



CABINET

6 SEPTEMBER

**CHIEF EXECUTIVE: DR PAUL BLANTERN
DIRECTOR OF FINANCE: DAMON LAWRENSON
BUSINESS INTELLIGENCE AND PERFORMANCE IMPROVEMENT:
LUIZA MORRIS-WARREN**

**LEADER OF THE COUNCIL: COUNCILLOR HEATHER SMITH
CABINET MEMBER WITH RESPONSIBILITY FOR FINANCE AND PERFORMANCE:
COUNCILLOR ROBIN BROWN**

Subject:	Medium Term Plan 2017-18 to 2020-21
Recommendations:	<p>That Cabinet:</p> <ul style="list-style-type: none"> I. Notes the continuing financial context the Council and Local Government is in, given the growth in demand for services in relation to current funding levels; II. Notes the half-year update on the financial position in the MTFP; III. Agrees the strategic commissioning intentions for NCC Group, including the Place and People Directorates; IV. Delegates authority to the Strategic Commissioners and the respective portfolio holders, to carry out consultations on options for delivery and bring these back for agreement at December Cabinet.

1. Purpose of Report

1.1 To outline the challenges and pressures the County Council is facing over the medium term and outline the commissioning intentions which will allow us to meet these challenges and deliver our Council Plan.

2. How this decision contributes to the Council Plan

2.1 The Council’s vision is to make Northamptonshire a great place to live and work. This is achieved through increasing the wellbeing of our county’s communities and/ or safeguarding the county’s communities.

2.2 This paper covers the background conditions and context of the Council Plan and therefore impacts on all elements of the Council plan.

3. Background

3.1 This is an annual report to give an overview of the strategic direction of travel of the Council, and provide an overview of the current performance of the UK economy as well as an update on the economic progress and prospects within Northamptonshire for the near term.

- 3.2 The report outlines our major strategic initiatives for the medium term plan, the work carried out to date and next steps. The report also includes an overview of the existing challenges, risks and burdens and their impact on the Council's Medium Term Plan (MTP) from both the financial and service planning perspective, and how the Council proposes to respond to these over the next four year period.
- 3.3 The Council Plan reported to Full Council in February 2016 provided insight into the move towards a Next Generation Council and this report details how we will make the new model continue to deliver, by setting out our commissioning intentions for the medium term, with a focus on 2017-18.
- 3.4 At the same meeting, Full Council agreed to a £65m package of budget proposals to help us ensure we can manage demand in our services and the further reductions in levels of government funding. In August 2016, Cabinet considered the implications of the budget position that showed around £30m of savings were already on course to be delivered in full, a significant achievement when set against level of savings delivered over previous years.
- 3.5 £8m was considered at risk– meaning they are unlikely to be delivered within the required timescale or fall significantly short of expect yield. The remaining savings were considered to be 'amber' meaning there are some issues which need to be resolved before they can be fully delivered. Officers were tasked to report back to Cabinet in September with updated actions and mitigations that will maximise delivery of efficiencies and savings and reduce the need for additional budget proposals in 2017-18.
- 3.6 The medium term planning process is also making progress to accommodate a commissioning based authority as the transformation programme moves forward. Last year saw the implementation of an outcome-based approach to budgeting setting. Building on that, a prioritisation framework is being developed, to provide greater consistency in decision-making about prioritising resource allocation and the delivery of services to meet the Council's desired outcomes.

4. Consultation and Scrutiny

- 4.1 This report has been produced in consultation with the NCC Management Board and Cabinet members. The Medium Term Planning process to date has consisted of regular updates to the Next Generation Council Management Board and a number of internal meetings attended by Cabinet members and Directors to discuss and assess the service pressures and how services may be delivered in the medium term.
- 4.2 This report and the budget setting process will also be subject to scrutiny through the Finance and Performance Scrutiny Committee's Budget sub-group.
- 4.3 The Council is required to formally consult on its Budget and Council Tax options as set out in its Constitution for a period of six weeks following the publication of the Draft Budget as per the forward plan.

4.4 We will, in line with our revised business planning process, be looking to consult on some proposals earlier than the 2017-18 budget consultation in December, this is to ensure that consultation is informing our final budget proposals to Cabinet.

5. Macro-Economic Outlook

5.1 As expected there was continued improvement in the overall economy during 2015 and closing the financial year with reduced unemployment, interest rates fairly stable and GDP up on the previous year albeit less than anticipated in the previous forecast reported in November 2015.

5.2 The Economic and Fiscal Outlook published by the Office for Budget Responsibility (OBR) assumes continued forecast growth over the medium term and has revised the targets to reduce borrowing each year accordingly.

5.3 The following table summarises the economic outlook further detailed information can be found on the following website:

Office for National Statistics; <https://www.ons.gov.uk/>

	March 2015	March 2016	Latest figures
<i>Inflation (Consumer Price Index)</i>	0.80%	0.50%	0.60%
<i>Gross Domestic Product (Bank of England Index)</i>	106.3	106.7	107.4
<i>Unemployment</i>	5.50%	5.10%	4.90%
<i>National Debt % of GDP</i>	83.2%	83.7%	84.0%

5.3.1 Whilst, we are seeing some improvement it does present additional pressure if the deficit is to be met by 2019-20, consequently this could have an impact on funding available for local government in future years.

5.3.2 More positively, the low interest rates enable Local Authorities to benefit from the reduced cost of borrowing within the Treasury functions.

5.4 Budget 2016

5.4.1 The Chancellor recognised the funding pressures facing councils and local services over the next few years and did not announce any more cuts to local government. The intentions of greater local autonomy in responding to local demand is essential and is supported with the introduction of the 100% retention scheme and further devolution deals announced. However there is an enormous level of detail to be developed before this fundamental change is delivered and a recent CCN report has shown that at the moment this system potentially disadvantages 2 tier systems.

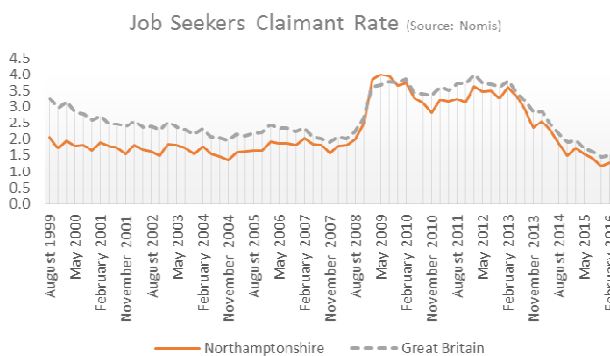
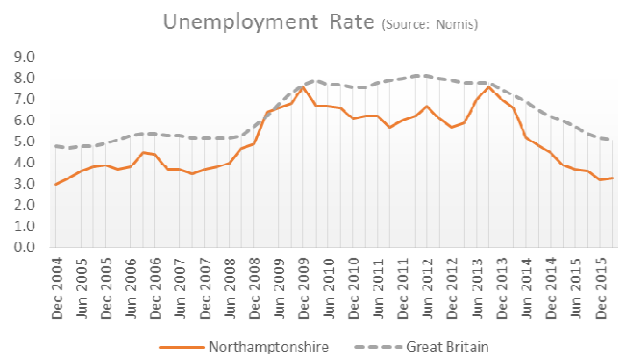
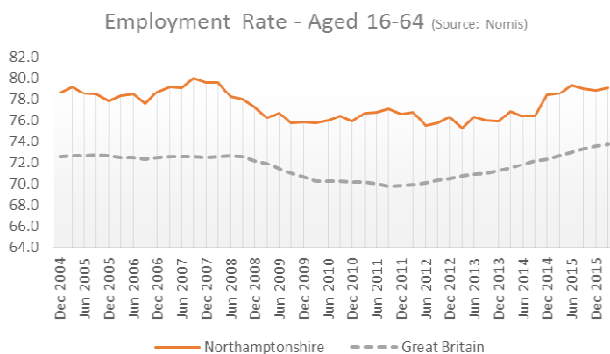
5.4.2 The Government's policy decisions in this year's Budget are not expected to have a material impact on the economy despite the increased pressure on borrowing. However, they ensured that net borrowing will be lower every year to 2019-20 with new fiscal mandate met within similar timelines.

5.5 Referendum outcome – UK to exit the European Union (EU)

- 5.6 The Referendum on 23rd June resulted in the UK to exit the EU shortly followed by the change in Prime Minister and Cabinet which has resulted in heightened uncertainty within the business and investment sector, with reports of progress on projects slowing or being put on hold. Although these are initial reactions, the degree of impact and over what timescale this will be felt is currently unknown, as are the terms and impact of any exit arrangements.
- 5.7 In addition, the impact of this outcome on population statistics is uncertain, and although no changes are anticipated in the immediate to short-term, there is likely to be some change to immigration policy in the longer-term, which may, to an unknown extent, affect population and associated projections including housing demand, traffic volume and demand for school places in the longer-term.
- 5.8 Many commentators are also predicting a slowdown in the economy, in the short-term at least, due to the effects of heightened uncertainty following the vote to leave the EU. Anecdotally, this is already affecting investment decisions. The measurable economic effects of an exit/ lead up to an exit from the EU will not be known immediately, but some effect and associated knock-on effects should be anticipated.

6. Northamptonshire Economic Outlook

- 6.1 The latest available data (pre-referendum) depicts economic conditions as being relatively stable with an above average (better) employment rate (to end Mar 2016) and below average (better) unemployment rate (to end Mar 2016) and Jobs Seekers Allowance claimant rate (Feb 2016), now sitting below pre-recession levels. The time series data for these elements is shown below:



6.2 However, as previously discussed, the real impact of EU referendum and recent changes in the government leadership will not be known for some time and this may have an impact on Northamptonshire's economic position.

7. Revenue Update

7.1 Funding Outlook

7.2 The Provisional Settlement in December 2015 saw changes to the approach taken for future local government funding and gave local authorities the opportunity to take a four year offer, therefore, providing some reassurance on future years allocations to assist with budget planning over the medium term.

7.3 Whilst this goes some way to support local authorities in managing the pressure felt with reduced funding, it needs to be noted, the published levels are not guaranteed. It needs to be noted that this offer may be subject any impact of changes in the economy, alongside known reviews of existing policies, in particular business rates re-evaluation to be completed and published in the autumn and anticipated changes to 100% retention.

7.4 In October 2015, Government announced that, by the end of Parliament, local government will retain 100% of taxes raised locally. This is a fundamental reform to the financing of local government with the aim to increase the self-sufficiency of councils. The move to 100% retention is estimated to give councils in England control of around £12.5bn of additional revenue from business rates to spend on local services.

7.5 In order to ensure that the reforms are fiscally neutral, the main local government grants will be phased out and additional responsibilities will be devolved to local authorities. It is still unclear if this will be fully implemented by the end of the medium term, but early indications suggest this work will be complete by the end of 2019-20 and is currently out for consultation with a response to be given by the end of September.

7.6 Funding Offer – Four Year Efficiency Plan

7.6.1 The four year funding offer for local authorities is supported by the medium term efficiency plan for the period 2016-17 through to 2019-20 and submitted to DCLG by 14th October 2016.

7.6.2 Recent Guidance indicates that Local Authorities have the freedom and flexibility to provide an efficiency plan that will make reference to the overall Council Plan. It will need to provide information on transformation projects taking place, with reassurance that the Council has a balanced budget. This will be based on the final Budget approved by Full Council in February.

7.7 Medium Term Financial Plan

7.8 The challenges facing Northamptonshire County Council are clear and have been well documented through the MTFP process each year and during the year through the monthly financial report. This report outlines how the Council needs to continue to make savings over the next four years, in addition to the £232m which has already been saved during the five year period up to the end of the 2015-16 financial year.

Key Assumptions on Funding

7.8.1 The Provisional Settlement in December 2015 provided a four year offer for all local authorities which also included information in respect of New Homes Bonus and the Better Care Fund. These figures form the basis of the funding illustrated within table 1 below with an estimate applying a similar 8% reduction for 2020-21.

7.8.2 The Council Tax base has been assumed to increase by 1% and the Band D Rate to increase by 1.95% per annum, with a 2% increase for Social Care Precept and is therefore within the current Council Tax referendum limit.

7.8.3 The remaining grants information is based on the budget approved at Full Council in February 2016. As with all funding, there remains a risk that non-recurrent grants will not be offered in future years. These include Education Services Grant, New Homes Bonus, Better Care Fund and the Section 31 Business Rates Retention which provide a significant contribution to the overall funding for the Council. These are not fully confirmed until Final Settlement in February, however early indications suggest that the following grants are expected to change over the medium term:

- The funding the council receives for Education Services Grant (ESG) will significantly reduce in 2017-18 as a result of increases in the number of schools with academy status and the EFA ceasing the largest element of this grant. Further announcements are expected in September regarding the new funding arrangements. Once confirmed the expected impact will be included in the Draft Budget.
- Early indications have now been given that the Small Business Rates Relief grant will be offered for 2017-18 but full details may not be known until the provisional settlement.

Key Assumptions on Pressures

7.8.4 Over and above changes arising from national funding positions and general inflation, there are local pressures that can arise from changed assumptions in local client service demand, local demographic trends, as well as the identification of new, individual service pressures that need to be factored into the MTP. The main areas for demand in services for future years are Adults and Children's Social Care.

7.8.5 In addition, the current financial year presents continued challenges in the delivery of 2016-17 savings totalling £65m. Whilst there has been progress made to minimise the impact in 2016-17, with plans being scoped to deliver the 2016-17 budget, the size of the challenge makes it difficult to quantify the sustained pressure moving forward. However, the current reported position to Cabinet in September amounts to £14m pressure.

7.9 Current Financial Position

7.9.1 The table below reflects the financial plan up to 2020-21 as approved by Full Council in February 2016, with an estimate for year four and a funding gap of £14.4m moving forward.

7.9.2 The funding changes will be updated to take into consideration the potential impact on future years' budget planning as announcements are made.

7.9.3 Full details are provided within the service business plans and will be reviewed and scoped more fully over the coming weeks for consideration by Cabinet as part of the Draft Budget.

	2017-18 £m	2018-19 £m	2019-20 £m	2020-21 £m	Total
Government funding changes	19.3	10.5	9.7	8.1	47.6
Grants & Income changes	6.9	5.0	(3.1)	1.4	10.2
Local Funding changes	(13.9)	(16.5)	(14.5)	(15.1)	(60.0)
Use of Reserves	0.0	0.0	4.2	0.0	4.2
Total Reduction in Funding	12.3	(1.0)	(3.7)	(5.6)	2.0
Inflation	10.0	10.7	11.0	13.5	45.2
Service Pressures	8.3	7.3	10.7	9.5	35.8
Total Savings Required	30.6	17.0	18.0	17.4	83.0
Less Current Proposals	(30.6)	(17.0)	(18.0)	(3.0)	(68.6)
Revised MTFP Gap	0.0	0.0	0.0	14.4	14.4

Table 1 - Summary of Revenue Funding

8. Capital Update

8.1 Economic Outlook and Environment

8.1.1 Some areas of the county and commercial projects within the county will be supported by EU grants and the European Investment Bank (EIB).

8.1.2 Any slowdown in investment and growth will impact the Council both in terms of settlements and grants from Government and also in respect of housing and other growth which both bring contributions (i.e. S106 etc.) and direct additions to infrastructure within the county to support the Council in delivering its services.

8.1.3 There has however been no change in political leadership and early signs suggest that there are will be no major changes to the direction of travel in the short-term, due to the need to provide stability at this time.

8.1.4 The Government over recent years has revised mechanisms to prioritise capital funding, such as revolving capital pots, increased business case bids and developments such as the Better Care Fund and the Single Local Growth Fund to bring together local public sector partners. The Council expects these trends to continue and to be further expanded under the influence of the SEM LEP.

8.1.5 Through whichever mechanism they are delivered, direct grants are expected to be a significant source of capital funding for the Council whether they originate via external contributions, through Growth Deals etc. or direct from Central Government Departments.

8.2 Medium Term Plan – Capital

8.2.1 The Capital Strategy continues to be mapped to the general direction for public sector investment. Therefore the strategy continues to be relevant to the underlying national and local direction for capital investment and as such requires an update, as opposed to a complete rewrite or change of direction.

It is envisaged that major elements within the plan will continue to be:

- Highways maintenance and infrastructure investment funded by grants such as Local growth Fund or the Revolving Infrastructure Fund approach
- The extension of current schools and new additional schools to meet need funded by a mix of Basic Needs Grant or specific grants through the Education Funding Agency etc.
- Other key Next Generation Working Projects
- Investment to Save along with other Joint Investments with partners to generate revenue savings and new ways of delivering services in line with Next Generation principles. These principles are subject to full review at December cabinet.

8.3 Discretionary Funding

8.3.1 The Council's ability to invest in capital funding itself (through borrowing) known as discretionary funding, will be significantly impeded due to the current economic climate which has led to severe funding cuts to revenue budgets.

8.3.2 The flexibilities in SR 2015 that allowed authorities to support the revenue cost of reform projects by utilising 100% of their capital receipts for this purpose and the Council's decision to utilise this flexibility will also put further restrictions on the Council's ability to extend any Discretionary Funding. In past years, these receipts would have been utilised in-line with 'Golden Rule Two' with 50% being re-invested in new schemes and 50% utilised to repay borrowing.

8.3.3 Over the life of the current MTP, the Council's net budgets are expected to continue to fall significantly, leading to an increase in the percentage of the Council's revenue budget required to service the financing cost of previous capital investment as these remain fixed over this timeframe

9. Strategic Direction

9.1 Next Generation Council

9.1.1 NCC's vision is to "Make Northamptonshire a great place to live and work" thus ensuring the wellbeing and safeguarding of the residents and visitors to our wonderful county. Critical to continuing to make our vision a reality is the delivery of the NCC Outcomes Framework, as outlined in the Council Plan.

- 9.1.2 We will deliver this vision through very effective strategic development and commissioning of the provider market, including the development of wholly or partly owned group companies; providing regulatory safeguarding and assurance; managing effective communication, consumer interfaces and business intelligence; ensuring democratic accountability and delivering modern, innovative and digital first solutions.
- 9.1.3 During 2017-18 as we complete the Next Generation working and structure plans, we will focus on:
- Delivering a self-financing model for NCC, including fully understanding the impact of the new Government funding models of business retention and fully embedding the new federated business model for NCC
 - Delivering Digital Northamptonshire, bringing applications and modern technology into all that we do
 - Delivering greater integration with the NHS through the Sustainability and Transformation Plan.
- 9.1.4 Our design principles, outlined below, will allow us to develop a sustainable model of local government, which is flexible and responsive to resident needs, while allowing for enhanced partnership working:
- Outcome focused
 - Commissioning decisions based on data and intelligence
 - Partnership working across the model
 - Smart and responsible financing
 - A culture of trust and joint responsibility
 - A flexible and responsive consumer strategy
 - Strategy based on democratic mandate and clear understanding of wider political and economic environment.
- 9.1.5 Our priorities for 2017-18 are:
- Ensuring the effective and financially-efficient implementation and running of the Next Generation Model, via a robust and mature strategic commissioning framework
 - Delivering our savings and a balanced budget against a challenging financial settlement
 - Establishing and delivering our Digital Northamptonshire agenda and making digital content and contacts our default setting
 - Aligning our corporate agenda to the local STP
 - Continuing to use technology of a system disruptor to drive change
 - Deliver a health and wellbeing e-marketplace for the county and beyond.

9.2 **Business Planning**

- 9.2.1 In order to achieve the strategy set out in our Council Plan and deliver our Outcomes Framework, we have developed clear and specific commissioning intentions which shape the expectations that NCC Group will place on its delivery vehicles. We are proposing an overarching policy framework mechanism to help shape the prioritisation process which is also coming to the Sept 2016 Cabinet.

- 9.2.2 These intentions are shaped by central and local policy, demography pressures and consumer expectations, informed by intelligence on our county and constrained by our financial envelope.
- 9.2.3 Subject to Cabinet agreeing the proposals, these intentions will inform the delivery plans each federated vehicle will be expected to produce and consult on. This will ensure there is a clear continuum between our strategic vision, set out in the Council plan, our commissioning plans and the delivery plans, as well as visible democratic accountability.
- 9.2.4 The commissioning intentions set out by the commissioners are detailed in the Annexes to this Cabinet paper. We are now reviewing the detailed implementation plans associated with the budget proposals presented to Full Council in February 2016, as part of the ongoing Budget Delivery Monitoring work.

10. Equality Screening

- 10.1 Final Equality Impact Assessments (EqIAs) will be produced as a matter of course at the culmination of the budget process. As strategies are developed, an assessment of potential impacts on protected groups takes place, thereby ensuring that the Council meets its statutory duties under the Equality Act (2010).
- 10.2 The assessments will be produced firstly in draft, following the procedure outlined in the Council's Standard of Required Practice (SORP) and will form a key part of the budget consultation. EqIAs will then be revisited and revised, taking into account the feedback from the consultation and published as final versions alongside the final budget.

11. Alternative Options Considered

- 11.1 The acceptance of this report by Cabinet is an initial step in the approval of the 2017-18 Budget and framework documents. In developing individual budget proposals, the Cabinet and senior officers will have considered alternative options through a series of scheduled meetings throughout the budget planning and setting process.

12. Financial Implications

- 12.1 The financial implications of this report are set out in the main body of the report.

13. Risk and Business Continuity Management

- 13.1 The risks inherent in the planning and setting of a budget will mainly relate to the deliverability of the proposed changes to the services delivered and the realisation of any efficiencies or savings associated with this change.
- 13.2 There are a number of financial risks which are present as a consequence of both external and internal changes:
- Anticipated changes in the economy and the impact on availability of resources as discussed within earlier sections of the report with highlighted potential risks.

- Organisational changes to respond to the changing demand for services within resources available presenting internal risks in the delivery of savings proposals year on year.

Further updates will be included in Draft Budget in December 2016 and finalised within the Final Budget Report approved by Full Council.

13.3 In addition, there are various other non-financial risks to consider, further detail on these risks can be found within the appended business plans. The risks and mitigating actions at this very early stage in the process will be based on the best intelligence at this time, but are likely to change as the process continues.

a) Risk(s) associated with the proposal

Risk	Mitigation	Residual Risk
The Impact of economic slowdown and funding changes on local government spending in the medium term. <ul style="list-style-type: none"> • Brexit • 100% Retention of Government Funding • Welfare Reform 	Robust budget setting processes which provide officers with the data to enable the formulation of plans to mitigate pressures and take further steps as required to ensure the delivery of a balanced budget to Full Council in February 2017. Despite these actions this will remain a residual Amber risk at this time.	Amber
The impact of continued austerity on the Council and deliverability of statutory duties required.	Clear understanding of demand and costs through management information to review services to increase efficiency and sustain deliverability of statutory duties.	Amber

b) Risk(s) associated with not undertaking the proposal

Risk	Risk Rating
	Red/Amber/Green
	Red/Amber/Green
	Red/Amber/Green

14. List of Appendices

Appendix 1: NCC Group and Chief Executive Services Business Plan

Appendix 2: People Directorate – Public Health and Wellbeing Business Plan

Appendix 3: People Directorate – Children’s Trust Business Plan

Appendix 4: People Directorate – Adults Services Business Plan

Appendix 5: Place Directorate Business Plan

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Background Papers:	
Does the report propose a key decision is taken?	NO
If yes, is the decision in the Forward Plan?	YES
Will further decisions be required? If so, please outline the timetable here	Yes – Annual draft budget papers in December and annual final budget papers in February.
Does the report include delegated decisions? If so, please outline the timetable here	NO
Is this report proposing an amendment to the budget and/or policy framework?	NO
Have the financial implications been cleared by the Strategic Finance Manager (SFM)? Have any capital spend implications been cleared by the Capital Investment Board (CIB)	YES Name of SFM: Damon Lawrenson YES
Has the report been cleared by the relevant Director?	YES Name of Director: Paul Blanter
Has the relevant Cabinet Member been consulted?	YES Cabinet Member: Health Smith/ Robin Brown
Has the relevant scrutiny committee been consulted?	NO Scrutiny Committee: Finance & Performance Scrutiny
Has the report been cleared by Legal Services?	YES Name of solicitor: Laurie Gould Solicitor's comments:
Have any communications issues been cleared by Communications and Marketing?	YES Name of officer: Simon Deacon
Have any property issues been cleared by Property and Asset Management?	NO There are no implications directly relating to property or assets in this report, there may be implications as we work through detailed proposals and these will be reviewed by Property for the December cabinet papers.
Are there any community safety implications?	NO - There are no implications directly arising from this paper, however individual proposals will need assessing for potential impacts
Are there any environmental implications:	NO - There are no implications directly arising from this paper, however individual proposals will need assessing for potential impacts
Are there any Health & Safety Implications:	NO - There are no implications directly arising from this paper, however individual proposals

	will need assessing for potential impacts
Are there any Human Resources Implications:	NO - There are no implications directly arising from this paper, however individual proposals will need assessing for potential impacts
Are there any human rights implications:	NO - There are no implications directly arising from this paper, however individual proposals will need assessing for potential impacts
Constituency Interest:	Countywide