

**INTEGRATED PLAN PROPOSALS 2016/7 AND FUTURE YEARS:  
Overview of Resources, Pressures and Key Issues**

Report of the Assistant Director - Finance

**1. Purpose**

- 1.1 To provide information to support a preliminary discussion on the Integrated Plan (IP) proposals for 2016/17 and future years.

**2. Background and approach to 2016/17 IP**

- 2.1 The Integrated Plan brings together the financial impact of service plans and the available funding to resource these, over the next four years.
- 2.2 The Government is expected to announce the provisional Local Government Finance Settlement by 18 December 2015, which will be reported to Cabinet on 18 January 2016.
- 2.3 Information provided in the 2015/16 Settlement and subsequent Spending Review on 25 November 2015, together with forward notification of some grants, indicates a continued reduction in available resources.
- 2.4 The timetable for the Integrated Plan is:

**2016**

- 18 January - Cabinet consider draft Integrated Plan and invite views of Service Cabinet Panels/Overview & Scrutiny Committee.
- 27 January to 12 February - Service Cabinet Panels/ Overview & Scrutiny Committee review Cabinet's draft Integrated Plan proposals.
- 22 February - Cabinet recommend Integrated Plan for 2016/17 to 2019/20.
- 23 February - County Council approve Integrated Plan for 2016/17 to 2019/20, and set Council Tax for 2016/17.

**3 Strategic Direction**

- 3.1 Strategic Direction plans have been produced, which set out the future direction of each portfolio in the context of achieving substantial further savings. These have been informed by comparative benchmarking, both through published data and informal networks with other comparable authorities, to identify areas of potential efficiency gains. Savings requiring a policy change have been taken through Panels for Cabinet decisions throughout 2016/17. The main IP report will include the individual Strategic Direction plans and their financial impact, and summarises these in the overall position against resources.

### 3.2 Key areas identified in the Strategic Direction plans include:

- Working with Health partners to drive forward the social care and health integration agenda.
- A continued focus on early intervention, working with partner agencies and with families so that all children have the opportunity to thrive at home, in school and in communities.
- Ensuring effective management of the county's waste in conjunction with the Hertfordshire Waste Partnership, working with residents to reduce residual waste and increase recycling
- Continuing to effectively manage an intensively used highways network to meet the movement and transport needs of residents and business, whilst developing and implementing strategies that provide safe, reliable journeys sustainably
- Reducing the risk of preventable disease and illness occurring or worsening.

## 4. Revenue Budget and Funding

4.1 The Local Government Finance Settlement 2015/16 to 2016/17 provided the funding context for the 2015/16 Integrated Plan, which set the budget position for the next three years. This showed a funding gap of up to £56m by 2017/18, as shown in Tables 1 and 2 below.

**Table 1: Summary Revenue Budget** (from 2015/16 IP, February 2015)

	2015/16 £m	2016/17 £m	2017/18 £m
<b>Original Budget</b>	811.286	811.286	811.286
Technical Adjustments	14.135	22.273	21.162
<b>Adjusted Budget</b>	825.421	833.559	832.448
Inflation - standard and countywide exceptional	9.376	23.605	37.834
Inflation - service specific exceptional	0.246	0.246	0.246
<b>Base Budget</b>	835.043	857.410	870.528
<b>Pressures for Change</b>			
Previous Policy Decisions	0.175	0.200	-0.250
Demography	10.853	18.510	27.116
Legislative	9.081	9.347	9.627
Capital Financing & Interest on Balances	0.088	0.554	2.096
One-off contribution to Pension Fund	10.087	0.000	0.000
Other	2.666	6.659	8.904
<b>Total Pressures for Change</b>	32.950	35.270	47.493
<b>Subtotal</b>	867.993	892.680	918.021
<b>Savings</b>			
Existing efficiencies	-1.224	-2.657	-3.330
2013/14 Policy Decision	-0.375	-0.375	-0.375
New efficiencies	-31.860	-47.792	-51.104
2014/15 Policy Decision	-4.944	-6.225	-7.129
2015/16 Proposed Policy Decision	-0.858	-1.471	-1.471

Further savings required (to close gap)	0.000	-19.974	-56.405
Total Savings	-39.261	-78.494	-119.814
<b>Revenue Budget</b>	<b>828.732</b>	<b>814.186</b>	<b>798.207</b>

**Table 2: Summary Revenue Budget Funding** (from 2015/16 IP)

	<b>2015/16 £m</b>	<b>2016/17 £m</b>	<b>2017/18 £m</b>
Business Rates Income	49.174	50.158	51.161
Business Rates Pooling	0.300	0.000	0.000
Business Rates Top-Up Grant	63.700	64.974	66.273
Total Business Rates	113.174	115.132	117.434
Revenue Support Grant (RSG)	118.969	95.845	74.555
Total Business Rates and RSG	232.143	210.977	191.989
Non-Ringfenced Grants	0.175	0.200	-0.250
Ringfenced Grants:			
• Public Health Grant	37.642	37.642	37.642
• Public Health - Health visitors	8.173	16.346	16.346
• Adult Skills and Community Learning grant	2.605	2.605	2.605
• Bus Service Operators grant	1.111	1.111	0.000
• Unaccompanied Asylum Seeking Children Grant (UASC)	1.122	1.122	1.122
• Troubled Families Grant	1.734	1.734	1.734
• Music Education Grant	1.258	1.258	1.258
• Youth Justice Good Practice Grant	0.903	0.903	0.903
• NHS funding for Social Care	18.949	18.949	18.949
Total Ringfenced Grants	73.497	81.670	80.559
Council Tax	485.427	489.314	481.571
Additional Council Tax income through prevention and detection of fraud	0.500	0.500	0.500
Collection Fund Balance - Council Tax	10.345	4.466	4.466
Collection Fund Balance - Business Rates	-0.711	-0.711	-0.711
	<b>828.732</b>	<b>814.186</b>	<b>798.207</b>

## Pressures

- 4.2 Figures from the 2015/16 IP have been reviewed to reflect latest estimates of pressures in maintaining a standstill budget. Significant effort has been made to contain pressures within these forecasts, although the impact of demographic change continues to increase above previous estimates. The budgets are also being adjusted to reflect changes in legislation, such as the new National Living Wage and impact on National Insurance of the removal of contracted out rebates.

- 4.3 The costs of capital financing, and interest earned on balances, are being re-calculated to include reprogramming and proposed new bids in the Capital Programme (see section 5 below). It is proposed that the council will continue to seek to minimise borrowing through the use of capital receipts and reserves, although some new borrowing is expected to be required from 2016/17. This will add further costs to the revenue budget, especially from 2017/18 as the full year effects impact.

## **Inflation**

- 4.4 The impact of inflation has been costed as below. For 2016/17, it is proposed that both pay and non-pay inflation will be budgeted at 1%.
- 4.5 These figures include provision for countywide budgets where more relevant inflation factors are available, such as gas and electricity, business rates, and building repairs and maintenance. Additional provision is also made for service specific bids, including waste disposal, transport and care contracts. There are expected to be increases for residential and other care providers, where Hertfordshire County Council has a responsibility to consider providers' financial viability and where there are known recruitment difficulties and other pressures. Services are reviewing fees and charges with an expectation that they are increased by 1.5% in line with the forecast CPI inflation index for March 2017 (unless there are statutory or commercial reasons that would make this inappropriate).

### Impact of Proposed Inflation Rates for 2016/17 Integrated Plan:

	Cumulative (estimate)			
	2016/17	2017/18	2018/19	2019/20
	£m	£m	£m	£m
<b>standard pay @ 1.0%</b>	1.222	3.451	5.680	7.909
<b>standard non-pay @ 1.0% (2016/17)</b>	6.282	6.282	6.282	6.282
<b>standard non-pay @ 1.5% (2017/18)</b>		10.175	10.175	10.175
<b>standard non-pay @ 2.0% (2018/19 &amp; 2019/20)</b>			13.516	27.032
<b>standard income - as standard non-pay%</b>	-0.791	-2.001	-3.615	-5.29
<b>Countywide exceptional</b>	1.247	1.247	1.247	1.247
<b>TOTAL</b>	<b>7.960</b>	<b>19.154</b>	<b>33.285</b>	<b>47.355</b>

## **Resources**

### 4.6 Government Grants

Government revenue grant estimates used in the 2015/16 IP are shown in Table 2. Officers will have further information on these following the 2016/17 Provisional Settlement expected before 18 December. Headline figures from the Spending Review of 25 November indicate a real terms decrease of 56% in core government grant (including Revenue Support Grant) by 2019/20; increased Better Care Funding for social care; and changes expected to lead to reductions in other grants including New Homes Bonus and Public Health. New funding was announced for infrastructure including highways, but details are not expected to be available until the New Year.

#### 4.7 Council Tax

No recent announcements have been made on whether the Government's additional funding for councils that freeze or reduce council tax will continue in 2016/17. The local Council Tax Base is being reviewed, and together with forecasts based on 2014/15 Collection Fund surpluses, is expected to increase in 2016/17. Following the Spending Review and Autumn Statement on 25 November, local authorities are able to levy an additional 2% precept above the limit for council tax increases (the threshold to be confirmed, but previously 2%). This precept is to be used only for the purposes of adult social care services.

#### 4.8 Business Rates

Business Rates funding continues to be received either directly from Districts or via central government 'top up'. The baseline level of funding will increase at the national rate (forecast as 0.9% in 16/17; 2% thereafter). In addition, income will be increased by the County's share of local growth in business rates. Under the Rates Retention Scheme, a proportion of this growth is paid as levy to central government. However it is possible to reduce this levy payment and increase the amount of growth retained locally by forming a Business Rates Pool with other authorities. Hertfordshire has submitted a proposal along with five Hertfordshire districts to form a new pool, following the successful implementation of a pool in 2015/16. This is subject to central government approval and the benefits will depend on the level of growth in these districts.

### **Revenue Budget Savings**

- 4.9 The 2015/16 IP identified a savings requirement of £56m over the three years 2015/16 to 2017/18, of which £33m was required to be delivered in 2014/15. This figure is expected to increase as the latest estimates of pressures and reductions in funding described above are confirmed.
- 4.10 Within their Strategic Direction plans, each portfolio has identified potential savings through further efficiencies in the way their services are delivered. The process has been underpinned by the value for money comparisons, and by rigorous challenge between officers.
- 4.11 More fundamental changes to service provision have been the subject of member and public discussion and cabinet decisions in the course of 2015/16. Policy decisions have been taken in several areas, including the Bus route changes for the Passenger Transport Service. It will be necessary to continue to develop proposals for further savings for consideration by Cabinet Panels and Cabinet in the course of 2016/17 and future years.
- 4.12 Given the extent of savings required from 2017/18 onwards, it will be necessary to continue to develop proposals for savings for consideration by Cabinet Panels and Cabinet. It is becoming progressively more difficult to find further savings, and these are likely to require more significant service redesign, and hence lead times, before they are achieved. Services are therefore working to identify efficiencies

and policy choices for early decisions in 2016, to allow time for these to be implemented so that full benefits can be achieved in 2017/18.

## 5. Capital Programme

- 5.1 The revised capital programme, including the re-programming being recommended for Cabinet approval in December 2015, is shown in Table 3 below.

**Table 3: Revised Capital Programme 2016/17 – 2018/19**

	<b>2016/17</b>	<b>2017/18</b>	<b>Total</b>
<b><u>Directorate</u></b>	£'000	£'000	£'000
Environment	122,360	137,186	259,546
Resources and Performance	7,344	6,664	14,008
Community Protection	2,054	2,521	4,575
Health and Community Services	29,473	11,763	41,236
Public Health	0	0	0
Children's Services	63,229	31,167	94,396
<b>TOTAL</b>	<b>224,460</b>	<b>189,301</b>	<b>413,761</b>

- 5.2 This will be updated for the new Integrated Plan to reflect any further changes such as additional/reduced grant allocations, revised estimates of capital receipts, re-programmed projects, changes to the Croxley Rail link etc.
- 5.3 Services have also developed priority business cases for new major projects to 2018/19. These have been reviewed by senior officers and will be considered in the Integrated Plan to be reported to Cabinet in January. As far as possible, bids have been required to be fully funded from external sources.
- 5.4 Services are also reviewing all existing schemes to ensure budgets are still required, to review cashflow profiling, and to ensure that grant, S106 or other external funding is applied wherever possible.
- 5.5 Details of final Government capital grant funding are yet to be announced, so officers are working with provisional allocations. Any reduction/increase will need to be reflected in an adjustment to the draft capital programme.
- 5.6 Based on existing knowledge of future sales and assuming a continuing improvement in market conditions, the Council is anticipating £20m of Capital Receipts per year for 2016/17-2018/19. If this level of capital receipts were not achieved then any shortfall would need to be financed through borrowing or a reduction in expenditure, which will be reviewed in the Integrated Plan.

## **6 Reserves**

- 6.1 All general and specific reserves will be reviewed during the Integrated Planning process.
- 6.2 A prudent level of General Fund Balances was set for 2015/16 at 4.0% of the Net Revenue Budget (NRB), which equated to £33.1million. The Assistant Director – Finance will review the level of these balances and make recommendations in the Integrated Plan report.

### **Background Information**

Integrated Plan Report to Full Council February 2015

Statement of Accounts 2014/15

Quarterly Revenue and Capital Monitor Report to Cabinet, December 2015

