Nottinghamshire County Council

Medium Term Financial Strategy and Capital Strategy

2010/11 to 2013/14

CONTENTS

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Introduction by:

Councillor Kay Cutts
Leader of the Council

This Medium Term Financial Strategy and Capital Strategy sets out Nottinghamshire County Council's commitment to provide services, which represent the best possible value for money for Nottinghamshire's communities. It is a Strategy which sets out a clear direction for the future - a business like Council.

Local people want the best possible services at the lowest possible cost and that is what this administration will ensure they get.

I want Nottinghamshire County Council to be:

- respected
- acknowledged for what we do
- seen as an organisation that can be relied upon
- dependable
- known for doing a good job
- careful in the way we spend other people's money
- the sort of organisation that local people would recommend

We all know that there are significant pressures on public sector finances. The simple truth is we will have less money to spend. Added to this there are other pressures such as ageing population with care requirements.

Costs should not keep rising inexorably, without challenge. These are difficult times. Everyone is having to tighten their belts. The County Council must too, and lead by example.

That is why we have developed this Medium Term Financial Strategy with a freeze on the Council Tax for 2010/11. A freeze on our Council Tax will relieve families of managing with less when there are more pressures on their budgets in what is a very uncertain economic climate.

And we will spend the money wisely. We will ensure that the services we provide are worth the money and will try always to spend on the key priorities We want Nottinghamshire to be a county where people have high aspirations; live as independently as possible and are empowered to have greater responsibility.

Our promises to the people of Nottinghamshire are to:

1. Lead Nottinghamshire

We will play a full part in leading Nottinghamshire to be a place where people want to live and feel safe, businesses want to invest and tourists want to visit and stay. These are our goals and we will work together with our partners to achieve them.

Our priorities are:

Priority: to foster aspiration, independence and personal responsibility

Priority: to promote the economic prosperity of Nottinghamshire and safeguard our environment.

Priority: to make Nottinghamshire a safer place to live.

2. Provide good services

We will consult, listen and act on what the public tell us about the services they use. We will work with other organisations to make public sector services in Nottinghamshire as integrated as possible. We will ensure all our services are good quality and provide value for money.

Priority: to secure good quality, affordable services

3. Be an efficient Council

We will be a cost effective and efficient council. Over the coming four years we will reduce our running costs substantially to allow more to be spent on delivery of services.

Priority: to be financially robust and sustainable

This Medium Term Financial Strategy and Capital Strategy provide the funding framework within which the Council will achieve these aspirations.

It is necessary in order to reap long term benefits to invest in the short term and this strategy reflects that necessity.The strategy covers both the expected variations to the revenue budget and the approach adopted towards planning the Capital Programme for future years.

Inevitably our plans will need to change as the demands on our services change in the future. Financial planning is not an exact science and we will keep the Financial Strategy under review and amend it as required in the light of changing circumstances. We will need to continue the process of reprioritising our spending with reductions in lower priority areas being used to support increases elsewhere. All areas of our budget will be kept under review and we will reduce costs and inefficiency wherever possible.

The future of local government contains many uncertainties. We will keep our Medium Term Plan under review and amend it each year to reflect the rapidly changing environment in which we work.

Councillor Kay Cutts

Leader of the Council

Economic Outlook

The public sector in the United Kingdom, and in particular local government, is poised at the brink of a period of sustained change and uncertainty. Regardless of the outcome of the General Election the public sector can anticipate significant cost reductions as the Government seeks to reduce the £178 billion budget deficit.

In the December Pre Budget Report the Chancellor of the Exchequer, Alistair Darling, promised to halve the budget deficit over four years. He has subsequently said that if economic growth allows he would like to cut the deficit more rapidly.

In a recent interview with the Times newspaper the Chancellor made it clear that as the country begins to move out of recession there will be major reductions in public spending. He said

> "We need to protect front line services but it is absolutely essential to cut the public deficit. The next spending review will be the toughest we have had for twenty years. Many departments will have less money in the next few years".

The Leader of the Opposition, David Cameron has also made his party's intention to reduce the deficit clear and has indicated that a Conservative Government would aim to reduce the deficit sooner than the Chancellor plans.

It is clear that public spending cuts are unavoidable and that the differences between the major parties are mainly regarding timing, and which services may be given some protection.

The Pre Budget Report was positive insofar as the final year of the three year Local Government Finance settlement was not changed. This had been widely anticipated and gave local authorities stability for 2010/11. The picture thereafter is less certain and the absence of a Comprehensive Spending Review makes forward financial planning more problematic. Overall public sector expenditure is expected to grow on average by 0.8 percent a year from 2011/12 until 2014/15 with the NHS, Police, Education and International Development receiving a higher level of support. What the Chancellor did not provide was a detailed breakdown of future spending plans post 2011 and there remains significant uncertainty. Protecting certain services will mean that there will be increased pressure on other services. One of the certainties announced in the pre-budget report was that there will be a 1% cap on public sector pay settlements in 2011/12 and 2012/13.

The Pre Budget Report was predicated on the assumption that medium term economic growth will rise to 3.5% per annum from 2011/12. Many economists believe this is over optimistic, and if they are proved correct the challenge for public finances will be even bleaker.

The Chancellor’s report continued the theme from the current Comprehensive Spending Review that Councils will be expected to achieve further efficiency savings. Figures in the report showed Councils would be set a figure of £550m in savings by 2012/13 from, for instance, more efficient waste collection and disposal services and reduced duplication between different tiers of government.

In addition Department for Communities and Local Government officials later claimed that Councils would also be asked to find a further £1.8bn in savings from more efficient back-office functions, but were unable to point to the official documents containing the target.

The £1.8bn figure appears to be a repetition of a target set as part of the current spending review period. As part of Councils’ original £4.9bn target to be reached by the end of 2010/11, £1.8bn was to be found from back office savings. Department for Communities and Local Government officials have confirmed Councils will be expected to find this amount again by 2012-13.

Councils will also be asked to find savings of £250m as part of the plan to guarantee free home care for the neediest users.

The Pre Budget Report contained a number of other efficiency savings targets relating to local government, including £180m from administrative improvements and raised eligibility criteria for concessionary travel.

There have been a number of studies which have examined and reviewed the impact on the public sector of the original Budget 2009 proposals and the more recent Pre Budget Report.

The Institute of Fiscal Studies has analysed the 2009 Budget. This included a projection that total spending would reduce by 0.1% a year in real terms although the figure most often quoted is growth of current spending of 0.7% per year in real terms (revised to 0.8% pa in the Pre Budget Report). However the overall total spending needs to provide for growth in debt interest as well as the growing social security and tax credit bill, and taking this into account the Institute has calculated that Government departments could face average expenditure reductions of 2.3% a year. As the reductions will not be evenly spread the Institute has made allowances for protected services and suggests that some local government services could be facing year on year cuts of 7% or more.

The position on capital expenditure is significantly worse. Again the Institute of Fiscal Studies has examined the projections and has estimated that investment spending could see real cuts of over 17% a year.

The Chartered Institute of Public Finance and Accountancy (CIPFA) and the Society for Local Authority Chief Executives (SOLACE) have jointly produced an analysis of the current outlook for local government.

Their analysis is similar to the Institute of Fiscal Studies albeit they have looked at two alternative scenarios.

The CIPFA/SOLACE paper considers two levels of headline cuts in current public spending in the three year spending round following the 2010 election. Scenario A envisages a 7.5% (real terms) cut in current spending over the next three year spending round 2011/14 (with the likelihood of cuts of a similar scale in the following spending round, 2014/17, as well). Scenario B envisages a 15% (real terms) cut in current public spending over the next three years spending round 2011/14 (with the possibility of further, probably less severe, cuts in the following spending round, 2014/17).

The two scenarios reflect uncertainties about the length and depth of the economic downturn, the speed of recovery and the fact that different political parties will take different views about the amount of fiscal rebalancing required in the short as opposed to the medium and long term. The scenarios are described as headline cuts as they illustrate the position before politicians, nationally and locally, make decisions to protect specific services. The price of protecting major budgets such as the NHS or schools will be a need to deliver deeper cuts in ‘unprotected services’. **For some services, this may mean cuts of 20% or more in the period 2011/14.**

The latter figure of 20% on individual “unprotected services” is similar to the “up to 7% per year” suggested by the Institute of Fiscal Studies.

The scope for spending reductions of this magnitude to be managed without real cuts in service is limited, not least of all because in most, if not all, services there will be unavoidable spending pressures which need to be reflected in budgets, including those which arise from a growing population - more children on school rolls; more frail elderly people requiring a range of health and care services. The CIPFA/SOLACE paper makes the assumption that, across the public services, these pressures will be similar in scale to the level of new efficiency savings generated by organisations i.e. that one will offset the other. This assumption may not be true for each individual organisation and particularly for Councils with social care responsibilities. Some will face greater spending pressures but also, at the margin, reduce the scale of spending cuts required.

There is likely to be some, but relatively limited scope for increasing income (from fees and charges) from existing services. Many local services are already experiencing lower levels of usage in some areas consistent with the recession. In some cases increases in charges will, therefore, not necessarily generate increased revenues.

In theory, the tax raising powers of local authorities might also be deployed to increase the funding available for local services. In practice, however, increased Council Tax revenues are unlikely to rise sufficiently to impact materially on the level of spending cuts required. Government is likely to decide to continue to use its powers to limit local tax increases. Alternatively, it may suspend the use of, or repeal, these powers in order to give authorities greater flexibility and capacity to sustain valued services. Even in these circumstances, however, most councils are likely to pursue policies of minimising Council Tax increases during a difficult period for both local economies and household budgets.

The CIPFA/SOLACE study looked at what positive measures authorities could take, and made a number of suggestions.

The first suggestion is to review and redefine the relationship between the individual and the State. This means moving to a world in which people do more for themselves and each other, and look less frequently to the State as the provider of first resort.

The second option is devolving more decisions to be taken by local bodies with minimal oversight. In effect this option takes the view that if deep cuts in public services are necessary it is best to make many of those difficult decisions at a local level where they can have regard to local needs and circumstances. For it to have practical effect, local authorities have to have the flexibility to make judgements about the public services which are right for their area. That means a shift away from the uniformity of national prescription and targets, in favour of different service offers and standards in different communities.

The CIPFA/SOLACE review considers that in order to deliver a demonstrable cost/value advantage it is important that the existing machinery of oversight of local services is reviewed. That means looking carefully at all of the different agencies involved in aspects of oversight, development of guidance, setting of targets, assessment of performance, conduct on inspections, etc and understanding where critical value as opposed to mere comfort is added. This work must be undertaken in a systematic way across the full spectrum of the public services. The objective should be to increase effectiveness and to reduce cost. Crucially that means paying very careful attention to the definition of organisational roles and responsibilities and to the potentially high costs of reorganising or changing the responsibilities or focus of such agencies.

The CIPFA/SOLACE view on regulation and monitoring by central government chimes with a recent report by the Local Government Association. The report “Delivering More for Less” outlined a series of ways in which central Government could save £4.5 billion through reducing the bureaucracy of reporting and inspection red tape.

The CIPFA/SOLACE study suggests that Councils should prepare clear plans in relation to empowering front-line staff, the removal of layers of management and/or the reduction of costs of supervision within their organisations.

Finally, the third strategic option suggested by CIPFA/SOLACE is to facilitate collaboration across government and the public services. There has been emphasis in recent years on the efficiency of individual organisations. Whole system efficiency is now essential, as it will mitigate duplication and blockages within the system which are so costly and frustrating to citizens.

If all public bodies are to be engaged in the business of making cuts in services for a protracted period it is absolutely imperative that they are working closely together with a shared determination to deliver the best possible outcomes for communities. The “Total Place” initiative will point out important lessons for collaboration between public bodies.

Much of the thinking contained in the CIPFA/SOLACE study has already been embraced by the County Council in its Strategic Plan and the Improvement Programme.

The Council is committed to leading Nottinghamshire with a priority to foster aspiration, independence and personal responsibility. This is almost identical to the CIPFA/SOLACE proposal to redefine the relationship between the individual and the state.

The second CIPFA/SOLACE option is about reducing bureaucracy in both central and local government, empowering front line staff and delayering management structures. The Council is already planning for such activities through the various strands of the Improvement Programme.

The final suggestion from CIPFA/SOLACE relates to more collaborative and partnership working. There are some good examples of joint working within and outside Nottinghamshire County Council but there is scope for further developments.

Overall it would appear that Nottinghamshire County Council is already embracing many of the proposals set out by CIPFA/SOLACE as best practice. If it is to achieve the levels of reductions required over the medium to long term these actions will need to be delivered upon in as short a time as possible.

Links to the Strategic Plan

Whilst the Medium Term Financial Strategy supports the overall Strategic Plan, there are a number of specific examples where expenditure which is supported within the Medium Term Financial Strategy demonstrate that linkage.

Fostering aspiration, independence and personal responsibility

- Our Aiming for Excellence programme will allow more older people to live independently in “extra care” settings rather than in traditional residential or nursing homes.
- The Building Schools for the Future programme will replace or renovate some of our worst schools and provide a fit for purpose, twenty first century environment in which young people can learn and develop their potential.
- The Capital Programme proposals for further library refurbishments will make our libraries a more welcoming environment and encourage more people to expand their horizons.
- Through the Putting People First programme more people will have greater choice and control over how they get the support they require to stay healthy and live independently for as long as possible.
- We will increase the number of carers and placements in Adult Placement Schemes available.
- We will support sports clubs to increase the number of facilities that are accredited and welcoming to children and young people.
- We will complete and open Worksop and Eastwood youth centres with an additional drop in facility in Worksop town centre.
- We will revitalise the West Bridgford Library incorporating a new youth facility at the same venue.
- We will deliver the Youth Opportunity and Youth Capital Funds for Nottinghamshire that will deliver more places to go and things to do for young people.
- We will roll out LinkAge Plus to vulnerable adults.
- We will continue to support programmes to schools where under performance is identified.
- We will take part in early rollout funding for one-to-one tuition for approximately 105 schools.

Promoting the economic prosperity of Nottinghamshire and safeguarding our environment

- By reviewing our Procurement Strategy we will aim to increase the proportion of goods and services bought by the Council from local businesses.
- Increased capital expenditure on highways drainage improvements and street lighting will ensure the road network is more sustainable.
- Additional spending on the Council's building stock will make buildings Health and Safety compliant and extend their working life.
- The Nottinghamshire Local Transport Plan reflects the broad economic, social and environmental regeneration strategies within the county and details the role that local transport can play in these.
- The Sustainability Strategy seeks to ensure that improvements to the way of life in Nottinghamshire are not achieved at the expense of the environment, social conditions elsewhere in the world or the use of finite natural resources.
- Delivery of Local Improvement Schemes which aim to protect and enhance the existing natural environment.
- We will complete the £2m restoration of Bestwood Winding Engine House, thus removing this historic building from the English Heritage 'at risk' list.
- The Council will continue to respond corporately and across all its services to the economic downturn. This includes sponsoring a series of business support events for Nottinghamshire businesses and taking forward the Summit with partners through four themed workshops and a follow-up Summit.
- There are around 50 council sites running on wood fuel which will save 6,500 tonnes CO_2 per annum.
- Seven transport schemes within the county have been successfully prioritised for regional funding. These include the Mansfield public transport interchange, Hucknall town centre improvements, and bus stations at Worksop and Newark.
- We will complete a fast track project to refurbish Sutton Bus Station. The new bus station provides much improved facilities with modern bus shelters, new paving, improved street lighting, additional CCTV, litter bins, cycle stands and new street furniture. £850k from the Local Transport Plan and Building Better Communities programme has been injected into the improvements.

- The Carbon Management Plan sets out how the carbon emissions from the Council's estate and operations, including energy use in Council buildings, street lighting and transport will be reduced.

Making Nottinghamshire a Safer Place to Live

- By providing additional funding for safeguarding and specialist placements we aim to care for the most vulnerable children and young people.
- Budget proposals include increased expenditure on highway maintenance and gritting of roads to ensure the public can travel safely.
- We will continue to maintain an effective Trading Standards function and Emergency Planning Team to respond to day to day and exceptional issues.
- The Nottinghamshire Community Safety Agreement outlines how partners will work together to provide strategic leadership and direction to tackle crime, disorder and substance abuse and to improve community cohesion in Nottinghamshire.
- The Cross Service Road Safety Action Plan takes a strategic approach to casualty reduction and is developing processes to maintain improvements. Promotion of school travel plans are recording higher numbers of pupils traveling to school in more sustainable ways. Agencies are also working together to reduce casualties amongst motorcyclists with collision hot-spot areas being targeted.
- Roll out the "Not Welcome To" pilot, which was developed jointly by a partnership including Notts Police and the Holocaust Centre at Laxton. This is a powerful and ambitious community cohesion tool aimed at changing behaviours and perceptions in a whole community.
- More parents will be supported, including teenage parents, through the development of bespoke training, and health promotion initiatives.
- The 'Turning the Curve' approach will be rolled out across Nottinghamshire focusing on neighbourhoods of high and/or non-declining teenage pregnancy rates.

Securing good quality, affordable services

- The Improvement Programme will look at all service areas and establish relative cost and performance benchmarks with the most efficient Councils. Unnecessary expenditure and duplication will be eliminated.

- By selling the Council’s remaining residential care homes to the independent sector we will ensure that service quality standards are maintained and costs reduced.
- We will complete the £7.5m community project at Worksop, including a new library and registrar’s office. We will also undertake a major development at the West Bridgford library site.
- Investment is continuing to be targeted on footways and together with work updating footway hierarchies, the condition of this proportion of the network should start to improve.

Being financially robust and sustainable

- The Council is committed to ensuring that its finances are under tight control. Additional expenditure will be achieved by redistributing funds from lower priority services.
- The Council will endeavour to find long term financial solutions rather then relying on temporary funding streams.
- A thorough review of the Capital Programme has already been carried out. New capital schemes will only proceed if there is a clear Business Case and the revenue consequences are fully understood and affordable.
- The Improvement Programme will review the way the Council operates as a business. The programme will make improvements to business practices and systems to realise efficiency savings.
- The Procurement Strategy seeks to ensure that services, supplied and works used by the Council are high quality, flexible and user focused and that they provide value for money.

Links to other Corporate Strategies

In addition to the Medium Term Financial Strategy the Council has a number of other corporate strategies. These include:

- the Workplace Strategy
- the ICT Strategy
- the Property Strategy and Asset Management Plan
- the Procurement Strategy

All of these strategies are interconnected and support the work of the whole Council.

Workforce Strategy

It is self evident that the Council relies upon its staff to deliver essential services and the Workforce Strategy seeks to ensure that our workforce are skilled and supported in delivering good quality and affordable services. The Strategy identifies the actions required to improve the way we run our business with a clear focus on reduced inefficiency and waste and an underlying philosophy of improved customer satisfaction.

Managers are recognised as the key to improved service outcomes and they will be encouraged to embrace change and will be supported to develop their leadership skills and common management competencies.

Recruitment and retention of talented and motivated staff will be essential in a period of dramatic change and ensuring the Council remains an employer of choice.

The Medium Term Financial Strategy supports the Workforce Strategy by providing financial resources to pay the salaries and wages of the required staffing establishment. Provision is also included for training and development expenses, travel and other associated employee costs.

In a period of reducing staff, as the Authority reorganises to match the current economic conditions, there will be some costs associated with redundancies, and the Medium Term Financial Strategy includes specific additional funding for these costs.

The Property Strategy and Asset Management Plan

The Council owns a large portfolio of buildings through which services are provided. There are over 1.400 sites with annual running costs of £55 million.

The Improvement Programme includes a property rationalisation strand which aims to streamline the portfolio and improve the existing building stock to make it fit for purpose for the future. Property which is no longer required for operational purposes will be sold, and the resulting capital receipts will be used to finance the future Capital Programme.

In addition to providing sufficient funding to meet the annual running costs of the property portfolio the Medium Term Financial Strategy also includes a number of capital schemes which are property related. The Capital Programme includes a four year funding stream of £4.75 million a year with a specific focus on addressing Health and Safety issues in Council properties with a particular emphasis on asbestos, legionella and fire risks. The Capital Programme also includes funding to support the Council's Building Schools for the Future Programme. A scheme proposing capital expenditure of £4.8 million over a six year period will finance the refurbishment of fourteen more libraries. An indicative proposal to rationalise and refurbish the various properties in the Council headquarters stock will be subject to further development.

The ICT Strategy

Virtually all of the Council's services are reliant on ICT systems to support their front line activities. The Strategy aims to provide modern IT tools for all staff and make them available wherever and whenever they are required. To achieve that the Council needs a robust and efficient IT network which provides staff with high speed access from any Council site, and increasingly from mobile access. The Medium Term Financial Strategy encompasses the "One County, One Network" programme which will bring together the separate network currently operated for schools with the network serving the rest of the Council. This will ensure that all establishments will have access to a single high band with resilient network.

The Council's main Data Centre is at the heart of the Authority's ICT infrastructure. It is housed in a separate building on the County Hall site. During recent building works to install an improved air conditioning system it became apparent that structural loadings on the building would be excessive. Temporary measures were taken to make the building safe, but it remains vulnerable to high temperatures. Alternative proposals for relocating the Data Centre are being explored and the Capital Programme includes an indicative scheme which is currently uncosted and will be progressed under the full Business Case process.

The Council has over 30,000 computers and more than 600 systems and applications. The 130,000 users of these systems are connected to central equipment and each other through a complex web of servers, routers, switches etc. The Capital Programme includes a rolling programme of £1 million a year to fund the systematic refresh of the underlying ICT infrastructure.

The Improvement Programme includes a proposal to replace the existing corporate business systems, Payroll/HR/Accounting, with an integrated suite of systems known as an Enterprise Resource Planning (ERP) system. The project is not simply concerned with installing new ICT systems but about revising and streamlining the Council's support functions to eliminate paper based transactions and manual interventions.

The Procurement Strategy

The Procurement Strategy aims to deliver cost effective and innovative procurement practices across the Council to drive out savings in support of the Council's Medium Term Financial Strategy. Savings will be achieved by improved processes, making the whole process from requisition to payment electronic and standardised. The introduction of "category management" with specialised professional procurement officers in a single procurement centre will ensure that savings from a more focused approach to procurement will be achieved. Joining up purchasing decisions, both across different departments of the Council and in collaboration with other public bodies, will achieve greater economies of scale. We will also strive to procure more goods and services from local suppliers where this is cost efficient as a measure to support local businesses and stimulate the local economy.

Working in Partnership

The County Council has a successful record of working in partnership both with other Local Authorities and with other public bodies, the voluntary sector and the private sector.

All public services - and the County Council is no exception, face challenging financial and operational pressures over the coming years. New approaches are needed if we are to succeed in surmounting the financial challenges before us.

These challenges provide an opportunity and impetus to build on ways for all three sectors to work together to ultimately provide better services and value for money.

The District Local Strategic Partnerships and the County LSP (The Nottinghamshire Partnership) have had considerable success in delivering better outcomes for residents and more cost effective service delivery.

The success within the Nottinghamshire Partnership has brought financial rewards. The Local Area Agreement Reward Grant expected in 2010/11 is £6.8 million with a further £5.9 million expected in 2011/12 based on targets achieved by the end of 2009/10.

Whilst it is acknowledged that further work needs to be undertaken to eradicate duplication and bureaucracy within the current partnership arrangements, it is equally clear that great progress has been made in achieving a more cohesive, shared and joined up approach to service delivery across the sectors. The County Council has been at the heart of these achievements.

The Sustainable Community Strategy for 2010-2020 is a jointly produced and agreed document setting a clear and joint vision for Nottinghamshire which has been endorsed across the sectors.

The alignment of priorities across the public sector will assist and enhance partnership working leading to increased efficiencies and better outcomes.

The Council is already leading on a number of joint procurement activities including East Midlands Property Alliance and EMLawshare, the latter of which has saved Authorities across the East Midlands in the region of £3.5 million in legal fees over the last four years.

The Adult Social Care department are undertaking a number of joint commissioning projects with the Health Service.

The Children’s Trust Board are working successfully to improve integration of services for children and young people across Nottinghamshire.

The Communities department has a number of long term contracts with private sector providers delivering excellent value for money services.

Government Grant

The Comprehensive Spending Review of 2007 introduced the first three year Formula Grant Settlement for local government. This provided much needed financial certainly and enabled authorities to plan ahead in the knowledge that one of the main sources of funding was predictable.

In respect of 2010/11 there was some speculation that the Government might reduce the overall grant settlement in the light of the current economic climate. Fortunately, the Government did not change the settlement and the County Council will receive an increase in Formula Grant of £8.5 million, rising to £176.1 million. Very little is known about possible grant settlements for 2011/12 and beyond and as shown in the Economic Outlook section above. The budget proposals are that the grant will reduce by 2% per annum in cash terms from 2011/12 and each year thereafter.

Whilst the level of reduction may appear modest it should be noted that Nottinghamshire currently loses over £15 million of its Formula Grant as a result of the grant “floors” which are included in the settlement to protect those authorities which would not otherwise receive a grant increase.

If the overall grant for all authorities is to be reduced there is an expectation that the “floor” authorities would have the protection removed and this could redistribute additional funding to Nottinghamshire and the other authorities that contribute to the “floor” mechanism.

In some years the Government has transferred funding from certain specific grants into the Formula Grant Settlement. However, because of changes in the grant formula and supporting data it is never possible to clearly identify whether or how much has been included. Local authorities generally oppose the rather opaque transfers as being “smoke and mirrors”. Because of this lack of financial clarity it is good practice to review the service area before adding to the funding met by the Council Tax.

It is therefore proposed that as a matter of policy where grants are transferred into Formula Grant the level of service and funding provided will be reviewed and any additional burden on Council Tax will be considered alongside other budget pressures.

There are a number of other small grants which have been consolidated over recent years and now form the Area Based Grant. The Supporting People Grant was merged with the other elements of the Area Based Grant for the first time in 2010/11. The forward financial assumption is that Area Based Grant will reduce at a rate of 3% a year.

The Shadow Chancellor, George Osborne MP, has indicated that a Conservative Government would introduce a two year Council Tax Relief Grant of up to 2.5% per year. Details of how this would be applied in practice have not yet been published, but it is believed that if a Council set its Council Tax with no increase on the previous year then the Government would provide additional grant which would be equivalent to a 2.5% Council Tax increase. For Nottinghamshire that would amount to about £7.5 million a year. No allowance for this possible change has been built into the Council's Medium Term Financial Strategy, but the position will be reviewed.

Sensitivity Analysis

The effect of a 1% variation in Formula Grant would be £1.8 million. This means that if the Authority loses more than 2% Formula Grant in subsequent years it will be necessary to find further efficiency or reprioritisation savings to maintain expenditure at planned levels.

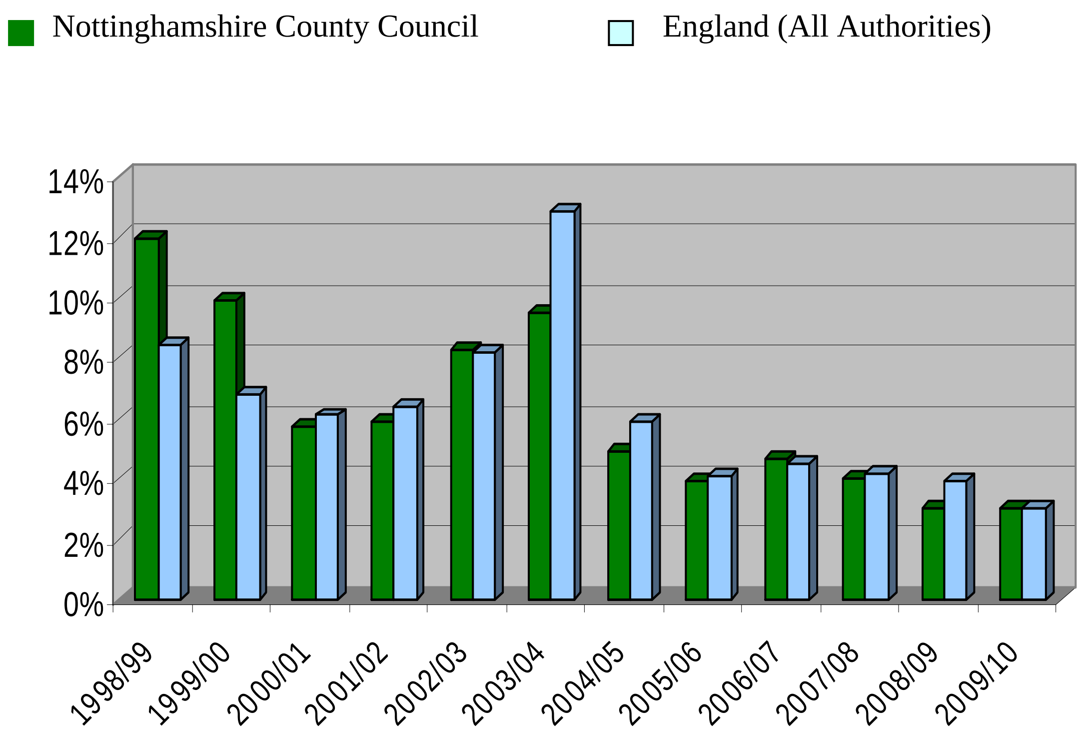
Risk Analysis

In the absence of a forward looking Comprehensive Spending Review the ability to accurately forecast future grant settlements is reduced. The assumption in the Medium Term Financial Strategy that Formula Grant will reduce by 2% per annum is considered prudent given that the Council could benefit from the reduction in grant "floors". A new Comprehensive Spending Review will be undertaken after the General Election and budget assumptions will be revised in preparation for the 2011/12 Budget. There is no risk that the grant will alter for 2010/11 and a low risk that 2011/12 reductions will exceed the assumptions made.

*Risk Assessment – **Low Risk** that changes in grant allocations will undermine the existing Medium Term Financial Strategy.*

Our Policy on Council Tax

Since local government reorganisation in March 1998 Nottinghamshire County Council has followed the national trend of Council Tax increases above the rate of inflation. In the 12 years since 1997-98 Nottinghamshire County Council's Council Tax element has increased by 106% compared with a rate of inflation of 39%. The trend in Council Tax since 1997-98 has been as follows:



In 2009/10 the Band D Council Tax for Nottinghamshire County Council was £1,193.

Following the County Council elections in June 2009 the Council has proposed a freeze on Council Tax for 2010/11. No increase is planned for 2011/12 to 2013/14. Each year, all budget assumptions will be re-validated in light of the changing economic circumstances and prevailing levels of inflation, Government grant settlements and changes in legislation.

The Council Tax strategy will be to stabalise the Council Tax at 2009/10 levels. This strategy will be reviewed each year in the light of government funding and emerging service pressures.

Sensitivity Analysis

Each 1% increase in Council Tax raises in the region of £3.0 million. An increase of 1% would add £11.93 per year to a Band D property However, most properties in Nottinghamshire are in Bands A and B and a 1% increase would equate to £7.95 and £9.28 per year respectively.

Risk Assessment

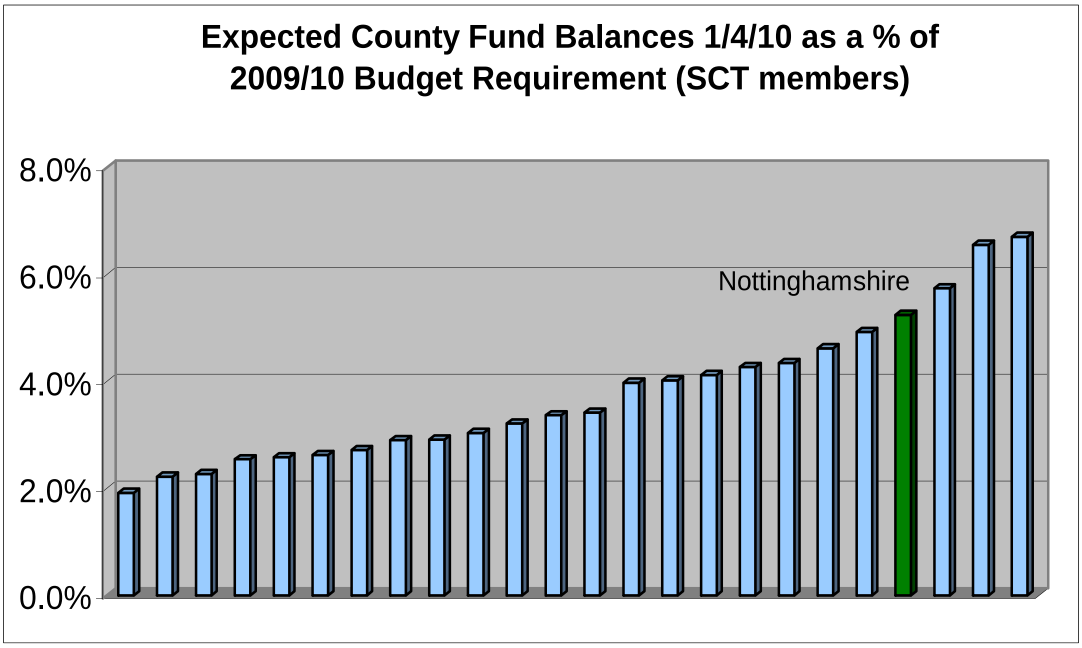
The will be continuing pressures on the Council's budget as a result of growing demands, particularly in the caring and protective services. The Council's strategy for addressing service pressures is to continue to release efficiency saving and reprioritisation of resources within a given Council Tax envelope.

Risk Assessment – ***LOW RISK*** *that Council Tax increases will be higher than planned.*

Our Policy on County Fund Balances

County Fund Balances as at 31 March 2010 are anticipated to be £24.8 million, around 5% of the 2009/10 non-schools budget. An annual risk analysis of revenue costs is undertaken to ensure the level of reserves and contingency within the budget are sufficient to cover unforeseen requirements.

An SCT survey of shire counties for the 2010/11 budget revealed that the average level of anticipated balances at 31/3/2010 was 3.6% of the total budget.



The table above indicates that the County Council's balances are relatively healthy compared with similar authorities. Given the prevailing economic conditions and financial outlook and uncertainties of future service demands a reasonable level of balances provides a financial buffer. The Council will manage its expenditure carefully and any year end underspendings will be used to increase County Fund balances if possible.

A level of County Fund Balances at about 5% is considered prudent and the Council will aim to achieve this level over time.

Sensitivity Analysis

1% of the non-schools budget represents balances of around £4.8 million in 2010/11.

Risk Analysis

In spite of budget difficulties the Authority has continued to hold balances of over £20 million for a number of years. The Council intends to use around £2 million of Balances in 2010/11 to support the work of the Improvement

Programme. The instability of Government funding and future service demands suggests that there could be a call on County Fund Balances in future years. However the Council carries out a detailed risk assessment each year as part of the annual budget cycle and maintains specific reserves for certain predicable items. A modest General Contingency is held to manage in year fluctuations.

Risk Assessment – ***LOW RISK*** *that balances will fall below 4% of the non schools budget*

Our Policy on Reserves

Departmental Reserves

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

1. Asset replacement of short life assets, usually 10 years or less
2. To “Save to invest” for items of expenditure which are irregular
3. For trading activities (no more than 2% of annual turnover)
4. To support items of capital expenditure

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

Other Reserves

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

1. Carry Forwards. Where Portfolios have underspent and suitable business cases can be made for using those underspendings in the New Year then an earmarked carry forward will be created. Departments are allowed to carry forward up to 2% of their budget at budget time, with additional underspendings at the year end split 50% for recycling within departments and 50% for recycling between departments (Corporate recycling).
2. PFI Reserves. The profile of Central Government funding for these schemes does not match the incidence of costs so reserves are held to even out the impact on the Council Tax over the lifetime of the PFI contracts.
3. Pay Review Reserve. The Authority has maintained a reserve to meet the costs of implementing Job Evaluation. The first and second phases of Job Evaluation have now concluded with the exception of a few staff with particularly complex job histories. The Council is now beginning the third phase of the Pay Strategy dealing with non teaching staff in schools. At this stage the costs of back pay for these staff cannot be accurately calculated so a new Pay Review Reserve is to be established. This reserve will be reviewed annually.
4. Capital Expenditure Reserve. A capital expenditure reserve is held where departments have made revenue contributions to capital expenditure that has been delayed until future years. Additionally a sum is held to cover items of expenditure where the County Council does not wish to use normal capital financing methods.
5. Insurance Reserve. This reserve is reviewed annually by the Service Director, Finance together with the Risk and Insurance Manager to determine its adequacy to cover potential claims arising in past years.
6. Improvement Programme Reserve. A reserve has been created to finance some of the costs of the Council’s Improvement Programme.

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

Risk Analysis

Departmental reserves have been reduced in recent years, as a result of the annual reviews.

For the most part the other reserves are within the control of the Authority or are predictable (e.g. PFI Schemes). The one exception is the Pay Review Reserve where the costs of implementing Job Evaluation for non-teaching school staff is still subject to some uncertainty.

*Risk Assessment – **MEDIUM RISK** that there will be additional demands on the Pay Review Reserve*

***LOW RISK** that the remaining reserves would prove to be inadequate*

Our Policy on Improvement and Value for Money

The Authority has a long history of reviewing services to achieve better value for money. The Authority benchmarks performance and cost against other authorities for major services, to identify areas where value for money could be improved.

The Authority has prioritised achieving efficiencies in order to ensure resources are released for the provision of “front line” services.

An Improvement Programme has been established to focus the efforts of the Authority to generate additional savings in the short and medium term to help balance future years budgets. The Programme will consist of a number of short term projects and savings of £1 million have been anticipated as part of the 2010/11 budget. A number of larger projects are to be introduced to produce significant reductions over the next five years. The Improvement Programme was approved in principle at the Cabinet meeting in January 2010, and a report seeking authority to implement the programme is included on the County Council agenda for 25 February 2010.

Like every council in the country, Nottinghamshire County Council faces ongoing, significant and avoidable increases in demand for key services, at the same time as it faces an unprecedented and long-term reduction in the resources available to it.

In broad terms present forecasts are that the Council must reprioritise and reduce its current expenditure by at least £86 m, or 18% of its revenue budget, over the next three financial years.

This presents the Council with a challenge beyond the norm. Historically, savings to meet the need for reprioritisation or reductions have been achieved through a process of allocating percentile saving targets across departments. However, such is the scale of the financial challenge now faced, it is acknowledged that further percentile reductions would have a disproportionate and detrimental impact on many service users.

For future years, there is a stark choice: continue to make incremental cuts across all services; or adopt a strategic approach that achieves reductions in a structured and consistent way.

The Improvement Programme represents a more strategic and radical approach. It is designed to drive out inefficiency, target resources, minimise the impact on service outcomes and create an organisation that is fit for purpose and financially sustainable in the longer term.

This approach demands fundamental change to business. The change will radically reposition the way the Council operates. As such, it will have a direct impact on many of the people that currently work for the Council, to an extent not previously experienced, and will lead to a significant reduction in post numbers across the organisation.

Risk Analysis

There is a risk that the Authority will not be able to identify sufficient savings to balance future years budgets. However, setting an unbalanced budget is unlawful and therefore any shortfall in savings identified through the Improvement Programme would have to be met either by frontline service reductions or contributions from County Fund Balances.

Risk Assessment - ***LOW RISK*** *that the Council will not achieve its value for money and improvement savings.*

Our inflation Assumptions

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

Payroll is a major element of the Council's expenditure. Predicted pay awards have been assumed at 0% for 2010/11 and 1% thereafter. Most County Councils have built a zero pay award assumption into their budget planning and the Chancellor has recently stated that public sector employees should accept the same sort of pay restraint as the private sector. The Local Government Employers recently announced that, following widespread consultation with Councils, they are unable to offer any increase in pay for 2010/11. In addition the Chancellor announced a 1% cap on public sector pay settlements in 2011/12 and 2012/13 in his Pre Budget Report in December 2009.

Inflation on non-pay budget has been assumed at 2% although within each Portfolio certain budgets have received only 1% and managers will be expected to contain expenditure within the amount provided.

There remains a risk that some costs that impact on local authorities, will increase at levels above the rate of general inflation. Recent examples of this are costs of highways maintenance materials and the Council's waste PFI contract. The 2010/011 budget includes some specific additional allocations for these costs.

Sensitivity analysis

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

	£m
Inflation	3.2
Pay	1.8

Risk Analysis

There is a risk that some services could be adversely affected by significant inflation increases for specific goods and services, and in particular oil based products, energy, transport and waste disposal.

Risk Assessment –

MEDIUM RISK *that specific increases will exceed the general inflation allowance.*

Our Capital Strategy

The Strategy is to enhance the permanent facilities for use by the community and to improve and maintain existing assets and replace those that are no longer fit for purpose. All new schemes will be assessed in terms of their contribution to the Strategic Plan objectives. Full Business Cases will be developed for all proposed schemes and feasibility studies undertaken before capital resources are approved. The whole property portfolio will be reviewed and rationalised as part of the Improvement Programme. The size of the Capital Programme will be influenced by funding sources and financing costs.

The Council has developed a 10 year capital strategy, with a costed programme for years 1-4 together with details of desirable projects for years 5-10. This approach allows time to develop more robust costings for the later projects and therefore help reduce slippage or overspends within the Capital Programme.

Expenditure

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

The approved Capital Programmes for the next 4 years are:

	£m
2010/11	145
2011/12	82
2012/13	66
2013/14	62

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

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

Funding

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

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

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

Borrowing and Prudential Code

At the end of 2007/08 the County Council's external debt per head was £310. This was 40% below the average for shire counties of £516.

In line with the Prudential Code introduced in 2004/05, the Authority estimates how much it expects to borrow and then sets an "Authorised Limit" which allows for additional borrowing resulting from timing differences in asset sales and capital expenditure. Asset sales for the four years 2010/11 to 2013/14 are expected to be around £59 million in total. The Authorised Limit has been set to allow for additional borrowings.

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

Risk Analysis

The Authority continues to have an ambitious but sustainable Capital Programme with some significant potential additional schemes such as Building Schools for the Future and library refurbishments. The existing Capital Programme is underpinned by realistic levels of capital receipts, which will be regularly reviewed. A shortfall in capital receipts would put additional pressure on borrowing.

The effect on the revenue budget could be affected by increases in interest rates.

Risk Assessment – LOW RISK *that the existing Capital Programme will not be delivered.*

LOW RISK *that capital receipts are not eventually realised*

MEDIUM RISK *that interest rate rises will increase the impact on the revenue budget*

Financial Implications

The financial implications of the policies and assumptions are set out below:

Revenue

	2010/11 £m	2011/12 £m	2012/13 £m	2013/14 £m
Previous Year's Budget	**472.6**	**483.9**	**481.9**	**481.2**
Budget Reductions	-24.2☆	-35.8	-21.6	-22.7
Inflation/Pension Costs	3.5	10.7	9.3	9.2
Budget Growth:				
Improvement Programme	8.3	-3.0	-2.6	-2.1
Budget Pressures	26.8☆	17.9	6.7	14.6
Borrowing Costs	2.3	2.9	1.0	-0.5
Existing Commitments	-2.0	-0.3	-	-
Contingency	-1.3	1.8	2.3	2.5
Reserves	-3.8	4.4	-	-
County Fund Balances	1.7	-0.6	4.2	-1.6
Total Spend	**483.9**	**481.9**	**481.2**	**480.6**
Council Tax Increase	**0%**	**0%**	**0%**	**0%**
Government Grant Increase	**5.1%**	**-2.0%**	**-2.0%**	**-2.0%**
County Fund Balances	**£22.9m**	**£20.2m**	**£21.8m**	**£21.8m**
	4.7%	**4.2%**	**4.5%**	**4.5%**

Notes:

☆ See page B2 for explanation of differences from Cabinet report of 3/2/10

Capital

	2010/11 £m	2011/12 £m	2012/13 £m	2013/14 £m
Capital Expenditure	**145**	**82**	**66**	**62**
Financed by:				
Supported Borrowing*	15	-	-	-
Other Borrowing	56	37	15	17
Capital Grants etc	70	21	25	40
Capital Receipts	4	24	26	5
	145	**82**	**66**	**62**