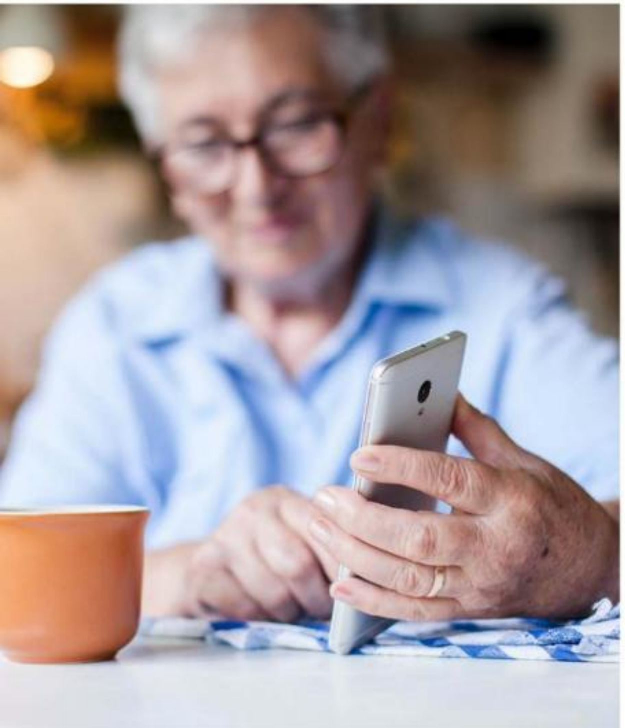
Medium Term Financial Strategy

2024-25

Business Plan Section 2



Cambridgeshire County Council

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1 – Revenue Strategy: Local Government Funding

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 bodies, Council Tax, Business Rates and other locally generated income.

In 2024-29, Cambridgeshire is expected to receive £1,159m of funding including funding of £143m delegated to maintained schools. The key source of funding is Council Tax, which is budgeted to rise by 4.99% in 2023-24 and 2% in the remaining four years of the planning period. Including business rates and charges, locally generated funds account for 58.5% of our overall non-schools funding.

Figure 1.1: Medium-term funding forecast

	2024-25 £m	2025-26 £m	2026-27 £m	2027-28 £m	2028-29 £m
Schools Grants[1]	326	326	326	326	326
Council Tax[2]	399	411	425	440	456
Fees & Charges	201	171	171	168	163
Business Rates	75	76	77	79	81
Revenue Support Grant[3]	0	0	0	0	0
Government Grants	121	119	120	120	120
Better Care Funding	36	37	38	38	38
Total gross budget[4]	**1,159**	**1,140**	**1,157**	**1,170**	**1,183**

1. This is dedicated schools grant that is received by CCC, and high needs recoupment on the basis that we commission places. Most of this number is passed out to schools.
2. Assumed to increase by 4.99% in 2024-25 and 2% thereafter
3. Unlike many councils, Cambridgeshire receives minimal revenue support grant from government.
4. The gross budget reduces in 2025-26 due to the anticipated ending of a large pooled budget arrangement with the NHS – while in operation this pooled arrangement sees nearly £30m of funding transferred to and spent by the council on joint services; therefore ending it sees a large reduction in expenditure.

As is evident from Figure 1.1, the Council will continue to face a challenging funding environment over the medium term. In 2024-25, we are expecting an increase of 6% on 2023-24 from our core funding sources of council tax, business rates and unringfenced grants, despite significant demand and inflationary pressures. The Council expects to see an overall increase in funding (excluding schools grants) of 25% to 2028-29, primarily due to increases in Council Tax. However inflationary pressures, population growth and increased demand for services are expected to result in much higher additional budget pressures over the same period. This leaves a residual unfunded pressure of £99m.

In recent years local government funding has stabilised following a period of significant fiscal tightening from 2010. During this period income from government grants fell sharply; the Revenue Support Grant, worth £86m a year to the Council in 2013-14, is expected to be just £0.3m in 2024-25. Additional ring-fenced funding for social care has recently been forthcoming, acknowledging the acute pressures faced by the social care system due to an aging population, increasing complexity of need and the requirement to work more closely with the NHS. Other grants are received from government for a range of services. Despite the reduction in general government grant, these additional ring-fenced grants mean that we still have a dependency on central government funding; with the government capping Council Tax increases this dependency is growing.

The economic and fiscal outlook is challenging and so there is a risk that the local government sector will face further tightening of government funding sources. The current government department spending limits make it clear that funding will not be rising at a level to match inflation, and so while funding streams may not reduce in cash terms, they are likely to in real terms.

The government has also committed to reforming Adult Social Care, in particular to cap the level of payments that an individual will need to make towards the cost of their care. This will also involve equalising the prices paid for care between individuals and local authorities (who typically buy care at a cheaper price). These reforms have been repeatedly delayed, which has caused, and continues to cause, uncertainty for us. We are expecting a substantial increase in costs when the reforms do take place, with a reliance on government providing funding to us. Government had set out a funding stream to this but it was re-allocated in Autumn 2022 and so it is now unclear to what extent funding will be provided. This is a key risk to our medium-term financial position.

Sources of Funding

Council Tax, including Adult Social Care Precept (73.7% of net budget)

Council Tax is a key source of funding for local government and is the main locally raised income stream for Cambridgeshire. It is a tax on domestic properties. The tax rate is set based on the difference between our spending requirement and the other projected income streams, within constraints set by central government.

Council Tax is collected by District Councils on behalf the County Council, and we rely on them for projections of the number of taxable properties in their district and the expected collection rate. District Councils have a 'taxbase', which is the number of taxable households in the area, weighted by band.

In recent years, the rate of growth in Council Tax has been effectively capped by central government at between 2% and 5%. Any growth beyond that would require a referendum locally. The specific referendum limit is set by government each year.

Council Tax receipts can also increase if the underlying taxbase increases. Parts of the County are seeing growth in their taxbase, and these are factored into our funding assumptions using projections supplied by District Councils.

Since 2016, central government has permitted councils with Adult Social Care responsibilities to levy a further element of Council Tax, called the 'Adult Social Care Precept'. This tax has usually been a further 2% or 3% increase and is ringfenced for adult social care services. Other than being hypothecated to funding adult social care services, this ASC precept is functionally identical to Council Tax.

The table below sets out the current assumptions about Council Tax and the ASC Precept over the planning period.

Table 1.2: Council Tax Assumptions

	2024-25	2025-26	2026-27	2027-28	2028-29
Council Tax	2.99%	2.00%	2.00%	2.00%	2.00%
ASC Precept	2.00%	0.00%	0.00%	0.00%	0.00%

Based on District Council projections, we assume a rate of growth in housing stock in each district, which increases the local taxbase. Any shortfall, or surplus, on expected collection rates by each District results in a deficit or surplus on the collection fund. The collection fund is generally returned to its desired balance each year, which can have an impact on the amount of income we get. We are reliant on District Council projections for our estimated income from Council Tax over the medium-term and any fluctuations in those will need to be met from, or released to, the Council's revenue budget. Fluctuations in collection fund values, which are one off changes, will be met from or returned to a dedicated earmarked reserve where possible.

Council Tax Requirement

The current Council Tax Requirement (and all other factors) gives rise to a 'Band D' Council Tax of £1,619.82. This is an increase of 4.99% on the actual 2023-24 level which comprises a 2.99% increase in the general precept and 2% increase in the Adult Social Care Precept. This figure reflects information from the districts on the final precept and collection fund.

Table 1.3: Build-up of recommended Council Tax Requirement and derivation of Council Tax precept 2023-24

	2024-25 £000
Revised gross budget	**1,078,966**
Inflation	36,323
Demography & Demand	16,873
Pressures	10,712
Investments	8,779
Savings*	-17,562
Change in reserves/one-off items	-2,780
Changes in schools budgets	27,587
Total gross budget	**1,158,898**
Less funding:	
Business Rates plus Top-up	75,082
Revenue Support Grant	28
Dedicated Schools Grant	326,101
Unringfenced Grants (including schools)	61,978
Ringfenced Grants	95,495
Fees & Charges	200,845
Surplus/deficit on collection fund	2,900
Council Tax requirement	**396,468**
District taxbase	244,760.50
Band D	**1,619.82**

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

Table 1.4: Ratios and amounts of Council Tax for properties in different bands

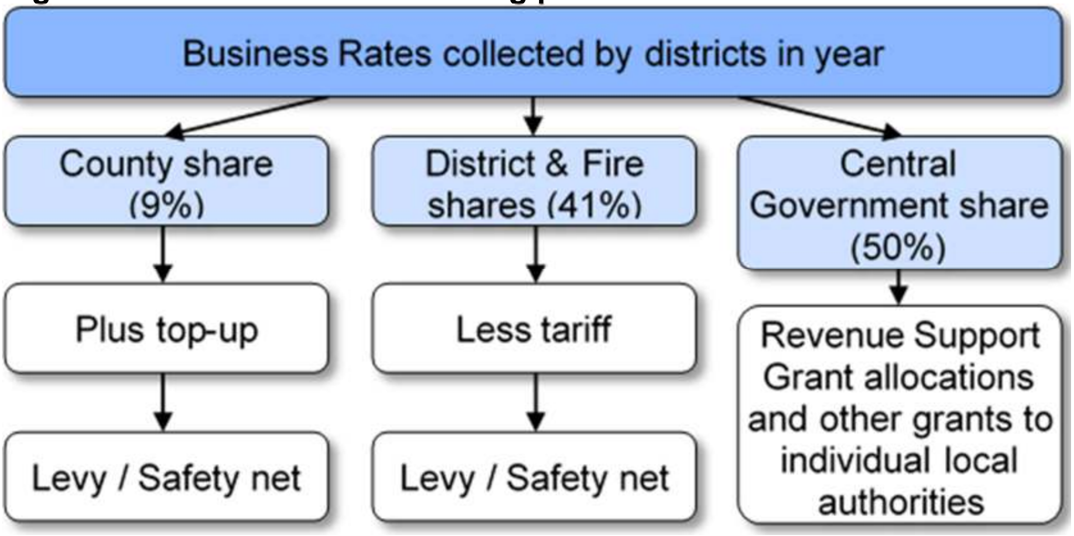
Band	Ratio	Annual Amount	Increase on 2023-24
A	6/9	£1,079.88	£51.30
B	7/9	£1,259.86	£59.85
C	8/9	£1,439.84	£68.40
D	**9/9**	**£1,619.82**	**£76.95**
E	11/9	£1,979.78	£94.05
F	13/9	£2,339.74	£111.15
G	15/9	£2,699.70	£128.25
H	18/9	£3,239.64	£153.90

Business Rates (14.1% of net budget)

Business rates are a tax on non-domestic property. Since 2013, councils have retained a portion of the business rates collected locally (the Business Rates Retention Scheme). 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.

This is a historic approach that was intended to increase the self-sufficiency of local government and provide an additional incentive for local authorities to invest in local economic growth. It links an element of local authority income to a share of the Business Rates collected in their area. County Councils currently receive a 9% share of Business Rates as compared to the District Councils' share of 40% which provides some 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. Figure 4.5 illustrates how the current scheme works:

Figure 1.5: Business rates funding process



In two tier areas such as Cambridgeshire, the County Council will receive a top-up from the Government on top of business rates income and the district authorities will pay a tariff to central government. Tariff and top-ups are designed to realign business rates baselines with assessed need.

Business rates are collected by District Councils, and so we rely on their estimates of collection rates in our funding projections. Any changes in estimates will need to be factored into business planning. Like Council Tax, there is a collection fund for business rates that can have an impact on the amount of income we get, but these one-off adjustments will be factored into the balance on a dedicated earmarked reserve.

There was a revaluation of properties for business rates purposes in 2023.

For several years we have been expecting further government announcements about the future of business rates, particularly around the retention of a greater proportion of business rates locally. This would provide more incentive to generate economic growth, but reforms have not yet been set out by government.

Non-ringfenced Grants (11.5% of net budget)

These grants are received from government without strict conditions for spending. They go to the corporate centre and are used to fund services generally, forming part of the funding for our net budget. In some cases, these may be allocated out to a specific service.

The MTFS is currently predicated on the assumption that the Council will receive £62m in unringfenced grants in 2024-25, excluding schools' grants, an increase of £5.5m on the 2023-24 level. This is predominantly due an increase in the social care grant.

Unringfenced government grant funding is typically announced late in the financial year during the local government finance settlement (usually late December). This has an impact on our ability to draft the business plan as a key funding source remains unclear until close to the end of the planning process. The one-year nature of recent settlements has made it hard to project grant funding over the medium-term.

Table 1.6: Unringfenced grants for Cambridgeshire 2024-25:

	2024-25 £000
Social Care Support Grant	36,775
Services Grant	416
Section 31 grants and local taxation support[1]	17,286
New Homes Bonus	1,675
Education Services Grants	1,951
Domestic Abuse Grant	1,188
Extended Rights to Free Travel Grant	1,091
Other unringfenced grants	1,596
Total unringfenced grants	**61,978**

1. Section 31 grants are those given under s31 of the Local Government Act 2003, and in this table are generally narrow-focussed grants linked to taxation, such as government reimbursing us where they require exemptions from business rates.

Ring-fenced Grants and Contributions

These are funding received from central government for a specific purpose. If we receive a ringfenced grant, these are passed straight to the relevant service. 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. The two largest ring-fenced grants are the Public Health Grant (over £29m) and Better Care Funding (over £36m, funding adult social care).

Unless we have good reason to assume otherwise, we will project ring-fenced government grants forward throughout the MTFS on a flat cash basis. Government grants are usually not confirmed beyond a single year, and even then, can be confirmed quite late, and it would be imprudent based on experience to assume that these grants will end.

We assume the Public Health Grant will remain ringfenced until 2025-26, at which point it is expected to be rolled into the shift to increased business rates retention. 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. The allocation of any increase to the Public Health Grant will be agreed by Strategy & Resources Committee despite being a ringfenced grant as it is a large source of funding that covers services across the whole Council.

Fees & Charges (17.4%)

A significant, and increasing, proportion of the Council's income is generated by charging for some of the services it provides. This is charging of either people who use services or other organisations. The Council reviews its charges on an annual basis, with proposals presented to Members. Local authorities faced significant shortfalls in sales, fees, and charges income in 2021-22 as a result of national restrictions imposed in response to the coronavirus pandemic. While in some areas income generation has quickly returned to normal, in other services it is still slow to recover. The pandemic has also accelerated shifting behavioural trends, such as online purchasing and working from home that could impact the Council's fees and charges income and reshape our non-statutory service provision for years to come.

Some of the income we receive is from statutory charging regimes such as in Adult Social Care. In these cases, charging rates are generally defined nationally and we will have a specific policy about how that works in Cambridgeshire. Those policies will define how charges are calculated and how they may be increased year-on-year.

The Fees & Charges Policy forms part of this strategy, in chapter 8.

Dedicated Schools Grant

The Council receives the Dedicated Schools Grant (DSG) from the Government, and it is therefore included in our gross budget figures. However, this grant is ringfenced 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 below table sets out the breakdown of dedicated schools grant, what funding will actually be received directly by the council, and what is accounted for as part of our budget.

Table 1.7: Dedicated Schools Grant (DSG)

	£000
Gross DSG to be received	655,573
Less Academy Recoupment	-339,193
DSG within CCC's gross budget	**316,380**
of which spent or commissioned by CCC	*118,621*
of which delegated to maintained schools	*197,759*
Less High Needs Place Recoupment	-16,614
Total DSG estimated to be Received in 23/24	**299,766**

Due to the continuing increase in the number of children and young people with an EHCP, and the complexity of need of these young people, the overall spend on the High Needs Block element of the DSG funded budgets has continued to rise. There is a forecast cumulative deficit in 2023-24 of around £40m, which is forecast to have grown by £10m from 2022-23.

The council is working closely with the DFE on the Safety Valve programme to bring down the in-year growth in this deficit. A portion of the historic deficit was funded upon agreement of the programme, and the Council committed to a phased reduction of the in-year deficit. That plan, however, is currently off track by around £6m in 2023-24. The deficit currently forms a ring-fenced balance on our balance sheet.

In addition to DSG, maintained schools receive some additional grant funding from government, such as Pupil Premium and Teachers' Pay Additional Grant, that comes via the Council and so forms part of our gross budget as well. This totals approximately £10m, with the £316m DSG in table 1.7 above, this takes the total schools-related element within our gross budget to £326m as reported in table 1.1 above.

Table 1.8: Parameters used in modelling future funding

Funding Source	Parameters
Business Rates	• Assumed 0.5% taxbase growth in Cambridge City, and 0.25% growth in South Cambridgeshire, with no growth in other districts • National CPI inflation (September) applied to the underlying business rates multiplier, which will either be charged to business or funded by government if rates are frozen.
Top-up	• Based on September CPI
Council Tax	• 4.99% for 2024-25 and 2% thereafter • Occupied Cambridgeshire housing stock (1.57% increase in 2024-25, around 1.5% thereafter) – based on district council projections
Government grants	• Grants allocated by individual government departments assumed to be flat cash unless otherwise known
Fees & charges	• Charges set by Council (National CPI inflation as at September 2023 and forward projections from the Office of Budget Responsibility)

Local Government Finance Settlement

In November 2023 the government issued a policy statement for local government, setting out its approach to certain parts of local government funding for 20024-25 in advance of the provisional settlement. The implications of this were to confirm indications in the previous settlement in 2022 that the Council Tax limit for upper tier councils would be 4.99%, and confirmed certain national levels for grants that were in line also with the previous settlement (particularly the social care grant).

Following this, the provisional local government finance settlement was issued as usual just before Christmas in December 2023, setting out the settlement funding assessments for councils, the government's assessment of councils' core spending power, and the actual authority-level allocations of certain grants. The settlement was again one-year only.

The Council's core spending power will rise by 7% next year according to government figures (less than the 9% in the previous year). However, most of this relates to the level of Council Tax we are allowed to raise. Overall, government funding is going up by less than the additional pressures we are facing, requiring us to raise more funding locally.

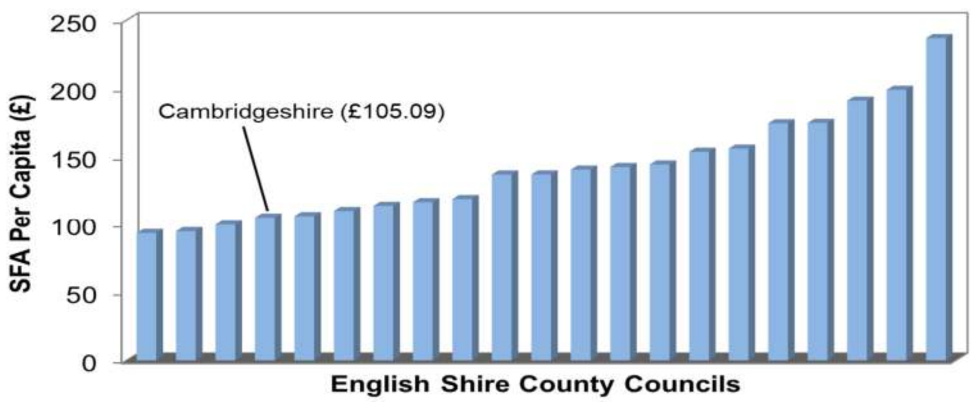
The Council is expected to receive an additional £3.6m in general, unringfenced grant funding as a result of the settlement, £1.3m more than we had assumed. An unexpected continuation of the New Homes Bonus for a further year provided additional funding, while the anticipated increase in social care grant was offset by an unexpectedly large cut in the services grant.

Table 1.9: Comparison of Cambridgeshire's government funding 2018-19 to 2024-25

	2018-19 £m	2019-20 £m	2020-21 £m	2021-22 £m	2022-23 £m	2023-24 £m	2024-25 £m
Revenue Support Grant	4.0	-	-	-	-	-	-
Covid Grants	-	-	-	27.6	-	-	-
Other Unringfenced Grants	11.3	14.6	23.8	26.3	43.9	56.2	62.0
Better Care Funding	24.7	27.9	31.7	31.7	33.8	34.7	36.3
Other Ringfenced Grants	38.3	38.1	43.1	43.0	44.3	51.6	59.2
Government Revenue Funding (excl schools)	**78.3**	**80.6**	**98.6**	**128.6**	**122.0**	**142.5**	**157.5**

The Council's core revenue funding is described as its Settlement Funding Assessment (SFA) and comprises Business Rates, Top-up grant and Revenue Support Grant. For 2024-25 Cambridgeshire's SFA award per head of population will be the fourth lowest of shire counties, with an SFA of £105 per head compared to the average for the group of £140.

Chart 1.10: SFA per capita for shire counties



2 – Revenue Strategy: Building the Budget

Forecasting the cost of providing current levels of 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 and the level of savings and additional income that we will need to balance the budget over the medium-term. Our cost forecasting takes account of pressures from inflation, demographic and demand changes, amendments to legislation and other factors, as well as any investments the Council has opted to make.

This process has continued to prove challenging for 2024-25 and beyond due to ongoing changes to patterns of demand for local government services and the costs we face to provide services. Both of these are impacted by the current economic position and uncertainty in future economic projections.

Inflation

Inflation levels in the UK for 2024-25 are expected to be higher than the predictions made last year, which has impacted on our planning by pushing up the opening budget gap. The high level of inflation continues to impact on the council and the residents of Cambridgeshire.

Rising inflation in the economy has a direct and broadly proportionate impact on our costs. Overall CPI inflation is expected to be reducing throughout 2024-25, but we are also having to address inflationary pressures in 2023-24 that exceeded budget allocations in that year and have increased the baseline cost of services which increases the overall inflationary impact on budgets.

The exact inflationary impact on our costs is variable depending on the specific service or budget line. For example, much of our costs are employee related and linked to national negotiations around pay, and we may be bound by contracts that have specific inflationary uplifts each year or are part of a local market that sees different supply & demand issues affecting prices. National changes, such as the effect on supply chains of an increasing minimum wage, can exceed inflation rates.

Estimates of inflation in this business plan have been based on indices specific to each service or type of spend, factoring in the national inflation outlook, local trends, and uplifts built into contracts. We calculate nearly a hundred inflation indices that apply to all spend across our budgets to calculate the overall inflationary pressure. We also need to take into account where other changes, such as increases in the minimum wage, will potentially override the effect of inflation. The starting point for many inflation indices has been linked to an average CPI projection 6% as at September 2023, but specific inflation rates are calculated for each service.

The table below shows expected overall inflation levels for the Council:

Table 2.1: Inflation pressures

	2024-25	2025-26	2026-27	2027-28	2028-29
Inflationary cost increase (£000)	36,323	16,826	19,454	21,277	22,096
Inflation on Income (£000)	-4,374	-1,335	-1,507	-1,542	-1,464
Net Inflation Impact (£000)	**31,949**	**15,491**	**17,947**	**19,735**	**20,632**
Average inflation on expenditure	5.1%	2.3%	2.5%	2.6%	2.6%

Demand Pressures

Increases in demand for services can result from changes in population numbers and changes in population need. The underlying general population growth in Cambridgeshire is forecast to be around 0.3% per year across the MTFS period. The demand 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, resulting in more care being provided or a more expensive mix of care types

Our demand projections are underpinned by models for each service area that are reviewed annually, and factor in demographic information, price projections, trend analysis and knowledge of likely future trajectories.

Table 2.2: Demand pressures

	2024-25	2025-26	2026-27	2027-28	2028-29
Demand cost increase (£000)	16,873	18,203	19,161	19,842	20,698
Demand cost increase	2.4%	2.5%	2.5%	2.5%	2.4%

Our demand projections continue to be subject to uncertainty following the pandemic. In particular, patterns of demand for adult social care are still variable month to month, and we are seeing an increase in the needs of children which is driving up costs.

Other Service Pressures

There are some other unavoidable cost pressures that we will have to meet. Where possible services are required to manage pressures, if necessary being met through 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. Specific pressures are set out in the budget tables for the relevant service. Examples of these pressures include the rising costs of placements for children in care with high needs and changing environmental regulations around disposal of certain categories of waste.

Overall around £8m of pressure funding is applied to 2024-25's budget.

Investments & Priorities

Despite the challenging financial position that the Council is in, there remains a need to prioritise funding for certain services. This may be to improve service outcomes and help our residents, promote a better financial position over the medium-term, or improve sustainable use of natural resources.

Where investments result in a permanent increase in a service's budget requirement, this is ultimately funded by savings or additional income across the Council. For time-limited investments, it is appropriate to use reserves funding. Chapter 5 of this MTFS provides more detail on the source of reserves funding used for prioritisation that require only short-term budget.

Overall, £17.1m of ongoing prioritisation of funding is made over the medium-term in this business plan.

Financing of Capital Spend

All capital schemes have a potential three-fold impact on the revenue position due to interest payments on borrowing, costs of making a revenue provision for the repayment of borrowing, and the ongoing revenue impact of the asset (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 considered 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 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. Future changes to the code will be factored into future business plans.

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

Due to the Council's strategic role in stimulating low carbon 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.

The estimated impact of the capital programme on revenue through debt charges over the medium-term is shown in table 5.5 below:

Table 2.3: Capital financing charges

	2024-25 £m	2025-26 £m	2026-27 £m	2027-28 £m	2028-29 £m
Net interest payable	18.4	19.3	19.9	18.1	16.1
Minimum revenue provision	22.4	25.8	27.4	26.8	25.9
Management expenses	0.2	0.2	0.2	0.2	0.2
Total capital financing costs	**41.1**	**45.4**	**47.6**	**45.1**	**42.3**

Savings & Income Generation

This business plan contains some savings and additional income generation proposals that were agreed in previous years' medium-term financial plans. Proposals carried over from previous plans are reviewed to assess deliverability and value of expected savings/income. Table 2.4 below sets out which saving and income lines in service budgets were agreed in a previous business plan.

Table 5.6: Savings and income proposals agreed in previous business plans

	2024-25 £000	2025-26 £000	2026-27 £000	2027-28 £000
Expenditure savings				
Adults, Health & Commissioning	-516	-	-	-
Children, Education & Families	2,384	-	-	-
Place & Sustainability	-5,284	-96	399	399
Income Savings				
Adults, Health & Commissioning	-3,717	-2,040	-412	-412
Place & Sustainability	719	1,134	1,061	1,061
Total Income and Savings Proposals	**-6,414**	**-1,002**	**1,048**	**1,048**

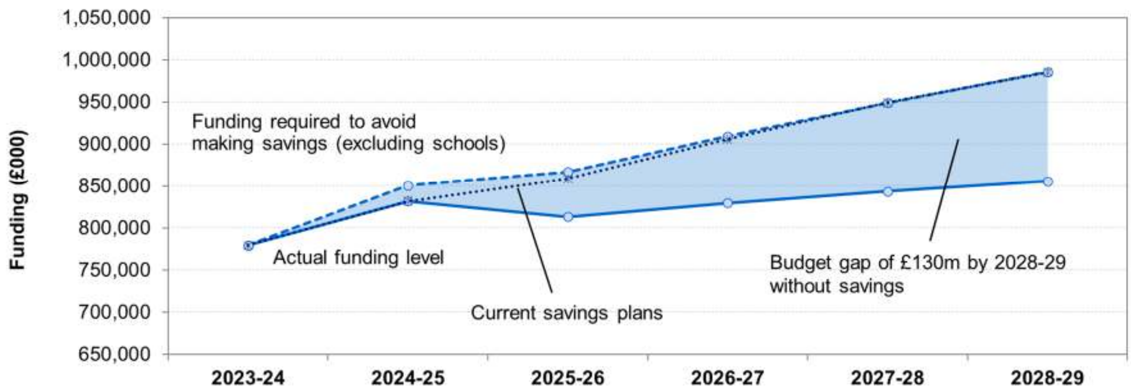
New savings and income proposals to balance 2024-25's budget and close the budget gap over the medium term are described in chapter 3 below.

3 - Revenue Strategy: Balancing the budget

Every local authority has a legal obligation to set a balanced budget every year. It is the Section 151 Officer's statutory responsibility to provide a statement on the robustness of the budget proposals when they are considered by Council.

Inevitably, cost pressures are forecast to outstrip available resources over the medium-term, given the rising costs caused by inflation, growth and associated demand pressures and renewed pressure on levels of funding for local government from public sector spending restraint. Consequently, we will need to make significant further savings, or generate significant additional income, to close the budget gap next year and over the medium-term.

Figure 3.1: Current Budget gap before savings/income



Note: This graph shows the budget gap before the effect of savings or additional income being applied, savings plans are then shown with the dark blue dashed line.

Closing this budget gap over the next five years means making tough decisions on which services to prioritise. Sufficient savings and income generation plans are included in this draft business plan in order to balance the first year's budget, with some included in later years.

For many 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.

We are facing inflationary pressures that are much higher than a few years ago, and demand pressures that are increasing year-on-year, as well as an uncertain economic outlook.

Savings to be made from incremental efficiencies are likely to be minimal as we have had reducing government funding and cost pressures for over a decade. The easy savings have mostly been made, and so more difficult savings opportunities are increasingly the option available to us. We must therefore focus on reviewing any service areas where we can disinvest, drive more innovative and transformative change across the medium-term, ensure appropriate funding of services between public sector bodies, and maximise the income that can be generated locally.

We do not have a medium-term funding settlement for local councils given by central government, which is a key risk in our medium-term financial planning. We therefore cannot rely on any future increases in government funding to close our budget gap unless we have had confirmation of it or can reasonably expect it based on experience.

In working to balance the budget, we have worked in a cross-council way to identify the areas for saving or additional income. Individual services do not have a savings target, and it is the responsibility of senior leaders to identify together the best ways to balance the budget across the whole council. We prioritise the resources available to us to meet the changing and growing needs of communities, and only consider service reductions as a last resort.

Services review their budgets each year to identify any areas that have been given budget in excess of that needed to deliver the service. This is particularly the case in demand-led budgets, where estimates of growth or demand patterns will have been used and may subsequently change. In undertaking this review, services should bear in mind the corporate reserves position and the general provision for risk, and not assume an excessive amount of risk or contingency needing to be met within service budgets.

The Council also undertakes an annual budget review and rebaselining during the first quarter of each financial year to reassess the budget position in light of developments from the point at which the business plan is approved by Full Council in the preceding February. This allows the budget to be flexed to take account of material changes in circumstances such as significant increase in inflationary pressures or any new legislative requirements. This can contribute towards closing the budget gap in future years if budgets are reduced.
If savings are identified and made in the current financial year but were not planned for, for example a reduction in cost on a new contract, then

these will be factored into the business plan for the next financial year. In the meantime, they can be used to mitigate other pressures or funding can be transferred to the general reserve, but they should not be reinvested into ongoing costs.

In generating additional income, we will ensure the Fees & Charges policy is reviewed annually and should assume that by default, charges should go up by inflation each year if permitted.

We will also consider whether services are funded appropriately, or whether any changes can be made. An example of a change would be capitalising expenditure currently funded by revenue. Provided this is within capital financing regulations, it can defray revenue cost over the life of the linked asset.

As well as considering further savings or generating additional income, we need to ensure our projections for income from taxation are accurate. We will work with District Council colleagues, who collect local taxation on our behalf, at several stages throughout the year to receive updated projections for tax base levels and collection rates. Strategy & Resources Committee will also consider an updated approach to the level of Council Tax.

Savings and income generation proposed, or already included in the business plan, to close the budget gap in 2024-25 and reduce the gap in future years are summarised below (and reconcile back to Finance Tables in section 3 of the Business Plan):

Table 3.2: Savings and additional income proposals

	2024-25 £000	2025-26 £000	2026-27 £000	2027-28 £000	2028-29 £000
Expenditure Savings					
Children, Education & Families	-2,760	-2,882	-870	0	
Adults, Health & Commissioning	-10,806	-5,610	-2,651	-412	
Place & sustainability	-1,202	2,911	-268	26	41
Finance & Resources	-1,282	-2,263	-52	400	
Strategy & Partnerships	-838	-402	-125	350	
Public Health	-174	-106	-110	-115	0
Corporate & Funding Items	0	250	250	0	-120
Income Generation					
Children, Education & Families	-83	0	0	0	0
Adults, Health & Commissioning	-4,865	-210	0	0	0
Place & sustainability	-721	-3,288	1,129	1,175	65
Finance & Resources	-768	-179	-407	1,044	2,340
Strategy & Partnerships	38	-14	-14	0	0

	2024-25 £000	2025-26 £000	2026-27 £000	2027-28 £000	2028-29 £000
Public Health	-25	-25	-25	-25	-25
Total Savings Identified	**-23,486**	**-11,818**	**-3,143**	**2,443**	**2,301**
Total Savings Requirement	**-23,486**	**-38,351**	**-25,716**	**-23,500**	**-21,913**
Unidentified Savings	0	-26,533	-22,573	-25,943	-24,214

Despite the level of savings identified, budget gaps remain as shown in the final line of table 3.2 above.

4 – 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 below.

Table 4.1: Total funding 2024-25 to 2028-29

	2023-24 £000	2024-25 £000	2025-26 £000	2026-27 £000	2027-28 £000	2028-29 £000
Business Rates plus Top-up	71,433	75,082	75,795	77,400	79,040	80,715
Council Tax	373,261	399,368	410,719	424,945	439,998	455,685
Revenue Support Grant	27	28	28	28	28	28
Other Unringfenced Grants	56,471	61,978	90,010	90,021	90,032	90,043
Dedicated Schools Grant (DSG)	248,545	315,508	315,508	315,508	315,508	315,508
Other grants to schools	10,593	10,593	10,593	10,593	10,593	10,593
Better Care Funding	34,681	36,317	36,951	37,604	37,604	37,604
Other Ringfenced Grants	51,757	59,178	29,481	29,481	29,481	29,481
Fees & Charges	169,312	200,845	171,300	171,006	168,205	163,077
Total gross budget	**1,016,080**	**1,158,898**	**1,140,385**	**1,156,588**	**1,170,490**	**1,182,735**
Less schools grants	-259,138	-326,101	-326,101	-326,101	-326,101	-326,101
Add back DSG retained and spent by CCC	120,822	183,118	183,118	183,118	183,118	183,118
Total gross budget excluding schools	**877,764**	**1,015,915**	**997,402**	**1,013,605**	**1,027,507**	**1,039,752**
Less Fees, Charges & Ringfenced Grants[1]	-376,572	-479,458	-420,850	-421,209	-418,408	-413,280
Total net budget	**501,192**	**536,457**	**576,552**	**592,396**	**609,099**	**626,472**

1. The Dedicated Schools Grant (DSG) and other grants to schools, such as Pupil Premium, are received by the Council from Government but are ringfenced to pass directly on to schools. Some DSG funding is retained by CCC for services for education services that we provide directly (such as high needs services). Therefore, this plan uses the figure for "Total budget excluding schools", which excludes that element of schools funding that is delegated directly to maintained schools.

Expenditure Summary

The Council's projected revenue spending by department is summarised below.

Table 4.2: Service net budgets 2024-25 to 2028-29

	2024-25 £000	2025-26 £000	2026-27 £000	2027-28 £000	2028-29 £000
Children, Education & Families	145,802	159,425	172,174	184,464	197,273
Adults, Health & Commissioning	230,359	244,383	262,832	285,398	309,747
Place & sustainability	72,799	76,989	79,425	83,778	85,817
Finance & Resources	14,747	12,980	14,369	16,604	19,703
Strategy & Partnerships	23,667	26,506	27,314	28,595	29,566
Capital Financing	41,072	45,382	47,557	45,108	42,262
Public Health	0	27,807	27,807	27,807	27,807
Corporate & Funding Items (including budget gap)	8,011	-16,920	-39,082	-62,655	-85,702
Total budget	**536,457**	**576,552**	**592,396**	**609,099**	**626,472**
% Change in budget	17.8%	7.5%	2.7%	2.8%	2.9%

For 2024-25, the gross budget compared to the net budget for each service area is below.

Table 4.3: Gross to net service budgets for 2024-25

	Gross Budget	Fees & Charges	Ringfenced Grants	Net Budget
Children, Education & Families	173,162	-20,174	-7,186	145,802
Children, Education & Families (DSG funded services)	183,990	-872	-183,118	0
Adults, Health & Commissioning	373,391	-92,343	-50,689	230,359
Place & sustainability	107,453	-27,707	-6,947	72,799
Finance & Resources	47,753	-33,006	0	14,747
Strategy & Partnerships	29,738	-3,944	-2,127	23,667
Capital Financing	54,910	-13,838	0	41,072
Public Health	36,768	-8,961	-27,807	0
Corporate & Funding Items	8,750	0	-739	8,011
Total CCC spending budget	**1,015,915**	**-200,845**	**-278,613**	**536,457**
Funding delegated to schools	142,983	0	-142,983	0
Overall Budget	**1,158,898**	**-200,845**	**-421,596**	**536,457**

5 - Reserves and Risks

The Section 151 Officer's section 25 financial sustainability assessment report, which was presented to the January 2024 meeting of Strategy Resources and Performance Committee, sets out the revenue and capital reserves that are available to the council and the key risks that the council faces. This section summarises those items, and sets out how reserve balances factor into our medium-term financial position.

We need reserves to protect and enhance our medium-term financial sustainability. In particular, reserves 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 prioritise funding for change programmes
- Provide for predicted liabilities
- Enable us to deal with unexpected legislative or legal developments, or contractual disputes

Reserves are vital to mitigate risks that the council faces. The key risks we face are:

- Containing inflation to funded levels – we will achieve this by closely managing budgets and contracts and further improving our control of the supply chain. We will also ensure our inflation projections are robust.

- 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 action plans and detailed reviews. All savings – efficiencies or service reductions – ought 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.

- Future funding changes – our plans have been developed in the context of continued uncertainty due to delays in the introduction of significant reforms to local government funding and other government reforms with potentially significant implications.

Reserve Types

Ahead of 2024-25, the council has re-categorised its reserves, making clearer what reserves are for and in particular moving away from mixed reserves for different purposes sitting within an earmarked reserve account for each service. The reserve categories that we will maintain in 2024-25 are:

- General reserve – this is the contingency that the council holds for unforeseen events and costs, ensuring that we are able to respond and maintain services in emergencies. This reserve is also called on if there is an overspend in-year that cannot be otherwise mitigated. The minimum balance on this reserve is set by the s151 Officer in his s25 report, and the current planned balance of that reserve will be maintained.

- Risks reserves – reserves held for particular known and quantifiable risks. For example, a risk reserve is held to mitigate the impact of the deficit on the DSG account, and risk reserves are held for contractual/legal disputes. Generally there is no draw down of these reserve projected, other than where there is a pre-existing business planning commitment.

- Strategic Framework Priorities – reserves that are available to be prioritised to deliver the council's strategic framework ambitions. This includes reserves such as the Just Transition Fund. These are projected to be fully spent over the medium-term.

- Ringfenced reserves – where we receive grants or contributions that come with an expectation that funding is spent on a particular purpose but where that spend does not occur in the same year, a ringfenced reserve may be created. This differs from formal grant accounting where a strict grant condition that has not been met can result in us having to account for income received in advance instead. The s151 Officer may determine the carrying-forward of ring-fenced grants/contributions, and the matching of those against spend in future years.

- Sinking funds – reserves that are added to annually in anticipation of a future cost, which may be a cyclical cost in the case of elections, or may be drawn on an ad hoc basis in the case of a maintenance reserve.

- Unusable reserves – reserves that are not usable to the council. The only such reserve currently held relates to a maintained Pupil Referral Unit.

The s25 report sets out the audit trail of re-categorisation of reserves from the previous to the new formats.

Ahead of the start of the financial year, several movements between reserves are proposed as part of the business plan:

Current line	New heading	2024-25 £000	Later years £000	Notes
Local taxation volatility & appeals account	Risk	-5,000		Creation of new earmarked reserve to mitigate risk of future review of local government funding having a negative impact on the council. We continue to lobby for fairer funding that reflects Cambridgeshire's needs, but there is a risk of an adverse change. This takes from other local government funding-linked reserves.
Local Government Settlement phasing reserve	Risk	-1,915		
N/A	Risk	6,915		
Post-pandemic recovery and budgeting account	Corporate	445		An efficiency programme for winter gritting has been removed from the business plan, which is what the winter reserve was held for. This is then used to deal with projected overdraw on the post-pandemic reserve, and the balance put to the business change reserve.
Business change reserve	Corporate	155		
Winter Risk Reserve	Risk	-600		
Adults, Health and Commissioning	Unallocated	-500		An unallocated earmarked reserve is transferred to the new funding review shortfall reserve
N/A	Risk	500		
Corporate - COVID	Corporate		2,749	Future drawdowns already planned from the Covid reserve are replaced by drawing from the funding review shortfall reserve, as other movements deplete the Covid reserve fully.
N/A	Risk		-2,749	
Specific Risk Reserve	Risk	-2,000		Further provision against This Land is made by moving from the specific risks reserve, which is topped up below.
This Land Credit Loss & Equity Offset	Risk	2,000		
Children, Education & Families	Risk	3,100		Creation of new reserve in CEF for children's risk, which is allocated in the business plan to offset pressure.
Corporate – COVID	Corporate	-3,100		
Financing Items	Risk	-750		Further topping up of This Land risk reserve.
This Land Credit Loss & Equity Offset	Risk	750		
Place & Sustainability	Risk	-2,891		Additional external funding replaces need for previous specific reserve in P&S, which is moved to the specific risks reserve.
Specific Risk Reserve	Risk	2,891		

Some reserve allocations are specifically made in the business plan. In some cases these support general council expenditure inherited from previous business plans, such as £4.5m released from the Covid reserve in line with decisions in the 2022-27 business plan. In other cases these are to offset specific pressures or prioritisations and can in those cases be seen in the relevant financial tables. Finally, one off fluctuations in collection fund balances from council tax or business rates are offset by movements to/from the local taxation volatility reserve to prevent single-year impacts on our budget, and any shortfall in income from local taxation due to the lateness of funding confirmations by billing authorities can also be met from that reserve; the overall level of that reserve will be reviewed each year and an assessment made about whether any funding can be drawn from it or reallocated.

The projected balances of the summary categories of reserves over the medium term are:

	Closing	**Forecast Opening balances**				
Reserve category	**2023-24**	**2024-25**	**2025-26**	**2026-27**	**2027-28**	**2028-29**
General Reserve	25,110	25,999	26,753	27,485	28,167	28,167
Strategic Framework Priorities	37,733	27,862	9,712	2,079	509	80
Ringfenced	11,027	10,827	7,048	5,820	5,067	1,561
Risk	78,925	82,068	82,404	76,147	73,252	73,882
Sinking Fund	3,443	3,443	2,333	2,473	2,614	2,754
Unallocated	500	-	-	-	-	-
Unusable	264	264	198	132	66	-
Total Revenue Reserves	**157,001**	**150,462**	**128,448**	**114,137**	**109,674**	**106,443**

These can be seen in more detail in the s25 report.

6 - 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"

Strategy, Resources & Performance (SRP) Committee

SRP 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 SRP, though Full Council remains responsible for setting a budget. SRP 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 Strategy and Resources Committee is authorised by Full Council to co-ordinate the development to Full Council of the Strategic, Policy and Budget 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 inform the draft Business Plan to be submitted for approval by Full Council."
>
> "Authority for monitoring and reviewing the overall performance of the Council against its Business Plan."
>
> "Authority for monitoring and ensuring that Policy and Service Committees operate within the policy direction of the County Council and making any appropriate recommendations."

SRP 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.

Policy & Service Committees

Policy & 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…"

8 – Fees & 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. In order to sustain the delivery of some services in the future this revenue is essential. However, the majority of the funding for the council's statutory services will likely still come from other sources, such as taxation and government grants.

This policy will be revised following a corporate review of fees and charges across the Council. 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 Commercial Strategy. The policy currently 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 income generating activities. All decisions on charges for services and income generating 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 and documented to the full costs of delivery 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:

- Inflation – charges must be inflated by a corporately estimated inflation rate as a minimum unless there is good reason not to. For 2024-25 this is 6%, being the level of CPI at September 2023.
- Statutory requirements/restrictions – charges and/or changes to charges are sometimes determined by statute, which must be followed
- Services should aim to fully recover the cost of delivering the service through its charging, including an allowance for overheads. As a rule of thumb, 15% of income above the level needed to fund a service's direct costs should be allowed for.
- Services must assess elasticity of demand, ie will a price rise actually reduce income levels as people decline to take up the service. We must not be too risk averse in this assessment, however.

5. Charging Exemptions

All services provided by the Council will be charged for unless prevented by statute or determined to not be appropriate for charging 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 services during 2023-24 and reviewed by committees.

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.