

Policy and Resources Committee

Date: **Friday 5 September 2014**

Time: **10am**

Venue: **Edwards Room, County Hall, Norwich**

SUPPLEMENTARY A g e n d a

8. Strategic and Financial Planning 2014/17 -Setting the budget and developing the County Council Plan for 2015/18

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Report by Head of Planning, Performance & Partnerships and Interim Head of Finance

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Date Supplementary Agenda Published: 29 August 2014



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Policy & Resources Committee

Item No 8

Report title:	Strategic and Financial Planning 2014/17 - Setting the budget and developing the County Council Plan for 2015/18
Date of meeting:	5 September 2014
Responsible Chief Officer:	Debbie Bartlett, Head of Planning, Performance & Partnerships & Peter Timmins, Interim Head of Finance

Strategic impact

The proposals in this report position the County Council to conduct its strategic and financial planning in accordance with the law and proper standards and ensure that public money is used economically and efficiently. The proposals also enable the Council to discharge its duty under the Local Government Act to make arrangements to secure continuous improvement in the way in which functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

Executive summary

On 16 February 2015 Full Council is due to agree the next version of the County Council Plan for 2015/18. This will incorporate the Council's budget and three-year financial plan.

In accordance with the Constitution, Policy and Resources Committee has a key role to play in coordinating this process across service committees, to ensure development of a balanced, whole-council budget which benefits Norfolk as a whole. This is the Council's first year of committee governance arrangements, so there are a range of issues to be addressed.

This report follows an initial strategic and financial planning report considered by Policy and Resources Committee in July earlier this year. It provides the latest financial information available, which includes a revised financial forecast based on recent Government announcements and new and emerging risks. The report highlights that the Council will need to bridge a funding shortfall of just over £147.5m over the next three years (2015-18). It sets out the preliminary view of the Head of Finance that the Authority should now plan to reduce its expenditure in 2015/16 by an additional £17.5m. This is £13.7m more than the forecast gap (£3.8m) reported to Council in February 2014.

In order to meet these challenges the report proposes a detailed timetable and approach for agreeing the budget and County Council Plan for 2015/18 which is open, transparent, fulfils the Council's legal obligations and ensures that residents and stakeholders are central to the debate.

1. Proposal

- 1.1. On 16 February 2015 Full Council is scheduled to agree the next version of the County Council Plan for 2015/18. This will incorporate the Council's budget and three-year financial plan.
- 1.2. The role of the Policy and Resources Committee in developing the budget is set out in the Council's constitution. It confirms the committee is required to provide guidance to service committees, publish the financial context and timetable for preparing the budget and recommend a budget for approval by Full Council. (Part 7 – Rules of Procedure; 7.3)
- 1.3 This year, the Council will develop its plan, budget and three-year financial plan under the Committee system, requiring a different approach from that used in previous years. It needs to achieve a balanced whole-council Budget that takes into account the complex inter-dependencies between different services under the remit of relevant committees.
- 1.4 Achieving this will require a great deal of work across and between all Committees to ensure that, on 16 February 2015, Full Council is presented with:
 - A County Council Plan for 2015/18 that clearly communicates the Authority's priorities and core business to members of the public, stakeholders and staff.
 - A sound budget that supports these priorities and core business and focuses resources accordingly.
- 1.5 This makes it very important for the Policy and Resources Committee to develop the budget process and any recommendations in consultation and collaboration with Committee Chairs.
- 1.6 In July, all committees considered a report that set out an initial planning context. This report updates that context based on the latest financial information we have. It also proposes a detailed timetable and approach for agreeing the budget and County Council Plan for 2015/18 which is open, transparent, fulfils the Council's legal obligations and ensures residents and stakeholders are central to the debate.

2. Strategic and financial context

Over the last four years, the Government has cut its funding to local government by 24%. Only the defence budget has seen a higher percentage reduction. Across Government spending departments as a whole, the average reduction is 8%.

- 2.1 Over this period, Norfolk County Council's share of that 24% cut has seen us lose £85.099m in Government funding while the actual cost pressures on many of the Council's services have continued to go up. As one example, last year alone, extra demands on our children's services and adult's social care services arising from things we can't influence – such as, the change in our population profile - cost another £9m. Continuing spending reductions of this scale and size require the Council fundamentally to reassess its business and operations in consultation with others.

- 2.2 The period of shrinking government finance and cuts to local government funding is set to continue. The latest Bank of England Inflation Report, August 2014, confirms that to date, the Government has achieved only half the spending reductions it plans as part of its “fiscal consolidation” plans. (See Annex 1).
- 2.3 Continuing uncertainties in the national financial context mean we can’t be confident about the precise funding shortfall for 2015-16. The main risks the Council must manage are that:
- 2.4 The Government is beginning to update its spending programmes and (hence) grant figures for 2015-16 so we can’t be sure that grant funding assumptions will remain consistent. A particular risk, which continues to be a matter of widespread political and public debate, concerns the Better Care Fund on which Ministers will report by the end of October this year.
- 2.5 The Council has already identified and consulted on a series of budget reductions for 2014-15 and 2015-16 amounting to £89.991m in total. These reductions still left a funding gap of £3.8m to be bridged in 2015/16. However, there are real risks associated with the delivery of a number of the planned savings and at present, the means of mitigating some of them is not clear.
- 2.6 The latest financial forecast as set out in section four, takes into account the risks identified above, increasing demand on key services and what we know of additional cuts in specific government grants. As a result, it is proposed that the Council should plan to reduce expenditure in 2015/17 by a further £17.5m. This is £13.7m more than the forecast gap reported to Council in February 2014.
- 2.7 Officers are working hard to develop potential proposals for helping to close the funding gap but there is considerably more work to do.

3. Towards a County Council Plan for 2015/18

- 3.1 The County Council is the largest local authority in Norfolk responsible for helping ensure the long term social, health and economic wellbeing of Norfolk and all its communities. Notwithstanding the very substantial cuts to its funding which have taken place and which are set to continue, at the end of the day, it will still be accountable for the efficient use of a total budget in excess of £1.4bn. In the debates, consultation and discussions to follow, it will be critically important that Members assure themselves that the Authority is making full, effective and efficient use of its total resources which will remain very considerable.
- 3.2 At its meeting of July 14th 2014 P&R Committee agreed the County Council Plan for 2015-2018 should be clearer about the Council’s core business and used as the template to guide how the authority runs its business.
- 3.3 This will have five important benefits:

- 3.3.1 It will be much easier for our customers and the agencies we work with and through to understand the council's vision and direction of travel during what will continue to be a time of change and transformation.
- 3.3.2 We will be better placed at an operational level, to communicate Council strategy consistently right across the organisation - so our staff understand it and how they can play their part in helping to achieve it. This will in turn help empower frontline staff to deliver agreed priorities.
- 3.3.3 It will help the Authority raise the bar on performance. The expectations for service excellence can be set and made explicit for everyone involved in service commissioning or delivery – staff, partners or contractors.
- 3.3.4 It will enable the Authority to hold itself to account better and continually assess its finances and liabilities in a context of diminishing resources
- 3.3.5 It will promote policy coherence and support committee work to achieve common goals.
- 3.4 The overarching strategic framework for the County Council Plan already exists in the form of the Council's agreed **ambition** for Norfolk and **three strategic priorities** that were consulted on last year. They are as follows:

The Council's ambition is for everyone in Norfolk to succeed and fulfil their potential. By putting people first we can achieve a better, safer future, based on education, economic success and listening to local communities.

The Council's priorities are:

Excellence in education - (We will champion our children and young people's right to an excellent education, training and preparation for employment because we believe they have the talents and ability to compete with the best. We firmly believe that every single child matters).

Real jobs – (We will promote employment that offers security, opportunities and a good level of pay. We want real sustainable jobs available throughout Norfolk).

Good infrastructure – (We will make Norfolk a place where businesses can succeed and grow. We will promote improvements to our transport and technology infrastructure to make Norfolk a great place to do business).

- 3.5 During the September committee rounds, Members are asked to consider whether these remain valid or need amending in any way so we can consult Norfolk people accordingly.

4. Updated financial forecast 2013 to 2018

- 4.1 As explained earlier, the Government is now half way through the budget reductions it proposes as part of its fiscal consolidation plans. The impact of this national budget-tightening on Norfolk County Council is that the latest **five year** funding forecast (2015-20) shows it needs to cut its spending by £209m over that period. That is £2m more than originally forecast because of a number of changes, including the Government announcement in July that it was to reduce the Education Services Grant (ESG) in 2015-16.

- 4.2 Over the next **three years** (2015-18) the current forecast shows the Council needing to bridge a total funding shortfall of just over £147.5m.
- 4.3 The Budget and Financial Plan agreed by Council in February 2014 identified £71.8m of reductions towards this sum and showed a remaining gap of £3.8m for 2015/16, which then went up to £6m as a consequence of the cut in the Education Services Grant.

Norfolk County Council Revenue Budget (£m)

	2015-16	2016-17	2017-18	Total 2015-18
Budget Reduction target	46.022	49.778	51.700	147.500
Savings and funding increases agreed at County Council Feb 2014	-40.023	-31.820	0	- 71.843
Funding gap reformulated as of 14 August 2014	5.999	17.958	51.700	75.657

- 4.4 However, as previously explained, the Council faces a number of financial risks which also need to be planned and accounted for. These are:

- **Risks that we may not achieve all the budget reductions already planned for the current year and which could have a recurring impact for 2015/16**
 - Children's Service – Looked After Children (as per savings tracker)
 - Cross cutting service changes
 - Adults Services purchase of care savings (recurring overspend)
- **Emerging risks to the savings currently identified for 2015/16 which have already been consulted upon and agreed at Council.**
 - Reducing the cost of Looked After Children - £3.5m
 - Post 16 Transport savings - £1m
 - Second Homes Council Tax monies – in liaison with districts £1.2m
 - ETD smart cards and organisational change savings £395k

Remaining uncertainties in the national funding context and the risks identified above mean that the preliminary view of the Head of Finance is that the Authority should now plan to reduce its expenditure in 2015/16 by **£17.5m**. This is £13.7m more than the forecast gap (£3.8m) reported to Council in February 2014.

4.5 Two important assumptions underpin this proposed new reduction target:

- The Council will not increase its share of Council Tax for 2015/16
- The Authority will receive £15m towards the cost of its Adult Social Care prevention services as its full share of the Better Care Fund.

4.6 Given the stark financial position and potential impact of further funding cuts on some services, one possibility Members may wish to consider or consult upon, is that of levying a Council Tax increase where the additional income raised, is 'hypothecated' or allocated specifically to a particular service or department to lessen the effect of further funding cuts.

5. Proposed framework from Policy and Resources to Committees

5.1. Effectively, consultation on the Council's priorities, budget and financial framework starts now through discussion in public during the coming committee rounds. More specifically, to launch the consultation, this paper to the Policy and Resources Committee:

- Sets out for comment and discussion the financial context facing the Council for the short and medium term;
- Recommends that the Policy and Resources Committee asks all Service Committees to continue to discuss and review budget opportunities, risks and issues for their various portfolio areas with a particular focus on identifying further efficiencies;
- Seeks views and comments on the overall ambition and priorities consulted on last year, on which further views are welcome. Committees are asked to consider whether they remain valid or need amending in any way and subject to further consultation.

5.2. Committee governance provides a more open process through which all County Councillors are able to debate and scrutinise options, targets and proposals in public as part of the budget and plan development process. Taking full account of the views of the council's customers and partners is an important part of this. The Council gained extensive feedback from its consultation last year and a summary of that feedback is set out below.

5.3. One of the clearest messages the Council received was that it should look to make its own operations as efficient as possible (put its own house in order) before looking to cut services for residents.

5.4 With this in mind, we suggest that Committees use the September round of meetings to focus hardest on identifying proposals that can help close as much of the outstanding funding gap as possible through further efficiency measures.

5.5 To bring some consistency to discussions, Committees are asked to look for efficiency options using the following three headings:

- Better procurement and commissioning;
- Better ways of working – including digital transformation;
- Income generation.

- 5.6 The results of this exercise will make clearer how much of a gap remains and will need to be closed through specific options that will involve service cuts or changes likely to impact directly on residents.
- 5.7 As explained in section 2.3 -2.7 and 4.4 the forecast shortfall is based on assumptions and projections which may yet change because of continuing volatility in the service and funding climate. At this stage, until it is clear about the contribution that extra efficiency measures can make towards closing the gap, it would be premature to consider allocating any specific extra reduction target across different services.
- 5.8 However, for illustrative purposes only, and to enable Members to assess potential scale and impact, the Head of Finance has advised that bridging the total £17.5m gap in 2015/16 could represent a reduction of a further £3 - 4m in the budgets for each of the larger services – Children’s, Adults, Environment, Transport and Development, and Resources, and between £750k and £1m each for the smaller departments – Fire and Rescue, Cultural Services, Public Health. These illustrative figures are based on a high level analysis of addressable spend, which takes into account that those services which are commissioned rather than directly provided will require longer and more complex negotiations to change. This may mean a disproportionate impact on the smaller services mentioned above which Members will wish to assess.
- 5.9 After the September committee round, Policy and Resources Committee members will know what can be saved through new efficiency proposals and therefore the size of any remaining funding shortfall. They will be able to consider Committee views on the various service demands, risks and opportunities and to assess the interdependencies and cumulative impact of committee recommendations. They will then be in a position to allocate across the services outstanding savings targets. Specific options will need to be brought forward to meet these targets and then consulted on in detail.

6. Consultation findings to date

- 6.1 Over the last four years the Council has learned a great deal through extensive budget consultations with residents and stakeholders – not just the priorities and concerns that people consistently highlight, but also how they prefer to be consulted. A summary is included below:
- 6.2 **Council efficiency** - Residents expect the County Council to spend their money efficiently. They don’t want to be asked to endorse what they see as ‘common sense’ efficiency improvements and what should be a continuing drive to cut our own costs. There is some support for rationalisation based on priorities and statutory duties. There is a balance of views on taxation – but consistent desire for value for money.
- 6.3 **Vulnerable people** – there is concern that older people and people with disabilities are being disproportionately affected by reductions in social care and other budgets. There is a feeling that proposals do not recognise the growing number of potentially vulnerable older people and carers and a strong concern that Council priorities do not overtly mention vulnerable people. We received a consistent view that reductions in preventative services are a ‘false economy’

- 6.4 **Rurality and accessibility** - people are acutely aware of Norfolk's rurality and expect the Council to be in tune with this. There is a particular concern about changes to mobile services and transport in rural areas and specifically, about the impact on older people and isolation. We received well-articulated and strongly expressed views expressing concern about the costs and dangers younger people face to get to school and college.
- 6.5 **Council Tax** – this was a hot topic during the last two consultations, both of which resulted in a freeze. Last time over a quarter of respondents who expressed a view about Council Tax, overtly supported the freeze and over half supported an increase - albeit in most cases a small rise. Many people are well informed about the difficulties of agreeing Council Tax and Government penalties for increases.

7. Proposed process for agreeing the budget and County Council Plan

- 7.1 The paragraphs above have outlined a range of issues that committees will need to take into account before agreeing the process for developing the budget and County Council Plan for 2015/18.
- 7.2 A suggested timetable of decision making which launches debate and opportunities for public discussion and engagement on the budget, the Council's ambition and priorities and financial strategy is set out below.
- 7.3 This year the process of developing the budget will be more transparent because it will take place through discussion in public through service committees each of which enables all seventeen members to play a dynamic and active role. Previously, it was the prerogative of the Cabinet to develop its proposals and announce their publication for consultation.
- 7.4 In addition to the decision making process and timetable set out below and in parallel with the committee process, over the coming weeks we propose to engage directly with key partners including community organisations in the statutory, voluntary and business sectors. As and when any specific options are identified and agreed for consultation which would, if implemented represent a significant change to the nature or level of services people receive, we will consult fully on each one and conduct the necessary Equalities Impact Assessment. Members can then take full account of the feedback received before coming to a decision next February.

8. Timetable

- (a) **5 September 2014** - The start of public examination of the budget and County Council Plan and publication of the financial context and challenges over the short and medium term for wider views and comment. This responds directly to feedback from residents and stakeholders about their desire to be engaged in budget discussions from the earliest possible opportunity. It will mean public consultation and debate will run from 5 September 2014 to 19 December 2014
- (b) **September round of committee meetings** - committees to consider and review three key areas:

- A summary of key issues and themes consistently raised by residents and stakeholders in the last two budget consultations (see section 6);
 - Opportunities/risks/issues for each committee area, with a particular focus on identifying wherever possible further efficiencies or income generation may be possible;
 - Comment on the County Council's overall ambition and three strategic priorities.
- (c) **29 September 2014** – Policy and Resources Committee considers the discussion and recommendations of service committees, any associated impacts or risks and determines the revised budget gap for the Authority which cannot at this stage be closed through further efficiency or income generation routes. Policy and Resources Committee will identify on this basis any outstanding savings which still need to be met.
- (d) **October committee round** – Committees meet again to identify proposals for achieving further savings to close the budget gap, which cannot be met through efficiencies or income generation. Any proposals that may impact on **service users, disadvantaged groups** or **people in rural areas** will be subject to particularly rigorous open discussion and analysis.
- (e) **October Policy and Resources** – considers all the proposals in the round, and ensures that the cumulative impact on disadvantaged groups is evaluated. Policy and Resources assures itself that there are sound arrangements for individuals and groups directly affected by potential proposals to have an opportunity to voice their views.
- (f) **November round of committee meetings** – committees will be able to note any feedback to date from the consultation and engagement so far but largely this round of meetings will focus on other committee business.
- (g) **December 1st Policy and Resources Committee** to receive latest financial update and emerging results from the consultation. Members may wish to review this date to be more certain of having the latest grant settlement update from the Government currently anticipated in the first or second week of that month.
- (h) **19 December 2014** – public consultation closes. Analysis of issues carried out between 19 December and the New Year, to ensure the findings can be reported to the January round of service committees.
- (i) **January 2015** round of service committees – committees review the findings and public consultation, the outcome of the local government settlement, other risk and impact assessments and agrees:
- Final proposed budget savings;
 - The Council's core business and outcomes against each of the authority's strategic themes that the Committee will be pursuing on behalf of the Council from 1 April 2015. (Taken all Committees together, this will make up the County Council Plan).
- (j) **26 January 2015** – Policy and Resources Committee reviews the recommendations from all committees, and taking a whole council view makes recommendations to Full Council

- (k) **16 February 2015** – Full Council in February to agree a revised County Council Plan and budget.

9. Recommendations:

Policy and Resources is asked to:

- 9.1 Discuss and agree the framework and process for the County Council Plan and budget.
- 9.2 Note the revised financial forecast, and adopt as a basis for budget planning in 2015/16 a further reduction in the Council's overall spending of £17.5m.
- 9.3 Invite each Committee to consider and comment upon the ambition and priorities as set out in section 5.
- 9.4 Ask Committees to use the September round of their meetings, in the context of the forecast additional funding shortfall of £17.5m overall, to consider and bring forward for the services that fall within their remit, proposals that focus on efficiency. They are asked to feed back their deliberations to Policy and Resources under the following headings:
- Better procurement and commissioning;
 - Better ways of working – including digital transformation;
 - Income generation.

10. Evidence

- 10.1 The proposals in this report are informed by the Council's constitution, local government legislation, best practice recommendations for financial and strategic planning, and feedback from residents and stakeholders in the Council's two most recent budget consultations (the Big Conversation and Putting People First).

<p>Financial Implications – the financial implications are detailed throughout this paper.</p>

Officer Contact

If you have any questions about matters contained in this report or want to see copies of any assessments, e.g. equality impact assessment, please get in touch with:

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Annex 1 - More “fiscal consolidation” to come

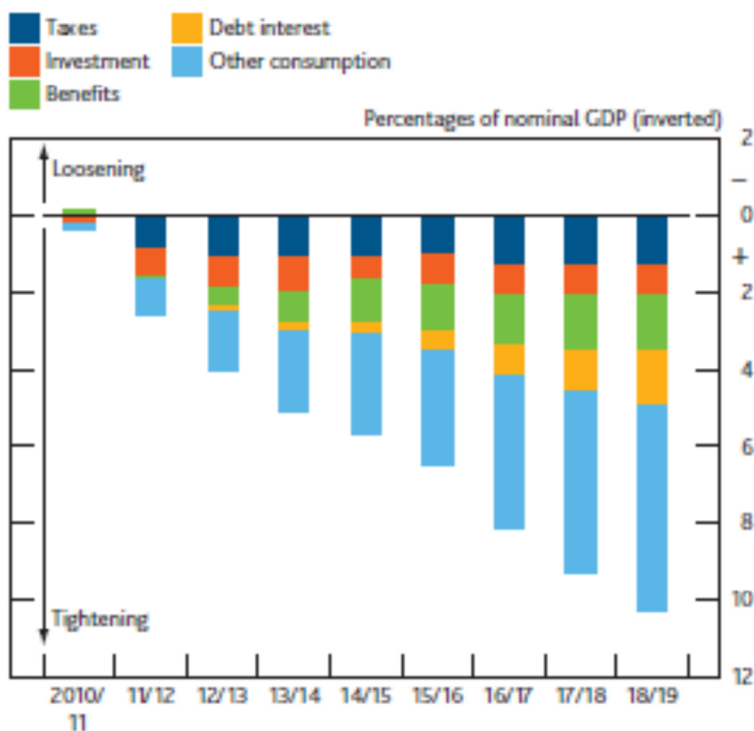
Bank of England *Inflation Report* August 2014 (pages 21/22)

Government spending

According to the Institute for Fiscal Studies, using the March 2008 *Budget* as a baseline, around half of the Government’s fiscal consolidation has already taken place.

The planned reduction in investment spending has already been implemented, but nominal government consumption is expected to fall further as a share of GDP (Chart 2.7).

Chart 2.7 More fiscal consolidation to come
Composition of the fiscal consolidation^(a)



Sources: HM Treasury, Institute for Fiscal Studies and Office for Budget Responsibility.

(a) Bars represent the planned fiscal tightening (reduction in government borrowing) relative to the March 2008 *Budget* projections for the years to 2014/15. Beyond 2014/15, the fiscal tightening is calculated against a counterfactual of nominal government spending growing in line with national income. The calculations are based on all HM Treasury Budgets, Pre-Budget Reports and Autumn Statements between March 2008 and March 2014. See www.ifs.org.uk/publications/7186 for more details.