Section 2 – Medium Term Financial Strategy Appendix B

Contents

1) Executive summary

The constituent elements of this Strategy set out the financial picture facing the Council over the coming five years. When the Council considered the MTFS last year there was significant uncertainty regarding the potential outcome of the forthcoming Comprehensive Spending Review (CSR). As part of that CSR, councils were offered the opportunity to agree to a fixed four year settlement figure bringing greater certainty to the grant settlement.

The vote to exit the European Union does of course bring this commitment in to question. Prior to the vote the Chancellor of the Exchequer stated that were the electorate to vote in favour of ‘Brexit’ then an emergency budget would be required in the autumn in order to stabilise the economy. It is not possible to say at this point whether this will transpire and if it does what the outcome of that will be. There is however no doubt that the decision has de-stabilised markets with significant value being wiped off share values across the globe and the value of the pound has deteriorated significantly as a consequence. Uncertainty was always going to have such an effect. Markets will recover from this turbulence but this may take some time and they may not recover to their position prior to the vote.

The outlook for public finances remains relatively bleak. The Council has operated for a number of years 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.

Whilst the Council’s financial environment has not improved over the last twelve months, the way in which it approaches the challenge has. Since agreeing the MTFS in 2015 the Council have agreed a change in the way that it bears the cost of borrowing. This has reduced, in the short term at least, the impact of capital financing costs on the Council’s budget which has enabled the establishment of a Transformation Fund in the sum of almost £20m. The Council has developed a strategic approach to the creation of transformation and innovation proposals. It has also brought the various skills and resources that were dispersed across the Council under a single line management structure to ensure that all proposals and thoughts are captured and turned from suggestions into realities.

The Council still has to make some stark and unpalatable choices but we are in a much better position to mitigate the implications of the financial environment than we were this time last year. The Council has a statutory responsibility to set a balanced budget each financial year and the proposals that are already within the Business Plan for 2017/18 do still contain some very unpalatable proposals.

Some service reductions are unfortunately still inevitable however we do expect these to be far less than otherwise would have been the case, had the Council not embarked upon this transformation journey. The Council will continue to seek to shape proposals so that the most vulnerable are the least affected. Nonetheless, there will be a direct impact on local communities: on libraries and roads, on social care and transport, on learning and public health.

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. Increasingly, the Council will work across service, organisation, and sector boundaries to find ways in which the shrinking resource of the wider public sector can be best used to achieve the outcomes we strive for. The key elements of this Strategy are set out below. A key point to note is that the Council Tax assumptions have been reduced to 0% for the period of the Strategy. This was in light of the debate that took place in February 2016 when setting the budget for the current financial year:

- A 0% council tax increase for the period of the Strategy;
- The Adult Social Care Precept of 2%, will be accepted for the remaining three years that it is available;
- The strategic approach to developing savings and transformation proposals that support the business plan continue to evolve for incremental implementation from 2017-18;
- For the financial year 2017-18 the base budget will use the existing cash limit budgets built into the existing Business Plan but that any variations will be managed, where possible, through the transformation work-streams that will bring forward cross-Council and multi-agency proposals;
- Funding for invest to save schemes will be made available via the Transformation Fund as part of the Business Planning process, or from the Council's General Reserve, subject to robust business cases;
- The Council will continue to adopt a more commercial focus in the use of its assets (both human and infrastructure) looking for opportunities to generate income in order to protect frontline services;
- The General Reserve will be held at approximately 3% of expenditure (excluding schools expenditure);
- 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 will be developed against the backcloth of the Council's new outcome-based approach to Business Planning;
- All opportunities for cross-sector and organisational working that drive end to end efficiencies and/or improvements in service delivery will be pursued as part of the outcome-based approach;
- Business rates pooling will be fully explored with district council's where there is a mutual financial benefit to so do;
- Consideration will also be given as to whether to trigger the use of a referendum in order to raise the Council Tax beyond that deemed excessive by the Secretary of State. The Business Plan is predicated on a 0% increase each year;
- The Council Tax assumption and forecasts are reviewed each year and updated if necessary;
- The Council will continue to lobby central government for fairer funding, and in particular for a fairer deal for Cambridgeshire's schools.

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 chapter of the Medium Term Financial Strategy explores that backdrop.

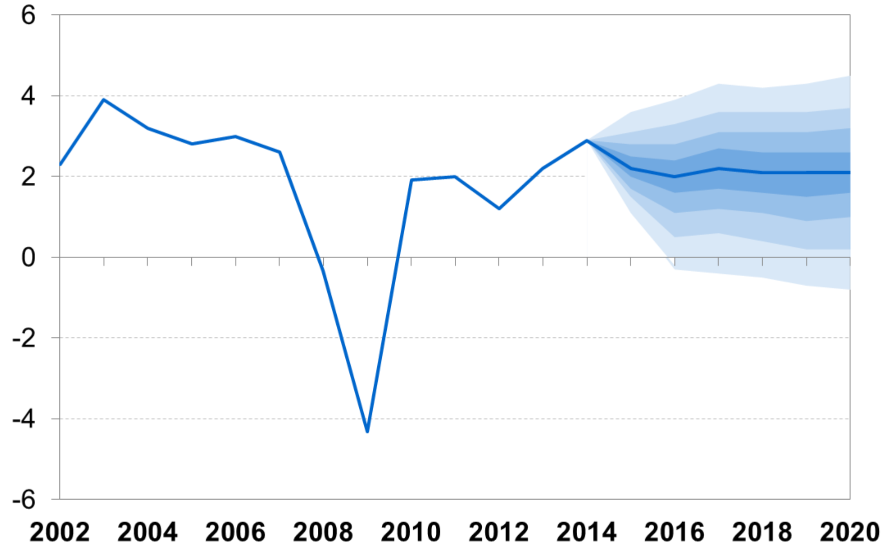
National economic outlook

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 growing by 1.7% and surpassing its 2008 pre-crisis peak in the third quarter of 2013. The economy continued to improve during 2014, with growth of 3.0% - the fastest in the G7.

Growth is expected to remain at similar levels during 2016, with the OBR forecasting GDP growth of between 2% and 3% over the medium term.

However, labour productivity remains weak, with the Office of National Statistics estimating that output per hour during 2015 was little changed from 2014. Despite the absorption of slack in the labour market, wage growth remains weak and with productivity 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 2016)

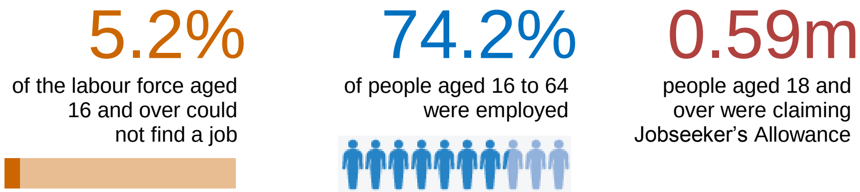


The downturn in the housing and property market after the credit crunch initially caused development to slow and land values have subsequently been struggling to recover. Over the last few years this has negatively affected the ability of the Council to fund capital investment through the sale of surplus land and buildings, or from contributions by developers. Although this situation still exists for the north of the County, recent indications continue to suggest that in south Cambridgeshire the market is showing goods signs of recovery. This is particularly true for the city of Cambridge, where values are starting to rise over and above pre-credit crunch levels. This has led to increased viability of development once again and, therefore greater developer contributions in these areas.

The government has set a target of 2% for the underlying rate of inflation as measured by the Consumer Price Index. During 2014 inflation fell below this level for the first time since late 2009, reaching -0.1% in April 2015 as a result of reductions in the price of oil and food. However, there are some signs that pay growth may be picking up and the anticipated rise in wages will have the opposite effect, fuelling inflation. During 2015-16, CPI inflation rose to 0.5% (March 2016) but remains well below the 2% target. Sterling's appreciation is likely to put temporary downward pressure on inflation for the next couple of years and inflation is forecast to rise slowly to the 2% target level over the medium term.

Figure 2.2: CPI Inflation (Source: OBR, March 2016)

The latest unemployment rate is 5.2%; with 1.67m people aged 16 to 64 not employed but seeking work. Unemployment 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 2005. As at April 2016, the number of people claiming Jobseekers Allowance was 0.59m, or 2.1%. In total, 30.40m people were in employment (74.2% of the population aged 16-64).



Current OBR forecasts expect unemployment to stabilise at between 5% and 6% over the medium term.

Unemployment is currently 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, while the Office for National Statistics is assuming a reduction in the Base Rate in the short term, rising to 0.75% in 2019 and 1.1% by the end of the medium term.

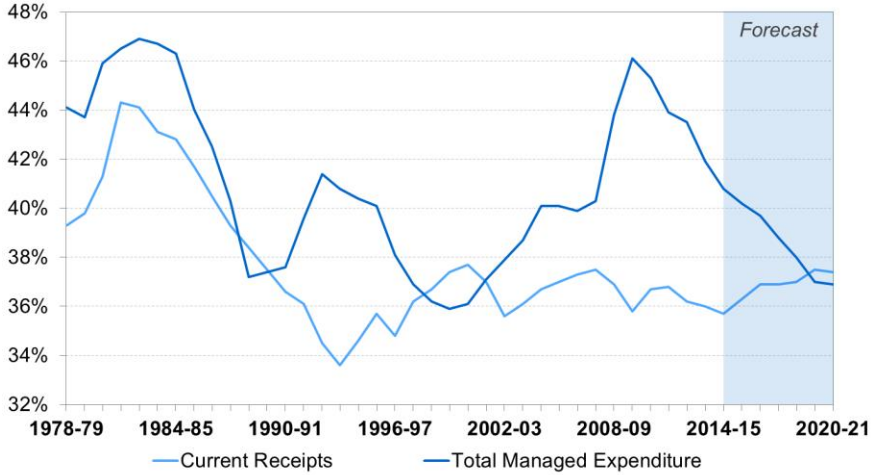
The continued sluggish growth in the Eurozone and the slowing-down of the Chinese economy may have a significant impact on the UK's position.

Public Sector spending

The government's economic strategy, set out by the Chancellor in July's Summer Budget and the Comprehensive Spending Review in November 2015, and reconfirmed in the March Budget 2016, remains committed to rebalancing the economy through a programme of austerity. The cyclically-adjusted budget deficit was halved during the last Parliament and the Chancellor has confirmed that deficit reduction will continue at a similar rate of around 1.1% of GDP per year. The latest forecast from the OBR expects the deficit to be replaced with a surplus of £10.4 billion by 2019-20.

Public sector net debt is expected to have peaked at 83.7% of GDP in 2015-16 and is forecast to fall to 74.7% of GDP by 2020-21. 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.

Figure 2.3: Total public sector spending and receipts

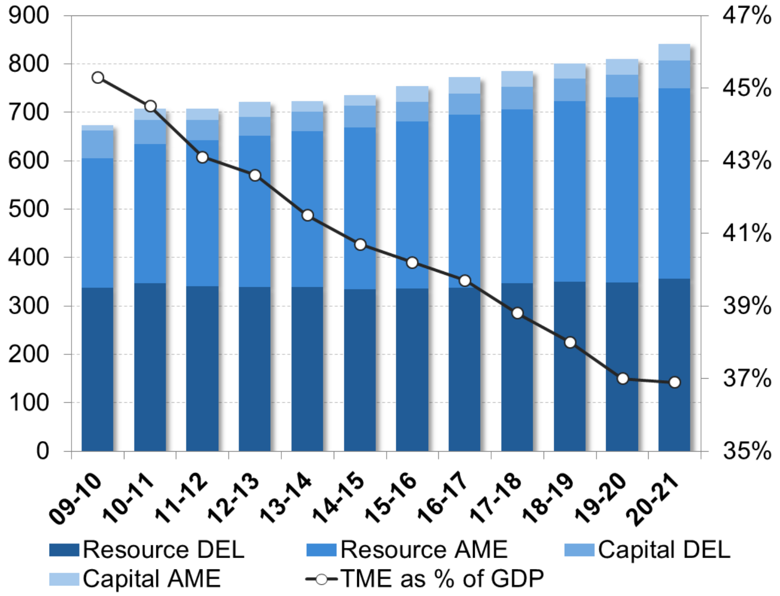


The government plans to eliminate the deficit by a mixture of spending and fiscal consolidation. Current estimates indicate that Total Managed Expenditure will be reduced from 40% of GDP in 2016-17 to 37% of GDP by 2019-20 and remain at that level in 2020-21.

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 five years, as shown in Figure 2.4, indicates an overall reduction in revenue Departmental Expenditure Limits until 2018-19, at the expense of increases in Annually Managed Expenditure. Departmental Expenditure Limits are expected to increase from 2019-20 and match GDP growth in 2020-21.

Figure 2.4: Total Managed Expenditure



Detailed government spending plans for individual departments were announced for 2016-17 in the 2015 Spending Review.

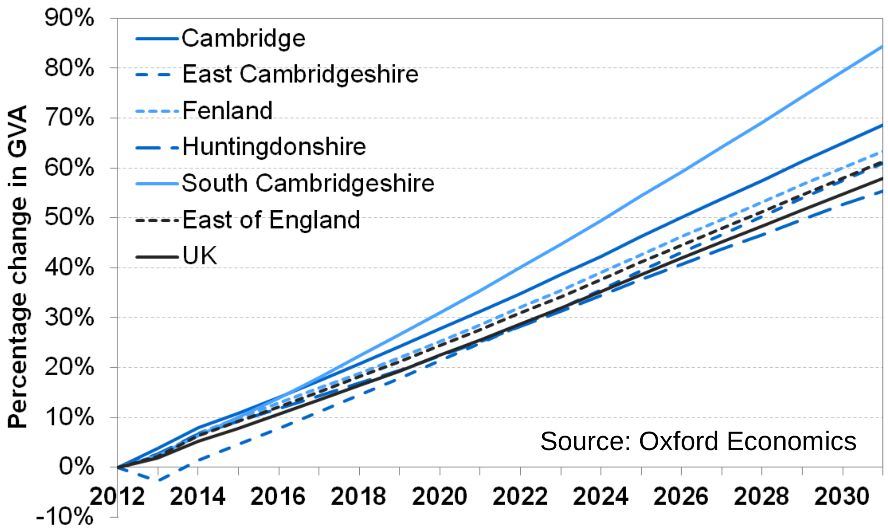
By far the majority of the Department for Communities and Local Government's DEL is allocated to individual local authorities. Our internal modelling of future cuts prudently assumes a similar level of reductions to those seen in 2015-16 over the next five years, as set out below, which has been confirmed by the 2015 Spending Review.

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 remained the third-highest exporting region by value in 2012, with a particularly strong pharmaceutical industry.

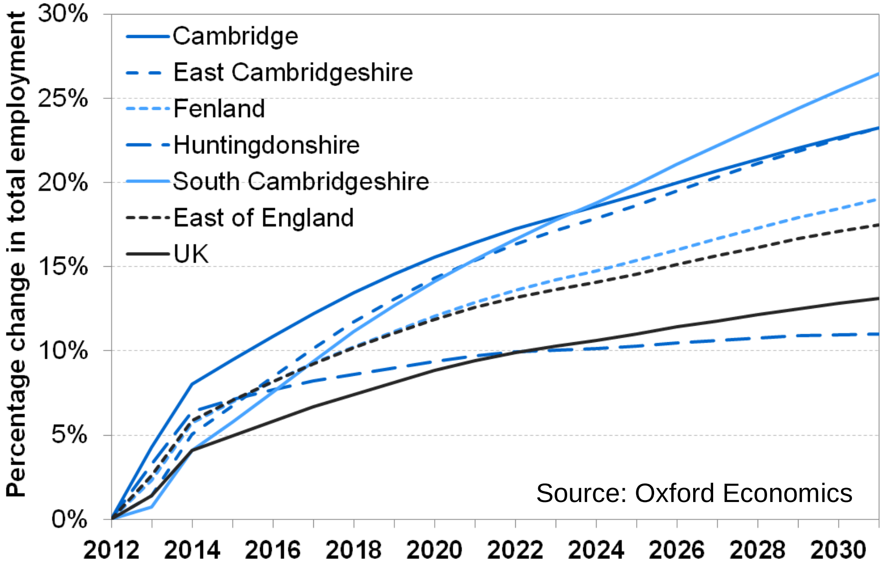
Economic productivity is measured by Gross Value Added (GVA). Calculated on a workplace basis, Cambridgeshire's GVA was £16,529 million in 2013, a 1.2% increase from 2012. Per head of population, GVA was £26,150 in 2013, 19% above the East of England average of £21,897 per head, and 9% above the England average of £24,091 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 65% between 2013 and 2031, with the most significant increase in South Cambridgeshire, where GVA is expected to increase by 80%. Enterprise births relative to population have increased for the second year in a row, although this is still below the regional and national enterprise birth rate. All five Cambridgeshire districts have seen an increase in the number of business start-ups during 2013. Retail growth in most district town centres continues to provide an important source of employment to support the broader market town business base.

Figure 2.6: Employment growth forecasts for Cambridgeshire by district



Cambridgeshire's higher than average employment rate and forecasts for continued employment growth across all districts present a key opportunity for the county. Cambridgeshire has seen a 2.4% rise in the number of private sector jobs during 2013, and a 4.0% rise 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; however both Fenland and Cambridge have seen significant growth during 2013. A significant proportion of Cambridgeshire's jobs are in manufacturing and education.

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 is seeking 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.

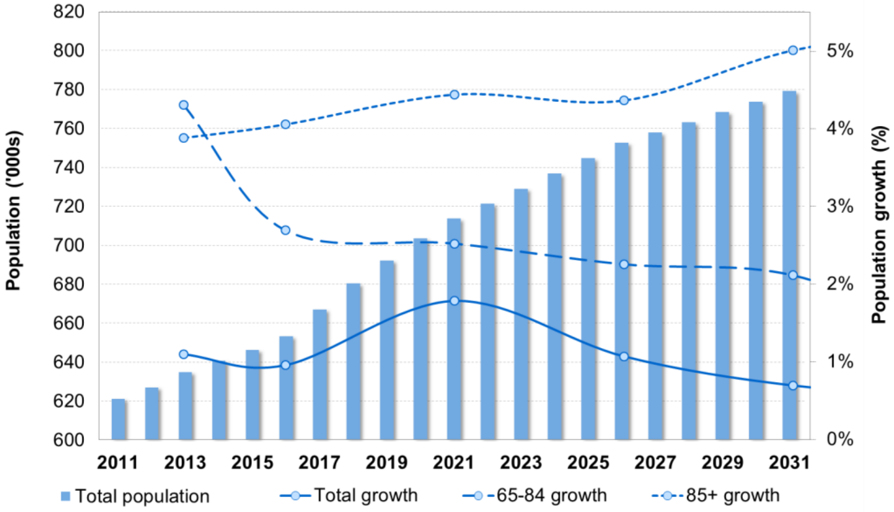
As part of the Budget 2014, Central Government announced their agreement for a Greater Cambridge City Deal which will deliver a step change in investment capability; an increase in jobs and homes with benefits for the whole County and the wider LEP area. The agreement provides a grant of up to £500 million for new transport schemes. However, only £100 million of funding has initially been guaranteed with the remaining funding dependent on the achievement of certain triggers. The deal has resulted 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 through a Joint Committee. This is helping 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 23% 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 65 and over is forecast to continue to increase over the next 20 years, from 118,700 in 2016 to 195,200 in 2036, 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) Transformation

The Business Plan sets out how the Council intends to deliver its priority outcomes. With real term reduction in resources and pressures of demographic growth, maintaining the level of funding for the key activities that deliver these outcomes becomes increasingly challenging. The reduced funding available means the Council must focus on those things that it sees as essential to support the delivery of these priority outcomes.

The Council has recognised that the traditional approach that has taken on developing the Business Plan in previous years was unsustainable. As a consequence the Council has created a significant transformation resource in order that it can re-shape the Council in to one that is leaner, more efficient, more cross cutting and one that is focussed on outcomes.

The Council is still in the early days of what will become the modus operandi of the Council's future arrangements. The 2017/18 Business Plan will be a transition year in which the transformation programme starts to be integrated in to the traditional Business Planning arrangements. It is important that Business Planning and the Transformation Programme are not seen as different programmes as there are intrinsically linked. They will be developed as one, they will be managed as one, and therefore they are one.

The traditional approach to developing Business Plan proposals is being replaced through thematic, cross organisation/sector priority programmes: -

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Asset Utilisation – making better use of buildings and assets we have to save money and bring in more resources for the Council.

Following the money and Data Analytics – using intelligence and data to better understand our services, who needs them and how we might better provide them.

Procurement, Contracts and Purchasing – 70% of our expenditure is on goods and services procured from external organisations. We are looking at how we can do this better across the whole Council.

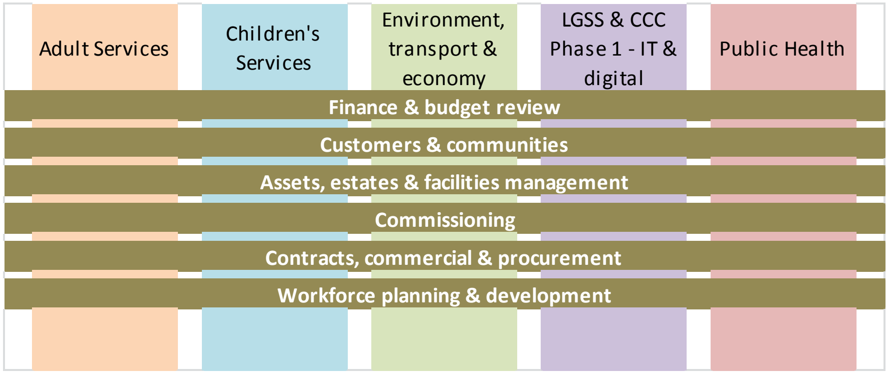
Customer First, Digital First – we are making sure that when our residents contact us they get what they need the first time and, if they do need more than this, they get to see/speak to someone who is the right person to help them.

Partnership and Stakeholder Engagement – we want to explore how others, like the voluntary sector or other councils, can help us provide services in different ways than we have done before.

The activities behind these priority areas are linked to at least one of 11 Transformation Workstreams. The workstreams prioritise cross Council working and innovative thinking and are arranged into 5 vertical 'directorates' and 6 cross cutting themes:

- Adult services
- Children’s services
- Environment, Transport & Economy
- LGSS & CCC Phase 1 – IT & Digital
- Public Health

- Finance & budget review
- Customers & communities
- Assets, estates & facilities management
- Commissioning
- Contracts, commercial & procurement
- Workforce planning & development



The 11 Transformation workstreams represent what the Council plans to do, with each service making a contribution to achieving planned outcomes either through direct service provision, commissioning, or working with partners. Each workstream is a Council priority and, as such, will be delivered by services working collaboratively with each other.

As part of the process leading to the creation of this Business Plan, the Council has considered what it needs to look like in 2021-22 in order to deliver its outcomes in the context of a significant reduction in available resource. A Transformation Delivery Model has been created that sets out what this future Council will look like and how we will get there. Members and Officers have worked together across all Council services to design an organisation that focuses on the outcomes we want most for our communities and that works together to achieve these.

This longer term approach to transformation will allow the Council to redesign services more effectively and intelligently, aligning our enabling activities, alongside our partners, to achieve our outcomes. Transformation of the Council’s services in line with these workstreams will be phased over the next five years and will reflect our available revenue and capital resources.

The Council 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 prevention, early intervention and short-term progressive support.
- 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.
- Withdrawing from some areas of service provision to focus on the Council's unique contribution.

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.

The Transformation Delivery Model is not a panacea but an approach to ensure we maximise the opportunities across the Council and with partners to deliver services in a different way. It is intended to mitigate the impact of a reducing resource pool rather than to eradicate it. The Council will still have to make very difficult decisions over service levels, income generation and asset utilisation. These decisions will affect real people in real communities and, regrettably, are a direct consequence of inadequate funding.

Although the Council considered the MTFS prior to the whole Business Plan, it is still an integral part to the Business Plan 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. This includes service based strategies support delivery of the outcomes that are to be achieved within the resource envelope provided through the MTFS.

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 2)
- Capital Strategy (Section 6)
- Treasury Management Strategy (Section 7)

As well as outlining the Council's revenue strategy, this Medium Term Financial Strategy includes the organisation's Fees and Charges Policy (see chapter 7) and Reserves Policy (see chapter 8).

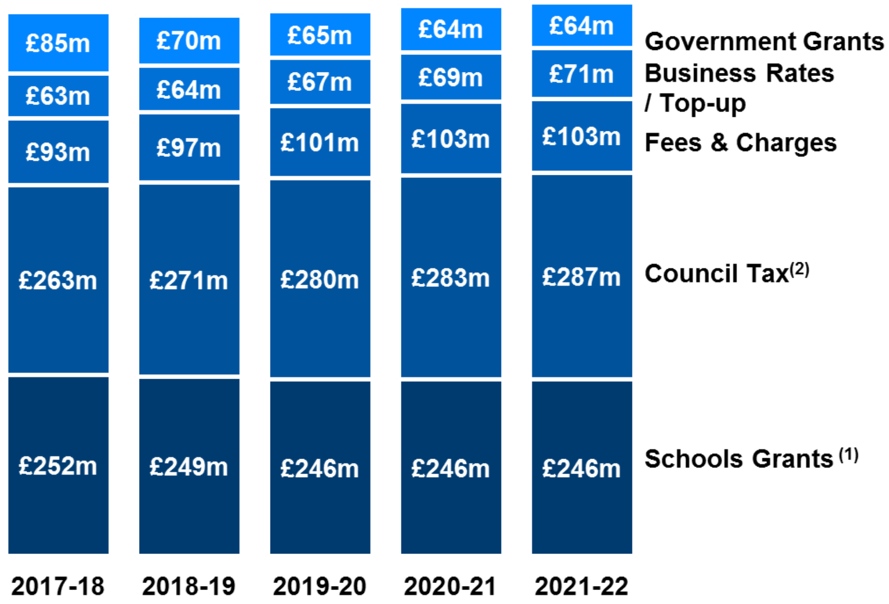
The Council's revenue spending is shaped by our Transformation Delivery Model, influenced by levels of demand and the cost of service provision, and constrained by available funding.

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, including grants from Central Government and other public agencies, Council Tax, Business Rates and other locally generated income.

In 2017-18, Cambridgeshire will receive £544m of funding excluding grants retained by its schools. The key sources of funding are Council Tax, for which a provisional increase of 0% on the base and 2% for the Adult Social Care precept has been assumed, and Central Government funding (excluding grants to schools), which will see a like-for-like reduction of 7.8% compared to 2016/17.

Figure 4.1: Medium term funding forecast



(1) This includes Schedule 2 Dedicated Schools Grant, retained by the County Council under regulation to support schools and education functions, and grant funding used to purchase traded services from the County Council

(2) This includes Adult Social Care Precept funding with a provisional increase of 2% per year, up to and including 2019-20, and 0% Council Tax increase.

As is evident from Figure 4.1, the Council will continue to face a challenging funding environment over the next three years (0.4% reduction in overall gross budget, excluding schools, or 0.4% reduction on a like-for-like basis), before beginning to see a change from 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 (2.07% in 2017-18, rising to 3.05% by 2021-22, as per OBR forecasts)
Top-up	• National RPI inflation (2.07% in 2017-18, rising to 3.05% by 2021-22, as per OBR forecasts)
Council Tax	• Level set by Council (0% in all years) • Occupied Cambridgeshire housing stock (1.2%-1.7% annual increase, as per District Council forecasts)
Adult Social Care Precept	• Level set by Council (2% in years 2017-18 to 2019-20)
Revenue Support Grant	• DCLG Departmental Expenditure Limit (-13.2% in all years)
Other grants	• Grants allocated by individual government departments (overall decrease of 10.2% by 2021-22)
Fees & charges	• Charges set by Council (overall 0%-4.9% 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 provides vital stability against the variability of Business Rates. Nevertheless, our 9% share of Cambridgeshire's Business Rates remains a key driver towards growth.

In his April 2015 Budget, the Chancellor announced a pilot scheme allowing a small number of authorities, including the Council, to retain 100% of additional growth in business rates. The scheme is intended to incentivise local authorities to encourage business growth and will allow the Council to retain an additional 9% of any growth in business rates above an agreed "stretch target". Whilst the County Council has a key role in creating the appropriate environment to stimulate economic growth it is not the planning authority and will therefore continue to work closely with district partners in order to create this growth. While the increased devolution represented by the pilot is to be welcomed, the financial benefit for the Council is expected to be fairly small.

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 2016-17, rather than 656,850. In reality, this is mitigated somewhat by the New Homes Bonus, which acts as a clear promoter of housing growth.

The government limits the general increase in Council Tax to 1.99% per year, but has provided additional flexibility for local authorities with Adult Social Care responsibility to raise Council Tax by a further 2%, which this Business Plan assumes that the Council will take whilst freezing Council Tax increases. The provisional local government finance settlement issued in December 2015 indicated that these arrangements would remain in place through to 2019-20.

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. Therefore our annual review of Council Tax and fees and charges ensures that the Council makes a conscious decision not to increase these 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 1% 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

	2017-18	2018-19	2019-20	2020-21	2021-22
Inflationary cost increase (£000)	7,820	8,791	9,023	9,481	9,479
Inflationary cost increase (%)	1.7%	1.9%	2.0%	2.1%	2.0%

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, after accounting for the effects of planned actions to reduce demographic pressures:

Table 4.3: Demographic pressures

	2017-18	2018-19	2019-20	2020-21	2021-22
Demographic cost increase (£000)	6,582	6,208	6,269	6,313	6,313
Demographic cost increase (%)	1.4%	1.4%	1.4%	1.3%	1.3%

These figures compare with an underlying population growth of around 1.4% per year (a total increase of 9.0% between 2015-16 and 2020-21). 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. To this end a Transformation Fund has been created, through a revision to the calculation of the Council's minimum revenue provision (MRP).

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 process for prioritising schemes against their ability to deliver outcomes.

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 determines what proportion of revenue budget is spent on services and the corresponding maximum amount to be spent on financing borrowing. This is achieved by setting 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 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.

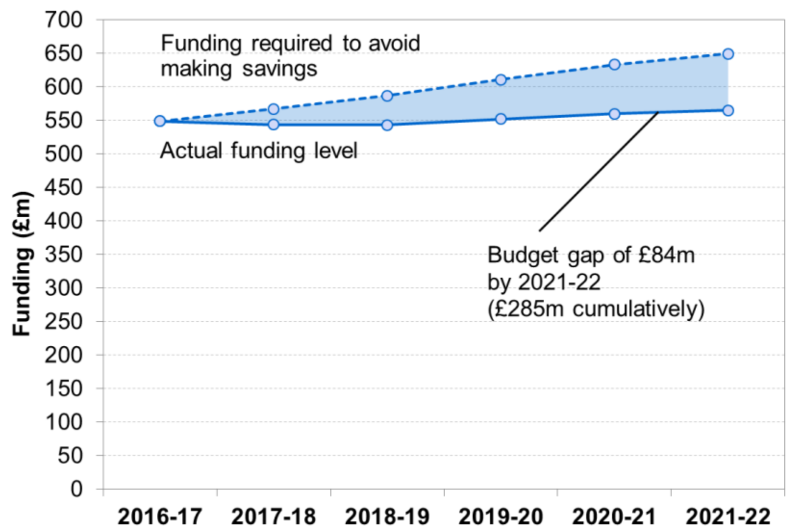
Allocating our resources to address the shortfall

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.

What we have does not go as far: inflation will cost us £45m.
There are more people in the county, with more complex needs: demography will cost another £32m.
We need to invest in the infrastructure of our growing county: borrowing to fund capital projects will increase by £4.5m.

We need to find **£84m** savings

Figure 4.2: Budget gap



Achieving these £88m of savings over the next five years will mean 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 are now in an environment where any efficiencies to be made are minimal. We must accept therefore that more and more of the budget challenge will be met 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 2017-18 to 2021-22

	2017-18 £000	2018-19 £000	2019-20 £000	2020-21 £000	2021-22 £000	Total £000
Loss (+) / Gain (-) of funding	7,015	461	-8,765	-7,645	-5,342	-14,276
Inflation	7,820	8,791	9,023	9,481	9,479	44,594
Demand (1)	6,582	6,208	6,269	6,313	6,313	31,685
Pressures & Investments	-3,942	5,847	7,039	6,988	573	16,505
Capital	3,303	795	-264	-330	-	3,504
Reserves	2,932	-2,016	1,963	133	-567	2,445
Other	22	-40	-38	-36	-68	-160
Total	**23,732**	**20,046**	**15,227**	**14,904**	**10,388**	**84,297**
Cumulative	**23,732**	**67,510**	**126,515**	**200,424**	**284,721**	

(1) This figure for the demographic pressure assumes that demand will be managed so as to reduce the pressure from the figure in table 4.3. Details can be found in table 3, part A of section 3 of the Business Plan

Capital

The Council's Capital Strategy can be found in full in Section 6 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 outcomes 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 have not only been affected in recent years by the downturn in the property market, but moving forward has, and will continue to be impacted by the introduction of Community Infrastructure Levies (CIL). CIL is 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, since April 2015 it is no longer to 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 Autumn Statement 2014 the Government reconfirmed its commitment to prioritise capital investment over day-to-day spending for the next few years, in line with the policy of capital investment to aid the economic recovery. The Spending Review 2015 confirmed this and announced plans to increase Central Government capital spending by £12 billion over the next 5 years. As such the Business Plan anticipates as a general principle that overall capital grant allocations will remain constant from 2016-17 onwards.

In the last two years, the Department for Education has developed new methodology in order to distribute funding for additional school places, as well as to address the condition of schools. Unfortunately, the new methodology used to distribute Basic Need funding did not initially reflect the Government's commitment to supply funding sufficient to enable authorities to provide enough school places for every child who needs one and the allocation of £4.4m for 2015-16 and 2016-17 was £32m less than the Council had estimated to receive for those years based on our level of need. Given the growth the County is facing, it was difficult to understand these allocations and, as such, the Council has continued to lobby the Department for Education (DfE) for a fairer funding settlement that is more closely in line with the DfE's commitment.

The Council has also sought to maximise its Basic Need funding going forward by establishing how the new funding allocation model works and seeking to provide data to the DfE in such a way as to maximise our allocation. This resulted in a significantly improved allocation of £32.4m for 2017-18 and £25.0m for 2018-19. This goes some way to reduce the Council's shortfall, but still does not come close to covering the costs of all of the Council's Basic Need schemes. The DfE have also recently revised the methodology used to distribute condition allocations, in order to target areas of highest condition need. A floor protection has been put in place to ensure no authority receives more than a 20% cut in the level of funding until 2018. The £1.2m reduction in allocation for Cambridgeshire in 2015-16 has hit this floor; therefore from 2018 it is expected that the Council's funding from this area will reduce further.

However, as part of the Spending Review 2015 the Government has announced investment of £23 billion in school buildings, opening 500 new free schools, creating 600,000 school places, rebuilding and refurbishing over 500 schools and addressing essential maintenance needs. The Council awaits further detail on how this will be allocated and whether it will improve the Council's current funding situation with respect to schools.

The mechanism of providing capital funding has also changed significantly in some areas. In order to drive forward economic growth, Central Government announced in 2013 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. In line with this announcement, the Council's Integrated Transport allocation was reduced from £5.7m in 2014-15 to £3.2m in 2015-16.

Although this reduction was disappointing, as part of the Autumn Statement 2014 the Department for Transport (DfT) announced indicative Highways Maintenance funding for the following six years which included an increase of £5m for the Council for 2015-16, and an additional £2m - £3m for each of the following five years (over the original base). This is not, however, all additional funding, as the increase will in part replace one-off in-year allocations of additional funding that the Council has received in recent years for aspects such as severe weather funding. However, having up-front allocations provides significant benefit to the Council in terms of being able to properly plan and programme in the required work.

In addition to the Highways Maintenance formula allocation, the DfT have created an Incentive Fund element to help reward local highway authorities who can demonstrate they are delivering value for money in carrying out asset management to deliver cost effective improvements. Each authority has to score themselves against criteria that determines which of three bands they are allocated to (Band Three being the highest performing). The Council is currently in Band 2, however for 2016/17 this provides the same level of funding (£833k) as for Band 3. From 2017/18 onwards, the difference between Band 2 and Band 3 funding gradually widens, therefore the intention is for the Council to achieve a Band 3 score by the next submission date, which is anticipated as being in November 2016.

The Greater Cambridge / Greater Peterborough LEP submitted a funding bid into the 2015-16 SLGF process, the results of which were announced in July 2014. A number of proposals put forward by the LEP were approved, including £5m for the Council's King's Dyke Crossing scheme. The LEP subsequently submitted a bid to the 2016-17 SLGF, which the Government announced in January 2015 was successful and the LEP received an additional £38m. The LEP agreed to allocate £16m of this funding to the Council's Ely Crossing scheme, in addition to a further £1m for work on the Wisbech Access Strategy. This was a new scheme, added into the 2015-16 Capital Programme.

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 outcomes contained within 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% ringfenced 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 targeted priority outcomes.

The Council has introduced a Capital Programme Board which scrutinises the programme and prioritisation analysis, and asks officers to undertake any reworking and/or rephasing of schemes as required to ensure the most efficient and effective use of resources deployed. The Capital Programme Board then recommends the programme to Service Committees; it is then 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 3).

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 2017-18 to 2021-22

	2017-18 £000	2018-19 £000	2019-20 £000	2020-21 £000	2021-22 £000
Business Rates plus Top-up	62,909	64,839	66,880	68,958	70,915
Council Tax	261,991	270,772	279,736	283,111	286,530
Revenue Support Grant	15,311	3,919	0	0	0
Other Unringfenced Grants	15,519	38,673	36,976	36,819	36,819
Dedicated Schools Grant (DSG)	238,678	235,448	232,219	232,219	232,219
Other grants to schools	13,434	13,434	13,434	13,434	13,434
Better Care Funding	13,148	13,148	13,148	13,148	13,148
Other Ringfenced Grants	41,993	15,047	15,047	15,047	15,047
Fees & Charges	93,394	97,402	100,807	103,185	103,185
Total gross budget	**756,377**	**752,682**	**758,247**	**765,921**	**771,297**
Less grants to schools (1)	-252,112	-248,882	-245,653	-245,653	-245,653
Schedule 2 DSG plus income from schools for traded services to schools	39,135	39,145	39,156	39,167	39,167
Total gross budget excluding schools	**543,400**	**542,945**	**551,750**	**559,435**	**564,811**
Less Fees, Charges & Ringfenced Grants	-187,670	-164,742	-168,158	-170,547	-170,547
Total net budget	**355,730**	**378,203**	**383,592**	**388,888**	**394,264**

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

Local Government Finance Settlement

In November 2015 the Government published a Spending Review covering 2016-17. This set out detailed grant allocations for individual local authorities which was then confirmed by the Local Government Finance Settlement announced by the Government in December 2015.

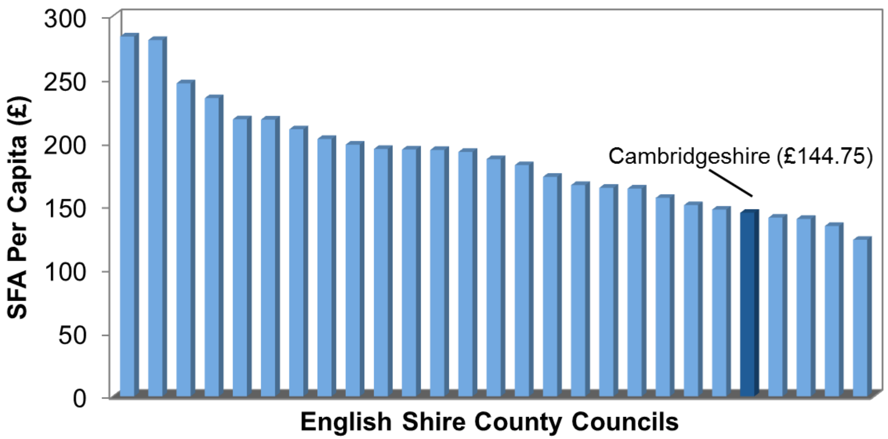
The headline position for Cambridgeshire County Council is a 20% reduction in the main settlement revenue funding from government in 2016-17. The overall change in government funding when specific grants are included is a reduction of 7.8%.

Table 5.2: Comparison of Cambridgeshire's 2016-17 and 2017-18 overall Government funding

	2016-17 £000	2017-18 £000
Business Rates plus Top-up	60,190	62,909
Revenue Support Grant	33,347	15,311
Other Unringfenced Grants	11,212	15,519
Better Care Funding	13,148	13,148
Other Ringfenced Grants	42,947	41,993
Government Revenue Funding (excluding schools)	**160,844**	**148,880**
Difference		**-11,964**
Percentage cut		-7.4%

The Council's core government revenue funding is described as its Settlement Funding Assessment (SFA) and comprises Revenue Support Grant, Business Rates and Top-up grant. - For 2017-18 Cambridgeshire's SFA award per head of population was the fifth lowest of all shire county councils, at only £144.75 compared to the average of £186.90.

Figure 5.2: County Council SFA per Capita 2017-18



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 54% in 2017-18. We are forecasting continued significant cuts to make this an obsolete source of funding by 2019-20. These reductions are based on cuts of 13.2% in the Local Government Spending Control Totals.

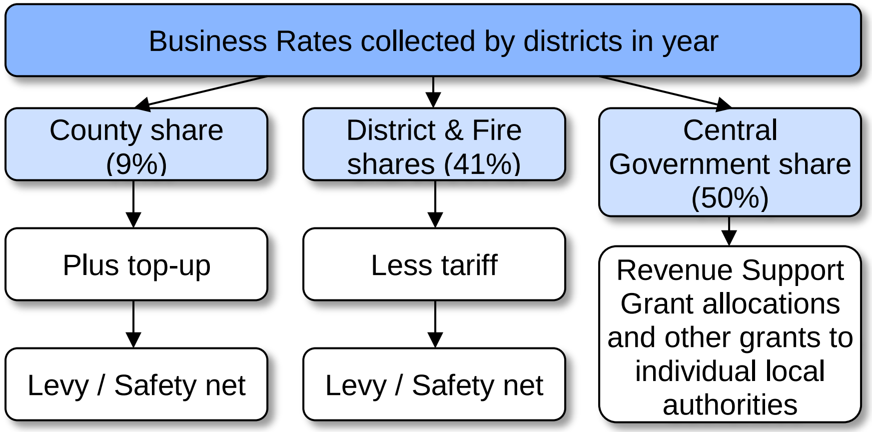
The Spending Control Total has two elements: business rates and RSG. Since business rates are forecast to increase, the cuts to the Spending Control Total must fall entirely on RSG, giving rise to the pronounced reductions illustrated.

Business Rates Retention Scheme

The Business Rates Retention Scheme replaced the Formula Grant system in April 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 increased annually 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.

From 2015-16 the Council also benefits from inclusion in a pilot scheme allowing it to retain 100% of growth in business rates within Cambridgeshire above an agreed baseline. The baseline for the pilot scheme is Cambridgeshire's forecast business rates for 2015-16 plus a 0.5% “stretch target”. From 2016-17, the baseline has been increased by 0.5% each year and adjusted to reflect the annual change in the small business rates multiplier.

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. As a consequence of chronic underfunding by Central Government, the Council has been forced to maximise the income it raises from Council Tax in recent years.

The previous Government first announced Council Tax Freeze grants as part of its 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, 1.99% in 2013-14, 2014-15 and 2015-16, and 0% in 2016-17. These figures were below forecast inflation levels at the time of setting the budget and were close to the Treasury's long-term expected inflation rate. Our decisions over the last five years to increase Council Tax will avoid the need for sharp increases in precepts in the future.

No further council tax freeze grant has been announced for 2016-17 onwards.

In previous years the County Council has carried out an extensive consultation exercise to inform decisions on Council Tax. The results have consistently indicated general acceptance from taxpayers of the need for small increases in Council Tax. Based on this consistent message, combined with the general improvement in the economy, this year's consultation focuses our limited resources on understanding the public's views on the Council's new outcomes instead. More information about the consultation and its results can be found in Section 5 of the Business Plan.

Adult Social Care Precept

Announced in the Spending Review in November 2015, local authorities responsible for adult social care ("ASC authorities") were granted permission to levy an additional 2% on their current Council Tax referendum threshold to be used entirely for adult social care. This was in recognition of demographic changes which are leading to growing demand for adult social care, increasing pressure on council budgets.

Council Tax Requirement

The current Council Tax Requirement (and all other factors) gives rise to a 'Band D' Council Tax of £1,190.43. This is an increase of 2% on the actual 2016-17 level due to levying the Adult Social Care Precept and maintaining current Council Tax levels. This figure reflects information from the districts on the final precept and collection fund.

Table 5.3: Build-up of recommended Council Tax Requirement and derivation of Council Tax precept 2016-17

	2017-18 £000	% Rev. Base
Adjusted base budget	**756,048**	
Transfer of function	-335	
Revised base budget	**755,713**	
Inflation	7,820	1.0%
Demography	6,582	0.9%
Pressures	3,952	0.5%
Investments	5,414	0.7%
Savings	-31,772	-4.2%
Change in reserves/one-off items	8,668	1.1%
Total budget	**756,377**	**100.1%**
Less funding:		
Business Rates plus Top-up	62,909	8.3%
Revenue Support Grant	15,311	2.0%
Dedicated Schools Grant	238,678	31.6%
Unringfenced Grants (including schools)	28,445	3.8%
Ringfenced Grants	55,141	7.3%
Fees & Charges	93,332	12.4%
Surplus/deficit on collection fund	1,077	0.1%
Council Tax requirement	**261,991**	34.7%
District taxbase	220,081	
Band D	**1,190.43**	

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

Band	Ratio	Amount £	Increase on 2016-17 £
A	6/9	793.62	15.54
B	7/9	925.89	18.13
C	8/9	1,058.16	20.72
D	**9/9**	**1,190.43**	**23.31**
E	11/9	1,454.97	28.49
F	13/9	1,719.51	33.67
G	15/9	1,984.05	38.85
H	18/9	2,380.86	46.62

The increase on 2016-17 is due to the 2% Adult Social Care Precept.

Unringfenced grants

Previous Business Plans had assumed that the Public Health Grant would be unringfenced from 2016-17 onwards. The Spending Review in 2015, however, announced that the grant would remain ringfenced until 2018-19. This has resulted in a shift in savings ask to Public Health Grant funded expenditure in order match the level of grant funding available. Planning collaboratively across directorates on an outcomes basis should enable the Council to reach a position where the presence or absence of the ringfence becomes less important. However there may be a risk that when the ringfence is removed, Public Health England will require achievement of performance and activity targets which require more funding to deliver than we are currently allocating.

Table 5.5: Unringfenced grants for Cambridgeshire 2017-18

	2017-18 £000
RSG Transitional Support	3,170
New Homes Bonus	4,254
Education Services Grant	2,728
Returned New Homes Bonus Topslice	1,690
Other	3,677
Total unringfenced grants	**15,519**

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 3 of the Business Plan.

Major sources of ringfenced funding include the Better Care Fund. This pooled fund of £3.8bn nationally took full effect in 2015-16, and is intended to allow health and social care services to work more closely in local areas.

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 ringfenced to pass directly on to schools. This plan therefore uses the figure for "total budget excluding grants to schools". The Business Plan assumes the funding for 2017-18 remains the same on a per pupil basis as 2016-17. However, DSG funding arrangements for 2017-18 are currently subject to a national review and as such future funding rates are unknown at this stage. Further consultation is expected during the summer term with final announcements in the autumn. The impact on individual schools and centrally retained services funded from the DSG will be dependent on the outcome of any national changes.

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 5.6: Changes to service net budgets 2016-17 to 2021-22

	Revised Net Budget 2016-17 (1) £000	Proposed % cash change 2016-17 to 2021-22
Children, Families and Adults Services (CFA)	242,601	4.9%
Economy, Transport and Environment (ETE)	60,126	4.6%
Corporate & Managed Services (CS)	13,394	7.0%
Financing Debt Charges	32,766	-1.4%
LGSS - Cambridge Office (LGSS)	9,589	-11.1%
Public Health	673	N/A (2)
Environment Agency (EA) Levy	381	2.4%
Total budget	**359,530**	**9.1%**

(1) 2016-17 budget has been revised so that it is comparable to the 2017-18 budget.
(2) Due to the change in ringfencing arrangements for the Public Health Grant and its impact on that directorate's cash limit, it is not meaningful to analyse the change in net budget over the period.

In light of these changes, services have been set the following cash limits (Table 5.7). 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 3.

Table 5.7: Service net budgets 2017-18 to 2021-22

	2017-18 £000	2018-19 £000	2019-20 £000	2020-21 £000	2021-22 £000
CFA	234,643	240,016	244,229	249,817	254,494
ETE	60,150	59,955	60,628	61,801	62,913
CS	14,271	14,800	14,874	14,593	14,328
Financing Debt Charges (1)	27,838	27,415	26,271	25,448	32,292
LGSS	9,591	9,329	8,982	8,765	8,522
Public Health	185	19,650	19,605	19,326	19,420
EA Levy (2)	384	386	388	390	390
Net movement on reserves (3)	8,668	6,652	8,615	8,748	1,905
Total budget	**355,730**	**378,203**	**383,592**	**388,888**	**394,264**
% Change in budget	-2.2%	6.3%	1.4%	1.4%	1.4%

(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 2016-17 ten year capital programme worth £990.0m is currently estimated to be funded through £558.5 of external grants and contributions, £201.6m of capital receipts and £230.0m of borrowing (Table 5.8). This is in addition to previous spend of £377.6m on some of these schemes, creating a total Capital Programme value of £1.4 billion. Despite the increase in size of the Programme, the Council has managed to reduce the related revenue budget to fund capital borrowing. This revenue budget is now forecast to spend £34.0m in 2016-17, increasing to £32.3m by 2020-21. Table 5.8 shows a summary of available funding for the capital programme.

Table 5.8: Funding the capital programme 2016-17 to 2025-26

	Prev. years £000	2016-17 £000	2017-18 £000	2018-19 £000	2019-20 £000	2020-21 £000	Later years £000	Total £000
Grants	146,153	51,119	66,885	40,301	35,048	35,545	103,407	**478,458**
Contributions	81,189	41,005	44,713	26,477	32,817	44,169	36,981	**307,351**
General capital receipts	9,617	10,268	3,189	2,704	2,727	9,020	173,649	**211,174**
Prudential borrowing	103,839	78,117	61,890	31,987	34,815	14,006	50,014	**374,668**
Prudential borrowing (repayable)	36,778	5,285	-3,185	40,392	20,237	5,939	-109,559	**-4,113**
Total funding	**377,576**	**185,794**	**173,492**	**141,861**	**125,644**	**108,679**	**254,492**	**1,367,538**

Section 6 later in the Business Plan sets out the detail of the 2016-17 to 2025-26 capital schemes which are summarised in the tables below. Total expenditure on major new investments underway or planned includes:

- Providing for demographic pressures regarding new schools and children's centres (£550m)
- Housing Provision (£194m)
- City Deal schemes (£100m)
- Major road maintenance (£90m)
- Ely Crossing (£36m)
- Rolling out superfast broadband (£31m)
- A14 Upgrade (£25m)
- King's Dyke Crossing (£14m)
- Renewable Energy (£10m)
- Cycling City Ambition Fund (£8m)
- Better Care Fund (£8m)
- Soham Station (£6m)
- Cambridgeshire Public Services Network Replacement (£6m)
- Cambridge Cycling Infrastructure (£5m)

- Abbey – Chesterton Bridge (£5m)
- Waste Facilities – Cambridge Area (£5m)
- MAC Joint Highways Depot (£5m)

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 2016-17 onwards.

Table 5.9: Capital programme for 2016-17 to 2025-26

	Prev. years £000	2016-17 £000	2017-18 £000	2018-19 £000	2019-20 £000	2020-21 £000	Later years £000	Total £000
Ongoing	60,785	38,102	40,219	44,283	44,607	44,143	107,513	**379,652**
Commitments	315,679	138,328	66,674	9,000	1,889	370	5,070	**537,010**
New starts:	-	-	-	-	-	-	-	
2016-17	200	6,704	10,080	2,832	450	-	-	**20,266**
2017-18	412	1,600	44,309	69,281	47,341	11,105	382	**174,430**
2018-19	500	1,060	12,160	15,155	12,467	27,231	10,812	**79,385**
2019-20	-	-	50	1,310	18,750	21,430	7,460	**49,000**
2020-21	-	-	-	-	140	4,000	29,160	**33,300**
2021-22	-	-	-	-	-	400	10,850	**11,250**
2022-23	-	-	-	-	-	-	22,580	**22,580**
2023-24	-	-	-	-	-	-	27,590	**27,590**
2024-25	-	-	-	-	-	-	33,075	**33,075**
2025-26	-	-	-	-	-	-	-	**-**
Total spend	**377,576**	**185,794**	**173,492**	**141,861**	**125,644**	**108,679**	**254,492**	**1,367,538**

Table 5.10: Services' capital programme for 2016-17 to 2025-26

Scheme	Prev. years £000	2016-17 £000	2017-18 £000	2018-19 £000	2019-20 £000	2020-21 £000	Later years £000	Total £000
CFA	130,303	97,156	88,882	60,602	58,106	63,836	139,423	**638,308**
ETE	234,085	71,699	51,343	26,993	24,946	24,057	44,427	**477,550**
CS & Managed	13,188	15,835	33,267	54,266	42,592	20,786	70,642	**250,576**
LGSS	-	1,104	-	-	-	-	-	**1,104**
Total	**377,576**	**185,794**	**173,492**	**141,861**	**125,644**	**108,679**	**254,492**	**1,367,538**

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

Table 5.11: Invest to Save / Earn schemes for 2016-17 to 2025-26

Scheme	Total Investment (£m)	Total Net Return (£m)
Housing provision (primarily for rent) on CCC portfolio	4.6	-(1)
Renewable Energy	12.0	6.2
MAC Market Towns (March)	17.5	16.5
Disposal / Relocation of Huntingdon Highways Depot	1.6	3.6
County Farms Investment	1.8	7.8

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

6) Transformation 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.

The Business Planning process is a rolling five year assessment of resource requirements and availability, providing clear guidance on the level of resources that services are likely to have available to deliver outcomes 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 takes into account changes to the forecasts of inflation, demography, and service pressures such as new legislative requirements that have resource implications.

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 Council is moving to a budget where the transformation programme is at the heart of its construction. As a consequence the Council is now taking a significant step away from the traditional service block cash limit approach.

The traditional incremental cash limit model that has been at the core of the Council's Business Plan approach for many years will be used as a process of last resort. Although the base budget is predicated on this model, and therefore it will take some time to completely remove it from our financial model, any changes that arise on an on-going basis will where possible be funded through the cross cutting approach to transformation. The five-blocks of the cash limit model is however set out below for information:

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

To support the delivery of this new approach (the Transformation Delivery Model) the Council has established a Transformation Fund. Furthermore the transformation resources that exist across the Council have been identified and brought together under a single management structure. This will facilitate the integrated cross cutting approach that the Council has recognised as an essential ingredient to delivering the new culture and approach within the organisation. Recognising that effective transformation often requires up-front investment the Council has created a significant Transformation Fund and has introduced a mechanism by which base funding priorities are reviewed and re-aligned where there is a clear rationale to do so.

During the first phase of the process, proposals were developed across the whole Council reflecting the six cross-cutting Transformation Workstreams for delivering services by 2021-22 with a real term reduction in resource. This was driven forward by Strategic Management Team and cross-Directorate groups, each responsible for specific Transformation Workstreams. The proposals were phased for implementation over the five-year period of the Business Plan.

It is intended that savings and efficiency proposals evolving from work on cross-cutting themes will sufficiently manage the cost of service delivery to within the financial envelope. In this period of transition, insufficient savings were forthcoming through cross-cutting workstreams, and savings requirements were fed through the cash limit allocation methodology, giving each block an individual target.

Detailed spending plans for 2017-18, and outline plans for later years, are set out within Section 3 of the Business Plan.

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 identifying income generating opportunities, ensuring that charges for discretionary services 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% per annum 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 outcomes. 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. Detailed schedules of fees and charges will be reviewed by the relevant Service Committees during September 2016:

- CFA schedule of fees and charges
- CS schedule of fees and charges
- ETE schedule of fees and charges

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 between 1.2% and 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 account elasticities 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.
- **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.
- **Transformation Fund** – an earmarked reserve created as a result of changes to the Minimum Revenue Provision, set aside to support innovative projects across the Council that will deliver savings in future years.

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 2017-18 to 2021-22

Balance as at:	31 March 2017 £m	31 March 2018 £m	31 March 2019 £m	31 March 2020 £m	31 March 2021 £m	31 March 2022 £m
General reserve	16.4	16.4	16.4	16.4	16.4	16.4
Office Reserves	3.6	3.6	3.6	3.6	3.6	3.6
Earmarked reserves	25.6	25.5	24.2	25.4	27.2	29.1
Schools reserves	21.9	21.9	21.9	21.9	21.9	21.9
Transformation Fund*	19.1	19.1	19.1	19.1	19.1	19.1
Total	**86.6**	**86.5**	**85.2**	**86.4**	**88.2**	**90.1**
General reserve as % of gross non-school budget	3.0%	3.0%	3.0%	3.0%	2.9%	2.9%

*The Transformation Fund has been created as a result of a revision to the calculation of the Council's minimum revenue provision (MRP). The figure included above is the adjustment for 2015-16 and 2016-17. There are further adjustments for 2017-18 onwards.

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 2017-18 to 2021-22

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 same degree as previous year.	2.3
Business Rates	Inaccuracy in District taxbase forecasts of County share of Business Rates to the value which triggers the Safety Net.	2.0
Unconfirmed specific grant allocations	Value of as yet unannounced specific grants different to budgeted figures.	2.2
Academy conversions higher than expected	Impact on Education Services Grant from increase in academy conversions.	0.0
Deliverability of savings against forecast timescales	Savings to deliver Business Plan not achieved.	4.1
Additional responsibilities	Uncertainty around adequate funding of new Care Act responsibilities in the longer term	0.0
Non-compliance with regulatory standards	E.g., Information Commissioner fines.	0.5
Major contract risk	E.g., contractor viability, mis-specification, non-delivery.	2.1
Unidentified risks	n/a	1.9
Balance		**16.4**

9) Business Plan roles and responsibilities

The Business Plan is developed through the Council's 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 set 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's Policy 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, though Full Council remains responsible for setting a budget. 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 and recommendation 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 a final draft for approval by Full Council. In consultation with relevant Service Committees"

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

"Authority for monitoring and ensuring that Service Committees operate within the policy direction of the County Council and making any appropriate 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.