



meeting

COUNTY COUNCIL

Date **6th April 2006**

agenda item number

REPORT OF THE LEADER OF THE COUNCIL

MEDIUM TERM FINANCIAL STRATEGY AND CAPITAL STRATEGY **2006/07 TO 2009/10**

The Leader is bringing this report forward and proposing these recommendations for decision in accordance with his constitutional delegation under V 9. The Leader is currently undertaking the duties of and exercising the powers of the Cabinet Member for Finance and Property.

1 PURPOSE OF THE REPORT

To consult Members on the adoption of the attached document as the County Councils Medium Term Financial Strategy and Capital Strategy for 2006-2010.

2 INFORMATION AND ADVICE

The document identifies the Council's key financial policies and their implications for the next four years.

The Financial and Capital Strategies have been informed by the Council's Strategic Plan and Community Strategy and is supported by Departmental Service Plans. In particular, links with the Strategic Plan have been separately identified.

3 STATUTORY AND POLICY IMPLICATIONS

This report has been compiled after consideration of the 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.

4 RECOMMENDATION

The attached document is formally adopted as the County Council's

Medium Term Financial Strategy and Capital Strategy.

**CLLR DAVID KIRKHAM
LEADER OF THE COUNCIL**

Background Papers available for inspection

Nil

Electoral Divisions Affected

All

Legal Services Comments (JA 28.03.06)

The recommendation to Council of the financial strategy is a matter delegated within the Constitution to the Portfolio Holder for Finance and Property. Delegation V.9 allows the Leader to undertake the duties of, and exercise the powers of, any Cabinet Member for any reason including but not limited too circumstances where a Cabinet Member is temporarily unable to discharge those duties (1) for reasons of ill health; or (2) due to a unplanned or planned absence agreed with the Leader.

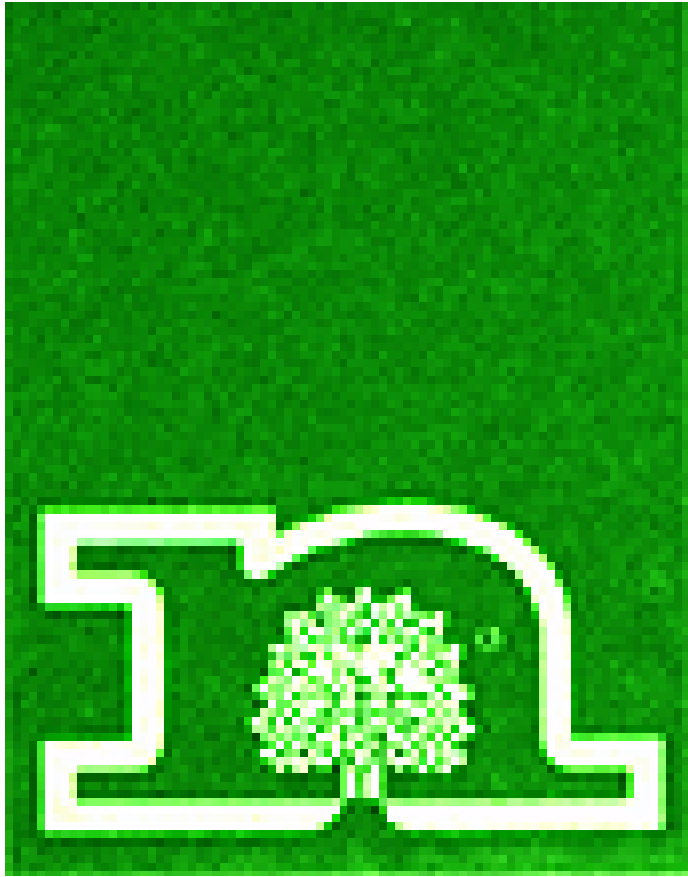
Director of Resources Financial Comments (PH 27.03.06)

The Medium Term Financial Strategy and Capital Strategy incorporates the financial implications in future years

Nottinghamshire County Council

Medium Term Financial Strategy and Capital Strategy

2006/07 to 2009/10



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Introduction by:

Cllr David Kirkham – Leader of the Council Arthur Deakin – Director of Resources

This Medium Term Financial Strategy and Capital Strategy sets out Nottinghamshire County Council's commitment to provide services, which represent the best possible value for money for Nottinghamshire's communities. It builds on the achievements of the past, and sets out a clear direction for the future.

In 2004 the Council was judged by the Audit Commission as being "Excellent" and in 2005 we were awarded the maximum four stars under the new "harder test". We are determined to continue in this vein, and our Medium Term Financial Strategy is the financial backing to our Strategic Plan for 2006-2010, "All Together Better".

Within the Comprehensive Performance Assessment, we were scored at 3 out of 4 for the Use of Resources. This is a test of the Council's financial arrangements, asset management, value for money and risk management. A score of 3 was a very good achievement as only three councils achieved level 4. The highest level achieved by any County Council.

The County Council is committed to working with partners to improve the quality of life for people in Nottinghamshire. This is reflected in the new Community Strategy. "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 in 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 easily and safely and be able to access all the services they need.

The new Strategic Plan sets out plans for making progress towards:

- The key priorities in the Community Strategy.
- The requirement for meeting statutory and governmental priorities.
- The commitments made in the majority group's manifesto prior to the May 2005 elections.
- The organisational developments that are needed to achieve improvements to our Comprehensive Performance Assessment.

The Strategic Plan sets out the Council's vision of being a direct provider of high quality services together with providing effective community leadership. This Medium Term Financial Strategy and Capital Strategy provide the funding framework within which the Council will achieve these aspirations.

A balance has been 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 strategy covers both the expected variations to the revenue budget and the approach adopted towards planning the capital programme for future years.

The Medium Term Financial Strategy and detailed budget proposals for 2006/2007 demonstrate that the Council has sound financial arrangements which are focused on the delivery of our vision of a better community in Nottinghamshire.

Inevitably our plans will need to change as the demands on our services change in the future. Financial planning is not an exact science and we will keep the Financial Strategy under review and amend it as required in the light of changing circumstances. We already know that we will need to continue to achieve improvements in our efficiency to achieve the Government's Gershon targets, and to the extent that future service demands outstrip our assumptions we will need to continue the process of reprioritising our spending with reductions in lower priority areas being used to support increases

elsewhere. All areas of our budget will be kept under review and we will continue to reduce costs wherever possible.

The future of local government contains many uncertainties, such as Local Government Review, the Lyons study of funding etc and the continuing impact of the Gershon agenda. We will keep our Medium Term Plan under review and amend it each year to reflect the rapidly changing environment in which we work.

David Kirkham
Leader of the Council

Arthur Deakin
Director of Resources

How the Strategy has been put together

The authority has established a set of principles to guide the strategic decisions in setting the annual budget and medium term financial strategy. The following principles have been developed within the context of the Strategic Plan and Community Strategy:

- **Our responsibility to ensure that the people of Nottinghamshire get a good quality community leadership and service provision**
- **Ensuring that the Council takes a managed approach towards securing a sustainable future**
- **An understanding of the key national requirements placed on the Council and the changing national public expenditure context that has contributed to the current budget position**
- **The need to meet the financing costs of significant capital investment plans for the county, based on clear evidence of need**
- **A commitment to reduce costs in the organisation and to maximising the resources available to secure better outcomes for people by striving to achieve better value for money and greater efficiency through a 2 year managed plan**
- **Choosing to invest in those things where the Council can have the greatest impact, focusing on what the Council does best, and recognising that others can do things better in some cases and that more can be achieved through working in partnerships**

This year's budget process was led at the highest political level, with the whole process driven by manifesto commitments and the emerging Strategic Plan. By involving Chief Officers of all departments in the budget setting process the Authority ensures that departmental plans and initiatives are reflected in the annual budget and Medium Term Financial Strategy. Some specific examples include the impact of the "Fast Forward" programme included within the "Value for Money" savings with specific reference to:

- Savings from the ICT Strategy
- The impact of the Human Resources strategy and in particular the cash savings resulting from the planned reduction in sickness absence
- Pay review
- Savings from management reorganisation and the integration of property and resources functions
- More efficient provision of homecare
- Modernising working practices

The Financial Strategy and this year's Annual Budget has involved some hard decisions which will need effective management. In reaching these decisions senior members and officers have carried out a major review of services to evaluate value for money and this process will continue in the future.

During the lifetime of this Strategy we will regularly monitor our progress towards achieving the goals we have set ourselves. A dedicated Member Reference Group has been established to review and monitor our progress

In the light of the relatively low level of County Fund Balances a risk analysis of the 2006/07 Budget has been undertaken.

The revenue budget and capital programme that make up the medium-term financial strategy are closely aligned to the key themes of the Community Strategy and the priorities in the emerging new Strategic Plan and so all major priorities and key objectives have been reflected in the budget. There is a robust budget preparation process involving Members, Chief Officers and relevant budget managers which ensures that the key strategic priorities are addressed and resourced. There is therefore a low risk of any significant unplanned expenditure, but nevertheless it is prudent to have a level of County Fund balances that are adequate to meet unforeseen events.

Links to Strategic Plan

Whilst the Medium Term Financial Strategy supports the overall Strategic plan, there are a number of specific examples within the Medium Term Financial Strategy that demonstrate how the Strategy supports the Strategic Plan. All these examples show how we will develop services and for ease of reference are highlighted below:

All Together Better – Safer and Stronger

- The Capital Strategy includes funding for reducing deaths and serious accidents on Nottinghamshire's roads within the schemes for Local Safety and Safer Routes to Schools.
- By providing additional funding for Social Care and changing the way services are provided as part of our value for money agenda, we plan to safeguard the most vulnerable children and young people as well as strengthening community care.

All Together Better – Healthier

- The Capital Strategy includes plans to develop sports facilities at schools to give children and young people more opportunities to enjoy themselves.
- The additional funding for Social Care will also help us to achieve our mental health and learning disability agenda and provide greater choice and independence through community care services.

All Together Better – Learning and Earning

- The Government has provided above inflation funding in 2006/07 of 6.53% per pupil. Some of this funding and that of future years will be used to improve educational attainment.
- The Capital Strategy includes a significant programme for improving and replacing schools, which is anticipated will help lead to improving educational achievement.
- From 2006/07 onwards the LEA budget will continue to be focussed on improving performance at GCSE.
- The Capital Strategy includes funding for a programme of library improvements, particularly at Southwell, Mansfield and Newark Libraries to support learning and cultural enrichment.

All Together Better – Cleaner and Greener

- The Medium Term Financial Strategy includes £3 million in 2007/08 for the development of a waste management PFI scheme, together with plans to build new Household Waste Centres to encourage recycling. The overall cost could, however, rise up to £3.5 million dependant on the results of negotiations.
- The Capital Strategy includes a specific programme of £4 million to £5 million p.a. called Building Better Communities for improving the physical environment in local communities.

All Together Better – Transport and Access

- The Capital Strategy includes plans to refurbish/rebuild Retford and Mansfield Bus Stations.
- A specific allocation of £4 million p.a. for the 3 years to 2008/09 has been include in the Capital Strategy to improve the condition of minor roads and footpaths in Nottinghamshire.

Improving the way we work

- Our Council Tax strategy has been determined in the light of our commitment to continue providing excellent services.
- The Capital Strategy includes funding to develop a contact centre for the community, which will ensure that we can be contacted easily, as well as developing Community Hubs.

- The Medium Term Financial Strategy reflects the effect of changing our organisational structures to integrate services for children, adults and the community.
- The Medium Term Financial Strategy includes a policy on “Value for Money” that identifies our approach to reducing costs, meeting Government’s targets for efficiency savings and providing resources to help meet our priorities.
- The “Value for Money” policy includes the financial impact of modernising our working practices.

Priorities for Improvement

The Authority has identified a number of areas where it wishes to reprioritise services. The major savings and service reductions have been targeted in the following areas:

Information Computer Technology
Senior management restructuring
Resources Functions
Administration costs
Procurement
Economic Development

Within the planned Council Tax increases these savings will be used to address inflationary pressures and permit growth in the high priority areas of highway maintenance and the Bassetlaw Schools PFI, while also helping tackle pressures on Social Care budgets.

Working in Partnership

Departmental budgets include a number of areas where partnership working is already under way. These areas of partnership working are summarised below:

Local Strategic Partnerships – Individual partnerships with districts in targeted areas.

Local Area Agreements/ Public Service agreements – Nottinghamshire County Council is taking the lead role in various arrangements with all public sector bodies to target performance improvements.

Nottinghamshire Partnership - a countywide local strategic partnership was established in September 2005. Partners include the County Council, district councils, local strategic partnerships, primary care trusts, police, fire, government agencies, and the private and voluntary sectors. The Nottinghamshire Partnership will help deliver the county's Community Strategy and Local Area Agreement.

Private Finance Initiatives – Bassetlaw Schools, Waste management.

Pooled Budgets – Arrangements between the Social Services Department and the Health Service.

Local Area Forums – Individual local partnerships with districts.

Countywide Partnerships with Districts - Concessionary travel arrangements decriminalisation of parking and joint use leisure centres.

Nottingham City – Concerts, Provision of Library Services, Nottingham Express Transit tram system.

Where appropriate we have kept the financial and performance aspects of partnership arrangements under review and discussed relevant actions where these have been deemed appropriate. This experience will be used in operating partnerships in the future.

The Authority has established a set of guidelines for when it is acting as an accountable body in partnership arrangements. These guidelines will be used for all future partnerships where the Authority is acting as the accountable body.

Leverage of Financial Contributions

There are many areas where the County Council obtains additional funding for example:

Bassetlaw Schools PFI (£131.6 million) - The County Council was successful in its bid to rebuild all secondary schools in Retford, Worksop and Tuxford. This major initiative received £131.6 million credits from central government to transform provision in the area with the County Council making a modest contribution over the 25 year life of the scheme. Construction is already underway and the new schools will open on a phased basis this year and next.

Waste Strategy PFI (£38 million) – The County Council was also successful in a bid for PFI credits from central government for a waste management scheme.

Defra (£240,000) – Funding obtained under the Aggregates Levy Sustainability Fund to support local environmental improvements thereby contributing to the priorities for Learning, Culture, Regeneration, Environment and Community within the Strategic Plan.

WREN (£200,000) - Funding for environmental improvements at Snipe Park, Bassetlaw.

Greater Nottingham Partnership (£600,000) - Funding for environmental improvements and highways works at Broadgate Beeston.

Alliance SSP (£740,000) - Funding for environmental improvements/transport/highway measures for Retford Bus Station, Middlegate Newark, Sherwood Drive Ollerton, Canon Square Retford.

Local Authority Energy Financing (£500,000) - To support "invest to save" energy projects.

Partners in Culture (£403,000) – Support from the European Regional Development Fund for tourism and arts projects in the north of the County.

Active Sports (£350,000 p.a.) – Support from the Big Lottery Fund to support sports and sports coaching throughout the County.

Learning and Skills Council (£2.5 million p.a.) – Grant to fund adult learning activities

Teenage Pregnancies (£363,000 p.a.) – Department of Health grant to help reduce the number of teenage pregnancies and support teenage mothers.

Government Grant

From 2006/07 the Government have introduced a completely new way of calculating Formula Grant (Revenue Support Grant plus Non Domestic Rates) and are funding schools separately through the "Dedicated Schools Grant" (DSG). The new style settlement also included grant figures for 2007/08.

The settlement for 2006/07 and 2007/08 is the first year the Government has provided two year settlements which helps gives the financial strategy an additional degree of certainty.

As part of the settlement some specific grants have stopped, with the intention that they are, instead, funded from Formula Grant. Although the 2006/07 formula grant increased by 3.4% (£4.2 million), this included the transfer of £4 million of Social Services specific grants.

Where grants are transferred into Formula Grant the level of service and funding provided will be reviewed and any additional burden on Council Tax will be considered alongside other budget pressures.

The new grant formula includes a minimum increase in funding of 2.7% in 2007/08 for County Councils. The increase for Nottinghamshire County Council in 2007/08 will be 4.7%. Nottinghamshire County Council also loses £5.9 million which is used to bring other authorities up to the minimum increase. Over time this loss of grant should reduce.

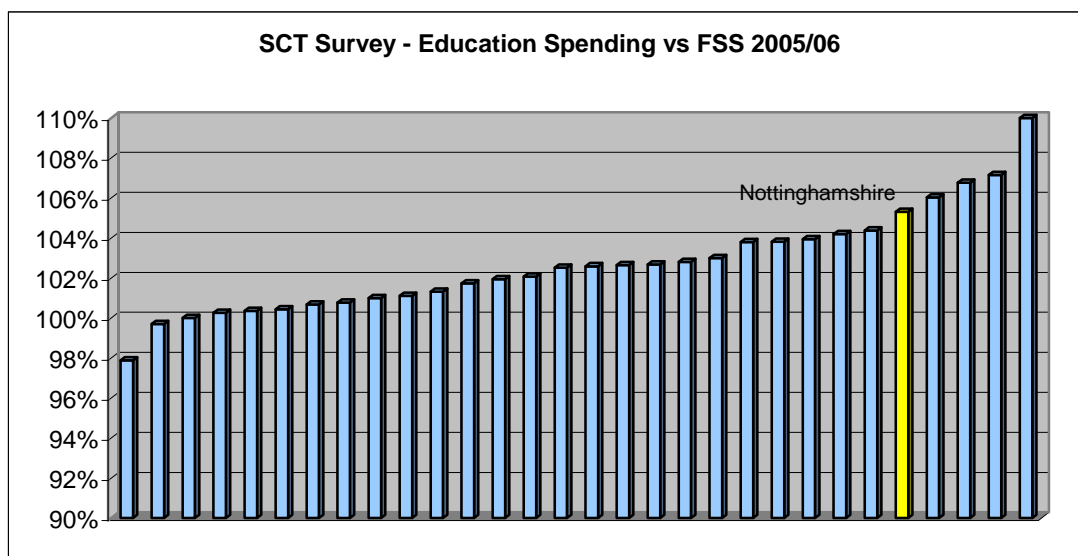
It would, therefore be reasonable to assume that grant increases will continue to be above the minimum. However, to mitigate any further effects of specific grants transferring into formula grant, the forecast increases are limited to 3%.

With Schools being wholly funded through DSG, Social Services represents 42% of the remaining portfolio budgets. Government spending plans for 2007/08 assumed additional spending on Social Services of 4.5% to meet increased demand. Social Services will continue to face increasing demand for their services, leaving little or no room for manoeuvre for other services if council tax increases are to be held at 5% or less.

The financial strategy, therefore, assumes that demographic and other pressures will require growth in the Social Services budget at 5.5% in 2006/07 and funding held at 4.5% p.a. thereafter. However, service demands will exceed this level of growth. As a consequence, Social Services, along with other departments, will need to seek out and achieve further efficiency savings.

The change in schools funding to a "Dedicated Schools Grant" (DSG) is of particular interest. The Government has continued to fund schools through the DSG at the same level previously provided by local authorities. Additionally, the government has stated that local authorities may top up the DSG with locally financed funding (normally this would be from additional Council Tax).

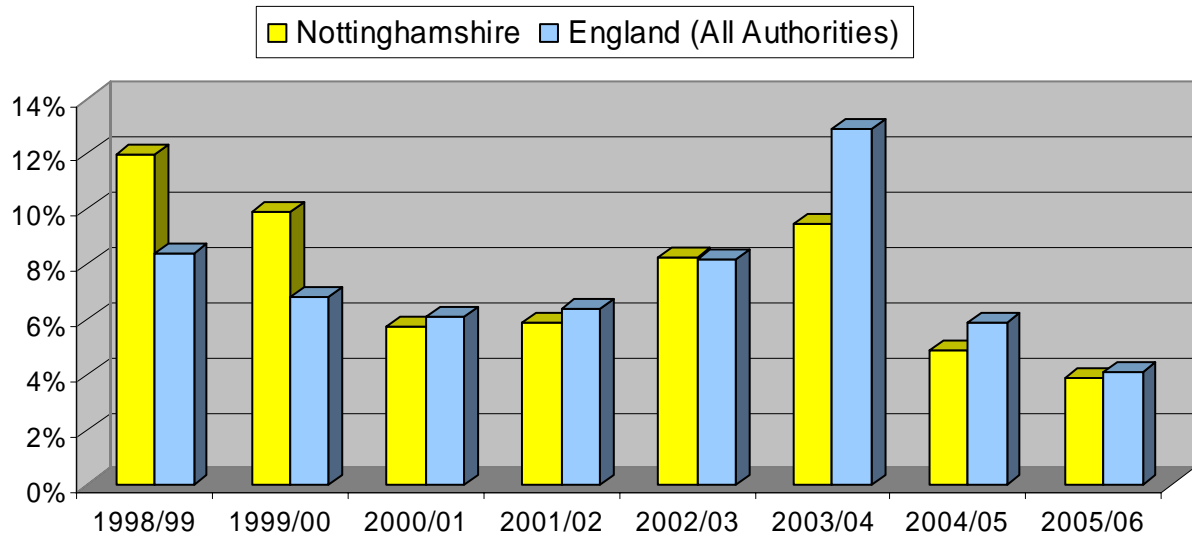
In 2005/06 Nottinghamshire County Council planned to spend on Education over 5% above the assumptions made by Government in assessing our grant, reflecting our local views on the need for additional funding and the priority given to Education. The table below shows how Nottinghamshire County Council compares with other Shire Counties:



The effect of a 1% variation in Formula Grant would be £1.3 million. This means that if the authority only received a minimum increase of 2.7% after 2007/08, future forecasts would only require a reduction of £390,000 in Formula Grant funding.

Our Policy on Council Tax

Since local government reorganisation in March 1998 Nottinghamshire County Council has followed the national trend of Council Tax increases above the rate of inflation. In the 8 years since 1997-98 Nottinghamshire County Council's Council Tax element has increased by 70% compared with a rate of inflation of 20%. The trend in Council Tax since 1997-98 has been as follows:



The average Band D Council Tax for Nottinghamshire is £1,375 compared with the national average of £1,214 and is the highest in the country for shire areas. When looked at on a “per dwelling” basis Nottinghamshire districts’ figure of £1,049 compares with a national average of £1,009.

Nationally Council Tax rose by 4.1% (Shire Counties 3.91%) for 2005/06 against the Government’s expectation that Council Tax increases would be below 5%. The Government has stated that it is prepared to use its reserve capping powers again in 2006/07 and again expects Council Tax increases of no more than 5%. There is no reason to expect this situation to change in future years, so Council Tax increases will need to be kept at or below 5%

At taxpayer level there continues to be lobbying for increases of no more than the rate of inflation, not least from pensioners groups. Our forecast rate of inflation for the foreseeable future is 2.5%. On the other hand, the authority is faced with increasing demands, particularly within Social Care budgets, requiring funding above the rate of inflation.

The Authority is looking to stabilise Council Tax increases by planning a relatively even spread of increases over the period of the Medium Term Financial Strategy

The council tax strategy will be a maximum increase of 4% p.a. from 2007/08 with the intention of bringing tax bills in the county closer to the average, while recognising the pressures for keeping increases in line with inflation, avoiding government capping, and providing the funding to continue delivering “excellent” services. This strategy will be reviewed each year in the light of government funding and emerging service pressures.

Sensitivity Analysis

Each 1% increase in Council Tax raises in the region of £2.7 million. Increases in Council Tax of 4% therefore raise an additional £4 million above an inflation linked increase of 2.5%. This level of increase would help fund additional service pressures and provide resources to continue delivering “excellent” services.

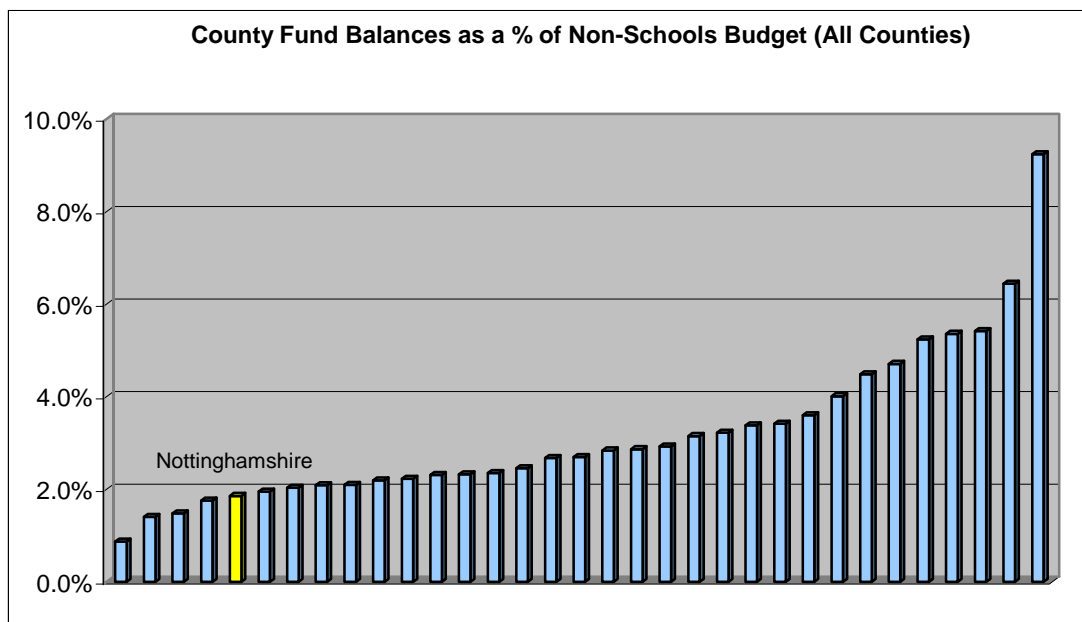
The increase above inflation would represent an additional £16 for a band D property. However, most properties in Nottinghamshire are in bands A and B which would incur above inflation increases of

£11 and £13 respectively.

Our Policy on County Fund Balances

County Fund Balances currently stand at 2% of the non-schools budget. An annual risk analysis of revenue costs is undertaken to ensure the level of reserves and contingency within the budget are sufficient to cover unforeseen requirements. Audit Commission guidance is that free balances should be at least 5% of the non schools budget (unless a risk assessment has been undertaken), which would be £18.8 million in 2005/06 for the County Council, a level of balances that has not been held by the County Council since the early 1990's. To achieve this level of balances would require a reduction in services that would involve a significant opportunity cost foregone.

An SCT survey of shire counties for the 2005/06 budget revealed that the average level of anticipated balances at 31/3/2006 was 3.3% of the total budget.



The table above indicates that the County Council's balances are low compared with similar authorities, however, increasing reserves would move resources away from the provision of services. Having carried out a risk assessment in relation to balances we believe that these are adequate and to hold higher levels would impact on service delivery and incur opportunity costs. In addition, the Government is planning to introduce three year settlements for individual authorities. This move would create a greater degree of stability.

The level of budget savings required over the next two years amount to around £21 million. Savings of this magnitude cannot be achieved immediately, so the authority is planning to manage the savings over a two year period by increasing balances at the end of 2005/06 and holding contingency sums for potential delays in implementation.

A minimum level of County Fund Balances at 2% has proved adequate in the past and should continue to be the minimum target. The financial strategy shows general reserves falling to 2.1% of the non-schools budget, however, any additional "windfall" surpluses will be considered for increasing balances, up to the average level of general reserves held by other shire counties.

Sensitivity Analysis

1% of the non-schools budget represents balances of around £4 million. To reach the guideline figure of 5% the County Fund Balances would have to increase from £8.8 million at the end of 2007/08 to £21 million.

Our Policy on Reserves

Departmental Reserves

A new policy was established for departmental reserves in 2004/05. In broad terms departmental reserves should only be held for specific purposes, principally for:

1. Asset replacement of short life assets, usually 10 years or less
2. To spread the cost of “lumpy” items of expenditure
3. For trading activities (no more than 2% of annual turnover)
4. To support items of capital expenditure

Departmental reserves will continue to be reviewed annually in line with the agreed policy to ensure they are not excessive.

Other Reserves

A number of other reserves are held to cover specific issues:

1. Carry Forwards. Where portfolios have underspent and suitable business cases can be made for using those underspendings in the new year then an earmarked carry forward will be created. Departments are allowed to carry forward up to 2% of their budget at budget time (December), with additional underspendings at the year end split 50% for recycling within departments and 50% for recycling between departments (Corporate recycling). The rules governing these carry forwards were reviewed as part of the Nottinghamshire Improvement Programme in 2003/04 and have since proved to work very well in achieving the objectives set out.
2. East Leake and Net Line One PFI schemes. The profile of Central Government funding for these schemes does not match the incidence of costs so reserves are held to even out the impact on the Council Tax.
3. Pay Review Reserve. The authority will continue to contribute around £4.5 million p.a. pending the outcome of the pay review to cover back dated pay awards. The annual contribution is kept under review and is based on the knowledge of past and likely future settlements at other local authorities.
4. Leasing Alternatives Reserve. This reserve was set up to allow departments additional flexibility when looking at financing options for shorter life assets, to avoid using leasing by default without first considering whether leasing is the most cost effective method of financing. The level of the reserve was set a number of years ago and has proved sufficient to meet the annual requirements. The reserve is replenished by repayments from departments that have used the reserve.
5. Capital Expenditure Reserve. A capital expenditure reserve is held where departments have made revenue contributions to capital expenditure that has been delayed until future years. Additionally a sum is held to cover items of expenditure where the County Council does not wish to use normal capital financing methods.
6. New County Insurance Reserve. This reserve is reviewed annually by the Director of Resources together with the Risk and Insurance Manager to determine its adequacy to cover potential claims arising in past years.

Where other specific anticipated liabilities are identified additional earmarked reserves will be created.

Our Policy on Value for Money

The Authority has a long history of reviewing services to achieve better value for money. For the past 3 years the Authority has been benchmarking performance and cost against other authorities for major services, to identify areas where value for money could be improved.

The Authority has prioritised achieving Value for Money in order to ensure resources are released for the provision of "front line" services. A number of initiatives already exist to help identify and implement efficiency savings. These measures include:

- Fast Forward Strategy
- Procurement Strategy
- Value for money reviews
- Corporate targets for savings
- Departmental plans

Where savings are identified, these have been incorporated into the 4 year budget forecasts.

Any efficiency savings identified as a result of the above measures can be counted against the Government's 3 year for efficiency savings target ("Gershon Target") which requires the authority to make efficiency savings of £32.1million over the three years to 2007/08, half of which must be "real cash" savings. Currently the authority is forecasting to have made £16.8 million of efficiency savings by the end of 2005/06, leaving £15.3 million to be found in 2006/07 and 2007/08. The authority is confident that the savings target will be met through existing measures without setting up a specific Gershon targets for the authority.

The authority expects to meet the majority of the Gershon target from cash savings resulting from the budget process including procurement, modernising working practices, improving sickness absence, sales of assets and more efficient provision of homecare. The table below summarises the main expected savings that will count against the Gershon Target:

	2006/07	2007/08	2008/09	2009/10
	£m	£m	£m	£m
Cashable				
VFM reviews	1.8	1.8	0.9	-
Admin/Support Staff	2.0	-	-	-
ICT Services	1.3	0.8	-	-
Integrate Property/Resources	0.8	0.7	-	-
Management Reorganisation	1.0	-	-	-
Procurement	1.0	-	-	-
PFI	1.5	-	-	-
Capital	2.2	2.6	1.0	1.0
Other	-	-	0.5	0.9
	11.6	5.9	2.4	1.9
Non Cashable				
Sickness Absence	1.4	1.6	0.4	0.3

Given that the items identified above will already exceed the Gershon target, further non-cashable savings have not been identified. However, should further savings need to be found other areas of non-cashable savings will be investigated.

The 2006/07 Budget Process involved a VFM exercise looking at costs and performance for all the County Council's Services. Comparisons were made over time and against other authorities to identify services for further investigation.

Initial results indicated that savings of up to £8 million could be made over time from the VFM exercise. Having considered factors such as the impact on the community, national priorities and the County Council's strategic plan, the authority chose a number of additional areas in which to make savings. A four year plan for achieving all these savings has been drawn up, identifying whether the savings are efficiency savings or service reductions. The details are shown below:

Service	2006/07	2007/08	2008/09	2009/10
	£000	£000	£000	£000
Service Reduction/Price Increases				
Country Parks	90	40	60	30
Economic Development	1,052	948	-	-
Environmental Education	181	130	-	-
Notts Connect	700	-	-	-
Denominational Transport	-	TBA	TBA	-
Efficiency Savings				
1% across all portfolios	3,300	-	-	-
Senior Man/ment restructure	1,000	-	-	-
Professional/Support Services	2,000	-	-	-
ICT	1,300	800	-	-
Integrate Resources Functions	800	700	-	-
Procurement	1,000	-	-	-
Corporate Communications	100	-	-	-
Children's Assessments	350	350	-	-
Care support at home	1,000	1,100	900	-
Older Persons Assessment	350	350	-	-
	13,223	4,418	960	30

The County Council has introduced a new performance management system that will allow the County Council to further develop its approach to VFM. **A VFM review of services will be built in to the annual budget process. Future potential savings will then be built into the four year budget forecasts.**

The level of savings required will result in additional risk of delays in implementation and redundancy costs. Appropriate amounts have therefore been included in the contingency to help reduce the impact of any temporary shortfalls.

Our inflation Assumptions

The budget forecasts include inflation based on the current knowledge of future inflation rates and pay awards.

The major investment managers are currently forecasting RPI to increase by 2.25% in 2006. With the Government maintaining low inflation targets for the Bank of England's monetary policy, it is unlikely that this rate will vary significantly in future. With inflation rates at such low levels there is a larger risk that rates will increase slightly rather than decrease.

Predicted inflation rates have therefore been set at 2.25% for 2006/07 and 2.5% thereafter.

Any specific increases above these levels will generally be managed within the overall inflation allocation.

In recent years pay awards have been held at around or slightly above the rate of inflation. The settlement for local authority staff in 2005/06 has already been determined at 2.95%. The settlement for teachers is 2.5% from September 2006.

Predicted pay awards have therefore been set on a prudent basis assuming settlement at 0.5% above inflation, 2.95% for 2006/07 and 3% thereafter.

Inflation costs include an element for increases in pension costs. Our actuary has indicated that our contribution needs to increase to 14.9% in 2006/07 and then 15.5% for future years.

There remains a risk that some costs that impact significantly on local authorities, will increase at levels well above the rate of inflation. Recent examples of this are energy and oil prices. The 2006/07 budget includes some specific additional allocations for insurance premiums, highways materials, bus contract inflation, utilities and fuel costs.

In recognition of the risk of specific price increases in future years, the MTFS includes an additional £500,000 each year for significant above inflation rises.

Sensitivity analysis

Given the risk that inflation may be higher than predicted it is worth assessing the impact of higher inflation rates and resultant higher pay awards. A 1% variation in inflation would have the following impact:

	£m
Inflation	1.4
Pay	2.2

Our Capital Strategy

The Strategy is to enhance the permanent facilities for use by the community and to improve and maintain existing assets and replace those that are no longer fit for purpose. All new schemes will be assessed in terms of their contribution to the Strategic Plan objectives. The size of the capital programme will be influenced by funding sources and financing costs.

The Council is developing a 10 year capital strategy, with a costed programme for years 1-4 together with details of desirable projects for years 5-10. This approach will allow time to develop more robust costings for the later projects and therefore help reduce slippage and overspends currently experienced within the capital programme.

The main schemes within the Capital Strategy support the key themes of the Strategic plan e.g

- Library improvements
- Waste Recycling and management
- Additional funding for improving the condition of roads in Nottinghamshire
- Schools replacements

Expenditure

Given the authority's current relatively low level of debt per head and restrictions on the revenue budget the authority plans to deliver its strategic aims through capital spending where possible.

The approved capital programmes for the next 4 years are:

	£m
2006/07	163
2007/08	154
2008/09	128
2009/10	89

Capital projects are scored by officers in line with the authority's strategic priorities using the following criteria:

- **Service Priorities**
 - Suitability & Sufficiency of existing provision
 - Identified improvements to service outputs
 - The priority of the bid within the department
- **Corporate Priorities**
 - Direct improvement to the authority's CPA and BVPI scores
 - Emerging community priorities
 - Number of service users effected.
- **Funding Criteria**
 - Spend to save initiatives
 - Amount of external funding generated

Elected Members determine the projects to be included within the capital programme in the light of the relative priorities and the overall impact on the revenue budget.

An annual review is undertaken by officers to identify any projects not commenced to see if they still meet the strategic aims of the authority.

Funding

The authority seeks to minimise the level of borrowing required to finance capital expenditure by maximising grants and contributions received and ensuring any surplus assets are sold.

Due to various factors, the timing of asset sales is the most volatile element of funding. As a result, regular monitoring of asset sales takes place by the Cabinet Member for Finance and Property and the Director of Resources.

Any temporary shortfalls in receipts from asset sales will be met by increased borrowing up to the authorised limit (see below).

Borrowing and Prudential Code

At the end of 2003/04 the County Council's external debt per head was 32% below the average for shire counties of £343. Recent history shows that the shire counties average has increased each year. In 2005/06 the estimated debt per head is £291 for the County Council.

In line with the new Prudential Code introduced in 2004/05, the Authority estimates how much it expects to borrow and then sets an "Authorised Limit" which allows for additional borrowing resulting from timing differences in asset sales and capital expenditure. Asset sales for the 3 years 2006/07 to 2008/09 are expected to be around £30-£40 million per annum. The Authorised Limit has therefore been set to allow for additional borrowings, with total borrowing set to rise to up to £560 per head by 2008/09.

The level of borrowing will be maintained within the Prudential Indicators that we set each year as part of the Prudential Code. The potential sources of borrowing will be kept under review, so that the average rate of interest can be progressively reduced year by year from the average in 2004/05. This will include seeking out the most advantageous borrowing mechanisms and placing less reliance on the Public Works Loan Board.

Summary of Policies and Assumptions

Working in Partnership The Authority has established a set of guidelines for when it is acting as an accountable body in partnership arrangements. These guidelines will be used for all future partnerships where the Authority is acting as the accountable body.

Government Grant Where grants are transferred into Formula Grant the level of service and funding provided will be reviewed and any additional burden on Council Tax will be considered alongside other budget pressures.

It is assumed that grant increases will continue to be above the minimum, however, to mitigate any further effects of specific grants transferring into formula grant, the forecast increases are limited to 3%.

It is also assumed that demographic and other pressures will require growth in the Social Services budget at 5% in 2006/07 and funding held at 4.5% p.a. thereafter. However, service demands will exceed this level of growth. As a consequence, Social Services, along with other departments, will need to seek out and achieve further efficiency savings.

The Government has indicated that it will continue to provide above inflation increases in revenue funding for schools. Given the likelihood of the need to fund continued increases in demand for Social Care services and shortfalls in Government grants, funding for schools will be limited to DSG.

Council Tax The Authority is looking to stabilise Council Tax increases by planning a relatively even spread of increases over the period of the Medium Term Financial Strategy

The council tax strategy will be a maximum increase of 4% or less p.a. with the intention of bringing tax bills in the county closer to the average, while recognising the pressures for keeping increases in line with inflation, avoiding government capping, and providing the funding to continue delivering "excellent" services. This strategy will be reviewed each year in the light of government funding and emerging service pressures.

County Fund Balances A minimum level of County Fund Balances at 2% has proved adequate in the past and should continue to be the minimum target. The financial strategy shows general reserves falling to 2.1% of the non-schools budget, however, any additional "windfall" surpluses will be considered for increasing balances, up to the average level of general reserves held by other shire counties.

Reserves Additional reserves will be held for other specific anticipated liabilities. Departmental reserves will be monitored to ensure the levels held are not excessive.

Value For Money A VFM review of services will be built in to the annual budget process. Future potential savings will then be built into the four year budget forecasts.

Inflation Predicted inflation rates have therefore been set at 2.25% for 2006/07 and 2.5% thereafter.

Any specific increases above these levels will generally be managed within the overall inflation allocation.

Predicted pay awards have therefore been set on a prudent basis assuming settlement at 0.5% above inflation, 2.95% for 2006/07 and 3% thereafter.

In recognition of the risk of specific price increases in future years, the MTFS includes an additional £500,000 each year for significant above inflation rises.

Capital Programme

The Strategy is to enhance the permanent facilities for use by the community and to improve and maintain existing assets and replace those that are no longer fit for purpose. All new schemes will be assessed in terms of their contribution to the Strategic Plan objectives. The size of the capital programme will be influenced by funding sources and financing costs.

Expenditure - Given the authority's current relatively low level of debt per head and restrictions on the revenue budget the authority plans to deliver its strategic aims through capital spending where possible.

Funding - The authority seeks to minimise the level of borrowing required to finance capital expenditure by maximising grants and contributions received and ensuring any surplus assets are sold.

Any temporary shortfalls in receipts from asset sales will be met by increased borrowing up to the authorised limit.

Borrowing - The level of borrowing will be maintained within the Prudential Indicators that we set each year as part of the Prudential Code. The potential sources of borrowing will be kept under review, so that the average rate of interest can be progressively reduced year by year from the average in 2005/06. This will include seeking out the most advantageous borrowing mechanisms and placing less reliance on the Public Works Loan Board.

Financial Implications

The financial implications of the policies and assumptions set out in this document have been set out in the tables below:

Revenue

	2006/07	2007/08	2008/09	2009/10
	£m	£m	£m	£m
Previous Year's Budget	377.9 ☆	399.0	417.3	435.3
Loss of Social Services Grants	4.9	-	-	-
Inflation/Pension Costs	10.0	11.6	12.0	12.3
Budget Growth				
Budget Pressures	4.1	0.7	-	0.5
Bassetlaw Schools PFI	2.5	-	-	-
Waste Management	1.0	3.0	-	-
Investment in Services:				
Social Services Growth	4.1	2.7	2.9	3.1
Building Maintenance	0.6	1.1	1.1	1.1
Capital Programme	3.7	6.0	4.2	1.8
Contingency/Redundancy	4.6	-4.5	-	-
Efficiency Savings	-13.7	-2.5	-1.9	-
Other Savings	-2.5	-1.5	-0.7	-
County Fund Balances etc	1.8	1.7	0.4	-
Total Spend	399.0	417.3	435.3	454.1
Council Tax Increase	4.7%	4%	4%	4%
Government Grant Increase	3.4%	4.6%	3.0%	3.0%
County Fund Balances	£9.2m	£8.8m	£8.8m	£8.8m
	2.6%	2.3%	2.2%	2.1%

Capital

	£m	£m	£m	£m
Total Expenditure	163.1	154.1	127.9	89.2
Financing:				
Borrowing	78.8	65.0	33.8	34.2
Capital Receipts	34.3	34.1	39.1	0.0
Grants and contributions	50.0	55.0	55.0	55.0
	163.1	154.1	127.9	89.2
Full Year Revenue impact	7.9	6.5	3.4	3.4

☆ Excludes Schools

☆ Since the budget was approved this could now rise to £3.5m