

REPORT OF THE CABINET MEMBER FOR FINANCE

BUDGET UPDATE REPORT

Purpose of the Report

1. To highlight the Council's current and medium-term financial position.
2. To set out the proposed approach to undertaking the budget consultation and underline ongoing measures to tackling the predicted budget deficit.

Information and Advice

Financial context

3. In recent years, the main driver of pressure on the Council's budget have been related to inflation and rising costs, including wage rises, and to increased demand for local government services, rather than due to shrinking budgets.
4. In addition, during the last two financial years the Council has faced unprecedented budget pressures as a consequence of the COVID19 pandemic. Although through these years the government provided significant additional funding to local authorities to ensure they were able to respond and manage the financial challenges faced there was still a gap in funding to meet the underlying increase in demand for our services.
5. In 2022/23 the Council is facing a new financial challenge, mainly resulting from the impact of the Ukraine conflict. Consumer Price Inflation (CPI) in the UK economy is presently 10.1% (September 2022) but is forecast to peak early in 2023 at around 13% and this is driving significant upward pressure across a range of expenditure budgets especially those that relate to energy, fuel and external contracts where energy and fuel are a major factor.
6. The risks arising from escalating inflation, which is also impacting household incomes, was recognised in the Annual Budget Report to Full Council in February 2022. 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 challenges faced specifically in the social care market following the pandemic.
7. 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 current levels of inflation have resulted in the Local Government Employers reaching a pay settlement for 'Green Book' employees (covering the vast majority of council

employees) of a flat rate increase of £1,925 per annum. This offer equates to a 7.3% increase in the Council's pay bill, whereas the 2022/23 budget has provision for up to 3.0%. This will add a forecast circa £5.6 million per annum to Council costs although this may be covered by revenue contingency. There will be a consequential impact upon the pay estimate into future years.

8. At this stage it is not expected that local authorities will receive any additional financial support from the government in 2022/23 and will need to rely upon available reserves to finance any 2022/23 overspends. Of more concern at this stage is what the financial settlement may be for local government in 2023/24. A consultation document on a two- year local government finance settlement for 2023/24 and 2024/25 was expected to be published in July 2022. This was delayed however due to the resignation of the Prime Minister and the subsequent leadership contest. It is unclear whether the upcoming settlement will be for one year or for a longer period.
9. 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 Cabinet Member for Finance receives monthly reports and the Cabinet quarterly reports on outturn forecasts throughout the year.
10. The current projected capital programme outturn for 2022/23 is £148.9million. As part of the budget setting process a review of the capital programme will be undertaken.
11. On the day before the Chancellor's September 23rd Fiscal Event, the Treasury confirmed that it will reverse the temporary 1.25% increase in National Insurance rates from 6 November 2023. It also announced that it will cancel the Health and Social Care Levy which was due to replace the temporary increase in National Insurance Contribution rates in April 2023.
12. Following the December 2022 Settlement announcement, which is unlikely to be announced before mid-December 2022, the Medium-Term Financial Strategy (MTFS) will be updated and reported to Full Council as part of the 2023/24 Annual Budget Report. At this stage, if the Government announces a one-year settlement once again, despite having a clear view of the funding for 2023/24, funding for the final three years of the MTFS may remain unclear. This will continue to be the case until announcements regarding the longer-term future of local government financing are made.

Facing The Challenge – The Council's Response

13. As previously described, the key drivers of budget pressures are rising demand and inflation. Therefore, in order to tackle these challenges, the Authority must focus on finding more cost-effective ways to deliver services, and taking actions to reduce levels of demand for the most acute and expensive services.
14. By doing this, we aim to protect and enhance key services as far as possible, in order to help improve the lives of local people, and also mitigate the impacts of inflation to protect residents from bearing the brunt of these increased costs.
15. As the residents and businesses across the county continue to recover from the COVID19 pandemic it is important that the Council focusses 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.

16. For Council budgets and local services to be sustainable for the long term, the Council must rethink the way that services are delivered and focus on earlier interventions, supporting people to remain independent and living within their home, family and community.
17. 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.
18. Over time, the intention is to shift spending more towards these prevention and community-based services, helping more children and adults to live independently, supported by families and communities, with lower levels of need for expensive care interventions. This work will particularly focus on improving services in those most disadvantaged communities, where the demand is highest.
19. At the Full Council meeting held on 25 November 2021, the Council approved The Nottinghamshire Plan 2021-31: Healthy, Prosperous, Green. This ambitious, new plan sets out the strategic vision for the future of Nottinghamshire and the local authority.
20. The activity in the Nottinghamshire Plan is built around achieving a bold 10-year vision for a 'healthy, prosperous and greener future for everyone'. The plan will focus on:
 - a. Improving health and well-being in all our communities
 - b. Growing our economy and improving living standards
 - c. Reducing the County's impact on the environment
 - d. Helping everyone access the best of Nottinghamshire.
21. These are broad themes that will build resilience in our communities into the future and are supported by nine ambitions which will act as a framework for all County Council activity:
 - a. Helping our people live healthier, more independent lives
 - b. Supporting communities and families
 - c. Keeping children, vulnerable adults and communities safe
 - d. Building skills that help people to get good local jobs
 - e. Strengthening businesses and creating more good-quality jobs
 - f. Making Nottinghamshire somewhere people love to live, work and visit
 - g. Attracting investment in infrastructure, the economy and green growth
 - h. Improving transport and digital connections
 - i. Protecting the environment and reducing our carbon footprint
22. The Plan sets out what the County Council will do over the next ten years to achieve these ambitions as well as how it will measure progress and success. This will have a particular focus on supporting Nottinghamshire's communities and businesses to recover from the socio-economic impacts of the COVID19 pandemic. The Plan also

details the Council's on-going journey of improvement as we continue to deliver services in a responsive, efficient, financially sustainable and forward-looking way.

23. The budget report to Full Council in February 2023 will set out the financial framework around which the County Council will achieve its strategic vision statements and meet the success factors that underpin the Nottinghamshire Plan.

Budget Consultation - Rising to the Challenge

24. The production of the Council's budget is undertaken in accordance with the requirements of the Council's Constitution.
25. A key element of the Council's budget setting process is consultation with stakeholders.
26. The consultation will go live on the 17th November 2022 and close on the 2nd January 2023. The survey sets out how the council spends its allocated budget and asks people for their views about our services and their priorities.
27. The consultation will be made available through the following channels:
- Nottinghamshire County Council website
 - local and regional media
 - social media, including Twitter, Facebook and Instagram
 - email bulletins to the Council's subscribers
 - and in print at Children's Centres and Libraries.
28. We will also be sharing our consultation with our partners, including groups representing the business community and other relevant stakeholders.
29. Consultation with the trade unions at Central Joint Consultative and Negotiating Panel (JCNP).
30. Consultation with the Council's Overview Committee which will undertake the vital scrutiny role which is part of the budget setting process.
31. Cabinet will take account of the consultation when drawing up firm proposals to the Council. Results will be communicated after the consultation has ended on the council's website.

The February 2022 Budget Position

32. When the Council's budget was approved in February 2022 the funding shortfall identified for the next three years totalled £29.1million.

33. This financial position is shown in Table 1 below:-

Table 1 – Medium-Term Financial Strategy as at February 2022

	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m	Total £m
Year on Year Savings requirement (February 2021 Report)	17.6	14.6	15.5	-	47.7
Additional Pressures / Inflation	10.2	5.2	0.8	27.4	43.6
Increase in Contingency for Pressures Risk	4.2	-	-	-	4.2
Change in Pay / Pension Related Inflation	1.9	1.9	0.1	3.9	7.8
Approved Efficiencies & Base Budget Adjustments	(6.0)	(3.6)	(0.3)	0.1	(9.8)
Change in Grant Funding	(22.9)	(4.9)	(9.2)	(2.3)	(39.3)
Increase in Council Tax	-	(4.3)	(4.6)	(9.4)	(18.3)
Change in Council Tax Base assumptions	(3.2)	(0.1)	(0.1)	(5.5)	(8.9)
Change in Council Tax Surplus	(5.2)	5.2	-	-	-
Variation in use of Reserves	3.0	(6.5)	4.3	0.5	1.3
Other Corporate Adjustments	0.4	0.7	(0.3)	-	0.8
Revised Gap	-	8.2	6.2	14.7	29.1

The Council's Current Financial Position

34. As reported to Cabinet in October 2022, the Council is reporting a forecast overspend of £4.4m in the current financial year. This is mainly as a result of forecast overspends in external looked after children placements and internal residential homes budgets with demand outstripping supply in all placement types. Forecast overspends have also been identified against highways and libraries contracts as a result of inflationary impacts on wages, energy and fuel.
35. Measures in place to address the current significant financial shortfall identified in 2022/23 were also set out in the report to Cabinet in October 2022. In particular, a number of actions are being taken to mitigate forecast overspends that have been identified in the Children and Young People's, Transport and Environment and Communities portfolios. The outcome from these actions will continue to be reported to Members as part of the monthly budget monitoring exercise.
36. The existing MTFS includes pay award assumptions of 3% in 2023/24 and 2% in 2024/25 and 2025/26. Given the current levels of inflation it is proposed that an additional 2.5% is included in the MTFS for both 2023/24 and 2024/25 financial years, this equates to an additional pay pressure of £5m per annum.
37. As part of the budget setting process, Departments have been asked to justify existing pressures and inflation that are approved in the current approved MTFS. They have also been asked to consider uncertainties remaining around a number of areas that have not previously been 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 to 2025/26 totals £85.3m. A breakdown can be seen in the revised MTFS shown in Table 2 with further detail available in Appendix A.

38. Appendix A shows that demand pressures have increased by £5.4m in 2023/24 and then reduces down after that mainly as a result of lower forecast Looked After Children numbers than previously assumed.
39. Appendix A also shows that inflation pressures have increased significantly across the MTFS. This is mainly due to expected increases to the National Living Wage as well as the inflationary impact of contract costs across the Council. The Low Pay Commission issued a consultation in March 2022 to assess the affordability and effects of an increase in April 2023 to a National Living Wage of £10.32 (within a range of £10.14 to £10.50) which adds an additional pressure of £5.2m in 2023/24.
40. Those drivers that influence the level of pressures and inflation that exist within the budget will be kept under review to inform the pressures that will gain formal approval as part of the Annual Budget Report to Full Council in February 2023.
41. Council Tax and Adult Social Care Precept policy decisions will be reviewed, alongside other assumptions in the MTFS, and also detailed in the 2023/24 Budget Report. For the presentation in Table 2, as these decisions are taken annually as part of the budget setting process, the Council Tax assumptions approved at Full Council in February 2022 have been taken out of the MTFS.
42. The revised MTFS is shown in Table 2:-

Table 2 - Revised MTFS

	2023/24 £m	2024/25 £m	2025/26 £m	TOTAL £m
Year-on-year savings requirement (February 2022 report)	8.2	6.2	14.7	29.1
Council Tax Assumptions	8.6	9.2	9.6	27.4
Adult Social Care Precept Assumptions	4.3	4.5	0.1	8.9
Increased Pay Award Assumptions	5.0	5.0	0.0	10.0
Change in Pressures	5.4	-2.9	-6.2	-3.7
Increase in Inflation	15.8	8.1	1.1	25.0
Mitigations - Reduction in Pressures	-12.5	-6.1	-4.3	-22.9
Revised year-on-year shortfall	34.8	24.0	15.0	73.8

NB: For the report to Council in February 2023 the MTFS will be extended to four years.

Emerging Pressures

43. The challenges over the next few years are not limited to the direct impact of inflation. A summary of the other significant challenges that are not yet fully reflected in the MTFS are as follows:-
44. **Social Care Reform** - A report to Cabinet in July 2022 set out the impact and risks associated with forthcoming Adult Social Care Reform programme. Adult Social Care

Services are faced with implementing no less than eight pieces of reform legislation through 2022 and 2023. Key areas of reform will include changes to:-

- a. Social Care Assurance and Integrated Care System Assurance
- b. Fair Price for Care
- c. Charging Reform
- d. Liberty Protection Safeguards
- e. Mental Health Act Reform
- f. New Models of Care for Workforce
- g. Social Care System Improvement
- h. Integration measures and Establishment of Integrated Care Systems
- i. Joining Up Care for People, Places and Populations

45. The department has identified five key themes which it is using as a framework to navigate this multi-faceted complex change and they are set out below:

- a. Charging Reform – introduction of the cap on care costs
- b. Fair Price for Care – changes to the rates local authorities pay to CQC registered providers
- c. People at the Heart of Care – introduction of a CQC Assurance Framework
- d. Integration White Paper – introduction of an Integrated Care Board and Integrated Care Partnership across the Integrated Care System footprint
- e. Build Back Better – workforce and service reform as set out in the White Paper.

46. A programme for responding to reform has been implemented and the following actions have been undertaken:

- a. Adult Social Reform is now a Corporate Transformation Programme
- b. Adult Social Care and Public Health has launched a Quality Assurance Framework
- c. the required reform and assurance resources have been identified and are partially funded by reform monies and departmental underspend
- d. the reform programme is in place
- e. Mental Health Act reform and Liberty Protection Safeguards are existing workstreams within the All-Age Approaches Programme given the implications of those pieces of law reform.

47. The potential costs of Adult Social Care Reform were set out in the July 2022 report to Cabinet. The department awaits further allocation of government funding around workforce, social care assurance and other aspects of Social Care Reform therefore the full financial implications cannot be detailed at this stage.

48. **National Living Wage** – Not only does the National Living Wage impact upon the pay award for internal staff but there are also additional costs associated with commissioned services especially in Adult Social Care and Public Health. Each 50p increase on the rate adds approximately £11m to the Council's budget requirement. The National Living Wage announcement is usually made alongside the Autumn Budget.

49. **Services Demand** – The existing pressures within the MTFS are continuing which could require increases in growth and adverse in-year budget variations for Adult and Children's social care services.
50. **Future Years Pay Awards** – The revised MTFS includes a 5.5% pay award in 2023/24, 4.5% in 2024/25 and 2.0% thereafter. Any increases in subsequent years over and above this assumption will further add to the funding gap. In simple terms, each extra 1% would add approximately £2.0m to the Council's budget requirement.
51. **Ongoing future year impact of inflation / pressures** – Inflationary pressures for 2023/24 are £19.3m higher than the figure assumed in the MTFS approved in February 2022. If a similar scenario plays out in future years then there could be significant increases to the Council's funding gap.
52. **Retention of Children's Social Workers and the Social Care Market** – Adult Social Care market issues are of national concern and most local authorities are experiencing difficulties with ensuring a stable care and support market. There are issues around market resilience, provider business models, workforce and rates of contractual which may result in pressures over and above what are in the MTFS.

Financial planning

53. As set out above, measures are in place to address the current forecast overspend identified in 2022/23. The outcome of mitigation actions which are being taken by Departments will continue to be reported to Members as part of the monthly budget monitoring exercise.
54. In addition, as part of the budget setting process, base budgets will continue to be reviewed and all of the financial planning assumptions that underpin the MTFS will be reviewed. All changes will be detailed in the Draft Annual Budget Report to Cabinet in January 2023 and confirmed at the Full Council meeting in February 2023.
55. 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. A review of all reserves has already been undertaken, the results of which will be presented as part of the budget approval process.
56. When the MTFS was approved in February 2022, a 1.99% increase to Council Tax was factored in from 2023/24 to 2025/26 with a further 1.00% Adult Social Care Precept factored into 2023/24 and 2024/25. Decisions on setting such levels are taken on an annual basis.
57. Council Tax and Adult Social Care Precept policies will be reviewed, alongside other assumptions in the MTFS, and detailed in the 2023/24 Budget Report to Full Council in February 2023.
58. The Annual Delivery Plan 2022/23 that was reported to Cabinet in May 2022 set out that the Council will be working collaboratively both across the Council and with partners to develop and deliver our cross-cutting transformation programmes. This will help us to test new and improved ways of working, service delivery and systems.

It will also create the conditions to enable us to deliver co-ordinated and integrated transformation that makes a difference for the County's communities and residents. It is these cross-cutting transformation programmes that will help towards the Council delivering a balanced budget across the MTFS.

59. It has been agreed that the cross-cutting transformation programmes will be delivered across four themes as follows:-

- **Early Help and Preventative Interventions Programme** – designed to develop the early help and support that County residents can access, working with partners and our communities to build resilience and maximise independence for families, older people and to support our communities as they recover from the COVID19 pandemic.
- **Improving Residents Access Programme** – will be improve how residents can access information, advice and guidance from the Council across the range of services that it delivers.
- **Whole Family Safeguarding Programme** – will ensure that children in need of help and protection and their families benefit from high quality care and support. This programme will deliver better outcomes for young people, helping them to live safely at home and in their communities.
- **All-Age Approach to Disability Programme** – will help to improve and develop how we support young people with disabilities to prepare them for adulthood ensuring that the care and support they receive as a young adult is tailored to meet their individual needs and help them to realise their ambitions in life.

60. 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 2023 but the key date above all else is the Council meeting on 9 February 2023 and prior to that the Cabinet meeting on 26 January 2023. The report to Cabinet will set out the Council's final budget proposals in order to set a balanced budget for 2023/24.

Budget 2023/24 Key Milestones

61. The key milestones associated with the 2023/24 budget setting process are set out in the table below:-

Activity / Meeting	Date
Provisional Local Government Settlement	Mid December
Budget Consultation Concludes	2 January 2023
Final Local Government Settlement	Early January 2023
Overview Committee	January 2023
Draft budget Report to Cabinet	26 January 2023
Full Council - Annual Budget Report 2023/24	9 February 2023

Equalities Impact Assessment

62. When setting the budget, the Council must be mindful of the potential impact on service users. The consultation activities which are proposed in the preparation of the 2023-24 budget are relevant in this respect.
63. 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).
64. An initial high-level initial Equality Impact Assessment (EIA) in relation to the Council's proposed Revenue Budget Report 2023-24 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 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.
65. 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
66. 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.

Other Options Considered

67. This report provides an update of the Budget together with confirming the approach to reviewing the budget for 2023/24.

Reasons for Recommendations

68. To underline the current challenges of the financial landscape and budget position and outline the measures in place to rise to these challenges.

69. To agree arrangements for consulting the stakeholders about the 2023/24 budget proposals.

Statutory and Policy Implications

70. 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.

RECOMMENDATIONS

It is recommended that Cabinet:

71. Notes the significant challenges presented by the current financial landscape and the measures being developed to address these challenges as part of the preparatory work for the 2023/24 budget proposals
72. Approves the proposed arrangements for consultation with stakeholders as detailed in paragraphs 24 to 31.

Councillor Richard Jackson
Cabinet Member for Finance

Financial Implications (NS 01/11/22)

The financial implications are stated within the report itself.

Constitutional Comments (GR 01/11/2022)

Pursuant to the Nottinghamshire County Council Constitution the Cabinet has the delegated authority to receive and make the recommendations contained within this report.

Background Papers Available for Inspection

None

Electoral Division(s) and Member(s) Affected

All