

HERTFORDSHIRE COUNTY COUNCIL

**OVERVIEW AND SCRUTINY COMMITTEE
WEDNESDAY, 20 DECEMBER 2016 AT 10.00AM.**

**INTEGRATED PLAN PROPOSALS 2017/18 AND FUTURE YEARS:
Overview of Resources, Pressures and Key Issues**

Report of the Director of Resources

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1. Purpose

1.1 To provide information to support a preliminary discussion on the Integrated Plan (IP) proposals for 2017/18 and future years.

2. Background and approach to 2017/18 Integrated Plan

2.1 The Integrated Plan (IP) brings together the financial impact of service plans and the available funding to resource these, over the next three years.

2.2 The IP is set within the context of central government funding and other available resources. The Council has submitted an Efficiency Plan in order to gain certainty on core funding over the IP period. The Chancellor's Autumn Statement of 23 November confirmed the financial context for local authority spending, with central government Departmental Expenditure Limits unchanged, and no indication of changes to Council Tax or the Social Care precept.

2.3 At the time of writing, the provisional Local Government Finance Settlement had not been released. While the Settlement is expected to confirm the core funding assumptions in last year's IP, details of other grant movements are as yet unknown. A verbal update will be provided at the meeting.

2.4 The timetable for the Integrated Plan is:

- 23 January 2017 – Cabinet consider draft Integrated Plan and invite views of Service Cabinet Panels/Overview & Scrutiny Committee.
- 31 January to 10 February – Service Cabinet Panels/ Overview & Scrutiny Committee review Cabinet's draft Integrated Plan proposals.
- 20 February – Cabinet recommend Integrated Plan for 2017/18 to 2019/20.
- 21 February – County Council approve Integrated Plan for 2017/18 to 2019/20, and set Council Tax for 2017/18.

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. Services have been required to make every effort to contain pressures within these forecasts, for example through finding offsetting savings or taking preventative action. Proposals have been informed by comparative benchmarking, both through published data and informal networks with other comparable authorities, to identify areas of potential efficiency gains. Where savings require a policy change, these have been taken through Panels for Cabinet decisions during 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:

- Focus on early intervention, prevention and alternative models of service delivery to better manage demand for services;
- Work in partnership with other agencies and organisations to make Hertfordshire safer and support health and wellbeing through targeted proactive prevention, education and protection work;
- Working closely with the Herts Infrastructure and Planning Partnership and Districts on bringing forward land for new homes and jobs. This will be developed further through a recently established new forum of all Hertfordshire public services providers which is considering property opportunities under the government's "One Public Estate" initiative;
- Ensure 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

4. Revenue Budget and Funding

4.1 The Local Government Finance Settlement 2016/17 provided the funding context for the 2016/17 Integrated Plan, which set the budget position for the next four years. This showed a funding gap of up to £75m by 2019/20, as shown in Tables 1 and 2 overleaf.

Table 1: Summary Revenue Budget (from 2016/17 IP, February 2016)

2015/16 £m		2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m
811.286	Original Budget	828.732	828.732	828.732	828.732
14.135	Technical Adjustments	(5.660)	(7.311)	(8.645)	(9.885)
9.622	Inflation	8.933	20.127	34.258	48.389
835.043	Base Budget	832.005	841.548	854.345	867.236
	Pressures for change:				
0.175	Previous Policy Decisions	0.025	(0.225)	(0.175)	(0.225)
10.853	Demography	10.079	19.043	29.342	39.751
9.081	Legislative	8.681	13.058	17.183	21.676
0.088	Capital Financing	0.342	1.343	2.335	3.351
10.087	One-off capital investment	-	-	1.106	1.908
2.666	Other	3.602	6.749	12.007	13.127
32.950	Total Pressures for Change	22.729	39.968	61.798	79.588
867.993	Subtotal	854.734	881.516	916.143	946.824
	Savings:				
(33.084)	Existing efficiencies	(16.263)	(20.201)	(20.326)	(20.326)
(5.319)	Previous Policy Decision	(0.281)	(0.685)	(0.685)	(0.685)
-	New efficiencies	(13.478)	(16.419)	(17.699)	(18.303)
(0.858)	2015/16 Policy Decision	(2.530)	(3.930)	(6.130)	(10.130)
-	Further savings required	-	(34.116)	(65.524)	(75.446)
(39.261)	Total Efficiency / Business Transformation Savings	(32.552)	(75.351)	(110.364)	(124.890)
828.732	REVENUE BUDGET (excluding funding specifically allocated to service area)	822.182	806.165	805.779	821.934
-	Use of Reserves	(0.385)	-	-	-
828.732	Resultant Budget	821.797	806.165	805.779	821.934

Table 2: Summary Revenue Budget Funding (from 2016/17 IP)

2015/16 £m		2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m
	Business Rates and Revenue Support Grant:				
49.174	Business Rates Income	49.847	50.844	51.861	52.898
0.300	Business Rates Pooling / Growth	-	-	-	-
63.700	Business Rates Top-Up Grant	64.231	65.494	67.426	69.581
118.969	Revenue Support Grant	79.992	44.535	22.599	1.890
232.143		194.069	160.873	141.886	124.369
	Non-ringfenced Grants:				
2.545	Compensation for impact of changes to Business Rates (S31 grant)	2.552	2.552	2.552	2.552
13.172	Education Services Grant (ESG)	12.009	12.009	12.009	12.009
5.457	New Homes Bonus	6.635	6.936	4.358	4.181
0.372	New Homes Bonus Adjustment	0.263	-	-	-
5.872	Adult Social Care new burdens	-	-	-	-
0.659	SEN Reform	0.746	-	-	-
1.871	Independent Living Fund	2.141	2.070	2.005	1.944
-	Transition Grant	7.760	7.849	-	-
1.439	Other non-ringfenced grants	1.100	1.001	0.911	0.911
31.387		33.207	32.418	21.835	21.597
	Ringfenced Grants:				
37.642	Public Health Grant	34.504	33.659	32.784	31.932
8.173	Public Health - Health visitors	15.543	15.154	14.760	14.376
2.605	Adult Skills and Community Learning grant	2.605	2.605	2.605	2.605
1.111	Local Authority Bus Subsidy Grant	1.111	1.111	1.111	1.111
1.122	Unaccompanied Asylum Seeking Children Grant	1.122	1.122	1.122	1.122
1.734	Troubled Families Grant	1.837	2.237	2.237	2.237
1.258	Music Education Grant	1.258	1.258	1.258	1.258
0.903	Youth Justice Good Practice Grant	0.815	0.815	0.815	0.815
54.548		58.795	57.961	56.692	55.456
	Other Income:				
18.949	NHS funding - Better Care Fund	18.949	18.949	23.676	31.858
481.571	Council Tax	499.136	513.142	527.540	542.342
-	- Council Tax relating to 2% Social Care Precept	9.787	20.323	31.650	43.812
0.500	Projected additional Council Tax Income	-	-	-	-
10.345	Collection Fund Balance - Council Tax	9.907	4.000	4.000	4.000
(0.711)	Collection Fund Balance - Business Rates	(2.053)	(1.500)	(1.500)	(1.500)
510.654		535.726	554.914	585.366	620.512
828.732	TOTAL	821.797	806.165	805.779	821.934

Pressures

- 4.2 Figures from the 2016/17 IP have been reviewed to reflect latest estimates of pressures in maintaining a standstill budget. The impact of demographic change continues to increase above previous estimates. The budgets are also being adjusted as a result of announcements in the Autumn Statement on 23 November, such as modelling the impact of new rate for National Living Wage.
- 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). The Council will continue to use external funding wherever possible, with the balance of funding coming from capital receipts where available, and from borrowing. While in recent years the Council has used capital receipts to reduce the need to borrow, officers are exploring options to develop rather than dispose of some surplus sites, in order to generate revenue streams that may provide a better return on these assets.

Inflation

- 4.4 The impact of inflation has been costed as below. 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. Services are reviewing fees and charges with an expectation that they are increased by 2.2% in line with the forecast CPI inflation index for March 2017 (unless there are statutory or commercial reasons that would make this inappropriate). Additional provision is also made for service specific bids relating to particular categories or contractual agreements.
- 4.5 These levels will be reviewed within the IP proposals. While latest forecasts of CPI are above the 1.5% assumed for non-pay inflation in the 2016/17 IP, the extent of countywide and service specific bids means it may be reasonable to reduce inflation on the remaining non-pay lines.

Impact of Proposed Inflation Rates for 2017/18 Integrated Plan:

	Cumulative (estimate)		
	2017/18	2018/19	2019/20
	£m	£m	£m
Standard Pay @ 1.0%	2.593	4.841	7.089
Standard Non-pay @ 1.5% (2017/18)	9.493	9.493	9.493
Standard Non-pay @ 2.0% (2018/19 & 2019/20)		14.161	28.322
Standard Income @ 2.2% (2017/18)	(1.660)	(1.660)	(1.660)
Standard Income @ 2.0% (2018/19 & 2019/20)		(1.509)	(3.018)
Countywide exceptional	2.854	2.854	2.854
TOTAL	13.280	28.180	43.080

Resources

4.6 Government Grants

Government revenue grant estimates used in the 2016/17 IP are shown in Table 2. We will have further information on these following the 2017/18 Provisional Settlement expected in early December. Some new funding was announced during the Autumn Statement for infrastructure including highways; where details are available, these have been built into the Capital Programme.

4.7 Council Tax

The local Council Tax Base is being reviewed, and together with forecasts based on 2015/16 Collection Fund surpluses, is expected to increase in 2017/18.

No changes regarding Council Tax or the Social Care Precept were announced during the Autumn Statement on 23 November; current assumptions anticipate that the referendum threshold of 2% Council Tax increase remains, and authorities will be able continue raising the additional precept at the rate of 2%.

4.8 Business Rates

Business Rates funding continues to be received either directly from Districts or via central government 'top up'. Confirmation of the baseline level of funding (following the revaluation in 2017/18 of the Rateable Values of properties) will be announced as part of the 2017/18 Provisional Settlement, expected in early December. DCLG have however confirmed the Business Rates multiplier for 2017/18, and transitional arrangements which will be in place following revaluation. DCLG will lower the transitional relief cap from 45% next year to 43%, and from 50% to 32% the year after. This discretionary relief is fully funded through Section 31 grants. Work is ongoing with Districts to confirm the impact of these changes on the County's funding.

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 proposes to continue with the existing pool for 2017/18, subject to final agreement of the Pool members following the Provisional Settlement.

Revenue Budget Savings

4.9 The 2016/17 IP identified a savings requirement of £75m over the four years 2016/17 to 2019/20, of which £34m was required to be delivered in 2017/18. 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 2016/17. It will be necessary to continue to develop proposals for further savings for consideration by Cabinet Panels and Cabinet in the course of 2017/18 and future years.
- 4.12 Given the extent of savings required from 2018/19 onwards, it will be necessary to continue to develop proposals for savings for consideration by Cabinet Panels and Cabinet. It is likely that such savings may well require more significant service redesign, which may require varying lead-in times before they are achieved. Services are working to identify further efficiencies and policy options, underpinned by a refreshed range of “transformation” initiatives incorporating both service-led and corporate-led cross cutting themes.

5. Capital Programme

- 5.1 The revised capital programme, including the re-programming being recommended for Cabinet approval in December 2016, is shown in Table 3 below.

Table 3: Revised Capital Programme 2017/18 – 2018/19

	2017/18	2018/19	Total
<u>Directorate</u>	£'000	£'000	£'000
Environment	113,156	103,662	216,818
Resources	11,613	6,932	18,545
Community Protection	3,197	1,733	4,930
Health and Community Services	32,311	18,440	50,751
Public Health	1,400	-	1,400
Children’s Services	41,510	44,637	86,147
TOTAL	203,187	175,404	378,591

- 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, and re-programmed projects.
- 5.3 Services have also developed priority business cases for new major projects to 2019/20. 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 The Capital Programme has in recent years been part funded by capital receipts, in order to minimise borrowing. With current low interest rates, officers are reviewing future potential receipts and are investigating options to generate optimal returns from non-operational sites.

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 2016/17 at 4.0% of the Net Revenue Budget (NRB), which equated to £32.1 million. The Director of Resources will review the level of these balances and make recommendations in the Integrated Plan report.

Background Information

Integrated Plan Report to Full Council February 2016

Statement of Accounts 2015/16

Quarterly Revenue and Capital Monitor Report to Cabinet, December 2016