Agenda Item No:6

BUSINESS PLAN 2016-17

To:	**General Purposes Committee**
Date:	**2 February 2016**
From:	**Chief Finance Officer**
Electoral division(s):	**All**
Forward Plan ref:	**Not applicable** *Key decision:* **No**

Purpose:

To present the Council's Business Plan covering the period 2016-17 in detail, and 2017-18 through to 2020-21 in outline, for:

- **Committee consideration,**
- **Committee recommendation (with or without amendment) to Council for approval.**

Recommendations:

It is recommended that the Committee:

1. **Considers the Business Plan, including supporting Budget, Community Impact Assessments, Consultation Responses and other material, in the light of all planning activities undertaken to date.**

2. **Recommend to Council the following:**

   a. **That approval is given to the Service/Directorate cash limits as set out in each Service/Directorate table in Section 3 of the Business Plan.**

   b. **That approval is given to a total County Budget Requirement in respect of general expenses applicable to the whole County area of £764,225,000 as set out in Section 2 Table 5.3 of the Business Plan.**

   c. **That approval is given to a recommended County Precept for Council Tax from District Councils of £253,238,306.80 (to be received in ten equal instalments in accordance with the fall-back provisions of the Local Authorities (Funds) (England) (Amendment) Regulations 1995), as set out in Section 2, Table 5.3 of the Business Plan.**

   d. **That approval is given to a Council Tax for each Band of property, based on the number of "Band D" equivalent properties notified to the County Council by the District Councils (217,164), as set out in Section 2, Table 5.4 of the Business Plan reflecting**

a 1.99% increase in the County Council element of the Council Tax:

Band	Ratio	Amount (£)
A	6/9	£778.02
B	7/9	£907.69
C	8/9	£1,037.36
D	**9/9**	**£1,167.03**
E	11/9	£1,426.37
F	13/9	£1,685.71
G	15/9	£1,945.05
H	18/9	£2,334.06

e. That approval is given to the report of the Chief Finance Officer on the levels of reserves and robustness of the estimates as set out in Section 2 of the Business Plan.

f. That approval is given to the Capital Strategy as set out in Section 6 of the Business Plan.

g. That approval be given to capital expenditure in 2016-17 up to £185.8m arising from:

- **Commitments from schemes already approved; and**
- **The consequences of new starts in 2016-17 shown in summary in Section 2, Table 5.9 of the Business Plan.**

h. That approval is given to the Treasury Management Strategy as set out in Section 7 of the Business Plan.

i. That approval is given to the Prudential Borrowing Prudential Indicators as set out in Appendix 3 of Section 7 of the Business Plan.

3. Endorse the priorities and opportunities as set out in the Strategic Framework.

4. Authorise the Chief Finance Officer, in consultation with the Leader of the Council, to make technical revisions to the Business Plan, including the foregoing recommendations 2a to 2i to the County Council, so as to take into account any changes deemed appropriate, including updated information on District Council Tax Base and Collection Funds, Business Rates forecasts and Collection Funds and any grant changes.

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1. BACKGROUND

1.1 It is a statutory requirement under the Local Government Finance Act 1992 for the Council to set a balanced budget before 11 March 2016. In doing so, the Council undertakes financial planning covering a five year timescale that creates links with its longer term financial modelling and planning for the growth in demand for services. The budgets set out in this report are relatively firm for 2016-17 given the information the Council has available at this point, but they also suggest likely budget figures for 2017-18 and for the three years after this. In previous years the Council has published detailed plans for the first two years of its five-year Business Plan. However, the challenge of making new savings has now intensified to the point where we need to explore more transformative approaches to balancing our budget which may result in proposals coming forward in the new financial year that could result in movements of budgets between services and committees whilst operating within the same overall financial envelope.

1.2 This paper is designed to take General Purposes Committee through the key issues within the Business Plan prior to formal recommendation by GPC for Council decision in February.

2. UPDATE ON BUSINESS PLAN PROPOSALS

2.1 There have been some amendments to the draft revenue proposals since the last update to GPC on 22 December 2015. The changes are shown in the table below.

Reference	Title	2016-17 £'000	2017-18 £'000	2018-19 £'000	2019-20 £'000	2020-21 £'000
F/R.5.003	Anticipated slippage on capital programme	-1,000	-	-	-	-
F/R.6.003	MRP: Accountable Body	-1,200	-	-	-	-
C/R.6.002	Savings arising from review of corporate capacity	-2,000	-	-	-	-
A/R.6.999	Additional savings ask: CFA	-	-9,817	-4,765	-4,763	-4,833
A/R.4.009	NLW pressure	-1,014	-494	-556	-556	-564
	Savings removals	2,617	285	-	-	-

2.2 In addition to funding headroom generated by the change in treatment of the Public Health Grant notified to GPC in December, additional headroom has been identified as a result of the following:

- **Forecast slippage on the capital programme** – The Council's capital programme has underspent significantly in the last two financial years. This has led to underspends being declared in relation to capital financing costs. A provision is already included in the base revenue budget to reflect this but this has been exceeded over the last two financial years. A working group has been established to review both programme delivery and the future projections. This will lead to a re-casting of the capital programme and this saving is an estimated reflection of that re-profiling exercise.

- **MRP: Accountable Body** – As Accountable Body the Council incurs certain administrative costs in undertaking this role. However it also holds the cash on an interim basis pending utilisation by those parties. The Council therefore intends to maximise the use of these resources whilst not detrimentally affecting those resources. This is only possible where the body or partnership does not use the funds that have been awarded in the financial year in which they are provided.

- **Corporate capacity review** – The Council has to date provided many corporate functions in a very devolved way. This has created some capacity issues for undertaking cross organisational projects in certain areas. A review has therefore been commissioned to review a range of functions with two objectives. Firstly to ensure that there is capacity at the heart of the organisation in these areas but also to drive some efficiency savings. In addition a review will be undertaken of the senior management of the organisation. No specific proposals have been developed at this point and therefore the actual sum may differ from this estimate.

2.3 This funding headroom enabled service committees to recommend the removal of £2.6m of savings in 2016-17. The following savings have been removed from the finance tables:

			£000	
Directorate	**Committee**	**Proposal**	**2016/17 Impact**	**2017/18 Impact**
CFA	CYP	Post-16 home to school transport saving for disadvantaged students	250	
CFA	CYP	Assistant Locality Manager posts in highest need areas	80	
CFA	Adults	Voluntary sector adult mental health contracts	134	
CFA	Adults	Community Equipment	100	
CFA	CYP	Personal budgets for children with disabilities	200	
CFA	CYP	NEET post to partly offset planned reductions	40	
ETE	HCI	Reactive highway maintenance	452	
ETE	HCI	Cyclic highway maintenance	217	
ETE	HCI	Mobile libraries	55	105
ETE	EE	Fenland Learning Centres		90
ETE	EE	Reduction in Passenger Transport Services	694	
PH	Health	Tobacco control: engagement with at risk groups	20	
PH	Health	Joint health intelligence unit with NHS/ reduced JSNA work	50	
PH	Health	Health visiting/family nurse partnership	100	
CST	GPC/Health	Time-banking and contact centre public health activities	35	
CFA	Adults/Health	Older people's day services £150k	150	
ETE	EE/Health	Market town transport strategy – public health impact	40	
ETE	EE/Health	Fenland Learning Centres - PH match funding		90
Total			2617	285

2.4 The finance tables presented to GPC in December also assumed funding for the impact of the National Living Wage (NLW) on care costs. In the Comprehensive Spending Review (CSR) and provisional local government finance settlement no such funding was announced. Instead, councils with responsibility for Adult Social Care (ASC) are to be able to levy an additional 2% council tax to fund care pressures.

2.5 At the last meeting of this committee it was agreed that the Chief Finance Officer should notify the Secretary of State that the Council was 'not minded' at this stage to set the additional ASC precept on the Council Tax. This notification has been sent to the Secretary of State. As a result of the GPC recommendation it is been assumed that the Council will not levy this precept. Whilst the Council would be able to reverse this decision it has been assumed for the purpose of updating the Business Plan that the Council will not be minded to accept this offer in future years. An additional 2% rise in council tax would bring in between £4.8m and £5m for each year of the Medium Term Financial Strategy. As a result, the NLW pressure is unfunded and will have to be met through additional service savings.

2.6 Members of this Committee will recall that at the start of the Business Planning process last summer it was agreed that service pressures should be met by the relevant committee. Given the timing of the decision not to accept the opportunity to set an ASC precept it would seem unreasonable for the service committee to have to identify further additional savings at this point in the Business Planning process. It is therefore the Chief Finance Officer's recommendation that the NLW pressure should be centrally funded in 2016/17.

2.7 For 2016-17 this can be met from the unplanned revenue underspend in the current year and through a rationalisation of reserves and provisions. This is not sustainable however beyond 2016/17 and therefore will result in an additional service pressure that will need to be met by CFA of around £10m in 2017-18 and an additional £5m per year thereafter.

3. STRATEGIC FRAMEWORK

3.1 The Strategic Framework sets out the Council's vision and high level priorities for the Business Plan period. Included within the Strategic Framework is detail around how the organisation intends to achieve its strategic aims, as well as the measures it will use to assess performance.

3.2 This year, the Strategic Framework reflects the beginning of the Council's move to a new way of business planning. The development of the Council's Operating Model so far is reflected in the Framework, which in particular sets out the outcomes that will guide how the Council plans and operates:

- Older people live well independently
- People with disabilities live well independently
- Places that work with children help them to reach their full potential
- The Cambridgeshire economy prospers to the benefit of all Cambridgeshire residents
- People lead a healthy lifestyle and stay healthy for longer
- People live in a safe environment
- People at risk of harm are kept safe

3.3 The Strategic Framework in its current form deliberately and consciously recognises that there is still a great deal of progress needed to transform the Council and to fully establish a new business planning process.

4. MEDIUM TERM FINANCIAL STRATEGY

4.1 Budgetary Context

4.1.1 UK economic growth remains relatively strong compared to forecasts undertaken in the middle of the last Parliament, with an expectation that the economy will grow by an average of 2.4% per year to 2019-20. The UK's performance is favourable compared to other advanced economies, though the sluggish growth in the Eurozone and the slowing of the Chinese economy are likely to have an impact on domestic growth. Inflation in the UK remains very low, though it is still expected that relatively high employment levels will have an inflationary impact in the medium-term, while productivity is growing at a rate lower than its historical average. There is still an expectation that interest rates will rise in 2016-17 which could reduce consumer confidence and the availability of credit. Whilst forecasts take into account some assessment of risk, the uncertain international economic situation could have a significant impact on the UK's position.

4.1.2 Despite some strengthening of the economy, the Government is continuing with the programme of austerity on which it embarked in May 2010. The Comprehensive Spending Review (CSR) announced in December 2015 loosened the overall fiscal consolidation that had been announced in the 2015 Budget, which is afforded mainly through more favourable forecasts of tax receipts. The benefit of this loosening, however, will not be directed into local government. Fiscal consolidation will still continue, with public sector net borrowing falling by approximately £20billion per year; in 2016-17 this will be a reduction of approximately 25%, and will fall disproportionately on unprotected areas of public expenditure.

4.1.3 Public sector borrowing peaked in 2009-10 and is projected to fall steadily towards 2019-20 when it is forecast the public finances will be in surplus. Changes announced in the CSR slowed the pace of deficit reduction, however, and so a surplus is now expected later than previously forecast.

4.2 Revenue Budget 2016-17

4.2.1 For 2016-17, Cambridgeshire will receive £542m of funding excluding grants retained by its schools. The key sources of funding are Council Tax, for which an increase of 1.99% has been assumed and Central Government grants (excluding grants to schools) which see a like for like reduction of 12% compared to 2015-16.

4.2.2 Total expenditure is £542m which incorporates a one off transfer to reserves of £1.5m. The costs of the Council have risen primarily through inflationary and demand pressures, especially in respect of adult social care.

4.2.3 In order to balance the budget in light of these pressures and reduced Government funding, savings of £41m were assumed for 2016/17. However as part of the CSR the Council lost a further £5m Revenue Support Grant and the assumption that the NLW would be funded through some form of grant was proven to be unfounded. The impact of this has been to increase the overall savings requirement to a figure of around £51m. In developing the proposed savings there has been a focus on the objectives set out in the Council's Strategic Framework.

4.2.4 The Council has regularised its review of fees and charges to ensure that it makes a conscious decision not to increase charges rather than this being the default position. The presumption within the Medium Term Financial Strategy (MTFS), and therefore the cash limits, is that fees and charges have been increased in line with inflation. This has enabled service committees to determine charges based on relative service priorities and outcomes. Detailed schedules of fees and charges were reviewed by the relevant service committees during the 2016-17 business planning process:

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

4.2.5 For further information on the revenue budget, see sub-sections 4 and 5 of the Budget Strategy (Section 2) within the Business Plan.

5. CAPITAL STRATEGY

5.1 Including current commitments, the Council will be spending £990.0m on capital investment in the county over the period of the Business Plan. This is in addition to previous expenditure of £558.5m on some of these schemes, creating a total Capital Programme value of £1.4 billion. For 2016-17, the Council's proposed expenditure on its capital programme is £185.8m. This is financed by a combination of the following funding streams:

- Central Government and external grants (£51.1m);
- Section 106 and external contributions (£41.0m);
- Prudential borrowing (£83.4m); and
- Capital receipts (£10.3m).

5.2 Alongside updates to previously agreed schemes, additional investment proposals this year include new school schemes, replacement of the Cambridgeshire Public Services Network (£5.5m), the Next Generation ERP (financial) system (£1.1m) and establishment of an Energy Efficiency Fund (£1.0m).

5.3 The number of Invest to Save or Invest to Earn capital schemes (schemes that pay for themselves over the medium term through revenue savings or increased income generation) has increased slightly this year. The new schemes include: additional Housing Provision schemes and the replacement of accrued streetlights with LEDs.

5.4 An advisory debt charges limit was set by Council early in the 2015-16 business planning process. Despite an increase in the size of the programme and therefore borrowing, the programme has actually managed to achieve a saving on the debt charges budget when compared to the 2015-16 Business Plan; this budget is now forecast to spend £32.8 million in 2016-17, increasing to £32.3 million by 2020-21. This is as a result of a combination of factors, including; additional slippage on the current Capital Programme, a more efficient use of revenue streams for which the Council is the accountable body, a favourable change to medium-term interest rate forecasts and the inclusion of the Housing Provision revenue streams within the debt charges budget.

5.5 Elsewhere on this agenda the Committee will be considering an alternative to the way in which capital debt is charged to revenue. If approved the overall cost of borrowing will significantly reduce. The target cost of borrowing will need to be re-based to ensure that the same challenge is retained in developing the capital programme.

5.6 Although the majority of funding for significant Government capital grants has already been announced for 2016-17, the Council is still expecting DfE announcements regarding Devolved Formula Capital and School Condition Allocations, however these are anticipated to be in line with previous years.

6. GENERAL FUND RESERVE

6.1 The General Fund Reserve is the sum that is held centrally to ensure that in any one financial year should the Council get into financial difficulty there are sufficient funds in order for the Council to discharge its statutory functions. The level retained is to an extent a matter of opinion but it needs to be sufficient to cater for risks of financial loss but not excessive and therefore held for not direct purpose.

6.2 The level retained for this purpose has and continues to be subject to a risk assessment. The Reserve is held at 3% of operating expenditure and stands at £16.4m. As the Council gets deeper into austerity the options that it considers for balancing the budget contain greater risk of non-deliverability. Maintaining a prudent level of General Reserve is therefore more important now that it has ever been. It is therefore the professional opinion of the Chief Finance Officer that the Reserve is being held at the appropriate level.

7. TREASURY MANAGEMENT STRATEGY

7.1 The Council is required to approve Prudential Indicators for 2016-17 to 2020-21. These include indicators showing the cost of servicing debt as a percentage of revenue expenditure and the Council's underlying borrowing requirement. Fixed and variable interest rate exposure and the maturity profile of debt are also reported.

7.2 An under borrowed position will be maintained throughout 2016-17. This means that borrowing has been reduced through the use of cash balances thereby keeping borrowing costs down. As a result cash balances are generally low and the level of loan debt is lower than it might otherwise be. However loan debt is expected to rise significantly throughout the Business Plan period as a direct result of capital investment.

7.3 The Council will continue to prioritise the security and liquidity of capital and achieve an investment return that is commensurate with these priorities. A prudent investment strategy is followed and external advice provides a guide on the creditworthiness of institutions. The majority of the Council's investments are in liquid instruments and shorter term deposits with Money Market Funds and high credit quality banks.

8. COMMUNITY IMPACT ASSESSMENTS

8.1 The Equality Duty set out in S149 of the Equality Act requires the Council to consciously think about the following three aims as an integral part of developing policy, making decisions, and providing services:

- Eliminate unlawful discrimination, harassment, victimisation and any other conduct prohibited by the act
- Advance equality of opportunity between people who share a protected characteristic and people who do not share it
- Foster good relations between people who share a protected characteristic and people who do not share it

8.2 The Council takes very seriously the need to be aware of the impact that our policies, decisions, and services have on communities across Cambridgeshire, and the importance of using this information to inform the preparation of the Business Plan. Where relevant, for each of the detailed proposals, services have undertaken a Community Impact Assessment (CIA).

8.3 CIAs have been prepared alongside the development of detailed proposals and are published separately to the Plan. They have been included here as **Section 4** for reference.

9. BUDGET CONSULTATION

9.1 The Council carries out an extensive consultation process to inform the business planning process. There has been a shift in emphasis and approach for this year's consultation compared to previous years. Councillors have advocated a different approach, moving away from the "paid for" household survey and instead commissioning a much cheaper and more enduring budget challenge animation (at time of writing over 1,700 views) that has been used to support an online survey, community engagement events, and will continue to be used during specific service-user consultations and other community events.

9.2 The engagement on the budget this year has focussed on raising awareness of the challenge facing Cambridgeshire, what that will mean for the changing role of the Council, and the role that communities themselves will need to play.

9.3 The key strands for the consultation were as follows:

- Community events attended by the County Council as part of business plan consultation including interviews with over **350 people.**
- Business consultation via the Chambers of Commerce and a business networking event (B2B) reaching over **75 businesses**.
- An online questionnaire accompanying the film, completed by **668 people**, an approximate 1 to 3 conversion rate from film views to completed survey.

9.4 The interim results of this consultation activity were reported to Service Committees during December.

9.5 The social media campaign that accompanied the survey had the broader aim of raising awareness of the County Council's situation. Twitter impressions for relevant tweets hit over 20,000 impressions during November (with a Twitter campaign reach of 130,000[1]). One Tweet appeared as a 'Great UK Government Tweet' (which means it was one of the top performing government tweets of that day) and had 2,104 impressions and a reach of 21,820).

9.6 The Facebook campaign yielded figures of over 25,000 impressions with nearly 45,000 unique people reached via a paid-for Facebook advert and post clicks of over 1,300.

9.7 The full consultation report is attached as **Section 5** of this report.

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[1] Impressions are the number of times people saw a tweet or a post. This includes people seeing a post multiple times. Reach is the number of people who saw the post 'organically'; as it is shared or appeared on Twitter.

10. ALIGNMENT WITH CORPORATE PRIORITIES

10.1 The Business Plan's purpose is to consider and review the Authority's vision and priorities therefore no additional comments are made here.

11. SIGNIFICANT IMPLICATIONS

11.1 Resource Implications

This report outlines the overall resource position for the Council over the business planning cycle 2016-21.

11.2 Statutory, Risk and Legal Implications

Business planning proposals will inevitably carry statutory, risk and legal implications. These are addressed alongside each proposal where appropriate, and also in more detail at service committee meetings. More generally, it is recognised that the Council requires significant transformation of its services, in collaboration with partners, in order to meet the challenges ahead. There is significant risk if that transformation is not achieved.

11.3 Equality and Diversity Implications

Community Impact Assessments have been completed for the proposals considered in this report, and are attached at Section 4.

11.4 Engagement and Consultation Implications

Significant consultation has been taken out as part of the Business Planning Process. This is highlighted within section 9 of this report.

11.5 Localism and Local Member Involvement

Business Planning Proposals have been developed with significant Member involvement and consideration of the implications for localism.

11.6 Public Health Implications

These are dealt with specifically in the proposals relating to the Health Committee, and where there are implications for work of other Committees these are highlighted.

Source Documents	**Location**
The County Council 2015-16 Business Plan	http://www.cambridgeshire.gov.uk/info/20043/finance_and_budget/90/business_plan_2014_to_2015