INTEGRATED PLAN

PART A – OVERVIEW

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1 Introduction – Strategic Context and Key Decisions

1.1 The Integrated Plan (IP) sets out the Council's plans for service delivery within available funding. It brings together services' key priorities and plans for delivering these, alongside the strategies that shape how the Council manages its resources.

1.2 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 and increasing complexity of needs within existing service users for example within social care related services; and
- Further reductions in grant funding expected over the IP period.

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 paid and unpaid care workforce to attract and retain people into vital caring roles;
- Investment to help meet the challenges of a growing county: additional investment in Hertfordshire's road network and the establishment of a dedicated Growth and Infrastructure team to provide the capacity and expertise 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;
- Continued investment in service transformation: for example in Adult Social Care – funding for a proposed transformation programme to design and implement new approaches to commissioning care for older people and adults with disabilities; and
- A continued focus on prevention, notably in adult social care, to prevent need increasing further, for example in relation to exploring opportunities to use digital technology to foster independent living.

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 savings (87%) are proposed from efficiencies rather than policy changes impacting service delivery. 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.

1.3 The Integrated Plan approved in February 2017 outlined two potential council tax increases for 2018/19: a 3% increase specifically to support adult social care, and a general increase of 1.99% to help fund all council services. The government has recently announced new rules covering potential council tax increases. The general increase can now be up to 2.99%, an increase of 1%.

Our recent consultation on IP plans indicated that a majority of respondents would rather see council tax increases than further service reductions. As such the Council proposes to adopt the general council tax increase allowed by the government. Our plans for 2018/19 therefore include an increase of 2.99% to help fund all council services. The second increase is specifically to support adult social care and will remain a 3% increase as planned last year. This makes a total proposed increase of 5.99%.These increases will enable the Council to do the following:

- Provide additional investment of £26m over the next 4 years into our core road network to ensure they are maintained to the high standards residents expect
- Provide a one-off programme of funding for our local roads to improve standards across this element of the network at a cost of £29m over the first four years
- Respond proactively to the challenges of medium term economic and population growth, to ensure Hertfordshire is well placed to bid for national and regional resources;
- 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 some protection to front-line services

Despite this, the financial challenges will continue for the foreseeable future. Extending the Integrated Planning period to four years allows us to consider medium term plans to be able to respond to the scale of these challenges. The table below illustrates that whilst the proposed budget is balanced for next year, there is an increasing budget gap in the years after that, rising to almost £30m by 2021/22. Further difficult choices are likely to be necessary in future years.

	2018/19 £m	**2019/20 £m**	**2020/21 £m**	**2021/22 £m**
Further savings required	-	8.087	23.966	29.747

1.4 Revenue and capital plans have been set for the four year period to 2021/22, to enable the forward planning needed for more fundamental service redesign to deliver transformed services and achieve challenging savings. However, while core government funding for 2018/19 and 2019/20 is covered by the four year settlement provided in 2016, revenue funding beyond this is uncertain. Forward projections in this IP assume a £5m per annum ongoing reduction. Resources will also be impacted by the outcomes of the Fair Funding Review, which the government propose to implement from 2020/21 and which is likely to give some redistribution that cannot be predicted at this stage.

1.5 The proposed IP includes additional funding for Social Care via the Adult Social Care precept powers granted in the Spending Review, and additional Improved Better Care Fund announced in the March 2017 Budget. It assumes that funding will continue at the same level in 2020/21 and 2021/22: as yet there is no information on these years, and this funding is by no means guaranteed.

1.6 Revenue budgets (the net running costs of the Council's services) are based on the current year budget. This is adjusted for inflation and for any unavoidable changes for example population increases, new legal and statutory responsibilities, and where services are funded by specific grants. Any changes are challenged, and the resulting costs are compared to forecast overall funding, with the difference – the savings gap – to be met by making savings, or by reviewing and where appropriate reducing reserves.

1.7 For the IP period, services will continue to face demand pressures from population changes, not only from the growing elderly population but more significantly from learning disability and children's special education needs, in part arising from improved diagnosis (including Asperger's and autism), higher expectations and the duty to meet these. This higher demand has impacted the market for social care, increasing prices for specialist care. £41.8m additional expenditure is required in 2018/19 to continue to deliver the same level of service on the same basis as the previous year and to meet new responsibilities.

1.8 In response, services seek new ways of working to deliver improved services and efficiencies, through digital and commercial initiatives and through smarter use of our workforce. There is a continued focus on the need to develop preventative strategies to reduce demand and deliver better outcomes for Hertfordshire residents and businesses, such as the review and redesign of adult social care services over the IP period.

1.9 The Council is developing its Capital and Asset Management strategies to make best use of these resources, recognising the impact of capital spend on the revenue budget, and the opportunities to add value and generate income streams from these assets. Its new subsidiary Herts Living Ltd will be key in delivering many of these property initiatives. The proposed Capital Programme also invests in the infrastructure that will be needed for a rising population and to support economic growth.

1.10 Key decisions in this Integrated Plan include:

- Increased investment in roads and infrastructure, including new and additional Highways capital schemes totalling £78m (Highways Capital Programme Part B), and creation of a central Infrastructure Growth budget, to meet the costs of early work needed to put the council in a strong position to bid for major infrastructure funding;
- Maintaining a differential above National Living Wage for our care staff and those of our key third party providers;
- Provision for specific inflation on spending budgets where there are contractual or statutory increases, but otherwise requiring services to absorb non pay inflation within budgets (part G table 6);
- Efficiency savings of £24.5m in 2018/19 (rising to £60.6m by 2021/22);
- Changes to service delivery policies to meet the balance of savings requirements - £3.9m in 2018/19 (0.5% of net budget). These will be made in Adult Social Care charging, Children's Centres and Youth Connexions;
- Decisions on the level of Council Tax and Adult Social Care Precept , taking up the option to raise general council tax by 2.99% in 2018/19 as well as raising the remaining permitted 3% ASC Precept (part A p9);

- Use of £10m capital receipts per annum to support the capital programme and reduce borrowing costs, whilst also earmarking surplus sites for further development to generate enhanced future receipts and/or income streams (Capital Strategy Part D section 2.2);
- Use of up to £3.8m further capital receipts in 2018/19 to fund spend required to generate capital receipts in future years;
- Maintaining a contingency and general fund balance (4% of net revenue budget) , based on an assessment of risks and uncertainties;
- A review of reserves, which has identified £1.2m no longer needed for its original purpose, and so will be used as a one off contribution to help bridge the 2018/19 savings gap; and
- Setting out principles for the disposal of specific assets to fund new capital projects, where there is a reliable business case (Capital Strategy Part D section 2.5).

1.11 This report includes details of the overall funding context including the impact of the government's Provisional Settlement for Local Government, announced on 19 December 2017. This will be updated for the Final Settlement, other funding announcements and for final council tax and business rates income collected by District Councils, and will be reported to Cabinet (19th February 2018) and County Council (20th February 2018).

1.12 The proposed 2018/19 revenue budget is £831.3m, an increase of 1.8% from 2017/18. The revenue budget increases to £854.4m by 2021/22. Note that the 2017/18 comparators in this report are the original budget approved in February 2017, and exclude the additional Improved Better Care Fund monies announced in the Government's March 2017 Budget.

Table 1 at the end of this section summarises the movements from the 2017/18 original budget over the Integrated Plan period 2018/19 to 2021/22; the budget by service is shown in table 3 in Part G (Other Technical Information).

1.13 From the 2017/18 balanced position, the budget has moved by:

	£m
Technical adjustments –changes in specific grants matched by changes in spend, and removal of one-off capital financing	(5.520)
Inflation	8.141
Pressures from population changes (demography), legislation including costs of National Living Wage, and other changes. This item also includes new spend and reduced CCG contributions covered by the additional Improved Better Care Fund (iBCF) monies announced in the March 2017 budget;	41.796
Reduction in government grants	33.599
Resulting budget gap	**78.016**
Met by:	
Savings	30.082
Additional Improved Better Care Fund	11.656
Council tax/ Adult Social Care Precept	36.279

1.14 The movement in the savings gap since the 2017/18 budget is summarised below. Additional savings of £19.8m have been identified for 2018/19, rising to £57.3m by 2021/22. There remains a budget gap of £8.1m for 2019/20, £29.7m by 2021.22

	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m
Budget Gap at February 2017	**20.894**	**41.863**	**41.863**	**41.863**
Inflation - Pay (2.7% 18/19 and 19/20)	3.621	7.319	12.136	17.047
Inflation - non Pay (0% standard non -pay)	(10.380)	(12.310)	(0.593)	11.359
Demography	5.093	6.011	16.729	27.537
Capital Financing	2.813	2.882	4.722	6.484
Other Pressures	10.794	11.250	23.420	26.412
Changes in grant funding	(4.062)	(3.747)	1.723	7.192
Council Taxbase / collection fund	(8.937)	(13.882)	(32.101)	(50.870)
Additional Savings	(19.836)	(31.299)	(43.932)	(57.277)
Gap at January 2018	**(0.000)**	**8.087**	**23.966**	**29.747**

Navigating the Integrated Plan Pack

1.15 The Integrated Plan is a multi – part pack and each section forms a standalone document. It includes:

Parts A and B, supported by the schedules at Part G, set out the overall revenue and capital budget position and a detailed narrative for each Portfolio's budget proposals.

- an Overview of the proposed revenue budget and capital programme, including a review of the budget estimates and adequacy of reserves (Part A);
- Strategic Direction and Financial Consequences (Part B). These set out the future service direction and priorities, by Cabinet Panel portfolio, including details of revenue budget movements (pressures and savings) and capital programme proposals. They also include benchmarking comparisons and an assessment of key risks in delivering services within the IP;

Parts C to E provide the detailed strategies that support the Council's financial processes, and Part F summarises the equalities impact.

- the Treasury Management Strategy (Part C), a statutory requirement setting out the Council's approach to borrowing and financial investments;
- the Capital, Asset Management and Investment Strategy (part D), detailing how the Council will invest in its property and infrastructure assets, and use its resources to deliver financial returns and service efficiencies;
- the Insurance and Risk Strategy (part E), setting out the Council's approach to risk management and insurance;
- an Equalities Impact Assessment (Part F), which considers the cumulative equality impact of IP proposals; and
- Supporting Schedules showing other technical information and financial summaries (Part G).

Table 1: Summary Budget Movement Statement

2017/18 £m		2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m
822.182	**Original Budget**	**816.974**	**816.974**	**816.974**	**816.974**
(2.542)	Technical Adjustments	(5.506)	(7.646)	(9.161)	(9.161)
4.834	Inflation	8.141	24.809	41.343	58.206
824.474	**Base Budget**	**819.609**	**834.137**	**849.156**	**866.019**
	Pressures for change:				
(0.250)	Previous Policy Decisions	0.050	-	-	-
19.454	Demography	10.642	21.211	31.929	42.737
5.758	Legislative	6.029	10.491	15.834	16.074
3.577	Capital Financing	1.095	2.868	4.708	6.470
4.961	Other	23.980	20.572	21.580	24.332
33.500	**Total Pressures for Change**	41.796	55.142	74.051	89.613
857.974	**Subtotal**	**861.405**	**889.279**	**923.207**	**955.632**
	Savings:				
(2.461)	Existing efficiencies - ongoing impact	(5.013)	(5.807)	(5.786)	(5.807)
(5.039)	Existing Policy Choice - ongoing impact	(0.563)	(1.157)	(1.862)	(1.912)
(22.663)	New efficiencies	(21.200)	(31.305)	(42.763)	(54.812)
(10.837)	New Policy Choice	(3.306)	(7.237)	(7.728)	(8.953)
-	Further savings required	-	(8.087)	(23.966)	(29.747)
(41.000)	**Total Savings**	(30.082)	(53.593)	(82.105)	(101.231)
816.974	**REVENUE BUDGET (before funding specific to service area)**	**831.323**	**835.686**	**841.102**	**854.401**

Table 2: Funding Statement

2017/18 £m		2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m
46.394	Business Rates Income	47.841	50.605	53.530	56.623
69.531	Business Rates Top-Up Grant	71.498	71.380	71.263	71.145
44.535	Revenue Support Grant	22.599	1.890	(5.916)	(13.892)
160.459		141.938	123.876	118.876	113.876
	Non-ringfenced Grants:				
3.139	Compensation for impact of changes to Business Rates (S31 grant)	2.799	4.406	4.406	4.406
3.261	Education Services Grant (ESG)	-	-	-	-
5.648	New Homes Bonus	3.474	3.005	2.535	2.066
0.835	SEN Reform	0.835	-	-	-
2.070	Independent Living Fund	2.005	1.944	1.944	1.944
7.849	Transition Grant	-	-	-	-
4.153	Adult Social Care Support Grant	-	-	-	-
0.842	School Improvement Grant	-	-	-	-
1.085	Other non-ringfenced grants	1.000	1.006	1.006	1.006
28.883		10.114	10.361	9.891	9.422
	Ringfenced Grants:				
33.659	Public Health Grant	32.798	31.926	31.926	31.926
15.154	Public Health - Health visitors	14.760	14.376	14.376	14.376
2.605	Adult Skills and Community Learning	2.744	2.744	2.744	2.744
1.111	Local Authority Bus Subsidy Grant (formally Bus Service Operators Grant)	1.111	1.111	1.111	1.111
1.122	Unaccompanied Asylum Seeking Children Grant (UASC)	1.122	1.122	1.122	1.122
2.467	Troubled Families Grant	1.515	1.515	-	-
1.258	Music Education Grant	1.258	1.258	1.258	1.258
0.815	Youth Justice Good Practice Grant	0.815	0.815	0.815	0.815
58.191		56.123	54.867	53.352	53.352
	Better Care Fund:				
18.949	iBCF - old	24.722	32.904	32.904	32.904
-	iBCF - new	11.656	5.819	-	-
18.949		36.378	38.723	32.904	32.904
	Council Tax and Collection Funds:				
518.146	Council Tax	539.744	562.715	580.509	598.846
25.493	Council Tax relating to Social Care Precept *(3% 18/19; 0%19/20)*	42.222	42.644	43.071	43.501
9.077	Collection Fund Balance - Council Tax	6.304	4.000	4.000	4.000
(2.225)	Collection Fund Balance - Business Rates	(1.500)	(1.500)	(1.500)	(1.500)
550.492		586.771	607.860	626.079	644.848
816.974	**TOTAL**	**831.323**	**835.686**	**841.102**	**854.401**

2 Revenue Budget – Funding

Provisional Finance Settlement

2.1 The provisional Local Government Finance Settlement 2018/19 announced on 19 December was the third of the Government's four year settlement offer for authorities who submitted an Efficiency Plan, including Hertfordshire. A number of the reductions to funding were therefore known in advance when preparing the proposed budget. Over the four years to 2019/20, Revenue Support Grant (RSG) will reduce by £117m from its 2015/16 level. Total Settlement Funding Assessment (SFA), the Government's calculation of need to be met by RSG and business rates, has reduced by £18.521m (11.5%) in 2018/19.

2.2 The Government also calculates authorities' Spending Power, which includes income from locally raised Council Tax and Adult Social Care Precept. The Council's Spending Power for 2018/19 is £748.872m, of which £164.3m is funded by central government grants and business rates.

2.3 The funding position at table 2 shows the latest estimates of available Central Government funding based on the provisional Settlement, together with projections of other income sources including Business Rates income and Collection Fund balances. It assumes some continued reductions of £5m per annum in funding for 2020/21 and 2021/22.

2.4 The Adult Social Care Precept was introduced for 2016/17, allowing authorities providing social care to raise an additional precept of up to 2% of council tax pa for four years, provided that they could demonstrate that this was needed to meet increased costs of social care. The 2017/18 Provisional gave further flexibility by allowing the precept to rise by up to 3% in a year, on condition that the total increase to 2019/20 does not exceed 6%. The Council has raised precepts of 2% in 2016/17 and 3% in 2017/18, with the final permitted 3% proposed for 2018/19.

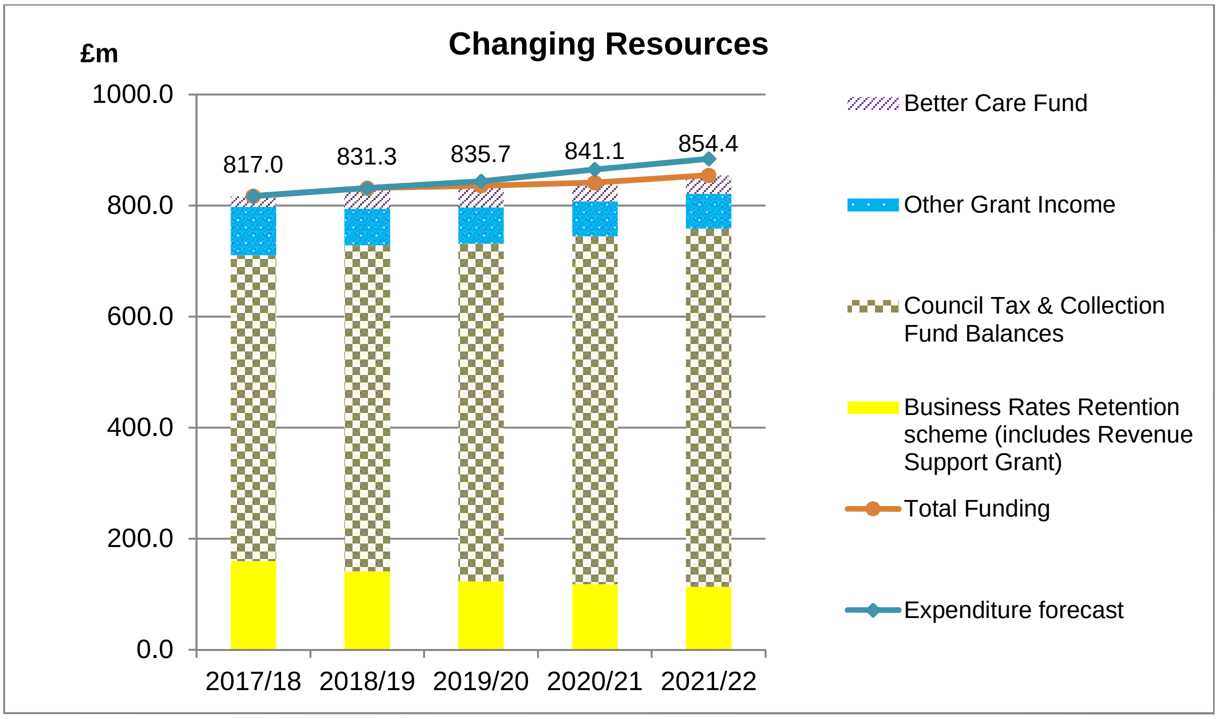
2.5 The Provisional Settlement includes the changes to New Homes Bonus (NHB) introduced in 2017/18: the length of time that the bonus is paid reduced from six years to five years in 2017/18; and will reduce to four years from 2018/19. The baseline threshold introduced last year is retained: authorities will need to achieve growth of greater than 0.4 per cent before they receive any NHB funding. These changes, together with some slowing in growth as measured for this grant, have resulted in a loss of NHB of £2.174m in 2018/19. During 2017 the Government consulted on further changes, including withholding payments from local authorities that have not submitted their local plan, and where residential development has been allowed on appeal. However these changes have not yet been adopted.

2.6 As previously notified Education Services Grant (ESG) ceased from September 2017. Since 2017/18, some additional funding is provided through the Schools Improvement Grant, within the Children's Services budget.

2.7 The final Local Government Finance Settlement 2018/19 (expected early February 2019) will confirm the level of available funding from Central Government. The funding position at table 2 shows the latest estimates of available Central

Government funding based on the provisional Settlement, together with projections of other income sources including final estimates of Council Tax base, Business Rates income and Collection Fund balances. Taxbase growth of 1.0% gives an additional £5.4m income in 2018/19 compared with 2017/18, before the 2.99% increase.

2.8 The graph below shows a breakdown of how the authority's resources are funded. The gap between forecast expenditure and resource funding is widening over the period of this Integrated Plan.



Business Rates

2.9 Business Rates income is received as a proportion of income collected by local District/Borough councils, increased by "top up" from, or reduced by "tariff" to, central government to an assessed baseline level of need. Income increases each year by the nationally set rate, 3.0% for 2018/19 (based on September CPI).

2.10 Under the Business Rates Retention Scheme introduced in April 2013, authorities can benefit directly from supporting local business growth by allowing them to keep a proportion of any increases in business rates income. The County Council receives 10% of all such growth above baseline funding.

2.11 The first revaluation under the scheme has taken place, with effect from 1 April 2017, and rateable values (the value on which Business Rates is applied) have been updated for latest market conditions. The revaluation exercise was net neutral on total rates collected nationally. Top up and tariffs have been adjusted to ensure no Local Authority is adversely affected by the revaluation exercise; and some transitional arrangements for ratepayers have been be in place following revaluation, funded by central government through Section 31 grants.

2.12 Estimates of business rates income in Hertfordshire will be confirmed at the end of January by district councils, who act as billing authority.

2.13 In September 2017, the Department for Communities and Local Government (DCLG) invited authorities to apply for pilot 100% Business Rates Retention schemes, which would allow retention of all growth in business rates, and Hertfordshire (the County Council and the ten Districts) submitted a bid. A large number of applications was received and unfortunately Hertfordshire was not successful for 2018/19. However, an application to form a Business Rates Pool has been accepted. This allows local authorities to combine to retain and share a higher proportion of growth in business rates income (currently non – pooled Districts pay a 50% levy to central government on the share of growth above baseline funding level). There is an element of risk, as the cost of any Safety Net payments, made where an authority's business rates income would otherwise fall by more than 7.5%, must be borne by the pool rather than being met by central Government.

2.14 Following a review of the options for membership of the business rates pool it is proposed to continue with the existing pool members: Broxbourne, Hertsmere and Welwyn Hatfield Borough Councils and North Herts and Three Rivers District Councils, subject to final estimates of pooling gains and any associated risks.

Grants

2.15 Table 2 shows the grants provisionally announced for 2018/19. Non-ringfenced grants are available to support all Council services, although where these relate to specific services (for example SEND reform, Independent Living Fund) the relevant service budget is normally increased to reflect the funding.

2.16 Ringfenced grant is received for Public Health responsibilities. There is a reduction in 2018/19 of £1.26m (2.5%) to the grant, and a further £1.25m in 2019/20. The provisional settlement indicated that the ringfence will be removed and the grant rolled into Business Rates Retention funding in 2020/21.

2.17 Other ringfenced grants (including Better Care Fund) for the provision of specific services are shown as direct funding against the relevant service budget; significant grants are detailed in the funding statement at Table 2.

2.18 There are still a number of outstanding Government grant announcements, including some smaller non-ringfenced grants.

Council Tax and Social Care Precept

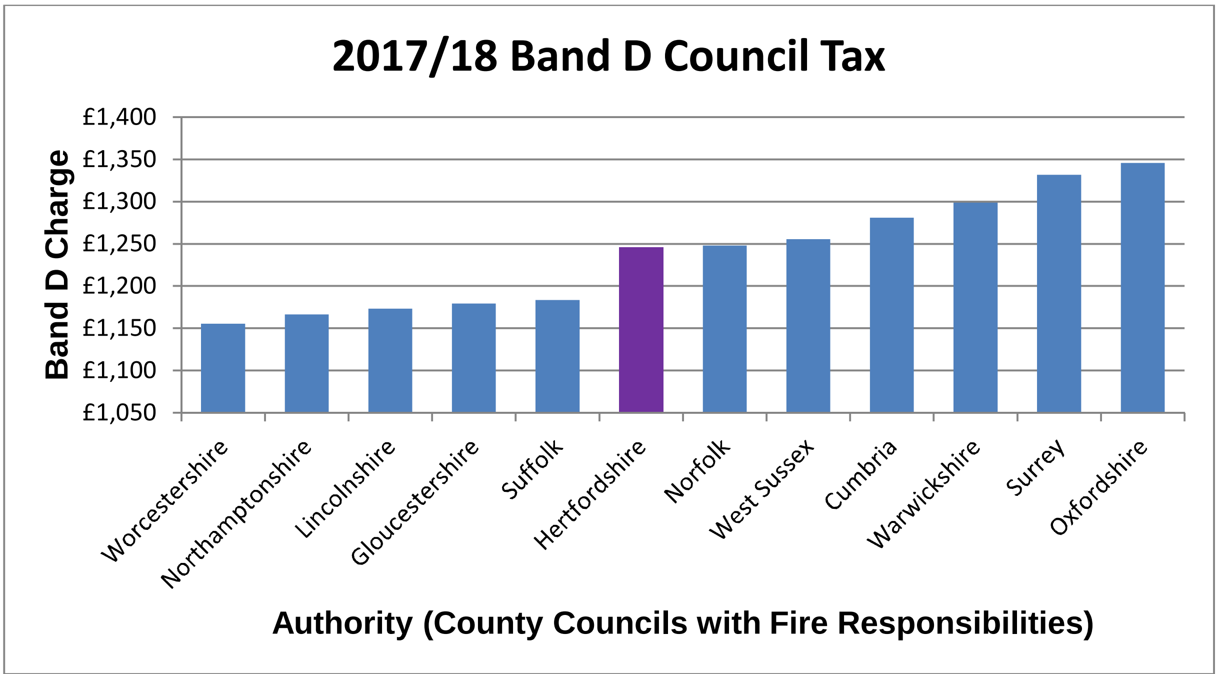
2.19 The 2017/18 IP assumed a general council tax increase of 1.99% each year, in the context of the increasing pressures and funding reductions outlined later in this document, and the projected medium term financial position.

2.20 The Council has made use of new powers introduced by the government in 2016/17 to raise an additional precept specifically to fund social care pressures (see section 2.3). The precept raises differing levels of resource for social care in different parts of the country unrelated to need, and passes additional costs to council tax payers. The government assumes that councils will raise this precept when calculating their central funding. This report assumes that the remaining 3% of council tax permissible is raised in 2018/19, to provide for social care pressures. This is as approved in last year's Integrated Plan.

2.21 In the Provisional Settlement, the Secretary of State announced a 1% increase in the referendum limit, to 3%, in recognition of the inflationary and other cost pressures that councils face. An additional 1% raises £5.5m income, and increases the Band D Council Tax for the year by £12.46. This flexibility is confirmed for 2018/19, and the government have stated their intention that this should continue in 2019/20, to be confirmed in next year's settlement. This report assumes a general council tax increase of 2.99% in 2018/19 and 2019/20, and 1.99% in subsequent years.

2.22 The Band D Council Tax for Hertfordshire County Council in 2017/18 was £1,245.83 which compares with a county council with fire responsibilities average of £1,238.71, ranging from £1,155.31 (Worcestershire) to £1,345.59 (Oxfordshire). See graph below.

<u>Comparative Data, 2017/18 Band D Council Tax</u>



The final council taxbase and collection fund balance estimates for both Council Tax and Business Rates will be provided by districts in late January. These reflect changes in the tax bases for Council Tax and Business Rates, together with the collectability of income, impact of reliefs and business rates appeals (which may have a significant backdated element). Early forecasts indicate a higher than projected surplus on the Council Tax Collection Fund at end 2017/18, as well as tax base increases from housing growth and revised assumptions for Council Tax Support. The IP presented to January Cabinet assumes a surplus of £6.3m in 2018/19, and £4m in subsequent years.

For the Business Rates Collection Fund, a deficit of £1.5m is estimated, in recognition of the continued risk from appeals, where there is considerable uncertainty following the April 2017 revaluation and changes to the appeals process.

3 Risk Management, Uncertainties, Contingency and Sensitivity Analysis

Risk Management

3.1. Service departments have reviewed the risks attached to delivering the 2018/19 budget and reflected any significant risks in the Corporate Risk Register. The Corporate Risk Register is reported regularly to the Public Health, Prevention and Performance Cabinet Panel as part of the Quarterly Performance monitor.

3.2. The Audit Committee advise the Executive on relevant audit matters including the risk management system and risk related issues. This function has been exercised through regular reports concerning the operation and effectiveness of the Corporate Risk Process and updates on other risk management activity. To strengthen the Committee's effectiveness in this oversight role, the Committee also considers, at each meeting, a report that focuses on a risk or risks from the Corporate Risk Register based on a particular theme.

Uncertainties

3.3. A number of uncertainties exist over the medium term which could potentially increase or decrease costs, including:

- Liabilities for Sleep In duties, following a legal judgement that rates should be paid at an average that meets National Living Wage
- risk of not achieving delivery of savings, examples include:
    - time taken to implement new social care strategies, for example where these require now accommodation to be found
    - additional income from review of adult social care charging policy
    - the fragility of the independent care market
- demand led budgets:
    - impact of increases in the number of Unaccompanied Asylum Seeker Children (UASC), and to support children in families with no recourse to public funds; and from extended responsibilities to care leavers
    - impact of economic activity and housing growth on recycling and waste volumes; and risk from potential change in categorisation of wood waste
- Risk to contributions from Clinical Commissioning Groups for protection of adult social care and funding of children's services;
- highways maintenance: risk of road repairs due to severe winter weather and potential exceptional maintenance, including special requirements for coal tar disposal
- potential income from business rates growth; impact of business rate appeals following revaluation and changes to the appeals system; outcomes of proposed Business Rates Pooling arrangements;
- the Collection Fund balance and council tax base for future years, as well as council tax support schemes and wider council tax reforms;

- outstanding grant announcements;
- inflation: non-pay inflation including exceptional inflation, an example being the potential for higher than expected increases in energy and transport costs;
- interest rates, impacting on borrowing costs and investment income; and
- ability to sell assets and secure capital receipts.

Contingency

3.4. The figures included in this report provide for a general contingency of £6.0m in 2018/19, based on an assessment of risks and uncertainties, as detailed above. This level of contingency has been taken into account when assessing the robustness of estimates and adequacy of reserves.

Sensitivity Analysis

3.5. The Council's budget is constructed using best estimates for both the levels and timing of spending, cashable savings and resources. Table 3 below gives an indication of the sensitivity of the overall budget to movements in the assumptions underpinning our budgets.

Table 3: Impact of changes in our assumptions

Variable Change	Cash Impact £'000	Impact on council tax %*
1 (person change in) Asylum seeking minor (with All Rights of Appeal Exhausted) seeking to attend University	25	0.00
1% change in numbers of Children Looked After (10) per year	514	0.09
10% increase in Unaccompanied Asylum Seekers (9 per year)	222	0.04
1% change in older people client numbers (24) in residential/nursing care per year	463	0.08
1% change in older people home care hours (16,867) per year	324	0.06
1% change in physical disability client numbers (1) in residential /nursing care per year	94	0.02
1% change in learning disability client numbers (9) in residential/nursing care per year	730	0.13
1% change in learning disability client numbers (10) in supported living per year	407	0.07
1% increase in waste management spending	446	0.08
10 extra precautionary salting service outings for bad weather	306	0.06
10% change in emergency repairs needed on the highway (category 1)	597	0.11
1% increase in operational fire and rescue response activities	225	0.04
1% change in pay inflation	2,450	0.45

Variable Change	Cash Impact £'000	Impact on council tax %*
1% change in standard/income price inflation	5,771	1.05
+1% change in interest rates on borrowing (additional cost)	506	0.09
+1% change in interest rates on investments (additional income)	530	0.10
-1% change in interest rates on borrowing (reduced cost)	259	0.05
-1% change in interest rates on investments (reduced income)	530	0.10
1% change in Business Rates Retention Scheme	1,422	0.26
1% change in other non-ringfenced grants	97	0.02
£1 million change in collection fund balance	1,000	0.18
1% change in Council Tax	5,492	1.00

* This is shown only to quantify the theoretical impact in the context of council tax. It does not presume that if there were any such movement that it would be passed on through increased council tax.

4. Reserves

4.1. In accordance with the Local Government Act 2003, the Chief Financial Officer must undertake a review of the robustness of the budget estimates and the adequacy of reserves.

(A) Robustness of Estimates

4.2. The Council's process for producing budget estimates involves senior managers and finance professionals in evaluating and costing all known changes, including pay and price levels, legislative changes, demands for services and policy developments, efficiency savings and service changes. The process includes consideration of risks and uncertainties associated with projections of future pay, prices, interest rates, and projected levels and timing of income and potential liabilities.

4.3. Estimates are reviewed by Cabinet Panels and by Overview & Scrutiny Committee, before the recommendation of the final budget by Cabinet for Council determination.

4.4. The Council's Financial Regulations require Chief Officers to ensure that net expenditure does not exceed the total of their service's approved budgets, i.e. budgets are cash limited. Budgets are monitored and reported to departmental management teams and Chief Officers on a monthly basis. In previous years, where overspends have been forecast, positive action has been taken to contain these and where necessary identify offsetting underspends, so that the year end position is within budget.

(B) Adequacy of Reserves

4.5. The Council retains several named reserves to respond to specific issues. These are projected to be £138.9m as at 31 March 2018 and £120.5m as at 31 March 2019. These specific reserves are described in Table 10 in Part G of the Integrated Plan, together with estimated opening and closing balances. A summary of this is shown below:

Reserves Summary	**Balance at 1 April 2017**	**Forecast Balance at 31 March 2018**	**Forecast Balance at 31 March 2019**
	£000s	**£000s**	**£000s**
Schools	(82,842)	(78,884)	(73,784)
Other reserves held for other parties	(10,402)	(8,296)	(6,047)
Earmarked	(35,470)	(41,384)	(40,232)
ITT	(21,070)	(17,462)	(13,958)
Balances - General Fund	(31,809)	(32,000)	(32,000)
	(181,594)	**(178,026)**	**(166,021)**

4.6. In reviewing reserves, the following should be noted:

- Over half are held on behalf other bodies and are not available for general Council use, including schools (£79m), the LEP (£7m);
- A further £39m are earmarked for specific purposes
- The invest to transform fund is used to support transformation, and some items in the IP assume further use
- Balances are held for emergency purposes, and once used are gone
- These reserves are reviewed at least annually as part of the IP Process: £1.2m has been identified as no longer required, and will be used to support the 2018/19 budget.

4.7. In assessing the adequacy of the Council's reserves, the robustness of the estimates, the identified risks and uncertainties and the level of the general contingency all need to be considered. The General Fund balance needs to provide cover for such areas as uninsured losses, litigation, business continuity failures, civil emergencies, failure of information systems, and economic risks.

4.8. The General Fund balance as at 1 April 2017 was £31.8m and the budget proposals for 2018/19 assume no further addition to, or use of, the General Fund. Last year a General Fund balance of 4.0% of the Net Revenue Budget was seen as adequate: for 2018/19, this would equate to £31.7m.

5. Capital Programme 2018/19 – 2021/22

5.1 A Capital Programme for 2017/18 to 2019/20 totalling £615.515m was approved by County Council in February 2017. This included £222.858m of capital expenditure in 2017/18.

All schemes in this programme have now been reviewed to confirm that the budget is still required for its original purpose and adjustments made for changes in external funding and cashflow profiles. The proposed 2018/19 – 2021/22 Capital Programme (table 4a) includes £62.587m re-programming to 2018/19 and future years identified in the 2017/18 quarter 2 Finance Monitor. Officers have reviewed Capital budgets for ongoing annual programmes. New and revised bids are presented in the portfolio reports.

The total Capital Programme for 2018/19 to 2021/22 expenditure is £819.883m, and is summarised by portfolio in table 4a below. This includes new bids and re-programming. A detailed breakdown of the Capital Schemes and their funding sources can be found in each Portfolio's Part B Future Service Direction document.

Table 4a: Capital Programme Expenditure 2018/19 to 2021/22 by Portfolio

	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m	Total £m
Adult Care & Health	20.998	29.931	13.645	11.498	**76.072**
Children's Services	0.372	0.180	0.180	0.180	**0.912**
Community Safety & Waste Management	12.032	5.255	8.803	4.463	**30.553**
Education, Libraries & Localism	68.867	80.580	44.803	37.131	**231.381**
Environment, Planning & Transport	21.090	31.770	21.552	2.975	**77.387**
Highways	84.394	110.378	94.728	65.843	**355.343**
Public Health, Prevention & Performance	0.725	-	-	-	**0.725**
Resources, Property & the Economy	35.546	6.326	2.859	2.779	**47.510**
Total	**244.024**	**264.420**	**186.570**	**124.869**	**819.883**

Funding of the Capital Programme

5.2 The financing of the Capital Programme 2018/19 to 2021/22 is shown in table 4b below:

Table 4b: Financing of the Capital Programme 2018/19 to 2021/22

	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m	Total £m
Borrowing	101.466	99.276	82.811	52.009	**335.562**
Capital Receipts	10.000	10.000	10.000	10.000	**40.000**
Grant	81.649	81.040	56.502	60.595	**279.786**
Contributions	48.148	72.029	36.132	1.890	**158.199**
Reserves	2.761	2.075	1.125	0.375	**6.336**
Total	**244.024**	**264.420**	**186.570**	**124.869**	**819.883**

The programme assumes the use of £129.797m of funding from grants and contributions in 2018/19 and a total of £437.985m across all years to 2021/22. This consists of unspent balances from previous years, known future grant allocations and, in some instances, estimated future grant allocations based on previous years. It includes proposed use of contributions, including developers' S106 contributions, Any shortfall in grant allocations will need to be financed through borrowing or a reduction in expenditure.

The Council is currently expecting to have no Capital Receipts unspent at end 2017/18. A number of sites have been identified for disposal over the IP period, with potential receipts in the order of £70m. These sites exclude those currently being held for potential development via Herts Living property company, to deliver a revenue stream and/or enhanced receipt in future years.

The exact timing of receipts is uncertain, largely because of the need to take most sites through the planning process before they are marketed. The proposed Capital Programme assumes a prudent £10m of capital receipts per annum to fund the general capital programme. This target will be reviewed as more information on the value and timing of receipts becomes available. If further receipts are achieved, they may be applied to spending at end 2018/19: this will be reported in the Q4 Finance Monitor. To the extent that receipts are not available, it is proposed to use reserves set aside for capital financing and investment to fund capital spend.

Some spend is often required in order to prepare sites for disposal and achieve optimal receipts: the Spend to Achieve Capital Receipts reserve is used for this purpose. Based on forecast spend in 2018/19, it is proposed to use up to £3.8m of receipts received in year to top up this reserve. The level will be kept under review in future IP's.

The Capital Programme requires new borrowing in 2018/19-2021/22 of £101.466m in 2018/19, £99.276m in 2019/20, £82.811m in 2020/21 and £52.009m in 2021/22. The 2018/19 borrowing has increased from the £71.463m in the IP approved in February 2017 due to re-profiling of cashflows from 2017/18, and the addition of new schemes. Any increase in borrowing places additional revenue pressures on the Council in terms of interest on borrowing and the statutory requirement to put funds aside to repay the borrowing, which is profiled across the life of the asset. For example, £1m of capital expenditure on a 20 year life asset funded by borrowing equates to a revenue pressure of approximately £0.075m per annum.