

REPORT OF THE CABINET MEMBER FOR FINANCE AND RESOURCES**BUDGET UPDATE REPORT 2025/26****Purpose of the Report**

1. The purpose of this report is to provide an update to Overview Committee on the budget development process for 2025/26 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 21 November 2024 considered the Budget Update report that set out the financial context for the Council together with the implications for the Council's Medium-Term Financial Strategy (MTFS). This budget update report sets out the updated assumptions for the establishment of the budget for 2025/26.
3. In accordance with the Budget and Policy Framework Procedure Rules, Cabinet will be considering the Council's Budget for 2025/26 at its meeting on 6th February 2025 including proposals regarding Council Tax and the Adult Social Care Precept. Cabinet will also be considering the MTFS, the capital programme for 2025/26 to 2028/29, 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 2025/26 continues to be set in a challenging financial environment for local government. The same economic hardship that affects individuals has a corresponding impact on councils. The cost of living crisis has increased the widespread need for council services, especially the services delivered to the most vulnerable residents.
5. This 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 be considered alongside the continued financial pressures faced by communities.
6. The crises facing local government today are not unique to 2025, many of them were equally true in both 2024 and 2023 and several have their roots in decisions made years before such as the systematic reductions in council funding since the early 2010s or the decisions that have led to serious and sustained delays in local audit across the sector.

7. There is a general consensus across local government that the financial landscape facing the sector is worse than it has ever been and is in urgent need of reform. A recent survey by the Local Government Information Unit found that over half of local authority respondents thought that they were likely to issue a Section 114 notice (i.e. effective bankruptcy) in the next five years with 9% indicating that they were likely to issue such a notice in the next year.
8. 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.
9. Nottinghamshire County Council is better placed than many due both 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.
10. 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. This must be achieved 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.
11. 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.
12. 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.
13. 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.
14. It is in the interests of both the resident and Council for more people to be 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. Work will

particularly focus on improving services in those most disadvantaged communities, where the demand is highest and the need for support is greatest.

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 2025/26 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 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 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 manifest despite a steady increase in overall, real terms Council funding since 2019/20, as the pace of these rising costs and demand have outstripped funding increases.
22. The strategic and financial planning for 2025/26 is being undertaken within the context of continued geopolitical uncertainty owing to the on-going conflicts in Ukraine and the Middle East with a consequent impact in relation to global energy and food supplies. In addition, the continuing consequences of inflationary pressures 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. It necessarily follows that the national economic landscape continues to impact on the Council's MTFS. Although CPI inflation fell below the Government's 2% target in September 2024 to 1.7%, it rose to 2.6% in November 2024 and is forecast to edge up to 2.75% by the second half of 2025 as weakness in energy prices falls out of the annual comparison. Volatility in the market and forecasts of Bank of England maintaining higher interest rates for longer reflects continuing risk that inflation may again increase above the Government's target. Should the rate of inflation trend above the BoE target, and without a commensurate increase in financial resources, the spending power of the Council will become further eroded.
24. The risks arising from inflation, which is also impacting household incomes, was recognised in the Annual Budget Report to Full Council in February 2024. 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 continue to issue or warn 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 2024/25 was agreed at a flat rate of £1,290 which equated to a 5.77% increase for the lowest paid staff. On 30 October 2024, the Government announced that the National Living Wage for 2025/26 will increase from £11.44 per hour to £12.21 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 MTFS.
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 and Resources 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 2025/26 is £143.9m.
30. The provisional Local Government Settlement for 2025/26 was announced on 18 December 2024. The MTFS has subsequently been updated to reflect the announcements set out in the settlement. The Government announced a further one-year settlement as in previous years meaning that the clear view of funding provided for 2025/26 is offset by considerable funding uncertainty for the final three years of the MTFS. This will continue to be the case until announcements regarding the longer-term future of local government financing are forthcoming.

Budget Survey 2024 – Investing in Nottinghamshire: Supporting People

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 2024 consultation went live on the 30 September 2024 and closed on the 10 November 2024. The survey set out how the council spends its allocated budget and asked Nottinghamshire residents for their views about our services, their priorities and opportunities to reduce spend or raise additional revenue.
34. The consultation was publicised through a number of platforms including:
 - Nottinghamshire County Council website
 - social media, including X, Facebook and Instagram
 - targeted communications to Town and Parish Councils as well as to the business community
 - email bulletins to the Council's subscribers
 - and in print at Libraries.
35. The Council received 3,072 responses to the 2024 Budget Survey, which reflects 1 in every 275 Nottinghamshire residents having taken part. This response rate is understood to be higher on average when compared to comparable budget consultations across other local authorities.

36. There was a focussed effort to increase the engagement of young people in the budget survey in 2024, with 153 young people under 18 completing the survey, compared with 1 in 2023, and a further 441 young people engaging in facilitated sessions led by the Young People’s Service, to explore the budget. This brings the total number of residents who engaged in the 2024 budget consultation exercise to 3,513, compared with 3,911 in 2023.

37. Some of the main headlines coming from the Budget Survey 2024 are as follows: -

- The majority of respondents were positive about their local area as a place to live, with 66% 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 outlined in the survey document to help meet the financial challenge.
- Overall, 61% of respondents would support an increase in council tax – 40% up to the referendum limit permitted at the time of 2.99% and 21% would support an increase by lower than the referendum limit.
- Overall, 66% of people completing the survey would support an increase in the Adult Social Care Levy – 41% by the maximum level currently permitted of 2%, whilst 25% would support an increase by a lower level permitted.

38. The outcomes from the Annual Budget Survey 2024 were reported to Cabinet on 19 December 2024. Further details and analysis regarding the outcomes can be found by referring to the December Cabinet report.

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

February 2024 Budget Position

40. When the Council’s budget was approved in February 2024 the funding shortfall identified for the three years to 2027/28 totalled £36.0m. This financial position is shown in Table 1 below: -

Table 1 – Medium-Term Financial Strategy as at February 2024

	2024/25 £m	2025/26 £m	2026/27 £m	2027/28 £m
Net Budget Requirement	638.8	651.0	687.0	699.6
Financed by :				
Business Rates	144.3	144.3	144.3	144.3
Revenue Support Grant	8.6	8.6	8.6	8.6
Council Tax	415.3	430.8	446.8	463.4
Adult Social Care Precept	67.3	67.3	67.3	67.3
Collection Fund Surplus / (Deficit)	3.3	-	-	-
Total Funding	638.8	651.0	667.0	683.6
Funding Shortfall	-	-	20.0	16.0
Cumulative Funding Shortfall	-	-	20.0	36.0

The Council's Current Financial Position

41. As reported to the Cabinet Member for Finance and Resources, as at Period 7, the Council reported a forecast overspend of £0.9m in the current financial year. This out-turn is comprised of a net £13.5m portfolio overspend mainly as a result of forecast overspends in Adult and Children's Social Care services. This forecast overspend is offset by underspends in central items such as interest and Section 31 Business Rates relief.
42. 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 and Resources according to the budget monitoring timetable.

Main Risks

43. 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. Although CPI inflation fell to the Government's 2% target in June 2024, it has since increased back above the target. Volatility in the market and forecasts of Bank of England maintaining higher interest rates for longer reflects that there continues to be a risk that inflation may remain above target.
- **Risks to Funding** – Indication of Government's medium-term future spending plans are uncertain. 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, 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** - Following the General Election, the new administration's first King's Speech laid out forty proposed bills under six themes that set out the Government's main priorities in this Parliament. These were Economic Stability and Growth (in which devolution to the Mayoral Combined Authorities was a prominent proposal), Britain becoming a clean energy superpower, creating secure borders and cracking down on anti-social behaviour (with local authorities taking a prominent role), breaking down the barriers to opportunity, health, and national security. 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.

Revisions to the MTFS

44. The following sections of the report set out the revisions that were made to the MTFS between the 2024/25 Budget Report that was agreed at Full Council in February 2024 and the Budget Update Report presented to Cabinet in November 2024.

45. The updated MTFS reported to Cabinet on 7 November 2024 is shown in Table 2: -

Table 2 - MTFS at November 2024

	2025/26 £m	2026/27 £m	2027/28 £m	Total £m
Year on Year Savings requirement (February 2024 Report)	-	20.0	16.0	36.0
Increase in Service Pressures	17.2	7.2	8.5	32.9
Change in Inflation	(2.6)	(1.3)	(1.2)	(5.1)
Change in Grant Funding	(10.8)	7.3	-	(3.5)
Amendments to Portfolio base budgets	(2.0)	-	-	(2.0)
Revised Shortfall	1.8	33.2	23.3	58.3
Additional pressure with assumed NLW rate of £12.39p/h	11.7	3.1	3.1	17.9
Adjusted Shortfall	13.5	36.3	26.4	76.2

46. **Pay Award** - The existing MTFS includes pay award assumptions of 3.0% in 2025/26 and for 2% each subsequent year to 2028/29.

47. **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 2024.

48. **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

49. 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 30th October 2024 and the Provisional Local Government Finance Settlement that was announced on 18 December 2024.

50. **Pressures and Inflation** – following the Autumn Statement, the assumptions have been revised following confirmation that the National Living Wage (NLW) will be increasing by 6.7% to £12.21. Based on our previous assumption of £11.89, this equates to an additional pressure across the MTFS of £11.9m. It was also announced that there would be an increase to the rate for Employers National Insurance (NI) contributions from 13.8% to 15% coupled with a reduction in the payment threshold from £9,100 to £5,000. This is estimated to have a direct impact on our payroll costs in the region of £4.5m however there is a commitment that Central Government will provide an unknown element of compensatory funding to nullify the impact.
51. However, Members should be aware that the indications are there will be insufficient extra funding for the impact on our supply chain of both NI and NLW. This generates two risks for the Council; a financial one should our supply chain seek to pass on these increases to us in the form of higher charges, but also a risk of providers failing under these pressures. It is prudently estimated that the effect of the NI changes alone on our Adult social care providers could range between £10-16m.
52. Departments have continued to firm up the assumptions on which the pressures bids are predicated 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 further net increase of £20.9m 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 2024, Pressures and inflation have increased by £48.7m across the MTFS to 2027/28. The detail shows that demand pressures have increased by £20.5m in 2025/26 mainly due to a forecast increase of £9.0m 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 £9.4m in the Adult Social Care portfolio which reflects growth in Care Package demand. Furthermore, Inflation accounts for an increase of £13.6m in 2025/26, primarily due to the NLW and NI increases already referenced above.
54. The MTFS recognises the increasing demography and consequential demand pressures for services in Adult Social Care and Children and Families; both 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>	2025/26 £000	2026/27 £000	2027/28 £000	TOTAL £000
Growth in External Placements for LAC	9,543	2,831	2,761	15,135
<p>This is primarily an activity pressure due to the continued increase the number of children in LA care that need to be placed in expensive externally commissioned provision due to an increase in the complexity in presenting needs, alongside a decrease in internal fostering placements. This is not unique to Nottinghamshire; it is a widely recognised nationwide issue.</p> <p>The availability of suitable places also has a bearing on the weighted average cost of new placements - an increased demand for places that outstrips the market's capability and willingness to provide sufficient capacity which in turn pushes up cost. The forecast overspend in 2024-25 (£7.7m as at Pd8) is driven by increasing number of high cost placements and the overall increase in % of children in external residential care, rather than an overall growth in numbers of young people in care.</p> <p>There has been a progressive decrease in children placed with internal foster carers month on month which has also led to a less favourable placement mix.</p>				

Adult Social Care

<u>Key Assumptions</u>	2025/26 £000	2026/27 £000	2027/28 £000	TOTAL £000
Care Package Demand for Adults Aged 18-64 Years	7,138	7,138	7,138	21,414
<p>The budget pressure for this service is due to an increase in demand and complexity of working age adults 65 years and under, and for those young adults who require support to prepare for adulthood.</p> <p>Better healthcare in childhood means people with complex physical and learning disabilities are more likely to live into adulthood and while increased numbers of people with profound disabilities are small, the individual costs can be very high. This impacts on those coming from children's services into adults (transitions).</p> <p>The assumptions that drive the pressure are based on projections in relation to Supply/provision of accommodation coupled with the evidence of increasing demand and cost of care packages utilising a "predicted needs" methodology.</p>				

<u>Key Assumptions</u>	2025/26 £000	2026/27 £000	2027/28 £000	TOTAL £000
National Living Wage - External	18,244	10,550	10,690	39,484
<p>The National Living wage is increased each year, the current rate is £11.44. Rates used for 25/26 £12.21 (Actual), 3% inflation for 26/27 = £12.58 and 3% inflation for 27/28 = £12.95.</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>				

55. **Grant Funding** – On 18 December 2024, the provisional Local Government Settlement 2025/26 was announced via a written ministerial statement by the Minister of State for Local Government and English Devolution, Jim McMahon MP. The key grant announcements that will affect the Council are as follows:

	2025/26	Grants Rolled-in	Net % Change
	£m	£m	
New Homes Bonus	1.2	-	20.0%
Social Care Grant	84.9	-	17.3%
RSG	9.9	(1.2)	1.2%
Children's Social Care Prevention Grant	2.9	-	100.0%
Core Grants	98.9	(1.2)	

56. The impact of these changes is set out below in Table 3 with a revised gap of £8.9m predicted in 2025/26 after using £20.5m of earmarked reserves. However, there remains a number of on-going risks that will impact the 2025/26 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 2025 and confirmed at the Full Council meeting later that month.

Table 3 - MTFs at December 2024

Dec - Post Provisional LG Statement	2025/26 £m	2026/27 £m	2027/28 £m	Total £m
Year on Year Savings requirement (February 2024 Report)	-	20.0	16.0	36.0
Increase in Service Pressures	20.5	7.0	7.7	35.2
Increase in Inflation	13.6	-	-	13.6
Change in Pay / Pension Related Inflation	4.7	0.2	0.2	5.1
Amendments to Portfolio base budgets	0.9	0.2	-	1.1
Change in Grant Funding	(30.8)	1.2	-	(29.6)
Revised Gap*	8.9	28.6	23.9	61.4
Embedded Use of Earmarked Reserves*	-20.5	-11.8	-9.5	(41.8)

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 2024 included the planned use of earmarked reserves totalling £41.8m 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 2024 was £36.9m and the Section 151 Officer is required to recommend a level of proposed General Fund balance in 2025/26 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 2024 included a 1.99% increase to Council Tax from 2025/26 to 2027/28 with no uplift in Adult Social Care Precept (ASCP). Decisions on setting such levels are taken on an annual basis and both Council Tax and ASCP policies will be reviewed. The Provisional Local Government Settlement confirmed that councils will be permitted to raise core Council Tax by 2.99% and ASCP by 2.00% in 2025/26 in line with the 2024/25 referendum principles. The indication is that these limits will be applicable for the remainder of this Parliament and thus will extend across this MTFS.
60. It is also worth noting that, from 2025/26, there has been a change in the regulations that set out the required presentation of Council Tax bills. The Council Tax (Demand Notices and Prescribed Classes of Dwellings) (England) (Amendment) Regulations 2025 has removed the requirement for billing authorities to provide bespoke information about Adult Social Care Precept on Council Tax demand notices and information supplied with demand notices. For Adult Social Care authorities, Council Tax demand notices will now show a single line for its total cash charge and annual increase, with one cash figure and one percentage figure.
61. Whilst the Authority is confident of balancing the budget in 2025/26, Table 3 above shows the significant financial challenge facing the Council in 2026/27 and beyond. Together with opportunities to alter Council Tax and Adult Social Care precept in 2025/26, further mitigations and savings options will be required to be considered by Cabinet in February.
62. The following table sets out the impact that different levels of 2025/26 Council Tax increases will have on the MTFS: -

Table 4 – Council Tax Sensitivity – Incremental Yield

	2025/26 £m	2026/27 £m	2027/28 £m	Total £m
Zero Increase	(9.7)	(0.3)	(0.3)	(10.3)
1.99% Increase = Current Assumption	-	-	-	-
4.99% Increase = Maximum Permitted	14.7	0.5	0.5	15.6

63. **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 2025 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 £5.8m of Council Tax yield for 2025/26 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

2025/26	Growth	Taxbase Yield (£m)	Change (£m)
	1.00%	4.8	- 1.0
	1.10%	5.3	- 0.5
Current Assumption	1.20%	5.8	-
	1.30%	6.3	0.5
	1.40%	6.8	1.0
	1.50%	7.2	1.4

64. **Savings and Ancillary Levy** – Previously approved savings totalling £12.9m are included within the MTFS. A further ancillary levy of £2.0m across Departments has been included in 2025/26.

65. 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.

The English Devolution Bill – Proposals for Local Government Reorganisation

66. The Government published its anticipated English Devolution White Paper on 16 December 2024. The Paper contains a range of proposals relating to the way in which devolution can be expanded within England and Wales, building on the Mayoral and non-Mayoral Combined Authority and Combined County Authority Models. It also proposed a shift in how Local Government is organised, with an emphasis on unitarisation.

67. Consequentially, the Government expects all two-tier areas such as Nottinghamshire to develop proposals for local government restructure (LGR) in their area. The Government wish to deliver this process as soon as possible and anticipate legislating where necessary to ensure progress. This commitment to making reorganisation happen rather than leaving proposals to emerge solely from local impetus is a distinct change from past Government policy.

68. Government expects the delivery of high quality and sustainable public services to be the priority above all else and that citizens will be empowered through new and innovative

approaches to neighbourhood involvement and community governance. This is a clear indication that this is as much about overall financial sustainability of local government as it is about improved governance and services in the area.

69. However, it should be recognised from experience in forming unitary councils elsewhere the benefits, including financial, take time to be achieved. This may be at the end of the current MTFS and in constructing the Budget for 2025/26 we recognise the potential implications of LGR but have made no assumptions about the likely financial benefits in the MTFS and have assumed any initial costs in developing any business case will be contained within existing resources.

Implications for how Nottinghamshire County Council will operate in the future

70. The Council is operating in a global, national and regional context, which creates great opportunity and some challenges. With our track record in change and transformation the Council is well positioned to look to the future. To secure a sustainable and financially resilient forward position, it will be critical for the Council to continue to change and transform how it operates to respond to additional projected financial pressures. However, it must be recognised that continuous improvement alone will not be enough to ensure our ongoing sustainability. We will need to mobilise all the talent and creativity across the Council to innovate, reform and take advantage of new opportunities, whilst maintaining the delivery of high-quality services and mitigating the risks to delivery of our ambitions as a Council. In addition, over the coming year the Council and local councils will need to respond to the English Devolution Bill.

71. As a future of local government structures in Nottinghamshire is developed for the longer term, there continues the need for the Council to build on the existing plan for the future shape of the organisation and retain a focus on the longer-term ambitions in the Nottinghamshire Plan:

- **Driving local public service reform** – the Council already has the foundations in place to maximise the opportunities of working collaboratively with the newly formed East Midlands County Combined Authority (EMCCA), the Integrated Care Board (ICB) and other key partners such as District and Parish Councils, schools and the voluntary and community sector. The deepening of these strategic partnerships has helped us on our continuing journey of reducing duplication and focusing collective partnership resources on tackling the multiple causes that prevent all communities from experiencing the best possible outcomes. These Programmes of work are being developed, building on the existing organisational change portfolio, that focus on improving outcomes and addressing financial pressures in the key areas of statutory support for children, young people and young adults with special educational needs and disabilities, support for children in care or on the edge of care and support to adults with care and support needs. The additional investment in the national families first partnership programme is aimed at earlier intervention, supporting families as well as reform of the children’s social care market.
- **Re-shaping the organisation in a sustainable manner** – reflecting the changing need and impacts upon service delivery it is vital that we review our organisational design principles will ensure the organisation has the right leadership, capacity and capability to achieve our statutory outcomes and fulfil a place leadership role across the local public service system for Nottinghamshire. The Council will continue to assess service delivery models, ensuring we provide or commission services that meet statutory duties

as efficiently and effectively as possible through targeted service reviews. Our partnership with Microsoft through the local government early adopters programme has enabled a consistent approach to exploiting the increased use of new technologies and digital tools to bring artificial intelligence (AI), automation and integrated systems more prominently into our operating model. Significant investment will be needed over the coming years to ensure we build upon our investment in our major systems and further exploit AI technology. Additionally, we will continue to review our services to ensure we have the right skills-mix, ensure we continue to have efficient front-line and centralised services, and further rationalisation of our office and service estate.

- **Strengthening the building blocks of good health and wellbeing in communities** – we will continue to invest in early help and prevention and direct our available resources to focus support on the people and communities that will benefit most from the support and services we offer. We believe that this approach will build resilience and independence, reducing demand over time for County Council statutory services, and those of other statutory public sector agencies. The Council can draw collective knowledge and insight together, working with people, partners and communities, to co-create solutions and new approaches to community-based interventions. We will continue to work with partners, including Health, the voluntary and community sector, district and parish councils, and schools to support and grow the strengths and assets in our communities.
- **Re-defining our relationship with schools** - The Council has a strong and positive relationship with Multi Academy Trusts and schools across the County, a relationship we will continue to nurture and strengthen. There is a great deal of pride in the way the Council and schools ensure children and young people get the best start in life and grow their future. Since the summer, the Government has since made announcements and published a two significant Bills affecting schools and SEND, including the removal of funding for voluntary academy conversion, the presumption regarding establishment of new schools being academies and significant reform of SEND provision and entitlement. We provide several essential services to schools and academies, and it is important that these are provided at best value for both the schools and the council taxpayer, even when these meet the Council's statutory duty. For those services that are discretionary, carry financial risk or are not financially viable, we will continue to consider whether the County Council is best placed to deliver these services in the current format or a redesigned model or, where there are other providers already in the market providing these services to schools, whether the Council should collaborate appropriately.

72. 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 2025 but the key date above all else is the Council meeting on 27 February 2025 and prior to that the Cabinet meeting on 6 February 2025. The report to Cabinet will set out the Council's final budget proposals in order to set a balanced budget for 2025/26.

Budget 2025/26 Key Milestones

73. The key milestones associated with the 2025/26 budget setting process are set out in the table below: -

Activity / Meeting	Date
Final Local Government Settlement	Late January 2025
Tax Base Information from District	15 January 2025
Overview Committee	23 January 2025
Draft Budget Report to Cabinet	6 February 2025
Full Council - Annual Budget Report 2024/25	27 February 2025

Equalities Impact Assessment

74. When setting the budget, the Council must be mindful of the potential impact on service users.

75. 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).

76. An initial high-level Equality Impact Assessment (EIA) in relation to the Council's proposed Revenue Budget Report 2025/26 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.

77. 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.

78. 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

79. 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

80. This report provides an update of the Budget together with confirming the approach to reviewing the budget for 2025/26.

Reasons for Recommendations

81. 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 2025/26.

RECOMMENDATIONS

- 1) That Overview Committee considers: -
 - a) The assumptions that underpin the development of the 2025/26 Annual Budget Report and the Medium-Term Financial Strategy.
 - b) Any specific issues around the development of the 2025/26 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 and Resources

Constitutional Comments (GR 09/01/2025)

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

Financial Comments (GB 09/01/2025)

83. 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

