Section 3 – Medium Term Financial Strategy

Contents

1) Executive summary

The constituent elements of this Strategy set out the financial picture facing the Council over the coming five years. There are of course a number of uncertainties in the financial forecast including a general election and the next spending review.Whatever the political make up is of the next Government it is difficult to see a significant divergence from the existing austerity forecasts of control over public expenditure.

The Council has seen a number of years of operating within a very constrained financial environment. As a result, the Council has had to make relatively tough decisions over service levels and charging for services during this period.As we progress through the period covered by the MTFS those decisions become even more challenging. The Council is now in a position of having to consider what might previously have been considered unthinkable. The choices are stark and unpalatable but these very difficult decisions will need to be made. The Council has a statutory responsibility to set a balanced budget each financial year.

This strategy sets out the issues and challenges for the next five financial years and creates a framework within which the detailed budgets will be constructed. The key elements of this Strategy are set out below:

- For the financial year 2015-16 the Council continues with a cash limit approach to budgeting;
- That LGSS be recognised as a formal block within the cash limit methodology;
- In light of the un-sustainability of the existing methodology, a more strategic and cross-cutting approach to resource allocation be developed over the coming months for incremental implementation from 2016-17;
- Funding for invest to save schemes will be made available via the Business Planning process, or from the Council's General Reserve, subject to robust business cases;
- The Council adopts a more commercial focus in the use of its assets (both human and infrastructure) in order to deliver on-going revenue savings opportunities;
- The General Reserve will be held at approximately 3% of expenditure (excluding Dedicated Schools Grant);
- Fees and charges will be reviewed annually in line with the Council's fees and charges policy;
- The capital programme will be developed in line with the framework set out in the Capital Strategy where prudential borrowing will be restricted and any additional net revenue borrowing costs would need Council approval;
- All savings proposals be developed against the backcloth of the Council's corporate priorities, including the recent addendum agreed by Council to reduce the deprivation differences across the County;
- All opportunities for cross sector and organisational working that drive end to end efficiencies and/or improvements in service delivery be pursued;
- Business rates pooling be proposed with those district council's where there is a financial benefit to so do;

- Consideration be given during each Business Planning process to whether the Council intends to trigger the use of a referendum in order to raise the Council Tax beyond that deemed excessive by the Secretary of State;
- Should the Council decide not to pursue this course of action the Business Plan will be predicated on the maximum permitted increase under regulations issued under Schedule 5 of the 2011 Localism Act;

2) National and local context

The Council's business planning takes place within the context of both the national and local economic environments, as well as government's public expenditure plans. This section of the Medium Term Financial Strategy explores that backdrop.

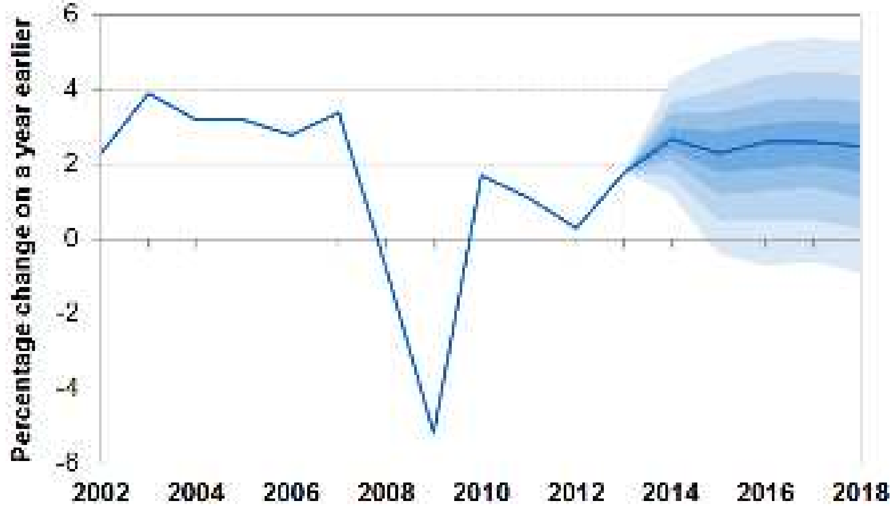
National economic outlook

The economic downturn of 2008 has been followed by a particularly protracted recovery, with the UK experiencing a relatively erratic period of GDP growth between 2010 and 2012. Since the end of 2012 a more sustained recovery has been evident, fuelled both by household consumption and business investment. The UK economy performed more strongly than initially expected during 2013, with GDP growth of 1.8% compared to OBR forecasts of 1.4%.

In his March 2014 budget the Chancellor announced an upwards revision of forecast GDP growth for 2014 by 0.3% to 2.7%. Growth has tracked expectations during the first half of 2014, allowing the economy to finally surpass its 2008 pre-crisis peak by the end of the second quarter.

However, labour productivity remains weak, with the Office of National Statistics estimating that output per hour rose by just 0.7% during 2013. With a degree of slack evident in the labour market (estimated at between 1.0% and 1.5% of GDP) andproductivity remaining well below pre-crisis levels, this may take some time to be absorbed. The International Monetary Fund has warned low productivity is a key risk to the UK's future economic health.

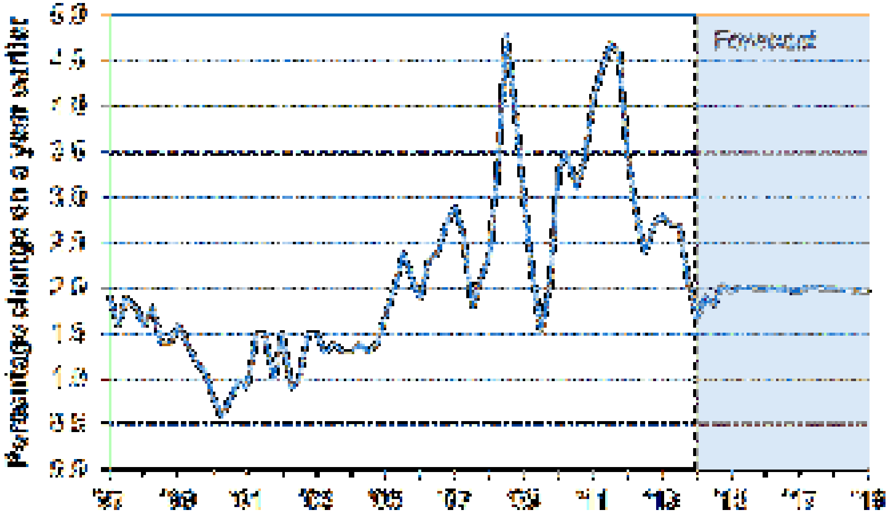
Figure 2.1: GDP Growth (Source: OBR, March 2014)



The general downturn in the housing and property market has meant that development, whilst showing signs of recovery, has remained slow and land values have not yet recovered to pre-credit crunch levels. Over the last few years this has negatively affected the sale of surplus land and buildings and contributions by developers.

The government has set a target of 2% for the underlying rate of inflation as measured by the Consumer Price Index. January 2014 saw inflation fall below this level for the first time since late 2009.Sterling's appreciation is likely to put temporary downwardpressure on inflation for the next couple of years and inflation is forecast to remain at or slightlybelow the 2% target over the medium term.

Figure2.2: CPI Inflation (Source: OBR, March 2014)



The latest unemployment rate is 6.5%; with 2.12m people aged 16 to 64 not employed but seeking work. Unemployment has fluctuated around 8% since the financial crisis, but began to fall in the second half of 2013 and is now at its lowest level since 2008. As at May 2014, the number of people claiming Jobseekers Allowance was 1.04m, or 3.2%. In total, 30.64m people were in employment (73.1% of the population aged 16-64).

6.5%

ofthe labour force aged 16 and over could not find a job

73.1%

of people aged 16 to 64 were employed

1.04m

people aged 18 and over were claiming Jobseeker's Allowance

Current OBR forecasts expect unemployment to continue falling over the next two years before stabilising at between 5% and 6%.

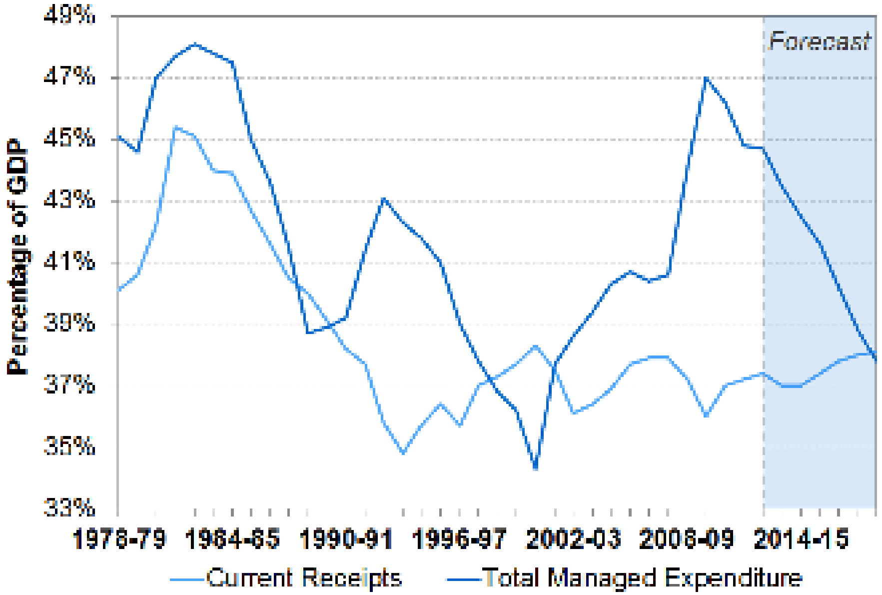
Unemployment is now below the Bank of England's 7% threshold, above which the Monetary Policy Committee would not consider varying the current 0.5% Base Rate of interest. The Bank of England has indicated that an interest rates rise is on the horizon, but that it will be gradual and limited. The Bank's Governor has suggested that "new normal" is likely to be around 2.5%, which could be reached as early as 2017.

Public Sector spending

The government's economic strategy, initially set out in the June 2010 Emergency Budget, remains committed to rebalancing the economy through a programme of austerity. The slower than anticipated recovery has made the Chancellor's original target of eliminating the structural deficit, and for debt as a percentage of GDP to be falling, by 2015-16 look unlikely to be achieved. As a percentage of GDP, the budget deficit is predicted to have halved by 2014-15 and the latest forecast from the OBR expects it to be replaced by a small surplus by 2018-19.

Public sector net debt is expected to peak at 78.7% of GDP in 2015-16 and is forecast to fall to 73.8% of GDP by 2018-19. At its peak, debt will have increased by around 40% of GDP since 2007-08 – a figure that highlights the long-term challenge, facing this and future governments, of returning the UK's public finances to a sustainable position.

Figure2.3: Total public sector spending and receipts

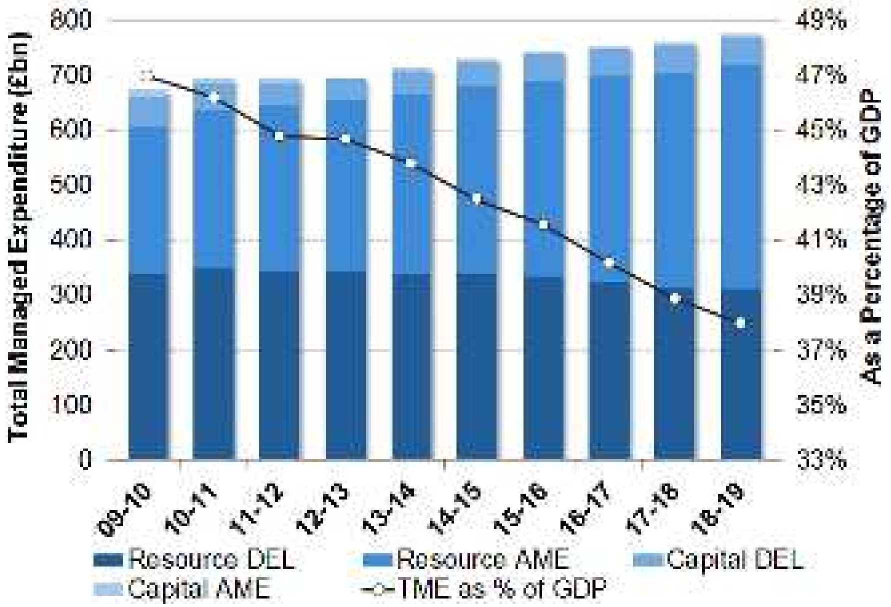


The 2010 Emergency Budget set out government's plans to eliminate the deficit by a mixture of spending and fiscal consolidation in an approximate 80:20 ratio. Current plans estimate that Total Managed Expenditure will be reduced from 43% of GDP in 2014-15 to 38% of GDP in 2018-19.

Total Managed Expenditure is the total amount that government spends. It is split into amounts allocated to individual government departments (known as Departmental Expenditure Limits, or DEL) and spending that is not controlled by government departments (known as Annually Managed Expenditure, or AME). AME covers spending on areas such as welfare, pensions and debt interest.

HM Treasury's forecast for TME over the next four years, as shown in Figure 2.4, indicates an overall reduction in revenue Departmental Expenditure Limits at the expense of increases in Annually Managed Expenditure.

Figure2.4: Total Managed Expenditure



Detailed government spending plans for individual departments were announced for 2015-16 in the 2013 Spending Round.Post 2015-16, the Chancellor's March 2014 Budget indicated that the total Resource DEL will see a 7% reduction, in cash terms, over the three years to 2018-19. However, no details have been published on how this cut will be allocated across Whitehall departments.

By far the majority of the Department for Communities and Local Government's DEL is allocated to individual local authorities and this will see a 13.2% cut in 2015-16. Our internal modelling of future cuts prudently assumes the same level of reductions over the next four years, as set out below, although this is unlikely to be confirmed until the next government sets out their spending plans in 2015.

Table 2.1: Department of Communities and Local Government Departmental Expenditure Limits 2014-15 to 2019-20

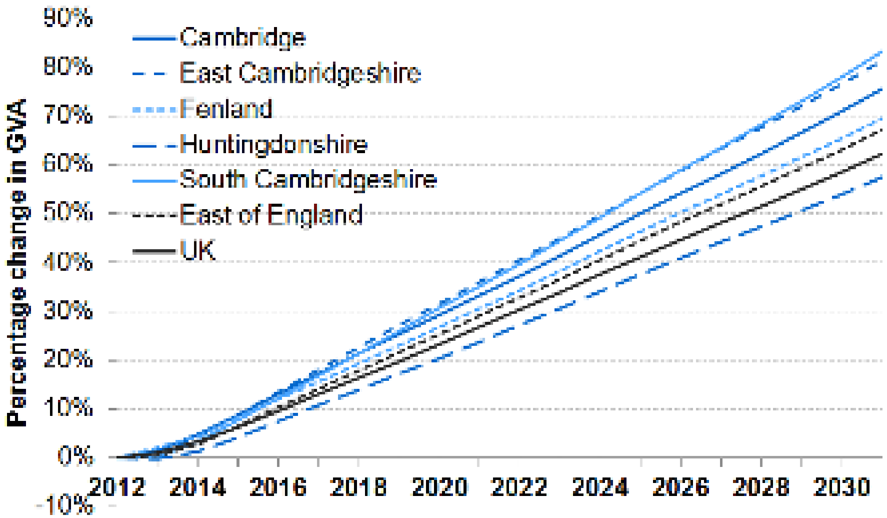
	SR2010	SR2013	Internal Modelling			
	2014-15 £m	2015-16 £m	2016-17 £m	2017-18 £m	2018-19 £m	2019-20 £m
DCLG DEL	23,786	20,644	17,918	15,552	13,498	11,715
% change		-13.2%	-13.2%	-13.2%	-13.2%	-13.2%

Local economic outlook

Cambridgeshire has a relatively resilient economy, compared to the national picture, as demonstrated by its above average levels of job creation between 2001 and 2011. In the aftermath of the financial crisis increases in hi-tech firm size were evident between 2008 and 2010. The East of England also became the third-highest exporting region by value in 2011, with a particularly strong pharmaceutical industry.

Economic productivity is measured by Gross Value Added (GVA). Calculated on a workplace basis, Cambridgeshire's GVA was £14,284 million in 2011, a 4% increase from 2010. Per head of population, GVA was £22,716 in 2011, 17% above the East of England average of £19,355 per head, and 6% above the England average of £21,349 per head.

Figure 2.5: GVA growth forecasts for Cambridgeshire by district

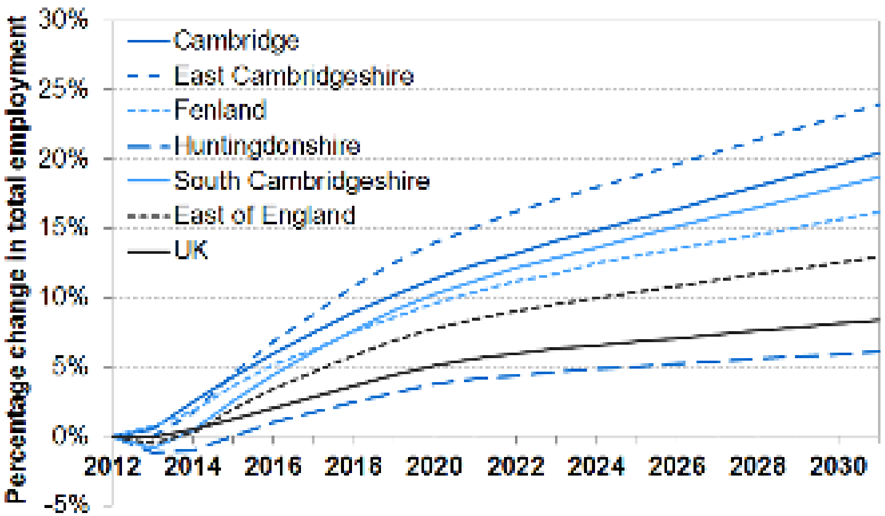


Cambridgeshire's GVA per head of population is above the regional and national averages, predominantly due to high value added activity in South Cambridgeshire and a high jobs density in Cambridge City, which push up the county average. Productivity is highest in South Cambridgeshire, reflecting the concentration of high value industry in this district.

Cambridgeshire's GVA is forecast to grow by 74% between 2012 and 2031, with the most significant increase in East Cambridgeshire, where GVA is expected to increase by 82%.Enterprise births relative to population have increased for the first time in three years, although this is still below the regional and national enterprise birth rate. Cambridge suburbs have seen a 14% rise in the number of business start-ups, compared to only 2% in the city centre. Retail growth in most district town centres continues to provide an important source of employment to support the broader market town business base.

Cambridgeshire's higher than average employment rate and forecasts for continued employment growth across all districts present a key opportunity for the county. The 1.2% rise in the number of private sector jobs during 2011 has not yet met the 2.2% decline in public sector jobs in the same period. From an historical perspective, job creation has previously been uneven, with Fenland and Cambridge only seeing limited growth between 2001 and 2011. A significant proportion of Cambridgeshire's jobs are in manufacturing and education.

Figure 2.6: Employment growth forecasts for Cambridgeshire by district



Cambridge City is seeing rising demand for skilled workers in manufacturing and production sectors due to a rise in orders, although there is a noticeable skills gap developing for the increasing number of vacancies. The low proportion of Cambridgeshire residents qualified to an intermediate skills level (NVQ Level 3) despite the high demand for people with these skills levels within the county is another key employment issue. The county isseeking to address this through school and college business initiatives such as the Fenland Enterprise in Education, CAP Employer Project and the University Technical College at Cambridge Regional College. These initiatives allow business to be directly involved in improving employment prospects for young people.

The new free Wi-Fi network covering central Cambridge has been launched by Connecting Cambridgeshire, as the first step in improving public access to Wi-Fi across the county. Better connectivity is expected to improve productivity.

As part of the Budget 2014, Central Government announced their agreement for a Greater Cambridge City Deal which will deliver a step change in investment capability; a higher rate of growth in jobs and homes with benefits for the whole County and the wider LEP area. The agreement will provide a grant of up to £500 million for new transport schemes. However, only £100 million of funding is initially guaranteed with the remaining funding dependent on the achievement of certain triggers. The deal will result in a changed set of governance arrangements for Greater Cambridge, allowing the County, Cambridge City Council and South Cambridgeshire District Council to pool funding and powers; initially through a Joint

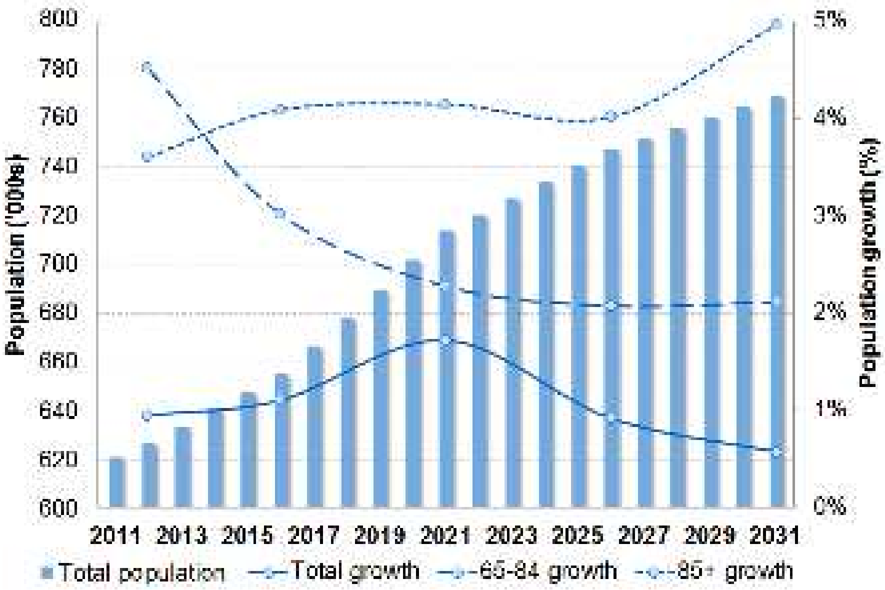
Committee with the intention of moving to a Combined Authority should legislation be changed to allow for this. This will help to deliver a more joined-up and efficient approach to the key economic issues facing this rapidly-growing city region.

Cambridgeshire's growing population

Cambridgeshire is the fastest growing county in the UK, as confirmed by the 2011 census, which showed the county's population as having increased by 68,500 between 2001 and 2011 to 621,200. This equates to a growth rate of 12% over the ten year period. A growing county provides many opportunities for development and is a general sign of economic success. However, it also brings with it significant additional demand for services driven by increased demography. When this is combined with the Government's austerity drive it creates what has been described as the "perfect storm".Being able to balance our resources will become increasingly more challenging as we progress through the period of this strategy.

Our forecasts show that the county's population is expected to grow by 22% over the next 20 years. The pattern of growth will not be evenly spread, with most of it occurring in the southern half of the county around Cambridge and South Cambridgeshire. As well as increased numbers of people living in the area the population structure is also changing. The number of people aged over 65 is forecast to almost double over the next 20 years, from 98,700 in 2010 to 184,300 in 2031, placing unprecedented demand on social care services for the elderly. It is also anticipated that there will be more people with care needs such as learning disabilities within the population.

Figure 2.7: Population forecasts for Cambridgeshire



3) Corporate priorities

The Council's Business Plan sets out the means of delivery of the Councils key priorities. With diminishing resources and pressures of demographic growth maintaining the level of funding for these key activities becomes increasingly more challenging. With reduced funding available, focusing on those things that the Council sees as essential to support the delivery of these key objectives becomes increasingly more important.

The Council's current Business Plan was approved in February and re-confirmed the three corporate objectives:

- Developing the local economy for the benefit of all
- Helping people live healthy and independent lives
- Supporting and protecting vulnerable people

In addition the Council has adopted an underlying approach to support the delivery of the above priorities which is that the Council will be "an efficient and effective organisation".

These priorities represent what the Council plans to do, with each service making a contribution to achieving planned outcomes either through direct service provision, commissioning, or through working with partners.

In July of this year the Council that it would:

- Continue to support the Council's commitment to tackling deprivation and narrowing the deprivation gap by adopting a more focused and targeted approach to improving performance and outcomes in this area of work, utilising the skill and capacity available within each Committee in order drive forward the identified improvements.
- Identify a small number of key performance indicators relevant to the issue of multiple deprivation within each Committee area, and set measurable targets for improvement against these indicators.
- Ensure that each Service Committee maintains oversight of performance against these indicators, and that all improvements are sustainable for areas and populations of multiple deprivation beyond the life of this Council.
- Inform this Council of the indicators identified within the relevant Committee, the targets for improvement against these indicators and before the end of the life of this Council, an outline of the outcome of this work.

The above must form the backcloth of how the Council allocates resources during the forthcoming Business Planning process.Given the financial challenges this would need to be through redirection as there are no additional resources to support their delivery.

Although the Council is considering the MTFS prior to the whole Business Plan, it is still an integral part to that document and should always be seen as such. The MTFS is of course supported by other strategic documents some of which are also part of the Business Plan and some of which are not. Other strategic documents include the Capital Strategy and the Treasury Management Strategy. In addition, service based strategies support the outcomes objectives and outcomes that are to be achieved within the resource envelope provided through the MTFS.

The Council's has adopted many common approaches to the increasing financial challenges it faces through:

- Doing all we can to support economic growth and revenue.
- Focusing on managing demand through a targeted approach, emphasising early intervention and prevention.
- Enabling local communities to become less dependent upon the Council.
- Continuing to drive efficiencies through changes to the way the Council works through exploiting new technology, consolidation of buildings and services, and the automation of processes.

We will need to build further on these underlying approaches going forward.We will need to become less risk adverse and we will need to maximise the utilisation of our asset base.

4) Strategic financial framework

The Council's strategic financial framework is comprised of three distinct, but interdependent, strategies set out within this Business Plan:

- Medium Term Financial Strategy (Section 3)
- Capital Strategy (Section 7)
- Treasury Management Strategy (Section 8)

As well as outlining the Council's revenue strategy, this Medium Term Financial Strategy includes the organisation's Fees and Charges Policy (see chapter 6) and Reserves Policy (see chapter 7).

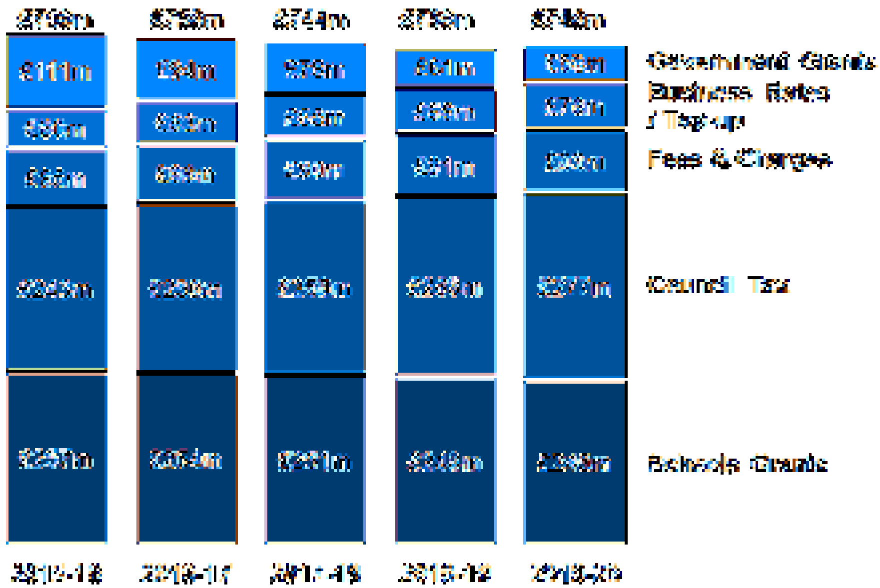
The Council's revenue spending is shaped by our corporate priorities, influenced by levels of demand and the cost of service provision, and constrained by available funding.

Funding forecast

Forecasting our financial resources over the medium term is a key aspect of the revenue strategy, allowing us to understanding the context in which the Council must operate. We have carried out a detailed examination of the revenue resources that are available to the Council. Revenue funding comes from a variety of national and local sources, includinggrants from Central Government and other public agencies,Council Tax, Business Rates and other locally generated income.

In 2015-16, Cambridgeshire will receive £533.5m of funding excluding £215.7m grants retained by its schools. The key sources of funding are Council Tax, for which a provisional increase of 1.99% has been assumed and Central Government funding (excluding grants to schools) which sees a like for like reduction of 7.3% compared to 2014-15.

Figure4.1: Medium term funding forecast



As is evident from Figure4.1, the Council will continue to face a significant decrease in funding over the next four years (4.0% reduction in overall gross budget, excluding schools), before beginning to see an increase in 2019-20.The parameters used in our modelling of incoming resources are set out below along with the assumptions we have applied.

Table 4.1: Parameters used in modelling future funding

Funding Source	Parameters
Business Rates	• Cambridgeshire Rateable Value (prudent assumption of zero real growth) • National RPI inflation (2.5% in 2015-16, rising to 3.9% in 2019-20, as per OBR forecasts)
Top-up	• National RPI inflation (2.5% in 2015-16, rising to 3.9% in 2019-20, as per OBR forecasts)
Council Tax	• Level set by Council (1.99% in all years) • Occupied Cambridgeshire housing stock (1.2%-1.4% annual increase, as per District Council forecasts)
Revenue Support Grant	• DCLG Departmental Expenditure Limit (-13.2% from 2015-16 to 2019-20)
Other grants	• Grants allocated by individual government departments (overall increase of 6.1% in 2015-16, due to Better Care Fund, then decrease of 3.8% by 2019-20)
Fees & charges	• Charges set by Council (overall 1.0%-3.9% annual increase)

Our analysis of revenue resources highlights the implications of a number of government policies designed to shape the local authority funding environment. The continued reduction in government grants, to the degree where this effects a real terms reduction in overall Council funding, is a potent driver for reducing the range of service provision once any remaining efficiencies have been made.

The Business Rates Retention Scheme introduced in April 2013 continues to have a significant impact on incentives. Linking an element of local authority income to a share of the Business Rates collected in their area was designed to encourage Councils to promote economic growth. For county councils, a lower share reduces the incentive somewhat but providesvital stability against the variability of Business Rates. Nevertheless, our 9% share of Cambridgeshire's Business Ratesremains a key driver towards growth.

The dwindling Revenue Support Grant no longer tracks changes in relative need between local authorities, but is instead set at 2012-13 levels until the system is reset in 2020. This creates a contradictory disincentive towards population growth and has an adverse effect on growing counties like Cambridgeshire, which as far as RSG allocations are concerned still has a population of 635,900 in 2015-16, rather than 646,200. In reality, this is mitigated somewhat by the New Homes Bonus, which acts as a clear promoter of housing growth.

The government's Council Tax referendum threshold continues to limit our tax-raising powers, effectively acting as a central government cap on Council Tax income. Council Tax rises above 2% are relatively unaffordable due to a requirement to hold a referendum. This Business Plan assumes the threshold will continue to be set at 2% for the next five years but the current arrangement of annual review by government creates significant uncertainty and there is a real risk the threshold could be lowered in the future.

Based on the funding environment created by these policies the Council's response is to pursue the following guiding principles with regards to income:

- to promote growth;

- to diversify income streams; and
- to ensure a sufficient level of reserves due to increased financial risk.

Our ability to raise income levels by increasing Council Tax and charges for services remains limited. We do however believe that every opportunity should be taken to maximise the revenue-raising capacity of the Council. This year we have regularisedour review of fees and charges to ensure that the Council makes a conscious decision not to increase charges rather than this being the default position.

Spending forecast

Forecasting the cost of providing current levels of Council services over the medium term is the second key aspect of our revenue strategy. This allows us to assess the sustainability of current service provision. Our cost forecasting takes account of pressures from inflation, demographic change, amendments to legislation and other factors, as well as any investments the Council has opted to make.

Inflationary pressures

We have responded to the uncertainty about future inflation rates relating to our main costs by making a prudent assessment of their impact. Our policy of maintaining reserves to cover such uncertainties provides further protection.

There is not a direct link between the inflation we face and nationally published inflation indicators such as the Consumer Price Index (CPI) due to the more specific nature of the goods and services that we have to purchase. Estimates of inflation have been based on indices and trends, and include specific pressures such as inflationary increases built into contracts. Our medium term plans assume inflation will run at around 0.3% above Treasury CPI forecasts, having taken account of the mix of goods and services we purchase.The table below shows expected overall inflation levels for the Council:

Table 4.2: Inflationary pressures

	2015-16	2016-17	2017-18	2018-19	2019-20
Inflationary cost increase (£000)	9,655	9,869	8,950	9,350	9,242
Inflationary cost increase (%)	2.1%	2.2%	2.0%	2.1%	2.1%

Demographic pressures

Demography is a term used to include all demand changes arising from increased numbers (e.g., clients served, road kilometres), increased complexity (e.g., more intensive packages of care as clients age), and any adjustment for previous years where demography has been under/overestimated. Expected cost increases from demography are shown below:

Table 4.3: Demographic pressures

	2015-16	2016-17	2017-18	2018-19	2019-20
Demographic cost increase (£000)	11,379	9,993	10,228	10,522	10,914
Demographic cost increase (%)	2.4%	2.2%	2.3%	2.4%	2.5%

These figures compare with an underlying population growth of around 1.7% per year (a total increase of 9.0% between 2014-15 and 2019-20). The difference is due to faster growth in certain client groups; changes in levels of need and catch up from previous years.

Other pressures

We recognise that there are some unavoidable cost pressures that we will have to meet. The County Council has considered whether we should fund these from available resources, or whether we should require services to find additional savings themselves to cover these pressures.

Investments

The Council recognises that effective transformation often requires up-front investment and has considered both existing and new investment proposals that we fund through additional savings during the development of this Business Plan.

Financing of capital spend

All capital schemes have a potential two-fold impact on the revenue position, due to costs of borrowing and the ongoing revenue impact (pressures, or savings / additional income).

Therefore to ensure that available resources are allocated optimally, capital programme planning is determined in parallel with the revenue budget planning process. Both the borrowing costs and ongoing revenue costs/savings of a scheme are taken into account as part of a scheme's Investment Appraisal, and therefore the prioritisation process.

In addition, the Council is required by CIPFA's Prudential Code for Capital Finance in Local Authorities 2011 to ensure that it undertakes borrowing in an affordable and sustainable manner. In order to guarantee that it achieves this, at the start of each Business Planning Process, Council sets an advisory limit on the annual financing costs of borrowing (debt charges) over the life of the Plan. This in turn can be translated into a limit on the level of borrowing included within the Capital Programme (this limit excludes ultimately self-funded schemes).

Once the service programmes have been refined, if the amalgamated level of borrowing and thus debt charges breaches the advisory limit, schemes will either be re-worked in order to reduce borrowing levels, or the number of schemes included will be limited according to the ranking of schemes within the prioritisation analysis.

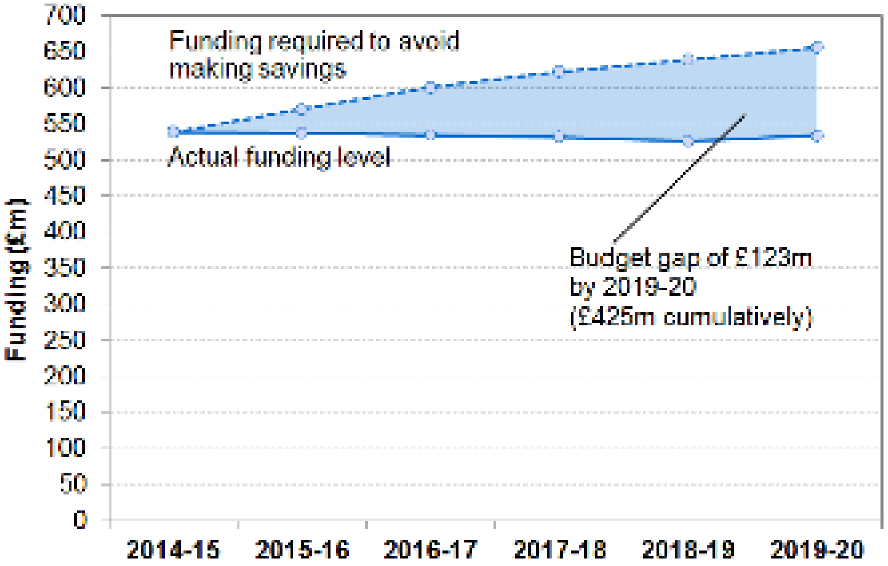
Due to the Council's strategic role in stimulating economic growth across the County through infrastructure investment, any capital proposals that are able to reliably demonstrate revenue income / savings at least equal to the debt charges generated by the scheme's borrowing requirement are excluded from contributing towards the advisory borrowing limit. These schemes are called Invest to Save or Invest to

Earn schemes and will be self-funded in the medium term. Any additional savings or income generated over the amount required to fund the scheme will be retained by the respective Service and will contribute towards their revenue savings targets.

Allocating our resources to address the shortfall

Inevitably, cost pressures are forecast to outstrip available resources, given the rising costs caused by inflation, growth and associated demographic pressures combined with significantly reduced levels of funding. Consequently, we will need to make significant savings to close the budget gap.

Figure4.2: Budget gap



Achieving these £136m of savings over the next five yearshas meant making tough decisions on which services to prioritise.During the last few years services have made significant savings through increasing efficiency and targeting areas that are not our highest priority with the aim of minimising the impact on our service users. With no respite from the continuing cuts to our funding, we have entered an environment where any efficiencies to be made are minimal. We must accept therefore that more and more of the budget challenge will bemet through service reductions.

In some cases services have opted to increase locally generated income instead of cutting expenditure by making savings. For the purpose of balancing the budget these two options have the same effect and are treated interchangeably. The following table shows the total amount of savings / increased income necessary for each of the next five years, split according to the factors which have given rise to this budget gap.

Table 4.4: Analysis of budget gap 2015-16 to 2019-20

	2015-16 £000	2016-17 £000	2017-18 £000	2018-19 £000	2019-20 £000	Total £000
Loss (+) / Gain (-) of funding	11,592	4,722	3,728	5,217	-7,039	18,220
Inflation	9,655	9,869	8,950	9,350	9,242	47,066
Demand	11,379	9,993	10,228	10,522	10,914	53,036
Pressure: Young Carers – assessments and support	175	-	-	-	-	175
Pressure: Deprivation of Liberty Standards	2,340	-1,540	-	-	-	800
Pressure: Emergency Duty Team	300	-	-	-	-	300
Pressure: Older People Service	3,000	-	-	-	-	3,000
Pressure: City Deal - Adult Learning Skills	200	-	-	-	-	200
Pressure: Business Planning Support	45	-	-	-	-	45
Pressure: Reinstatement of Voluntary Sector Infrastructure Budget	48	-	-	-	-	48
Investment: Exploitation of Digital solutions	258	-	-258	-	-	-
Pressures& Investments (Other)(1)	-3,004	1,969	-231	45	-	-1,221
Capital	4,985	4,350	804	488	131	10,758
Reserves	-5,096	3,937	1,599	-3,898	-3,487	-6,945
Other	42	-	-	-	-	42
Total	**35,919**	**33,300**	**24,820**	**21,724**	**9,761**	**125,524**
Cumulative	**35,919**	**105,138**	**199,177**	**314,940**	**440,464**	

(1) This includes a reversal of £2.5m of the pressure on Older People's services from increased demand and demographic pressures that was included in the 2014-15 Business Plan since more accurate estimates have become available.

Capital

The Council's Capital Strategy can be found in full in Section 7 of this Business Plan. It represents an essential element of the Council's overall Business Plan and is reviewed and updated each year as part of the Business Planning Process.

The Strategy sets out the Council's approach towards capital investment over the next ten years and provides a structure through which the resources of the Council, and those matched by key partners, are allocated to help meet the vision and priorities outlined within the Council's Strategic Framework. It is also closely related to, and informed by, the Cambridgeshire Public Sector Asset Management Strategy. It is concerned with all aspects of the Council's capital expenditure programme: planning; prioritisation; management; and funding.

To assist in delivering the Business Plan the Council needs to provide, maintain and update long term assets (often referred to as 'fixed assets'), which are defined as those that have an economic life of more than one year. Capital expenditure is financed using a combination of internal and external funding sources, including grants, contributions, capital receipts, revenue funding and borrowing.

Capital funding

Developer contributions are not only affected by the downturn in the property market, but will be further impacted in future years by the introduction of Community Infrastructure Levies (CIL). CILis designed to create a more consistent charging mechanism but complicates the ability of the Council to fund the necessary infrastructure requirements created by new development due to the changes in process and the involvement of the city and district councils who have exclusive legal responsibility for determining expenditure. The Council also expects that a much lower proportion of the cost of infrastructure requirements will be met by CIL contributions. In addition, from 2015 it will not be possible to pool more than five developer contributions together on any one scheme, further reducing funding flexibility.

Central Government and external capital grants have also been heavily impacted during the last few years, as the Government has strived to deliver its programme of austerity. However, as part of the 2014-15 Business Plan it was anticipated that overall capital grant reductions would plateau from 2015-16, in line with the policy of capital investment to aid the economic recovery.

Alongside the Local Government Finance Settlement for 2014-15, the Minister of State for Schools announced capital funding to provide for the increasing numbers of school-aged children to enable authorities to make sure that there are enough school places for every child who needs one. However, the new methodology used to distribute funding for additional school places did not reflect this commitment as although Cambridgeshire's provisional allocation for 2014-15 was as anticipated, the £4.4m allocation for the period 2015-16 to 2016-17 was £32m less than the Council had estimated to receive for those years according to our need. Almost all of this loss relates to funding for demographic pressures and new communities, i.e., infrastructure that we have a statutory responsibility to provide, and therefore we have limited flexibility in reducing costs for these schemes. Given the growth the County is facing, it is difficult to understand these allocations and as such, the Council has been lobbying the Department for Education (DfE) for a fairer funding settlement that is more closely in line with the DfE's commitment to enable the Council to provide all of the new places required in the County.

The mechanism of providing capital funding is also set to change significantly in some areas. In order to drive forward economic growth, Central Government announced last year that it would top-slice numerous existing grants, including transport funding, education funding and revenue funding such as the New Homes Bonus, in order to create a £2 billion Single Local Growth Fund (SLGF) which Local Enterprise Partnerships (LEPs) can bid for. Although the Greater Cambridge / Greater Peterborough LEP is currently developing a funding bid from the SLGF, the Council is expecting its own transport allocations to be significantly reduced from 2015-16 onwards as part of the top-slice. Therefore, receiving any increase in (or even a consistent level of) funding for major transport schemes is dependent on the success of the SLGF bid.

Capital expenditure

The Council operates a ten year rolling capital programme.The very nature of capital planning necessitates alteration and refinement to proposals and funding during the planning period; therefore whilst the early years of the Business Plan provide robust, detailed estimates of schemes, the later years only provide indicative forecasts of the likely infrastructure needs and revenue streams for the Council.

New schemes are developed by Services (in conjunction with Finance) in line with the priorities of the Strategic Framework. At the same time, all schemes from previous planning periods are reviewed and updated as required.An Investment Appraisal of each capital scheme (excluding schemes with 100% ring-fenced funding) is undertaken / revised, which allows the scheme to be scored against a weighted set of criteria such as strategic fit, business continuity, joint working, investment payback and resource use. This process allows schemes within and across all Services to be ranked and prioritised against each other, in light of the finite resources available to fund the overall Programme and in order to ensure the schemes included within the Programme are aligned to assist the Council with achieving its priorities.

Service Committees review the prioritisation analysis and officers undertake any reworking and/or rephrasing of schemes as required to ensure the most efficient and effective use of resources deployed. The Capital Programme is subsequently agreed by General Purposes Committee (GPC), who recommend it to Full Council as part of the overarching Business Plan.

A summary of the Capital Programme can be found in the following chapter of this Section, with further detail provided by each Service within their individual finance tables (Section 4).

5) Financial overview

Funding summary

The Council's revenue spending is funded from a range of sources, both national and local. A summary of forecast funding levels over the next five years is set out in Table 5.1 below.

Table 5.1: Total funding 2015-16 to 2019-20

	2015-16 £000	2016-17 £000	2017-18 £000	2018-19 £000	2019-20 £000
Business Rates plus Top-up	60,181	63,232	65,402	67,840	70,458
Council Tax	242,576	250,455	259,057	267,646	276,516
Revenue Support Grant	52,910	36,776	22,042	4,982	0
Other Unringfenced Grants	10,799	33,086	32,330	32,137	31,644
Dedicated Schools Grant (DSG)	242,976	239,796	236,616	233,437	230,257
Other grants to schools	14,491	14,491	14,491	14,491	14,491
Better Care Funding	13,148	13,148	13,148	13,148	13,148
Other Ringfenced Grants	33,795	11,030	10,757	10,757	10,757
Fees & Charges	85,413	88,321	90,196	91,489	92,535
Total gross budget	**756,289**	**750,335**	**744,039**	**735,927**	**739,806**
Less grants to schools (1)	-257,467	-254,287	-251,107	-247,928	-244,748
Schedule 2 DSG plus income from schools for traded services to schools	38,596	38,596	38,596	38,596	38,596
Total gross budget excluding schools	**537,418**	**534,644**	**531,528**	**526,595**	**533,654**
Less Fees, Charges & Ringfenced Grants	-170,952	-151,095	-152,697	-153,990	-155,036
Total net budget	**366,466**	**383,549**	**378,831**	**372,605**	**378,618**

(1) The Dedicated Schools Grant (DSG) and other grants to schools are received by the Council from Government but are ring fenced to pass directly on to schools. Therefore, this plan uses the figure for "Total budget excluding schools".

Local Government Finance Settlement

In June 2013 the Government published a one-year Spending Round covering 2015-16. This set out detailed grant allocations for individual local authorities which were confirmed by the Local Government Finance Settlement announced by the Government in December 2014.

The headline position for Cambridgeshire County Council is a7.3% reduction in Government revenue funding (excluding grants to schools) in 2015-16. This comparison incorporates larger cuts to general funding which are offset by increases in grants targeted to particular areas such as Adult Social Care and Public Health.

Table 5.2: Comparison of Cambridgeshire's 2014-15 and 2015-16 overall Government funding

	2014-15 £000	2015-16 £000
Business Rates plus Top-up	57,927	60,181
Revenue Support Grant	72,017	52,910
Other Unringfenced Grants	12,960	10,799
Better Care Funding	10,652	13,148
Other Ringfenced Grants	30,783	33,795
Government Revenue Funding (excluding schools)	**184,339**	**170,833**
Difference		**-13,506**
Percentage cut		-7.3%

Revenue Support Grant

Within this overall reduction, the cuts to Revenue Support Grant (RSG) are the most severe with the Council's allocation reducing by 26.4% in 2015-16. Although no figures have been provided for Revenue Support Grant from 2016-17 onwards, we are forecasting such continued significant cuts to make this an obsolete source of funding by 2019-20. These reductions are based on cuts of 14% to 15% in the Local Government Spending Control Totals as set out below.

Table 5.3: Government Spending Control Totals 2014-15 to 2019-20

	SR2010	SR2013	Internal Modelling			
	2014-15 £m	2015-16 £m	2016-17 £m	2017-18 £m	2018-19 £m	2019-20 £m
Spending Control Total	23,786	20,644	17,918	15,552	13,498	11,715
% change		**-13.2%**	**-13.2%**	**-13.2%**	**-13.2%**	**-13.2%**
Of which RSG (England)	12,675	9,256	6,154	3,352	835	-1,442
% change		**-27.0%**	**-33.5%**	**-45.5%**	**-75.1%**	**n/a**
RSG (CCC)	72.0	52.9	36.8	22.0	5.0	-
% change		**-26.5%**	**-30.5%**	**-40.1%**	**-77.4%**	**-100.0%**

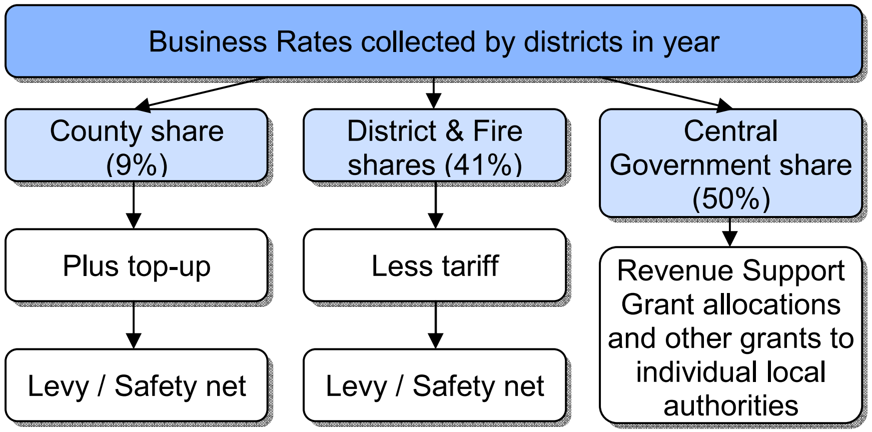
The Spending Control Total has two elements: business rates and RSG. Since business rates are forecast to increase, the cuts to the Spending Control Total must fall entirely on RSG, giving rise to the pronounced reductions illustrated.

Business Rates Retention Scheme

The Business Rates Retention Scheme replaced the Formula Grant system inApril 2013. Part of the Government's rationale in setting up the scheme was to allow local authorities to retain an element of the future growth in their business rates.Business rates collected during the year by billing authorities are split 50:50 between Central Government and Local Government. Central Government's share is used to fund Revenue Support Grant (RSG) and other grants to Local Government.

Figure 5.1 illustrates how the scheme calculates funding for local authorities. Government decided that county councils will only receive 9% of a county's business rates. Although this low percentage has a beneficial effect by insulating the Council from volatility, it also means we see less financial benefit from growth in Cambridgeshire's business rates.

Figure 5.1: Business Rates Retention Scheme



On top of their set share, each authority pays a tariff or receives a top-up to redistribute business rates more evenly across authorities. The tariffs and top-ups were set in 2013-14 based on the previous 'Four Block Model' distribution and are increasedannually by September RPI inflation. A levy and 'safety net' system also operates to ensure that a 1% increase in business rates is limited to a 1% increase in retained income, with the surplus funding any authority whose income drops by more than 7.5% below their baseline funding.

In the years where the 50% local share is less than Local Government spending totals, the difference is returned to Local Government via RSG. This is allocated pro-rata to local authorities' funding baseline.

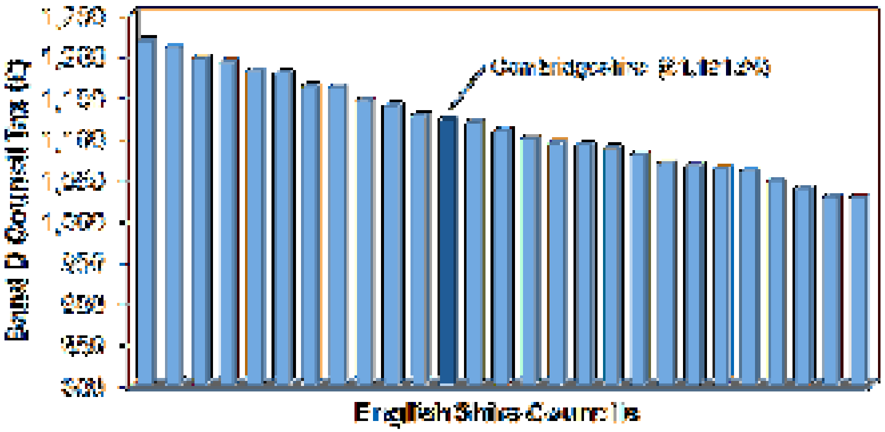
Despite moving to a new funding framework the new model locks in elements of the previous system which are a concern. The relative allocation of top-up and RSG is effectively determined by the 2012-13 Four Block Model distribution. Cambridgeshire County Council has long been concerned about the use of the Four Block Model, particularly in reflecting accurately the costs and benefits of growth as well as the relative efficiency of local authorities and the pockets of deprivation in some areas of Cambridgeshire. The Business Rates Retention Scheme does allow for a welcome re-assessment of areas every seven years, however, the first reset is not due until 2020 at the earliest.

We have used modelling undertaken by Cambridgeshire billing authorities (City and District Councils) to forecast our share of business rates. However, there is a significant risk to the accuracy of these forecasts due to the number of appeals facing the billing authorities and the significant backlog at the Valuation Office.

Council Tax

Cambridgeshire County Council starts the Business Planning Process with a Council Tax rate slightly below the average for all counties.

Figure 5.2: Band D Council Tax levels for shire councils 2014-15



The Government first announced Council Tax Freeze grants as part of the Emergency Budget in 2010, which offered a grant equivalent to a 2.5% increase in Council tax for 2011-12 if those councils agreed to freeze Council Tax at 2010-11 levels for one year, with the added protection of offsetting the foregone tax for three more years, to prevent authorities from having to make sharp increases or spending cuts in following years – called the 'cliff edge' effect.

We took advantage of the Council Tax Freeze Grant in 2011-12 but decided not to take up the offers of subsequent grants for a lower level (1%) that do not offer further protection, with the choice being made to set Council Tax at 2.95% in 2012-13 and 1.99% in 2013-14 and 2014-15. These figures were below inflation levels and were close to the Treasury's long-term expected inflation rate. Our decisions in the last three years to increase Council Tax will avoid the need for sharp increases in precepts in the future.

The Government announced a fifth Council Tax Freeze Grant for 2015-16. The value of the grant equates to a 1% increase in Council Tax and would be paid in 2015-16. The Council carefully considered the Government's offer and decided to reject it. The value of the grant offered was insufficient to avoid a significant shortfall compared to the Council Tax increases built into last year's Business Plan and taking it would have added unsustainably to the already significant budgetary pressure on the Council.

In order to inform decisions on Council Tax the County Council used a consultation exercise. A representative sample of 1,124 individuals chose an average rise in Council Tax of tbc%, with 95% of respondents prepared to accept a rise. More information about the consultation results can be found in Section 5 of the Business Plan.

The current Council Tax Requirement (and all other factors) gives rise to a 'Band D' Council Tax of £1,121.94. This is an increase of 1.99% on the actual 2014-15 level. This figure reflects information from the districts on the final precept and collection fund.

Table 5.4: Build-up of recommended Council Tax Requirement and derivation of Council Tax precept 2015-16

	2015-16 £000	% Rev. Base
Adjusted base budget	**757,133**	
Transfer of function	4,233	
Revised base budget	**761,366**	
Inflation	9,655	1.3%
Demography	11,379	1.5%
Pressures	3,908	0.5%
Investments	4,439	0.6%
Savings	-34,613	-4.5%
Change in reserves/one-off items	155	0.0%
Total budget	**756,289**	**99.3%**
Less funding:		
Business Rates plus Top-up	60,181	7.9%
Revenue Support Grant	52,910	6.9%
Dedicated Schools Grant	242,976	31.9%
Unringfenced Grants (including schools)	25,290	3.3%
Ringfenced Grants	46,943	6.2%
Fees & Charges(1)	85,413	11.3%
Surplus/deficit on collection fund	333	0.0%
Council Tax requirement	**242,243**	**31.8%**
District taxbase	211,703	
Band D	**1,144.26**	

(1)This includes an increase in income of £2,371k, which taken withthe £35,853k savings makes up the £38,224k savings/income requirement.

Taxes for the other bands are derived by applying the ratios found in Table 5.5. For example, the Band A tax is 6/9 of the Band D tax.

Table 5.5: Ratios and amounts of Council Tax for properties in different bands

Band	Ratio	Amount £	Increase on 2014-15 £
A	6/9	762.84	14.88
B	7/9	889.98	17.36
C	8/9	1,017.12	19.84
D	**9/9**	**1,144.26**	**22.32**
E	11/9	1,398.54	27.28
F	13/9	1,652.82	32.24
G	15/9	1,907.10	37.20
H	18/9	2,288.52	44.64

Unringfenced grants

In 2013-14 a number of specific grant streams were merged into Revenue Support Grant and the Council received a number of new grants to help fund additional responsibilities that have been transferred to local authorities by Government.

The Spending Round announced in June 2013 set out the Government's intention to redirect a proportion of the New Homes Bonus grant to Local Enterprise Partnerships from 2015-16. Following a consultation exercise on this issue, the Government announced in the recent Autumn Statement its intention not to pursue this proposal. It is however unclear at this point how the funding of LEPs will be achieved in the future.

Table 5.6: Unringfenced grants for Cambridgeshire 2015-16

	2015-16 £000
New Homes Bonus	3,919
Education Services Grant	4,652
Returned New Homes Bonus Topslice	497
Other	1,731
Total unringfenced grants	**10,799**

Ringfenced grants

The Council receives a number of government grants designated to be used for particular purposes. This funding is managed by the appropriate Service Area and the Council's ringfenced grants are set out within part 7 of Table 3 of the relevant Service Area in Section 4 of the Business Plan.

Major sources of ringfenced funding are the Public Health grant, which funds the Council's Public Health activities, and the Better Care Fund. This pooled fund of £3.8bntakes full effect in 2015-16, and is intended to allow health and social care services to work more closely in local areas. £2bn of the Better Care Fund is previously unannounced funding.

In line with the Secretary of State's announcement as part of the Local Government Finance Settlement and the concomitant announcement by the Department of Health, we have assumed that we will receive all sources of funding due to the Council. This includes Better Care Funding for Adult Social Care, routed via Clinical Commissioning Groups (CCGs) and the Local Health and Wellbeing Board.

Fees and charges

A significant, and increasing, proportion of the Council's income is generated by charging for some of the services it provides. There are a number of proposals within the Business Plan that are either introducing charging for services for the first time or include a significant increase where charges have remained static for a number of years. The Council adopts a robust approach to charging reviews, with proposals presented to Members on an annual basis.

Dedicated Schools Grant

The Council receives the Dedicated Schools Grant (DSG) from the Government and it is therefore included in our gross budget figures in table 5.1. However, this grant is ring fenced to pass directly on to schools. This plan therefore uses the figure for "total budget excluding grants to schools". The DSG for 2015-16 is yet to be confirmed although we expect it will be reduced from the amount received in 2014-15 as a result of schools converting to academies. The impact will include schools converting from 1 April 2015 as well as the full year effect of schools that converted during 2014-15. As an estimate, based on our knowledge of schools converting to academies, we have used a figure of £239.8m in this report.

Service budgets

We have combined the funding analysis set out in preceding chapters with a detailed review, looking at the costs involved in providing services at a certain level and to specific performance standards. This was used to propose the following changes to cash available over the next five years:

Table 5.7: Changes to service net budgets 2014-15 to 2019-20

	Revised Net Budget 2014-15 [1] £000	Proposed % cash change 2014-15 to 2019-20
Children, Families and Adults Services (CFA)	251,616	-4.9%
Economy, Transport and Environment (ETE)	63,225	-6.4%
Corporate& Managed Services (CS)	15,521	-22.2%
Financing Debt Charges	34,142	31.8%
LGSS - Cambridge Office (LGSS)	10,351	-21.0%
Public Health	0	n/a
Environment Agency (EA) Levy	373	0.0%
Total budget	**375,228**	**1.1%**

(1) 2014-15 budget has been revised so that it is comparable to the 2015-16 budget.

In light of these changes, services have been set the following cash limits (Table 5.5). The cash limit is the amount of money for each of the next five years that services can spend. Within these limits, the budget will balance.

These cash limits include assumptions about the impact of inflation and demographic growth, any developments and the savings we intend to make. Cash limits for each directorate and the policy areas in the above services are shown in the detailed financial tables of Section 4.

Table 5.8: Service net budgets 2015-16 to 2019-20

	2015-16 £000	2016-17 £000	2017-18 £000	2018-19 £000	2019-20 £000
CFA	240,353	236,851	232,284	230,698	239,239
ETE	61,462	59,775	58,375	58,081	59,182
CS	14,183	12,943	12,298	12,259	12,080
Financing Debt Charges [1]	39,227	43,577	44,381	44,869	45,000
LGSS	9,645	9,736	8,892	8,323	8,177
Public Health	0	15,133	15,469	15,142	15,193
EA Levy [2]	373	373	373	373	373
Net movement on reserves [3]	155	4,093	5,691	1,793	-1,693
Total budget	**365,398**	**382,481**	**377,763**	**371,538**	**377,551**
% Change in budget	-4.0%	4.4%	-1.5%	-1.9%	1.3%

(1) Financing debt charges refers to the net cost of interest and principal payments on existing and new loans.
(2) EA Levy refers to the contribution to the Environment Agency for flood control and flood mitigation.
(3) Net movement on reserves reflects use of the various reserve funds (see chapter 7).

Capital programme spending

The 2015-16 ten year capital programme worth £879m is currently estimated to be funded through £591m of external grants and contributions, £61m of capital receipts and £226m of borrowing (Table 5.9). There was originally a funding shortfall, included for 2015-16 and 2016-17 of £30m (reduced from £32m due to carrying forward some grant from 2014-15) as a result of the provisional Basic Need allocation. Whilst some minor additional funding has been allocated to the Council following a challenge to the formula it still resulted in a significant funding shortfall. Further work has been undertaken to minimise the additional funding requirement by reviewing the phasing requirements and cost provisions. This has resulted in a significantly reduced funding shortfall the detail of which is being considered by the Children's Committee but for which provision has been made within the capital programme. The related revenue budget to fund capital borrowing is forecast to spend £34m in 2015-16, increasing to £45m by 2019-20. Table 5.9 shows a summary of available funding for the capital programme.

Table 5.9: Funding the capital programme 2015-16 to 2024-25

	2015-16 £m	2016-17 £m	2017-18 £m	2018-19 £m	2019-20 £m	Later years £m	Total £m
Grants	57.0	48.9	50.9	50.9	50.5	101.3	359.5
Contributions	62.6	27.6	35.9	23.5	10.4	71.6	231.6
General capital receipts	5.7	29.4	8.4	7.4	3.4	7.1	61.4
Prudential borrowing	62.5	32.5	29.5	12.0	20.7	92.2	249.4
Prudential borrowing (repayable)	20.0	-19.8	-11.9	4.2	0.6	-16.3	-23.2
Total funding	**207.8**	**118.6**	**112.8**	**98.0**	**85.6**	**255.9**	**878.7**

Section 7 later in the Business Plan sets out the detail of the 2015-16 to 2024-25 capital schemes which are summarised in the tables below. Major new investments underway or planned include:

- Major road maintenance (£90m)
- Ely Crossing (£31m)
- CambridgeSciencePark Station (£30m)
- Rolling out superfast broadband (£30m)
- A14 Upgrade (£25m)

- Housing provision (£18m)
- Northstowe (£15m)
- King's Dyke Crossing (£14m)
- Development of Archives Centre premises (£12m)
- Renewable Energy (£10m)
- Providing for demographic pressures regarding new schools and children's centres (£560m – over ten years)

Table 5.10 summarises schemes according to start date, whereas Table 5.11 summarises capital expenditure by service. These tables include schemes that were committed in previous years but are scheduled to complete from 2015-16 onwards.

Table 5.10: Capital programme for 2015-16 to 2024-25

	2015-16 £m	2016-17 £m	2017-18 £m	2018-19 £m	2019-20 £m	Later years £m	Total £m
Ongoing	28.0	30.5	29.8	29.8	29.9	39.7	187.7
Commitments	129.5	21.9	9.6	3.8	0.6	2.0	167.4
New starts:	-	5.0	5.0	5.7	0.7	3.9	20.3
2014-15	49.5	51.0	21.0	20.0	20.0	0.1	161.6
2015-16	0.5	8.2	5.2	0.4	-	-	14.3
2016-17	0.3	1.9	40.8	26.7	3.7	25.0	98.4
2017-18	-	0.1	1.4	11.6	17.6	30.2	60.9
2018-19	-	-	-	-	13.1	99.1	112.2
2019-20	-	-	-	-	-	-	-
2020-21	-	-	-	-	-	11.3	11.3
2021-22	-	-	-	-	-	22.6	22.6
2022-23	-	-	-	-	-	22.0	22.0
2023-24	-	-	-	-	-	-	-
Total spend	**207.8**	**118.6**	**112.8**	**98.0**	**85.6**	**255.9**	**878.7**

Table 5.11: Services capital programme for 2015-16 to 2024-25

Scheme	Total Cost £m	Prev. Years £m	2015-16 £m	2016-17 £m	2017-18 £m	2018-19 £m	2019-20 £m	Later years £m
CFA	604.5	124.1	87.5	50.9	53.7	43.8	39.6	204.9
ETE	576.6	230.8	100.3	57.0	52.6	47.7	40.5	47.7
CS& Managed	65.6	13.1	20.0	10.7	6.5	6.5	5.5	3.3
Total	**1,246.7**	**368.0**	**207.8**	**118.6**	**112.8**	**98.0**	**85.6**	**255.9**

The capital programme includes the following Invest to Save / Invest to Earn schemes:

Table 5.12: Invest to Save / Earn schemes for 2015-16 to 2024-25

Scheme	Total Investment (£m)	Total Net Return (£m)
Housing provision (primarily for rent) on CCC portfolio	17.5	16.5
Renewable Energy	10.2	10.2
MACMarket Towns (March)	1.8	3.6
Disposal / Relocation of Huntingdon Highways Depot	1.6	3.6
County Farms Investment	5.0	-(1)

(1) Schemes expected to break-even, however additional returns are not yet quantifiable.

6) Cash limits and savings identification

Every local authority is required, under legislation, to set a balanced budget every year. It is the Chief Finance Officer's statutory responsibility to provide a statement on the robustness of the budget proposals when it is considered by council.

There are a number of methodologies that councils can adopt when developing their budget proposals. These methodologies, to a lesser or greater extent, fall into two fundamental approaches. The first is an incremental approach that builds annually on the budget allocations of the preceding financial year. The second is built on a more cross cutting approach based on priorities and opportunities.

There are advantages and disadvantages with both approaches. The approach in Cambridgeshire, to date, has largely been based on the incremental approach. This has, however, an in-built ability to 'flex' for local circumstances, priorities and pressures.

The incremental approach has the benefit that it provides relative clarity, the framework can be easily agreed, its construction can be managed within the council's existing resource base, and it provides clear savings targets by Directorate. The downside is that other than demographic pressures it is not a very strategic tool that can redirect resources according to changing priorities.

The incremental model in Cambridgeshire allocates cash limits to Directorates within a four-block model. These blocks are:

- Children Families and Adults
- Economy, Transport and Environment
- Corporate and Managed Services
- Public Health

The above categories do not recognise LGSS which operationally is managed via the Joint Committee with Northamptonshire County Council. Whilst not officially recognised as such the Council has effectively operated this element of the Council's activities as an unofficial fifth block. Whilst the operational responsibility for LGSS rests with the Joint Committee the level of resources allocated to these activities, and the service levels required by this Council, must rest individually with the two councils. It is therefore intended to recommend that LGSS be recognised as a formal resource block for the purposes of budgeting and business planning.

Cash limits are issued for the period covered by the medium term financial strategy (rolling five years) in order to provide clear guidance on the level of resources that services are likely to have available to deliver services over that period. Obviously projections will change with the passage of time as more accurate data becomes available and therefore these projections are updated annually. This process will take into account changes to the forecasts of inflation, demography, and service pressures such as new legislative requirements that have resource implications.

Having updated the cash limits, in accordance with the changes set out above, Directorates develop savings proposals in order for their cost of service delivery to be retained within the financial envelope for their Directorate.

The Council's approach to the identification of savings to achieve a balanced budget has, to date, been a departmental one. This has worked relatively well as it makes ownership clear and transparent. The ability to deliver further savings beyond those already identified within the Business Plan is however becoming increasingly more challenging and the options under consideration more unpalatable. There is, however, no indication at this point that the austerity measures will not continue to restrict our funding availability for years to come. As a result, alternative approaches to delivering a balanced budget are currently being considered and evaluated. Such approaches include:

- Zero based budgeting
- Outcome targets as opposed to corporate objectives
- Cross cutting thematic reviews
- Transforming Cambridgeshire (cross public sector transformation)

Such approaches are not new and have had varying levels of success in other organisations. All take time and consume significant resources to deliver. Additional funding will need to be allocated to these activities if they are pursued.

It is widely recognised that the existing approach to developing cash limits is not sustainable in an environment of continuing austerity. It is difficult to see how the financial savings for the financial years 2016/17 and beyond will be delivered under the existing model. Officers are therefore working on developing an alternative approach to the delivery of savings proposals that will adopt a more holistic, end to end, cross public sector approach. This may well result in a complete re-design of the service delivery model in many areas. This will be informed by the work that is currently under way in the Transforming Cambridgeshire Programme but will not necessarily be restricted by it. The approach could also make use of the budgeting tools highlighted above.

Before any of this programme is embarked upon a report outlining the resources required to support its delivery, and the expected outcomes from it, will be presented to General Purposes Committee.

It is unlikely that by adopting this alternative approach the need for some element of the cash limit methodology currently in use will be removed. Cash limits will therefore continue to be constructed using the departmental methodology and the two approaches will run alongside each other. Any savings that are attributed from these holistic reviews will be fed through the cash limit allocation methodology thereby reducing the demand on all services.

7) Fees and charges policy

Fees and charges are a very important source of income to the council, enabling important services to be sustained and provided. As the overall cost of service provision reduces the proportion costs that are recovered through fees and charges is likely to grow. Indeed to sustain the delivery of some services in the future this revenue could become essential.

The MTFS aims to ensure that fees and charges are maintained or,preferably, increased as a proportion of gross expenditure through identifyingincome generatingopportunities, ensuring that charges for discretionaryservices or trading accounts cover costs and ensuring that fees and charges keep pace with price inflation and/or competitor and comparator rates.

In recent years the consumer price index has been increasing by over 3% perannum whilst the council had applied a standard rate of 2% within its Business Plan assumptions. Over time this difference has been hard to sustain.In some areas there has not been a consistent review mechanism to ensure that the Council considers how income generated through fees and charges can support the delivery of corporate objectives. A key purpose of the inclusion of a Policy within the Medium Term Financial Strategy is to provide a framework for this process and to deploy a mechanism that requires fees and charges to be reviewed annually.

The Council receives revenue income for the provision of services from a very diverse range of users. These range from large corporate organisations to individual residents.Some charges are set at the total discretion of the Council whereas other charges are set within a strict national framework.

Overall, however, fees and charges income is both an invaluable contribution to the running costs of individual services and a tool for assisting the delivery of specific service objectives. Either way, it is important for the level of charges to be reviewed on an annual basis. This will not necessarily result in an increase but to not do so should be as result of a conscious decision rather than as an oversight.

For business planning purposes all fees and charges are increased in line with the Council's standard inflation rate, which this year has been set at 2% for each of the years covered by the Business Plan. Therefore, even if a decision is taken to not increase some fees and charges the budget shortfall that this creates will need to be bridged through other operational savings.Conversely, if charges are increased above inflation this can contribute to departmental savings targets.

When considering increases services must take into accountelasticities of demand. Whilst the majority of Council services are unaffected by market factors there will be some price sensitivities in all of the services that are provided, albeit many of these may only be short term.

8) Reserves policy

Need for reserves

We need reserves to protect and enhance our financial viability. In particular, they are necessary to:

- maintain a degree of in-year financial flexibility
- enable us to deal with unforeseen circumstances and incidents
- set aside monies to fund major developments in future years
- enable us to invest to transform and improve service effectiveness and efficiency
- set aside sums for known and predicted liabilities
- provide operational contingency at service level
- provide operational contingency at school level

Reserve types

The Council maintains four types of reserve:

- **General reserve** – a working balance to cushion the impact of uneven cash flows. The reserve also acts as a contingency that we can use in-year if there are unexpected emergencies, unforeseen spending or uncertain developments and pressures where the exact timing and value is not yet known and/or in the Council's control. The reserve also provides coverage for grant and income risk.
- **Office reserves** – reserves we have set aside to meet known commitments within Directorates and to provide some degree of contingency for in-year financial risks.
- **Earmarked reserves** – reserves we have set aside to meet known or predicted liabilities e.g. insurance claims, or that we set aside for specific and designated purposes.
- **Schools reserves** – we encourage schools to hold general contingency reserves within advisory limits.

Level of reserves

We need to consider the general economic conditions, the certainty of these conditions, and the probability and financial impact of service and business risks specific to the Council in order to calculate the level of reserves we need to hold.

There are risks associated with price and demand fluctuations during the planning period. There is also continued, albeit reducing, uncertainty about the financial impact of major developments currently in progress.

At the operational level, we have put effort into reducing risk by improving the robustness of savings plans to generate the required level of cash-releasing efficiencies and other savings.

Table 8.1: Estimated level of reserves by type 2015-16 to 2019-20

Balance as at:	31 March 2015 £m	31 March 2016 £m	31 March 2017 £m	31 March 2018 £m	31 March 2019 £m	31 March 2020 £m
General reserve	15.2	14.9	14.8	14.8	14.6	14.8
Office reserves	6.5	6.5	6.5	6.5	6.5	6.5
Earmarked reserves	15.7	16.1	20.3	26.0	28.0	26.1
Schools reserves	22.0	22.0	22.0	22.0	22.0	22.0
Total	**59.4**	**59.5**	**63.6**	**69.3**	**71.1**	**69.4**
General reserve as % of gross non-school budget	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%

Adequacy of the general reserve

Greater uncertainties in the Local Government funding environment, such as arise from the Business Rates Retention Scheme and localisation of Council Tax Benefit, increase the levels of financial risk for the Council. As a result of these developments we have reviewed the level of our **general reserve** and have set a target for the underlying balance of no less than 3% of gross non-school spending.

We have paid specific attention to current economic uncertainties and the cost consequences of potential Government legislation in order to determine the appropriate balance of this reserve. The table below sets out some of the known risks presenting themselves to the Council. There will inevitably be other, unidentified, risks and we have made some provision for these as well.

We consider this level to be sufficient based on the following factors:

- Central Government will meet most of the costs arising from major incidents; the residual risk to the Council is just £1m if a major incident occurred.
- We have identified all efficiency and other savings required to produce a balanced budget and have included these in the budgets.

Table 8.2: Target general reserve balance for 2015-16 to 2019-20

Risk	Source of risk	Value £m
Inflation	0.5% variation on Council inflation forecasts.	0.6
Demography	0.5% variation on Council demography forecasts.	0.6
Interest rate change	0.5% variation in the Bank of England Base Rate.	0.1
Council Tax	Inaccuracy in District taxbase forecasts to the value of 10% Council Tax Benefit Localisation grant shortfall.	1.3
Business Rates	Inaccuracy in District taxbase forecasts of County share of Business Rates to the value which triggers the Safety Net.	2.4
Unconfirmed specific grant allocations	Value of as yet unannounced specific grants different to budgeted figures.	1.3
Academy conversions higher than expected	Impact on Education Services Grant from increase in academy conversions.	0.2
Deliverability of savings against forecast timescales	Savings to deliver Business Plan not achieved.	3.8
Additional responsibilities	Potential additional responsibilities under new Public Health guidelines.	0.5
Non-compliance with regulatory standards	E.g., Information Commissioner fines.	0.5
Major contract risk	E.g., contractor viability, mis-specification, non-delivery.	1.6
Unidentified risks	n/a	2.1
Balance		**15.0**

9) Business Plan roles and responsibilities

This is the first year that the Business Plan will be developed through the Committee structure. It is therefore beneficial to clarify the respective roles and responsibilities of committees within this process. These are defined in the Constitution but are out below in order.

Full Council

Council is the only body that can agree the Council's budget and the associated Council Tax to support the delivery of that budget.It discharges this responsibility by agreeing the Business Plan in February each year.In agreeing the Business Plan the Council formally agrees the cash limits for the service blocks (currently based on a departmental structure). The Business Plan includes both revenue and capital proposals and needs to be a 'balanced' budget. The following is set out within Part 3 of the Constitution – Responsibility for Functions.

Council is responsible for:

"(b) Approving or adopting the Policy Framework and the Budget

(c) Subject to the urgency procedure contained in the Access to Information Procedure Rules in Part 4 of this Constitution, making decisions about any matter in the discharge of a committee function which is covered by the Policy Framework or the Budget where the decision-making body is minded to make it in a manner which would be contrary to the Policy Framework or contrary to, or not wholly in accordance with, the Budget

(d) Approving changes to any plan or strategy which form part of the Council'sPolicy Framework, unless:

i. that change is required by the Secretary of State or any Government Minister where the plan or strategy has been submitted to him for approval, or

ii. Full Council specifically delegated authority in relation to these functions when it approved or adopted the plan or strategy"

General Purposes Committee

GPC has the responsibility for the delivery of the Business Plan as agreed by Council. It discharges this responsibility through the service committees. In order to ensure that the budget proposals that are agreed by service committees have an opportunity to be considered in detail outside of the Council Chamber, those proposals will be co-ordinated through GPC and recommended on to Council. GPC does not have the delegated authority to agree any changes to the cash limits agreed by Council save for any virement delegations that are set out in the Constitution.

The following is set out within Part 3 of the Constitution – Responsibility for Functions.

"The General Purposes Committee (GPC) is authorised by Full Council to co-ordinate the development andrecommendation to Full Council of the Budget and Policy Framework, as described in Article 4 of the Constitution, including in-year adjustments."

"Authority to lead the development of the Council's draft Business Plan(budget), to consider responses to consultation on it, and recommend afinal draft for approval by Full Council.In consultation with relevant Service Committees"

"Authority for monitoring and reviewing the overall performance of theCouncil against its Business Plan"

"Authority for monitoring and ensuring that Service Committees operatewithin the policy direction of the County Council and making anyappropriate recommendations"

GPC is also a service committee in its own right and, therefore, also has to act as a service committee in considering proposals on how it is to utilise the cash limit allocated to it for the delivery of services within its responsibility.

Service Committees

Service committees have the responsibility for the operational delivery of the Business Plan as agreed by Council within the financial resources allocated for that purpose by Council.The specific functions covered by the committee are set out in the Constitution but the generic responsibility that falls to all is set out below:

"This committee has delegated authority to exercise all the Council's functions, save those reserved to Full Council, relating to the delivery, by or on behalf of, the County Council, of services relating to…"

10) Risks

In providing budget estimates, we have carefully considered financial and operational risks. The key areas of risk, and the basic response to these risks, are as follows:

- **Containing inflation to funded levels** – we will achieve this by closely managing budgets and contracts, and further improving our control of the supply chain.
- **Managing service demand to funded levels** – we will achieve this through clearer modelling of service demand patterns using numerous datasets that are available to our internal Research Team and supplemented with service knowledge. A number of the proposals in the Business Plan are predicated on averting or suppressing the demand for services.
- **Delivering savings to planned levels** – we will achieve this through SMART (specific, measurable, achievable, relevant and timely) action plans and detailed review. All savings – efficiencies or service reductions – need to be recurrent. We have built savings requirements into the base budget and we monitor these monthly as part of budgetary control.
- **Containing the revenue consequences of capital schemes to planned levels** – capital investments sometimes have revenue implications, either operational or capital financing costs. We will manage these by ensuring capital projects do not start without a tested and approved business case, incorporating the cost of the whole life cycle.
- **Responding to the uncertainties of the economic recovery** – we have fully reviewed our financial strategy in light of the most recent economic forecasts, and revised our objectives accordingly. We keep a close watch on the costs and funding sources for our capital programme, given the reduced income from the sale of our assets and any delays in developer contributions.
- **Future funding changes** – our plans have been developed against the backcloth of continued reductions in Local Government funding.

Uncertainties remain throughout the planning period in relation to the above risks. In line with good practice, we intend to reserve funds that we can use throughout and beyond the planning period. Together with a better understanding of risk and the emerging costs of future development proposals, this will help us to meet such pressures.