Agenda Item No.: 7

# Commercial and Investment Committee Review of Draft Revenue and Capital Business Planning Proposals for 2021-2026

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| To: | Commercial and Investment committee |
| Meeting Date: | 18 December 2020 |
| From: | Amanda Askham: Director of Improvement and Development<br>Chris Malyon: Chief Finance Officer |
| Electoral division(s): | All |
| Forward Plan ref: | Not applicable |
| Key decision: | No |
| Outcome: | The committee is asked to consider:<br>a) the current business planning position and estimates for 2021-2026<br>b) the impact of COVID-19 on the 2021-22 financial position<br>c) the principal risks, contingencies and implications facing the Committee and the Council's resources |
| Recommendation: | Committee is asked to:<br><br>a) Note the progress made to date and next steps required to develop the business plan for 2021-2026<br>b) Note the impact of COVID-19 on the Council's financial planning<br>c) Endorse the budget and savings proposals that are within the remit of the Committee as part of consideration of the Council's overall Business Plan<br>d) Endorse the changes to the capital programme that are within the remit of the Committee as part of consideration of the Council's overall Business Plan |

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## 1. Purpose and Background

1.1 The Council's Business Plan sets out how we will spend the resources we have at our disposal to achieve our vision and priorities for Cambridgeshire, and the outcomes we want for people. This paper provides an overview of the updates to the Council's financial position since October 2020 when Committees were last consulted on the draft Business Plan for 2021-26. The paper sets out the changes to key assumptions impacting financial forecasts, further risks and opportunities and next steps required to balance the budget and agree the Council's Business Plan for 2021-26.

1.2 The paper also seeks to highlight the environment within which the Business Plan has been developed this year, the added complexity that developing the business plan whilst in the middle of a world-wide pandemic brings, and the challenges that being a relatively low spend but effective organisation has on the opportunities to reduce costs further to address the financial challenges caused by COVID-19.

1.3 Whilst the impact of COVID-19 is being felt by all councils across Cambridgeshire, this comes on the back of many years of under-funding compared to other councils. As one of the fastest growing counties in the country, Cambridgeshire has been managing disproportionate increases in demand over many years which have not been reflected in the revenue grant system. The Council highlighted this issue during its 'fairer funding campaign' but due to numerous issues the comprehensive review of local authority funding has not yet occurred.

1.4 This report builds on the information provided to this Committee during October and sets out the latest financial position regarding the Business Plan for the period 2021-26. As the Committee will recall a number of scenarios were developed to model the potential longer term implications of the world-wide pandemic on the resources of the County Council.

1.5 During the last couple of months officers have been refining the projections based on updated data and knowledge of further Government funding of certain activity, which it would not be unreasonable to assume would continue if required in 2021-22. We have therefore moved from a range of scenarios to a single budget position. This still contains a number of assumptions and these will continue to be developed over the next couple of months before the Business Plan is considered by Council in February of next year.

1.6 The LGA has said that an additional £10.1 billion is needed by 2023-24 to help councils in England plug funding gaps and improve services. Cllr James Jamieson, LGA Chairman, said the Spending Review would "shape the direction of the country for years to come" and that "securing the immediate and long-term sustainability of local services must be the top priority". Cllr Jamieson added: "With the right funding and freedoms, councils can improve the lives of their residents, address the stark inequalities the pandemic has exposed, develop a green recovery, address skills gaps and rebuild the economy so that it benefits everyone."

1.7 We have been grateful for the financial support provided by the Government to date, but it is not enough to meet the additional demands on our services in the long term. We are making strong representations to the government, working closely with our local MPs, about additional support we believe is necessary. However, the Council's Business Plan must make recommendations for balancing the budget in the event that this support does not fully cover the cost of the crisis.

## 2. Context

2.1 In February of this year the Council set a balanced budget for the current financial year with no use of reserves to support the delivery of base services. It also made provision for further investment in transformation interventions. At that point the Council was in a very robust financial position to manage future year challenges with only a £4.2m 'budget gap' for 2021-22. This was much less than in previous budget setting processes and was predicated on a 2% council tax rise through levying the Adult Social Care precept (every 1% increase in council tax generates and additional £3m).

2.2 The following paragraphs provide some context to demonstrate that the Council has managed growth effectively within the constraints of a grant system that doesn't fully recognise the implications for public services that are generated from that growth.

### 2.2.1 Fairer Funding

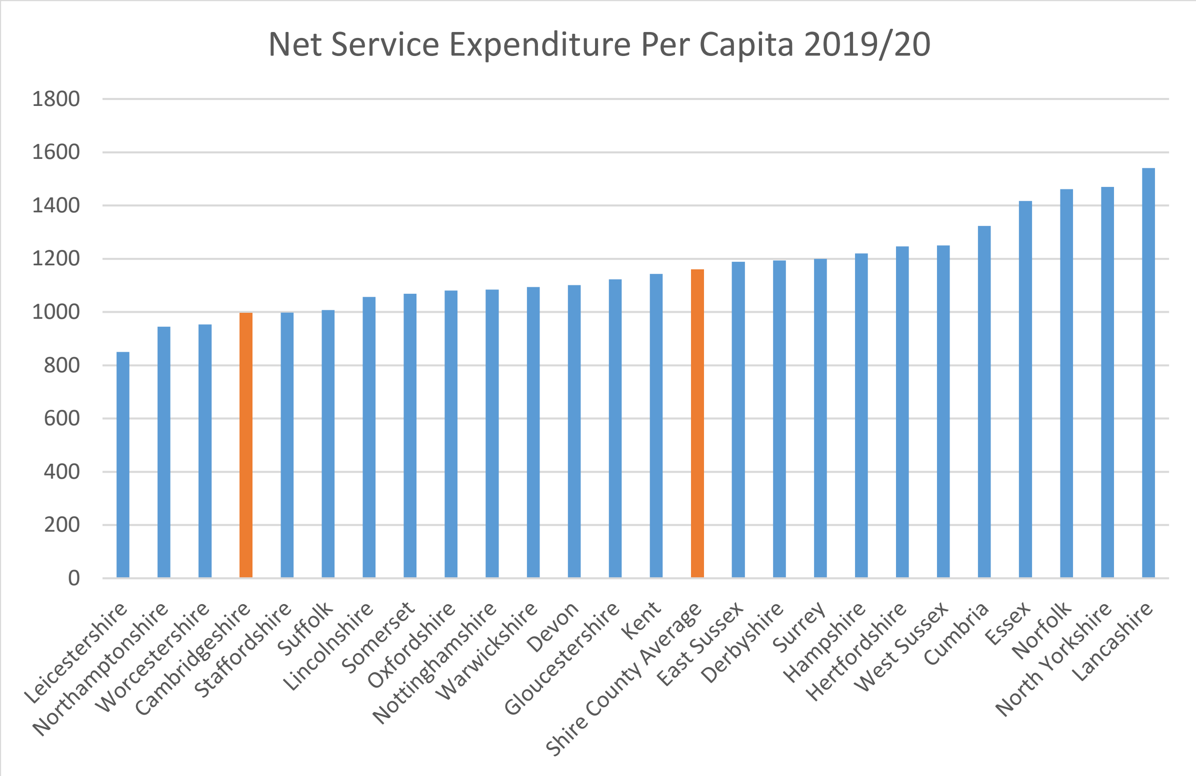
Given the level of growth that Cambridgeshire has supported over many years, the Council has been fighting for a fairer deal for its residents since 2017. Over the last three years, we have engaged MPs at both a local and national level on many occasions setting out the issues facing the Council on the back of its economic success.

In our various submissions on the issue of fairer funding, the Council has highlighted the inequality in Government support across, and within, the various tiers and structures of local government. The following table is an extract from one submission which illustrates this inequality:

| 2018/2019 | RSG per capita (Revenue Support Grant) |
|---|---|
| CCC | £6.01 |
| Shire County average | £25.52 |
| London Borough average | £88.13 |

### 2.2.2 Benchmarking

Whilst delivering excellent outcomes for its residents, Cambridgeshire does so from a comparatively low level of expenditure. Due to the inequalities in the finance system, the Cambridgeshire pound has had to work harder than it may be required to in other councils. From publicly available information a chart that summarises the Council's net service expenditure in 2019-20 per capita with that of other county councils shows the stark difference below.




We constantly look at ways in which we can reduce the cost to serve, invest in preventative interventions, and derive additional incomes in order to re-invest or maintain key front-line services.

## 2.2.3 Transformation

The Council has been able to sustain the delivery of key services during a period of reduced funding and increasing demand to a large extent by its approach to transformation, commercialisation and innovation. In 2016 the Council invested heavily in an ambitious transformation agenda for Cambridgeshire citizens. Investment in a number of cross-organisational change programmes through a dedicated team and fund has delivered significant financial and social returns. Over £100m has been saved over the last four years including £25m being saved as a direct result of investments made through the Transformation Fund.

We have a broad portfolio of examples to draw from which demonstrate our ability to drive efficiencies and productivity for example; Our Adults Positive Challenge programme has realised £3m of savings and increased the independence of our citizens and reduced the longer-term cost across the health and social care system. The introduction of new technology which integrates critical aspects of the Adult Social Care case management system has improved the productivity of front-line workers. The rationalisation of the Council's buildings portfolio and workforce cultural change programme has seen the workforce adopt new agile ways of working increasing productivity and ensuring that the right services can be accessed at the right time.

To date the Council has not taken all of the upside created from the change to its Minimum Revenue Provision (MRP) Policy into revenue and, unlike most other councils, has set this aside in order to provide pump priming funding for the Transformation Programme. Having focused on major opportunities first, the level of returns against the internal investments are now beginning to reduce. Given both the scale of the unallocated fund and the current pipeline of activity, the Council will need to review both the current policy on MRP and the level of the balance held on the Transformation Fund as part of this budget process.

### 2.2.4 Commercialisation

To further mitigate against the financial challenges that it has faced over the last decade, the Council has adopted a more commercial approach to everything that it does.

This approach has included the establishment of a wholly owned housing development company to which the council has sold, at market value, land holdings of nearly £100m so that these sites could be developed. In order for the Company to fund the acquisition, and its operating costs, loans at rates in compliance with state aid rules have been made. This provides a net revenue stream to the Council.

In addition, the Council has used the capital receipts generated by the Company to create a diverse commercial investment portfolio. Until the pandemic these investments were performing well and delivering returns to support frontline services. The net revenue income budget from the portfolio for the 2020-21 financial year was in the region of £5m.

The Council has also used its land holdings to create a solar farm. The Triangle Solar Farm has benefitted from Government's "Contracts for Difference" scheme, allowing it to generate a healthy and reliable revenue stream whilst also supporting the council in delivering its vision of net zero carbon emissions for Cambridgeshire by 2050.

The commercial approach adopted has contributed significantly to supporting vital services for our residents rather than serving as an end in itself, and as a consequence these new revenue streams are returning in excess of £10m per annum for frontline services delivered to Cambridgeshire residents.

2.3 The paragraphs above are a reminder of the steps the Council has taken to focus on positive outcomes, protect frontline services and set the foundations for the difficult decisions that lie ahead. Having already taken the actions that it has, the Council has very little room left for addressing the budget gap for 21-22. Officers will, of course, continue to work diligently to reduce the gap further but it must be accepted that unless significant resources are forthcoming from the Government as part of the 21-22 financial settlement some very difficult decisions will be required.

## 3. Business Planning Approach

3.1 As noted in section 2.1, in February 2020 the Council approved a balanced budget for 2020-21 and the Business Plan reflected a strong financial position with a small and achievable gap forecast for 2021-22.

3.2 However, by May 2020, a time when the Council would normally begin the process of preparing budget proposals for 2021-22, the nation had been in lockdown for two months in an attempt to stop the spread of the coronavirus. Recognised as both an economic and health emergency, the pandemic placed the Council in the challenging position of having to mobilise resources to provide immediate support to the citizens of Cambridgeshire whilst also trying to predict and mitigate the medium and longer term impacts.

3.3 At that time there was significant uncertainty across the nation as to the true impact of the pandemic. Whilst national support packages were being mobilised e.g. the furlough scheme and support to businesses, it was unclear as to how (and when) these schemes would be in place and whether they would be enough to avoid an economic collapse. Further, the creation of the national Nightingale hospitals reflected the concern that the health service would be overwhelmed and there were projections of significant deaths across all regions.

3.4 Within this context, it was clear that the usual approach the Council takes to business planning would need to be adapted in order to reflect uncertainty around the economic and health impacts and how this might affect demand for Council services. In response, the Council designed a new approach which was based on carefully crafting three scenarios which modelled the possible impact of a number of inter-dependent factors on both the demand for our services and the impact on our ability to generate income.

3.5 The purpose of the scenarios was discussed at General Purposes Committee in June 2020; we outlined that the scenarios would not provide financial projections but would provide us with a framework which we could use to track the trajectory of the impact of COVID-19. This was welcomed by service areas as it enabled them to develop mitigations and contingency plans and has also helped them to cast forward to think about growth opportunities and areas for development as part of their recovery process.

3.6 Over the summer the scenarios were used to support services to develop a possible financial trajectory which highlighted that the budget gap for 2021-22 could be between £33m - £82m and this was reported within the Committee papers presented in October. This wide range reflected how significantly the financial impacts might vary between the best and worst case scenarios, how quickly the financial impacts might escalate without strong and immediate recovery plans, and how difficult it has been, both nationally and locally, to predict the rate of infections and corresponding effects on society. This process of planning against scenarios started the process of quantifying the potential impacts on our service areas as well as highlighting possible areas of mitigation.

3.7 Over the last two months we have undertaken a significant amount of activity to analyse emerging trends, actual demand increases and emerging impacts on society and the economy. We are beginning to narrow the range of the predicted budget gap and this activity has resulted in;

- **Improved demand predictions** – additional data is now available which has allowed us to base our demand projections on trends observed in 2020-21 rather than projecting impacts based largely on historic data. This has allowed us to reduce the anticipated demand pressure in Older People's services by £1m for 2021-2022.
- **Deeper impact analysis** – all service areas have been able to develop a deeper assessment of the impact of COVID-19 in their areas based on actual data and observations and have used this to ensure that any areas of higher spend have been identified and reviewed
- **Increased market engagement / supply chain management** – we have worked with our supply chain to better understand and anticipate future costs and provisions required to ensure the sustainability of our operations
- **National support** – although there are areas which remain uncertain, we have seen the impact of exiting initiatives, as well as the benefits of direct financial support. We are therefore in a better position to predict the impact of future national initiatives within Cambridgeshire.
- **Successful Local Outbreak Control Plan** – in recognition that all public services in Cambridgeshire, alongside citizens, have worked hard to keep infection / transmission rates low compared to the national figures, prior to the second national lockdown we remained in Tier 1. This meant that Cambridgeshire did not have additional restrictions placed on it.

3.8 This work has allowed us to build more accurate data sets to inform our recovery planning and to narrow the range of forecast financial pressures in most services. Based on this information, and the current savings proposals identified, the current trajectory leads to a budget gap for 2021-2022 of around £21m.

## 4. Financial Overview

4.1 The table below provides a summary of the various material (greater than £100k) changes since October in the overall business planning position for 2021-22. It reflects the continuing challenge of increasing costs for goods and services as a result of the pandemic and further shortfalls in planned savings, however significant progress has been made towards closing the budget gap through a combination of the following (see also Section 4.5 below):

- Further scrutiny of demand pressures and anticipated funding for new burdens as a result of COVID-19;
- New savings proposals
- Accumulated growth in the Council's tax base and compensatory grants from Government for business rates reliefs granted in previous years

| Description | 2021-22 £'000 | 2022-23 £'000 | 2023-24 £'000 | 2024-25 £'000 | 2025-26 £'000 |
|---|---|---|---|---|---|
| **Remaining Unidentified Savings at October Committees** | **32,796** | **7,190** | **12,185** | **13,490** | **9,990** |
| Increase in inflationary uplift for Highways Services | 1,214 | 659 | 17 | -140 | -159 |
| Adults Social Care Providers inflationary uplift | 970 | -970 | - | - | - |
| New pressures and reduced or rephased savings (see section 4.2 for breakdown) | 886 | -205 | -829 | -250 | - |
| Updated debt charges for Energy schemes | - | 883 | -372 | -305 | -23 |
| Base funding for Transformation Team and redundancy costs as capital receipt flexibilities not confirmed post-2021-22 | - | 2,482 | - | - | - |
| Miscellaneous financing adjustments | 172 | -110 | 61 | 21 | 28 |
| **SUBTOTAL New Pressures** | **36,038** | **9,929** | **11,062** | **12,816** | **9,836** |
| Adult Social Care Market Resilience investment removed [1] | -4,000 | - | - | - | - |
| Demand pressure for Older People's Services reduced | -1,088 | -1,078 | -1,179 | -1,220 | -1,098 |
| Personal Protective Equipment (PPE) pressure removed [2] | -1,000 | - | - | - | - |
| Dedicated Schools Grant Contribution to Combined Budgets pressure rephased | -1,000 | 750 | 250 | - | - |
| Demand risk in social care investment reduced | -1,300 | - | - | - | - |
| Miscellaneous reduced and rephased pressures <£100k | -243 | 509 | 30 | - | - |
| **SUBTOTAL Reduced and Rephased Pressures** | **27,407** | **10,110** | **10,163** | **11,596** | **8,738** |
| New savings proposals (see section 4.3 for breakdown) | -3,563 | -2,379 | -544 | -161 | -290 |
| Historic increases in Council tax base and Section 31 grant income | -3,020 | 372 | 53 | 184 | - |
| **Revised budget gap per December committees** | **20,824** | **8,103** | **9,672** | **11,619** | **8,448** |

[1] Funding for infection control measures in care homes; Government grant funding has now been confirmed until March 2021 and we are assuming that Government will continue to fund thereafter if required

[2] The October draft budget included a £1m PPE pressure however the Government has since agreed to fund PPE for local authorities

4.2 The following table provides a detailed breakdown of the new pressures and reduced or rephased savings.

| New pressures and reduced or rephased savings | 2021-22 £'000 | 2022-23 £'000 | 2023-24 £'000 | 2024-25 £'000 | 2025-26 £'000 |
|---|---|---|---|---|---|
| Family Group Conferencing Investment | - | 250 | - | - | - |
| Reduced saving: Learning Disabilities Commissioning | 150 | - | - | - | - |
| Rephased saving: Review of commissioning approaches for accommodation-based care | 175 | -175 | - | - | - |
| Removed saving: Revised commissioning approach for interim bed provision | 150 | - | - | - | - |
| IT Microsoft Enterprise Agreement pressure | 302 | - | - | - | - |
| Rephased saving: COVID-19 Impact - Commercial Income and Contract Efficiencies | 109 | -280 | -829 | -250 | - |

4.3 The following tables provides a detailed breakdown of the new savings proposals.

| New savings | 2021-22 | 2022-23 | 2023-24 | 2024-25 | 2025-26 |
|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | £'000 |
| Client Contributions Policy Changes (approved as part of 2020-25 Business Plan) | -562 | -164 | - | - | - |
| Adult Social Care Transport | -250 | - | - | - | - |
| Additional vacancy factor | -150 | - | - | - | - |
| Micro-enterprises Support | -30 | -133 | - | - | - |
| Additional Block Beds inflation saving | -270 | 270 | | | |
| Learning Disability Partnership Pooled Budget Rebaselining | - | -2,574 | - | - | - |
| Review of commissioning approaches for accommodation based care | - | - | -375 | - | - |
| Unaccompanied Asylum Seeking Young People: support costs | -300 | - | - | - | - |
| Adoption and Special Guardianship Order Allowances | -500 | - | - | - | - |
| Clinical Services: Children and Young People | -250 | - | - | - | - |
| Transport - Children in Care | -300 | - | - | - | - |
| Communities and Partnerships Review | -200 | - | - | - | - |
| **SUBTOTAL P&C savings** | **-2,812** | **-2,601** | **-375** | **-** | **-** |
| Review Winter Operations | -17 | - | - | - | - |
| Highways: Removal of old VAS signs | -4 | - | - | - | - |
| **SUBTOTAL P&E savings** | **-21** | **-** | **-** | **-** | **-** |
| Reduction in staff mileage | -564 | 378 | - | - | - |
| **SUBTOTAL Corporate savings** | **-564** | **378** | **-** | **-** | **-** |
| Commercial property rental increases | -166 | -156 | -169 | -161 | -290 |
| **SUBTOTAL Commercial savings** | **-166** | **-156** | **-169** | **-161** | **-290** |

4.4 As a result of the updates above, the savings requirement for 2021-22 has been reduced by £12m from £32.8m as at October Committees to £20.8m. The following table shows the total level of savings required for each of the next five years:

| | 2021-22 £'000 | 2022-23 £'000 | 2023-24 £'000 | 2024-25 £'000 | 2025-26 £'000 |
|---|---|---|---|---|---|
| Total Saving Requirement | 22,711 | 19,123 | 14,480 | 12,852 | 8,863 |
| Identified Savings | -1,887 | -3,938 | -528 | - | - |
| Identified additional Income Generation | - | -7,082 | -4,280 | -1,233 | -415 |
| **Residual Savings to be identified** | **20,824** | **8,103** | **9,672** | **11,619** | **8,448** |

4.5 Against this uncertain backdrop, we are continuing to explore every opportunity to identify savings, efficiencies, and income to reduce the gap and to date we have;

- Campaigned for additional resources through MHCLG (Ministry of Housing, Communities and Local Government) and other channels.

- Reviewed all the existing proposals to identify any which could be enhanced to deliver further savings - in particular those where additional investment could unlock additional benefits.

- Reviewed income generation opportunities in light of the current economic context.

- Identified, through benchmarking, any areas across the organisation we could potentially look to find additional efficiencies whilst ensuring outcomes are maintained.

- Reviewed the full list of in-year and 2021-22 pressures to see if there are any opportunities to prevent assumed increases in demand being realised.

4.6 Whilst the actions taken to date have been successful in reducing the budget gap, the opportunities to generate additional savings proposals without significantly impacting the delivery of services are reducing in both number and scale. The following funding options remain available to the Council to contribute towards closing the gap for 2021-22 and beyond:

| Item | Implications |
|---|---|
| Council Tax Level | Each 1% further increase in Council Tax would generate around £3m in recurrent additional funding |
| MRP policy upside | There is at least £2m available per annum in revenue savings until 2025, and higher amounts in the earlier years of the MTFS (Medium Term Financial Strategy). However the amount diminishes below £2m in 2026, meaning that the budget gap would increase thereafter. |
| Transformation Fund | Presently there is £23m unallocated in the Transformation Fund, after future commitments. Any usage of the fund is one-off, and will have an impact in future years in terms of the recurrent savings gap |
| General Fund | This balance is held at 3% of gross expenditure, and cannot be reduced in compliance with that policy. Therefore any reduction would be a last resort and indicative that the Council was in severe financial difficulties. |
| Service reductions | A reduction of non-statutory services could result in longer term financial implications to the Council as avoidable demand rises as well as reduced positive outcomes for our citizens. |

4.7 Whilst work will continue to identify savings, the focus of activity over the next three months will be on lobbying across all available channels to request, not only financial support, but other flexibilities (for example a more flexible use of capital receipts) to allow us to present a balanced budget. Should additional support not be forthcoming and in consideration of the assumptions / risks presented in Section 5 below, we would need to consider the use of the above options in order to maintain our current levels of service delivery.

## 5. Assumptions and Risks

5.1 In the business planning tables the level of savings required is based on a 2% increase in Council Tax in 2021-22, through levying the Adult Social Care precept. The Council's Medium Term Financial Strategy assumes 2% increases in the Adult Social Care precept from 2021-22 onwards, however there has been no confirmation as yet that the precept will be available beyond 2020-21. For each 1% more or less that Council Tax is changed, the level of savings required will change by approximately +/-£3.0m. Government has not yet confirmed the level of the Council tax referendum threshold for 2021-22. Local Authorities were permitted to increase general Council Tax by a maximum of 2.99% in 2018-19 and 2019-20 and 1.99% in 2020-21 without the requirement for approval from residents through a positive vote in a local referendum.

5.2 There are also a number of risks which are not included in the numbers above, or accompanying tables which are likely to impact on the residual savings gap and these are set out below. These will be incorporated (as required) as the Business Plan is developed and the impact / figures can be confirmed:

- National restrictions – the second national lockdown began on the 5 November 2020 and ended on 2 December 2020. Although not as severe as the first, the restrictions have presented further challenges impacting on both the economic and social welfare of the County. Government support packages, including the re-instatement of the furlough scheme have been welcomed and continue to mitigate the short term financial consequences of the pandemic. However, we are still working to understanding the longer term impacts both for council services and the wider Cambridgeshire economy.

- National Tiers – Following the end of the national restrictions the government reverted to the national tier system. The restrictions in each Tier were reviewed strengthened. Cambridgeshire was placed in Tier 2 (High) which is the lowest tier for most of the country with only two areas of England lower (Cornwall and the Scilly Islands, and the Isle of White). This is likely to create a further impact within the County.

- Government support – Government announced the results of a one-year Spending Review for 2021-22 on 25 November. The spending review sets out the Departmental Expenditure Limit for MHCLG and provides an indication of the available uplift in funding for the Local Government Finance Settlement which is expected on 17 December. Our financial plans currently assume a prudent cash flat position with no inflationary uplifts. There is also considerable uncertainty surrounding the funding formula that may be used to distribute the additional COVID-19 funding announced; in 2020-21 the Government has moved from a social care-based formula to a deprivation-based approach which is less favourable for Shire Counties.

- Winter pressures – all public services face particular challenges over the winter months as demand for services increases significantly. Whilst plans and projections are built into current forecasting this will be the first winter faced within the context of the pandemic.

- EU Exit – the end of the transition period on 31 December 2020 will mean new rules coming into force from 1 January 2021. Preparations continue both at a national and local level to minimise the implications of this change, however, there could be significant implications across areas of business and our citizens which could mean that additional costs are incurred or challenges to our delivery of services increased e.g. the ability to attract workers for critical roles.

- The Council is currently reporting current year pressures in excess of £18m, due principally to the impacts of the pandemic. Work is ongoing to manage these pressures downwards; however any change to the outturn position will impact the Council's reserves position and therefore the savings requirement for 2021-22.

- Public sector pay award – the business plan includes an inflationary provision of 2.75% for staff on nationally negotiated pay settlements for 2021-22, reflecting the 2020-21 pay award. This funding will be reviewed following an announcement of a public sector pay freeze by the chancellor in the Spending Review in response to the economic fallout from the coronavirus pandemic.

- The Council has applied to MHCLG to extend the business rates pooling arrangement implemented for 2020-21 in partnership with Peterborough City Council and several of the Cambridgeshire District Authorities. Although the pandemic has resulted in considerable pressure on business rates income, the pooling arrangement is still expected to benefit the Council, however the extent of this benefit is as yet unclear. Furthermore, Government has committed to a "fundamental review" of the business rates system following a call for evidence in July 2020, the results of which will be announced at the 2021 spring budget. It is possible that the funding model for local government could be significantly impacted by these reforms with potential implications for the proposed 75% business rates retention scheme expected to take effect from 2022-23.

## 6. Capital Programme Update

6.1 The draft capital programme was reviewed individually by service committees in October and was subsequently reviewed in its entirety, along with the prioritisation of schemes, by GPC in November. As a result further work was required on a handful of schemes, as well as further work ongoing to revise and update the programme in light of continuing review by the Capital Programme Board, changes to overall funding, updates in response to the COVID-19 situation, or to specific circumstances surrounding individual schemes.

6.2 The Council is still awaiting funding announcements regarding various capital grants, plus the ongoing nature of the capital programme inevitably means that circumstances are continually changing. Therefore Services will continue to make any necessary updates in the lead up to the January GPC meeting at which the Business Plan is considered.

## 7. Overview of Commercial and Investment Draft Revenue Programme

7.1 The Council is continuing to operate within a new context of a global pandemic, which has added considerable financial pressure to the local authority. The impact of COVID-19 on commercial income generation and activity nationally has been significant. However, due to the diverse nature of our portfolio the impact for Cambridgeshire continues to be lower than experienced by many other authorities with commercial income strategies.

Since the update to Committee in October, we have entered into a further lockdown and will be entering Tier 2 restrictions during December 2020. This will continue to have a very direct impact on businesses and employment opportunities within our local region.

In recent days the Spending Review has been announced and linked decisions with regards to access and use of Public Works Loan Board funding are now understood. Councils will no longer be able to access PWLB loan funding for any schemes in their capital programme if there are intentions to invest in commercial activity primarily for yield purposes within the following 3 years.

### 7.2 Property

Due to the local nature and diverse sectors of our commercial property tenants, our portfolio remains stable with only our investments in Cromwell Leisure Park and Brunswick House anticipating a shortfall in our targeted income expectations. Indeed since the last update to Committee, the expected loss of income has reduced as a result of a settlement being secured for tenants that are no longer operating and robust actions taken to receive outstanding payments. The remainder of our commercial property portfolios have navigated through the challenges of the pandemic to date, through the provision of rental deferrals and strong tenant relationship management.

Strategies are in place to bring income back to pre-COVID 19 levels as quickly as possible, however much of the success of these approaches will be reliant on the strength and speed that the economy, and specifically the leisure industry, recovers.

The Cambs 2020 programme has been impacted by contractor delays and unforeseen unavailability due to the impact of COVID-19. A delay to the new Hub is resulting in associated additional costs of up to £400k; this increase is reflected in the capital expenditure forecasts of the scheme.

### 7.3 Economic Recovery

A significant part of the activity in 2021-22 will be to support Cambridgeshire's businesses and communities in its economic recovery. Once again we are meeting with our system partners regularly and using a range of intelligence, including the detailed 'Impact of COVID-19 Needs Assessment' report, to focus support in the new year. This will focus on the interventions and support to help address economic hardship and enable our communities to be work ready and productive.

Further, our system partners alongside us are updating their economic and recovery strategies and priorities so that a full responsive recovery approach can be gained for our businesses and communities. This will include influencing key areas such as the Industrial Strategy and building in approaches to enable a green economic recovery.

## 7.4 Energy

The programme of Energy investment continues in the next business planning period. The current Contract for Difference arrangement we have in operation has withstood the COVID-19 and economic challenge very well indeed with no adverse financial impact expected. Other schemes have or are in the process of receiving planning applications and thorough sensitivity analyses of the underlying financial models are being reviewed in light of the further impact of COVID-19, potential tariffs post Brexit and recent Spending Review announcement re use of loans.

Future investment business cases and potential projects will be assessed via a new Energy Masterplan with a commercial framework to ensure standards are known and met from the outset.

## 7.5 Procurement

Identifying efficiencies in contract management and procurement has been challenging given the impact of COVID-19 on supply chains. We have had to use the powers available to us to ensure we protect our supplier base and the quality of service to end users, including giving support to suppliers (particularly those in adult social care) and other contractual relief as appropriate. This work will continue to be a key part of activity going forward and there are a number of measures being put in place so services have the right tools, expertise and governance to ensure we can successfully navigate through these challenging periods (such as a more strategic approach to procurement allocations, improved governance boards etc.).

The repatriation of the LGSS Procurement Team will help guide and shape the approach we need to manage, shape and interact with our markets in this next period.

## 7.6 Commercial investments

Looking forward into 2021-22 we will be continuing to ensure that strategies we have in place to protect and maximise possible income are successful, and that we adapt to the needs of our tenants as the impact of the pandemic shifts.

The current situation is being reflected in the volatility with the financial markets. We will continue to explore how we can make better use of the cash available to us, ensuring that any future investments complement our existing portfolio and deliver attractive returns with an acceptable risk budget. An active review of a potential investment with a potential strong renewables focus is underway to maximise use of our Treasury Management funds.

However, with the recent announced restrictions on use of PWLB funds, the previous assumptions of access to capital receipts to fund further investments in the latter years of this business planning period are being revisited. Not having access to borrowing or capital receipts will severely restrict the delivery of targeted returns from 2023 onwards. A refresh of the Commercial Strategy is underway to provide clarity on the target areas and the returns and savings able to be delivered.

7.7 The pandemic has had a significant impact on the delivery of savings and additional income planned for 2020-21. In many cases, the necessary work to deliver those savings can continue in the second half of the year or into 2021-22. In some cases, however, the planned saving, or additional income, will take longer to recover. For C&I Committee, the savings/income that need to be temporary or permanently reversed, fully or in part, are:

| SAVINGS AREA | DESCRIPTION | AMOUNT<br><br>2021-22 |
|---|---|---|
| Cromwell Leisure (F/R.7.133) | Cromwell Leisure consists of a cinema unit and three restaurant units. This scenario forecasts that the cinema rent will be covered by a contractual condition until May 2021, by which point the cinema will be re-open and paying rent.<br>Of the three restaurant units, one is occupied and expected to be able to return to paying rent in 2021-22. Two units are expected to remain empty during the first half of 2021-22, and will be marketed by Carter Jonas for occupation during 2021-22 with a typical six month rent free period. However one of these units will be funded from the recently confirmed guaranteed payment from a tenant’s Company Voluntary Agreement; the payment to be received guarantees funds for this unit to mid-2023-24. Therefore the shortfall predicted is based on one empty unit. This *may* be improved if we are successful in finding tenants earlier in the 2021-22 year. | £124k<br><br>(no permanent reduction) |
| Income from County Farms (F/R.7.134) | An additional income target from the County Farms Estate was included in the 2020-21 Business Plan:<br>- £250k for 2021-22<br>- £175k for 2022-23.<br>Specifically, this was to identify buildings for development which could be let at a higher value. This scenario forecasts a reduction in income from any new investments (50% of the year 1 and year 2 original targets, a partial recovery in year 3 and full | £205k<br><br>(no permanent reduction) |

| | | |
|---|---|---|
| | recovery in year 4) and a small decline (£80k) in existing income in years 1 and 2, due to COVID-19. | |
| Pooled Property Fund Investment (F/R.7.135) | The Pooled Property Fund Investment (CCLA) is expected to start recovery in late 2020-21, but with the risk of further challenges ahead a forecast of 5% income reduction on the £420k originally budgeted is likely in 2021-22. | £21k<br><br>(no permanent reduction) |
| Multi-Class Credit (F/R.7.136) | The impact of a stronger than expected recovery since COVID-19 on fund assets, and the Council's requirements for a high level of Environment, Social and Governance (ESG) criteria, have resulted in updated forecasts for this asset with an overall reduction in the value of the returns from 5.7% to 2.9%. This creates a permanent shortfall to the original annual target of £560k. As this investment progresses and matures during the business planning period, re-calculations of the capital appreciation will take place with relevant recommendations for usage. | £560k<br><br>(£560k permanent reduction) |
| Brunswick House (F/R.7.137) | Brunswick House has 251 direct let student beds. At present bookings for the current academic year have reached 185, i.e. 74%, and are sustaining. Given the current teaching methods proposed this is slightly better than we might have expected. In order to make our offer more attractive we have had to offer more inducements this year than in previous years – this includes offering more short term/flexible rental terms. Not unsurprisingly there has been a drop in international student numbers but we are expecting these to return for the 2022-23 academic year with occupancy on site returning to somewhere close to 100%. However, it is likely that a more flexible approach will be required in order to ensure occupancy levels return and therefore a permanent reduction of £235k is proposed over the life of the business plan. | £423k<br><br>(£235k reduction for life of business plan) |
| Commercial Income and Contract Efficiencies (F/R.7.138) | Additional income of £758k for year 1, a further £500k for year 2, and a further £750k for each of years 3 and 4 is expected across the Commercial Portfolio (£2.758m in total on a recurrent basis by year five of this business planning period).<br><br>The current adopted scenario forecasts that there is a delay in achieving the 2021-22 target and it is likely to not be met until 2022-23, assuming an investment is approved in 2021. This has a further impact in 2022-23 with consideration that only 50% of the 2022-23 target will be met.<br>Thereafter in the latter years of the plan it is prudent | £758k<br><br>(no permanent reduction) |

| | | |
|---|---|---|
| | to forecast the targets can be achieved, although with constraints placed upon available funds for investment, alternate commercial delivery will be required as part of the refreshed Commercial Strategy. The approval of a refreshed strategy and therefore revised targets will occur in early 2021.<br><br>Some active analysis is ongoing to ascertain whether the targeted investment to further diversify can occur as early as possible in the 2021-22 financial year (with action being taken in 2020-21) to have a further positive impact on the income targets in order to reduce the forecast reduction more quickly. | |

7.8 Income Reduction Profile (cumulative):

| C&I Impairment Profile | 2021-22 £'000 | 2022-23 £'000 | 2023-24 £'000 | 2024-25 £'000 | 2025-26 £'000 |
|---|---|---|---|---|---|
| Cromwell Leisure | £124 | -£124 | - | - | - |
| Income from County Farms | £205 | £87 | -£117 | -£175 | - |
| Pooled Property Fund Investment | £21 | -£21 | - | - | - |
| Multi-Class Credit | £560 | - | - | - | - |
| Brunswick House | £423 | -£208 | £7 | £7 | £6 |
| Commercial Income | £758 | -£129 | -£629 | - | - |
| **Total Impairments** | **£2,091** | **-£395** | **-£739** | **-£168** | **£6** |

7.9 Looking Forward

Much of the work between now and throughout 2021-22 will be to continue to focus on protecting income levels and putting in place strategies and activities that will bring income levels back to expected levels and beyond as quickly as possible. Whilst these activities will be undertaken using the best level of intelligence available to us, much of the ability to recover lost income will be dependent on the speed and strength of the economic recovery. This is why supporting the economic recovery in Cambridgeshire will be a focus of our work going forward, not just to allow for our commercial investments to recover, but to ensure our business, suppliers and residents thrive once again.

7.10 As detailed in the above tables, the base budget for 2021-22 is proposing a reduction in the additional income target across the commercial strategy. The constraints placed upon available funds means the ability to invest and receive commercial returns from those investments are at risk. Analysis and reviews are continuing to identify other income and saving opportunities including the aforementioned potential further Treasury Management investment. Analysis for further investment of the original planned available capital receipts is being developed so that a shelf-ready option is deliverable should capital receipts once again be targeted for commercial investment usage. The availability and appetite to make further investments will be dependent on the financial position and priorities at the time. It is important to recognise that whilst further commercial activities will be made in future years that could contribute to off-setting lost income, some of the financial impacts (from improved procurement, new service models, commissioning support etc.) will be retained by Services.

7.11 Some rephasing and revisions to the capital programme have linked changes to the phasing of revenue returns, for example, all the energy schemes' operational costs, interest costs and income generation figures have been rephased/revised according to the latest capital programme schedule.

7.12 It is important to note that much of the activity taking place in 2021-22 will be focused on supporting the organisation's recovery. We will continue to collaborate well across corporate centre and services with the Energy Investment Unit, Education, Adult Social Care and our income generating services to help them make commercially informed decisions as they implement measures to help them recover from this crisis.

7.13 A refresh of the current Commercial Strategy is underway and will be proposed in early 2021. We are expecting to explore further opportunities for improved links and/or models with the private and voluntary sectors, and focus some procurement and contract management activity in key areas. The commercial and economic climate is difficult and we are continually positioning to understand and monitor the hopeful recovery of the economy by 2025 and manage the impact of EU exit.

## 8. Transformation fund investments

8.1 Services are identifying where transformation funding is needed to support delivery. GPC has responsibility for oversight and management of the Transformation Fund and will be asked to approve the necessary investments associated with the proposals at January committee.

## 9. Overview of Commercial and Investment Draft Capital Programme

9.1 There have a few amendments to the capital programme since the Committee reviewed it in October:

- Both the Shire Hall Relocation and Cambs 2020 schemes have now been rephased, with some expenditure being pushed back to 2021-22 as a result of COVID-19 related delays
- Trumpington Smart Energy Grid has been rephased to reflect the latest anticipated timescales
- The Commercial Investment scheme has been removed given that the value of the Shire Hall capital receipt is still uncertain. In addition, the recently announced changes to accessing Public Works Loan Board borrowing has a created a new set of funding parameters across the entirety of the capital programme.

- The Capital Variation and Capitalised interest schemes have been updated based on the revised programme.

## 10. Next steps

10.1 Following December service committees, GPC will review the overall programme in in January as part of the overarching Business Plan for Full Council to consider in February.

| | |
|---|---|
| December: | Business cases go to committees for consideration |
| January: | GPC will review the whole draft Business Plan for recommendation to Full Council |
| February: | Full Council will consider the draft Business Plan |

## 11. Alignment with Corporate Priorities

11.1 A good quality of life for everyone

There are no significant implications for this priority.

11.2 Thriving places for people to live

There are no significant implications for this priority.

11.3 The best start for Cambridgeshire's children

The purpose of the Business Plan is to consider and deliver the Council's vision and priorities and section 1 of this paper sets out how we aim to provide good public services and achieve better outcomes for communities, whilst also responding to the changing challenges of the pandemic.

11.4 Net zero carbon emissions for Cambridgeshire by 2050

The budget is reviewed at each stage of development to assess the carbon implications of any new investments or savings initiatives. Additionally, the Council is committed to reviewing the sufficiency of climate mitigation funds included in the Business Plan on an annual basis to deliver the Climate Change and Environment Strategy.

## 12. Significant Implications

12.1 Resource Implications
The proposals set out the response to the financial context described in section 4 and the need to change our service offer and model to maintain a sustainable budget. The full detail of the financial proposals and impact on budget is described in the financial tables of the business plan, attached as an appendix. The proposals will seek to ensure that we make the most effective use of available resources and are delivering the best possible services given the reduced funding.

12.2 Procurement/Contractual/Council Contract Procedure Rules Implications
Please see details set out in Section 7.5 of this report.

12.3 Statutory, Legal and Risk implications
The proposals set out in this report respond to the statutory duty on the Local Authority to deliver a balanced budget. Cambridgeshire County Council will continue to meet the range of statutory duties for supporting our citizens.

12.4 Equality and Diversity Implications
As the proposals are developed ready for December service committees, they will consider and describe the impact of each proposal, in particular any disproportionate impact people with protected characteristics or other vulnerable groups. Where identified, a full EqIA will be completed.

12.5 Engagement and Consultation Implications
Our Business Planning proposals are informed by the CCC public consultation and will be discussed with a wide range of partners throughout the process. The feedback from consultation will continue to inform the refinement of proposals. Where this leads to significant amendments to the recommendations a report would be provided to GPC.

12.6 Localism and Local Member Involvement
As the proposals develop, we will have detailed conversations with Members about the impact of the proposals on their localities. We are working with members on materials which will help them have conversations with Parish Councils, local residents, the voluntary sector and other groups about where they can make an impact and support us to mitigate the impact of budget reductions.

12.7 Public Health Implications
We are working closely with Public Health colleagues as part of the operating model to ensure our emerging Business Planning proposals are aligned and support improvement in the health and wellbeing of the population.

Have the resource implications been cleared by Finance? Yes
Officer clearance: Ellie Tod

Have the procurement/contractual/ Council Contract Procedure Rules implications been cleared by the LGSS Head of Procurement? Yes
Officer clearance: Gus de Silva

Has the impact on statutory, legal and risk implications been cleared by the Council’s Monitoring Officer or LGSS Law? Yes
Officer clearance: Fiona McMillian

Have the equality and diversity implications been cleared by your Service Contact? Yes
Officer clearance: Beatrice Brown

Have any engagement and communication implications been cleared by Communications?  Yes
Officer clearance: Christine Birchall

Have any localism and Local Member involvement issues been cleared by your Service Contact? Yes
Officer clearance: James Gemmell

Have any Public Health implications been cleared by Public Health? Yes
Officer clearance: Liz Robin

# Appendix 1

Financial summary – Commercial and Investment Finance Tables