

Digital Innovation & Efficiency Committee

Item No.....

Report title:	Strategic and Financial Planning 2018-19 to 2021-22
Date of meeting:	18 September 2017
Responsible Chief Officer:	Tom McCabe – Executive Director, Community and Environmental Services, Simon George – Executive Director, Finance and Commercial Services
<p>Strategic impact</p> <p>This report provides an update on the Council's budget setting process, and summarises the Policy and Resources Committee's guidance to Service Committees on the actions required to enable the Council to set a balanced budget for 2018-19. It also provides the Committee with an update on the Council's overall forecast financial position and in particular sets out details of the forecast budget gap for 2018-19 to 2021-22, and the strategic and financial planning framework recommended by the Policy and Resources Committee.</p> <p>It also confirms key themes to be taken into account in the development of the next iteration of the Council Plan and sets out an overview of the organisational response to financial pressures.</p>	

<p>Executive summary</p> <p>The report sets out Policy and Resources Committee's guidance to the Committee on the actions required to support preparation of a balanced budget for 2018-19. This includes an overview of the Council's budget planning process, the principles for this year's budget-setting activity, and the latest forecast gap for budget planning purposes for the period 2018-19 to 2021-22.</p> <p>Recommendations:</p> <p>Digital Innovation & Efficiency Committee is recommended to:</p> <ol style="list-style-type: none"> 1) Note the budget planning guidance for 2018-19 agreed by Policy and Resources Committee and in particular note: <ol style="list-style-type: none"> a. the budget assumptions set out in this report; b. the budget planning principles for 2018-19; c. the forecast budget gap of £100.000m reflected in the Council's latest financial planning; d. the allocation of saving targets for the MTFS period 2018-19 to 2021-22 to Departments and Committees, noting the existing savings for 2018-19 and beyond which were agreed as part of the 2017-18 budget round;
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- 2) Consider and agree the service-specific budgeting issues for 2018-19 as set out in section 3,
- 3) Consider whether any planned 2018-19 savings could be implemented during 2017-18 to provide an in-year saving; and
- 4) In order to help close the forecast 2018-19 budget gap (as defined in recommendation 1)c, commission officers to report to the October Committee cycle:
 - a. whether any savings identified for 2019-20 have the capacity to be brought forward to 2018-19;
 - b. to identify alternative new savings for 2018-19;
 - c. to identify further savings for the future years 2019-20 to 2021-22 to close the budget gap identified in those years.

1. Introduction

1.1. The County Council agreed the 2017-18 Budget and Medium Term Financial Strategy (MTFS) to 2019-20 at its meeting 20 February 2017. At this point, the MTFS identified a gap for budget planning purposes of £35.015m. The Council has a robust and well-established framework for strategic and financial planning which updates the MTFS position through the year to provide Members with the latest available financial forecasts to inform wider budget setting work across the organisation. At its meeting 3 July 2017, Policy and Resources Committee therefore received a report “Strategic and Financial Planning 2018-19 to 2021-22” which updated Members on the Council’s financial position forecasting a gap of £100.000m for the period to 2021-22, and represented the beginning of Committees’ budget planning for 2018-19.

1.2. In 2018-19 the budget-setting process will also be closely aligned with development of the new Council Plan and associated corporate strategy work, to be completed in the autumn. Further details of this approach were set out in the report “Caring for your County” and also in the Strategic and Financial Planning report considered by Policy and Resources Committee in July.

2017-18 budget position

1.3. The latest details of the 2017-18 budget position are set out in the budget monitoring report elsewhere on the agenda. The budget planning assumptions for 2018-19 set out later in this report include an assumption that the 2017-18 Budget is fully delivered (i.e. that all savings are achieved as planned and there are no significant overspends).

Use of reserves to support the budget in 2017-18

1.4. The 2017-18 Budget included plans for available reserves totalling £5.813m to be identified during the process of closing the 2016-17 accounts. This work has now been completed with sufficient reserves to support the Budget having been successfully identified. As a result the potential mitigating actions anticipated at the time the Budget was set will not be required in this respect. Further details of the proposed reserves to be used were provided in the 2016-17 Finance Monitoring Report Outturn to Policy and Resources Committee.

£0.456m of reserves relating to the Digital Innovation & Efficiency Committee have been identified to support the £5.813m requirement.

2. 2018-19 Budget planning

2017-20 Medium Term Financial Strategy

2.1. The Medium Term Financial Strategy (MTFS) for 2017-20 agreed by Full Council in February set out a forecast gap for the years 2018-19 and 2019-20 of **£35.015m** and included planned net savings of **£72.737m**. The table below shows savings by Committee and the categorisation of these savings is shown in Appendix 1.

Table 1: Agreed MTFS savings 2017-20 by Committee

	2017-18	2018-19	2019-20	Total
	£m	£m	£m	£m
Adult	-11.213	-18.716	-10.000	-39.929
Children's	-1.854	-0.859	-0.535	-3.248
Communities	-1.906	-0.102	0.000	-2.008
EDT	-5.340	-0.605	0.000	-5.945
Policy and Resources	-23.646	9.100	0.290	-14.256
Business and Property	-1.710	-1.751	-1.000	-4.461
Digital Innovation and Efficiency	-2.105	-0.726	-0.059	-2.890
Total	-47.774	-13.659	-11.304	-72.737

2.2. The MTFS position represents the starting point for 2018-19 budget planning.

Budget planning principles 2018-19

2.3. Policy and Resources Committee have agreed the following key principles for budget planning in 2018-19:

- Budget planning will cover the four year period 2018-19 to 2021-22;
- Budget planning will have an emphasis equally on increasing income as much as reducing cost;
- Budget planning will seek the early identification, and Member agreement, of 2018-19 savings where possible (i.e. before February 2018), in order to facilitate implementation and delivery; and
- Savings targets will be profiled to require savings towards the beginning of the budget period in order to seek to ensure that no savings are necessary in the final year of the Medium Term Financial Strategy 2021-22.

2.4. The outline budget-setting timetable for 2018-19 is set out in Appendix 2 to this report.

Latest forecast budget gap 2018-19

2.5. As set out above, the budget gap identified in the MTFS at February 2017 was **£35.015m**. In spite of the four-year funding settlement from Government for the

period 2016-17 to 2019-20, there is considerable uncertainty about future funding levels, in part as a result of the general election. Financial forecasts have now been extended to cover the four year budget period, although the levels of funding to be received in the final two years, 2020-21 and 2021-22, are unknown. There is currently particular uncertainty about the implementation of 100% rates localisation. **Based on previous indications from the government, this forecast assumes that Revenue Support Grant will substantially disappear in 2020-21. This equates to a pressure of around £36m, but significant uncertainty is attached to this and clearly the level of savings required in year three could be materially lower should this loss of funding not take place.**

2.6. With these caveats, the latest estimate of the budget gap for the four year planning period up to 2021-22 is **£100.000m**. The table below sets out the summary County Council forecast position. Further details of the budget planning changes as reported to Policy and Resources Committee are shown in Appendix 3.

Table 2: Revised Norfolk County Council budget gap forecast

	2018-19	2019-20	2020-21	2021-22	Total
	£m	£m	£m	£m	£m
Gap as at MTFS February 2017	16.125	18.890	0.000	0.000	35.015
New pressures	13.135	-6.897	20.773	21.366	48.377
Funding changes	-11.612	5.998	42.343	0.000	36.729
Savings changes	0.878	0.535	-10.000	0.000	-8.587
Council tax increase (1.99% 2020-21, 0% 2021-22)	0.000	0.000	-7.657	0.000	-7.657
Council tax base growth (0.5%)	0.000	0.000	-1.914	-1.962	-3.877
Revised gap as at P&R July 2017	18.526	18.526	43.544	19.404	100.000
Reallocate year 4 saving to years 1-3 (split 20/60/20)	3.881	11.642	3.881	-19.404	0.000
Total new savings to find (in addition to savings in 2017-18 MTFS)	22.407	30.168	47.425	0.000	100.000
<u>Note: Budget planning assumes:</u>					
Forecast council tax	373.535	382.873	392.445	394.407	n/a
Forecast increase in council tax in budget planning (including ASC precept, council tax increase and council tax base growth)	14.723	9.338	9.572	1.962	35.595
Council tax increase	1.9%	2.0%	2.0%	0.0%	
Adult Social Care precept increase	3.0%	-	-	-	

Budget assumptions 2018-19

2.7. The 2018-22 MTFS forecast position assumes:

- 2017-18 Budget and savings delivered in line with current plans (no overspend);
- Use of additional Adult Social Care funding during 2017-18 and future years as agreed by Adult Social Care Committee 10 July 2017;
- Substantial loss of RSG will occur in 2020-21;
- Council tax increases are agreed (subject to annual decision by Full Council) as shown in the table above for 2018-19 to 2020-21 (including Adult Social Care precept in 2018-19) with no increase in council tax in 2021-22; and
- Moderate council tax base growth over the period of the MTFS.

2.8. Uncertainties remain about a number of items which **have not been reflected** in the budget planning assumptions, but which could potentially result in an increase in the overall gap. Risks include:

- Implications of work on the National Pay Spine resulting from the National Living Wage (potentially costing 6-7% over three years) this could result in an additional 1% pay pressure each year, as 1% is already included within the MTFS; and
- The potential for transfer of the Fire and Rescue Service to the Police and Crime Commissioner.

2.9. This budget position and the associated assumptions will be kept under continuous review, and updated to reflect any changes arising from the Government's Autumn Budget, or further information about the Council's funding position as it becomes available. Reports on the latest financial planning position will be presented to Policy and Resources Committee up until budget-setting by County Council in February.

Allocation of savings required

2.10. The following table sets out indicative savings by department (excluding Schools and Public Health) as approved by Policy and Resources Committee. Savings have been based on allocating the budget gap with reference to the planned departmental net budgets for 2018-19. Recognising that Adult Social Care is delivering a significant proportion of the savings planned in the 2017-20 MTFS (see Table 1), and further savings enabled by the additional funding reflected in the budget planning gap, the indicative savings do not include a further apportionment to Adult Social Care for 2018-19. Adults do however receive a share of the year 4 (2021-22) saving to be achieved.

Table 3: Allocation of 2018-19 savings required by Department¹

Allocation of savings by Department excluding Schools and Public Health	Net previously agreed savings 2018-19	Share of new savings 2018-19	Share of year 4 savings 2021-22	Total new savings to find	New savings and proposed changes to agreed savings identified in budget planning	Total net savings to deliver 2018-19
	a	b	c	(b+c)	d	(a+b+c+d)
	£m	£m	£m	£m	£m	£m
Adult Social Care	-18.716	0.000	-1.477	-1.477	0.250	-19.943
Children's Services (Non Schools)	-0.859	-6.314	-0.819	-7.134	0.450	-7.543
Community and Environmental Services	-0.178	-8.373	-1.087	-9.460	0.000	-9.638
Managing Director's Department	-1.016	-0.339	-0.044	-0.383	0.300	-1.099
Finance and Commercial Services	-3.489	-0.991	-0.129	-1.119	0.000	-4.608
Finance General ²	10.599	-2.509	-0.326	-2.835	-0.122	7.642
Total	-13.659	-18.526	-3.881	-22.407	0.878	-35.188

Table 4: Allocation of new MTFS 2018-22 savings required by Department

Allocation of new 2018-22 MTFS savings by Department excluding Schools and Public Health	2018-19	2019-20	2020-21	2021-22	Total
	£m	£m	£m	£m	£m
Adult Social Care	-1.477	-11.480	-18.047	0.000	-31.004
Children's Services (Non Schools)	-7.134	-6.369	-10.013	0.000	-23.516
CES	-9.460	-8.447	-13.279	0.000	-31.185
Managing Director's Department	-0.383	-0.342	-0.537	0.000	-1.261
Finance and Commercial Services	-1.119	-0.999	-1.571	0.000	-3.689
Finance General	-2.835	-2.531	-3.979	0.000	-9.345
Total	-22.407	-30.168	-47.425	0.000	-100.000

2.11. The County Council has approved the establishment of two new Committees, the Business and Property Committee, and the Digital Innovation

¹ Savings have been considered by Policy and Resources allocated by Department. Work has been undertaken to determine the apportionment of savings to Service Committees following confirmation of the Committee structure. Indicative savings by Committee are shown in this report, subject to confirmation by Policy and Resources Committee of the budgets which are the responsibility of the Business and Property Committee and the Digital Innovation and Efficiency Committee.

² The net position of Finance General savings reflects the reversal of a number of one-off savings from 2017-18. Further details can be seen in the 2017-18 Budget Book.

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and Efficiency Committee. Taking account of the budgets relating to these Committees, the allocation of savings by Committee is shown below.

Table 5 Allocation of new MTFS 2018-22 savings required by Committee

Allocation of new 2018-22 MTFS savings by Department excluding Schools and Public Health	2018-19	2019-20	2020-21	2021-22	Total
	£m	£m	£m	£m	£m
Adult Social Care	-1.477	-11.480	-18.047	0.000	-31.004
Children's Services	-7.134	-6.369	-10.013	0.000	-23.516
Communities	-2.461	-2.197	-3.454	0.000	-8.112
Environment, Development and Transport	-6.663	-5.950	-9.353	0.000	-21.966
Policy and Resources	-3.553	-3.172	-4.987	0.000	-11.712
Business and Property	-0.362	-0.323	-0.507	0.000	-1.192
Digital Innovation and Efficiency	-0.757	-0.677	-1.064	0.000	-2.498
Total	-22.407	-30.168	-47.425	0.000	-100.000

3. Committee response

3.1. The Council is responding to the financial challenges through a number of strategic initiatives focused on demand management, prevention and early help, and a locality focus to service provision.

3.2. Work in the directorates relating to this Committee includes a continued focus on taking forward the digital transformation agenda for NCC to drive efficiency savings.

The new savings allocation to this Committee are as follows –

	2018 – 19 £m	2019 – 20 £m	2020 – 21 £m	2021 – 22 £m
Information Technology Management	-0.757	-0.677	-1.064	0.000
Better Broadband for Norfolk	0.000	0.000	0.000	0.000
Total for Committee	-0.757	-0.677	-1.064	-0.000

4. Financial implications

4.1. Financial implications for the Committee's Budget are set out throughout this report.

5. Issues, risks and innovation

- 5.1. Significant risks or implications have been set out throughout the report. Specific financial risks in this area are also identified in the Corporate Risk Register, including the risk of failing to manage significant reductions in local and national income streams (RM002) and the risk of failure to effectively plan how the Council will deliver services (RM006).
- 5.2. Decisions about significant savings proposals with an impact on levels of service delivery will require public consultation. As in previous years, saving proposals, and the Council's Budget as a whole, will be subject to equality and rural impact assessments later in the budget-setting process.

6. Background Papers

- 6.1. Background papers relevant to the preparation of this report are set out below.

Norfolk County Council Revenue and Capital Budget 2017-20, County Council, 20 February 2017, Item 4:

<http://norfolkcc.cmis.uk.com/norfolkcc/Meetings/tabid/70/ctl/ViewMeetingPublic/mid/397/Meeting/444/Committee/2/SelectedTab/Documents/Default.aspx>

Norfolk County Council Budget Book 2017-20, May 2017:

<https://www.norfolk.gov.uk/-/media/norfolk/downloads/what-we-do-and-how-we-work/budget-and-council-tax/the-2017-2020-budget-book.pdf?la=en>

Caring for your County, Policy and Resources Committee, 3 July 2017, Item 7:

<http://norfolkcc.cmis.uk.com/norfolkcc/Meetings/tabid/70/ctl/ViewMeetingPublic/mid/397/Meeting/1359/Committee/21/Default.aspx>

Strategic and Financial Planning 2018-19 to 2021-22, Policy and Resources Committee, 3 July 2017, Item 9:

<http://norfolkcc.cmis.uk.com/norfolkcc/Meetings/tabid/70/ctl/ViewMeetingPublic/mid/397/Meeting/1359/Committee/21/Default.aspx>

Finance Monitoring Report Outturn, Policy and Resources Committee, 3 July 2017, Item 11:

<http://norfolkcc.cmis.uk.com/norfolkcc/Meetings/tabid/70/ctl/ViewMeetingPublic/mid/397/Meeting/1359/Committee/21/Default.aspx>

Additional Social Care Funding, Adult Social Care Committee, 10 July 2017, Item TBC:

<http://norfolkcc.cmis.uk.com/norfolkcc/Meetings/tabid/70/ctl/ViewMeetingPublic/mid/397/Meeting/1377/Committee/10/SelectedTab/Documents/Default.aspx>

Officer Contact

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Categorisation of previously agreed MTFS savings 2017-20

Categorisation of saving	2017-18	2018-19	2019-20	2017-20
	£m	£m	£m	£m
A) Cutting costs through efficiencies	-32.813	8.967	-0.245	-24.091
(i) Efficiency savings	-32.531	9.589	-0.245	-23.187
(ii) Reducing service standards	-0.282	-0.622	0.000	-0.904
B) Better value for money through procurement and contract management	-1.161	-1.044	0.000	-2.205
(i) Efficiency savings	-1.161	-1.044	0.000	-2.205
C) Service Redesign: Early help and prevention, working locally	-8.978	-18.411	-10.000	-37.389
(i) Efficiency savings	-0.458	-0.950	-0.500	-1.908
(ii) Reducing service standards	-1.170	-7.199	-0.800	-9.169
(iii) Ceasing a service	-0.350	0.000	0.000	-0.350
(iv) Providing statutory services differently	-7.000	-10.262	-8.700	-25.962
D) Raising Revenue; commercial activities	-3.059	-1.561	0.000	-4.620
(i) Efficiency savings	-3.049	-1.561	0.000	-4.610
(ii) Reducing service standards	-0.010	0.000	0.000	-0.010
E) Maximising property and other assets	-1.763	-1.610	-1.059	-4.432
(i) Efficiency savings	-1.763	-1.610	-1.059	-4.432
Total	-47.774	-13.659	-11.304	-72.737

Further details of savings by Department can be found in the 2017-18 Budget Book.

2018-19 Budget Timetable

Activity/Milestone	Time frame
County Council agree recommendations for 2017-20 including that further plans to meet the shortfall for 2018-19 to 2019-20 are brought back to Members during 2017-18	20 February 2017
Spring Budget 2017 announced	8 March 2017
Consider implications of service and financial guidance and context, and review / develop service planning options for 2018-20	March – June 2017
Executive Director of Finance and Commercial Services to commission review of 2016-17 outturn and 2017-18 Period 2 monitoring to identify funding from earmarked reserves to support Children's Services budget.	June 2017
Member review of the latest financial position on the financial planning for 2018-20 (Policy and Resources Committee)	July 2017
Member review of budget planning position including early savings proposals	September – October 2017
Consultation on new planning proposals and Council Tax 2018-21	October to December 2017 / January 2018
Service reporting to Members of service and budget planning – review of progress against three year plan and planning options	November 2017
Chancellor's Autumn Budget 2017	TBC November / December 2017
Provisional Local Government Finance Settlement	TBC December 2017
Service reporting to Members of service and financial planning and consultation feedback	January 2018
Committees agree revenue budget and capital programme recommendations to Policy and Resources Committee	Late January 2018
Policy and Resources Committee agree revenue budget and capital programme recommendations to County Council	29 January 2018
Confirmation from Districts of council tax base and Business Rate forecasts	31 January 2018
Final Local Government Finance Settlement	TBC February 2018
County Council agree Medium Term Financial Strategy 2018-19 to 2020-21, revenue budget, capital programme and level of Council Tax for 2018-19	12 February 2018

2018-19 to 2021-22 Forecast Budget Gap

	2018-19	2019-20	2020-21	2021-22	Total
	£m	£m	£m	£m	£m
MTFS gap as at February 2017	16.125	18.890	0.000	0.000	35.015
<u>New pressures</u>					
Additional expenditure funded from ASC allocations announced in Spring 2017 budget	15.841	-3.733	-0.665		11.443
Pressure from ending of Section 75 protection of social care funding agreement		5.100			5.100
ASC demand and demographic growth – future years			6.100	6.100	12.200
Other pressures within Adult Social Care	0.288				0.288
Remove unspecified iBCF pressures from 2017-20 Budget round	-13.943	-12.544			-26.487
Remove 2017-18 growth for ASC 2016-17 overspend lower than forecast	-1.000				-1.000
Children's: New funding School Improvement (Monitoring and Brokering) which may come with additional responsibilities	0.635				0.635
Add back 2017-18 growth in Children's Services as ongoing pressure	9.000				9.000
Assumed waste pressures (based on average annual increase)	1.700	1.700	1.700	1.700	6.800
Coroners – additional ongoing cost for storage of bodies. (Note: may be potential to offset in future through capitalisation – i.e. construction of an NCC facility)	0.080	0.080	0.080	0.080	0.320
CRC - increased price per tonne (£16.60 to £17.20)	0.045				0.045
National Living Wage pressure for NCC staff (based on £0.15 increments)	0.026	0.121	0.271		0.418
NCC Pensions valuation 31 March 2019 for 2020-21 to 2022-23 (estimate)			1.067	1.152	2.219
Other Pensions valuation 31 March 2019 for 2020-21 to 2022-23			0.933	0.848	1.781
Environment Agency Levy pressure for annual increases experienced	0.050	0.050	0.050	0.050	0.200
IR35 Personal Service Companies additional employer's national insurance liability (estimate)	0.138				0.138
Reduced cost of borrowing - defer borrowing to 2019-20	-0.630	2.329			1.699
Inflation – higher than forecast at 2017-20 MTFS and addition of future years	0.905	0.000	11.237	11.436	23.578
Total new pressures	13.135	-6.897	20.773	21.366	48.377

2018-19 to 2021-22 Forecast Budget Gap

	2018-19	2019-20	2020-21	2021-22	Total
	£m	£m	£m	£m	£m
<u>Funding changes</u>					
War veterans (assumed recurring)	-0.287				-0.287
Additional ASC allocations announced in Spring 2017 budget	-11.901	-5.903			-17.804
Reversal of additional ASC allocations announced in Spring 2017 budget		11.901	5.903		17.804
Children's: Troubled Families Grant less than expected	0.576				0.576
Risk of loss of Revenue Support Grant following implementation of 100% BRRS - probably addressed through increased retention of business rates (though additional responsibilities may be also given). Significant uncertainty around implementation.			36.440		36.440
Total new funding changes	-11.612	5.998	42.343	0.000	36.729
Revised gap / (surplus)	17.648	17.991	63.116	21.366	120.121
<u>Potential changes to agreed savings</u>					
Removal of saving ASC021 (Information Advice and Guidance)	0.250				0.250
Removal of saving CHL017 (Reducing number of social workers)	0.450	0.535			0.985
Adjustment for duplicated savings not achievable	0.300				0.300
Additional saving from reduction in Second Homes repayment to Districts to 12.5% (saving value updated for latest forecasts)	-0.122				-0.122
Total potential saving changes	0.878	0.535	0.000	0.000	1.413
Revised gap including changes to agreed savings	18.526	18.526	63.116	21.366	121.534
<u>New savings identified</u>					
Add in ASC saving (ASC006) re-profiled from 2018-19 to 2020-21 in MTFS February 2017			-10.000		-10.000
Revised gap including new savings identified	18.526	18.526	53.116	21.366	111.534
Council tax increase (1.99% 2020-21, 0% 2021-22)			-7.657	0.000	-7.657
Council tax base increase (0.5%)			-1.914	-1.962	-3.877

2018-19 to 2021-22 Forecast Budget Gap

	2018-19	2019-20	2020-21	2021-22	Total
	£m	£m	£m	£m	£m
Final revised gap as at July 2017	18.526	18.526	43.544	19.404	100.000
Reallocate year 4 saving to years 1-3	3.881	11.642	3.881	-19.404	0.000
Total savings to find (in addition to savings in 2017-18 MTFS)	22.407	30.168	47.425	0.000	100.000