

EXTRACT - DRAFT MEDIUM TERM FINANCIAL (REVENUE ELEMENT)

2014/15 – 2016/17

Contents

1.	Introduction	1
2.	Key Financial Objectives	1
3.	Constructing the Revenue Element of the MTFP	1
4.	National and Local Context	1
5.	The Draft MTFP 2014/15 – 2016/17	4

1. INTRODUCTION

Go ahead Nottingham: safe, clean, ambitious and proud. This is *One Nottingham's* 20 year vision for the City of Nottingham as set out in the Nottingham Plan (i.e.: the Sustainable Community Strategy) to 2020.

The Council's Medium Term Financial Plan (MTFP) is the financial representation of the Council's service plans for the next three years. A new medium term financial strategy is in the process of being drawn up to reflect the significantly changed external financial, economic and policy outlook.

2. KEY FINANCIAL OBJECTIVES

The main financial objectives for the City Council focus on: ensuring our financial planning and management support our 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 we 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.

3. CONSTRUCTING THE REVENUE ELEMENT OF THE MTFP

The Medium Term Financial Strategy (MTFS) sets out the principles we work to in order to deliver our aims and objectives. The City Council operates on a principal of medium term, policy led financial planning. This connects the vision, values and priorities with decisions made in setting the annual budget within the MTFP.

In particular, any new investment is considered in the context of how it will contribute to the City Council's vision and performance improvement more generally. Options are worked up for consideration and decisions to stop, reduce or reshape services are made in full knowledge of the impact on objectives. All proposals are scrutinised throughout the budget process by peers, senior colleagues and councillors. The whole approach is informed by the use of a variety of performance and financial data.

This appendix contains draft proposals for the Councils MTFP for 2014/15 to 2016/17, in response to Government cuts.

4. NATIONAL AND LOCAL CONTEXT

Local Government continues to operate in a very challenging financial environment and there is considerable uncertainty over the future levels of funding. The provisional Local Government Finance Settlement is not expected to be announced until just before Christmas. Assumptions have been made about the level of funding that the Council is likely to receive based on currently available information. The impact of the Final Settlement will be updated in the February Executive Board Report once the full details are available.

The current projections assume that the Nottingham's 2014/15 funding will fall in cash terms by **c9.2%** having taken into account the government's national spending plans for local government, and the methodology of the retained business rates scheme.

Table 1 shows the currently assumed funding for 2014/15 based on information available before the expected announcement of the provisional settlement in late December and statutory return of detailed business rates projections to DCLG.

TABLE 1: ASSUMED FUNDING			
DESCRIPTION	2014/15 £m	2015/16 £m	2016/17 £m
Projections			
- Retained Business Rates	(58.761)	(60.326)	(62.160)
- Top-up	(27.141)	(27.903)	(28.796)
- Revenue Support Grant	(102.077)	(71.672)	(56.556)
TOTAL	(187.980)	(159.901)	(147.512)

Retained Business Rates

With the localisation of business rates it is necessary for each authority to estimate the amount of business rates to be collected in 2014/15. The monitoring and estimating of business rates is a new 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. Under the new scheme the locally retained element of business rates has been set at 50% by central government of which the council retains 49% and 1% is received by Nottinghamshire and City of Nottingham Fire and Rescue Authority. A provisional estimate of retained business rates has been made for the projections shown in this report.

In his Autumn Statement on 5 December, the Chancellor announced that the expected 3.2% RPI increase in the business rates multiplier for 2014/15 will now be capped at 2% and a range of other adjustments to reliefs and discounts will be introduced that will impact upon business rates collection levels.

In a letter of the same date to council leaders, the Secretary of State said that councils will be fully refunded for any loss in revenue resulting from these changes but the full details and confirmation of this position will not be available until the Provisional Settlement.

Top-up

Under the new scheme 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'. This 'top-up' will be a continuing feature of future funding settlements and will be up-rated by inflation for subsequent years. For 2014/15 the up-rating is assumed to be 3.2% but will not be confirmed until the Provisional Settlement

Revenue Support Grant (RSG)

All authorities will continue to receive Revenue Support Grant (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 19.5% in 2014/15

as set out in the exemplifications published on 25 July by DCLG as part of the technical consultation on the Financial Settlement.

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.

Council Tax Support Scheme (CTSS)

The Welfare Reform Act 2012 abolished the national Council Tax Benefit scheme from April 2013. Responsibility for providing help to people to pay their Council Tax was passed to billing authorities requiring the Council to manage the financial risk.

The Council introduced a CTSS for one year only in 2013/14 that meant that low income households of working age have been able to receive help with up to 91.5% of their Council Tax bill. This was in part due to the Government providing transitional funding to authorities that adopted schemes that met specific Government set criteria. This funding has not been made available in 2014/15.

Applying the overall reduction in Government funding announced for 2014/15 to the funding provided by the Government means that the resources available are reduced by £2.616m (further grant reductions in 2015/16 reduce the funding by £5.943m).

The cost of the scheme in 2013/14 is lower than originally estimated as demand for benefits was lower than estimated. The effect of this is that the planned £1.000m contribution from reserves to finance the scheme in 2013/14 is not required. This reserve is available to support the cost of the scheme in 2014/15. The additional income generated from the reduction in empty property discounts implemented in 2013/14 will continue to be utilised to support the cost of CTSS in 2014/15.

The detail of the proposed scheme for 2014/15 is set out in a separate report on this agenda and recommends a scheme that will provide support to low income households of working age to receive help with up to 80% of their Council Tax bill. The report proposes that the City Council shortfall of **c£1.000m** can be financed from reserves in 2014/15. The MTFP to be submitted to Executive in February will contain the impact on reserves should the recommended scheme be approved at Full Council in January 2014

New Homes Bonus

The non-ringfenced New Homes Bonus grant was introduced in 2011/12 to incentivise local authorities to increase their housing supply. It is based on the amount of extra council tax revenue raised from new-build homes, conversions and long-term empty homes brought back into use. The MTFP assumes that 2/3rd of any New Homes Bonus grant received in any given year will be used to support the budget with the balance to be invested in our economic development strategy.

The Government announced in its Autumn Statement that after consultation with local authorities it will no longer be making changes to the New Homes Bonus for councils outside London. It had previously announced that it intended to nationally top-slice New Homes Bonus by £400m in 2015/16 to fund the Local Growth Fund. The impact of this reversed decision will be assessed when latest details for New Homes Bonus grant are announced alongside the Provisional Settlement.

5. THE DRAFT MTFP 2014/15 – 2016/17

2014/15 Draft Budget Headlines

The draft budget has been constructed in accordance with the MTFs and all other relevant corporate financial protocols and presents a potentially balanced budget, resulting in:

- a policy-led, medium term, risk assessed budget setting approach using the priorities within the Council Plan;
- a total draft net budget of **£273.751m** and proposed council tax increase of **1.95%**
- provision for appropriate levels of inflation;
- provision for pressures of **£2.510m** arising from demographics (extra £0.750m for Children in Care and £1.614m for Adults respectively), additional demands and legislative changes;
- provision for developments of **£0.656m**;
- a general contingency of **£2.151m**;
- a continuing impact of previous proposals already included in the MTFP of **£3.487m** pressures and **£1.084m** savings, totalling a net **£2.403m** increase;
- a review of corporate items leading to a budget reduction of **£2.962m** (£2.772m of which will be one-off in nature);
- new cost reduction and income generation proposals of **£22.545m**;

Medium Term Financial Plan

Nottingham currently operates on a 3 year rolling MTFP. The outlook for local government continues to be challenging in the light of global, national and regional issues. In examining proposals for the 2014/15 budget, it is essential that equal regard is paid to the longer term outlook and the impact related decisions to the longer term. Whilst the 2014/15 budget is provisionally balanced further significant projected savings of **c£55m** will still need to be found by 2016/17.

Table 2 includes the impact of the 2014/15 proposals contained elsewhere in this report and is based on the starting position of the current 2013/14 budget. Further details of the adjustments, pressures, developments and savings are set out in **Tables 3 to 11**.

TABLE 2: MEDIUM TERM FINANCIAL OUTLOOK				
DESCRIPTION	2014/15 £m	2015/16 £m	2016/17 £m	TABLE
2013/14 Budget Requirement	286.855	286.855	286.855	
Budget Refresh	7.333	16.664	31.479	3
New Pressures	2.510	4.571	4.980	6
New Developments	0.656	0.868	1.368	7
SUB-TOTAL	297.355	308.959	324.683	
Big Ticket / Transformational Savings	(14.874)	(19.650)	(26.373)	8
Efficiencies & Other Savings	(5.768)	(4.992)	(5.028)	9
Corporate Proposals	(2.962)	(0.190)	(0.190)	10
BUDGET REQUIREMENT	273.751	284.127	293.092	
Retained Business Rates, Top-up & RSG	(187.980)	(159.901)	(147.512)	1
Council Tax	(85.771)	(88.245)	(90.781)	
TOTAL FUNDING	(273.751)	(248.146)	(238.293)	
NET POSITION	0.000	35.982	54.798	

The figures contained in the MTFP are based on current assumptions. If these assumptions need to be further updated then additional options for ensuring a balanced budget will need to be considered by Executive Board.

Details – Draft Budget 2014/15 to 2016/17

Table 3 summarises the changes required to refresh the starting point for 2014/15 from last year’s net budget requirement.

TABLE 3: BUDGET REFRESH				
DESCRIPTION	2014/15 £m	2015/16 £m	2016/17 £m	TABLE
Inflation	10.556	18.461	31.539	4
Corporate Adjustments	(5.626)	(5.973)	(6.064)	
Previous MTFP decisions	2.403	4.176	6.004	5
TOTAL	7.333	16.664	31.479	

Adjustments have been made to reflect estimated pay award, inflation, the continuing impact of previous MTFP decisions, the removal of one-off proposals in the last budget and other corporate adjustments such as anticipated movements in the financing of the capital programme and the Council’s debt portfolio.

Table 4 shows the inflation factors and amounts currently assumed for 2014/15.

TABLE 4: INFLATION				
DESCRIPTION	Inflation Factor %	2014/15 £m	2015/16 £m	2016/17 £m
Direct Employees	1.0%	5.341	8.479	16.804
General Inflation	pay award			
	1.9%	3.360	6.238	8.980
Specific Inflation				
- Concessionary Fares	5.9%	0.752	1.509	2.338
- Electricity / Street Lighting	7.0%	0.291	0.594	0.911
- Gas	6.0%	0.082	0.168	0.260
- Fuel	4.5%	0.085	0.204	0.321
- Highway Materials/BMD Repairs	4.5%	0.227	0.464	0.711
- Waste Disposal	3.0%	0.087	0.178	0.270
- Landfill Tax	7.5%	0.176	0.336	0.492
- Rates	3.3%	0.155	0.291	0.451
TOTAL		10.556	18.461	31.539

Previously agreed MTFP decisions

Table 5 summarises the continuing impact of decisions made in previous budgets. This totals a net increase of **£2.403m** in 2014/15, mostly due to previously agreed pressures for increased demographics and demand in Adult Social Care and Children in Care.

TABLE 5: PREVIOUSLY AGREED STRATEGIC CHOICES

DESCRIPTION	2014/15 £m	2015/16 £m	2016/17 £m
Existing Pressures	3.487	6.246	8.691
Efficiencies & Other Savings	(0.193)	(0.198)	(0.190)
Big Ticket / Transformational Savings	(0.349)	(2.049)	(2.049)
Corporate Proposals	(0.542)	0.178	(0.447)
TOTAL	2.403	4.176	6.004

New Pressures

As in previous years the Council continues to face significant cost pressures which have a major impact on the MTFP. **Table 6** shows the lead portfolio breakdown of the funded pressures of **£2.510m** for 2014/15. There is currently a further additional **£2.061m** projected for 2015/16 and **£0.409m** for 2016/17. **Appendix 2** provides more details. Unavoidable pressures arise due to, for example:

- Increased demand for services including demographics (**£2.364m**)
- Effects of current economic conditions (**£0.125m**)
- Loss of income (**£0.021m**)
- Increase in cost / prices and changes in legislation

TABLE 6: NEW PRESSURES

LEAD PORTFOLIO	2014/15 £m	2015/16 £m	2016/17 £m
Adults & Health	1.614	1.802	2.045
Children's Services	0.750	1.069	1.095
Planning & Transportation	0.000	1.130	1.210
Resources & Neighbourhood Regeneration	0.146	0.570	0.630
TOTAL	2.510	4.571	4.980

New Developments

A limited number of developments have been identified for 2014/15 that will provide funding for new initiatives and service improvements. **Table 7** shows the lead portfolio breakdown of the proposed developments of **£0.656m** for 2014/15. There is currently an additional **£0.212m** proposed for 2015/16 and **£0.500m** for 2016/17. **Appendix 3** provides more details.

TABLE 7: NEW DEVELOPMENTS

LEAD PORTFOLIO	2014/15 £m	2015/16 £m	2016/17 £m
Adults & Health	0.406	0.618	1.118
Strategic Regeneration & Community Safety	0.250	0.250	0.250
TOTAL	0.656	0.868	1.368

Proposed Savings

Savings of **£25.5m** are required to balance the budget in 2014/15. These will be found from a combination of Efficiencies, Big Ticket Transformation and Corporate proposals.

During the budget process, colleagues and councillors work together to identify proposals which, when taken together, direct funding into the Council's priorities and balance the budget. This is a complex and time consuming activity.

Big Ticket Transformation

To meet the needs of citizens within the budget available and identified in the MTFP over the next 3 years, a focussed and strategic approach has been put in place for key areas; described as 'Big Tickets'. These areas of transformation will require whole council and partner input and will both transform the way we work and deliver significant savings.

The purpose and details of each 'Big Ticket' transformation programme is as follows:

1. Adult Social Care

Ensure that a financially sustainable adult social care system is in place which is able to respond to the significant increase in demand for care services and at the same time ensure that the needs of our most vulnerable citizens are met. Benefits will include:

- Delivery of the vision in the Vulnerable Adults Plan - enabling our most vulnerable citizens to live safely, independently, offering local choice and control over their lives
- Delivering a significant reduction in the overall cost of adult social care including some investment in new, local services, and at the same time managing the ever increasing demands for, and costs of, care services
- Improving the effectiveness and efficiency of social care and health care services, making it much easier and quicker for citizens to access the care and support they need
- Much more investment in and focus on providing citizens with care and support much earlier before problems develop or get worse
- Increasing investment in earlier support services for citizens

2. Commercialism

This programme continues to embed a commercial and business planning approach across council services. Its focus is on customer insight, service design, cost control, sales, income generation, efficiency and shared services.

3. Energy and Waste

This will drive Nottingham City Council's energy and waste services to be more cost effective and identify commercial opportunities that build on the respective services in-house expertise. Benefits will include:

- Deliver commercial growth that helps to sustain a quality service provision through revenue generation
- Create city wide plans and mechanisms for delivering cost effective energy and related services to citizens and communities
- Reduce the cost of running services through contract negotiation and delivering services in conjunction with other organisations
- Develop energy and waste support services in conjunction with other Nottingham City Council directorates to improve efficiencies and reduce operating costs

4. **Leading Nottingham**

To respond to changing priorities and focus on meeting citizen need, the Leading Nottingham Programme will focus on developing further:

- An engaged, flexible and affordable workforce
- Strong leadership and excellent people management
- Business initiative
- Partnership working

5. **NCC & NCH Common Services**

Closer working between the council and NCH to improve joint working arrangements, customer experience and to realise savings to both organisations in the following areas: housing adaptations, homelessness, welfare rights and housing options.

6. **Public Health**

The responsibility for public health transferred to Local Authorities as part of the health and social care reforms initiated in April 2013. Government considered that Local Authorities have greater responsibility and power to shape the locality in a healthy direction, and public health would have the ability to shape services to meet local need, and better influence wider social determinants of health and tackle health inequalities.

As part of the transfer of Public Health to Nottingham City Council, a grant of **£27m** was provided to deliver this function, including commissioning a range of public health services to be used to meet the specific needs of Nottingham citizens.

Achieving greater efficiency and cost effectiveness across services will enable investment into the wider social determinants and public health responsibilities of the council.

7. **Public Transport**

The Programme aims to deliver a range of identified projects over a 4 year period to improve the service offer for citizens, create efficiencies and generate savings for the Council. Benefits will include:

- Integration of ticketing at a fair price
- Discounted ticketing for disadvantaged residents.
- Reduction in bus congestion on sensitive City Centre streets, subject to redevelopment
- Co-ordination of bus service changes with new developments

8. **Reshaping Prevention & Safeguarding for Children**

This transformational programme will shift the balance of Children's Services resources towards Early Intervention; improve a range of outcomes for families and build their resilience; reduce the cost for the citizen of our most intensive services. Benefits will include:

- Improve a range of outcomes such as attainment and attendance at school, as well as health outcomes, such as obesity
- Significantly reduce the cost of services by improving our speed of response, our timeliness of response and our way of delivery certain types of intervention

9. Strategic Asset Management

To identify the benefits of an integrated approach to asset management and the actions that will contribute to delivering improved outcomes in the short to medium term and measures to improve the performance of property and other physical assets and non-physical assets. Benefits will include:

- Financial benefits through the reduction of maintenance costs and increase in income through sale of physical assets
- Improved service delivery by facilitating a better fit between customer/service requirements and assets
- Increased co-location of public services and reduction in under utilisation of Council buildings
- Investing in assets to provide increased income and improved security of income to the Council

Table 8 summarises the 'Big Ticket' savings to be delivered by each transformation programme. **Appendix 4** provides more details.

TABLE 8: BIG TICKET			
PROGRAMME	2014/15 £m	2015/16 £m	2016/17 £m
Adult Social Care	(3.915)	(4.870)	(5.348)
Commercialism	(2.285)	(3.350)	(4.195)
Energy and Waste	(1.850)	(1.100)	(2.000)
Leading Nottingham	(0.527)	(0.527)	(0.527)
NCC & NCH Common Services	(0.750)	(1.500)	(1.500)
Public Health	(3.078)	(3.218)	(3.668)
Public Transport	(1.083)	(1.833)	(3.183)
Reshaping Prevention & Safeguarding for Children	(1.386)	(1.386)	(1.386)
Strategic Asset Management	0.000	(1.866)	(4.566)
TOTAL	(14.874)	(19.650)	(26.373)

Further transformation activity is being developed for 2015/16 in relation to the Customer Access Programme. This is a council wide initiative to create a consolidated customer service function, supported by simplified processes and systems which provide colleagues with the right information at the right time to help our customers.

Efficiencies

Table 9 summarises proposed Efficiencies by lead portfolio. **Appendix 5** provides details.

TABLE 9: EFFICIENCIES			
LEAD PORTFOLIO	2014/15 £m	2015/16 £m	2016/17 £m
Adults & Health	(0.040)	(0.040)	(0.040)
Children's Services	(1.264)	(1.451)	(1.451)
Commissioning & Voluntary Sector	(0.111)	(0.211)	(0.261)
Energy & Sustainability	(0.024)	(0.024)	(0.024)
Jobs & Growth	(0.240)	(0.240)	(0.240)
Leisure & Culture	(0.361)	(0.361)	(0.361)
Planning & Transportation	(0.285)	(0.535)	(0.535)
Resources & Neighbourhood Regeneration	(2.825)	(1.421)	(1.407)
Strategic Regeneration & Community Safety	(0.618)	(0.709)	(0.709)
TOTAL	(5.768)	(4.992)	(5.028)

Corporate Proposals

Table 10 summarises the corporate proposals which will generate savings or income.

TABLE 10: NEW CORPORATE PROPOSALS			
DESCRIPTION	2014/15 £m	2015/16 £m	2016/17 £m
Corporate Contingency	(0.190)	(0.190)	(0.190)
Service Realignment Costs	(1.500)	0.000	0.000
Returned NHB top slice	(1.272)	0.000	0.000
TOTAL	(2.962)	(0.190)	(0.190)

- General Corporate Contingency - The MTFs requires this to be between **0.4%** and **0.9%** of the previous year's net budget. This is used to deal with the financial impact of issues that could not have been foreseen at the point the budget was set such as emerging priorities, emergencies and external factors. A reduction of **£0.190m** to **£2.151m** sets the level at **0.75%** and again takes account of the significant savings package and challenging future financial outlook.
- Service Realignment - the estimated net reduction in posts as a result of the proposals included in this consultation is **76** full time equivalents in 2014/15. This allows a reduction in the 2014/15 provision from **£3m** to **£1.5m**.
- Returned New Homes Bonus – each year DCLG top-slices £2bn from the settlement to fund the New Homes Bonus grant. This is expected to be more than needed in the early years of the scheme and any surplus is expected to be returned pro-rata to councils. The previously projected **£1.272m** for Nottingham in 2014/15 was originally set aside to fund capital schemes. The final figure will not be known until the Final Settlement (expected in early February 2014) and any returned sums will now be used to support the revenue budget.

Overall Savings Position

Table 11 shows the overall impact of the proposed savings by Lead Portfolio.

TABLE 11: TOTAL NEW SAVINGS			
LEAD PORTFOLIO	2014/15 £m	2015/16 £m	2015/16 £m
Adults & Health	(4.233)	(5.327)	(6.256)
Children's Services	(2.650)	(2.837)	(2.837)
Commissioning & Voluntary Sector	(3.661)	(4.511)	(4.561)
Community Services	(0.280)	(0.389)	(0.477)
Energy & Sustainability	(1.924)	(1.193)	(2.109)
Jobs & Growth	(0.240)	(0.240)	(0.240)
Leisure & Culture	(1.186)	(1.311)	(1.336)
Planning & Transportation	(1.838)	(3.079)	(4.775)
Resources & Neighbourhood Regeneration	(5.915)	(8.786)	(11.873)
Strategic Regeneration & Community Safety	(0.618)	(0.709)	(0.709)
SUB-TOTAL	(22.545)	(28.384)	(35.174)
Corporate	(2.962)	(0.190)	(0.190)
TOTAL	(25.507)	(28.574)	(35.364)

For the purpose of this report the proposals are identified against the lead portfolio holder. However, some proposals cut across two or more portfolios. This more detailed analysis will be reflected in the February MTFP report.

Proposals which have already been actioned by delegated decision are noted in the appendices as appropriate and do not form part of the consultation

Council Tax Base

Executive Board are required to agree the council tax base for 2014/15 by the end of January and a detailed report will be presented for consideration to the next Executive Board. This will incorporate the effects of the local Council Tax Support Scheme and any technical changes to council tax discounts and exemptions.

Council Tax and Council Tax Freeze Grant (CTFG)

On 5 December the Secretary of State for Local Government reaffirmed the government's offer of further council tax freezes grants in 2014/15 and 2015/16. Councils not increasing their Band D council tax will be eligible to receive a grant equivalent to a **1%** increase in each year. The Government has also announced that council tax increases of more than **2%** will require a local referendum.

The proposed MTFP assumes a **1.95%** per annum council tax increase in each financial year. Reducing these to **0%** in 2014/15 and 2015/16 to receive the council tax freeze grant would add a net pressure of **c£0.6m** and **c£1.2m** respectively.