

**EXECUTIVE BOARD – 20 December 2016**

<b>Subject:</b>	Budget Consultation 2017/18
<b>Corporate Director(s)/Director(s):</b>	Geoff Walker, Strategic Director of 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 & Deputy Section 151 Officer 0115 8763649 theresa.channell@nottinghamcity.gov.uk
<b>Subject to call-in:</b>	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
<b>Key Decision:</b>	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
<b>Criteria for Key Decision:</b>	
(a)	<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
<b>and/or</b>	
(b)	Significant impact on communities living or working in two or more wards in the City <input type="checkbox"/> Yes <input type="checkbox"/> No
<b>Type of expenditure:</b>	<input checked="" type="checkbox"/> Revenue <input type="checkbox"/> Capital
<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 draft Medium Term Financial Plan (MTFP) for 2017/18 to 2019/20.	
Headlines include:	
<ul style="list-style-type: none"> <li>continued Government funding cuts with the expectation that the Revenue Support Grant (RSG) will have decreased by nearly 65% since 2013/14;</li> <li>local services will be increasingly funded by local tax payers as Government funding continues to fall;</li> <li>demand for services such as Adult Social Care and Children in Care continues to increase;</li> <li>the assumption that the Nottingham and Nottinghamshire Sustainability and Transformation Plan (STP) is fully agreed. This transformation of Adult Social Care to achieve sustainable health care services in partnership with the NHS is assumed to mitigate the budget gap by <b>£13.878m</b> in 2017/18;</li> <li>consultation proposals of <b>£12.710m</b> in 2017/18, subject to outcomes of the provisional settlement;</li> <li>savings aim to minimise the impact of service reductions on vulnerable citizens;</li> <li>maximise commercial opportunities that will generate income and help offset the impact of Government grant reductions;</li> <li>assumes a City Council increase in council tax of <b>1.99%</b>, and the continuation of the</li> </ul>	

additional **2.00%** Social Care precept on Council Tax.

The final overall proposals for the MTFP, including any changes arising from consultation, will be considered by Executive Board in February 2017 for recommendation to Full Council in March 2017.

**Exempt information:** None

**Recommendation(s):**

**1** To note, endorse and release the MTFP proposals as set out in paragraph **2.5** and **Table 4** of the report for formal public consultation, noting that further details relating to individual consultation proposals are contained in **Appendix 1a-j**.

## **1 REASONS FOR RECOMMENDATIONS**

- 1.1 This report presents and seeks endorsement for currently identified draft budget proposals for 2017/18 to 2019/20 to enable the release of details for public consultation.
- 1.2 Any options that include proposed workforce reductions will be subject to internal 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)**

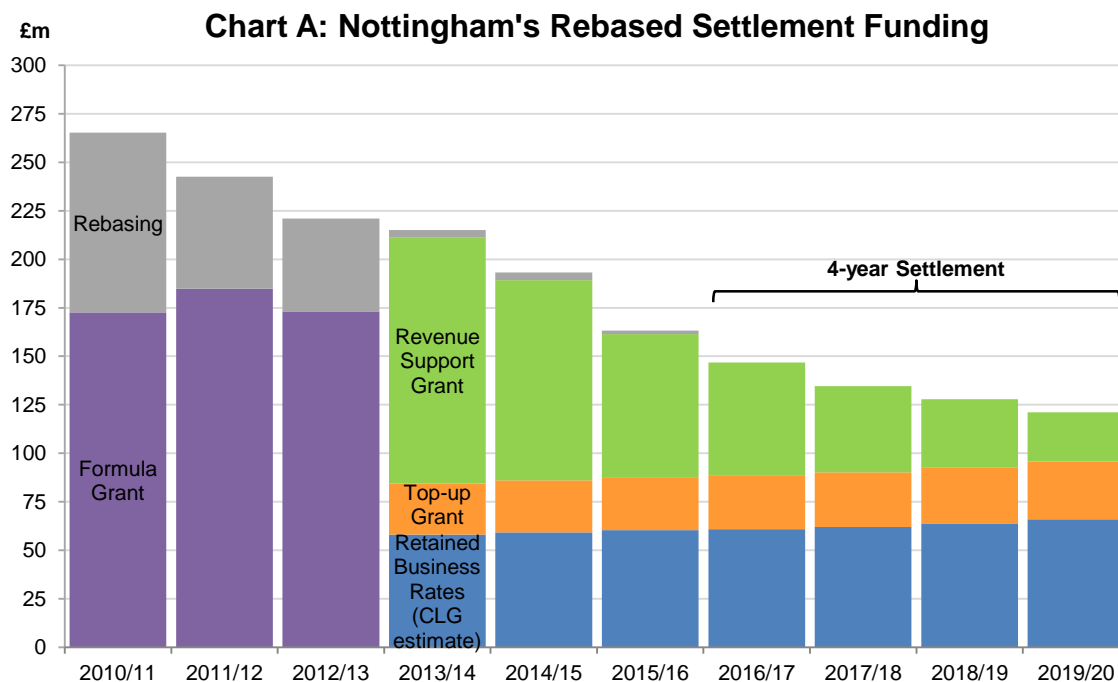
### **2.1 Economic and funding overview**

Local Government continues to operate in a very challenging financial environment and there is uncertainty over future levels of funding; consequences of the Brexit decision are as yet unknown.

The Government's Autumn Statement published on 23 November provided headline national figures on key economic indicators which have worsened since the March budget and the Government is no longer seeking to achieve a fiscal surplus in this parliament. The statement focused predominately on productivity, infrastructure and housing and announcements on the Living Wage increase from April 2017.

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.

This policy has seen RSG as a proportion of the Council's total revenue funding reduce and this trend will continue in future years. Chart A illustrates how RSG is profiled to fall from **£126.819m** in 2013/14 to **£25.332m** in 2019/20.



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 accounted for approximately half 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.

In the period from 2010/11 to 2016/17 the Council has had to make annual savings totalling **£203.961m** and will continue to have to make difficult decisions about the services it provides in order to close a predicted budget gap of **£26.815m** next year.

Locally, the Council hasn't received any transition grant. The transition grant nationally is £300m over a two year period and was set up by the Government as a support scheme for councils in response to concerns over changes in the funding calculations.

At the time of writing this report the provisional settlement for 2017/18 hasn't been published therefore figures in the February Executive Board report may alter following the settlement announcements. The provisional settlement is expected shortly before Christmas, with the final settlement expected in early February. There is speculation about changes to the referendum limits that councils can raise Council Tax to fund the budget gaps arising in Adult Social Care, this report is predicated on the existing 2.00% referendum limit for Council Tax and 2.00% Social Care Precept.

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

**TABLE 1: ASSUMED FUNDING**

<b>DESCRIPTION</b>	<b>2017/18 £m</b>	<b>2018/19 £m</b>	<b>2019/20 £m</b>
<u>Current Projections</u>			
Retained Business Rates	(63.334)	(64.981)	(67.125)
Top-up	(28.004)	(28.732)	(29.680)
Revenue Support Grant	(44.485)	(34.981)	(25.332)
<b>Assumed Settlement</b>	<b>(135.823)</b>	<b>(128.694)</b>	<b>(122.138)</b>
Council Tax (incl Social Care Precept)	(99.976)	(105.075)	(110.421)
<b>TOTAL FUNDING</b>	<b>(235.800)</b>	<b>(233.769)</b>	<b>(232.558)</b>

Retained Business Rates

From April 2017 Business Rates will be based on the 2017 revaluation; the provisional settlement will take into account the 2017 revaluation however the assumption is that top-up will be adjusted to reflect any variance.

With the 50% local retention it is necessary for each authority to estimate the amount to be collected in 2017/18, the financial risk due to the volatility within Business Rates (including outstanding appeals) has an impact on the Council's overall funding. A provisional estimate of retained element has been made for the projections shown in this report.

By the end of the current parliament the Government is working towards local councils retaining 100%.

Top-up

Under the retained Business Rates system any authority whose Business Rates income is less than their initial baseline funding level, as is the case for the Council, will receive the balance as a 'top-up'.

RSG

All authorities currently continue to receive RSG from the Government in addition to their retained Business Rates. Nottingham has accepted the multi-year settlement offer and 2017/18 will be year two of the four year settlement. RSG will then cease at the end of this period in 2019/20.

Current figures assume a reduction of **24%** or **£13.9m** from 2016/17 to 2017/18.

New Homes Bonus

The New Homes Bonus is a grant to local Councils for increasing the number of new homes. A consultation on a revised scheme was conducted over the summer. Details of any new scheme is expected in the provisional settlement, the MTFP assumes **£2.872m** in 2017/18.

Tax Base

Executive Board is required to agree the council tax base for 2017/18 by the end of January and a detailed report will be presented at the January Executive Board.

Council Tax

The proposed MTFP assumes a **1.99%** per annum (pa) Council Tax increase in each financial year; this has been set in the context of the previously announced **2.00%** referendum limit on increases plus an additional Social Care Precept of **2.00%** pa to fund Adult Social Care. This context may change following the provisional settlement and any resulting changes to Council Tax assumptions will be reflected in the MTFP report to Executive Board in February.

### 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 have been identified to cover the shortfall and are included in the proposals put forward for consultation.

### Department of Health - Public Health Grant

The ring fenced Public Health Grant is **£34.723m** in 2017/18, however, this has incurred in-year reductions of **2.47% (£0.878m)**, with further reductions required over the next five years.

The Autumn Statement headlines are that real term savings of **2.95%** pa during this period will occur on the grant in total with the ring fencing remaining in place during 2016/17 and 2017/18.

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

During 2015/16 responsibility for this service transferred to local authorities, the MTFP assumes a budget of **£10.638m**.

### Department for Education – Education Service Grant (ESG)

The 2016/17 ESG allocation is estimated at **£1.979m**; this has reduced by **£3.367m** since 2012/13 and the forecast grant for 2017/18 is **£0.630m** which is based on funding of £15 per pupil to support the Local Authority's retained statutory requirements for pupils in all settings. No assumption has been made with regard to the transitional funding for General Duties for pupils in mainstream maintained schools.

The proposals included in MTFP mitigate both the reduction in grant from 2016/17 to 2017/18 and the outstanding gap from previous grant reductions (**£0.853m**). ESG will continue to reduce as more schools convert to academies.

## **2.2. Efficiency Plan 2016/17-2019/20 and Medium Term Financial Strategy (MTFS)**

The Council submitted an Efficiency Plan (the basis being the MTFS) to DCLG in October 2016 with approval granted in November 2016, this was a requirement in securing the multi-year settlement covering 2016/17 to 2019/20.

This settlement will give increased certainty but not a guarantee as to the RSG and the MTFP within this report covers the remaining three years of this settlement.

## **2.3. Managing the funding reductions and financing ongoing pressures**

In order to respond to the funding cuts and manage the increasing pressures the Council has built its MTFP on the following principles:

- 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;
- 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;
- minimise the impact of service reductions and changes on vulnerable citizens by protecting frontline services;
- to pursue commercialisation opportunities to generate income for the Council.

#### 2.4. **Adult Social Care – Health Integration with the NHS**

There continues to be budget pressures in Adult Social Care, the reasons for these pressures include:

- increased life expectancy and the associated additional care needs this presents
- increased disability life expectancy
- additional care costs from providers due to increased National Living Wage rates

The MTFP for 2017/18 onwards continues to assume the **2.00%** Adult Social Care precept however the budgetary pressures in Adult Social Care exceed the funds raised through this precept. Nationally councils are working with the NHS to develop local STP's in recognition of this national issue and the budgetary pressures. The overall aims are to enable the NHS to manage its budget and keep citizens at home, living independently rather than spending time in hospital.

This report assumes that the STP is fully agreed which will then mitigate the 2017/18 budget gap by **£13.878m**.

#### 2.5. **MTFP**

The MTFP was previously published in February 2016 with a net budget requirement of **£258.104m** for 2017/18, and a budget gap of **£23.347m** for 2017/18, rising to **£42.066m** for 2019/20.

##### Updating Budget Assumptions

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 demand changes within Adults Social Care increasing costs by **10.97%** in addition to commitments already included in the current MTFP. There are changes in the complexities of requirements for support, growth in numbers and the impact of the National Living Wage;
- demographic growth and complexity changes within Children's Social Care continues to increase costs. Current MTFP commitments incorporate increased levels of funding for this service; this is based on financial growth of **3.8%** and no further growth has been reflected in the MTFP.

Budget assumptions and pressures are refreshed on an ongoing basis, the MTFP within this report assumes a **£1.000m** pressure for increased pension costs following the actuarial revaluation currently underway. Further clarification on pension assumptions is expected imminently and any changes to this or other relevant assumptions will be reflected in the February report.

Adjustments have also been made to reflect the continuing net impact of savings decisions made in previous budgets of **£3.077m** in 2017/18, rising to **£6.631m** in 2019/20.

**Table 2** summarises the impact of the 2017/18 proposals contained elsewhere in this report and is based on the starting position of a balanced 2016/17 budget.

A budget gap of **£26.815m** needs to be addressed to balance the currently projected MTFP in 2017/18.

This report sets out consultation proposals of **£12.710m** in 2017/18 rising to **£13.068m**.

**TABLE 2: DRAFT MEDIUM TERM FINANCIAL PLAN**

DESCRIPTION	2017/18 £m	2018/19 £m	2019/20 £m
2016/17 Net Budget Requirement	243.878	243.878	243.878
Updated Budget Assumptions	18.737	30.758	36.461
<b>NET BUDGET</b>	<b>262.615</b>	<b>274.635</b>	<b>280.339</b>
Retained Business Rates, Top-up & RSG	(135.823)	(128.694)	(122.138)
Council Tax	(99.976)	(105.075)	(110.421)
<b>ASSUMED FUNDING</b>	<b>(235.800)</b>	<b>(233.769)</b>	<b>(232.558)</b>
<b>BUDGET GAP</b>	<b>26.815</b>	<b>40.866</b>	<b>47.781</b>
Savings approved by delegated decisions	(0.378)	(0.378)	(0.378)
Health Integration with NHS (STP)	(13.878)	(14.780)	(15.659)
Consultation Proposals	(12.710)	(12.729)	(13.068)
<b>OUTSTANDING GAP</b>	<b>(0.151)</b>	<b>12.979</b>	<b>18.676</b>

Savings previously approved by delegated decisions

The draft MTFP in the table above recognises savings previously approved by delegated decisions, further proposals in the period to March 2017 may be approved in this way.

**Table 3** summarises a proposal already approved by delegated decision.

**TABLE 3 : SAVING APPROVED BY DELEGATED DECISION**

PROPOSAL	DECISION	2017/18 £m	2018/19 £m	2019/20 £m
Department restructure to deal with ESG reductions	2624	(0.378)	(0.378)	(0.378)
<b>TOTAL</b>		<b>(0.378)</b>	<b>(0.378)</b>	<b>(0.378)</b>

Health Integration with NHS (STP)

Assumes the STP is fully agreed (see paragraph 2.4).

Consultation Proposals

**Table 4** summarises the proposals to be delivered by each lead portfolio with more detail provided in **Appendix 1a-j**.

**TABLE 4: CONSULTATION PROPOSALS**

LEAD PORTFOLIO	2017/18 £m	2018/19 £m	2019/20 £m
Adults & Health	(0.183)	(0.222)	(0.325)
Business, Growth & Transport	(2.123)	(2.123)	(2.123)
Community Services	(2.484)	(2.231)	(2.231)
Early Intervention & Early Years	(1.710)	(1.601)	(1.601)
Education, Employment & Skills	(0.433)	(0.443)	(0.443)
Energy & Sustainability	(0.455)	(0.530)	(0.530)
Leisure & Culture	(1.491)	(1.491)	(1.491)
Planning & Housing	(1.753)	(1.753)	(1.753)
Resources & Neighbourhood Regeneration	(1.897)	(2.154)	(2.390)
Strategic Regeneration	(0.181)	(0.181)	(0.181)
<b>TOTAL</b>	<b>(12.710)</b>	<b>(12.729)</b>	<b>(13.068)</b>

### **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.

### **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 2017/18 before 11 March 2017.
- 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 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 risk assessment will inform the budget report to Executive Board in February 2017.

### **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 None

### **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 2017. 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 Council Plan 2015-2019**

<http://committee.nottinghamcity.gov.uk/ieListDocuments.aspx?CId=155&MId=4980>

**Medium Term Financial Strategy 2016/2020**

<http://committee.nottinghamcity.gov.uk/ieListDocuments.aspx?CId=155&MId=4982>

**Medium Term Financial Plan (MTFP) 2016/17 – 2019/20**

<http://committee.nottinghamcity.gov.uk/ieListDocuments.aspx?CId=177&MId=5042>

**Efficiency Plan 2016/17 – 2019/20**

<http://committee.nottinghamcity.gov.uk/ieListDocuments.aspx?CId=177&MId=5770>

**12 OTHER COLLEAGUES WHO HAVE PROVIDED INPUT**

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