and wellbeing of the people of the County.
- To help everyone to reach their potential, particularly through opportunities to learn
- To protect and improve the County's environment.
- To help people to travel more easily and safely and be able to access all the services they need.

These are the five key priorities which will shape the County Council's activities between 2007 and 2010.

3.2 The Strategic Plan also commits the Council to three key aims:

- to put the customer at the heart of all we do
- to be a civic leader, helping to develop communities across the county
- to continue delivering excellent and affordable services

The budget proposals within the Medium Term Financial Strategy are aligned to the achievement of the priorities set out in the Strategic Plan.

3.3 The Medium Term Financial Strategy which was approved last year provided a framework within which the budget proposals for 2006/7 and later years are to be developed. As ever, a balance has to be struck between the pace of improvement and the affordability of proposals that deliver the desired improvements to services and fulfil the Council's community leadership responsibilities. The Financial Strategy covers both the expected variations to the revenue budget and the approach adopted towards planning the capital programme for future years.

3.4 In order to inform the 2007/8 budget process the Council has worked closely with local press and media to bring to the public's attention some of the very real financial and service issues facing the Authority. In addition a special budget consultation feature was included on the Council's website and people were invited to express their views on what the Council should "spend more on" and what we should "spend less on".

3.5 The results of this consultation are set out in the following tables.

Spend more on...	%
Older people	46
Crime	41
Public transport	35
Environment	34
Physical disabilities	32
Waste management	30
Learning disabilities	29
Vulnerable children	27
Roads	26
Schools and pre-schools	24
Young people	21
Libraries	17
Arts and leisure	14
Regeneration	14
Community development	13
Standards, safety	9

Spend less on...	%
Regeneration	56
Community development	52
Arts and leisure	46
Standards, safety	44
Young people	31
Roads	31
Public transport	29
Schools and pre-schools	26
Libraries	25
Waste management	22
Environment	15
Crime	11
Learning disabilities	8
Vulnerable children	8
Physical disabilities	7
Older people	5

3.6 The response to the website vote was somewhat disappointing with only 190 people responding. Nevertheless the views expressed have provided a helpful background against which Councillors have considered budget options.

3.7 In addition, senior Councillors met with a range of stakeholders in October 2006 to explain the future budget pressures and to gain the views of these representatives from a service user's perspective.

3.8 Formal consultation with the recognised Trade Unions has taken place as well as special budget related staff seminars aimed at identifying ways in which the Council can be run more efficiently. A range of ideas were forthcoming and these are being followed up within the Council.

4. Budget Pressures

4.1 When the budget for 2006/7 was approved last February, the forward look to 2007/8 identified additional budget pressures in respect of inflation, pension costs, the costs of the waste management PFI contract and growth in demands for adult social care. These were offset in part by ongoing Gershon savings and the full year effects of the 2006/7 reductions. This would have resulted in a predicted budget for 2007/8 of £417.3million and a predicted Council Tax increase of 4% for 2007/8.

4.2 Since the indicative figures were produced last year a range of further budget pressures have become apparent, arising from increased service demands, new developments and increased costs beyond inflation. The initial view of additional budget pressures totalled some £15 million, but these have been moderated and the pressures have been reduced to £6.1 million. The main areas are as follows:

- demand led pressure associated with increasing longevity of older people requiring residential and nursing care placements and/or care in their own homes. There is in addition a growing incidence of dementia within the client group (£1.2million)
- an above expected increase in the numbers of adults requiring care or assistance who have mental health or learning disabilities. There has also been an upward trend in the demand for services from people with Aspergers Syndrome (additional £0.5million after anticipated growth of about £2.4million)
- growing care costs for people with physical disabilities. Demand can be predicted quite accurately for young people with physical disabilities who required care all their lives, but there is a growth in people with physical disabilities resulting from accidents etc. (£0.4million)
- following the Cabinet Committee review of payments to independent sector care homes it is proposed that an increase at 1.125% above inflation is justified with a particular emphasis on enhancing payments for older people with mental health needs and quality improvements (£0.75million)
- preparatory work for the Council's Building Schools for the Future bid (£0.5million)
- initial work on the delivery of NET Phase II (£0.4million)
- additional funding for the Waste PFI project (£0.5million)
- part year funding for the Notts. Connect contact centre (£1.0million)

- additional costs of highway maintenance including increased electricity costs for street lights, above inflation increases in the costs of fuel and bitumen and the maintenance costs associated with the expanding road network (£0.6million)
 - additional electricity costs for County Council buildings, excluding schools (£0.25million)
- 4.3 The overall impact of these budget pressures is £6.1million, and the underlying reasons for these budget pressures are likely to continue and increase in subsequent years and there will need to be a continuing process for assessing how to respond to these.
- 4.4 In addition, the current opinion regarding the Government's Comprehensive Spending Review is that future grant increases could be limited to 2% or below for the following three years and this will allow for little or no growth to meet increasing demands. Any specific increases for schools and/or health are likely to be offset by increased Gershon cashable savings targets.
- 4.5 In recognition of these ongoing future pressures a number of fundamental policy option reviews have been initiated to identify longer term savings. It is not anticipated that these policy option reviews will have a significant impact on the 2007/8 budget situation. The service areas chosen for reviews are as follows:-
- Play Service
 - Family Centres
 - Emergency Duty Team
 - Older Persons Homes
 - Adult Meals Service
 - Shared Services Centre
 - Sickness Absence
 - Property
 - Procurement
- 4.6 As mentioned in section 4.2 above the Council is proposing to make a bid for Building Schools for the Future funding for the replacement and/or modernising of a number of the Authority's secondary schools. This could attract government funding of about £150 million. As part of the scheme will be financed from the Private Finance Initiative it is likely that there will be an "affordability gap" which will need to be funded by the County Council. No specific provision for this has been included at this stage as the bid and the timing of the development is not approved.

5. Government Grants

- 5.1 The arrangements for Government grant funding were fundamentally changed in 2006/7 with the full costs of schools expenditure being met from the Dedicated Schools Grant rather than being part of the Revenue Support Grant. In addition, the remaining Revenue Support Grant and the National Non Domestic Rates were re-designated as Formula Grant.

- 5.2 The Government also provided a two year settlement covering both 2006/7 and 2007/8 and as a result the Formula Grant for 2007/8 has been known during the planning phases of the 2007/8 budget round. This has given an extra degree of certainty to the planning process.
- 5.3 The Government announced the 2007/8 provisional Settlement on 28 November 2006 and the key points at a national level were as follows:-
- ❖ Headline increase of 4.9% in Aggregate External Finance in 2007/8 (this includes schools). This compares with an increase of 4.5% in AEF in 2006/7
 - ❖ Total increase in formula grant of 3.8% compared with 3.0% in 2006/7
 - ❖ No changes in the 'four block' system of formula grant
 - ❖ Damping arrangement as follows; floor 2.7% for authorities with education and social services responsibilities, 3.6% for police authorities, 2.7% for Shire districts and 2.7% for fire authorities. These are paid for by scaling down the grant increases to authorities within the same class above the floor.
- 5.4 The provisional settlement confirms the government's intentions to make no changes in the second year of the multi-year settlement in that the figures for formula grant are identical to those announced in December 2005.
- 5.5 In addition the government has made it clear that they expect Council Tax increases to be below 5% overall.
- 5.6 Within the overall increase of formula grant of 3.8% for England in general the Shire counties have fared slightly better with an average increase of 4.1% and for Nottinghamshire the increase is 4.9%. This gives a cash figure for the County Council of £133.6 million compared with the 2006/7 figure of £127.4 million.
- 5.7 The formula grant system includes a system of "floors" (described above) which ensure that authorities will receive a minimum increase in grant even if the grant system and Relative Needs formula calculation would have resulted in a lower figure. For County authorities the minimum increase has been set at 2.7% and the effect on Nottinghamshire is that our Formula Grant has been reduced by £6.1 million to support other authorities, mainly in the South East. If it had not been for these grant "floors" the Council would have been able to fund the additional 2007/8 budget pressures set out in section 4 above without the need to reprioritise resources away from other services.
- 5.8 The final figure for Dedicated Schools Grant is not yet known, but it is confirmed that the amount per pupil in 2007/8 will be £3,682 which is a 6.5% increase over 2006/7. The number of pupils on roll in January 2007 will be multiplied by £3,682 to determine the 2007/8 DSG. As the pupil population in Nottinghamshire is falling it is currently estimated that the cash increase in DSG is likely to be of the order of 5.5%.

5.9 Specific revenue grants for Adult Social Care and Health have increased in cash terms from £19.350 million in 2006/7 to £19.553 million in 2007/8. The increased funding provided to meet the requirements of the Mental Capacity Act and extending the Preventative Technology Initiative being largely offset by reductions in Preserved Rights and Access and Systems Capacity grants.

6. Reprioritisation and Efficiency

6.1 The budget increases, detailed in paragraph 4.2 above can only be achieved by making some reductions to other budgets, if the level of Council Tax increase is to be held at 4% as predicted in last year's forecast. The maximum Council Tax increase permitted by Government is 5% beyond which Councils are likely to be capped.

The Council has carefully reviewed possible areas of re-prioritising its budget and the impact on portfolios is set out below. In addition, all Portfolios will receive an increase in budget to provide for pay and price increases.

	£m	%
Adult Social Care & Health	2.10	1.1
Culture & Regeneration	0.25	1.5
Community Safety & Partnerships	0.17	2.6
Children & Young People	1.25	1.7
Deputy Leader	0.42	2.8
Finance & Property	0.25	2.5
Leader	0.14	2.3
Environment	1.03	1.6
People & Performance	0.11	1.9
Total	5.72	1.5

6.2 The emphasis will be on protecting front-line services wherever possible, by being more efficient at the things we are doing at present and this is reflected in the larger reductions in budgets associated with support services. In addition it may be possible to mitigate some of these reductions on a temporary basis via budget carry forward if underspendings arise in 2006/7 and this will be considered as part of the follow up report to Cabinet in February. Although some reductions are required to meet higher priority budget pressures it should be noted that in overall terms the Council's budget will rise from £399 million to £417.3 million, an overall increase of 4.6% (see para. 6.4 below)

6.3 The main implications for services of these reprioritisation proposals are as follows

Adult Social Care & Health

- full year effect of the 2006/7 savings plan
- £181,000
- increase in charges for home care to clients with capital assets in excess of £21,000. Fee will rise from £7 per hour to £8.50 per hour, to a maximum of £75 per week. This will generate additional income of about

- £500,000
- savings on home care block contracts in a number of districts
 - £300,000
- making better use of the opportunities provided to service users by the Independent Living Fund by ensuring that they claim their full entitlement
 - £200,000
- reduced subsidies to sheltered employment schemes (County Visual Communications and Sherwood Industries)
 - £100,000
- other efficiency savings including improved payments and debt collection processes, re-shaping the Catering Advisory function, rationalisation of mental health management and joint funding arrangements, accommodation savings and reductions in learning and development and administration
 - £817,000

Culture and Regeneration

- reduced staffing at Country Parks and closure of retail outlets at off-peak times
 - £24,000
- libraries – rephasing of the library refurbishment programme plus delayed renewal and replacement of vehicles and public use ICT
 - £112,000
- reductions in grant aid for Arts and Sports
 - £46,000
- other savings including operational budgets in the Archives service, staffing in Regeneration, and conservation and Design budgets
 - £72,000

Community Safety and Partnerships

- reduced new initiatives via the Community Safety Development budget
 - £60,000
- efficiencies and staffing in Trading Standards and Emergency Planning
 - £66,000
- other reductions to Development Work and Registration budgets
 - £43,000

Children and Young People

- early integration of three family centres in anticipation of the creation of children's centres
 - £490,000

- reduced support to the Music/Arts service
 - £120,000
- reduction in non schools activities budgets
 - £124,000
- reduction in the field work management budget
 - £120,000
- variations in respect of the Youth Service and Youth Offending Service
 - £101,000
- other changes in regard to clothing allowances, the Play Service, Notts. Training Partnership, substance misuse, participation staffing, educational psychology and environmental education
 - £296,000

Deputy Leader

- various reductions to ICT Strategy and other ICT related budgets
 - £343,000
- reduction in the Access to Services programme
 - £25,000
- reduction of the Notts. Connect budget
 - £39,000
- reductions to County Contact budgets
 - £14,000

Finance and Property

- staffing and non-staffing reductions and increased income
 - £255,000

Leader

- staffing reductions in Business Support, scrutiny and Members Support
 - £45,000
- reductions to Members Allowances and hospitality
 - £35,000
- deletion of vacant posts and reduce training
 - £60,000

Environment

- Passenger Transport Policy review

- £353,000

- Highways related savings including employees, traffic management, road safety
 - £265,000
- reduction in Strategic Services costs
 - £127,000
- other reductions in Transportation Strategy, Conservation Planning and Sustainability and Home to School transport
 - £290,000

 People and Performance

- savings in HR staffing and Strategy budgets
 - £86,000
- other efficiencies
 - £22,000

6.4 The summary of revenue expenditure budget proposals, for 2007/8, is:

	£m
2006/7 Budget	399.0
Inflation/Pensions	11.6
Contact Centre	0.7
Waste Contract	3.0
Building Maintenance	1.1
Capital	6.0
Contingency	4.0 (-)
Efficiency 2006/7 full year	3.0 (-)
Other VFM	1.5 (-)
Change in Balances	1.7
Adults Passporting	2.7
New budget pressures	6.1 (+)- see section 4.2
Efficiency/Reprioritisation	5.7 (-) – see section 6
Other	<u>0.4 (-)</u>
	<u>417.3</u>
Council Tax	282.7
Grant	133.6
Business Growth	<u>1.0</u>
	<u>417.3</u>

On these figures a Council Tax increase of 4% would be required.

7. Capital Programme

- 7.1 During the course of 2006/7 a number of schemes have been added to the Capital Programme with the approval of Cabinet. In addition there has been some slippage of the 2006/7 Programme and it is now anticipated that new starts in 2007/8 and 2008/9 will be as follows:-

2007/8 Starts

Rushcliffe Resource Centre
Mixed Care Scheme
Ollerton/Newark Area Office
Mansfield Library refurbishment
Living Landmark – Sherwood Forest
Replacement youth facilities at Eastwood, Worksop and Retford

2008/9 Starts

Hucknall Beardall Street Primary
Mansfield Young People's Centre

In 2006/7 the Capital Programme was constructed with the expectation of receiving developer contributions from the Mansfield and Ashfield Regeneration Route (MARR) and the A612 Gedling Transport Improvement Scheme of £3.308 million and £1.23 million respectively. Latest predictions show that we are still expecting to achieve the A612 contribution but this will need re-phasing. However, we only expect to receive an additional £550,000 in relation to the MARR and it is felt prudent at this point to vary the Capital Programme to reflect current expectations. If the funding does materialise in the future it will be used to support the Capital Programme.

In October 2006 the Government announced its support for Phase II of the Nottingham Express Transit (NET) tram scheme. Detailed work on the planning of lines two and three is underway. The accounting arrangements and the size of the County Council's contribution are still to be determined but should be in the region of £1 million to £6.5 million.

The Council has also made a bid for BIG lottery funding for Sherwood: The Living Legend a new Visitor Centre and additional attractions at Sherwood Forest. The outcome of the bid is not certain at this time, but if it is successful the Council will be committed to funding of between £6 million, and £16.6 million depending on levels of Match Funding achieved.

The future of the Holme Pierrepont National Water Sports Centre remains uncertain and plans for alternative uses are being developed. There are no specific Capital Programme implications at this stage.

Given the potential major developments outlined above it is proposed that the Prudential Code limits should be revised to give sufficient headroom to fund some or all of the schemes if they progress to implementation. Detailed reports on the specific schemes will be required to release any funding.

7.2 The summary capital programme and proposed sources of financing for the years 2007/8 to 2009/10 is

	2007/8 £m	2008/9 £m	2009/10 £m
Existing capital programme	61.4	46.1	7.4
Local Transport Plan	30.0	30.0	30.0
Education schemes	<u>25.9</u> <u>117.3</u>	<u>18.1</u> <u>94.2</u>	<u>9.9</u> <u>47.3</u>
Financed by:			
Supported borrowing	36.1	34.0	34.0
Prudential borrowing	43.1	6.3	8.3
TSG	5.0	5.0	5.0
Capital receipts	<u>33.1</u> <u>117.3</u>	<u>48.9</u> <u>94.2</u>	<u>-</u> <u>47.3</u>

This table demonstrates that the capital programme continues to be underpinned by expectations of considerable capital receipts from the sale of assets. The sites for possible disposal have been identified, but experience has shown that the major capital receipts do take some time to be achieved.

7.3 The additional capital financing costs in 2007/8 are estimated at £7.9 million.

8. Financial Risks

8.1 A financial risk assessment was provided with the Budget Report for 2006/7 and the budget position has been monitored through the year. The forecast level of County Fund balances at the end of 2006/7 was originally £10.3million, but these are now expected to be nearer to £13.1 million. The main reasons were explained in the budget monitoring report to the last Cabinet meeting. There are continuing uncertainties about the eventual cost of implementing the second phase of the Job Evaluation scheme.

9. Consultations

9.1 This consultation paper will be sent to representatives of business ratepayers, and there will be consultation on these proposals through County News, the local media and on the website.

10. Council Tax increases

10.1 At this stage, the forecast Council Tax increase is 4%. The Government have indicated that increases of more than 5% are likely to be "capped". Lower increases would require changes to service levels beyond those set out in these budget proposals. A 1% change to Council Tax is equivalent to expenditure of £2.7 million.

10.2 The current levels of Council Tax and the impact of increases are set out in the table below.

<u>Band</u>	<u>2006/7 Council Tax</u>	<u>Increase 4%</u>
	£ p/a	£ p/a
A	721	29
B	841	34
C	961	38
D	1,081	43
E	1,322	53
F	1,562	62
G	1,802	72
H	2,163	87

Nearly two thirds of households live in Band A or Band B property.

11. Statutory and Policy Implications

11.1 This report has been compiled after consideration of implications in respect of finance, equal opportunities, personnel, crime and disorder, human rights and those using the relevant service. Where such implications are material, they have been described in the text of the report.

12. Recommendations

12.1 The budget proposals and Council Tax implications set out in this report be issued for consultation.

**CLLR DAVID KIRKHAM
LEADER**

**CLLR MICK STOREY
DEPUTY LEADER**

**CLLR CHRIS BARON
CABINET MEMBER FOR
FINANCE AND PROPERTY**

**CLLR JOHN STOCKS
CABINET MEMBER FOR
PEOPLE & PERFORMANCE**

Director of Resources Financial Comments (AS 14/12/06)

The financial implications are set out in the report.

Legal Comments (EB 18/12/06)

Cabinet has the authority to make recommendations to the Council regarding the Budget. The report provides information to enable consultation on proposals to take place to assist in making those recommendations to Council. Authority to approve the final budget and Medium Term Financial Strategy is reserved to Full Council.

Background Papers Available for Inspection

Nil