Section 2 – Medium Term Financial Strategy Appendix A

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1) Executive summary

This Strategy sets out the financial picture facing the Council over the coming five years. As part of the Comprehensive Spending Review (CSR) in 2015, councils were offered the opportunity to agree to a fixed four year settlement figure, covering years 2016-17 to 2019-20, bringing greater certainty to the grant settlement. The Council voted to reject the offer due to the unsustainability of the minimum level of funding in the latter years of the offer, in particular negative Revenue Support Grant (RSG) in 2019-20. 2019-20 would have been the final year of the fixed settlement.

There is a great deal of uncertainty surrounding the UK's public finances not least due to uncertainty around our future relationship with the European Union following Brexit. Potential impacts on economic growth, immigration policy, and the cost of goods and services may influence levels of funding available to local authorities as well as the cost of providing local services. In addition to the international uncertainty, there are a number of Central Government consultations currently underway, most notably those on technical aspects of Fair Funding and negative RSG, which are expected to affect the Council's funding. The outcomes of these consultations will be taken into account within the Business Plan as they become available.

The Fair Funding Review will affect how funding is allocated and redistributed between local authorities from 2020 onwards. It will reset business rate baselines which set out expected business rate receipts, funding baselines which determine relative need, and the tier split of business rates between County Councils and District Councils. It is expected to use three main 'cost drivers': population, deprivation and sparsity, together with additional cost drivers related to specific local authority services. Damping is expected to play a significant role in limiting reallocations of funding between local authorities. It is also likely that reallocations will be phased in so no local authority will face a cliff edge cut to their funding.

At Autumn Budget 2017 it was announced that business rates revaluations will take place every three years, rather than every five years, following the next revaluation. This increases the risk to local authorities of funding changes part way into the period of their medium term financial strategies making longer term planning more challenging. Spring Statement 2018 announced that the next revaluation, which was due in 2022, will be brought forward to 2021. This will further increase the potential risk of significant changes to local authority funding allocations when the new model of 75% business rates retention is introduced in 2020-21.

Unemployment rates have continued to fall to their lowest level in over 40 years which, despite modest levels of economic growth, is beginning to exert upward pressure on wages, especially in parts of the Country such as Cambridgeshire. Higher wage growth will increase labour costs for local authorities, exerting additional pressure on limited financial resources which often do not see proportionate increases. The Council has operated within a very constrained financial environment for a number of years and as a result, the Council has had to take some difficult decisions over service levels and the charging for services during this period. As we progress through the period covered by the MTFS those decisions become even more challenging.

The Council has developed a strategic approach to the creation of transformation and innovation proposals, including bringing the various skills and resources that were dispersed across the Council under a single line management structure. This has helped to ensure that proposals and ideas are captured and turned from suggestions into realities. In order to support the continuation of this strategic approach, the Council previously established a Transformation Fund currently held at almost £20m ensuring that finance is not a barrier to transformation. This has supported Adult's and Children's services particularly, it has enabled these services to transform their current models of delivery and in doing so reduced the level of reduction in services that would have needed to be made without the transformation funding.

The Council still has to make some stark and unpalatable choices but we are pushing at all boundaries to ensure that we are still able to fulfil our statutory duties and protect the most vulnerable.

Some service reductions are inevitable, these will be far less than otherwise would have been the case had the Council not embarked upon this journey, and we will always focus on transforming rather than cutting services within this approach. The Council will continue to seek to shape proposals so that the most vulnerable are the least affected. 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 2019-20 do contain some proposals, the delivery of which, will be challenging.

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.

Cambridgeshire has one of the fastest growing populations and, as such, we are under particular pressure as the number of people accessing our services increases. The general population is also aging due to increasing life expectancies which is putting pressure on the ability of service users to contribute to the long term costs of their care. In addition to this background population growth the needs of those requiring care packages are becoming more complex and therefore costly. As a result, the Council will work increasingly across service, organisation, and sector boundaries to find ways in which the resources of the wider public sector and the community can be best used to achieve the outcomes we strive for in the context of a rapidly increasing number and need of local population.

The key elements of this Strategy, on which basis the Business Plan is calculated, are set out below. A key point to note is that the general Council Tax assumptions are a rise of 1.99% in 2019-20 and 0% for the remaining four years of the Strategy, but the Adult Social Care precept is assumed to increase by 2% in all five years – as yet there is no confirmation the precept will be available beyond 2019-20.

- A 1.99% general council tax increase for 2019-20
- No increases in general council tax from 2020-21 until 2023-24

- An increase in the Adult Social Care Precept of 2% for all five years of the Strategy;
- The strategic approach to developing savings and transformation proposals that support the Business Plan continue to evolve through a focus on demand management, (this entails employing a place based approach that builds on communities natural resources) efficiency, accountability, partnership and co-production;
- For the financial year 2019-20 the base budget will use the budget allocations built into the existing Business Plan but 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 continue to 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 (and if necessary restored to) approximately 3% of expenditure (excluding schools expenditure and Combined Authority levy);
- 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 backdrop of the Council's outcome-based approach to Business Planning, recognising the need to embrace change and innovation;
- All opportunities for cross-sector and organisational working that drive end to end efficiencies and/or improvements in service delivery will be pursued;
- Business rates pooling will be fully explored with district councils and the Combined Authority where there is a mutual financial benefit to so do, particularly in relation to the pilots preceding the introduction of the 75% Business Rates Retention scheme;
- The Council Tax assumption and forecasts are reviewed each year and updated if necessary;
- The Council will continue to lobby central government for fair funding leading into the national replacement of the current funding formula in 2020-21.
- Work will continue with the Combined Authority to secure additional freedoms and flexibilities to support the further integration of health and social care.

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.

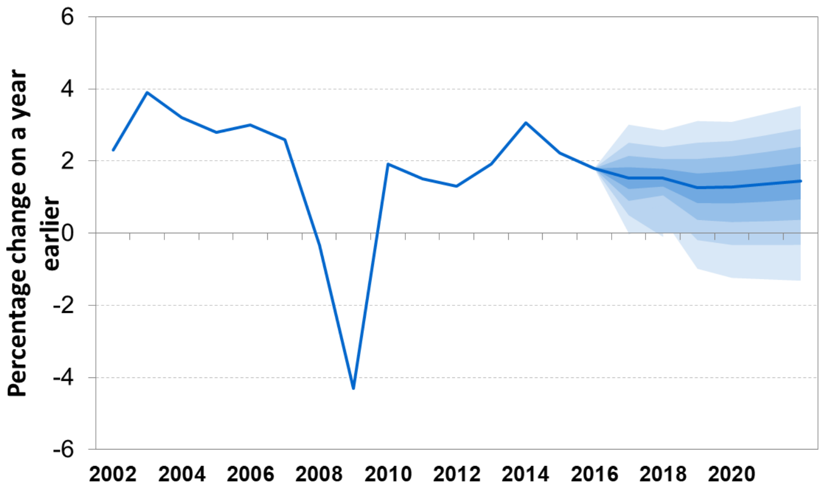
National economic outlook

Over the past four years, UK GDP growth has fallen steadily following a two year period of strong post-crisis growth, peaking in the third quarter of 2013. In 2014 the UK economy was the fastest growing in the G7 and has since fallen to among the slowest growing in 2018 with a current growth rate of 1.5%, expected to fall to 1.3% in 2019. GDP growth is expected to remain relatively flat over the next four years however this is subject to significant uncertainty due to the potential impact of Brexit on the UK economy.

The impact of exiting the European Union on the public sector will be largely dependent on the terms of the UK's future relationship with the EU. Future opportunities of Brexit could include the potential for increased devolution of decision making powers and funding streams to local authorities. However the public sector faces exposure to financial risk as a result of Brexit, at least in the short to medium term, including potential reductions in EU grant funding, uncertainty about the UK's future trading relationship with the EU and the impact of immigration policy on the labour pool. Local Authorities therefore need to ensure that they are financially resilient in order to provide for the potential risks of Brexit, and to capitalise on the opportunities that may arise.

Labour productivity remains a key weakness for the UK, with the International Monetary Fund warning that it is a key risk the UK's future economic health. The Office of Budget Responsibility is forecasting a gradual rise in productivity over the next four years based on a rising Bank Rate, a tight labour market and investment in additional capacity in preparation for Brexit. However productivity growth is set to remain significantly lower than its pre-crisis rate. Current forecasts put the UK's productivity at 27% below the extrapolation of the pre-crisis trend by the beginning of 2023.

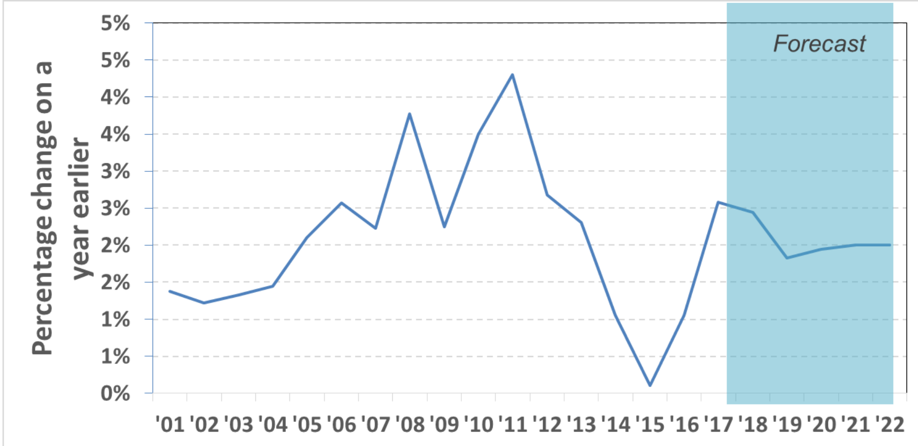
Figure 2.1: GDP Growth (Source: OBR, March2018)



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. In previous 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 has recovered to pre-2008 levels. This is particularly true for the city of Cambridge, where values have risen 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 Council continues to invest in the Cambridgeshire economy and has ambitious plans for local housing development, having set up a property development and investment company, ‘This Land’.

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. Since then CPI inflation has risen sharply, recently driven by the depreciation in sterling after the EU referendum and rising global commodity and energy prices. CPI inflation peaked at 3% in the final quarter of 2017 but is expected to fall back to around the 2% target in 2018.

Figure 2.2: CPI Inflation (Source: OBR, March 2018)



Unemployment has continued to fall, with the OBR revising the level of sustainable unemployment from 5% to 4.5% - the latest figures from the Office for National Statistics put the unemployment rate at 4.2%; with 1.41m people aged 16 to 64 not employed but seeking work but is expected to rise slightly by the end of the MTFP period mainly due to the increases in the National Living Wage putting pressure on equilibrium employment. As at July 2018, the number of people claiming Jobseekers Allowance was 0.90m. In total, 32.4m people were in employment (75.7% of the population aged 16-64).

4.2%
of the labour force aged 16 and over could not find a job

75.7%
of people aged 16 to 64 were employed

0.90m
people were claiming Jobseeker’s Allowance

In August 2018 the Bank of England increased the base rate by 0.25% to 0.75%; the highest level since the financial crisis. This was in response to the falling unemployment rate which has reached its lowest level since the mid-1970s and the resulting impact on wage growth. The ONS predict this rising to 1.25% by 2023; while these rises seem large compared to the historically low rates since 2009, and will have some degree of adverse effect on the cost of borrowing, the rate is still significantly lower than the pre-crash peak of 5.7%.

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

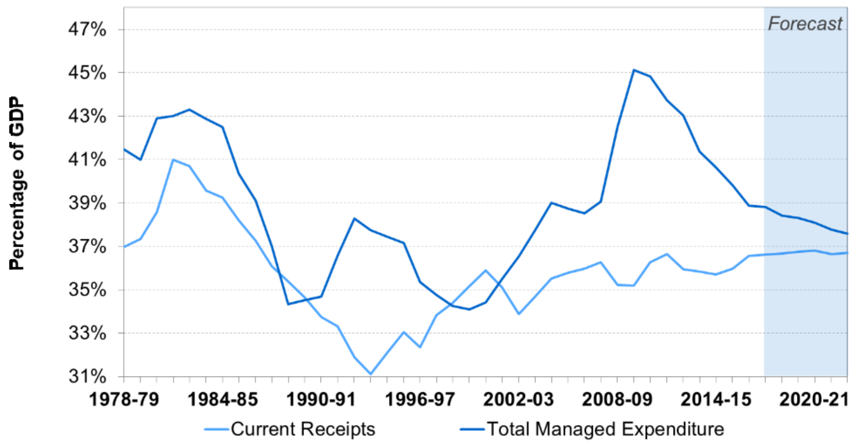
Public Sector spending

The government's economic strategy, as stated in the charter for budget responsibility is to "return the public finances to balance at the earliest possible date in the next Parliament". In the interim, cyclically-adjusted borrowing should be below 2% of GDP by 2020-21.

In line with this change in target, the rate at which the cyclically-adjusted budget deficit reduction has slowed and the latest forecast from the OBR expects the Government to meet their 2% target.

Public sector net debt rose to 85.6% of GDP in 2017-18 but is expected to reduce to 77.9% by 2022-23. At its peak, debt will have increased by over 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

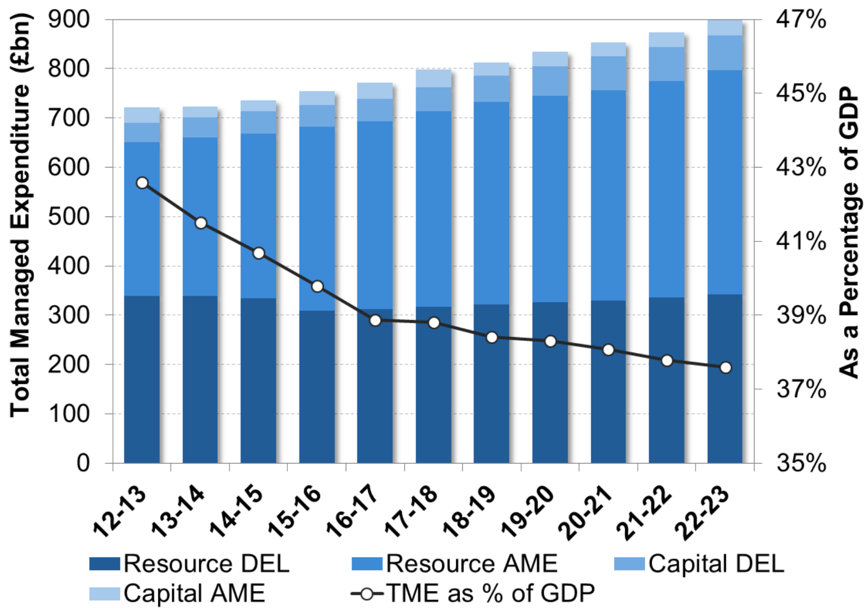


The government plans to eliminate the deficit by a mixture of spending and fiscal consolidation. Current estimates indicate that Total Managed Expenditure will be reduced from 38.8% of GDP in 2017-18 to 37.6% of GDP by 2022-23.

Total Managed Expenditure (TME) 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 a 2% year on year increase, in revenue Departmental Expenditure Limits until 2022-23 to match forecast long term inflation targets, alongside a larger increase in AME. This forecast has not been updated since GDP growth was revised down alongisde the November budget thus there is the possibility DEL growth will be reduced.

Figure 2.4: Total Managed Expenditure



Detailed government spending plans for individual departments were announced in the 2015 Spending Review, and departments will continue to deliver these plans. The Chancellor has announced that the next spending review will take place in 2019 and will set DELs for 2020-21 onwards.

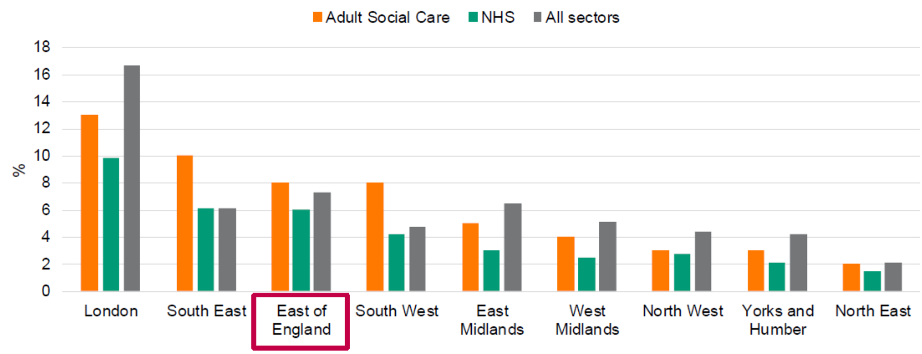
By far the majority of the Ministry of Housing, Communities and Local Government's DEL is allocated to individual local authorities. Our internal modelling of future cuts prudently assumes the continuation of the cuts previously confirmed by the 2015 Spending Review. As the Council is one of only ten councils who have not accepted the Government's multi-year settlement, this creates an additional level of uncertainty regarding how any changes to the DEL will be applied to local authorities. A consultation on the allocations of Revenue Support Grant proposed in the multi-year settlement is currently ongoing. This stands to impact funding for the County Council by up to £7m. The Government has also launched a Fair Funding review which will set new baseline funding allocations for local authorities by delivering an up-to-date assessment of their relative needs and resources. The new model of funding could bring about significant changes in distribution of funding between Local Authorities from 2020-21.

Local economic outlook

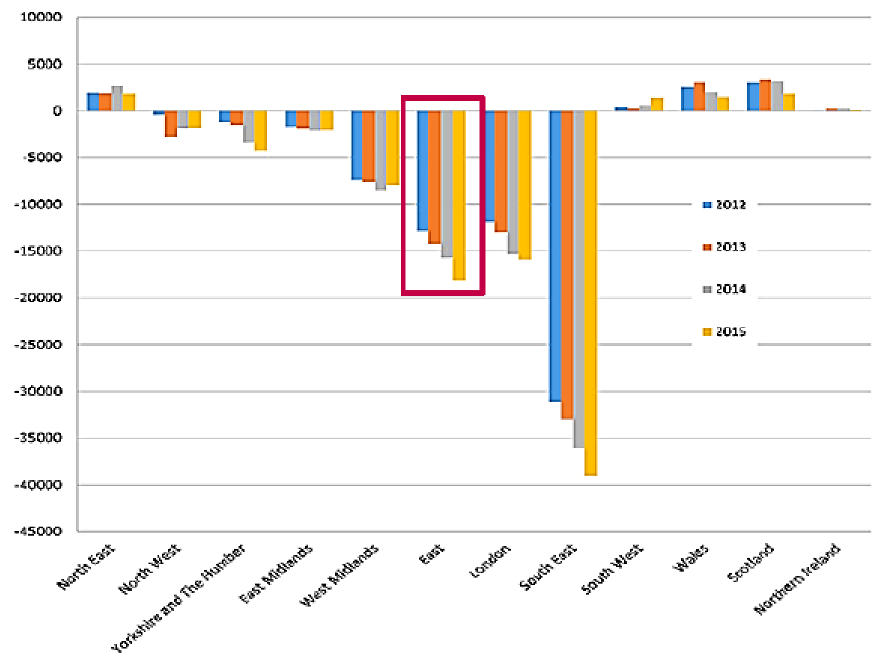
Cambridgeshire has a relatively resilient economy, compared to the national picture, as demonstrated by its above average levels of job creation between 2001 and 2011. In the aftermath of the financial crisis increases in hi-tech firm size were evident between 2008 and 2010. The East of England remained the third-highest exporting region by value in 2012, with a particularly strong pharmaceutical industry – significantly bolstered by the move of the AstraZeneca headquarters to Cambridge in 2013.

The principal risks to the East of England economy as a result of Brexit are those associated with trade and labour. Over 7% of Eastern workers are EU nationals; the highest proportion of any English region outside of London. Tighter immigration expectations around EU migration could have a significant impact on the Adult Social Care market where 8% of the workforce are EU nationals. Additionally, the East was the second highest net importer of European goods and services in 2015 behind the South East. A reduction in the availability of EU workers or the introduction of trade tariffs impacting the cost of imported goods and services could therefore have an adverse effect on the Eastern economy.

Proportion of EU workers by region and employment sector

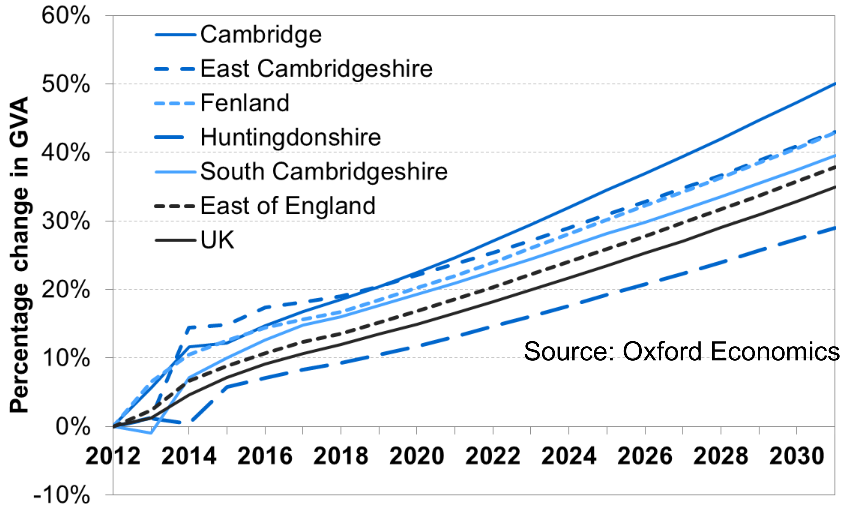


Trade balance with EU by region (£m, 2015 prices)



Economic productivity is measured by Gross Value Added (GVA). Calculated on a workplace basis, Cambridgeshire's GVA was £19.028 million in 2017, a 5.9% increase from 2014. Per head of population, GVA was £28,932 in 2017, 21% above the East of England average of £23,904 per head, and 13% above the England average of £25,673 per head.

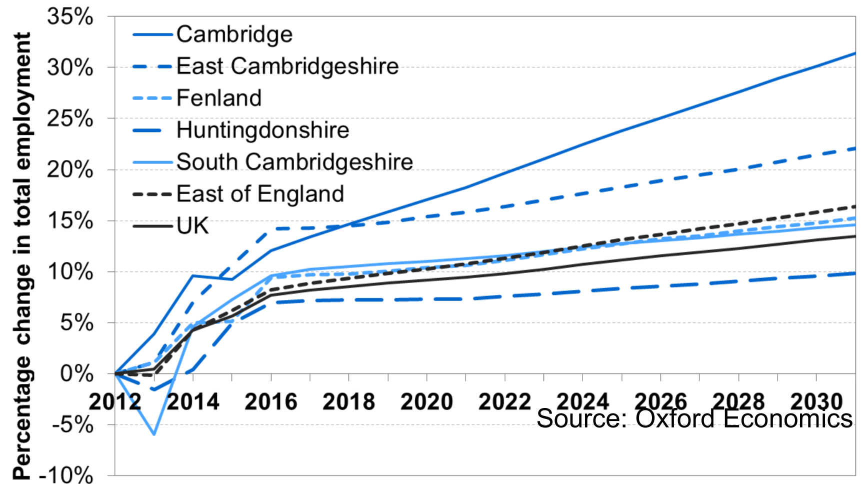
Figure 2.5: GVA growth forecasts for Cambridgeshire by district



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 7.9% over the term of the MTFS, with the most significant increase in Cambridge City, where GVA is expected to increase by £558m. Enterprise births relative to population is still below the regional and national averages rate. Cambridgeshire as a whole has seen an increase in the number of business start-ups in 2016 compared to 2015. 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



The forecast continued employment growth across all districts presents a key opportunity for the county. Cambridgeshire has seen a 3.2% rise in the number of private sector jobs from 2015 to 2016. From an historical perspective, job creation has previously been uneven, with Fenland and Cambridge only seeing limited growth between 2001 and 2011; however Fenland and Cambridge have seen jobs growth of 3.7% and 2.4% respectively from 2010 to 2016. A significant proportion of jobs in Cambridge and South Cambridgeshire are in manufacturing, healthcare and education. In

Huntingdonshire, East Cambridgeshire and Fenland, jobs are concentrated in the construction and agricultural sectors.

Fenland and East Cambridgeshire have been designated a Social Mobility Opportunity Area. This follows work from the Social Mobility Commission to assess the prospects of disadvantaged young people from every council area in the UK. The delivery plan for the opportunity area has four priorities, one of which is to focus on raising the aspirations of young people regarding their final careers. Other key actions include increasing teacher numbers.

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 free Wi-Fi network covering central Cambridge is continuing to expand under the Connecting Cambridgeshire programme, as the first step in improving public access to Wi-Fi across the county. Better connectivity is expected to improve productivity. In March 2017, the Council approved the Cambridgeshire digital connectivity blueprint for 2017-2020 (£13.2m) with associated targets for broadband access, mobile coverage and public Wi-Fi access.

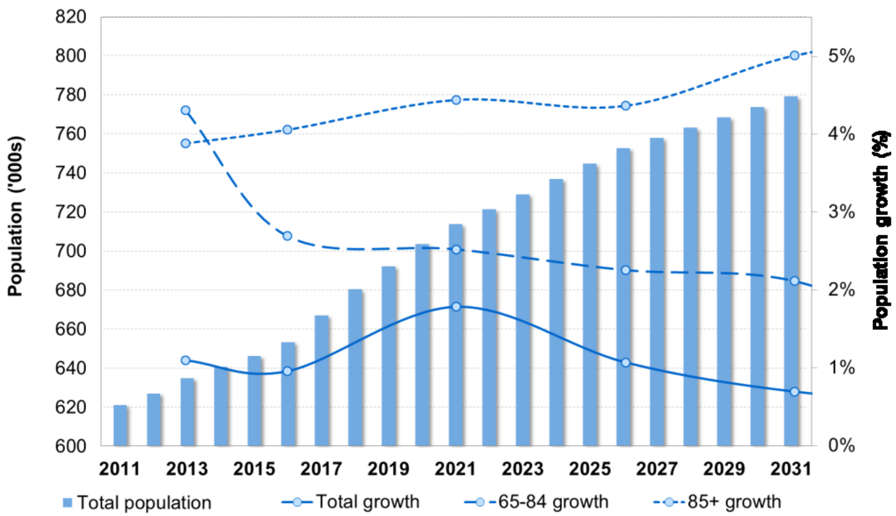
As part of the Budget 2014, Central Government announced their agreement for a Greater Cambridge City Deal (Greater Cambridge Partnership) which will deliver a step change in investment capability; an increase in jobs and homes with benefits for the whole County and the wider Local Enterprise Partnership 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 Executive. 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 County Council's population estimates show that Cambridgeshire's population has continued to grow since the Census 2011, rising by 4% to 648,300 by mid-2015. At the time of the 2011 census, Cambridgeshire was the fastest growing county in the UK with the county's population having increased by 68,500 between 2001 and 2011 to 621,200 - 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 which is compounded by an increasing proportion of the population in the 60+ age group. 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 budget 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% between 2016 and 2036. The pattern of growth will not be evenly spread, with over half of it occurring in Huntingdonshire 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 119,070 in 2016 to 194,470 in 2036, and forecast to account for 24% of the total population in 2036 compared to 16% at the 2011 Census, 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 terms reduction in resources and pressures of demographic growth, maintaining the level of funding for the key activities that deliver these outcomes becomes increasingly challenging without fundamental change.

In response, the Council has embarked upon a significant transformation programme – challenging ourselves to find innovative new approaches and creative solutions so that a leaner, more forward thinking and agile organisation emerges to meet the needs of our communities.

The Transformation Programme is now integrated into the Business Planning process with our programme of investments and savings reflecting the transformational changes we are planning for 2019-20 and beyond.

The key principles driving our thinking are;

- **Working for the System in Partnership –** the boundaries between public sector partners are blurring as we move closer to a whole system focus on shared priorities, outcomes and cost efficiencies. By acting as 'one public service' with our partners in the public sector and forming new and deeper partnerships with communities, the voluntary sector and business we can make the whole system work most effectively together. This theme includes cost sharing between partners, joint commissioning, joint services and most importantly designing how it all fits together around people not the needs of individual organisations.

- **Modern, Lean and Focussed on Delivery** – taking advantage of the latest technologies, applying digital strategies to reduce transactional costs, reducing internal business costs and applying the most creative and dynamic ways of working to deliver the most value for the least cost. Applying this principle ensures the organisation is lean in the 'back office' and puts as much of its resources as possible into delivering directly for communities.

- **Intervening Early and Preventatively** – working to give people early help so that their needs don't escalate to the point where they need to rely heavily on public sector support. It is about supporting people to remain as healthy and independent as possible and stepping in quickly when people do need extra help so that they recover as much of their independence as possible and quickly as possible

- **Focussing on Communities and Places** - We are moving to a more place based approach, bringing the Council, partners and communities together to adapt to local demand and committing to a new contract with our citizens, so that the emphasis of all our practice is on working with communities, rather than doing things to them or for them.

- **Being Business-Like & Commercial –** identifying opportunities to bring in new sources of income which can fund crucial public services, making the best possible use of our assets, ensuring all services are commissioned to deliver the right outcomes at the right cost and by the right provider and operating every area of the Council in a business-like way

Members and Officers have used these principles and themes to design an organisation that focuses on the outcomes we want most for our communities and that works together to achieve them. This process was initiated by a call on Officers throughout the Council to put forward ideas which they believe can create real improvements for the people of Cambridgeshire, whether this is directly, by improvements to our frontline services, or by creating savings or income which allow more of our resources to be spent where they are most needed.

These proposals are then driven forward by cross-Directorate groups, led by the Corporate Management Team and Strategic Management Team, each responsible for a specific key theme. In this way we have moved away from cash limits, top down planning and traditional efficiencies to a process based on cross-directorate collaboration, shared accountability are taking greater risks and moving at greater pace than ever before.

Transformation Fund

To support the delivery of this new approach the Council has established a Transformation Fund, through changing the way the Council bears its cost of borrowing, and has introduced a mechanism by which base funding priorities are reviewed and re-aligned where there is a clear rationale to do so. The Councils transformation resource is integrating a cross-cutting approach that the Council has recognised as an essential ingredient to delivering the new culture and approach within the organisation.

Flexible Use of Capital Receipts Strategy

In the Spending Review 2015, the Chancellor of the Exchequer announced that to support local authorities to deliver more efficient and sustainable services, the government will allow local authorities to spend up to 100% of their fixed asset receipts (excluding Right to Buy receipts) on the revenue costs of reform projects. The flexibility was originally announced for 2016-17 to 2018-19, however this was extended by a further 3 years as part of the 2018-19 provisional Local Government Finance Settlement.

This flexibility is afforded to any Council listed in Annex A of the direction, including Cambridgeshire County Council, as long as it complies with the following:

- The expenditure is designed to generate ongoing revenue savings in the delivery of public services and/or transform service delivery to reduce costs and/or transform service delivery in a way that reduces costs or demand for services in future years; and

- The expenditure is properly incurred for the financial years that begin on 1 April 2016 to 1 April 2021, and can only be met from capital receipts which have been received in the years to which this direction applies.

The Council has decided to use this direction to fund the transformation resources that have been brought together to support the Transformation Programme, as well as the cost of redundancies required in order to deliver transformation of services. As a result of using this direction, prudential borrowing undertaken by the Council for the years 2017-18 to 2021-22 will be £2.3m higher in each respective year. This affects the Council's Prudential Indicators as follows:

Table 3.1: Effect of using Capital Receipts on Prudential Indicators

Prudential Indicator	2017-18 £m	2018-19 £m	2019-20 £m	2020-21 £m	2021-22 £m
Capital Financing Requirement	+3.0	+5.3	+7.6	+9.9	+12.2
Operational Boundary (Total Borrowing)	-	-	-	-	-
Authorised Limit (Total Borrowing)	-	-	-	-	-

This is expected to create additional Financing costs in the revenue budget of £150k - £200K in each of 2017-18 to 2021-22.

The Council originally budgeted to fund £2.3m using this direction in 2017-18, but it actually funded £3.0m of 2017-18 expenditure, and intends to fund a further £2.3m in 2018-19. This expenditure will help to deliver the following savings (all savings are ongoing):

Table 3.2: Transformation Spend to be funded by Capital Receipts, and associated savings

THIS TABLE WILL NEED UPDATING TO INCLUDE 2019-20, FOLLOWING THE DEVELOPMENT OF THE 2019-20 SAVINGS PROPOSALS LATER IN THE AUTUMN

Scheme	2017-18 £k			2018-19 £k	
	ACTUAL COST	ANNUAL BUDGETED SAVING	ANNUAL RECURRING SAVING	BUDGETED COST	ANNUAL BUDGETED SAVING
Adult Social Care Transformation	420	-2,135	-1,271	367	-10,206
Learning Disability Transformation	99	-430	-430	29	-50
Children's Change Programme	594	-2,214	-1,878	75	-594
Children's Centres & Children's Health Services Transformation	17	-	-	304	-1,544
Commissioning Enhanced Services Transformation	214	-107	-107	37	-94
Learning Transformation	41	-395	-395	167	-748
Transport Transformation	61	-1,333	-1,257	15	-666
Assets / Facilities work stream / Property projects	302	-194	-56	173	-700
Automation	62	-247	-191	150	-350
Organisational Structure Review	783	-1,389	-1,374	261	-704
Commercialisation	294	-	-	388	-5,900
Waste Transformation	8	-25	-	2	-1,000
Libraries Transformation	88	-	-	135	-230
To be confirmed	-	-	-	190	-
TOTAL	**2,984**	**-8,469**	**-6,872**	**-2,293**	**-22,786**

These workstreams are focused on delivering the following outcomes:

Transformation Scheme	Activity
Adult's Positive Challenge Programme	Development of a new approach and service model for Adult Social Care which will improve outcomes for individuals and communities whilst also being economically sustainable. The principle of putting choice and independence directly into the hands of individuals and communities. The new model will be driven by a neighbourhood/ placed based approach. Workstreams have been identified which are focussed on maximising the opportunity to reduce demand and avoid cost. Main workstreams are - Changing the conversation to maximise independence at every opportunity - Improve support to carers to prevent carer breakdown - Expand and embed Technology Enabled Care - Target reablement towards people most likely to regain independence - Outcome based commissioning and new models of care - Developing an enablement approach in young people with Learning Disabilities - Developing a neighbourhood based approach
Learning Disability Transformation	Major programme to implement the revised model of care – meeting people's needs through a strengths-based approach to social care. Programme also includes delivery of strategic commissioning activity, including the development of new care capacity to allow service users to return to live in-county – and converting residential provision to supported living to promote independence for people with learning disabilities as well as providing cost savings to the Council.
Change for Children Programme	This extensive programme re-models children's social care delivery, replacing the Unit Model with one based on specialist teams. This will bring better management oversight particularly in respect of children in need and children in care, reducing drift and delay in the system, and reducing overall volumes of work. The greatest priority is to reduce numbers of children and young people in care to at least the average of our statistical neighbours, which would mean we would have around 110 fewer children and young people [2017-18 rates] in care than current August 2018 number of 719.
Children's Centres & Children's Health Services Transformation	A large amount of work has been completed, such as: new models of delivery, associated finance, the governance of the children's centre and engagement. This has included a major review of the structure of provision, the development of an enhanced outreach offer and the development of service hubs within communities.
Commissioning Enhanced Services Transformation	Supporting the creation of a dedicated commissioning function, driving a complete review of all strategic commissioning activity – delivering multi-million pound savings and a market-shaping programme.

Learning Transformation	Involving a review of the local authority role in education in the context of expansion of the academy sector, diminishing local authority funding and the need to shift from provision and commissioning to a system leadership role.
Transport Transformation	Through the Total Transport transformation programme we are scrutinising contract services to ensure the Council delivers the most efficient mainstream school transport services whilst ensuring all eligible pupils receive free transport in line with the Council's policy on journey times.
Scheme	
Assets / Facilities work stream / Property projects	Completion of an outcome focussed review regarding our approach to the Council's asset and property portfolio – leading to the establishment of shared property services with our partners, generating income through commercialising property assets and re-shaping the property portfolio to support business outcomes.
Automation	Reduction in staff costs in service teams and Contact Centre from review of services that can be delivered by automation.
Organisational Structure Review	Identifying areas to reduce spend on staffing budgets e.g. looking in detail at management structures and reduced team mileage through flexible working.
Commercialisation	Development of a Strategic Investments model for the authority and creation of a dedicated investment vehicle to deploy multi-million pound investments for a commercial return.
Waste Transformation	Renegotiation of the Waste PFI contract and sharing services for minerals and waste planning applications with other Councils.
Libraries Transformation	Changing the service to make it financially sustainable and allow reinvestment in the book fund, including income generation and service redesign.

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 5) and Reserves Policy (see chapter 8).

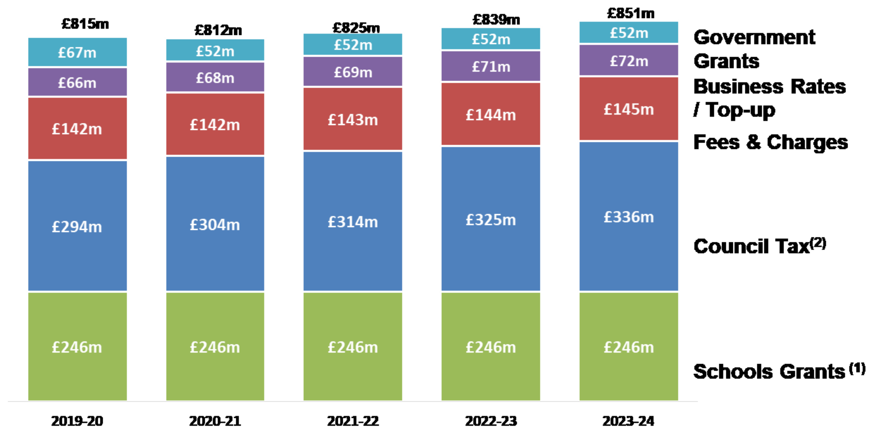
The Council's revenue spending is shaped by our Transformation Programme, influenced by levels of demand and the cost of service provision, and constrained by available funding.

Funding forecast

Forecasting our financial resources over the medium term is a key aspect of the revenue strategy, allowing us to understand 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 2019-20, Cambridgeshire is expected to receive £569m of funding excluding grants retained by its schools. The key sources of funding are Council Tax, for which a provisional increase of 1.99% on the general council tax rate and 2% for the Adult Social Care precept has been assumed, and Central Government funding (excluding grants to schools).

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, a 1.99% increase in basic council tax in 2019-20 and 0% in 2020-21

As is evident from Figure 4.1, the Council will continue to face a challenging funding environment over the medium term., The Council will see an increase in overall gross budget (excluding schools) of 6.2% to 2023-24, primarily due to increases in council tax. However inflationary pressures, population growth and increased demand for services are expected to result in additional budget pressures of 14.6% of gross budget over the same period. This leaves a residual unfunded pressure of £46m (see figure 4.2). The council will therefore seek to make further improvements to the efficiency of service provision in order to ensure long term financial sustainability.

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 CPI inflation (3% in 2018-19, falling to 2% by 2022-23, as per OBR forecasts)
Top-up	• National CPI inflation (1.83% in 2019-20 as per OBR forecasts)
General Council Tax	• Level set by Council (1.99% in 2019-20 and 0% thereafter) • Occupied Cambridgeshire housing stock (0.8%-1.5% annual increase, as per District Council forecasts)
Adult Social Care Precept	• Level set by Council (2% assumed until 2023-24)
Revenue Support Grant	• MHCLG Departmental Expenditure Limit (-13.2% per year until 2023-24)
Other grants	• Grants allocated by individual government departments (overall decrease of 22.8% by 2023-24)
Fees & charges	• Charges set by Council (overall 4.50% 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. In particular Revenue Support Grant, worth more than £50m a year as recently as 2015-16 is currently expected to become negative in 2019-20 (although a recent consultation has been launched which may defer this). This will require the council to increase the proportion of local business rates paid over to central government.

The Business Rates Retention Scheme, introduced in April 2013, aims to increase the self-sufficiency of local government and provide an additional incentive for local authorities to invest in local economic growth. This is achieved by linking an element of local authority income to a share of the Business Rates collected in their area. County Councils receive a 9% share of Business Rates as compared to the District Councils' share of 40% which provides vital stability against the variability of Business Rates. However this means that County Councils retain a lower proportion of business rates growth and therefore receive smaller increases in funding than Districts with high levels of growth.

In his April 2015 Budget, the former 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 was intended to incentivise local authorities to encourage business growth and allowed County Councils to retain an

additional 9% of any growth in business rates above an agreed "stretch target".
As part of the provisional 2018-19 Local Government Finance Settlement, it was announced that the Government will implement a 75% (rather than 100%) model in 2020-21 alongside a new 'Fair Funding' formula. In order to ensure that the reforms are fiscally neutral, councils will gain new responsibilities, and some Whitehall grants will be phased out; to date the Revenue Support Grant and the Public Health Grant have been confirmed to be rolled in. The impact of these funding changes may be significant for the Council however we are awaiting further clarity from MHCLG before the changes can be included in the forecasts.

Ahead of the introduction of 75% Business Rates Retention in 2020-21, the Government has announced a further round of pilots. The aim of these pilots is to establish an appropriate tier split of business rates between District and County Councils and trial a concept of business rate pooling which allows the risk of variability in business rates income to be shared between multiple authorities. Subject to political approval across partners, Cambridgeshire will bid for a 2019-20 business rate pilot which will create a business rates pool for Cambridgeshire. If the bids was successful it could lead to significant one-off additional funding to the participating authorities for investment in local services.

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 financial 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 2018-19, rather than 680,500. This has been mitigated to a small extent by the New Homes Bonus, which acts as a clear promoter of housing growth.

The New Homes Bonus was also subject to consultation, the results of which were to introduce a baseline growth rate of 0.4% below which no bonus is paid, and to use the funding this freed up to create a £240m Adult Social Care Grant. This grant has fallen over the past 2 years and the Council does not expect to receive the grant in 2019-20.

The government has limited the general increase in Council Tax in 2019-20 to 3% per year (and CCC is currently planning for an increase of 1.99%), but has provided additional flexibility for local authorities with Adult Social Care responsibilities to raise Council Tax by an additional precept. This precept is capped at a maximum 6% increase in the 3 years to 2019-20 with the flexibility to raise it by up to 3% in each of 2017-18 and 2018-19. This Business Plan assumes that the Council will increase general council tax by 2% in 2019-20 and continue to phase in the 6% Adult Social Care precept via a 2% rise in 2019-20.

The availability of the Adult Social Care precept has not been confirmed beyond 2019-20, however the budget assumes the precept will be available beyond this point.

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 whether or not to increase these rather than assuming a 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 1.2%, 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

	2019-20	2020-21	2021-22	2022-23	2023-24
Inflationary cost increase (£000)	6,667	6,454	6,694	6,616	6,578
Inflationary cost increase (%)	1.4%	1.4%	1.4%	1.4%	1.3%

Demand pressures

Demand change can result from changes in population numbers and changes in population need. The underlying general population growth in Cambridgeshire is forecast to be 1.4% per year, for the duration of the MTFS. The demographic pressures set out in the table below relate to circumstances where;

- Services cannot absorb the financial impact of general population growth
- Service user population growth exceeds that of the general population
- Needs of service users are expected to increase

Table 4.3: Demographic pressures

	2019-20	2020-21	2021-22	2022-23	2023-24
Total demographic cost increase (£000)	8,893	9,191	9,362	10,744	10,987
Total demographic cost increase (%)	1.8%	2.0%	2.0%	2.3%	2.3%

Planned actions to manage demand are detailed within the savings plans for each service area.

Other pressures

We recognise that there are some unavoidable cost pressures that we will have to meet. Where possible services are required to manage pressures, if necessary being met though the achievement of additional savings or income. If this is not possible, particularly if the pressure is caused by a legislative change, pressures are funded corporately, increasing the level of savings that are required across all Council services.

Investments

The Council recognises that effective transformation often requires up-front investment and has considered both existing and new investment proposals 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). The Transformation Fund acts as a pump priming resource; any permanent investment requirements continue to be funded through additonal savings across all Council services.

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 and 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 2017 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 the 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).

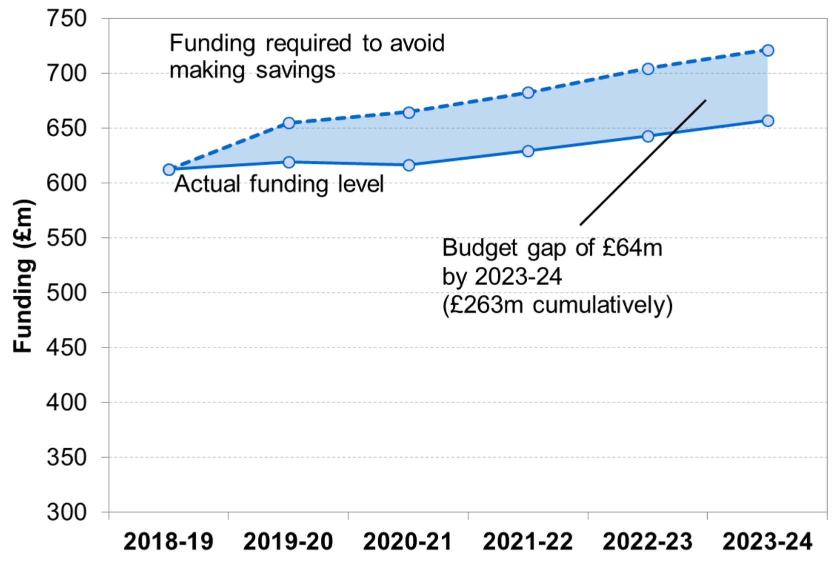
Once the service programmes have been refined, if the amalgamated level of borrowing and thus debt charges breaches the advisory limit, schemes will either be re-worked in order to reduce borrowing levels, or the number of schemes included will be limited according to the ranking of schemes within the prioritisation analysis. As part of the 2019-20 business planning process, the Council will undertake a more focused review of the Capital Programme which will seek to minimise the cost to the taxpayer of financing debt charges for capital schemes. The review will focus on re-prioritising and re-programming capital schemes according to need to ensure that the council makes the best use of the capital funding available and minimises the revenue impact of capital projects.

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 or 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.

Figure 4.2: Budget gap



Achieving these £64m 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 therefore focus on driving real transformation across the Council as well as on early intervention in order to manage demand.

In some cases services have opted to increase 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.

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 priorities outlined within the Council's Strategic Framework. It is also closely aligned with the remit of the Commercial & Investment Committee, and will be informed by the Council's Asset Management Strategy and Investment 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. The Autumn Statement 2016 also announced a National Productivity Investment Fund, which will provide an additional £1.1 billion of funding by 2020-21 to relieve congestion and deliver upgrades on local roads and public transport networks, as well as announcing the intention to consult on lending authorities up to £1 billion at a new local infrastructure rate for three years to support infrastructure projects that are high value for money. The Autumn Budget 2017 announced a new £1.7bn Transforming Cities Fund that will target projects that drive productivity by improving connectivity, reducing congestion and utilising mobility services and technology, and it also confirmed that it will introduce the discounted interest rate for up to £1bn of infrastructure projects. As such the Business Plan anticipates as a general principle that overall capital grant allocations will remain constant from 2018-19 onwards.

In 2014-15, the Department for Education 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 according to our 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. The allocations were £25.0m for 2018-19 and going forward are £6.9m for 2019-20, and £20.6m for 2020-21. 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 also revised the methodology used to distribute condition allocations in 2015-16, 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 for 2015-16 hit this floor; therefore it was anticipated that the Council's funding from this area would be reduced further – the Council's 2018-19 funding allocation was only actually £166k lower than the previous year, however it is anticipated that funding will still reduce further in 2019-20.

However, as part of the Spending Review 2015 the Government has announced investment of £23 billion in school buildings over 2016 to 2021, intending to open 500 new free schools, create 600,000 school places, rebuild and refurbish over 500 schools and address essential maintenance needs. To date, the Government has given approval to 8 new free schools in Cambridgeshire to pre-implementation stage. Not all of these, however, are in areas where the Council has an identified basic need requirement. The process for Wave 13 applications was announced by the Government in May 2018. There is much stricter criteria in place around this wave therefore it is unclear at this time whether there will be any applications for Cambridgeshire.

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 topslice 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 the reduction in the Integrated Transport allocation was disappointing, as part of the Autumn Statement 2014 the Department for Transport (DfT) announced indicative Highways Maintenance funding for the next 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).

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 and is currently in delivery. The third round of growth deals was announced in January 2017; the individual allocation for the Greater Cambridge / Greater Peterborough LEP was an additional £37m.

Moving forward, the recently formed Cambridgeshire and Peterborough Combined Authority (CPCA) has taken on the responsibilities of the local highway authority and therefore the CPCA now receives DfT funding designated to the local highway authority, instead of the Council. The CPCA is continuing to commission the County Council to carry out the required works on the highway network. In addition, from April 2018 the Greater Cambridge / Greater Peterborough LEP ceased to exist and was relaunched as a new LEP, The Business Board, supported by the CPCA.

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 Capital Programme Board 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 chapter 6 of this Section, with further detail provided by each Service within their individual finance tables (Section 3).

5) 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 of 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.

This policy has been revised following a corporate review of fees and charges across the Council and is supported by Best Practice Guidance, provided in Appendix 1. The policy and Best Practice Guidance set out the approach to be taken to fees and charges where the Council has discretion over the amounts charged for services provided and for trading activities.

The purpose of this policy is to provide a consistent approach in setting, monitoring and reviewing fees and charges across the authority. This will ensure that fees and charges support Council objectives and are set at a level that maximises income generation in accordance with the Transformation Strategy. The policy incorporates the following Charging Principles:

1. **Council Priorities**
   A Schedule of Fees and Charges shall be maintained for all charges where the Council has discretion over the amounts charged for services provided and for trading activities. All decisions on charges for services and trading activities will be taken with reference to and in support of Council priorities and recorded as delegated decisions, as appropriate.

2. **Charge Setting**
   In setting charges, any relevant government guidance will be followed. Stakeholder engagement and comparative data will be used where appropriate to ensure that charges do not adversely affect the take up of services or restrict access to services. Full consideration will be given to the costs of administration and the opportunities for improving efficiency and reducing bureaucracy.

3. **Subsidy**
   In general, fees and charges will aim to recover the full cost of services except where this is prevented by legislation, market conditions or where alternative arrangements have been expressly approved by the relevant Director. A proportionate business case should be created for all charges that a subsidised by the Council. Approval for the level of subsidy should be obtained from the relevant Service Director, in consultation with the Chief Finance Officer.

4. **Charging Levels**
   A number of factors should be considered when determining the charge and these are documented in the accompanying Best Practice Guidance.

5. **Charging Exemptions**
   All services provided by the Council will be charged for unless prevented by statute, detailed as exempt in the Best Practice Guidance or under exceptional circumstances agreed exempt

by the relevant Director, in consultation with the Chief Finance Officer.

6. **Concessions**
Concessions to priority and target groups will be considered where appropriate, in accordance with any relevant government guidance and will take account of the user's ability to pay. All concessions should be fully justified in terms of achieving the Council's priorities. Wherever possible we will aim to provide concessions consistently across the Authority, in line with the Best Practice Guidance.

7. **Review of Charges**
All charges and the scope for charging will be reviewed at least annually within the service area, though charges within the same service area may need reviewing at separate times in the year. The review will include those services which could be charged for but which are currently provided free of charge. The annual review will be undertaken in accordance with the Best Practice Guidance.

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 have been reviewed by relevant Service Committees during 2018:

- P&C schedule of fees and charges
- CS schedule of fees and charges
- P&E schedule of fees and charges

For business planning purposes all fees and charges are increased in line with CPI (consumer price index), which is between 1.7% and 2.2% 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.

will aim to provide concessions consistently across the Authority, in line with the Best Practice Guidance.

6) 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 6.1 below.

Table 6.1: Total funding 2019-20 to 2023-24

	2019-20 £000	2020-21 £000	2021-22 £000	2022-23 £000	2023-24 £000
Business Rates plus Top-up	66,231	67,587	69,008	70,459	71,942
Council Tax	293,734	303,716	314,021	324,920	336,209
Revenue Support Grant	-7,170	-7,170	-7,170	-7,170	-7,170
Other Unringfenced Grants	10,352	33,477	33,115	33,514	33,442
Dedicated Schools Grant (DSG)	232,219	232,219	232,219	232,219	232,219
Other grants to schools	13,434	13,434	13,434	13,434	13,434
Better Care Funding	26,487	14,086	14,086	14,086	14,086
Other Ringfenced Grants	37,619	12,059	12,059	12,059	12,059
Fees & Charges	141,719	142,236	143,386	144,312	145,225
Total gross budget	**814,625**	**811,644**	**824,158**	**837,833**	**851,446**
Less grants to schools (1)	-245,653	-245,653	-245,653	-245,653	-245,653
Schedule 2 DSG plus income from schools for traded services to schools	50,742	50,742	50,742	50,742	50,742
Total gross budget excluding schools	**619,714**	**616,733**	**629,247**	**642,922**	**656,535**
Less Fees, Charges & Ringfenced Grants	-256,567	-219,123	-220,273	-221,199	-222,112
Total net budget	**363,147**	**397,610**	**408,974**	**421,723**	**434,423**

(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 to 2019-20. 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.

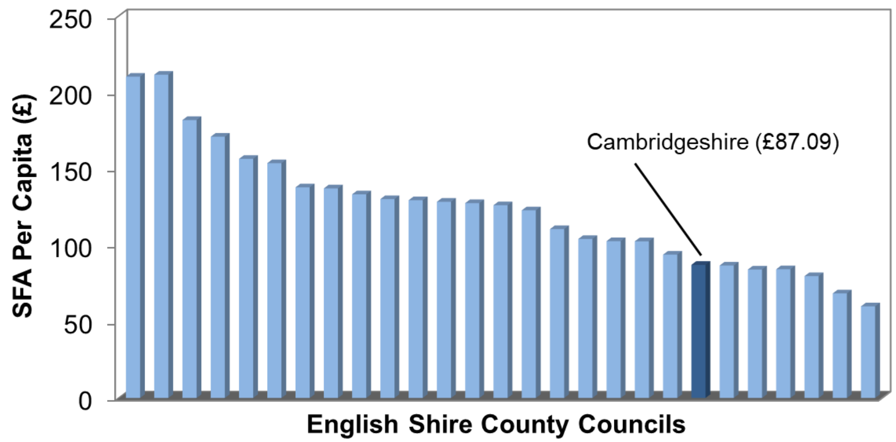
The headline position, as updated by the provisional 2019-20 Local Government Finance Settlement for Cambridgeshire County Council, is a 15% reduction in the Settlement Funding Assessment per capita from government in 2019-20. The overall change in government funding when specific grants are included is a reduction of 6.2%.

Table 6.2: Comparison of Cambridgeshire's 2018-19 and 2019-20 overall Government funding

	2018-19 £000	2019-20 £000
Business Rates plus Top-up	64,039	66,230
Revenue Support Grant	3,915	-7,170
Other Unringfenced Grants	11,304	10,353
Better Care Funding	24,744	26,487
Other Ringfenced Grants	38,312	37,619
Government Revenue Funding (excluding schools)	**142,314**	**133,519**
Difference		**-8,795**
Percentage cut		-6.2%

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 2019-20 Cambridgeshire's SFA award per head of population was the seventh lowest of all shire county councils, at only £87.09 compared to the average of £122.99.

Figure 6.2: County Council SFA per Capita 2019-20



Revenue Support Grant

Within this overall reduction, the cuts to Revenue Support Grant (RSG) are the most severe with the Council's allocation having reduced by £93m since 2013-14. We are forecasting continued significant cuts with the grant becoming negative in 2019-20. Negative RSG is currently subject to a Government consultation with the preferred option being to write off the negative element using Central Government's share of business rate receipts.

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.

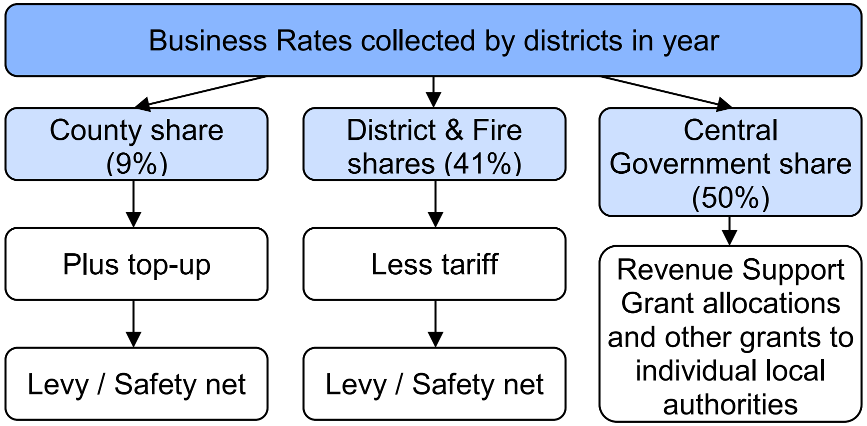
Business Rates Retention Scheme

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 6.3 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.

As part of the pilots ahead of the move to 75% local business rate retention in 2020-21 the Government has been looking at changing the percentage split between upper and lower tier authorities, which may increase both the Council's income and risk.

Figure 6.3: 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 CPI inflation (this was RPI prior to 2018-19). 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 locked in elements of the previous system which were of 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 consultation regarding the replacement of the current funding model is currently open and will feed into the system which is due to be rolled out in 2020-21 – Cambridgeshire County Council Members have already initiated positive steps to ensure our voice is heard in this critical forum.

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 in particular due to the ongoing legal proceedings which will affect whether NHS sites received business rate discounts

Council Tax

The Government sets Council tax referendum principles annually which stipulate the maximum percentage increase which local authorities may apply without triggering a referendum. In 2018-19, the maximum increase in the basic level of council tax was raised from 1.99% to 2.99%. The Secretary of State announced that this would give local authorities "the independence they need to help relieve pressure on local services" while "recognising the need to keep spending under control". Due to significant sustained pressure on Council budgets during the current spending review period, the Government has set out its intention to maintain the same core principle in 2019-20.

Cambridgeshire County Council starts the Business Planning Process with a Council Tax rate below the average for all counties. Responding to the need to protect vital services and put the Council's finances on a firm footing, the Council is increasing basic council tax by 1.99% in 2019-20. Prior to 2018-19, Council tax had not been increased in three years. The increase of 1.99% is in line with the inflation forecasts of the Office of Budgetary Responsibility set out earlier in this document.

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. The Council chose to make use of this permission and levied the full 2% precept in 2016-17.

The 2017-18 settlement announcement extended the flexibility of the Adult Social Care precept, confirming that upper-tier authorities will be able to increase this to 3% over the next two years. However, the total increase may be no more than 6% in total over the next three years.

The Council chose not to use this additional flexibility, levying a 2% precept for 2018-19 and projecting this to continue for all five years of the Medium Term Strategy. It should be noted that the availability of the Adult Social Care precept beyond 2019-20 has not yet been confirmed by Government and this assumption will be revisited annually and updated as required.

Council Tax Requirement

The current Council Tax Requirement (and all other factors) gives rise to a 'Band D' Council Tax of £1,299.70. This is an increase of 3.99% on the actual 2018-19 level due to levying the Adult Social Care Precept and 1.99% increase in basic Council Tax levels. This figure reflects information from the districts on the final precept and collection fund.

Table 6.3: Build-up of recommended Council Tax Requirement and derivation of Council Tax precept 2019-20

	2019-20 £000	% Rev. Base
Adjusted base budget	**801,509**	
Transfer of function	-38	
Revised base budget	**801,471**	
Inflation	6,328	0.8%
Demography	7,380	0.9%
Pressures	14,371	1.8%
Investments	-3,260	-0.4%
Savings	-32,660	-4.1%
Change in reserves/one-off items	20,995	2.6%
Total budget	**814,625**	**101.7%**
Less funding:		
Business Rates plus Top-up	66,231	8.3%
Revenue Support Grant	-7,170	-0.9%
Dedicated Schools Grant	232,219	29.0%
Unringfenced Grants (including schools)	23,786	3.0%
Ringfenced Grants	64,106	8.0%
Fees & Charges	141,719	17.7%
Surplus/deficit on collection fund	-	0.0%
Council Tax requirement	**293,734**	**36.7%**
District taxbase	226,004	
Band D	**1,299.69**	

Taxes for the other bands are derived by applying the ratios found in Table 6.4. For example, the Band A tax is 6/9 of the Band D tax.

Table 6.4: Ratios and amounts of Council Tax for properties in different bands

Band	Ratio	Amount £	Increase on 2018-19 £
A	6/9	866.46	33.24
B	7/9	1,010.87	38.78
C	8/9	1,155.28	44.32
D	**9/9**	**1,299.69**	**49.86**
E	11/9	1,588.51	60.94
F	13/9	1,877.33	72.02
G	15/9	2,166.15	83.10
H	18/9	2,599.38	99.72

Unringfenced grants

The Council expects to receive £10.354m in unringfenced grants in 2019-20; a reduction of £0.95m on the 2018-19 total of £11.305m. This is principally due to the discontinuation of the Adults Social Care Support Grant provided by Government in 2017-18 and 2018-19 to assist Council's in meeting the rising cost of social care. The 2018-19 Local Government Finance Settlement confirmed the Public Health Grant would remain ringfenced until 2020-21 at which point it will be rolled into the shift to 75% business rates retention. 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 6.5: Unringfenced grants for Cambridgeshire 2019-20

	2019-20 £000
New Homes Bonus	3,384
Education Services Grant	1,511
Other	5,459
Total unringfenced grants	**10,354**

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.
The improved Better Care Fund announced in the Spring 2017 budget, is worth £12.4m in 2019-20, the future of this funding

source is uncertain beyond 2019-20 thus the MTFS assumes it will be zero from 2020-21 onwards.

In line with the Secretary of State's announcement as part of the provisional 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 6.1. However, this grant is ring-fenced to pass directly on to schools, other education providers and services. This plan therefore uses the figure for "total budget excluding grants to schools". The DSG funding arrangements for 2019-20 are based on a national funding formula introduced in 2018-19 which provides a cash increase of 0.5% (a year) per pupil for every school. The impact on individual schools will be dependent on their individual circumstances, whilst centrally retained services will be funded based on the overall level of available resources.

Capital programme spending

THIS SECTION WILL BE UPDATED FOLLOWING THE FIRST REVISION OF THE 2019-20 PROGRAMME FOR OCT COMMITTEES

The 2018-19 ten year capital programme worth £812m is currently estimated to be funded through £616m of external grants and contributions, £122m of capital receipts and £75m of borrowing (Table 6.6). This is in addition to previous spend of £609m on some of these schemes creating a total Capital Programme value of £1.4 billion. Due to the increase in borrowing in relation to the Council's Housing Delivery Vehicle (HDV) the revenue impact of prudential borrowing is due to increase from £26.0m in 2018-19, to £38.5m by 2022-23 however this will be more than offset by the forecast income from surpluses generated by the HDV.

Table 6.6: Funding the capital programme 2018-19 to 2027-28

	Prev. years £000	2018-19 £000	2019-20 £000	2020-21 £000	2021-22 £000	2022-23 £000	Later years £000	Total £000
Grants	186,988	54,034	34,309	35,464	35,614	37,592	76,427	**460,428**
Contributions	74,378	23,040	35,422	50,660	25,882	14,235	192,872	**416,489**
General capital receipts	5,058	81,126	26,293	5,098	6,493	500	2,500	**127,068**
Prudential borrowing	203,660	60,994	91,480	24,179	15,212	11,299	10,530	**417,354**
Prudential borrowing (repayable)	139,047	36,309	5,477	-16,343	3,071	-4,746	-162,802	**13**
Total funding	**609,131**	**255,503**	**192,981**	**99,058**	**86,272**	**58,880**	**119,527**	**1,421,352**

Section 3 later in the Business Plan sets out the detail of the 2018-19 to 2027-28 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 (£570m)
- Housing Provision (£184m)
- Commercial Investment Portfolio (£100m)
- Major road maintenance (£83m)

- Ely Crossing (£49m)
- Rolling out superfast broadband (£36m)
- A14 Upgrade (£25m)
- Shire Hall Relocation (£17m)
- King’s Dyke Crossing (£14m)
- Integrated Community Equipment Service (£13m)
- Cycling City Ambition Fund (£8m)
- Waste Facilities – Cambridge Area (£8m)
- ~~Soham Station (£7m)~~ [now CPCA]
- Cambridgeshire Public Services Network Replacement (£6m)
- Cambridge Cycling Infrastructure (£5m)
- Abbey – Chesterton Bridge (£5m)
- MAC Joint Highways Depot (£5m)
- Development of Archive Centre premises (£5m)

Table 6.7 summarises schemes according to start date, whereas Table 6.8 summarises capital expenditure by service. These tables include schemes that were committed in previous years but are scheduled to complete from 2018-19 onwards.

Table 6.7: Capital programme for 2018-19 to 2027-28

	Prev. years £000	2018-19 £000	2019-20 £000	2020-21 £000	2021-22 £000	2022-23 £000	Later years £000	Total £000
Ongoing	79,062	8,571	10,023	18,283	23,327	23,455	19,216	**181,937**
Commitments	529,244	153,186	110,564	55,510	29,497	9,720	40,791	**928,512**
New starts:								
2018-19	660	91,686	44,244	4,675	12,120	4,600	270	**158,255**
2019-20	150	2,060	28,150	19,790	6,158	270	-	**56,578**
2020-21	-	-	-	-	-	-	-	**-**
2021-22	-	-	-	400	7,750	2,900	200	**11,250**
2022-23	15	-	-	-	1,020	13,185	12,710	**26,930**
2023-24	-	-	-	250	5,000	3,950	22,390	**31,590**
2024-25	-	-	-	150	1,400	800	23,950	**26,300**
2025-26	-	-	-	-	-	-	-	**-**
Total spend	**609,131**	**255,503**	**192,981**	**99,058**	**86,272**	**58,880**	**119,527**	**1,421,352**

Table 6.8: Services' capital programme for 2018-19 to 2026-27

Scheme	Prev. years £000	2018-19 £000	2019-20 £000	2020-21 £000	2021-22 £000	2022-23 £000	Later years £000	Total £000
P&C	192,087	87,820	116,239	75,585	50,814	36,168	81,569	**640,282**
P&E	289,614	35,956	26,203	19,700	20,654	21,912	19,238	**433,277**
CS & Managed	6,204	8,453	3,027	2,973	2,753	-	-	**23,410**
C&I	121,226	123,274	47,512	800	12,051	800	18,720	**324,383**
LGSS	-	-	-	-	-	-	-	**-**
Total	**609,131**	**255,503**	**192,981**	**99,058**	**86,272**	**58,880**	**119,527**	**1,421,352**

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

Table 6.9: Invest to Save / Earn schemes for 2018-19 to 2027-28

Scheme	Total Investment (£m)	Total Net Return (£m)
Housing Provision	184.5	395.2
Shire Hall Relocation	16.6	TBC
County Farms Investment	4.8	3.1
Citizen First, Digital First	3.5	2.5
Energy Efficiency Fund	1.0	0.6
MAC Joint Highways Depot	5.2	0.2
Smart Energy Grid Demonstrator scheme at the St Ives Park and Ride	3.6	1.6
Commercial Investments	100.0	217.0
TOTAL	**319.3**	**620.1**

7) Balancing the budget

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.

Since 2017-18 the Council is moved to a budget where the transformation programme is at the heart of its construction. As a consequence the Council no longer utilises the traditional service block cash limit approach except as last resort.

Although the base budget is predicated on the cash limit approach, 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 six-blocks of the cash limit model is however set out below for information:

- People and Communities
- Place and Economy
- Corporate and Managed Services
- Public Health
- LGSS Cambridge Office
- Commercial and Investment

It is intended that savings and efficiency proposals evolving from work on cross-cutting transformation themes will sufficiently manage the cost of service delivery to within the financial envelope.

Detailed spending plans for 2019-20, and outline plans for later years, are set out within Section 3 of the Business Plan.

8) Reserves policy and position

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 the following 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.

- **Innovate & Cultivate Fund** – Initially worth £1 million, the fund is to help community organisations with big ideas for transformative preventative work that will make a positive impact on Council expenditure. Applications were invited for funding for projects which demonstrably make an impact on County Council priority outcomes – particularly in relation to working with vulnerable people, thereby diverting children and adults from needing high-cost Council services.

- **Smoothing Fund** – In January 2018, the Council’s General Purposes Committee agreed to allocate the additional funds raised from the increase in general council tax, beyond those used to balance the 2018-19 budget, to a smoothing reserve. This reserve will be topped up in 2019-20 using additional council tax receipts due to the 2.99% increase in 2018-19 and planned increase of 1.99% in 2019-20.

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 2019-20 to 2023-24

Balance as at:	31 March 2019 £m	31 March 2020 £m	31 March 2021 £m	31 March 2022 £m	31 March 2023 £m	31 March 2024 £m
General reserve	11.9	16.6	16.6	16.6	16.6	16.6
Earmarked reserves	27.9	27.9	27.9	27.9	27.9	27.9
Schools reserves	21.9	21.9	21.9	21.9	21.9	21.9
Transformation & Innovation Funds*	19.8	27.3	34.1	40.4	46.1	51.3
Smoothing Reserve	3.4	12.7	22.0	31.3	40.6	49.9
Total	**84.9**	**106.4**	**122.5**	**138.1**	**153.1**	**167.6**
General reserve as % of gross non-school budget	2.1%	3.0%	3.0%	3.0%	2.9%	2.8%

*The Transformation and Innovation Funds have been created as a result of a revision to the calculation of the Council's minimum revenue provision (MRP) and only accounts for transformation bids approved by GPC.

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 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 in 2019-20, this level will be maintained for the whole of the MTFS period.

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 2019-20 to 2023-24

Risk	Source of risk	Value £m
Inflation	0.5% variation on Council inflation forecasts.	0.7
Demography	0.5% variation on Council demography forecasts.	0.7
Interest rate change	0.5% variation in the Bank of England Base Rate.	0.1
Council Tax	Inaccuracy in District tax base forecasts and collection levels.	1.2
Business Rates	Inaccuracy in District taxbase forecasts of County share of Business Rates to the value which triggers the Safety Net.	0.5
Business Rates payable	Impact of revaluation on Business Rates payable.	0.5
Unconfirmed specific grant allocations	Value of as yet unannounced specific grants different to budgeted figures.	1.4
Deliverability of savings against forecast timescales	Savings to deliver Business Plan not achieved.	2.6
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	Unknown	6.3
Balance		**16.6**

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 budget allocations 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 budget allocations 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 budget allocation given 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.

<u>Appendix 1</u> – Fees and Charges Best Practice Guidance

The Council provides a wide range of services for which it has the ability to make a charge – either under statutory powers (set by the government) or discretionary (set by the Council).
Fees and charges fall into three categories:

- **Statutory prohibition on charging**: Local authorities must provide such services free of charge at the point of service. Generally these are services which the authority has a duty to provide.
- **Statutory charges:** Charges are set nationally and local authorities have little or no opportunity to control such charges. These charges can still contribute to the financial position of the Authority. Income cannot be assumed to increase in line with other fees and charges.
- **Discretionary charges**: Local authorities can make their own decisions on setting such charges. Generally these are services that an authority can provide but is not obliged to provide.

This Best Practice Guidance applies to discretionary fees and charges and trading activities. It is supported by the Fees and Charges Flowchart attached at Appendix 1 and the Supplementary Guidance on Concessions and Flowchart attached at Appendix 2.

If you are charging for information which falls under Environment Information Regulations (EIR), please be aware that the legislation changed in 2016 and the Council has additional guidance for constructing these charges. Please contact Camilla Rhodes if you require further information.

PURPOSE OF THE GUIDANCE

The purpose of the Best Practice Guidance is to specify the processes and frequencies for reviewing existing charging levels and to provide guidance on the factors that need to be taken into consideration when charges are reviewed on an annual basis.

The Best Practice Guidance and Fees and Charges Policy together provide a consistent approach in setting, monitoring and reviewing fees and charges across Cambridgeshire County Council. This will ensure that fees and charges are aligned with corporate objectives and the process is carried out in a uniform manner across the authority.

Any service-specific policies should be consistent with the Fees and Charges Policy and Best Practice Guidance.

ASSESSMENT OF CHARGING LEVELS – THE STANDARD CHARGE

The cost of providing the service should be calculated. When estimating the net cost of providing a service, the previous year's actual results (in terms of income, activity levels and expenditure) must be taken into account. Where assumptions are made based on variables such as increased usage, this should be evidenced by an action plan detailing how this will be achieved.

Charges should be set so that in total they cover the actual cost of providing the service including support service charges and other overheads. Any subsidy arising from standard charges being set at a level below full cost should be fully justified in terms of achieving the Council's priorities in the Business Case detailed in Section 3 of this Guidance. Where it is not appropriate or cost effective to calculate the cost of service provision at an individual level, charges may be set so that overall costs are recovered for the range of services which are delivered within a service area.

In order to ensure cost effectiveness and efficiency when setting and amending charging levels, the following are to be considered:

- Justification in the setting of charges to withstand any criticisms and legal challenges;
- Obstacles to maximising full cost recovery when providing the service;
- Access to and impact on users;
- Future investment required to improve or maintain the service;
- Relevant government guidance;
- Corporate objectives, values, priorities and strategies.

The following should be considered during the process, which may result in charges being set at a lower level than cost recovery:

- Any relevant Council strategies or policies;
- The need for all charges to be reasonable;
- The level of choice open to customers as to whether they use the Councils services;
- The desirability of increasing usage or rationing of a given service (i.e reducing charges during off-peak times).

LEVEL OF SUBSIDY

Where charges are made for services, users pay directly for some or all of the services they use. Where no charges are made or where charges do not recover the full cost of providing a service, council tax payers subsidise users.

Fees and charges will be set at a level that maximises income generation and recovers costs, whilst encouraging potential users to take up the service offered and ensuring value for money is secured, except in instances where the Council views a reduction in the service uptake as a positive. The Council can maximise income generation through:

- Charging the maximum that users are prepared to pay, taking into account competitor pricing, when a service is 'demand led' or competes with others based on quality and/or cost.
- Differential charging to tap into the value placed on the service by different users.
- Reduce a fee or charge in order to stimulate demand for a service to maximise the Council's market share, which will lead to an increase in income generation.

A Business Case should be created for all services that require a subsidy from the Council when charges are reviewed. The Business Case should outline how the subsidy will be applied to the service area and incorporate the following:

- Demonstrate that the subsidy is being targeted at top priorities;
- Provide justification for which users should benefit from the subsidy;
    - All users - through the Standard Charge being set at a level lower than cost recovery;
    - Target groups – through the application of the Concessions Guidance (Appendix 2).

Approval for the subsidy should be obtained from the relevant Executive Director, in consultation with the Chief Finance Officer.

CONCESSIONS

Concessions may be used to provide a discount from the Standard Charge for specific groups for certain services. Services must ensure that the fees and charges levied for discretionary services are fair and equitable and support social inclusion priorities. All decisions on concessions for services and trading activities will be taken with reference to and in support of Council priorities and recorded as delegated decisions, as appropriate.

All relevant government guidance should be considered by each service area when concessionary groups and charging levels are set. Concessions should only be granted to the residents of Cambridgeshire. A business case should be approved which details the rationale for directing subsidy towards a target group.

Concessionary Charges may also be made available to organisations whose purpose is to assist the Council in meeting specific objectives in its priorities and policy framework, or which contribute to the aims of key local partnerships in which the council has a leading role.

The level of concession should be set with regard to the service being provided and its use and appeal to the groups for whom concessions are offered. The appropriate Director will approve the level of concession and the groups for whom the concessions apply once all budgetary and other relevant information for the service has been considered. The level of concession and the target groups in receipt of the concession should be made explicit during the approval process and be fully justified in terms of achieving the Council’s priorities. The take-up of concessions should be monitored to identify how well concession schemes are promoting access to facilities.

The Local Government Act 2003 and its accompanying guidance states that charges may be set differentially, so that different people are charged different amounts. However, it is not intended that this leads to some users cross-subsidising others. The costs of offering a service at a reduced charge should be borne by the authority rather than other recipients of the service. This should be borne in mind when setting concessions or promoting use of a service by specific target groups.

There is a flowchart at the end of this appendix to support Services when designing concessions.

CHARGING EXEMPTIONS

Exemptions relate to service areas where no charges are levied to any of the service users. There will be a number of important circumstances where charges should not be made. The following are Charging Exemptions:

- Where the administrative costs associated with making a charge would outweigh potential income.
- Where charging would be counterproductive (i.e result in reduced usage of the service).

PROCESSES AND FREQUENCIES

Reviews will be carried out at least annually for all services in time to inform the budget setting process, will take account of inflationary pressures and will be undertaken in line with budget advice provided by Corporate Finance. The reviews will be undertaken by all Service Areas that provide services where charges could be applied. The annual review of charges will consider the following factors:

- Inflationary pressures;
- Council-wide and service budget targets;
- Costs of administration;
- Scope for new charging areas.

Customers should be given a reasonable period of notice before the introduction of new or increased charges. Where possible, the objectives of charging should be communicated to the public and users and taxpayers should be informed of how the charge levied relates to the cost of provider the service.

COLLECTION OF CHARGES AND OUTSTANDING DEBTS

The most economic, efficient and effective method of income and debt collection should be used and should comply with the requirements of Financial Regulations. When collecting fees and charges income, services should use the most cost effective method available, i.e. online or with card, thus minimising the use of cash and cheque payments and invoicing as a method of collection wherever possible.

Wherever it is reasonable to do so, charges will be collected either in advance or at the point of service delivery.

Where charges are to be collected after service delivery has commenced, invoices will be issued promptly on the corporate system.

Where a debtor fails to pay for goods or services the relevant Service Director should consider withholding the provision of further goods or services until the original debt is settled in full, where legislation permits.

Charges and concessions will be clearly identified and publicised on the Council’s external website so that users are aware of the cost of a service in advance of using it.

APPROVALS

All decisions on charges for services and trading activities will be approved by the relevant Director, in consultation with the Chief Finance Officer and recorded as delegated decisions, as appropriate.

MONITORING AND IMPROVEMENT

Monitoring will be used to understand how charges affect the behaviour of users (especially target groups) and drive improvement. Price sensitivities of individuals and groups should be understood so that charges can be set appropriately to deliver the levels or changes in service use necessary to achieve objectives.

As part of the monitoring and improvement process, a Schedule of Fees and Charges shall be maintained and challenging targets for charging and service use shall be established.

A Schedule of Fees and Charges shall be maintained by the Chief Finance Officer for all discretionary charges.

Specific financial, service quality and other performance targets should be set, monitored and reported to the appropriate level to ensure that high levels of efficiency and service quality are achieved. Examples include:

- Cost of service provision against targets and benchmarking authorities;
- Usage by target groups i.e. number of visits / requests;
- Usage during peak time / off –peak time;
- Income targets;
- Percentage of costs recovered;
- Costs of methods of billing and payment;
- Excess capacity.

Service managers should, wherever possible, benchmark with the public, private and voluntary sectors not only on the level of charges made for services but the costs of service delivery, levels of cost recovery, priorities, impact achieved and local market variations in order to ensure the Council generates maximum income.

Benchmarking should be proportionate and have clear objectives. It should be remembered that benchmarking can be resource intensive, therefore prior to commencing such an exercise, there should be a clear expectation of added value outcomes. If benchmarking is undertaken, wherever possible, this should be with similar types of organisations, but may include private sector providers as well as public sector.

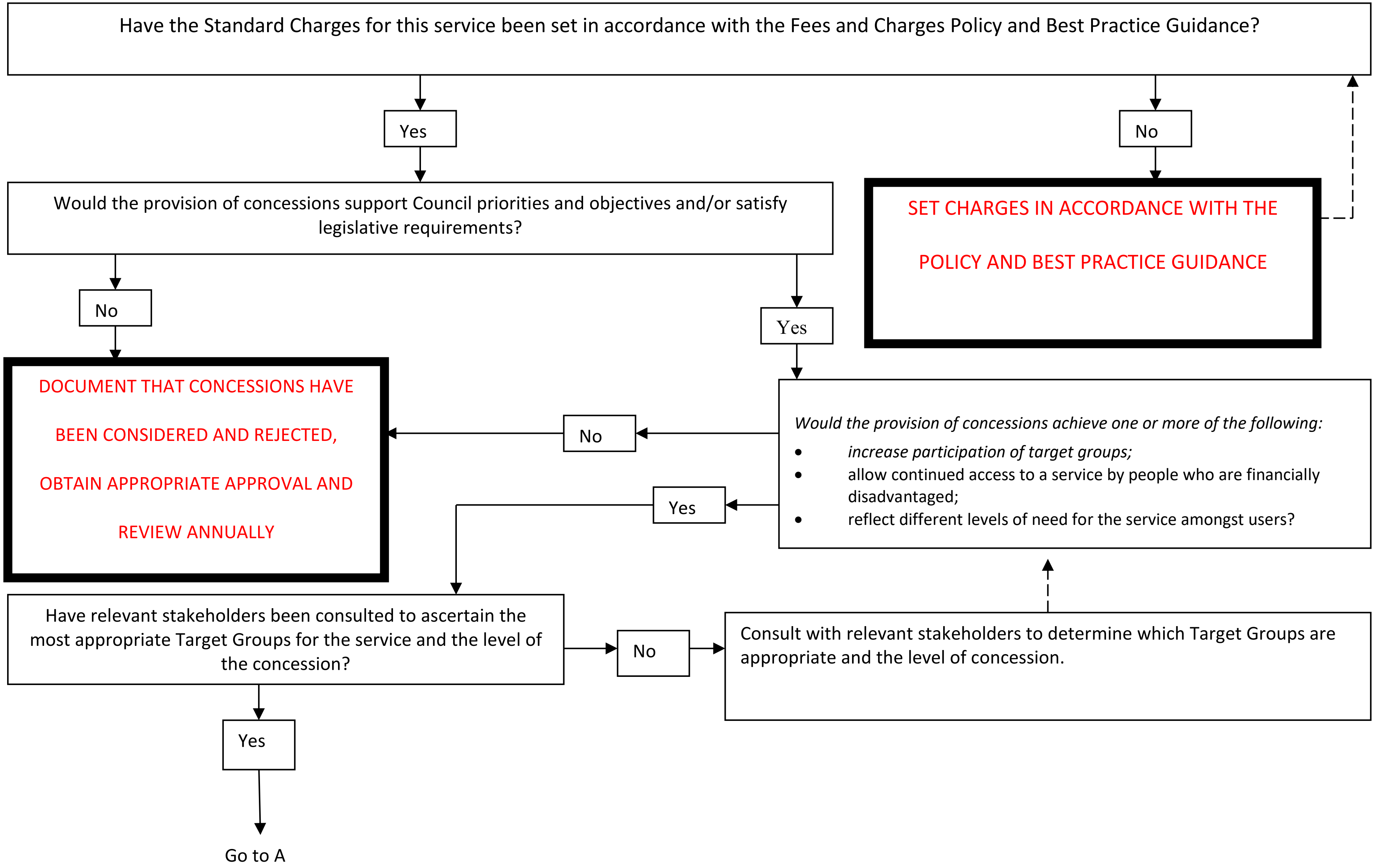
UNDER/OVERACHIEVEMENT OF FEES AND CHARGES.

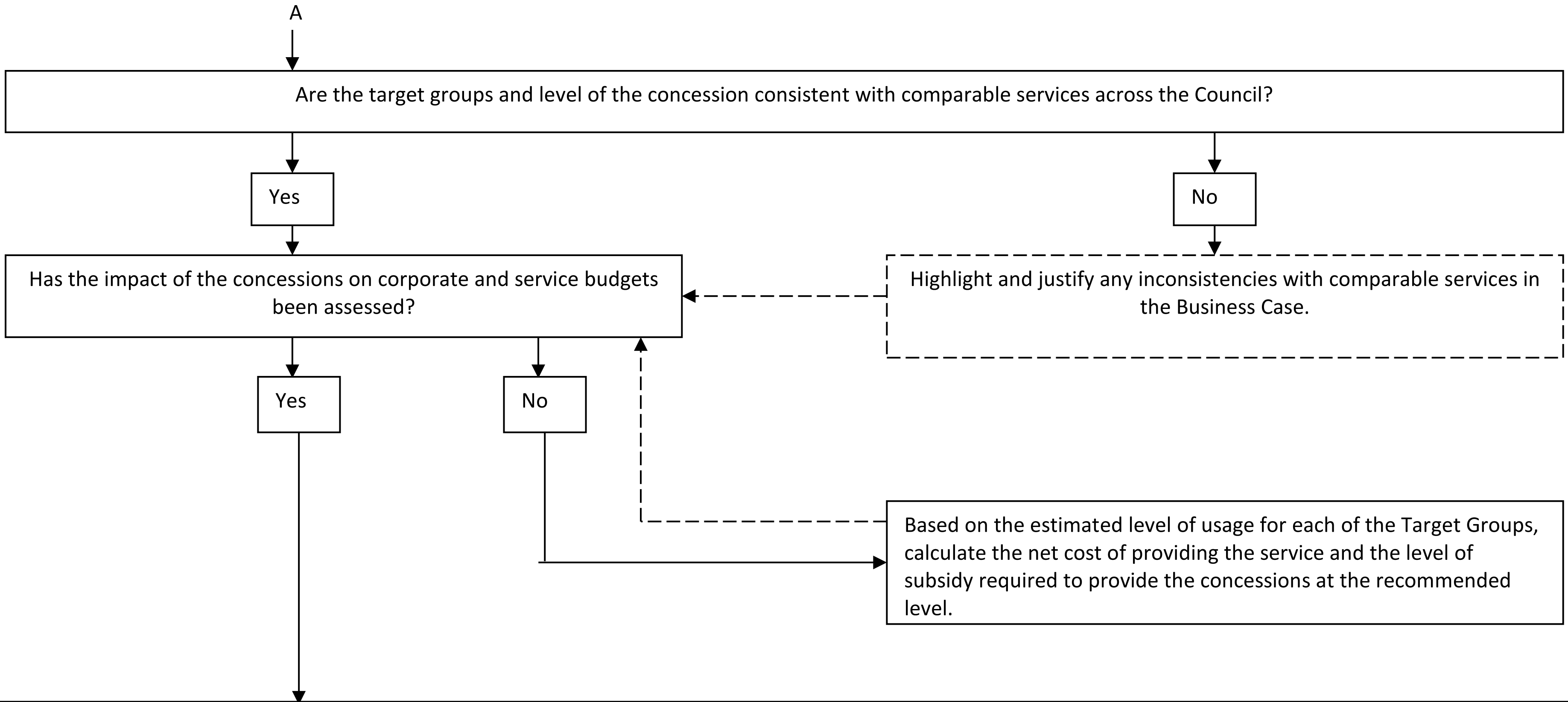
At a level deemed appropriate by the relevant service, a clear escalation process should be in place for the under or overachievement of charges.

For an overachievement of a charge, the simple process should be for budget holders to inform the Head of Service, the Director of Service and the Financial Advisor. Within the year, if there is an overachievement of fees and charges, then the budget holder, head of service and director should discuss how to use this surplus to offset any areas running an overspend within the budget/service. At the end of the year, an overachievement in charges should result in discussions with the budget holder, head of service and director to increase the target of that particular fee or charge, in line with the Council’s income generation aim.

For an underachievement of a fee or charge within a service, the budget holder, and their financial advisor, should attempt to mitigate this underachievement as much as possible within their own service. If a budget holder is unable to mitigate a failure, then the Head of service should mitigate the underachievement within their service. Failing this, the director should attempt to do the same for the directorate, before further escalating the underachievement to the Chief Finance Officer should the directorate be unable to mitigate the failure to meet an income target for any fee or charge. Again, if this underachievement takes place at the end of the year, this should be reflected within the schedule of fees and charges, with an amendment for a more realistic and achievable target.

FEES AND CHARGES: CONCESSIONS





- UPDATE DIRECTORY OF CHARGES
- OBTAIN APPROVAL FOR THE BUSINESS CASE WHICH DETAILS THE RATIONALE FOR DIRECTING THE PROPOSED LEVEL OF SUBSIDY TOWARDS A TARGET GROUP. THE BUSINESS CASE MUST BE EXPLICIT IN TERMS OF THE TARGET GROUPS THAT ARE RECOMMENDED TO RECEIVE THE CONCESSIONS AND THE LEVEL OF SUBSIDY THE COUNCIL IS PROVIDING TO FUND THE CONCESSIONS.
- MONITOR THE TAKE-UP OF CONCESSIONS AND IDENTIFY HOW WELL CONCESSION SCHEMES ARE PROMOTING ACCESS TO FACILITIES