

REPORT OF THE CABINET MEMBER FOR FINANCE

BUDGET UPDATE REPORT 2024/25

Purpose of the Report

1. The purpose of this report is to provide an update to Overview Committee on the budget development process for 2024/25 and provide the opportunity for members to raise any specific points for further consideration by Cabinet as part of the budget setting process.

Background

2. Overview Committee at its meeting on 23 November 2023 considered the Budget Update report that set out the financial context for the Council together with the implications for the Council's MTFS. This budget update report sets out the updated assumptions for the establishment of the budget for 2024/25.
3. In accordance with the Budget and Policy Framework Procedure Rules, Cabinet at its meeting on 8 February 2024 will be considering the Council's Budget for 2024/25 including proposals regarding Council Tax and the Adult Social Care Precept. Cabinet will also be considering the medium-term financial position (MTFS), the capital programme for 2024/25 to 2027/28, the supporting Capital Strategy and the Treasury Management Strategy for next year.

Long-Term Plan for Better Lives and a Sustainable Council

4. The Budget for 2024/25 is set in a challenging financial time for local government. The context sees a picture of increasing need, the challenge of inflation driving up the cost of delivering services and the national picture of limited funding support to local government. The options of increasing funding through council tax should also be seen in the backdrop of the continued financial pressures faced by communities.
5. The financial landscape facing the sector including the Council is becoming increasingly challenging with 2023 seeing an increasing number of councils, including noticeably those with social care responsibilities, give warnings about their ability to balance their 2023/24 budgetary positions and beyond.
6. Many of the sectoral bodies (Local Government Association, County Councils Network, Society of County Treasurers and Special Interest Group of Municipal Authorities) have recently published warnings illustrating the current local government finance system is failing to tackle issues around social care funding (including children's), plus the continual impact of high inflation, have put many councils in a perilous financial position with many S151 Officers

considering issuing of S114 reports for not being able to balance their budget for the coming year. In a briefing from the Institute of Government published on 9 October 2023 there is an increasing incidence of councils issuing Section 114 reports due to significant financial viability issues.

7. Overall, the position of increased funding being outpaced by the rise in cost and demand is leading many councils to elect to reduce or withdraw services towards the delivery of statutory or minimum service levels. Unfortunately, unless additional funding is provided to local government the inevitable direction will be towards limiting services.
8. Nottinghamshire County Council is better placed than many due both to the sound fiscal management approach and the significant transformation of our services. This has enabled us to maintain to deliver our services whilst limiting the increase in council tax. The Council will continue with our aim to protect and enhance key services for residents whilst making our organisation financially sustainable for the medium to long term. Using our reserves wisely to protect the Council as much as possible in the short to medium term and give the Council time to transform.
9. In the medium-term the overarching objective of the Councils budget strategy must be to try to deliver a balanced budget by deploying a framework which allows the Council to resize to a scale that matches its financial envelope. In a way that does not cut services for short-term expediency, but instead protects and supports residents, and to improve outcomes. This will require the Council to prioritise and enhance key services as far as possible, particularly in those most disadvantaged communities, to help improve the lives of local people, and mitigate the impacts of inflation to protect residents from withstanding the worst of these increased costs.
10. The longer-term financial sustainability comes by focusing on prevention and early help, thereby reducing the demand on expensive, acute services over time. This requires a longer-term view whereby the Council must reach a position, through transforming the way it delivers services over several years, where it is able to both offer more support within communities, and simultaneously be more efficient and effective with its spending.
11. The Council will focus on helping to build economic, community, family, and individual resilience so that there is more self-reliance and better outcomes for everyone across the county. We will continue to support people to remain independent and living within their home, family, and community.
12. The Council is currently undertaking numerous service transformation programmes, aimed at improving the levels and efficacy of 'prevention' services. These programmes are supporting local residents to reduce the numbers of people needing the most acute and expensive services, with the aim of reducing demand on care in particular to sustainable levels. These actions, which are already beginning to bear fruit, both improve the lives of local people and offer a more sustainable way forward financially for the organisation.
13. More people living independent lives, supported by their community and local networks, including our own place-based services, rather than being reliant on our most expensive services such as residential care, is better for everyone, for resident, community, and Council. Work will particularly focus on improving services in those most disadvantaged communities, where the demand is highest and the need for support is greatest.

14. Where there are savings in this budget, they will come from transformation of the way we deliver services, for wider long-term benefit. This will include long term projects like reducing our office estate, building a new more efficient HQ with the aim of directing funding towards core services rather than continuing to incur spend on maintaining out of date buildings.
15. We have listened to our communities who ask for support rather than delivering or duplicating our services with partner organisations. Thus, through our budget we will help galvanise our communities to help support themselves to augment community services. It will include collaborating better with partners to be more efficient and effective with our services, joining things up to achieve better outcomes. It will include supporting young people to remain independent with extended family or community-based solutions, where outcomes are far better. We will focus our spend on early support for families within local areas, preventing the need for expensive residential care later. We will continue to make these kinds of changes limiting the blanket reductions and counter-intuitive short-term cuts.
16. Managing demand and helping people gradually increase their independence is a much more sustainable, and much more attractive, approach compared with making short term cuts to services. It will take time, and we have set out a long-term plan over the coming 10 years. These are broad themes and directions that will build resilience in our communities into the future and are supported by nine ambitions which will function as a framework for all County Council activity.
17. Our 2024/25 Budget will clearly show that our approach is already beginning to take shape. We are prioritising key service areas, moving money to the right places, and offering increased financial security for the rest of the Medium-Term Financial Strategy (MTFS). Implementing our approach over time will help us to avoid the need for more drastic and difficult choices for the coming years, and to move beyond a difficult annual discussion about cuts or tax rises, towards something more sustainable.
18. Despite ongoing financial pressures from rising prices and demand for services, where increases in funding are still not enough to match the rise in costs, we are confident that we have a plan to navigate these challenges. We will do so in a way that protects residents from the impact of these pressures as far as possible and ensures that we continue to deliver our long-term transformation programme, so that we can make our services more sustainable for the future.

The Medium-Term Financial Strategy

19. The Medium-Term Financial Strategy (MTFS) is a four-year rolling strategy which sets the framework for how the council plans to use its financial resources to fund the activities required to deliver on the council's priorities. The MTFS informs the annual budget process and assists the Council in meeting the legal requirement to set a balanced budget each year.
20. The MTFS brings together the key areas which affect the Authority's Revenue and Capital budgets and plans for these over the medium-term. The key objectives of the MTFS are as follows:-
 - To ensure that effective financial planning and management contributes to the Authority's achievement of its strategic ambitions,

- To ensure that the Council is financially resilient, stable and sustainable for the future,
- To forecast the resources available to the Council and to plan for the changes in the level of these resources over the life of the Strategy.
- To estimate the expenditure requirements over the life of the Strategy to ensure value for money is achieved and resources are utilised where outcomes are measurable and have real impact.

Financial Context

21. In recent years, the main drivers of pressure on the Council's budget have related to inflation and rising costs (including wage rises) and to increased demand for local government services. The impact upon the Council's finances, as a result of the increase in overall costs, is being replicated across the country. These pressures come despite a steady increase in overall Council funding consistently over the last five years, as the pace of these rising costs and demand have outstripped funding increases.
22. The strategic and financial planning for 2024/25 is being undertaken within the context of continued uncertainty because of the on-going conflict in Ukraine and its impact in relation to global energy and food supplies. In addition, the continuing consequences of inflationary pressures, although now falling, have impacted on both the cost of delivering services and the demand for services as households and communities continue to struggle with the associated cost of living.
23. Consumer Price Inflation (CPI) in the UK economy stood at 3.9% in November 2023, down from 4.6% in the previous month. The Bank of England Monetary Policy Report – December 2023 forecasts inflation to keep falling in 2024 to reach the 2% target in 2025. At its meeting on 13 December 2023, the Bank of England's Monetary Policy Committee maintained the Bank Rate of interest at 5.25%, the highest level since February 2008.
24. The risks arising from inflation, which is also impacting household incomes, was recognised in the Annual Budget Report to Full Council in February 2023. Additional reserves were set aside in the risk-based General Fund reserve with regard to inflationary pressures, increased on-going risks in Children's and Adults Service and inherent challenges faced specifically in the social care market following the pandemic.
25. The Council closely monitors developments across the local government landscape and takes account of the financial issues being reported by other authorities. There have been a number of Councils that have recently issued or warned of issuing Section 114 notices. This serves to highlight the underlying fragility and lack of resilience within the wider local government sector. Whilst some of the issues that plague Local Authorities are specific in nature (e.g. exposure to commercial risk, excessive levels of borrowing, Equal Pay Claims) it is the Section 151 Officer's focus to ensure that the issues faced by those councils at risk are not replicated in Nottinghamshire by a failure to set a robust and sustainable budget.
26. The Council is not immune to this overall decline in financial resilience across the sector and continues to face significant financial and service delivery pressures across its services as set out elsewhere in this report. It is therefore important to continue to work with partners across the sector to lobby Government for adequate and sustainable levels of funding for local government as a whole.

27. The County Council continues to be a part of nationally determined local government pay bargaining arrangements. These are negotiated by the National Joint Council made up from national employers and the recognised trade unions. The Pay Award for 2023/24 was agreed at a flat rate of £1,925 which equates to a 3.88% increase for staff on higher salaries. On 21 November 2023, the Government announced that the National Living Wage for 2024/25 will increase from £10.42 per hour to £11.44 per hour and will now apply to all over the age of 21 years. The impact of these announcements has been fed into the Council's Medium-Term Financial Strategy.
28. There are a wide range of assumptions that have been made in relation to expenditure and income over the remainder of this financial year. The Corporate Leadership Team and the Cabinet Member for Finance receives monthly reports, whilst Cabinet receives quarterly reports on outturn forecasts throughout the year.
29. As part of the budget setting process a review of the capital programme has been undertaken. The current projected capital programme outturn for 2024/25 is £161.3m.
30. The provisional Local Government Settlement for 2024/25 was announced on 18 December 2023. The Medium-Term Financial Strategy (MTFS) has been updated to reflect the announcements set out in the settlement. The Government announced a further one-year settlement as in previous years. The clear view of funding provided for 2024/25 is offset by considerable funding uncertainty for the final three years of the MTFS, especially bearing in mind the general election anticipated in 2024. This will continue to be the case until announcements regarding the longer-term future of local government financing are forthcoming.

Budget Consultation – Rising to the Challenge

31. The production of the Council's budget is undertaken in accordance with the requirements of the Council's Constitution.
32. A key element of the Council's budget setting process is consultation with stakeholders.
33. The 2023 consultation went live on the 29 September 2023 and closed on the 12 November 2023. The survey set out how the council spends its allocated budget and asked people for their views about our services and their priorities.
34. The consultation was made available through a range of channels including:
 - Nottinghamshire County Council website
 - local and regional media
 - social media, including Twitter, Facebook and Instagram
 - email bulletins to the Council's subscribers
 - and in print at Libraries.
35. We also shared our consultation with our partners, including groups representing the business community and other relevant stakeholders including the trade unions at Central Joint Consultative and Negotiating Panel (JCNP).

36. The Council received 3,911 responses to the 2023 Budget Survey which is a 59% increase on the 2,454 responses received last year. Some of the main headlines coming from the Budget Survey 2023 are as follows:-

- The majority of respondents were positive about their local area as a place to live, with 69% specifically saying that they are ‘very or fairly satisfied’.
- When ranking the three Nottinghamshire County Council services in order according to the services that benefit respondents the most, community and public transport was the service area most often identified by respondents.
- Most respondents disagreed or strongly disagreed when asked whether the Council should reduce spend on a range of services to help meet the financial challenge.
- Overall, 63% of respondents would support an increase in council tax – 44% up to the current referendum limit of 2.99% and 19% would support an increase by lower than the referendum limit.
- Overall, 70% of people completing the survey would support an increase in the Adult Social Care Levy – 48% by the maximum level currently permitted of 2%, whilst 22% would support an increase by a lower level permitted.

37. The outcomes from the Annual Budget Survey 2023 were reported to Cabinet on 21 December 2023. Further details and analysis regarding the outcomes can be found by referring to the December Cabinet report.

38. Cabinet will take account of the consultation responses when drawing up firm proposals to the Council.

February 2023 Budget Position

39. When the Council’s budget was approved in February 2023 the funding shortfall identified for the three years to 2026/27 totalled £30.8million. This financial position is shown in Table 1 below:-

Table 1 – Medium-Term Financial Strategy as at February 2023

	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m
Net Budget Requirement	591.6	612.1	644.9	656.2
Financed by :				
Business Rates	128.0	130.3	130.3	130.3
Revenue Support Grant	8.1	8.1	8.1	8.1
Council Tax	396.5	411.1	426.3	442.0
Adult Social Care Precept	58.0	62.6	62.6	62.6
Collection Fund Surplus / (Deficit)	1.0	-	-	-
Total Funding	591.6	612.1	627.3	643.0
Funding Shortfall	-	-	17.6	13.2
Cumulative Funding Shortfall	-	-	17.6	30.8

The Council's Current Financial Position

40. As reported to the Cabinet Member for Finance, as at Period 7, the Council is reporting a forecast underspend of £5.1m in the current financial year. This out-turn is comprised of a net £11.6m portfolio overspend mainly as a result of forecast overspends in SEND and Home to School Transport and Social Care services. This forecast overspend is more than offset by underspends in central items such as interest and Section 31 Business Rates relief.
41. There are a number of on-going risks that are also set out in the Period 7 Financial Monitoring Report. As such, the financial position will be kept under close review for the remainder of the financial year and reported to Cabinet or the Cabinet Member for Finance according to the budget monitoring timetable.

Main Risks

42. Within the MTFS a number of assumptions are made with regard to a wide variety of factors including future Council Tax policy, Business Rates income and Government Grant levels. Any variation from these assumptions has implications for the level of resources available to the Council.

The following key risks must also be managed in order to deliver our budget strategy: -

- **Economic Risks** – underlying risks caused by the aftermath of global energy and fuel inflation and associated cost of living crisis compounded by national economic issues. The Monetary Policy Committee meeting in November 2023 resulted in the Bank of England holding interest rates at 5.25% in an attempt to lower the levels of inflation. CPI inflation has now fallen to 3.9% in November 2023 with forecasts suggesting it will remain in excess of the 2% target through 2024 before falling back in line in towards the end of 2024. Consequently, without a commensurate increase in financial resources, the spending power of the Council will become further eroded until inflation falls back to the Bank of England's target.
- **Risks to Funding** – Indication of Government's future spending plans covering the period from 1st April 2024 won't be known until the Provisional Local Government Settlement announcement in late-December. Consequently, the spending intentions for local government could differ from assumptions contained in the MTFS. Any differences will, in turn, impact on the level of resources available to the Council. Furthermore, there remain uncertainties around Business Rates reform, the Government's Fair Funding review, how the Government's Levelling Up policies will support local authorities in the future and also the Government's intentions for the future funding of social care.
- **Demand and Demography Risk** - This Medium-Term Financial Strategy contains risks surrounding the estimation of demand and demographic pressures within services such as Adult Social Care and Children's Services, including determination of key income budgets that rely on the number of users of a service and risk that inflation on the cost of demand and demography will be higher than assumed in the MTFS.
- **Political Landscape** - The Prime Minister, Rishi Sunak, took office in October 2022. In January 2023 he outlined his five key priorities for 2023: to halve inflation this year; to

grow the economy and create better paid jobs; to reduce the national debt, to cut NHS waiting lists and to pass new laws to stop small boats. The focus on these priorities inevitably impacts on the Government's expectations of the role of local government and the areas for which funding is made available. The next general election can be held no later than 28th January 2025 and this contributes to the uncertainty with regard to both the current and a future Government's spending plans with regard to Local Government.

Revisions to the MTFS

43. The following sections of the report set out the revisions that were made to the MTFS between the 2023/24 Budget Report that was agreed at Full Council in February 2023 and the Budget Update Report presented to Cabinet in November 2023.

44. The updated MTFS reported to Cabinet on 9 November 2023 is shown in Table 2, including the level of planned use of reserves to support the budget: -

Table 2 - MTFS at November 2023

Nov - Cabinet Budget Update	2024/25 £m	2025/26 £m	2026/27 £m	Total £m
Year on Year Savings requirement (February 2023 Report)	-	17.6	13.2	30.8
Increase in Service Pressures	25.5	5.1	8.3	38.9
Change in Inflation	3.8	2.4	1.6	7.8
Change in Pay Award assumptions	0.1	2.2	0.1	2.4
Change in Grant Funding	(14.6)	-	-	(14.6)
Amendments to Portfolio base budgets	(1.1)	1.0	-	(0.1)
Changes in Interest and Borrowing	(5.0)	-	-	(5.0)
Revised Shortfall*	8.7	28.3	23.2	60.2
*Inclusive Use of Earmarked Reserves	(24.1)	(13.2)	(7.7)	(45.0)

45. **Grant Funding** – Section 31 Business Rates funding is received from Government to compensate Local Authorities for the costs of business rates reliefs introduced by the Government and increases to the Business rates multiplier being capped at CPI rather than RPI. As detailed in the latest Budget Monitoring report, this is an area of particular volatility following the expansion of such reliefs during the pandemic. It is predicted that reliefs will continue together with compensation and the latest information prudently suggests that an additional £14.0m can be applied to Business Rates funding in 2024/25.

46. **Interest and Borrowing** – A strategy to limit borrowing to that which was already approved by Full Council in February 2022 was set out in the 2023/24 Budget Report. As well as restricting the impact on the on-going revenue budget with respect to the Minimum Revenue Provision it also minimises associated interest payable by the Council. In addition, recent increases to

interest rates announced by the Bank of England Monetary Policy Committee have raised the amount of interest received by the Council. Following review, a prudent decision has been taken to reduce interest budgets by £5m.

47. **Pay Award** - The existing MTFS includes pay award assumptions of 4.5% in 2024/25 and 2% in 2025/26 and 2026/27. Given the current and forecast levels of inflation, it is proposed that an additional 1.0% is included in the MTFS for the 2025/26 financial year, this equates to an additional pay pressure of £2.2m per annum from 2025/26.
48. **Pressures and Inflation** - As part of the budget setting process, departments were asked to justify existing pressures and inflation that are approved in the current approved MTFS. In addition, they were asked to consider uncertainties not previously reflected in the budget planning assumptions. It is important to note that, as a result of transformation activities that have taken place across the Council, a number of mitigation measures have been identified which lessen the impact of the identified pressures. The increase in pressures and inflation bids received by Departments were set out in the report to Cabinet in November 2023.
49. **Reserves** – it should be noted that the deficit position reported to Cabinet was on the assumption of using £45.0m of earmarked reserves across the MTFS period.

Further Revisions to the MTFS Assumptions

50. The following sections of the report set out the revisions to the MTFS since the Budget Update to Cabinet in November. This follows the announcements made in the Autumn Statement that was delivered on 22nd November 2023 and the Provisional Local Government Finance Settlement that was announced on 18 December 2023.
51. **Pressures and Inflation** – following the Autumn Statement, the assumptions have been revised following confirmation that the National Living Wage (NLW) will be increasing by 9.8% to £11.44. This equates to an additional pressure across the MTFS of £9.6m.
52. Departments have continued to firm up the assumptions on which the Pressures bids are predicated based on latest available information to ensure sufficient assurances have been gained in relation to accuracy and completeness. As such, Pressures have been revised across a number of Portfolios based on this latest information and Appendix A reveals a net reduction of £0.5m across the MTFS since the update the Cabinet in November.
53. As a consequence, Appendix A now shows that since the budget was approved in February 2023, Pressures and inflation have increased by £46.2m across the MTFS to 2026/27. The detail shows that demand pressures have increased by £23.3m in 2024/25 mainly due to a forecast increase of £11.0m in the Children and Families portfolio which reflects growth in Looked After Children and Social Work staffing. In addition, there is a forecast increase of £8.7m in the Transport and Environment Portfolio which reflects growth in transport services and also the Communities Portfolio for funding set aside to fund further work on Traded Services (£2.5m). Furthermore, Inflation accounts for an increase of £7.9m in 2024/25, primarily due to the NLW increase already referenced above.
54. The Medium-Term Financial Strategy recognises the increasing demography and consequential demand pressures for services in Adult Social Care, Children and Families and Transport Services, all of which are based upon various assumptions that evolve throughout

the budget cycle. The key assumptions that underly the significant pressures upon our services can be summarised as follows:

Childrens & Families

<u>Key Assumptions</u>	2024/25 £000	2025/26 £000	2026/27 £000	TOTAL £000
Growth in External Placements for LAC	8,450	1,582	495	10,527
<p>This is primarily an activity pressure due to the continued increase (and turnover) in the number of children in LA care that need to be placed in externally commissioned provision. This is not unique to Nottinghamshire; it is a widely recognised nationwide issue.</p> <p>Case complexity and the availability of suitable places however also has a bearing on the weighted average cost of new placements. Growth is now primarily in increasingly costly external residential placements.</p> <p>The age distribution of the County's 0-17 population has been considered (produced by the ONS). High birth rates around 2011-12 are likely to have been a major factor in the current demand profile with older children generally being more difficult and costly to place. In recent years however, birth rates have been significantly lower but it will take many years until this translates into a reduction in overall numbers of older children that may or may not require intervention/care.</p>				

<u>Key Assumptions</u>	2024/25 £000	2025/26 £000	2026/27 £000	TOTAL £000
Contract Cost Inflation	3,462	2,432	2,720	8,614
<p>This is a cost pressure due to the effects of inflation attaching to contracts with external providers for residential placements for Looked After Children (LAC), e.g. independent foster agencies and externally managed residential care homes.</p> <p>The contractual arrangements and frameworks through which the Council secures residential placements for LAC - whether they be specific contracts established by and for the sole benefit of the County Council, or those set up on a wider geographical basis and used by several local authorities – each contain provision for periodic, inflationary price increases that may also take into account the impact of changes in relevant legislation.</p> <p>Current projections 24/25 = 4.6%, 25/26 = 3% , 26/27 = 3%</p>				

Adult Social Care

<u>Key Assumptions</u>	2024/25 £000	2025/26 £000	2026/27 £000	TOTAL £000
National Living Wage - External	21,688	11,901	8,673	42,262
<p>The National Living wage is increased each year, the current rate is £10.42. Rates used for 24/25 £11.44 (Actual), 5% inflation for 25/26 £12.01 and 3.5% inflation for 26/27 £12.43.</p> <p>The increase in the NLW has only been applied to the employees' costs and the profit element and has not included an increase for inflation on other overheads. This means that the % applied is diluted. The pressure assumes that all employees are over 25 or paid at the over 25 rate.</p>				

Transport & Environment

Key Assumptions	2024/25	2025/26	2026/27	TOTAL
	£000	£000	£000	£000
SEND Transport Growth	7,890	2,000	700	10,590
<p>The gross budget for SEND is £14.2m in 23/24, however, forecasts are showing the 23/24 out-turn to be £20.4m - an overspend of £6.2m and this overspend is included in the growth figure for 24/25.</p> <p>The growth in demand for transport is driven by an increase in EHCP (Educational Health Care Plans) and also increased levels of transport for transferring pupils to educational provision where there is no current provision available within their catchment area.</p> <p>For 24/25 there is a planned increase in EHCP's of 150 pupils at an average cost per pupil of £8,750 each = £1.3m. Also, 30 new school places @ £8,750 each = £0.26m. For 25/26 – there is forecast to be 30 new EHCP's = £0.26m; there will also be 300 new school places as two new schools will open in Sept 25 = £1.75m.</p>				

55. **Grant Funding** – On 18th December 2023, The Secretary of State for Levelling Up, Housing and Communities Michael Gove MP, set out the Provisional Local Government Finance Settlement for 2024-25 in the form of a Written Ministerial Statement. Alongside the statement, details of the following core grants were confirmed for 2024/25:

	2024/25	% Change
	£m	
New Homes Bonus	1.0	-9.09%
Social Care Grant	65.1	17.51%
Services Grant	0.7	-84.09%
RSG	8.6	6.17%
Core Grants	75.4	9.28%

56. The impact of these changes is set out below in Table 3 with a revised gap of £4.6m predicted in 2024/25 after using £24.1m of earmarked reserves. However, there remain a number of on-going risks that will impact the 2024/25 budget setting process and consequently all base budgets will continue to be reviewed along with the financial planning assumptions that underpin the MTFs. Any changes will be detailed in the Draft Annual Budget Report to Cabinet in February 2024 and confirmed at the Full Council meeting later that month.

Table 3 - MTFs at December 2023

Dec - Post Provisional LG Settlement	2024/25 £m	2025/26 £m	2026/27 £m	Total £m
Year on Year Savings requirement (February 2023 Report)	-	17.6	13.2	30.8
Increase in Service Pressures	23.3	3.3	4.2	30.8
Change in Inflation	7.9	5.7	1.8	15.4
Change in Pay Award assumptions	0.1	2.2	0.1	2.4
Change in Grant Funding	(21.7)	1.7	-	(20.0)
Amendments to Portfolio base budgets	-	1.0	-	1.0
Changes in Interest and Borrowing	(5.0)	-	-	(5.0)
Revised Shortfall*	4.6	31.5	19.3	55.4
*Inclusive Use of Earmarked Reserves	(24.1)	(13.2)	(7.7)	(45.0)

Future Options & Sensitivities

57. **Reserves** – a robust reserve strategy underpins the delivery of the MTFs, however it is acknowledged that the use of reserves does not represent a sustainable solution to budget management. The Council will once again be targeting reserves to allow time for more transformative approaches to be developed and implemented. Reserves provide a short-term fix, but their use only delays the requirement for a permanent solution. The Council also needs to maintain an appropriate level of reserves to guard against unforeseen events and target those reserves responsibly using a profile that effectively “buys time” by feeding balances into the MTFs and thus preventing an inevitable cliff edge. Reserves will therefore be varied to balance the budget and provide temporary relief to facilitate achievement of Transformation and associated delivery of required savings. The MTFs approved in February 2023 included the planned use of earmarked reserves totalling **£45.0m** across the 3-year period.
58. A review of all reserves has already been undertaken and the results will be presented as part of the budget approval process. As previously reported, in recent years additional reserves were set aside in the risk-based General Fund with regard to inflationary pressures, increased on-going risks in Children’s and Adults Services and challenges faced specifically in the social care market following the pandemic. The balance on the General Fund at 31st March 2023 was £36.9m and the Section 151 Officer is required to recommend a level of proposed General Fund balance in 2024/25 that is regarded as acceptable cover for any reasonable level of unforeseen events.
59. **Council Tax** – It is prudent to consider all decisions in relation to reserves in conjunction with the relative effect of decisions relating to Council Tax. The MTFs approved in February 2023 included a 1.99% increase to Council Tax from 2024/25 to 2026/27 with a further 1.00% Adult Social Care Precept factored into 2024/25 only. Decisions on setting such levels are taken on an annual basis and both Council Tax and Adult Social Care Precept (ASCP) policies will be reviewed. The Provisional Local Government Settlement confirmed that councils will be permitted to raise core Council Tax by 2.99% in 2024/25 in line with the 2023/24 referendum principles. However, in subsequent years it is assumed core increases will revert to the

historical limit of 1.99% across the MTFS period. It will also be permissible for the Adult Social Care Precept to increase by 2% for 2024/25 in line with the limits allowed in 2023/24. Beyond 2024/25 it is anticipated the precept will not be increased for the rest of the MTFS.

60. Whilst the Authority is confident of balancing the budget in 2024/25, Table 3 above shows the significant financial challenge facing the Council in 2025/26 and beyond. Together with opportunities to alter council tax and Adult Social Care precept in 2024/25, further mitigations and savings options will be required to be considered by Cabinet in February.
61. The following table sets out the impact that different levels of 2024/25 Council Tax increases will have on the MTFS:-

Table 4 – Council Tax Sensitivity

	2024/25 £m	2025/26 £m	2026/27 £m	Total £m
1.99% Council Tax Increase	-4.6	-0.1	-0.2	-4.9
Current Assumption - 2.99%	0	0	0	0
3.99% Council Tax Increase	4.6	0.1	0.2	4.9
4.99% Council Tax Increase	9.2	0.3	0.3	9.8

62. **Tax Base** – 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. The Council taxbase is predicated on information provided by District and Borough councils which calculates the number of Council Tax band D equivalent residential properties in Nottinghamshire less any discounts and exemptions that must be applied according to statute. Taxbase information will be provided by 15 January 2024 and the MTFS will be updated accordingly to reflect the reported figures. A forecast growth assumption of 1.20% per annum has been factored into the MTFS which translates into £5.5m of Council Tax yield for 2024/25 independent of any additional increase to the Council Tax or ASCP rate. The sensitivity of this assumption in terms of effect on forecast council tax income is as follows:

Table 5 – MTFS Taxbase Sensitivity

2024/25	Growth	Taxbase Yield (£m)	Change (£m)
	1.00%	4.5	- 0.9
	1.10%	5.0	- 0.5
Current Assumption	1.20%	5.5	-
	1.30%	5.9	0.5
	1.40%	6.4	0.9
	1.50%	6.8	1.4

63. **Savings and Ancillary Levy** – Previously approved savings totalling £3.3m are included within the MTFS. A further ancillary levy of £2.0m across Departments has been included in 2024/25.
64. It is clear from the information set out in Table 3 that savings will be required to help mitigate the medium to long-term funding shortfall within the MTFS. As such, work will continue to be undertaken over the coming weeks and months to identify further savings proposals and to identify themes of work where further savings options can be explored. Work will also continue over the coming weeks to confirm the final assumptions surrounding the pressures and inflation before finalising the MTFS.

Transformation and Change

65. The Annual Delivery Plan 2023/24 that was reported to Cabinet in April 2023 set out that the Council will be working collaboratively both across the Council and with partners to continue the development of our cross-cutting transformation programmes. This will help us to test new and improved ways of working, service delivery and systems. It will also create the conditions to enable us to deliver co-ordinated and integrated transformation and make a difference for the County's communities and residents.
66. A further action as part of wider organisational development, was to refine and reshape our portfolio of cross-cutting transformation programmes, to ensure the organisation is fit for purpose and has the capacity to deliver the Nottinghamshire Plan over the longer term.
67. There has been good progress on reviewing the corporate transformation portfolio, as per the commitment in the Nottinghamshire Plan Annual Delivery Plan for 2023/24 (Action 10.11) to align with the Council's strategic aims and ambitions. The Council has moved to a whole organisation portfolio approach, seeking to make change activity connected and visible. The governance has been refreshed to create clear line of sight and accountability for transformation across the organisation.
68. Delivery has been reported via the Annual report (available from the Council website) which provides a summary of what we have delivered, working together as one council, during 2022-23. A progress update on the 2023/24 plan will be presented to Overview Committee and Cabinet.
69. The Council is operating in a global, national and regional context, which creates great opportunity and some significant challenges. We need to be able to respond to these challenges together, as one Council. However, it must be recognised that continuous improvement and incremental change will not be enough to make us the forward looking and resilient Council of the future we strive to be. We must mobilise all the talent and creativity across the Council to innovate, transform and take advantage of new opportunities, whilst maintaining the delivery of high quality of services and mitigating the risks to delivery of our ambitions as a Council.
70. As we develop solutions and plans to bridge our funding gap, we are exploring some key themes that will help shape the reform of the organisation. We will develop and refine these themes by engaging our workforce and our partners and communities so that we can be assured of our ability to meet our statutory responsibilities, as well as deliver our longer-term ambitions in the Nottinghamshire Plan. The key themes we are exploring include:

- Driving public service reform opportunities created through collaboration with East Midlands Combined County Authority, the Integrated Care Board, District Councils and other key partners such as schools and the voluntary and community sector,
- Investing in early help and prevention to help communities and families to be resilient, secure better outcomes and reduce demand for Council services,
- Ensuring all services we provide or commission to meet statutory duties are as efficient and effective as possible,
- Reviewing our organisational design principles and corporate operating model to reshape the organisation to be fit for the future,
- Improving the productivity and efficiency of our service through use of digital and new technologies such as AI and further rationalisation of our service and office estate.

71. The above paragraphs set out the progress of the MTFs and impact on the budget gap. Assumptions will continue to be updated as we progress through the budget setting process. Final Local Government Finance Settlements and grant announcements are expected in January 2024 but the key date above all else is the Council meeting on 22 February 2024 and prior to that the Cabinet meeting on 8 February 2024. The report to Cabinet will set out the Council's final budget proposals in order to set a balanced budget for 2024/25.

Budget 2024/25 Key Milestones

72. The key milestones associated with the 2024/25 budget setting process are set out in the table below:-

Activity / Meeting	Date
Final Local Government Settlement	Late January 2024
Tax Base Information from District	15 January 2024
Overview Committee	25 January 2024
Draft Budget Report to Cabinet	8 February 2024
Full Council - Annual Budget Report 2024/25	22 February 2024

Equalities Impact Assessment

73. When setting the budget, the Council must be mindful of the potential impact on service users.
74. The Equality Act 2010 imposes an obligation on Members to have due regard to protecting and promoting the welfare and interests of persons who share a relevant protected characteristic (age; disability; gender re-assignment; marriage and civil partnership; pregnancy and maternity; race; religion or belief; sex and sexual orientation).
75. An initial high-level Equality Impact Assessment (EIA) in relation to the Council's proposed Revenue Budget Report 2024-25 will be undertaken at a corporate level to identify any potential areas where there is a significant risk of adverse impact. This will outline the overall likely impacts upon different groups based on those areas which may have been identified for savings. Where a significant risk of adverse impact is identified this would then be subject to a full Equality Impact Assessment process prior to Cabinet decisions on individual services.
76. As set out above, this is an initial high-level assessment recognising potential future impacts. In tackling a budget deficit whilst ensuring continued value for money as the Council delivers its priorities, the Council will in future need to consider budget savings. Any resulting savings may result in reductions or changes to frontline services, which directly affect the people of Nottinghamshire. Many of the Council's services are targeted at particular groups including older people, people with disabilities, children and younger people and families. These services command the largest parts of the Council's budget. Detailed savings options are yet to be determined and if implemented are likely to be subject to more detailed consultation on the specific proposals
77. The initial EIA will also reflect upon the ongoing work to develop a cumulative impact analysis and to consider the linkages between the Council's budget savings and those being made elsewhere in Government and by other public sector partners.

Statutory and Policy Implications

78. 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.

Other Options Considered

79. This report provides an update of the Budget together with confirming the approach to reviewing the budget for 2024/25.

Reasons for Recommendations

80. To provide information to Overview Committee on the Council's approach to the budget setting process and the current assumptions behind the budget and provide the opportunity for the Committee to feedback any specific points on the Budget for 2024/25.

RECOMMENDATIONS

- 1) That Overview Committee considers:-
 - a) the assumptions that underpin the development of the 2024/25 Annual Budget Report and the Medium-Term Finance Strategy.
 - b) any specific issues around the development of the 2024/25 Annual Budget Report and the Medium-Term Financial Strategy that it would like to refer to Cabinet for further consideration.

Councillor Richard Jackson
Cabinet Member for Finance

Constitutional Comments (GR 15/01/2024)

81. Pursuant to the Nottinghamshire County Council Constitution this Committee has the delegated authority to receive this report.

Financial Comments (GB 29/12/2023)

82. The financial implications are set out within 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.

- None

Electoral Division(s) and Member(s) Affected

- All