

HERTFORDSHIRE COUNTY COUNCIL

**GROWTH, INFRASTRUCTURE, PLANNING AND THE
ECONOMY CABINET PANEL**

1 JULY 2019 AT 2:00PM

Agenda Item
No.

5

FINANCIAL OUTLOOK

*Report of Director of Resources and the Director of Environment and
Infrastructure*

Author(s): Steven Pilsworth, Assistant Director Finance
(Tel 01992 555143)
Faisal Mir, Assistant Director Finance and
Business Support (Tel: 01992 555737)

Executive Members: Ralph Sangster, Resources and Performance
Derrick Ashley, Growth, Infrastructure, Planning
and the Economy

1 Purpose of report

- 1.1 To update Panel on the overall financial outlook for the Council, and to seek Panel's views on areas where further work should be done as part of the forthcoming Integrated Planning round.

2 Background

- 2.1 It is clear that the Council faces significant financial challenges. This includes how demand for our services is outstripping the funding the Council has available, and also that there is significant uncertainty with regards to its future funding levels.

These issues were becoming apparent when the most recent Integrated Plan (for the years 2019/20-2022/23) was approved by Cabinet and Council in February 2019. As a result of this, both Cabinet and Council agreed:

“that, in the light of the requirement for delivery of further savings in future years, Chief Officers be commissioned to work with Executive Members and their Cabinet Panels to develop options at the earliest possible opportunity for the delivery of substantial additional savings”.

- 2.2 In May 2019, Cabinet received a report on the Financial Outlook for the Council. A copy of this is attached as appendix 1 to this report. Starting the refresh of the Integrated Plan in May will be the earliest the Council has done so, reflecting the scale of the challenge faced.

2.3 Cabinet agreed the following recommendation to:

“invite Cabinet Panels meeting in June and July 2019 to consider the financial outlook, the initial high-level options suggested and to suggest other areas that the Council should be considering in order to meet the financial challenges”

2.4 Panel are therefore invited to comment on the following questions:

- What are the Panel’s views on the overall financial position outlined in Part 1 of the Financial Outlook (attached as appendix 1 to the report)
- What are the Panel’s views on the range of options outlined in Part 2 of the Financial Outlook, and whether there are any areas where further work should be done as part of this IP round to identify savings?

2.5 Work on IP proposals can then take place over the summer. Specific proposals for any new efficiencies or policy choices will be brought forward for separate consideration as part of the Integrated Plan process in Autumn 2019.

2.6 The Growth, Infrastructure, Planning and the Economy portfolio statement, taken from the current Integrated Plan (IP) is also attached as appendix 2 to this report, for reference.

3 Recommendations

3.1 That Panel considers the questions raised above (para 2.4) and provides feedback to Cabinet on these.

4 Equality Implications

4.1 When considering proposals placed before Members it is important that they are fully aware of, and have themselves rigorously considered, the equalities implications of the decision that they are taking.

4.2 Rigorous consideration will ensure that proper appreciation of any potential impact of that decision on the County Council’s statutory obligations under the Public Sector Equality Duty. As a minimum this requires decision makers to read and carefully consider the content of any Equalities Impact Assessment (EqIA) produced by officers.

4.3 The Equality Act 2010 requires the Council when exercising its functions to have due regard to the need to (a) eliminate discrimination, harassment, victimisation and other conduct prohibited

under the Act; (b) advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it and (c) foster good relations between persons who share a relevant protected characteristic and persons who do not share it. The protected characteristics under the Equality Act 2010 are age; disability; gender reassignment; marriage and civil partnership; pregnancy and maternity; race; religion and belief, sex and sexual orientation.

- 4.4 No EqlA has been undertaken in the production of this report but as proposals are developed EqlAs will be undertaken and will include mitigation measures which are intended to minimise the impact on any service user who may be adversely affected by the proposals.
- 4.5 In addition to the need for Members to have due regard to the Public Sector Duty under the Equality Act 2010, they also need to be aware that the County Council when making decisions is under a general duty of Best Value to make arrangements to secure continuous improvement in the way in which its functions are exercised having regard to a combination of economy, efficiency and effectiveness.

APPENDIX 1 – the Financial Outlook report, Cabinet (May 2019)

HERTFORDSHIRE COUNTY COUNCIL

**CABINET
MONDAY, 13 MAY 2019 AT 2.00PM**

Agenda item
No

7

FINANCIAL OUTLOOK FOR THE PERIOD 2020/21-2023/24

Report of the Director of Resources

Authors: Scott Crudgington, Director of Resources (Tel: 01992 555601)
Steven Pilsworth, Assistant Director Finance (Tel: 01992 555737)
Benjamin Jay, Head of Corporate Finance (Tel: 01992 556257)

Executive Member: Ralph Sangster, Resources and Performance

1 Purpose of report

- 1.1 To consider the financial outlook for the Council which will inform the preparation of the Integrated Plan for the years 2020/21-2023/24.

2 Summary and Background

- 2.1 Attached to this report at Appendix A, is a review of the financial outlook for the council which outlines the financial challenges facing the Council. This includes how demand for our services is outstripping the funding the Council has available. It also outlines the significant uncertainty the Council faces with regards to its future funding levels.
- 2.2 These issues were becoming apparent when the most recent Integrated Plan (for the years 2019/20-2022/23) was approved by Cabinet and Council in February 2019. As a result of this, both Cabinet and Council agreed:

“that, in the light of the requirement for delivery of further savings in future years, Chief Officers be commissioned to work with Executive Members and their Cabinet Panels to develop options at the earliest possible opportunity for the delivery of substantial additional savings”.

- 2.3 The report on the Integrated Plan that was presented to Cabinet and Council in February contained the confirmation of the Director of Resources (s151 officer) regarding the robustness of the estimates and the adequacy of the reserves held by the Council (this is sometimes referred to as the s25 report). That report concluded that

“The medium term financial position of the Council is very challenging [...]. It is recommended that the Council does not wait for the regular IP timeline in the Autumn of 2019, but rather starts work early in the new year to develop options for delivering medium term financial sustainability for the Council. All options will need to be considered, including further efficiencies, income options, transformation and policy choices.

- 2.4 The attached financial outlook responds to the decision of Cabinet and Council referred to in paragraph 2.2 above. Starting the refresh of the Integrated Plan in May will be the earliest the Council has done so, reflecting the scale of the challenge faced.
- 2.5 As well as outlining the significant financial challenge faced, the financial outlook also starts to indicate the high level areas that the Council will need to look at in order to tackle this challenge. These are not detailed, nor are they likely to be comprehensive. The intention is that we use the financial outlook to start the discussion with Cabinet Panels, and to seek feedback from them on these initial options and what other areas the Council needs to be considering.

3 Recommendations

- 3.1 Cabinet is recommended to:
- a) note the financial outlook as set out in the document attached to the Report;
 - b) note the need to proceed ahead of usual timeline for the budget preparation to ensure adequate time to consider possible new areas for savings;
 - c) invite Cabinet Panels meeting in June and July 2019 to consider the financial outlook, the initial high level options suggested and to suggest other areas that the Council should be considering in order to meet the financial challenges;
 - d) note that specific proposals for any new efficiencies or policy choices will be brought forward for separate consideration as part of the Integrated Plan process in Autumn 2019.

4 Equality Implications

- 4.1 When considering proposals placed before Members it is important that they are fully aware of, and have themselves rigorously considered the equalities implications of the decision that they are taking.
- 4.2 Rigorous consideration will ensure that proper appreciation of any potential impact of that decision on the County Council’s statutory obligations under the Public Sector Equality Duty. As a minimum this requires decision makers to read and carefully consider the content of any Equalities Impact Assessment (EqIA) produced by officers.

- 4.3 The Equality Act 2010 requires the Council when exercising its functions to have due regard to the need to (a) eliminate discrimination, harassment, victimisation and other conduct prohibited under the Act; (b) advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it and (c) foster good relations between persons who share a relevant protected characteristic and persons who do not share it. The protected characteristics under the Equality Act 2010 are age; disability; gender reassignment; marriage and civil partnership; pregnancy and maternity; race; religion and belief, sex and sexual orientation.
- 4.4 No EqIA has been undertaken in the production of this report but as proposals are developed EqIAs will be undertaken and will include mitigation measures which are intended to minimise the impact on any service user who may be adversely affected by the proposals.
- 4.5 In addition to the need for Members to have due regard to the Public Sector Duty under the Equality Act 2010, they also need to be aware that the County Council when making decisions is under a general duty of Best Value to make arrangements to secure continuous improvement in the way in which its functions are exercised having regard to a combination of economy, efficiency and effectiveness.

Appendix A

Hertfordshire County Council

Financial Outlook: 2020-24

1. Executive Summary

- a) The financial challenges facing local government have never been greater. The amount of funding this Council receives from Central Government is now £150m lower than it was in 2010¹. At the same time, it has faced significant increases in demand for vital services for Hertfordshire residents, as well as in the cost of delivering them.
- b) The end of March 2020 will see the end of the current four-year Government funding settlement for local government. It is not yet clear what the future funding model will look like and there are a number of significant emerging Government plans and policies, including a Spending Review, the Fairer Funding Review, and the Business Rates Retention scheme, which will all shape that. This Financial Outlook report considers the impact of those forthcoming changes and kick starts the Council's budget planning process, ensuring it can continue to be in the best possible position to fund and provide much needed public services.
- c) As an organisation, the Council has a strong track record of sensible financial management and taking action early before issues escalate. There is a legal duty to manage our budget responsibly.
- d) In the four years from April 2019 it is expected that the costs of delivering Council services will increase by £140m, however across the same time period we only expect our income to grow by £50m. The result is that savings will need to be found totalling £90m. Half of those savings are already identified but further work will be needed to secure the rest – this is no easy task.
- e) It is increasingly challenging trying to meet the rising demand and costs for the services currently provided. This is particularly true for social care services, which serves a growing and ageing population (the number of over 85s is projected to rise by 137.5% by 2030) and the fact that residents with more complex needs are now thankfully living longer, which is putting more pressure on scarce resources.
- f) The Council has successfully made significant savings in the region of £315m since 2010 – but we are approaching a point where further efficiencies are increasingly difficult to identify and deliver. Whilst all alternatives will need to be exhausted before frontline service reductions are considered, it is clear that few, if any, such alternatives are available and some difficult decisions lie ahead.
- g) The financial outlook outlined in this paper is just one element of the Council's wider plans for the future, which also include a major transformation programme, developing commercialism and innovative

¹ Considering all Government funding, including Revenue Support Grant.

ways of working and playing the lead role in ensuring good growth for Hertfordshire.

- h) The report will be considered by each of the cabinet panels over the coming months, seeking views on areas to be considered in helping to meet the financial challenge. Proposals will then be developed and will form part of the budget consultation in the autumn, where all residents, service users and other interested parties will be able to have their say.

2. Introduction

- a) This financial outlook document starts the work to refresh the Council's Integrated Plan (IP²) for 2020-24. The overarching objective is to secure the future financial and operating sustainability of the Council, ensuring it continues to be able to deliver valued public services in an efficient and effective way.
- b) This document is divided into 2 parts. Part 1 covers the background to the current position, including national and local developments that define the current operating context for the Council and considers "Where we are".
- c) Part 2 sets out the options that the Council is likely to need to consider to address the challenges described in part 1.

² The Council receives an Integrated Plan report each year in February as part of the process of setting the budget for the forthcoming financial year. The IP also includes a medium term financial plan, and sets out budget estimates for the next three years. The IP is prepared in the months leading up to February – typically, work begins during the summer period.

Part 1 – Background – Where we are

- a) The first part of this document will set out the key features of the financial environment in which the Council finds itself. Key points are –
 - i. In terms of the national context of local government funding, councils generally are entering into a period of uncertainty. This is both in terms of the overall level of grant funding for local government, but also in turn how much will be allocated to Hertfordshire County Council.
 - ii. The Council has a strong track record for its financial management - a view supported by the independent external auditor, and the Corporate Peer Challenge³. Separately, the recent Ofsted review of children’s safeguarding services pointed to good operational management and an ‘impressive’ record of attracting additional funding.
 - iii. Since 2010, savings now equating to £315m per year have been delivered. Of these, the majority (85%) have been efficiencies.
 - iv. The current IP sets out clearly the pressure on Council budgets and the extent of new savings that must be identified and planned. These rise from an additional £20m in 2020/21, through £30m in 2021/22, to £45m in 2022/23.

3. National context

Spending Review

- a) The council has now entered the last year of the 4 year funding agreement that existed from 2016 to 2020. There is now great uncertainty regarding local government funding after March 2020.
- b) A new Spending Review is planned by Government, and was originally expected to take place during the summer. This would have outlined the overall levels of public expenditure for the next three years. There is now a risk that this may not happen, and that there may be some form of one year settlement for the public sector for next year.
- c) Alongside the Spending Review, it was also expected that local government funding reforms, including the fair funding review and business rate retention, would be implemented from April 2020. If the Spending Review is delayed, there is also a risk that these could be similarly delayed.

Local government funding - macro

³ The outcomes of the Corporate Peer Challenge are available as part of the HCC Cabinet papers for February 2019.

- d) It is already clear that Government is planning increased spending in some areas. This is set out in figure 2 below, which shows that protected Government departments can expect growth above the level of increase in overall Government spending. However, as a result, unprotected departments could continue to see cuts in Government funding. This position exacerbates the uncertainty outlined above.

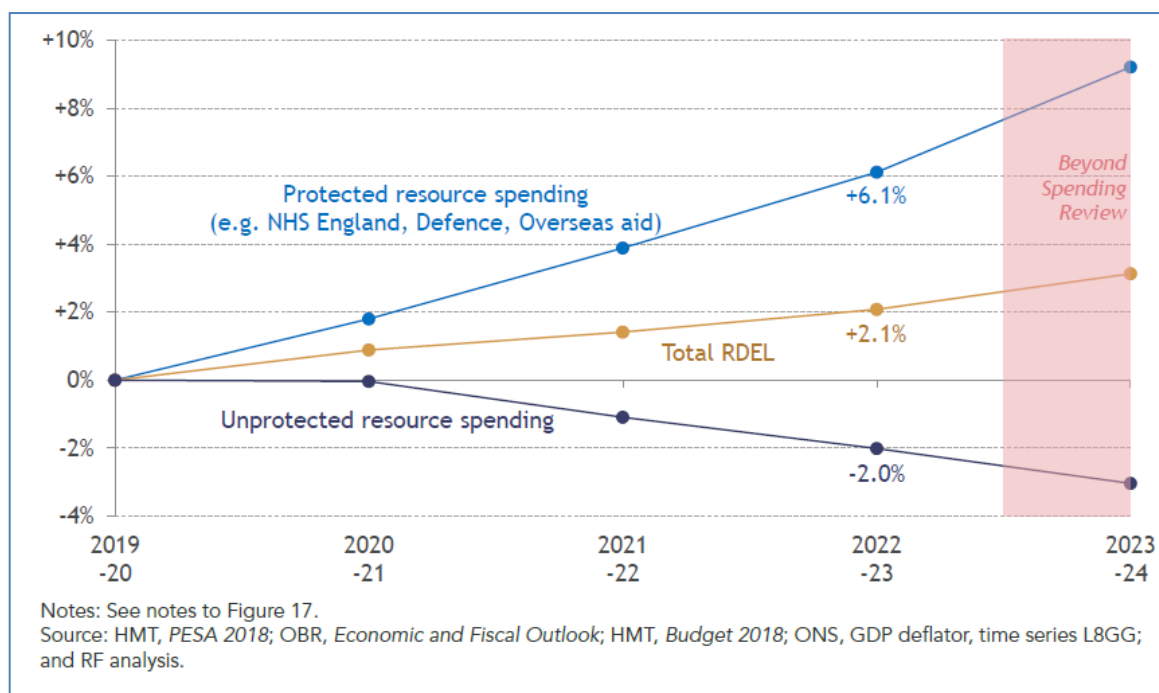


Figure 1: Anticipated changes in Government revenue ('resource') spending: protected versus unprotected departmental spending (source: Resolution Foundation, March 2019)⁴

Local government funding - micro

- e) The funding received by Hertfordshire CC is via the same mechanisms as for other councils. This is principally driven by a needs-based formula, which determines the level of Government grant for each council. This is adjusted to take account of the amounts that can be raised locally through business rates and council tax. It should be noted that council tax increases are currently limited by a threshold beyond which a local referendum is required – this threshold is specified each year by the Secretary of State.
- f) Government is currently reviewing the overall needs-based formula as part of the Fair Funding Review. It is also reviewing the retention mechanisms for business rates through the Business Rates Retention Scheme. These reviews are both ongoing and are expected to be implemented in due course. The exact impact is not yet possible to determine.

⁴ Figure 1 shows the movement in total Government spending within the 'resource departmental expenditure limits' (RDEL) - essentially revenue budgets allocated to Government departments.

- g) Fees and charges and specific or ring-fenced grants are also part of the funding for councils, but are usually excluded from the considerations set out above.

Different patterns of funding

- h) Despite the use of a needs-based formula, analysis of local government funding has identified significant differences in the way the different types of councils in England are funded. The chart below shows the current average position for different types of council in England (figure 2). It shows that funding from council tax is higher in areas where funding from Government is lower.

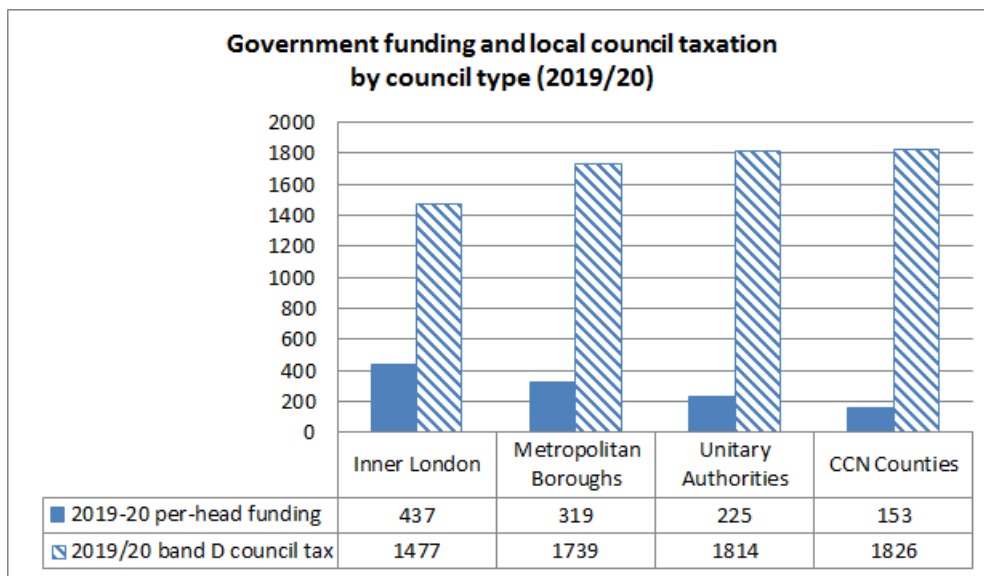


Figure 2: Government funding and local council tax

- i) Considering the position of Hertfordshire as a county council, it can be seen that county councils receive less funding from Government per head of population than any other type of council, and counties are also more reliant on funding from council tax. This means that growth in council tax is an important way that the Council could support services in the future, but it should be noted that there is a limit set nationally on the maximum level of possible increase each year (see below).

4. Local context

Strong financial management since 2010

- a) Hertfordshire County Council has successfully delivered significant savings since 2010. These savings mean that the current budget is some £315m lower than it otherwise would have needed to have been if those savings had not been made.

- b) The Council has adhered to a proactive approach to financial planning, and has a good track record of delivery. This is underpinned through a number of processes, including robust budget setting, risk analysis, and regular reporting of budget forecasts including any remedial action required.
- c) Financial planning was a noted strength in the feedback on the Corporate Peer Challenge undertaken in 2018, which referred to a 'mature' approach to financial strategy and 'a positive history' of financial performance⁵. It has also been noted by the independent external auditor – the Council has consistently received an unqualified 'Value for Money' opinion⁶. In a further validation of the approaches taken by the Council, the inspection by Ofsted of Children's Services in 2018 found that the overall effectiveness of services for children was good, with outstanding performance in terms of the impact of social work practice on the lives of children and families, referring to well managed and run services.

5. Service Transformation

- a) The Council has always had a strong focus on service performance and transformation. For example, at a time when many local authorities are experiencing increasing cost and demand pressures within Children's Services, considerable progress has been made in Hertfordshire to manage the numbers of children looked after or subject to protection plans, through approaches such as the early provision of necessary support.
- b) The **Families First** programme has transformed the way early help support is managed ensuring that the needs of vulnerable children, young people and families are identified at the earliest opportunity and that those needs are well assessed and met by families and agencies working effectively together. The programme has developed Families First partnership hubs, a central triage team, and regular local triage panels which bring together a range of organisations including; district councils, health, police, housing, schools, family centres as well as the voluntary and community sector who provide early help support to families under one 'umbrella' of consistent practice and clearer processes. As a result there have been increases in the number of partners taking on key worker roles.
- c) The **Family Safeguarding** project allows adult specialists and social workers to focus on direct, relationship-based therapeutic work and is transforming the family life of children at the highest risk in the

⁵ Corporate Peer Challenge: Feedback report, included in the papers of the HCC Cabinet meeting of February 2019 (item 14).

⁶ The VFM opinion confirms whether effective arrangements are in place to ensure that money is spent properly and in line with the objectives of economy, efficiency and effectiveness.

Hertfordshire community. Evaluation conducted by the University of Bedfordshire evidenced a 66% reduction in domestic abuse call outs, A&E visits by 53% and reduced the number of children on child protection plans by 50% as well as contributing to savings for the council of around £2.5m. The project has received national recognition and was the overall winner of the 2017 Guardian Public Service Awards. Hertfordshire is now supporting four other local authorities to redesign their services and extend the evidence base of this revolutionary child protection model.

- d) The **ACS Connect** programme is at the heart of driving forward ambitious plans to deliver transformation in Adult Care Services as outlined in the service's 3 year and 15 year plans. This will support delivery of savings estimated at £42m. The programme covers a range of activities designed to manage demand, deliver better outcomes for people who use care and support services in Hertfordshire and ensure a balanced budget. It supports the long term strategic vision of how services will transform in an ever changing landscape and work is centred around the four overarching themes of the ACS 3 year plan: Information and Advice, Connected Communities, Valuing Independence and Caring Well.

The 'Invest to Transform' Fund

- e) The **Invest to Transform Fund** (ITT) was created in 2010, to fund projects that would achieve service transformation or efficiency savings. The following examples are projects that would not have been possible without this investment fund. They are a few of the projects that ITT has supported – there are many more.
- f) Through the ITT fund, over **67,000 of Hertfordshire's streetlights** have been converted to LEDs along with an improved Central Management System and by March 2020, all of Hertfordshire's 115,000 street lighting lanterns – with the exception of some conservation areas – will have been converted to LED. Requiring £18.5m of investment, this will deliver savings in energy, maintenance and carbon costs totalling £1.87m per year. The conversion also won the Street Lighting service Sustainability award at the Chartered Institution of Highways & Transportation awards in 2017.
- g) Also through the ITT, Cabinet agreed a £5m invest to transform allocation for **Adult Social Care** to support the ACS Connect programme. This will support achievement of savings totalling £42m per year by 2021/22 (as outlined above).
- h) A further £3m investment has been recently approved for services for children with **Special Education Needs and Disabilities (SEND)**, to support further savings, enhance preventative work, and reduce future demand in this area.

- i) Lastly, the Council has been delivering its **Inspiring Libraries** programme since 2015. This has seen the roll out of the community libraries programme, leading to refurbishment of around half the libraries estate, extending their digital facilities and using local volunteers to help support their operation. This has enabled the Council to keep all of its 46 libraries open (and indeed increase opening hours in some) whilst saving £2.5m on their running costs.
- j) The principles of creating an investment fund that can facilitate the delivery of significant service savings have clearly been established within the Council. This is critical to our strategy moving forward, since the planned programme of change and transformation will depend upon more of this type of investment and will take time to fully deliver the planned benefits. As part of its recent financial strategy, the Council has been able to make additional provision to top up this reserve.

Different ways to deliver council services – Alternative Delivery Models

- k) The Council has a long history of pragmatically considering **alternative delivery models** and commercial activity. In 1999, the Council was the first in the country to open a **Customer Service Centre**, changing the nature of how the Council works with the public. In 2007 the Council established Hertfordshire Community Meals – now known as **Hertfordshire Independent Living Service** – an award-winning Social Enterprise. In 2013, **Herts for Learning** - a school improvement company - was developed in partnership with Hertfordshire schools, to maintain a clear focus on improving standards of education. This has contributed to the percentage of Hertfordshire's schools which are rated good or outstanding now being one of the highest in the country. The council also established **Herts Catering Ltd** as a 100% Council owned private company focusing on school catering which now returns a dividend approaching £1m per year to support the council's financial position. **Herts Full Stop** - a school supplies service originally set up to support Hertfordshire schools - looks continually to expand and increase its return to the Council, and now provides services in Suffolk and Nottinghamshire.
- l) This commitment to considering **innovative commercial opportunities** continues: in 2018, **Herts Living Ltd**, the Council's recently incorporated property development company entered into a joint venture partnership with Morgan Sindall with an aspiration to develop over 6,000 properties and other front line service facilities. This has the potential to generate over £1bn in developable value for the Council. This innovative and important project will generate new income streams and achieve enhanced financial returns from the Council's surplus land – one of the Council's key assets. Opportunities for alternative delivery approaches to support the provision of some adult care services as well as Hertfordshire's libraries are also being actively explored.

6. The current Integrated Plan and the Financial Outlook

- a) Budgets are under pressure for all of the Council's services. This is true for functions such as Highways and Libraries as much as for Social Care functions. Social care budgets are under pressure from three key factors:
- There are **more people** who need support;
 - Those people often have **greater needs** (complexity and acuity); and
 - These factors mean that the price of service provision, based on a simple unit cost analysis, will inevitably escalate from year to year.
- b) Population growth has a critical influence on the Council's spending especially for social care services. For example, the number of over 85s living in Hertfordshire is predicted to rise by 137.5% to 67,700 by 2030, with the number of adults with learning disabilities increasing by nearly 15% to 24,200 over the same period. The average cost of a residential care placement is £580 per week. (Although one needed support costing up to £165,000 per year.) This is also the case in Adult Disability Services and Mental Health Services. The average cost of a supported living client is £635 per week. (Although some can cost over £250,000 per year.)
- c) At the other end of the age spectrum, the Council is also having to spend more on care for young people who have more complex needs. The average weekly cost per child is £963. (The most expensive care costs over £700,000 per year.)
- d) Overall, through the period of the current Integrated Plan (to 2022/23), it is anticipated that the Council will face cost pressures that significantly exceed the expected increase in resources. This difference creates the need to find additional savings. The overall position is summarised below, and the increasing level of overall savings, and savings still to be identified, is shown in figure 3.
- £140m in increased costs, including
 - population growth (£42m, mainly for disability services),
 - price inflation pressures (£57m),
 - necessary service investments (£24m), and
 - legislative pressures (£17m – mainly National Living Wage).
 - £50m increase in resources
 - Government funding reductions of £32m, offset by
 - Council tax increases of £76m (through a combination of population and property (taxbase) growth, and anticipated annual tax rate increases)
 - £90m gap (of which plans currently exist for £45m)

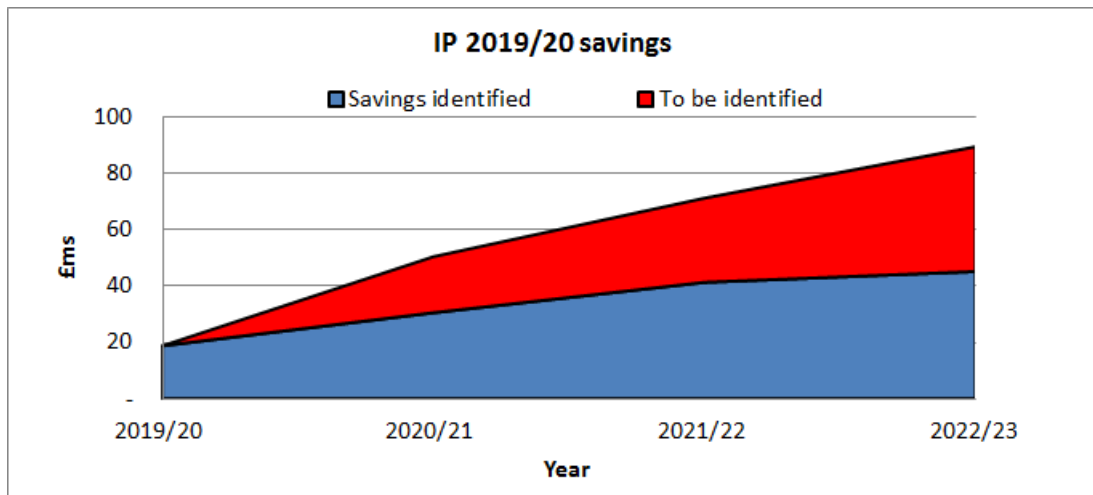


Figure 3: Savings planned and further savings required, 2019-23

- d) The Council has increased its focus in recent years on the medium term outlook, and has developed significant transformation and savings programmes. However, the experience of setting the budget for 2019/20 illustrated clearly that the financial position has become more challenging, and this informs the current financial outlook.
- e) Using the latest information, the IP position for 2019/20-2022/23 is therefore very challenging – a gap of £20m, increasing by £10m, then a further £14m, to £45m by 2022/23. The chart above (figure 3) shows the required level of savings, which builds to £90m in 2022/23. Of this, plans have been prepared for £45m with a further £45m of savings to be found. In considering the prospect of seeking £45m of further savings, it must be remembered that savings have been delivered consistently every year for the last 10 years. Of the savings delivered to date, 85% have been efficiencies and 15% have been policy choices or service reductions⁷.

7. Level of reserves and balances

- a) The Council holds a number of reserves for specific purposes. These include the ability to fund significant transformation programmes – enabling clear plans to be laid and delivered. However, these reserves can only be used once and are best used as a way to secure additional reductions in day to day savings (such as transformation).
- b) The level of reserves held by HCC can be compared with those held by other similar councils. This is shown in the chart below (figure 4), which shows that, by comparison with other County Councils, HCC holds a relatively low level of reserves (HCC is highlighted in black).

⁷ The policy choices made include some items that do not directly impact on service delivery, such as technical changes to debt repayment policies.

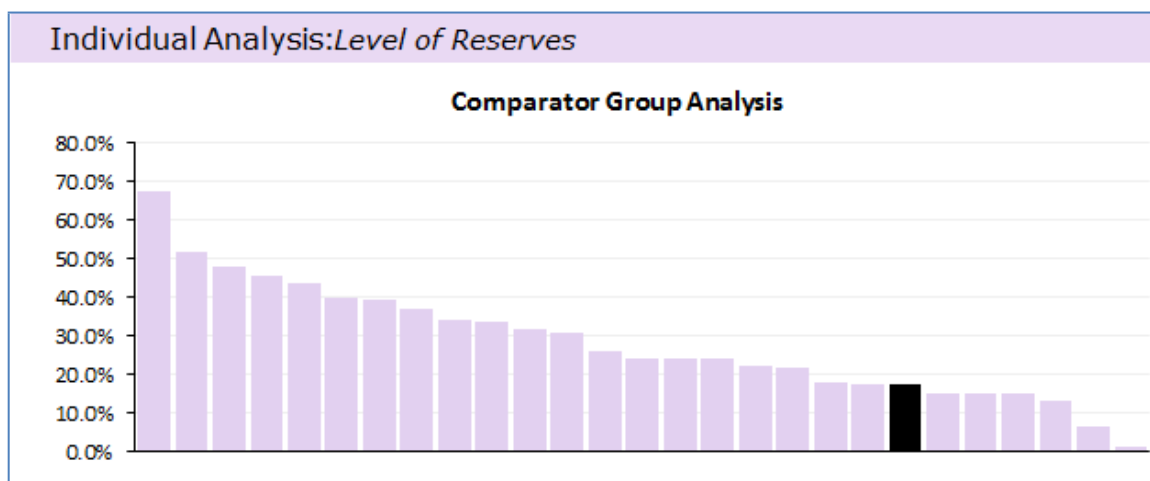


Figure 4: Level of Reserves; comparison between County Councils (source: CIPFA, 2018)

8. Part 1 – Conclusions

- a) The first part of this review of the financial outlook has sought to set out the key features of where the Council finds itself. Key points include:
 - i. The Council is facing significant uncertainty over future funding levels.
 - ii. The Council will continue to face increased demand for services, and increases in the costs of providing those services.
 - iii. Since 2010, savings now equating to £315m per year have been delivered. Of these, the majority (85%) have been efficiencies.
 - iv. HCC has a track record of strong financial management, supported by independent opinions such as those of the external auditor, Ofsted, and the Corporate Peer Challenge.
 - v. The current Integrated Plan sets out clearly the extent of current pressure on Council budgets and the extent of new savings that must be identified and planned. Given the level of savings that have been delivered so far, identifying and delivering further savings in the future will be challenging.
 - vi. Levels of reserves are sufficient to meet with day to day pressures, but are low by comparison with other county councils.

vii.

Part 2 – Initial options to help tackle the financial challenges

- a) Part 2 of this financial outlook report sets out areas that the Council is likely to need to consider to address the challenges described in part 1. It is unlikely that this is an exhaustive list, and it is expected that early publication of this document will enable the Council to seek views from Cabinet Panels on other areas that should be looked at.

- b) The overriding objective is to consider all options for delivering savings and increasing income. Policy choices should only be considered as a last resort.

9. Transformation

- a) As outlined earlier, the Council has a track record of delivering extensive transformation of services across departments. These have delivered both service improvement and savings. This transformation continues, with examples of key projects being outlined in figure 5, below.

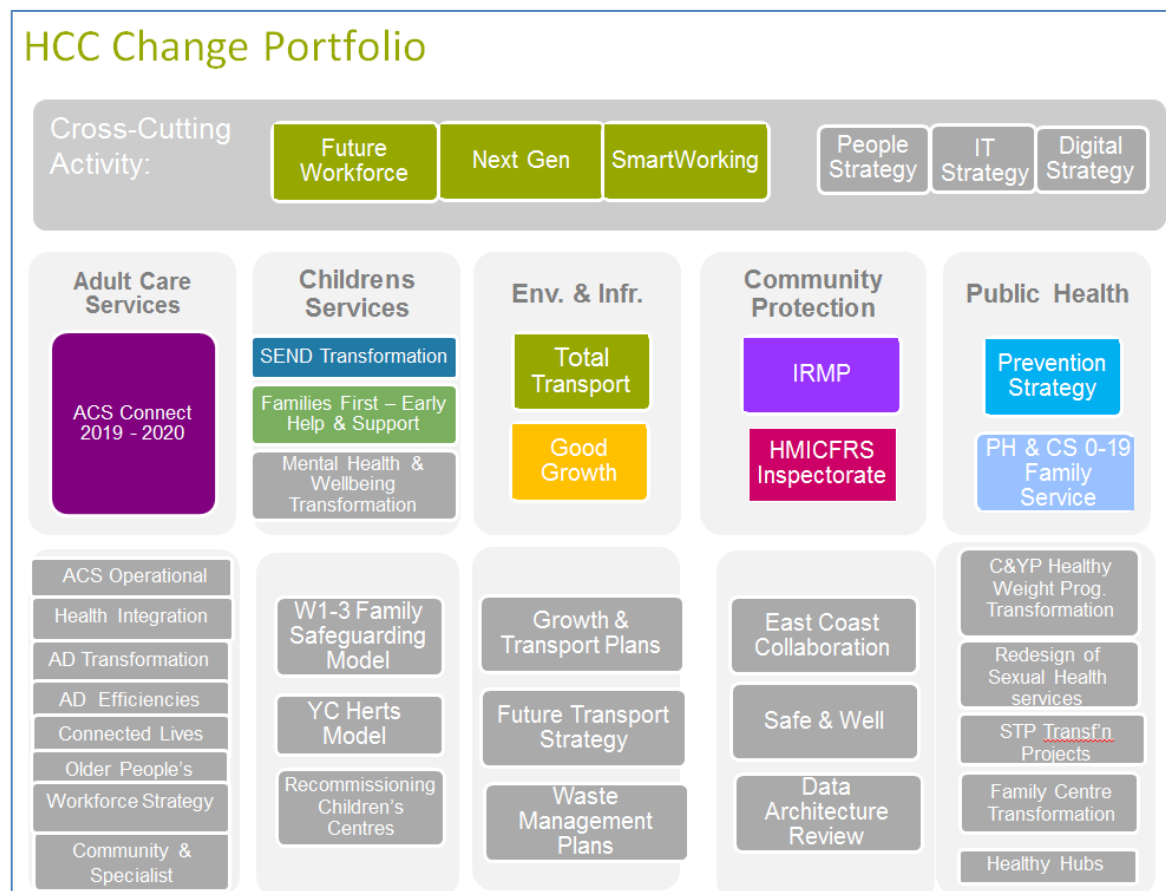


Figure 5: Current cross-cutting and service based change programmes

- b) Many of these programmes are underway, and savings benefits are already included in the savings plans within the current Integrated Plan (for example, the ASC connect programme, outlined in section 5 above, had an investment and savings package that was agreed as part of the February 2018 IP report). Where programmes are at an early stage, it will be necessary to forecast potential benefits to ensure they are included in the Integrated Plan forecasts.
- c) Recognising the considerable work already undertaken in service departments, further transformation programmes are focussing on organisation-wide opportunities.
- d) However, these initiatives are complex and it will take time to realise the full benefits. It is expected that these new programmes will be implemented through 2020/21 and 2022/23, with full benefits being realised from 2023/24 onwards. A good example of this is the current work at Apsley, where the rationalisation of council office space from two buildings into one, supported by a re-modelled environment to support staff in working more flexibly ('smart working') is progressing well, but has a significant lead time.
- e) This project will deliver a modern working environment for staff and save the Council nearly £2m on lease costs, but will take several years to complete.

10. Growth

- a) The document 'Fit for the Future' includes the shared ambition to create a Hertfordshire that's fit for the future - that is: fit for life, fit for work, and fit for business. This includes well-connected, good quality homes for all; healthy, independent and safe communities, and a thriving, productive workforce and economy. The strategy anticipates a significant level of growth over the next decade, including more than 100,000 new homes and 100,000 new jobs; more than 175,000 more people using the transport infrastructure; and 37% more people over 75. The necessary investment to support this level of growth (equivalent to at least two more towns the size of Watford) is estimated to be at least £5bn. It would not be possible for the Council to fund that level of investment on its own – however, there will be cost impacts for the Council as it will undoubtedly need to fund some of the necessary capital investment and bear some of the revenue cost of preparing for this. Many of these pressures have not yet been included in the IP cost estimates for future years, partly as they cannot yet be assessed with sufficient confidence, but mainly because in many cases they will occur in the period beyond our 4 year planning horizon. The refreshed IP will look to see what implications there are for our 4 year plan.
- b) The growth strategy is an important way in which growth in housing (and therefore growth in council tax receipts) can be used to fund the

growing cost of providing social care and other public services. Further, growth in the economic base of the county – with enhanced infrastructure attracting new and relocating businesses, will help to support income from business rates which will be intended by Government to be retained locally at a higher level in the future than it is now.

11. Commercialism

- a) As has been outlined earlier, the Council has a good track record of using innovative approaches to improve services and save money, including the use of alternative delivery models and sharing services. The Council should consider whether lessons learned from these early examples could be applied in other areas.
- b) Work will be undertaken to develop guidance to help facilitate this. This includes three main strategic strands:
 - Income generation – facilitating assessment, prioritisation and delivery of robust income generation proposals
 - In-House Transformation/Alternative Delivery Models – establishing principles and support to assist internal review and reform of existing activities
 - Commercial Mind-Set – embedding amongst all staff an understanding of the commercial implications of decisions and practices in all undertakings

12. Fees and charges income

- a) The Council currently receives income in the form of fees and charges for a range of services. In 2019/20 the budgeted level of this income is nearly £120m. The Council continues to explore areas where further income can be secured – through increased trading volumes, increases to current charges, or through identifying new areas where charges may be appropriate.
- b) Further benchmarking of fees and charges income is planned – this has already been done for two key areas of income (Adult Care Services and Herts Business Services) – but will be extended to consider other areas where additional fee income could be generated.

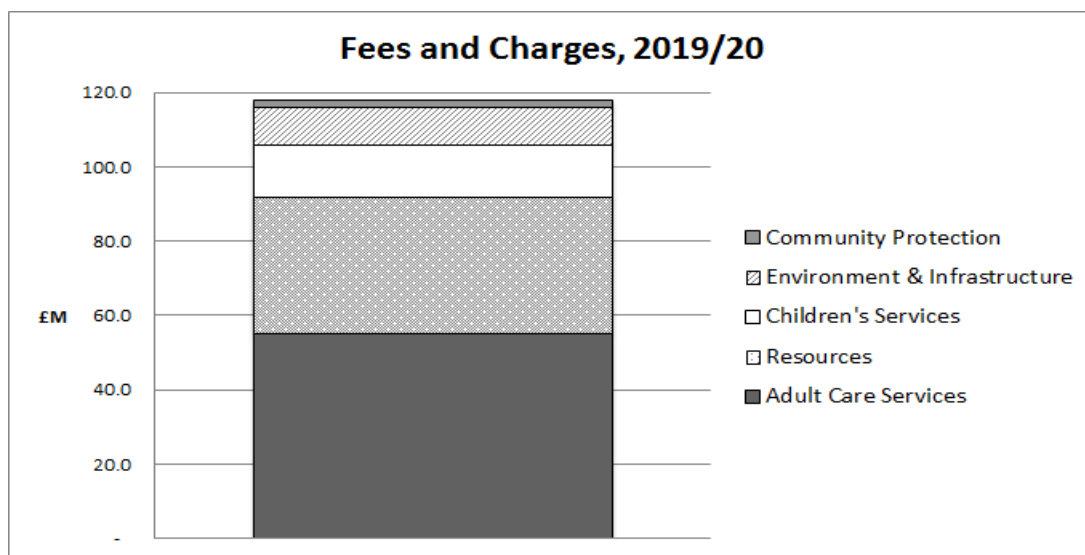


Figure 6: Fees and charges income budgets, 2019/20

13. Asset Management Strategy

- a) The current Integrated Plan requires the council to generate £10m of capital receipts every year. This is proving to be challenging, as the focus becomes more on bringing forward fewer high value sites, that may take many years to bring forward. Also, the growth in demand for services means there is a tension between selling those sites and holding them to meet potential future service demand. A new Asset Management Strategy will be developed to help meet these challenges.
- b) The objective of this strategy is to optimise use of Council assets such as land and buildings. It will take into consideration current and future service delivery needs and potential to sell sites to gain capital receipts, or to develop them to secure future revenue income.
- c) Next steps will include the development of a pipeline of potential sites to dispose of (generating capital receipts) as well as to support the rationalisation of HCC property to reduce the cost of maintaining those properties. However, it will be vital to ensure a proper balance between access for residents in all areas to council facilities with the need to minimise the running costs of the council.

14. Capital strategy

- a) The current capital strategy outlines an extensive programme of service and infrastructure investment, with the current IP setting out plans for £1bn of investment over 4 years.
- b) This should be further developed to ensure that it also supports the revenue budget, by helping to deliver more cost-effective services as well.

- c) For example, Adult Care Services are currently investigating whether investing in providing 'extra care' housing facilities will provide better and more cost-effective care for older people. A capital sum and indicative savings were included in the 2019 IP, and the department are now working up proposals.
- d) Children's Services and other service areas are also considering how investment in capital assets might enable revenue costs to be reduced, For example, whether the Council should invest in providing additional facilities supporting children in care.
- e) The use of Herts Living Ltd (HLL) to maximise returns has been noted earlier in this strategy. The Council will consider how it can extend the approach and maximise the benefit of having HLL. For example in utilising smaller site opportunities for development.
- f) Inevitably, these are mostly longer term proposals that could take 2-3 years to be developed and delivered. Also, in some cases the benefits will be to prevent costs escalating further, rather than direct cashable savings.

15. Working with Government and external partners: Council Tax, and future resources

- a) The current IP assumes that the council tax current referendum threshold of 2% will remain in place across the period.
- b) The council tax position compared to other county councils with fire and rescue responsibilities is shown below. This shows that the HCC council tax charges at band D are average by comparison with similar councils (other councils' charges range from just above £1,200 to just above £1,400, and Hertfordshire is just above £1,300).

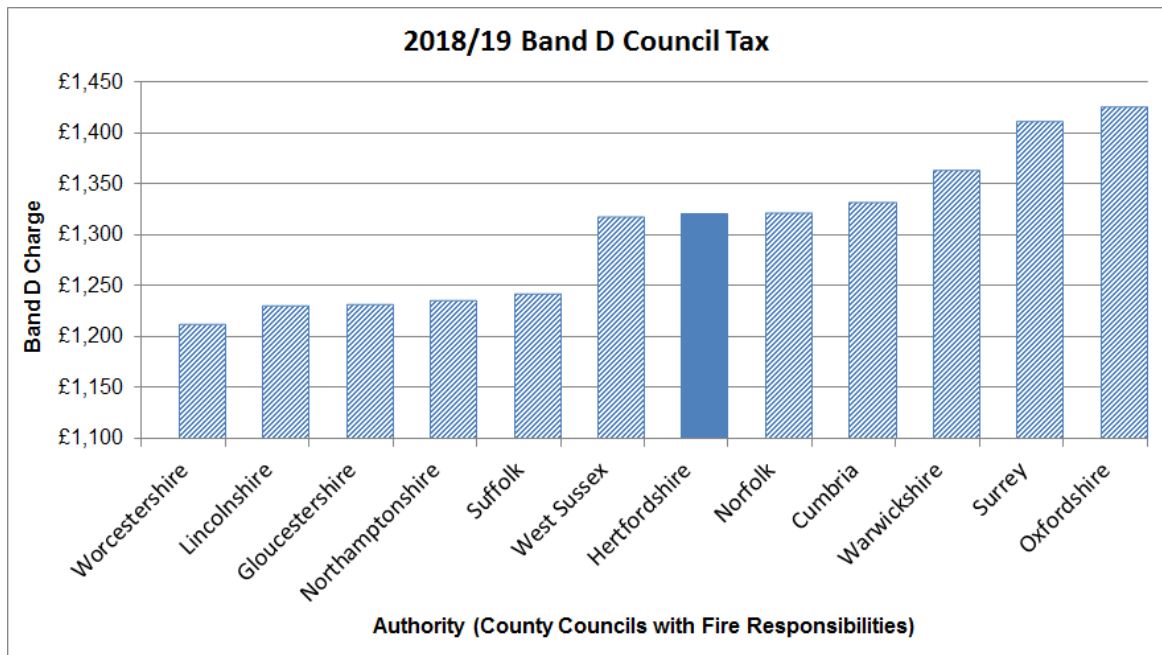


Figure 7: Comparative levels of council tax (2018/19)

- c) However, the wider financial challenges being faced mean that future rises above those already planned for may need to be considered. The Council will look to lobby central Government and to request greater local determination of council tax levels. This is in line with the recent Integrated Plan consultation, that showed that support for a council tax increase rather than service cuts had increased by 10%, from 57% to 67%, since 2016.
- d) Similarly, the Council will continue to put to Government the case for improved overall levels of funding both for Hertfordshire and for all councils, as consultation on the new funding mechanisms continue.
- e) Finally, the Council will continue to work with wider public agencies in the local area and further afield (for example, including Police, Health, and other services) to seek the best use of public money in all cases, and to pursue consistent approaches to shared challenges.

16. Savings

- a) Whilst this financial outlook outlines a number of areas where the Council will look to develop further savings and income, it is very unlikely that they alone will close the budget gaps being faced in the future. As such, all services will be tasked with identifying new savings in the cost of service delivery.
- b) This is likely to be challenging given the level of savings already delivered, and those already planned for the future.
- c) Given the scale of the challenge, departments are being asked to undertake this work during the summer 2019. Proposals can then be

considered by Cabinet Panels, where appropriate including formal public consultation during the autumn.

17. Part 2 – summary of key points

- a) The second part of this document has sought to set out the key features of where the Council may need to go next to secure its future financial and operational sustainability. Key points include:
- i. There is a significant programme of change and transformation already in place across the whole Council. This will continue and grow rapidly over the next few years and will provide a stronger base for further changes in the years to come. In some cases, those benefits are already included with IP plans. Where there are new transformation programmes, even where they are already underway, it will take several years to implement and fully realise the benefits.
 - ii. Commercialism could help to secure some additional benefits in future years. However, overall income from fees and charges is already high, and key areas such as ACS have only recently completed benchmarking work to ensure that they are charging appropriate rates for Council services. Scope exists to secure some additional income, but, again, this will be only part of the solution.
 - iii. The strategy for asset management is an important part of rationalising Council property and reducing property maintenance costs, but will principally contribute to securing the target level of capital receipts within existing IP plans.
 - iv. The Capital Strategy is key to ensuring a strong relationship between revenue budget pressures and capital investment objectives. In some cases, this investment will help avoid further cost pressures in the future.
 - v. Future budget gaps must therefore be addressed through further savings plans.
 - vi. Noting that over the last 10 years efficiencies have represented the majority (85%) of all savings delivered, it is unlikely that this can be maintained. Difficult decisions in some areas may be required.

18. Financial outlook - Conclusions

- a) This document is placed in the context of significant budget pressure being faced by the Council across the medium term period (2020-24). It is clear that, despite a huge amount having been achieved already in the years since 2010, further challenges will be presented in the years

to come. Indeed, the financial challenge has never been more acute for the Council.

- b) In light of this, the Council needs to enhance its approach to financial planning. This year the Council is starting the work many months earlier than usual, with this document starting that.
- c) It sets out the approach that has been taken in the period 2010-2020, and also highlights the further initiatives already being put in place to ensure the future sustainability of the Council. However, it also sets out that many of those new opportunities will help to achieve our current plans, or will provide benefit later on in the planning period – not in the first 2 years.
- d) It is likely, therefore, that potential new policy choices and service reductions may need to be considered to ensure that, overall, the Council continues to be able to delivery much needed public services in a safe and reliable way.
- e) Starting the process early will ensure that there is sufficient time for comprehensive consultation with Members and the public, and will also allow time for alternative support arrangements to be considered where this may be required.