

**EXECUTIVE BOARD - 22 DECEMBER 2015**

<b>Subject:</b>	Budget Consultation 2016/17		
<b>Corporate Director(s)/ Director(s):</b>	Geoff Walker, Strategic Director for Finance		
<b>Portfolio Holder(s):</b>	Councillor Graham Chapman, Deputy Leader/Portfolio Holder for Resources and Neighbourhood Regeneration		
<b>Report author and contact details:</b>	Theresa Channell - Head of Strategic Finance 0115 8763657 <a href="mailto:theresa.channell@nottinghamcity.co.uk">theresa.channell@nottinghamcity.co.uk</a>		
<b>Key Decision</b>	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No	<b>Subject to call-in</b> <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
<b>Reasons:</b> <input type="checkbox"/> Expenditure <input type="checkbox"/> Income <input type="checkbox"/> Savings of £1,000,000 or more taking account of the overall impact of the decision	<input checked="" type="checkbox"/> Revenue <input type="checkbox"/> Capital		
Significant impact on communities living or working in two or more wards in the City	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No		
<b>Total value of the decision:</b> Nil			
<b>Wards affected:</b> All	<b>Date of consultation with Portfolio Holder(s):</b> Throughout the budget process		
<b>Relevant Council Plan Key Theme:</b>			
Strategic Regeneration and Development			<input checked="" type="checkbox"/>
Schools			<input checked="" type="checkbox"/>
Planning and Housing			<input checked="" type="checkbox"/>
Community Services			<input checked="" type="checkbox"/>
Energy, Sustainability and Customer			<input checked="" type="checkbox"/>
Jobs, Growth and Transport			<input checked="" type="checkbox"/>
Adults, Health and Community Sector			<input checked="" type="checkbox"/>
Children, Early Intervention and Early Years			<input checked="" type="checkbox"/>
Leisure and Culture			<input checked="" type="checkbox"/>
Resources and Neighbourhood Regeneration			<input checked="" type="checkbox"/>
<b>Summary of issues (including benefits to citizens/service users):</b>			
This report contains draft proposals for the revenue element of the Council's Medium Term Financial Plan (MTFP) for 2016/17 to 2018/19.			
Headlines include:			
<ul style="list-style-type: none"> <li>• continued disproportionate Government funding cuts with the expectation that the Revenue Support Grant (RSG) will have more than halved since 2013/14;</li> <li>• local services will be increasingly funded by local tax payers as Central Government funding continues to cut local government funding;</li> <li>• there is increased demand for services such as Adult Social Care and Children in Care;</li> <li>• consultation covering <b>£19.766m</b> savings in 2016/17, subject to outcomes of the provisional settlement, following savings of <b>£152m</b> previously found over the last 5 years;</li> <li>• savings look to minimise the impact of service reductions and changes on vulnerable citizens;</li> <li>• commercialisation opportunities are underway that will generate income and help offset the impact of Central Government grant reductions;</li> <li>• savings include transforming Adult Social Care to achieve sustainable health care services in partnership with the NHS;</li> <li>• budget assumes a City Council increase in council tax of <b>1.95%</b> and the introduction of the additional <b>2%</b> Social Care precept on council tax as assumed by the Government;</li> <li>• remaining budget gap in 2018/19 of a further <b>£26.987m</b> with an expectation that the Settlement will increase this gap further.</li> </ul>			

The final overall proposals for the MTFP, including any changes arising from consultation, will be considered by Executive Board in February 2016 for recommendation to Full Council in March 2016.

**Exemption from call-in:**

This decision is not subject to call-in as Councillor Brian Parbutt, Chair of the Overview and Scrutiny Committee, has agreed that the decision is reasonable in all the circumstances and should be treated as a matter of urgency, as any delay will impact on the public consultation period.

**Exempt information:** None

**Recommendation(s):**

- 1 To note, endorse and release the MTFP proposals as set out in paragraph 2.6 and Table 3 of the report for formal public consultation, noting that further details relating to individual savings are contained in Appendix 1a-j.

**1. REASONS FOR RECOMMENDATIONS**

- 1.1 This report presents and seeks endorsement for currently identified draft saving proposals for 2016/17 to 2018/19 to enable the release of details for public consultation.
- 1.2 Any options that include proposed workforce reductions will be subject to consultation, which entails jointly examining and discussing the proposals and issues of concern with the trade unions and affected colleagues. The details of such proposals may, therefore, change during the consultation period and this may impact on the way in which identified savings will be delivered.

**2. BACKGROUND (INCLUDING OUTCOMES OF CONSULTATION)**

**2.1. Overview**

Nottingham City Council, like all other local authorities across the Country, has seen a substantial reduction in government funding as a consequence of the Government's policies to tackle the national fiscal deficit.

Between 2010/11 and 2015/16 the overall settlement funding for the Council, after taking account of transfers in funding and new burdens, has been reduced by the equivalent of **£102m** with further significant cuts expected for 2016/17 and beyond.

In 2015/16, Nottingham suffered a headline reduction in 'spending power' of **-5.3%** compared to the national average of **-1.7%**. This included **£51m** funding for Better Care Fund, Public Health Grant and new burdens for Adult Social Care. If this is excluded, as it is to finance new burdens, the Council's underlying reduction falls further to **-9.8%**.

By 2016/17 the Council expects its Revenue Support Grant (RSG) will have more than halved since 2013, with a reduction of nearly **£68m** according to current projections. By contrast, over the same period, Business Rates will have increased by **£10m** and Council Tax by **£14m**.

Alongside this reduction in grant income, Nottingham has seen increased demand for a number of services, for example Adult Social Care and Children in Care which already account for **50%** or **c£128m** of the Council's net budget. These increasing care pressures, alongside continuing funding cuts, will have a significant impact on the Council's ability to fund other local services.

Over the last 5 years Nottingham has had to make annual savings to the total of **£152m**. The Council will continue to have to make difficult decisions about the services it provides in order to close a predicted budget gap of **£20.5m** in 2016/17.

## 2.2. Impact of recent settlements

The National Audit office has confirmed in a paper published in November 2014 that authorities that depend on government grants have been affected most by grant funding reductions, and those with the highest levels of deprivation have seen the greatest reductions in spending power.

Recent analysis of the Government figures on 'spending power' by the independent think-tank the Institute for Fiscal Studies shows that the cumulative burden of funding cuts has fallen heaviest on those authorities, including cities like Nottingham, with the highest levels of deprivation and consequently the highest dependence on grant funding. For example, the most deprived tenth of councils saw spending cuts of **28%** per person between 2009/10 and 2014/15, while the least deprived tenth had spending cut by **16%** per person.

Similar analysis by Special Interest Group of Municipal Authorities (SIGOMA) has shown that these disparities are also reflected across regions, with areas in the North and Midlands being hit harder than areas in the South. For example, the East Midlands lost **£160** in funding per head by 2012 compared with a gain of **£45** per head in London.

This trend is set to continue whilst the inequalities in the funding mechanism remain. Fundamental reform is required if Nottingham and many other councils across the country are to continue to meet statutory responsibilities.

## 2.3. Managing the funding cuts

In response to these funding cuts, the Council's service and financial planning process has once again facilitated significant proposed movements in resources. Such changes:

- take account of the Council's priorities within the Council Plan 2015-2019 agreed by Council on 9 November 2015;
- address demographic and service pressures through investment;
- reflect the significant reductions in external funding (especially general and specific Government grants) by reducing expenditure on those activities;
- support the Council's determination to be efficient, improve performance and modernise the organisation;
- recognise the very challenging financial landscape and future outlook and the impact on all sectors, including the public sector.

In addition, the Council's approach to setting recent budgets has, where possible, been guided by the following key aims:

- to minimise the impact of service reductions and changes on vulnerable citizens;
- to protect frontline services;
- to pursue commercialisation opportunities to generate income for the Council, and help offset a proportion of the impact of grant reductions..

In addition, the Council will continue its focus on regeneration and growth by investing in infrastructure and assets to create the right conditions for businesses to grow and for the creation of jobs. The Capital Programme element of the MTFP will be presented to February Executive Board.

## 2.4. Key financial objectives

The main financial objectives for the City Council focus on ensuring financial planning and management supports citizens to have access to value for money services which are

modern and fit for purpose; maintaining good underlying financial health and good governance, and always taking a longer term view.

This policy-led, medium term approach to financial planning and management is good practice and ensures that the Council can fund our vision, values and priorities. The City Council is committed to maintaining financial stability and delivering value for money through effective, economic and efficient services

All proposals are scrutinised throughout the budget process by peers, senior colleagues and councillors, and is informed by the use of a variety of performance and financial data.

## 2.5. Funding assumptions

Local Government continues to operate in a very challenging financial environment and there is considerable uncertainty over the future levels of funding.

The Government Spending Review and Autumn Statement published on 25 November provided some headline national figures indicating significant future local government spending cuts. By 2019/20 overall local government funding will receive a **-6.7%** net real terms cut, central grant funding cut by **-56.3%**, partially offset by an assumed **17.5%** increase in national Council Tax and business rates income. Local government will again face deeper cuts than the rest of the public sector over the period of this Spending Review as it did for the last.

The provisional Local Government Finance Settlement is not expected to be announced until just before Christmas. This may also include the review announced in the Spending Review that will look to rebalance support to those authorities with social care responsibilities, by taking into account the main resources available to councils, including council tax and business rates.

**Table 1** shows the currently assumed funding for 2016/17 **before** the expected announcement of the provisional settlement and the statutory return of detailed business rates projections to the Department for Communities and Local Government (DCLG). It is expected that the continuing trend in funding will mean that local services will be increasingly funded by local tax payers as Government funding continues to significantly fall.

The funding assumptions will be updated for the final confirmed settlement expected in early February, and the impact of future spending cuts announced in the Spending Review, in the February Executive Board report once the full details are available. However, based on initial understanding, there could be significant further reductions in funding by 2018/19.

<b>TABLE 1: ASSUMED FUNDING</b>			
<b>DESCRIPTION</b>	<b>2016/17 £m</b>	<b>2017/18 £m</b>	<b>2018/19 £m</b>
<u>Current Projections</u>			
Retained Business Rates	(62.488)	(64.050)	(65.652)
Top-up	(27.991)	(28.691)	(29.408)
Revenue Support Grant	(59.033)	(47.227)	(37.781)
<b>Assumed Settlement</b>	<b>(149.513)</b>	<b>(139.968)</b>	<b>(132.841)</b>
Council Tax	(93.358)	(97.804)	(102.457)
<b>TOTAL FUNDING</b>	<b>(242.870)</b>	<b>(237.772)</b>	<b>(235.298)</b>

### Retained Business Rates

With the 50% local retention of business rates it is necessary for each authority to estimate the amount of business rates to be collected in 2016/17. The monitoring and estimating of business rates is a local responsibility which transfers financial risks to the council. It has a much greater degree of volatility than council tax due to uncertainties surrounding properties and, in particular, outstanding appeals. A provisional estimate of retained business rates has been made for the projections shown in this report.

This report assumes that the Government continues to compensate councils for the loss of business rates income as a result of previous changes to the business rates multiplier and various reliefs in both 2014/15 and 2015/16, by grants under section 31 of the Local Government Act 2003.

By the end of the current parliament the Government is working towards local councils retaining 100% of business rates and will be consulting in 2016 on the required changes to local government finance system. The Government has stated that RSG will disappear by 2019/20.

### Top-up

Under the retained business rates system any authority whose business rates income is less than their initial baseline funding level, as in the case for Nottingham, will receive the balance as a 'top-up'. Some form of redistribution will be a continuing feature of future funding settlements for authorities with a low tax base and will be up-rated as appropriate for subsequent years.

### RSG

All authorities currently continue to receive RSG from central government in addition to their retained business rates. An authority's RSG amount plus its local share of the estimated business rates aggregate will together comprise its Settlement Funding Assessment. Current figures assume a reduction of **20%** or **£14.8m** in 2016/17.

As part of the announced changes to the local government finance system the central grant provided to local government will eventually cease by 2019/20.

### Specific Grants

The budget has been constructed on the basis that if specific grant funding reduces then the expenditure and activity will reduce accordingly. If this is not the case then further savings will need to be identified to cover the shortfall.

### Department of Health - Public Health Grant

The ring fenced Public Health Grant is **£27.839m** in 2015/16, however, this has incurred in-year reductions of **6.2%** (**£1.726m**), with further reductions required over the next 5 years.

The Spending Review headlines are that real term savings of **3.9%** per annum during this period will occur on the grant in total with the ring fencing remaining in place during 2016/17 and 2017/18.

Pending confirmation of the impact and profile of this grant reduction to Nottingham, initial indications are that this could range between **£2.784m** and **£3.034m** for 2016/17.

### Department of Health - Health Visitors & Family Nurse Partnership

During 2015/16 responsibility for this service transferred to local authorities. The 2015/16 part year budget transfer is **£4.537m**, with a full year's budget being £9.075m.

This budget is subject to the same level of budget cuts as the Public Health Grant which equates to in-year cuts of **£0.281m**. Initial indications regarding the impact for 2016/17, pending confirmation of the impact and profile, is between **£0.907m** and **£0.989m**.

#### Department for Education - Academisation

The Spending Review and Autumn Statement represents the next step in local authority influence in running schools and all schools becoming academies; this in turn will reduce the amount of Education Service Grant (ESG) received by local authorities.

The 2015/16 ESG allocation is **£2.112m**; this has reduced by **£1.520m** during the last 2 years. Proposals to mitigate this reduction are being incorporating into this budget process.

The allocation of the grant is split into 2 funding elements:

- statutory duties for all pupils in the local authority - £0.615m in 2015/16. This is based on a rate of £15 per pupil in 2015/16, however, there is a risk associated with this funding if the rate is reduced and/or there is a review/transfer to academies of the statutory obligations of the local authority to pupils;
- pupils in mainstream maintained schools - £1.497m in 2015/16. This element will reduce/cease as schools academise.

#### New Homes Bonus

The New Homes Bonus is a grant to local Councils for increasing the number of new homes. Under the current scheme the Government matches the council tax raised for new homes for six years. This is currently worth **£4.730m** for Nottingham City Council in 2015/16. The November Spending Review included an announcement to consult on changes to the New Homes Bonus proposing that the payment is reduced to four years with objective to “sharpen” the incentives.

#### Tax Base

Executive Board are required to agree the council tax base for 2016/17 by the end of January and a detailed report will be presented for consideration to the next Executive Board.

#### Council Tax

The proposed MTFP assumes a **1.95%** per annum council tax increase in each financial year.

For the last 4 years the Council has increased Band D council tax and, therefore, has not been in receipt of Council Tax freeze grant (CTFG). Taking the available CTFG and freezing council tax over this period would have resulted in an additional **£12.6m** cumulative savings requirement.

There have been recent Government ministerial indications that the 2% referendum limit on council tax increases will remain and the Council Tax freeze grant will not continue. Confirmation is expected in the provisional financial settlement in late December.

In addition, the proposed MTFP assumes an additional Social Care Precept of **2%** per annum to fund Adult Social Care as announced in the Spending Review. The introduction of this new precept by the Government is a consequence of the underfunding of social care costs in the previous and current Spending Reviews. This precept must be spent exclusively on Adult Social Care but is insufficient to keep pace with the increasing demand and costs of Adult Social Care. The Governments spending review assumes that all eligible councils will implement this 2% Social Care Precept.

## 2.6. MTFP

### Updating Budget Assumptions

The MTFP was previously published in February 2015 with a net budget requirement of **£255.814m** for 2015/16, and a budget gap of **£22.049m** for 2016/17, rising to **£34.089m** for 2017/18.

The assumptions within this MTFP have been refreshed to reflect the Council's current understanding in relation to inflation, corporate adjustments, previous MTFP proposals and service/demographic pressures particularly:

- continued demographic growth and costs in adults requiring Social Care support is 1.25% above that already included in the current MTFP. This is due to a change in the complexities of requirements for support, growth in numbers and the impact of the National Living Wage;
- demographic growth in children requiring Social Care support packages continues to grow per annum; this is compounded by a change in the complexities of requirements and associated costs. Current pressures are based on cost pressures of 3.1% per annum;
- net revenue impact of the Capital Investment Strategy. The Council's capital investment plans will be detailed in the February Executive Board report. This three year programme will focus on delivering the Council's priorities and improved outcomes from investment. Commercial schemes, which are self-funded, will be supported by robust business cases and financial models. The revenue consequences of such schemes are funded by income generated by the capital investment. However, some schemes have long paybacks and will require financial support in the early years. Provision for this has been reflected in the MTFP.

Adjustments have also been made to reflect the continuing net impact of savings decisions made in previous budgets of **£7.985m** in 2016/17, rising to **£15.394m** in 2018/19. These mostly reflect the continuing profile of previously agreed 'Big Ticket' transformational proposals in areas such as Public Transport, Public Health, Commercialism, Energy, Adult Social Care and Reshaping Prevention and Safeguarding for Children.

### MTFP

**Table 2** summarises the impact of the 2016/17 proposals contained elsewhere in this report and is based on the starting position of the current balanced 2015/16 budget. The figures are based on current assumptions which will need to be updated for the February Executive Board report.

<b>TABLE 2: DRAFT MEDIUM TERM FINANCIAL PLAN</b>			
<b>DESCRIPTION</b>	<b>2016/17 £m</b>	<b>2017/18 £m</b>	<b>2018/19 £m</b>
Net Budget Requirement	255.814	255.814	255.814
Updated Budget Assumptions	7.588	18.568	29.160
<b>NET BUDGET</b>	<b>263.403</b>	<b>274.382</b>	<b>284.974</b>
Retained Business Rates, Top-up & RSG	(149.513)	(139.968)	(132.841)
Council Tax	(93.358)	(97.804)	(102.457)
Collection Funds	0.000	0.000	0.000
<b>ASSUMED FUNDING</b>	<b>(242.870)</b>	<b>(237.772)</b>	<b>(235.298)</b>
<b>BUDGET GAP</b>	<b>20.532</b>	<b>36.610</b>	<b>49.676</b>
Consultation Saving Proposals	(19.766)	(19.978)	(22.689)
<b>OUTSTANDING GAP</b>	<b>0.767</b>	<b>16.631</b>	<b>26.987</b>

### Proposed Savings

Over the past 5 years the Council has been required to identify **£152m** of savings to balance the budget gap as a consequence of funding cuts and increased costs. Further savings of **£20.532m** are required to balance the currently projected MTFP gap in 2016/17.

This reports sets out saving proposals of **£19.766m** in 2016/17 rising to **£22.689m** in 2018/19.

Based on the current funding assumption this leaves a gap in 2016/17 of **£0.767m** where savings proposals are yet to be finalised. Further proposals will be released and form part of the final February MTFP report to Executive Board.

**Table 3** summarises the proposals to be delivered by each lead portfolio with more detail provided in **Appendix 1a-j**.

<b>TABLE 3 : CONSULTATION PROPOSALS</b>			
<b>LEAD PORTFOLIO</b>	<b>2016/17 £m</b>	<b>2017/18 £m</b>	<b>2018/19 £m</b>
Adults, Health & Community Sector	(4.850)	(7.547)	(10.560)
Community Services & HR	(1.676)	(1.764)	(1.764)
Early Intervention & Early Years	(2.920)	(0.650)	(0.660)
Energy & Sustainability	(0.552)	(0.552)	(0.552)
Jobs, Growth & Transport	(1.751)	(1.751)	(1.751)
Leisure & Culture	(0.623)	(0.623)	(0.623)
Planning & Housing	(1.825)	(1.824)	(1.854)
Resources & Neighbourhood Regeneration	(4.756)	(4.405)	(4.063)
Schools	(0.618)	(0.668)	(0.668)
Strategic Regeneration & Development	(0.195)	(0.195)	(0.195)
<b>TOTAL</b>	<b>(19.766)</b>	<b>(19.978)</b>	<b>(22.689)</b>

Current proposals for consultation include:

- **Treasury Management – £3.601m** saving in 2016/17. This is to be delivered by reviewing the Minimum Revenue Provision (MRP) policy to re-profile debt repayments to more accurately match the use of assets. The current practice of repayments is 4% reducing balance. The proposal is to move to a 2% (50 year) straight line, this is in line with many other local authorities;
- **Transforming Adult Social Care Services – £3.000m** saving in 2016/17 rising to **£9.000m** in 2018/19. Integration of social care services with those delivered by the NHS will lead to cost efficiencies and tailored care to individual needs in a smarter, more joined up way.

This initiative is in its early stages, however, it is believed that exploring new ways of working together can give the best possible service to adults who need help in the community;

- **Children’s demographics – £1.692m** one-off saving in 2016/17 achieved through the over delivery of the Children’s transformation programme in 2016/17 which has a cumulative target of £4.716m in the current MTFP. This target increases by a further £2.4m in 2017/18. This programme aims to reduce the costs associated



with Children's Social Care by ensuring the right children have the right social care service supporting them;

- **Nottingham City Homes – £1.000m** surpluses generated by trading activities undertaken by Nottingham City Homes.

### **3 OTHER OPTIONS CONSIDERED IN MAKING RECOMMENDATIONS**

- 3.1 Throughout the budget process a range of different options are considered including various levels of council tax, investment and cost reductions. This is a complex process with many iterations and possibilities too numerous and detailed to present as discrete options here. This report presents the overall set of current draft proposals which together seek to balance levels of investment, income, cost reductions and an appropriate level of council tax.

### **4 FINANCE COMMENTS (INCLUDING IMPLICATIONS AND VALUE FOR MONEY/VAT)**

- 4.1 The City Council's annual budget, within the MTFP, forms the cornerstone of financial management and control within the organisation. All revenue spending and income will continue to be monitored against the final MTFP.

The Council has developed a robust approach to providing value for money and efficiency savings which support the delivery of the Council Plan. The embedding of a robust value for money (VFM) framework is one of the key strands within the Council's transformation programme, but it is through the mainstream application of such principles within service planning and delivery that VFM will be delivered. The Audit Committee has responsibility for the scrutiny and challenge of the framework and its implementation.

### **5 LEGAL AND PROCUREMENT COMMENTS (INCLUDING RISK MANAGEMENT ISSUES, AND INCLUDING LEGAL, CRIME AND DISORDER ACT AND PROCUREMENT IMPLICATIONS)**

- 5.1 The City Council is required to set a balanced budget for 2016/17 before 11 March 2016.
- 5.2 Insofar as the cost reduction proposals as set out in this report contain workforce reduction proposals, Section 188(1) of the Trade Union and Labour Relations (Consolidation) Act 1992 ("TULR(C)A") may well be engaged and sufficient time will need to be set aside for relevant consultation with the appropriate representatives of affected employees.
- 5.3 A detailed and comprehensive interim risk assessment will be undertaken in order to inform the Chief Finance Officer's (CFO's) assessment of the affordability of the MTFP and the consequent recommended levels of reserves and contingencies. Any increases in these levels, reflect the higher level of risk inherent in the budget arising from significantly reduced external funding sources, transfer of risks from Central Government and the resultant high levels of cost reductions required. The final risk assessment will inform the budget report to Executive Board in February 2016.

### **6 STRATEGIC ASSETS & PROPERTY COMMENTS (FOR DECISIONS RELATING TO ALL PROPERTY ASSETS AND ASSOCIATED INFRASTRUCTURE)**

- 6.1 None

### **7 SOCIAL VALUE CONSIDERATIONS**

- 7.1 None

**8 REGARD TO THE NHS CONSTITUTION**

8.1 Not applicable

**9 EQUALITY IMPACT ASSESSMENT (EIA)**

9.1 Has the equality impact of the proposals in this report been assessed?

No

An EIA is not required because any decisions relating to the draft budget proposals will be set out in further reports to Executive Board in February and to City Council in March 2015. Equality Impact Assessments are being carried out, where appropriate, for all relevant budget proposals and a summary will be provided with these reports.

Yes

**10 LIST OF BACKGROUND PAPERS RELIED UPON IN WRITING THIS REPORT (NOT INCLUDING PUBLISHED DOCUMENTS OR CONFIDENTIAL OR EXEMPT INFORMATION)**

10.1 None

**11 PUBLISHED DOCUMENTS REFERRED TO IN THIS REPORT**

11.1 None

**12 OTHER COLLEAGUES WHO HAVE PROVIDED INPUT**

Jo Worster – Team Leader (Strategic Finance)

0115 8763448

[joanne.worster@nottinghamcity.gov.uk](mailto:joanne.worster@nottinghamcity.gov.uk)

Ian Fair – Finance Analyst (Budget)

0115 8763651

[ian.fair@nottinghamcity.gov.uk](mailto:ian.fair@nottinghamcity.gov.uk)