Agenda Item No.

4(ii)

HERTFORDSHIRE COUNTY COUNCIL

CABINET
MONDAY, 21 JANUARY 2019 AT 2 PM

INTEGRATED PLAN 2019/20 - 2022/23

Report of the Director of Resources

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1 Purpose of report

1.1 To propose a draft Integrated Plan for 2019/20 - 2022/23 taking account of forecast pressures and funding changes, including the updated position from the provisional finance settlement for 2019/20.

1.2 To propose a Schools' budget for 2019/20, and obtain approval for release of Schools budget data/information to the Department for Education (due by 21 January 2019).

1.3 This cover report summarises the context and process for preparing the Integrated Plan, including the funding position. The Integrated Plan comprises:

- Part A – Overview of:
  - the proposed budget, including the capital investment programme,
  - the Director of Resources' statutory review of the budget estimates and adequacy of reserves
- Part B – Strategic Direction and Financial Consequences, by portfolio;
- Part C – Capital Strategy;
- Part D – Treasury Management Strategy;
- Part E – Insurance and Risk Strategy;
- Part F – Equalities Impact Assessment; and
- Part G – Other relevant finance summaries and technical information.

1.4 The draft Integrated Plan will be considered by Cabinet Panels (between 4 February and 15 February) and the Overview & Scrutiny Committee (23 January and 31 January). All feedback from these member sessions will be considered by Cabinet on 18 February prior to final recommendation being made, for determination by the County Council on 19 February 2019.

2 Summary

2.1 The Integrated Plan (IP) brings together the financial impact of service plans and the available funding to resource these, over the next four years. These plans have been set in the context of the difficult challenges that the council faces, including:

- Increasing demand for services from our growing and ageing population, including increasing complexity of needs of existing service users, for example within social care related services;
- Inflation pressures impacting upon the Council's suppliers and providers the Council contracts with to provide some services;
- Significant savings already delivered by the Council since 2010, and;
- Further reductions in Central Government grant funding expected over the period.

2.2 Despite these challenges, we want Hertfordshire to continue to be a county where people have the opportunity to live healthy, fulfilling lives in thriving, prosperous communities. This Integrated Plan supports this by delivering:

- Support for vulnerable people: additional funding to address growing demand and changing needs, including for disability services; support for the care workforce to attract and retain people into vital caring roles, including the continued application of National Living Wage and to maintain a differential for pay levels immediately above this for third party providers' staff;
- Investment in tackling Domestic Abuse in Adults and Children's though the creation of a dedicated team funded from central reserves ahead of the new legislative requirements;
- Investment to help meet the challenges of a growing county, through £8m additional investment in Hertfordshire's local road network, so that this reaches £37m over a 5 year period;
- Support to the Growth and Infrastructure team to provide the capacity and expertise necessary to respond to the planned economic and population growth across the county, and resource for this team to develop proposals and ensure Hertfordshire is well placed to bid for major infrastructure funding; and
- Further investment in growth in Hertfordshire, made possible through use of the additional funding arising from the successful Hertfordshire bid to be considered for the business rates retention pilot.

2.3 Although a balanced budget is presented for 2019/20, it should be noted the medium term outlook set out in Section 7 of this report is extremely challenging, with a savings requirement rising from £20.2m in 2020/21 to £44.7m in 2022/23. This is in addition to the delivery of already identified efficiencies and policy choices forecast to save £45.2m by 2022/23; any slippage in delivery in planned savings will increase the unfunded gap in future years.

3 Recommendations

3.1 That Cabinet agrees the draft Integrated Plan as the basis to seek feedback from Service Cabinet Panels, Overview & Scrutiny Committee, and Resources and Performance Cabinet Panel, prior to the next Cabinet meeting on 18 February 2019.

3.2 That Cabinet approves the release of schools budget data/information to the Department for Education (DfE), and delegates authority to the Director of Resources to make any consequential amendments arising from current uncertainties to comply with the and ensure submission by the deadline (21 January 2019).

3.3 That Cabinet requests officers to start work now on budget proposals relating to 2020/21 and beyond with a view to establishing timescales for review. No options should be excluded at this stage and areas may include the following:

- Options to further reduce spending within safe limits;
- Detailed review and challenge of all relevant service spending;
- Opportunities to support lobbying for additional resources (e.g. future council tax flexibility); and
- Opportunities to develop transformational change across all Council activities.

4 Public Consultation Document

4.1 Previously on the agenda was the public consultation, the responses of which have been considered as part of this paper.

4.2 Overall responses to the public consultation have increased since last year. Included in the responses was confirmation that residents recognise the financial challenges faced by the Council, and that support for increases to the Council Tax (rather than service reduction) was higher than last year by 10%, with an overall majority in favour.

4.3 Use of Assets continues to be an important element of the Council's budget strategy. Examples include the establishment of Herts Living and the consistent work in recent years to deliver service transformation and cost reduction. Given the level of cost reduction required in future years, these efforts will need to continue and be increased.

5 Provisional Local Government Finance Settlement 2019/20

5.1 The Government announced the provisional Local Government Finance Settlement for 2019/20 on 13 December 2018, following the announcement of overall spending and funding plans in the Chancellor's Autumn Budget 2018 on 29 October.

5.2 This was the final year of the Government's four year settlement offer for authorities, including Hertfordshire, who submitted an Efficiency Plan. A number of the reductions to funding were therefore known in advance when preparing the proposed budget, including an anticipated reduction of £23.7m in Government grants between 2018/19 and 2019/20.

5.3 The Autumn Budget gave early notification of some additional funding, notably the Social Care Grant (£7.1m) and "Winter Pressures" grant (£4.1m). It should be noted that this funding is one-off and that, in the absence of the planned green paper on Health and Social care, it is not clear how government intends the cost pressure arising from the ongoing pressure in social care demand to be funded.

Key Headlines:

5.4 The Provisional Settlement subsequently announced the removal of negative RSG using foregone business rates, with the Total Settlement Funding Assessment (SFA), the Government's calculation of need to be met by (previously) Revenue Support Grant (RSG) and business rates, still reducing by 12.6% between 2018/19 and 2019/20.

5.5 Notably, all funding announcements were for one year only, compounding uncertainty on the level of funding to be expected after April 2020.

5.6 Additionally, the Settlement confirmed referendum threshold for Council tax increases to be used for 2019/20 as 2.99% (previously notified last year). These options are considered in sections below.

5.7 The Provisional Settlement also included details of further authorities selected to pilot 75% business rates retention. MHCLG had approved 10 authorities to pilot the scheme last year, and Hertfordshire's application for 2019/20 to be part of the second phase of the pilot was successful.

5.8 The pilot provides the opportunity to retain an additional £11.3m of business rates growth within Hertfordshire, which can be used to support the delivery of public services. Of this, £2.3m is anticipated to be generally available to be directed to investments supporting economic growth across the whole county.

5.9 Furthermore, the Secretary of State confirmed timelines for changes to Business Rates Retention, and the implementation of a Fair Funding Review that will re-assess funding need across all authorities. These are expected to be introduced in 2020/21, when the current four year settlement ends. Whilst there may be some transitional protection, these changes may have a significant impact on funding from 2020/21.

Impact on Hertfordshire:

5.10 Whilst the Settlement acknowledges pressures for authorities providing Adult Social Care, it offers very little to meet these. The £4.2m additional Winter Pressures grant paid in 2018/19 is being provided again in 2019/20, along with

£7.1m Social Care Support grant (Adults & Children's); however, this additional funding does not fully cover the pressures within Adults and Children's social care budgets. Further, despite the additional Improved Better Care Fund monies, there is still a long term concern that new funding for Adult Social Care will not be sufficient given the demographic and cost pressures in this area.

5.11 Changes to New Homes Bonus are as announced previously, with payments for growth reduced to a four year period from 2018/19. As in 2018/19, bonus will not be paid on the first 0.4% of growth, with an additional £20m funding announced to maintain the 0.4% baseline.

5.12 The Settlement also announced that surpluses in the national Business Rates Levy Account will be distributed to all authorities. Hertfordshire's share of this is £1.9m; however this is a one-off re-distribution, and whilst welcome to help relieve budgetary pressures during 2019/20, cannot be used to offset long-term pressures which are still a cause for concern.

5.13 Furthermore, Hertfordshire's successful application for the Business Rates Pilot, based on current forecast growth, would generate an estimated benefit to the Council of £1.3m.

5.14 The draft Integrated Plan proposes to set aside these 2 sums as follows:

- £1.3m Growth Fund Reserve
- £1.9m into Invest to Transform Reserve

5.15 The Growth Fund is proposed to be applied to promote economic growth within Hertfordshire, in line with the objectives of the rates retention pilot, pending future Member decisions. This will allow additional retained funds to be directed transparently towards the objectives of the pilot, set out in the submission to Government as to be used for "*projects that support self-sustainability, in particular where pump priming or investing in key sites and infrastructure can unlock further economic growth*". Included within this are incentives such as the development of Strategic Planning in Hertfordshire, and funding for Growth & Infrastructure Studies.

5.16 The Invest to Transform (ITT) Fund contribution is proposed to be increased by £1.9m, to a total of £2.6m in 2019/20. This will help replenish the fund given its use during 2018/19 (£10m of commitments, including £5m for adult care services, £2m for children's services, and £3m for Herts Full Stop).

Council Tax and Social Care Precept:

5.17 Given the continued cost and funding pressures and projected medium term financial position, the 2019/20 – 2022/23 IP assumes the following council tax increases:

- a council tax increase of 2.99% in 2019/20 only, subject to agreement by County Council in February.

- no increase in 2019/20 for the Adult Social Care (ASC) Precept, having raised 3% in 2017/18 and 3% in 2018/19.

5.18 The proposed council tax increases had been set with regard to the referendum threshold of 3% in 2019/20, although it is expected to return to a threshold of 2% in future years.

5.19 Similarly for the ASC Precept, local authorities are able to increase the ASC precept by a maximum of 6% between 2017/18 and 2019/20 (8% including 2016/17). Hertfordshire has reached this limit and as a result, is unable to increase the ASC precept in 2019/20.

5.20 With increases of £2.99% basic Council Tax and no increase in the ASC precept, the Band D Council Tax for the County Council in 2019/20 would be £1,359.94. The amount of tax calculated for each valuation band is shown in Table 1.

5.21 From 2020/21, an annual council tax increase of 1.99% is assumed, as the Government has not committed to a longer term threshold change.

Table 1: HCC Council Tax Bands

Band	**2018/19 Council Tax**			**2019/20 Council Tax**		
	Basic	**ASC Precept**	**Total**	**Basic**	**ASC Precept**	**Total**
A	£816.46	£63.85	£880.31	£842.78	£63.85	£906.63
B	£952.51	£74.51	£1,027.02	£983.22	£74.51	£1,057.73
C	£1,088.60	£85.14	£1,173.74	£1,123.70	£85.14	£1,208.84
D	**£1,224.67**	**£95.79**	**£1,320.46**	**£1,264.15**	**£95.79**	**£1,359.94**
E	£1,496.83	£117.07	£1,613.90	£1,545.08	£117.07	£1,662.15
F	£1,768.96	£138.37	£1,907.33	£1,825.99	£138.37	£1,964.36
G	£2,041.13	£159.64	£2,200.77	£2,106.93	£159.64	£2,266.57
H	£2,449.34	£191.58	£2,640.92	£2,528.30	£191.58	£2,719.88

<u>Other Funding Information:</u>

5.22 Some funding information is not yet available, and will need to be built into the 2019/20 budget before this is finalised for February Cabinet and Council. The following information is outstanding:

a) final estimate figures for the council tax base, the collection fund balance and levies;
b) final estimates for business rates growth;
c) final Local Government Finance Settlement expected early February; and
d) other outstanding Government grant announcements.

Should this result in any changes in resources, Cabinet will need to decide in February how this should be reflected in the IP.

Response to Provisional Settlement consultation:

5.23 The consultation period on the provisional settlement closed on 10 January 2019. While we welcome the continuation of flexibilities that give greater local accountability on Council Tax, HCC's response highlights the following issues:

- Whilst the Settlement acknowledges pressures for authorities providing Adult Social Care, it offers very little to meet these. The £4.2m additional Winter Pressures grant in 2018/19 is being provided again in 2019/20, along with £7.1m Social Care Support grant (Adults & Children's); however, this additional funding does not cover the pressures within Adults and Children's social care. Further, despite the additional Improved Better Care Fund monies, there is still a long term concern that new funding for Adult Social Care will not be sufficient given the demographic and cost pressures in this area.

- The Settlement announced that surpluses in the national Business Rates Levy Account will be distributed to all authorities. Hertfordshire's share of this is £1.873m; however this is a one-off re-distribution, and whilst welcome to help relieve budgetary pressures during 2019/20, cannot be used to offset long-term pressures which are still a cause for concern.

- We are pleased to have been successful in our application to form a Business Rates Retention Pilot, and will work with our external advisors to model the impact this will have to Hertfordshire and its districts.

- There are also concerns regarding Council Tax Flexibility and the referendum threshold, which Government have only confirmed for 2019/20. It is unlikely further information for future years will be available until the Autumn Budget in late 2019, causing issues with planning the deployment of resources. Decisions around savings required for 2020/21 and beyond may be made and, if the referendum threshold is increased for 2020/21, would not have been required. An early decision is requested from MHCLG on the referendum threshold for 2020/21 and beyond.

6 Revenue Budget 2019/20

6.1 The proposed revenue budget is £819.2m in 2019/20. This represents an increase in spending of 1.8% on the previous year's budget (2018/19), and includes the notified £8.2m additional Improved Better Care funding. The revenue budget increases to £848.4m by 2022/23 (an increase of 5.5% from last year's budget). A summary movement statement of both resources and spending is provided in Appendix A at the end of this report.

6.2 This position also responds to additional, unforeseen service pressures that that manifested during the current year (2018/19), as reported in the quarterly monitors to members. These pressures have been most noticeable in social care, and the current IP has been prepared to reflect the estimated future impact of those current pressures.

6.3 Monitoring of savings planned and delivered in 2018/19 continues to be undertaken. Where there has been delay or change in delivering savings, this has been reflected in the proposed IP.

6.4 Securing a balanced financial plan for 2019/20 was initially considered to be an achievable challenge – the unfunded gap in revenue budgets was around £6m, in the context of an organisation with an annual turnover of £800m. However, this proved to be a difficult challenge nonetheless, a fact attributable to the way that significant savings have been required every year since 2010.

6.5 The difficulty in closing a relatively small gap for next year can be better understood if it is placed in the context of the work already achieved since 2010. By the end of the ten year period 2010-2020, savings of £335m per year have been achieved. Since 2010 therefore, cumulative savings of c.£2.0bn have been achieved (in essence, what the County Council would have spent in 8 years has been stretched out to cover 10 years).

6.6 With respect to funding, it is difficult to precisely identify the level of central government funding reductions that the Council has suffered since 2010. This is due to the significant changes in councils' responsibilities as well as to changes made to existing funding arrangements. However, despite those considerations, it is possible to make a simple estimate of the level government funding lost by the Council since 2010. This is estimated as being around £160m per year by 2019/20. The cumulative impact can therefore be estimated as being in excess of £730m.

6.7 Further savings required by 2022/23 would increase the total savings by another 26%; given this scale, it will be challenging to delivery these only through efficiency savings.

Closing the gap

6.8 It can be seen from table 2 below that substantial pressures were presented over and above those already included in the IP 2018 (an additional £20.4m from service areas). These responded to pressures identified through financial monitoring in the current year.

Table 2: Movement in savings gap

	2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m
Budget Gap at February 2018	**6.6**	**22.4**	**28.2**	**28.2**
Inflation - Pay	(0.5)	(0.5)	(0.6)	4.3
Inflation - non Pay	(5.5)	(6.3)	(7.8)	2.6
Demography	(0.0)	(0.3)	(0.4)	9.9
Capital Financing	(0.8)	0.9	4.1	7.4
Other Pressures	19.8	9.2	10.7	15.4
Changes in grant funding	(13.0)	(0.1)	(0.1)	5.4
Council Tax-base / collection fund	(3.2)	(2.5)	(3.8)	(24.6)
Additional Savings	(3.4)	(2.5)	0.1	(3.8)
Gap at January 2019	**0.0**	**20.2**	**30.3**	**44.7**

6.9 It can also be seen in the table above that mitigations to counteract the pressures presented arose from:

- additional one-off funding received from government (£13.0m, including funding for social care),
- reductions in inflation costs (additional pressures of £6.0m shown above were less than had been budgeted for, largely through constraint in the application of provisions for standard non-pay inflation, consistent with previous years),
- reduced costs of capital financing (£0.8m, mainly through re-programming of capital schemes which has reduced borrowing requirements), and
- changes to the level of collection fund and council tax base estimations (£3.2m),
- additional efficiency savings presented (£3.4m).

6.10 These amounts total £23.3m and were the result of corporate actions taken through SMB, rather than through any additional savings proposed by services (which contributed £3.4m, as set out above).

Analysis of key budget movements between 2018/19 and 2019/20:

6.11 Key movements from the previous IP are set out in table 5 overleaf. This table shows how the budget for 2018/19 was in balance (1 – net revenue budget 2018/19), and moves to a balanced position for 2019/20 (4- net revenue budget 2019/20).

6.12 The movement from 2018/19 to 2019/20 shows increased pressures on the budget, with an overall increase in pressures of £84.733m, made up of £53.8m of proposed increases to spending and £30.9m of decreases in income items (2 – increase in pressures).

6.13 Further details of movements are included in the IP Overview (Part A).

Resources

6.14 Resources for 2019/20 have been reviewed and updated for the latest available information. Changes anticipated to local authority funding from April 2020 will include the following:

- Government spending review (“SR19”)
- The outcomes of the Fair Funding Review of the relative needs and resources of local authorities
- Proposals relating to the enactment of 75% Business Rates Retention, and
- The impact of the (delayed) government green paper on future health and social care delivery.

6.15 As part of the preparation of the IP, the Council secured an independent review of its resourcing estimates across the IP period. The result of this review confirmed that the Council is making a prudent and realistic assessment of the likely level of resources for all income areas. LG Futures also commented that *“Overall, [we] would expect your funding to be close to the amount forecast. There is a level of prudence built into the assumptions already and therefore we would not suggest any more is added.”*

6.16 The council continues to invest to deliver services more efficiently and with better outcomes for users. We will continue to prioritise frontline services – the vast majority of proposed savings (79%) are from efficiencies rather than policy changes impacting service delivery, with no new policy choices introduced from 2019/20. However, given the scale of the challenges faced, some difficult decisions are unavoidable. Where policy choices are necessary, we will continue to engage widely before any final decisions are taken.

6.17 In the Provisional Settlement, published on 13 December, the Secretary of State confirmed the council tax referendum thresholds would remain as previously, allowing local authorities to increase general council tax in 2019/20 by up to 3% before triggering a referendum, and the Adult Social Care Precept by a maximum of 6% between 2017/18 and 2019/20 (8% including 2016/17).

6.18 The increases to Council Tax and Adult Social Care Precept proposed in section 5.17 will enable the Council to:

- Respond proactively to the challenges of medium term economic and population growth, including support for infrastructure and sustainable transport;
- Invest in adult social care, with additional funding to address growing demand and changing needs, including services for people being discharged from hospital, as well as investing in transformation; and
- Reduce the budget gap we face in future years, helping provide protection to front-line services.

6.19 As highlighted previously, Hertfordshire has been successful in its bid to take part in the Business Rates pilot. The bid was one of 15 successful bids, out of 35 applications. This provide the opportunity to work with the 10 Hertfordshire districts and boroughs to better understand the new rates retention arrangements ahead of the national roll out of these arrangements from April 2020.

Spending

6.20 Each portfolio has produced a Strategic Direction summary (included in part B) which details the future direction of services to meet these objectives within resource constraints. These strategies have been informed by comparative benchmarking, both through published data and informal networks with other comparable authorities, to identify areas of potential efficiency gains.

6.21 Services have identified additional savings of £5.3m since last year's IP, to bring total 2019/20 savings to £18.9m. Whilst the majority of these are achieved through more efficient ways of working, it has been necessary to seek some savings through previous policy changes in service delivery (£3.9m, or 21% of 19/20 savings); however, there are no new policy changes proposed for 2019/20. Services continue to drive new ways of delivering services and innovative approaches to achieve all savings, including developing the digital agenda, commercial initiatives and enabling more efficient ways of working.

6.22 Details of key revenue budget movements are set out in part 6 of this report, with further details in the IP Overview (Part A). Further analysis is detailed in the Strategic Direction and Financial Consequences (Part B) for each portfolio, with a breakdown by departments and summary movements shown in Other Technical Information (Part G). A summary movement statement of both resources and spending is provided in Appendix A at the end of this report.

Risk, Contingency and Reserves:

6.23 A number of key risks relevant to the IP are set out at Part A of the IP. These include:

- Further increase in social care costs beyond the levels already provided for (This will be especially relevant to adults and children's disability services, and also to related budgets such as independent placements and home to school transport);
- Risk of social care provider failure or the risk that a provider is deemed 'inadequate', leading to cost increases while alternative care arrangements are made at short notice;
- The risk that planned savings are not realised, either to the planned value or within the planned timescale;
- The impact of unanticipated change in costs relating to waste disposal;
- Procurement and tender pricing risks;
- Risks and uncertainties arising from Brexit;

- The risk that commercial bus operators may seek to hand back contracts that are not commercially viable;
- Risks relating to health contributions from CCGs being reduced or withdrawn;
- The impact of severe weather on roads maintenance costs;
- Volatility in future funding levels associated with new funding arrangements, business rates retention arrangements, council tax collection fund and other resources; and
- Volatility in interest rates or inflation rates, affecting supplier costs, the cost of borrowing, and the benefit of investments.

6.24 The levels of reserves are considered in light of these risks to ensure that the Council is able to operate in a sustainable manner. This is part of the s25 assurance provided by the Director of Resources (s151) as part of his assurances regarding the 'robustness of the estimates'.

6.25 Estimated future levels of reserves are set out below in table 3.

Table 3: Reserves Summary

Reserves Summary	**Balance at 1 April 2018 £000s**	**Forecast Balance at 31 March 2019 £000s**	**Forecast Balance at 31 March 2020 £000s**
Balances held on behalf of Schools	(86,785)	(63,893)	(54,781)
Other reserves held for other parties	(8,912)	(6,478)	(4,430)
Subtotal – Non HCC Controlled reserves	**(95,697)**	**(70,371)**	**(59,211)**
Earmarked	(73,523)	(77,113)	(80,243)
ITT	(20,883)	(18,665)	(13,426)
Balances - General Fund	(31,497)	(32,000)	(32,000)
Subtotal – HCC Controlled reserves	**(125,903)**	**(127,778)**	**(125,669)**
	(221,600)	**(198,149)**	**(184,880)**

6.26 Table 3 shows that the total level of usable reserves is estimated as £221.6m reducing to £182.6m by March 2020. (The projection is made to the end of the next year only, not to the end of the IP period, owing to the complexity of the factors involved.) This is largely due to the use of balances held by HCC on behalf of Hertfordshire schools. Levels of reserve held for other third parties (e.g. Hertfordshire LEP, or SIAS) are also expected to reduce. Earmarked reserves are set aside against specific purposes, often using grant funds ringfenced to that purpose (e.g. Public Health Grant funding carried forward or funding secured for specific infrastructure investments.

6.27 The reserves held by HCC that can be used more freely include the Balance on the General Fund (£32m) and the Invest to Transform fund. These reduce to £45m by March 2020, equivalent to 5% of net revenue spending (4% of turnover).

6.28 When determining the appropriate level of reserves, Cabinet should be aware that there is not a guideline or benchmark level of reserves. Reserves held by a council are usually the result of a combination of historical factors and future plans (for example, significant capital investment or capital receipts can distort the overall position for a council). It is helpful therefore to give consideration to available benchmarking information, but also to consider local circumstances.

6.29 Reference to available data from LGA and CIPFA reveals that, when compared with similar councils:

- HCC has not made unplanned use of reserves in recent years (this is a positive indicator);
- HCC has comparatively low planned use of reserves in recent years (this is also a positive indicator);
- HCC has a comparatively low level of reserves (this is an inconclusive comparison and is properly understood in conjunction with the two points above – the planned and unplanned use of reserves).

6.30 Overall, it can be seen that HCC has, comparatively, a lower level of reserves than other councils. However, this may need to be reviewed in light of the challenges faced in future years.

6.31 It is a requirement of every Council budget that the designated s151 officer (Chief Finance Officer) provides assurances through a Section 25 Statement on:

- The robustness of the estimates presented to Council, and
- The adequacy of the reserves available to the Council, given the risks and uncertainties it faces.

The formal statement is provided as Appendix B at the end of Part A Overview.

7 Medium term financial position, 2019/20 – 2022/23

7.1 The Integrated Plan period has been extended to 2022/23, to enable forward planning to respond to changing demand and to deliver service change. However, only the first year (2019/20) falls within the Government's four year settlement offer, and subsequent years will depend on proposed changes to local authority financing.

7.2 Taking the announcements contained in the provisional settlement into account, the movement in the savings gap since the 2018/19 budget is summarised below. There remains a budget gap of £21.5m for 2020/21, £45.8m by 2022/23, which importantly have significantly deteriorated since the position in February 2018.

7.3 The required savings position is summarised below. The outlook shows a balanced position for 2019/20, but this is in contrast to the significant later challenges.

Table 4: Savings required

	2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m
Savings Required	-	20.240	30.250	44.659

7.4 These figures assume that all proposals set out in this paper are accepted and that savings are delivered as currently planned.

7.5 The savings proposals set out in the this report show that there have been no New Policy Choices brought forward in the current IP round, and that New Efficiencies are not increasing. Despite the increase in the level of benefit from existing efficiencies, the level of further savings required increases significantly.

7.6 This is due to a combination of:
- Loss of one-off government grants worth announced for 2019/20 only
- Difficulties in bringing forward substantial new efficiencies and new policy choices in the current IP round.

7.7 Consideration of the pattern of estimated resources and spending across the IP 2019 period highlights that:

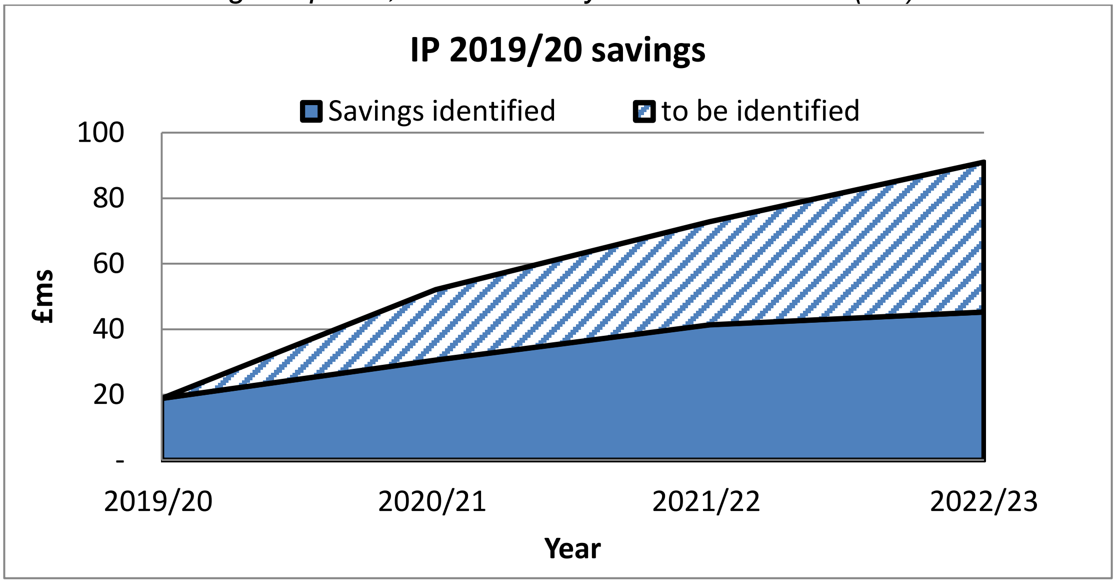
- Resources are forecast to grow at an average rate of 1.3% per year
- Spending is forecast to grow at an average rate of 2.7% per year
- The resulting gap of 1.3% equates to a position that worsens at a rate of about £10.5m per year (for 2019/20 this position is largely addressed through one-off measures).

7.8 The table and chart below highlights the savings required, setting out the level of savings required overall, and the level of savings already found and yet to be identified. The extent of the savings required as presented in the table above for later years gives cause for concern, and early work will need to be undertaken to ensure that a balanced and sustainable budget can be prepared in forthcoming years.

Table 5a: Savings required (£m)

2018/19 £'000		2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000
(5.013)	Existing efficiencies - ongoing impact	(9.562)	(20.301)	(29.887)	(33.553)
(0.563)	Existing Policy Choice - ongoing impact	(3.952)	(5.164)	(6.216)	(6.236)
(21.170)	New efficiencies	(5.346)	(5.148)	(5.278)	(5.433)
(2.996)	New Policy Choice	0.000	0.000	0.000	0.000
(0.000)	**Further savings required**	**0.000**	**(20.240)**	**(30.250)**	**(44.659)**
(29.742)	Total Savings	(18.860)	(50.853)	(71.631)	(89.881)

Table 5b: Savings required; identified vs yet to be identified (£m)



8 Schools Budget

8.1 Part B – Schools Budget sets out the proposed schools' revenue budget for 2019/20. In line with the Schemes of Delegations, Cabinet are requested to agree the schools' element of the IP in advance of the main budget process, in order to meet the Department for Education (DfE) deadline for 21 January 2019 (decisions on the main budget will be confirmed in the Council meeting on 19 February).

8.2 There may be some small adjustments as final data checks are completed and as the DfE position on Minimum Funding Guarantee exceptions is confirmed. This budget is wholly grant funded and decisions have no impact on the overall Council budget.

9 Other parts of the Integrated Plan

Capital Finance and Treasury Management

9.1 Capital Financing, Investment, and Treasury Management activities are subject to the requirements of statutory guidance and codes of professional practice.

9.2 The CIPFA Prudential Code for Capital Finance in Local Authorities 2017 Edition is implemented this year. The Code requires the Council to produce a Capital Strategy and this is included in the IP at Part C. This sets out the Council's approach to investment both in its fixed assets and in other programmes to enable service transformation and/or deliver a financial return. It details the Council's priorities for spending and how this is to be funded; and its approach to asset management including the Property Development Programme. It sets out proposals for the disposal of assets where there is a robust business case for using these receipts to deliver new assets that give a better service fit and value for money.

9.3 The Ministry of Housing Communities and Local Government issues Statutory Guidance on Local Government Investments. The Guidance requires the Council to prepare an Investment Strategy, and this is included in the IP as Appendix E to Part C.

9.4 The CIPFA Code of Practice for Treasury Management in the Public Services 2017 Edition is implemented this year. The Code requires the Council to produce a Treasury Management Strategy Statement and this is included in the IP at Part D. This sets out the Council's approach to the management of its cash flows, borrowing and investments, and the associated risks. Commercial investments, which are defined as those partly or primarily for financial return are subject to the Capital Strategy at IP Part C

Insurance Strategy

9.5 The Insurance Strategy (included at IP Part E) has been reviewed and updated. It explains the Council's overall approach to risk retention and the management of its corporate insurance programme through relevant policies of insurance.

Equality implications

9.6 The Integrated Plan includes an assessment of potential equality implications of IP proposals, at Part F.

10 Capital Programme, Funding and Financing Charges

10.1 The Integrated Plan also includes the proposed Capital Programme for 2019/20 – 2022/23. All schemes from the 2018/19 – 2021/22 Capital Programme, approved in February 2018, have been reviewed and new or amended bids have been considered and challenged by senior officers. New and revised bids have also been submitted with supporting business cases, to ensure these meet the Council's priorities for investment set out in Part C Capital Strategy.

10.2 The revenue cost of the proposed capital programme is set out in table 6 below:

Table 6: Associated revenue costs

	2018/19 £'000	**2019/20 £'000**	**2020/21 £'000**	**2021/22 £'000**	**2022/23 £'000**
Capital Programme	*244,024*	242,783	248,919	210,445	155,361
Borrowing Requirement	*101,466*	90,877	96,346	88,378	64,544
Revenue Cost of Capital	*21,010*	21,680	25,050	30,159	33,515

10.3 A breakdown by Portfolio of the proposed capital investment programme for IP 2019 set out in table 7. The planned sources of funding are set out in table 8.

Table 7: Summary Proposed Capital Programme 2019/20 – 2022/23

	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000
Adult Care & Health	19,839	28,207	23,894	21,915
Children, Young People and Families	2,429	2,690	3,890	100
Community Safety & Waste Management	10,498	11,436	8,308	5,139
Education, Libraries & Localism	69,254	77,335	75,936	42,869
Growth, Infrastructure, Planning & the Economy	725	725	725	725
Highways & Environment	112,943	106,985	90,967	81,078
Public Health & Prevention	725	-	-	-
Resources & Performance	15,747	10,255	6,725	3,535
Capital Investments	10,623	11,286	-	-
Total	**242,783**	**248,919**	**210,445**	**155,361**

Table 8: Proposed Capital Financing 2019/20 – 2022/23

	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000
Borrowing	90,877	96,346	88,378	64,544
Capital receipts	10,000	10,000	10,000	10,000
Grant	79,516	66,753	78,509	68,851
Contribution	46,222	63,113	15,166	8,763
Reserves	16,168	12,707	18,392	3,203
Total	**242,783**	**248,919**	**210,445**	**155,361**

10.4 The Council continues to invest significantly in its infrastructure and assets. The proposed 2019/20 – 2022/23 capital programme is £242.8m in 2019/20, of which £90.9m is funded from borrowing (i.e. HCC funded). Schemes within the capital programme include:

- funding for the provision for older people's housing in Hertfordshire that meets identified need;
- further primary and secondary schools expansion and new school developments, largely externally funded;
- completion of the LED street lighting programme;
- the construction of bridges over the Baldock rail crossing to enable to delivery of 2,800 homes;
- the construction of a new household waste recycling centre; and
- delivery of a new Archive and Heritage centre.

10.5 In recent years, the Council has used revenue contributions, one-off underspends, Capital Financing and Capital Receipts to sustain the capital programme while minimising the need for new borrowing, thus delivering savings in the costs of interest and of Minimum Revenue Provision (MRP – the amount the Council is required to set aside in its revenue budget for debt repayment).

10.6 Where borrowing is required however, there is a charge to the Council's revenue budget, with respect to the cost of MRP and the interest cost of borrowing, as highlighted in table 6.

10.7 New borrowing of £90.877m is forecast for 2019/20, £96.346m in 2020/21, £88.378 in 2021/22 and £64.544m in 2022/23. This includes proposals for forward fund primary school expansion schemes and new school developments, due to the timing of capital expenditure against expected income. These schemes are expected to be fully funded by future s106 developer contributions and capital receipts. Given the low interest rates which are currently forecast to continue, it is proposed that an element of this borrowing be managed through a rolling portfolio of short term borrowing, at the same time considering tranches of longer term borrowing as capital expenditure crystallises an ongoing cash requirement. The Minimum Revenue Provision for this additional borrowing will be £1.851m for 2020/21, £3.003m for 2021/22 and £4.095m for 2022/23.

10.8 Within the cost of scheme figures set out above, there is provision for the forward funding of schemes in the schools expansion programme. This need arises from the delay in projected capital receipts and s106 developer contributions that form the basis of the funding for the schemes. To enable the schemes to progress, the Council is required to provide borrowing for the period between the inception of the scheme and the realisation of the funding streams. The cost of this borrowing will be charged to the General Fund (not to DSG), and so impact on the general service budgets provided by the Council.

10.9 The revenue implications for the forward funding of school schemes are shown in the table below:

Table 9: Forward Funded School Schemes

	2019/20 £'000	**2020/21 £'000**	**2021/22 £'000**	**2022/23 £'000**
Expenditure	6,552	7,285	14,528	-
Funding	-	-	(8,718)	(5,672)
Net	**6,552**	**7,285**	**5,811**	**(5,672)**
Capital financing	**63**	**253**	**359**	**446**

10.10 Alongside the Capital Programme, the Herts Living programme has identified surplus sites suitable for development to generate an enhanced capital receipt or revenue income stream in future years. A Joint Venture partnership has been established and will take forward the development of an initial set of surplus sites. These proposals are expected to make an important contribution to the revenue budget, and savings proposals include an assumed revenue return from 2020/21. The budget gaps reports earlier already include this additional income.

10.11 The additional income is expected to comprise both revenue income from overage arrangements and savings from the use of capital receipts from the earmarked sites to reduce borrowing from the levels assumed in the current capital programme funding. The Council also proposes to provide a capital loan to enable Herts Living Limited (consistent with the Council decision in April 2018). This will support its joint venture vehicle to purchase and develop surplus land from the County Council - resulting in a capital receipt to the authority which provides financing for the loans, along with interest charged at commercial rates.

10.12 The Spend to Achieve Capital Receipts Reserve was created in 2014/15 to fund the costs of works or other spend necessary to generate capital receipts which are then available to fund future schemes, reducing the need to borrow. In previous years it has been topped up by £3m p.a., from capital receipts. The balance within this reserve will be maintained during 2018/19. The level and source of top up for subsequent years will be reviewed in future Integrated Plans.

Background information referred to by the authors

Hertfordshire County Council Integrated Plan 2018/19 to 2021/22, February 2018.

Department for Communities and Local Government - Provisional Local Authority Finance Settlement for 2019/20, 13 December 2018.

Appendix A:

Table 1: Summary Budget Movement Statement

2018/19 £m		2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m
788.647	**Original Budget**	**804.577**	**804.577**	**804.577**	**804.577**
(3.225)	Technical Adjustments	(14.371)	(14.971)	(14.971)	(14.971)
8.141	Inflation	10.673	26.329	41.668	56.929
793.563	**Base Budget**	**800.879**	**815.935**	**831.274**	**846.535**
	Pressures for change:				
0.050	Previous Policy Decisions	(0.050)	(0.050)	-	(0.050)
10.642	Demography	10.545	21.020	31.704	41.968
6.029	Legislative	6.289	11.285	13.563	16.933
1.095	Capital Financing	0.948	4.479	9.449	12.779
16.980	Other	25.419	22.559	24.695	26.099
34.796	**Total Pressures for Change**	43.151	59.293	79.411	97.729
828.359	**Subtotal**	**844.030**	**875.228**	**910.685**	**944.264**
	Savings:				
(5.013)	Existing efficiencies - ongoing impact	(9.562)	(20.301)	(29.887)	(33.553)
(0.563)	Existing Policy Choice - ongoing impact	(3.952)	(5.164)	(6.216)	(6.236)
(21.170)	New efficiencies	(5.346)	(5.148)	(5.278)	(5.433)
(2.996)	New Policy Choice	-	-	-	-
(0.000)	Further savings required	0.000	(20.240)	(30.250)	(44.659)
(29.742)	**Total Savings**	(18.860)	(50.853)	(71.631)	(89.881)
5.960	Transfer to reserve - Transition Reserve	(5.960)	(5.960)	(5.960)	(5.960)
804.577	**REVENUE BUDGET (before funding specific to service area)**	**819.210**	**818.414**	**833.094**	**848.422**

Table 2: Funding Statement

2017/18 £m		2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m
0.000	Business Rates Income	124.653	0.000	0.000	0.000
0.000	Business Rates Top-Up Grant	1.308	0.000	0.000	0.000
142.614	Revenue Support Grant	0.000	119.565	114.565	109.565
142.614		125.961	119.565	114.565	109.565
	Non-ringfenced Grants:				
4.937	Business Rates Retention Tax Loss Re-imbursement	4.406	4.406	4.406	4.406
0.000	Levy Account Surplus	1.873	0.000	0.000	0.000
3.474	New Homes Bonus	3.033	2.524	2.049	1.574
0.605	SEN Reform	0.000	0.000	0.000	0.000
2.005	Independent Living Fund	1.944	1.944	1.944	1.944
0.000	Fire Pension Grant	1.882	0.000	0.000	0.000
2.584	Adult Social Care Support Grant	7.063	0.000	0.000	0.000
1.175	Other non-ringfenced grants	1.125	1.125	1.125	1.125
14.780		21.926	9.999	9.524	9.049
	Ringfenced Grants:				
32.798	Public Health Grant	31.926	31.926	31.926	31.926
14.760	Public Health - Health visitors	14.376	14.376	14.376	14.376
47.558		46.302	46.302	46.302	46.302
	Better Care Fund:				
4.727	iBCF - old	12.909	12.909	12.909	12.909
	Council Tax and Collection Funds:				
540.686	Council Tax	564.813	583.827	603.462	623.739
42.291	Council Tax relating to Social Care Precept	42.798	43.312	43.832	44.358
11.002	Collection Fund Balance - Council Tax	6.000	4.000	4.000	4.000
0.918	Collection Fund Balance - Business Rates	(1.500)	(1.500)	(1.500)	(1.500)
594.897		612.112	629.639	649.794	670.597
804.577	**TOTAL**	**819.210**	**818.414**	**833.094**	**848.422**