

**REPORT OF THE CHAIRMAN OF FINANCE AND PROPERTY
COMMITTEE**

BUDGET UPDATE REPORT

Purpose of the Report

1. To highlight the Council's current financial position and outlook.
2. To set out the proposed response to the predicted budget deficit and seek approval for further exploration of a number of strategic approaches.
3. To seek approval for the proposed final phase of the budget consultation process.

Information and Advice

Financial context

4. The Council continues to operate in a challenging financial landscape with funding to local authorities expected to undergo fundamental structural changes over the next few years. The main Government grant, the Revenue Support Grant, is expected to all but disappear by 2020 being replaced in part by the move to 100% retention of business rates.
5. At the same time as this transition to a more self-sufficient position many Council services are experiencing continued increases in demand. Many of these services are those directed at the most vulnerable in society, especially in children's and adult's social care.
6. A budget gap of £54.6m over the next three years is currently predicted.
7. Future uncertainty around issues such as the move to 100% retention of business rates, Government funding and the implications from the European Union referendum result make the position particularly challenging for local authorities.
8. Despite an announcement that the Government no longer plans to return to a fiscal surplus during the current Parliament, further pressure is expected to be applied to local government funding in the coming years.
9. In March 2016, the Secretary of State for Communities and Local Government offered the option of a four-year funding settlement to run until 2019/20. Alongside accepting this offer, the Council has developed an Efficiency Plan, approved at the Finance and Property Committee in September 2016, which drew information from previously published documents such as the Strategic Plan and the Medium Term Financial

Strategy.

10. The longer term funding settlement should help reduce uncertainty although there is no guarantee that it will reduce the financial challenges ahead.
11. The Government will publish its Autumn Statement on 23 November 2016. Information released in the statement will help the Council revise its financial forecast in readiness for producing the 2017/18 Annual Budget Report to Full Council in February 2017. However, the detail of any changes to the four-year settlement on the Council is unlikely to be known until the local government settlement is announced later in the year.
12. The February 2016 Budget Report to Full Council forecast a budget shortfall of £50m for the next three years once all the identified savings were taken into account. This shortfall took into account all of the budget pressures (inflation and costs) and reductions in grant funding alongside the savings identified.
13. This financial position is shown in Table 1 below:-

Table 1 – Three-Year Financial Forecast

	2017/18 £m	2018/19 £m	2019/20 £m	Total £m
Year on Year Savings Requirement (Feb 15)	4.8	9.0	-	13.8
New Savings & Changes to Savings Proposals	(3.0)	(9.2)	(0.2)	(12.4)
Pressures / Inflation	8.2	6.5	14.6	29.3
Change in Council Tax Base	(1.8)	(2.2)	(4.5)	(8.5)
Changes in Government Grants	9.9	(5.0)	3.1	8.0
Reserves / Corporate Adjustments	(6.3)	18.1	4.9	16.7
Other	3.3	-	-	3.3
Total Shortfall	15.1	17.2	17.9	50.2

Facing the Challenge

The Council's response

14. The strategic transformation framework, Redefining Your Council, remains the key response to the financial challenges facing the authority. A number of portfolios, programmes and projects were established within Redefining Your Council in order to find new and more efficient ways to deliver services and to carry out business.
15. As part of the drive to deliver services in more efficient ways, three Alternative Service Delivery Models (ASDMs) were established during 2016 to deliver a number of the Council's services:
 - Inspire –libraries, archives, information and learning services
 - VIA (East Midlands) – highway services
 - The Arc Partnership - property services

16. The Council has also seen a number of efficiencies approved over the last few months, including a base budget review of Adult Social Care which was reported to Finance and Property Committee in October.
17. The Council continues to update its Medium Term Financial Strategy (MTFS) to reflect changes in pressures and savings as they are approved throughout the year. The current MTFS shown in Table 2, reflects base budget adjustments, additional government grants and financial issues previously reported to Finance and Property Committee including recognition of the continued financial pressures in Special Education Needs transport and Looked After Children Placements, both through additional costs and issues with delivery of existing savings plans.

Table 2 – Revised Medium Term Financial Strategy

	2017/18	2018/19	2019/20	Total
Year on Year Savings Requirement (Feb 2016)	15.1	17.2	17.9	50.2
Budget Adjustments	(4.7)	0.1	2.0	(2.6)
Savings Shortfall	2.6	(0.4)	-	2.2
Committee Approved Efficiencies	(1.4)	(0.5)	-	(1.9)
Change in Pressures and Inflation	4.3	(0.2)	-	4.1
Change in Grant Funding	0.7	0.6	(0.6)	0.7
Change in Use of Reserves	(2.3)	2.3	-	-
Miscellaneous	-	1.6	0.3	1.9
Revised Shortfall	14.3	20.7	19.6	54.6

NB: For the report to Council in February 2017 the numbers will change as the MTFS is extended to four years.

Financial planning

18. Measures are in place to address the current significant financial shortfall identified in 2017/18, including the budget review in Children’s Services, exploring income generation opportunities and general efficiency savings. These will be reported to the appropriate Committee through the year.
19. In addition, as part of the budget setting process, the Council will review its financial planning assumptions, including cost pressures and inflation. All changes will be detailed in the February budget report.
20. Reserves and balances will once again be used to allow time for more transformative approaches to be developed and implemented. Reserves provide a short-term fix but their use only delays the time when a permanent solution needs to be found. The Council also needs to maintain an appropriate level of reserves to guard against unforeseen events. Any required use of the reserves will be presented as part of the budget approval process.
21. When the MTFS was approved in February 2016, an annual 1.99% increase to Council Tax was built into the two subsequent financial years to 2018/19.
22. In addition, the Chancellor announced in the 2015 Autumn Statement that local

authorities would be able to levy a Social Care Precept of up to 2%. This can only be spent on social care. The Council implemented the 2% Social Care Precept in 2016/17, but further increases are not built into the current MTFs.

23. When determining the local government settlement, the Government built in an assumption that the Council would take the Social Care Precept and Council Tax in each year of the settlement and reduced the level of Revenue Support Grant we receive accordingly.
24. Council Tax and Social Care Precept policies will be reviewed, alongside other assumptions in the MTFs, and detailed in the 2017/18 Budget Report to Full Council in February 2017.
25. Government policy currently requires any authority proposing a Council Tax increase of above 1.99% to hold a referendum. This threshold is subject to annual review and has yet to be agreed as part of the Government's Council Tax principles for 2017/18. A technical consultation published by the Government in September 2016 has set the expectation that this will remain unchanged from the previous years.

Managing the Future – a Strategic Response

26. Delivering savings will become increasingly more challenging following successive reductions in government funding and rising demand for services over a number of years. The stark economic and fiscal backdrop for public finances calls for a strategic rather than a piecemeal response.
27. Consequently, a number of high-level strategic approaches to tackling the deficit are currently being developed that support this fundamental transformation. These strategies are summarised below, which continue to build on the Council's existing planning framework:

Smarter Ways of Working – this programme will look at how the Council can reduce the number of properties it needs by implementing new smarter working practices that design services around future customer needs. It is looking at how we can share buildings with partners, introduce more flexible working by adopting mobile technology solutions and deliver a better service more efficiently.

Commercial Strategy - investigate what developing a more commercial mind-set at the authority will mean. A new strategy could include trading and charging, driving economic growth, looking at investment opportunities to return income as well as seeking to achieve better value for money through contract management and commissioning.

Alternative Service Delivery Models (ASDMs) – where services can be delivered more efficiently or cost-effectively from outside of the Council, these will be considered against alternative options. So far a number of services have been put into external bodies and their performance will be monitored to assess the financial impact and whether other services would benefit from this approach.

Digital by Design – our digital project to date has focused on making the platforms fit for purpose. The next phase of development would focus on digital delivery of services

in a way that increases customer satisfaction but reduces the cost of delivery.

Promoting Independence - supporting adults to stay independent for as long as possible to improve quality of life and lower dependency. This is a second phase of delivery of an adults social care strategy that will focus on a wide range of preventative actions and keep people out of the formal care system and delay the need for higher levels of health and care.

Remodelling Children's Care – a review of the child's care journey will be undertaken to put in place a financially sustainable, but stable and effective, child care operating model.

Voluntary Services and Community Resilience - using alternative providers, including the voluntary sector, to deliver services. Building capacity within communities to resolve local issues and help meet local needs by maximising the use of community assets.

Corporate Services Review – ensuring that corporate services are delivered in the most efficient and cost-effective manner is a priority for the Council. A programme has been established to review corporate services functions across the Council. The intention is to ensure that these are affordable, agile and responsive to the current and future needs of the authority. All of this will be underpinned by an improved use of Big Data to ensure good evidence-based decision making.

Supporting Growth – working with public, private and voluntary sector partners to ensure the growth of the Nottinghamshire economy. The County Council is: playing a leading role within the HS2 project particularly on skills and employment and the growth opportunities around Toton Hub; actively engaging with the Midlands Engine to support Government ambitions that the Midlands economy could grow by £34 million by 2030; working with the City, District and Borough Councils to develop a robust Economic Growth Strategy for the N2 area which will deliver against three priorities of Enterprise and Innovation; People and Skills; Infrastructure and Connectivity.

Consultation

28. Each year the Council runs a consultation on the budget so that Elected Members can listen to the views of residents before making decisions at the February Budget meeting. It is also used to inform future policy making. In June 2016, Policy Committee approved a public engagement campaign called Shout Up with the objective of helping residents to see how they could influence local decision-making.
29. To gain best value, the Annual Residents' Survey also included questions about Council services and where residents felt spending should be prioritised. In recent years, the consultation has been conducted separately and later in the year. The survey was carried out face to face to ensure a result that is representative of the county's demography and for comparison with results from previous years. For the first time the survey was also made available for all residents through the Council website alongside making printed copies available in all the county libraries.
30. The first phase of the budget consultation, which was carried out between 22 August

and 3 October 2016, resulted in the following responses:

Face-to-face	1,069
Online	3,762
Written	143

31. The analysis of the 4,974 responses will be included in a report to next month's Policy Committee.
32. It is proposed that the second and final phase of the consultation will be carried out in the most cost effective way by using the Council's Citizens' Panel which is an engaged and covers all the county's districts.
33. The Citizens' Panel has 2,917 members with an email address. In addition, 191 (6.5%) of these joined the panel as a result of the first phase of the budget consultation/residents' survey. Questions in the second phase will focus on a strategic response to the budget gap and will be delivered via email under the 'Shout Up' campaign which the Citizens' Panel already understand and have participated in the debate.
34. Additionally, the second phase survey will be sent out by email to business groups where there is statutory duty to consult.
35. The cost of this year's consultation was relatively low as it made use of existing surveys or used free channels such as email. So the only additional cost that was incurred beyond that which was already in place was the amount spent on promotion. The total figure was about £1,250. In comparison, last year's consultation cost £3,684 and generated 2,029 responses.

Other Options Considered

36. As the report sets out, a broad range of options will need to be explored in order to meet the budget challenges ahead.

Reasons for Recommendations

37. To inform members of the financial landscape and budget position; to seek approval for further work on strategic approaches to this and to approve the proposed final phase of the budget consultation process.

Statutory and Policy Implications

38. This report has been compiled after consideration of implications in respect of crime and disorder, finance, human resources, human rights, the NHS Constitution (Public Health only), the public sector equality duty, safeguarding of children and vulnerable adults, service users, sustainability and the environment and ways of working and where such implications are material they are described below. Appropriate consultation has been undertaken and advice sought on these issues as required.

Public Sector Equality Duty Implications

39. Public authorities are required by law to have due regard to the need to:

- eliminate unlawful discrimination, harassment and victimisation
- advance equality of opportunity between people who share protected characteristics and those who do not
- foster good relations between people who share protected characteristics and those who do not.

40. Decision makers must consider the effect of policies and practices on people with protected characteristics. Equality Impact Assessments are the mechanism by which the authority reviews; needs, the potential impacts of an option and available steps to minimise disadvantage to people with protected characteristics.

41. Equality implications have been considered during the development of the Council's response to its financial challenges, with decision making on change proposals being informed by an equality impact assessments as relevant.

42. In addition the Human Resources (HR) policies applied to any staffing reductions have also been the subject of Equality Impact Assessments. Consideration will continue to be given to any potential equality implications arising from the development of the Council's strategic response and will be reported as part of any future decision making as appropriate.

RECOMMENDATIONS

It is recommended that Policy Committee:

- a) Acknowledges the financial landscape within which the Council is operating.
- b) Agrees that due to the significant financial challenges the council continues developing and refining the strategic approaches set out in this report.
- c) Agrees that a further report on the analysis of the first consultation be brought back to Policy Committee in December.
- d) Agrees to the approach to the second and final phase of the consultation.

COUNCILLOR DAVID KIRKHAM CHAIRMAN OF FINANCE AND PROPERTY COMMITTEE

Financial Implications (NS 2/11/16)

The financial implications are stated within the report itself.

Human Resources Implications (GME 04/11/16)

The impact of any changes to working practices or to the make-up of Council's workforce arising from the proposals set out in this report will be considered under the agreed employment policies and procedures. This will be undertaken with the active engagement of the recognised trades unions using the existing formal consultation and negotiating arrangements.

Constitutional Comments (HD 02/11/2016)

Policy Committee has the authority to agree the recommendations in the report.

Background Papers Available for Inspection

None