Cambridgeshire County Council

Section 2

Medium Term Financial Strategy

2022-23

cambridgeshire.gov.uk

Contents

This strategy is broken down into 12 chapters:

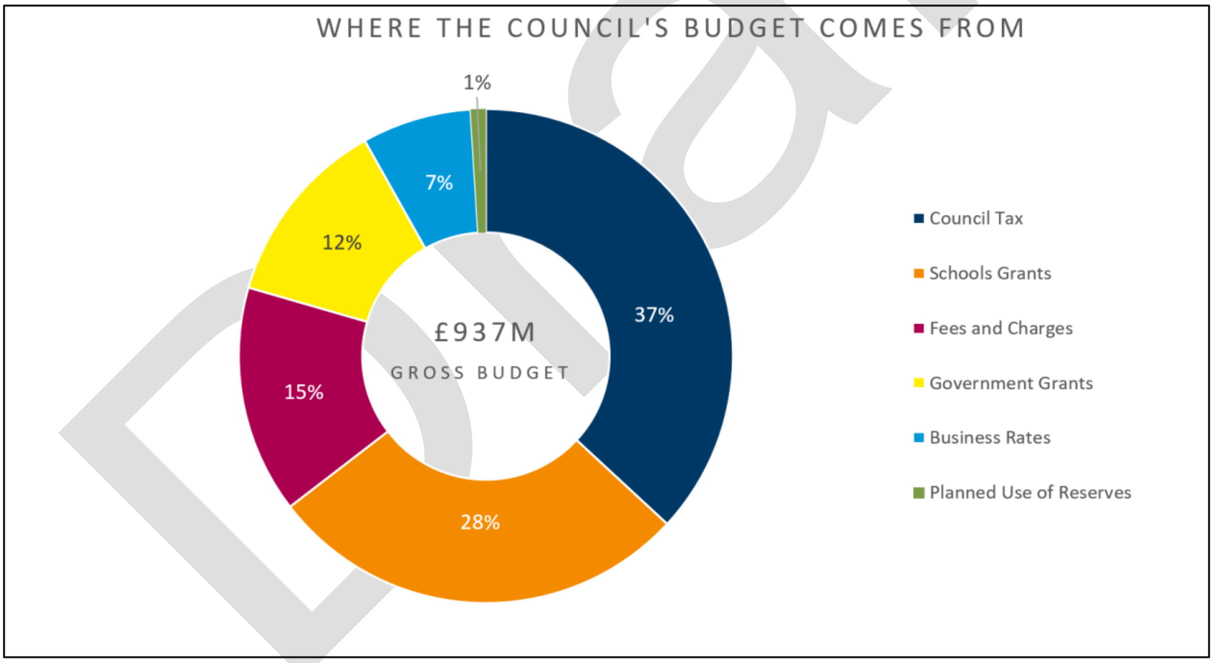
Chapter 1 - Executive summary

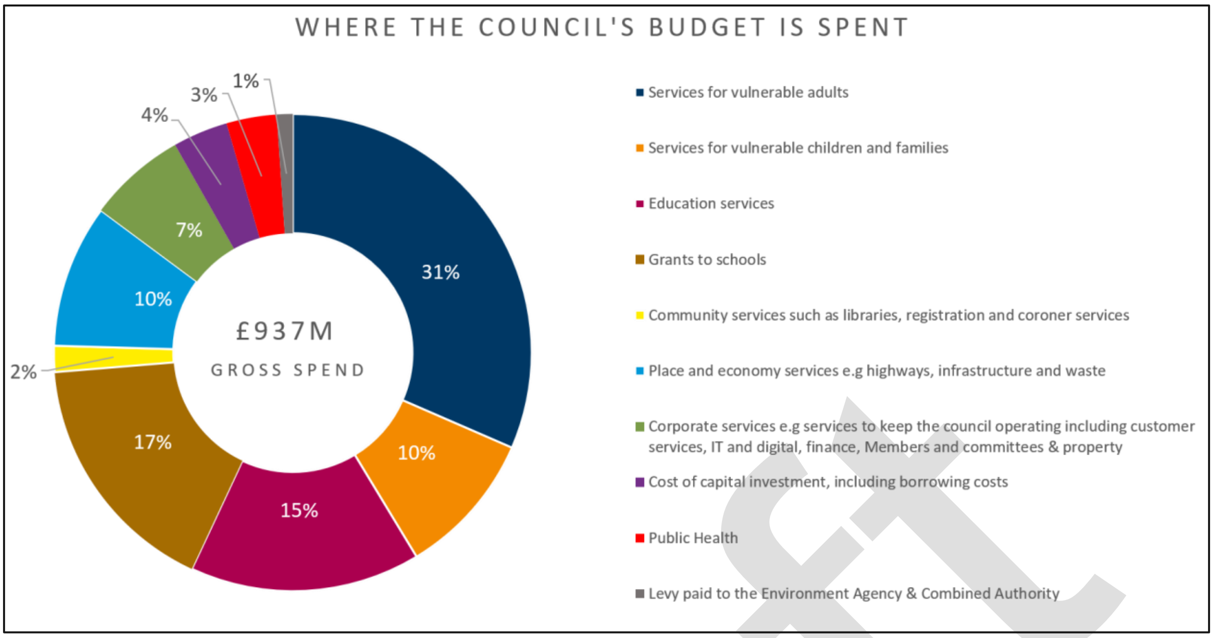
The Council's strategic financial framework is comprised of three distinct, but interdependent, strategies set out within this Business Plan:

- Medium-Term Financial Strategy (MTFS) (Section 2)
- Capital Strategy (Section 6)
- Treasury Management Strategy (Section 7)

This Strategy sets out the financial picture facing the Council over the coming five years, the resources available to the Council, and the Council's strategy for managing its resources effectively.

For 2022-23, the funding we have at our disposal, and the areas in which we will spend that funding are:





As well as outlining the Council's revenue strategy, this Medium-Term Financial Strategy includes the organisation's Fees and Charges Policy, Reserves Policy and Flexible Use of Capital Receipts Policy

Budget figures over the MTFS period in this business plan generally show recurring changes. For example, an increase in budget of £100k in 2022-23 will carry over into future years' budgets. Changes for one year only, or that will be for only part of the MTFS period, are shown with a minus figure in the year the budget is to come out.

The ongoing effects of the COVID-19 pandemic, the economic picture, and government reforms continue to make forward planning with any degree of certainty extremely challenging. Medium-term planning in the first part of 2021-22 saw our projected budget shortfall in 2022-23 rise to £23m as a result of expected increases in demand for services and inflationary costs, as well as specific service pressures, and our budget gap over the five-year medium-term rise as well. At the same time, there is a need to invest in some services to improve outcomes, and to deliver longer-term sustainability or financial benefit.

The ongoing impacts of COVID-19 are expected to extend throughout the MTFS period. Some of the specific challenges that the Council expects to face over the next five years as a result of the pandemic are:

- Potential for growing regional and more local inequalities as a result of the economic fallout from the pandemic
- Ongoing lower levels of fees and charging income, as well as reduced local taxation receipts
- Uncertainty about the need for, and funding for, lasting COVID-19 related costs such as personal protective equipment or infection control procedures in social care providers
- Providing additional support for our local care markets to ensure sufficient appropriate care provision remains available

In June 2019, the Government legislated for reaching net zero carbon emissions by 2050, and locally the Council's joint administration has put responding to the climate emergency at the centre of our priorities. Meeting this commitment will require a transformation of our procurement practices for a greener future and investment into low carbon technologies, services and infrastructure supported by innovative green investment models.

There is a great deal of uncertainty surrounding the UK's public finances. In December 2020 the UK secured a post-Brexit trade deal with the EU, however the medium-term impacts of the new trading arrangements on economic growth, labour availability, and the cost of goods and services are still unclear and may yet influence levels of resources available to local authorities. Short-term disruption, particularly shortages of labour and materials, has increased costs for the Council. In addition to the international uncertainty, there are a number of Central Government reforms currently expected or that have paused, most notably those on technical aspects of Fair Funding and the Business Rates Retention Scheme, which are expected to affect the Council's funding, as well as the reforms of Adult Social Care. The outcomes of any announcements or associated 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. 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. The Government's preferred option is for a per-capita foundation formula with seven service-specific funding formulae and an Area cost Adjustment to reflect the differences in the cost in delivering services in different areas of the country. 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 or a step change increase in their funding. The future funding model for Local Government will need to support investment into mitigating and adapting to climate change and recognise that the scale of investment required to address this challenge will vary considerably across the country due to housing densities, rural transport, agriculture and other considerations. This review is expected to be beneficial to Cambridgeshire, but continues to be delayed, now commencing no earlier than 2023-24.

Cambridgeshire has one of the fastest growing populations in the country 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. The uncertainty around this has been increased by the government's proposed reforms to care funding, both in terms of implementation timescales and the funding that will be made available to local government. 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 same applies for addressing the climate emergency and transforming to a low carbon economy - joined up action and policy across the wider public sector, business and the communities is needed to achieve the Government's net zero carbon emissions target by 2050.

In balancing our budget, some service reductions are inevitable, but we will always focus on reforming services or bringing in additional income rather than cutting services within this approach. The Council will 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 2022-27 do contain some proposals that reflect considerable risk and uncertainty. 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.

In 2021 the Council underwent a peer challenge organised through the Local Government Association, which has informed the refresh of this strategy. The peer challenge recommended that the business plan addresses the budget gap over the medium-term and incorporates contingency planning. It advised the Council to guard against unsustainable use of one-off funding and loss of future income through lower levels of Council Tax increases. This strategy begins to implement the recommendations from that review.

The key elements of this strategy, on which basis the Business Plan is predicated, are set out below:

- An updated strategy for setting Council Tax
- An assumed increase in the tax base of 2% for Council Tax, and variably by district for business rates
- The strategic approach to closing budget gaps to support the business plan will continue to evolve, focussing on reducing demand for our services, increasing income, decentralisation, finding efficiency and maintaining a medium-term outlook. We will also rigorously review budget lines across the Council to drive out efficiencies.
- Funding for invest to save schemes or for service reform will continue to be made available through reserves, or capital, where appropriate and subject to robust business cases
- The general reserve will be held at 4% of non-schools expenditure, and we will adopt a prudent approach in our reserves strategy to offsetting risks faced by the Council
- Staff pay inflation has been assumed to be 2.5% across all years of the medium-term, other than the expected rise at the lower end to keep pace with the real living wage
- Fees and charges will be reviewed annually in line with the Fees and Charges Policy
- The capital programme will be developed in line with the framework set out in the capital strategy, and the level of prudential borrowing by the Council over the medium-term will be reviewed. Capital prioritisation will be refreshed.
- 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 do so

- The Council Tax assumption and forecasts will be reviewed annually
- The Council will continue to lobby central government for fair funding leading into the national replacement of the current funding formula.

The Council's budget is divided into four main service blocks, and it is in these blocks that detailed budgets are shown in Section 3 of the business plan:

- People and Communities
- Public Health
- Place and Economy
- Corporate Services

2 – National Context

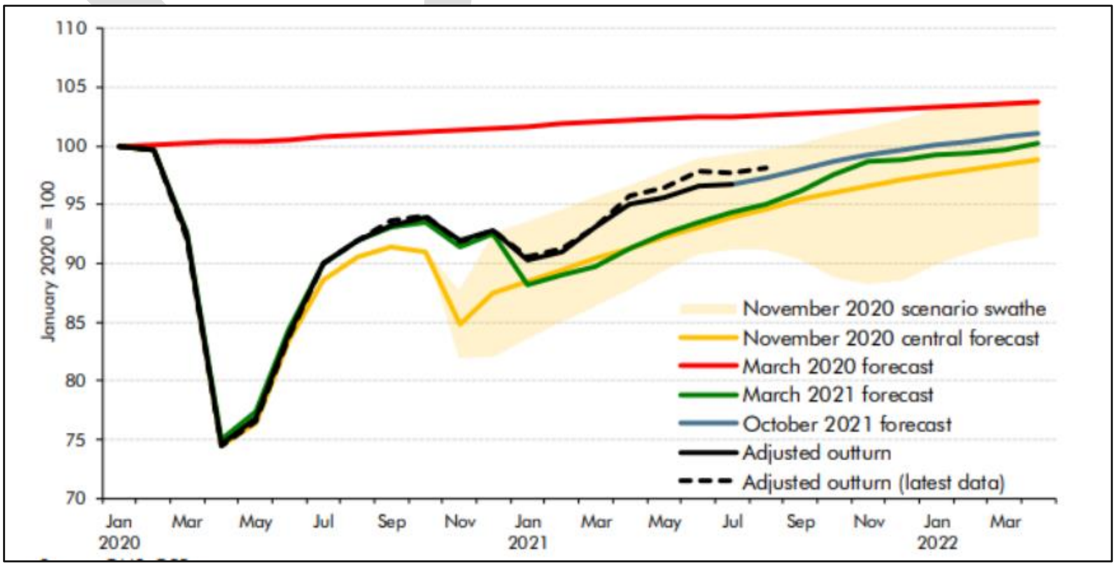
The Council's business planning process takes place within the context of the national economic environment and the government's public spending plans. This chapter of the MTFS explores that national picture. The national economic position is important in considering the Council's finances as it affects cost drivers such as inflation and demand for services and can impact public spending.

National Economic Outlook

Business planning for 2022-27 is being done at a time when the country focusses on recovering from a period of extraordinary global economic uncertainty. In 2020 the UK economy contracted significantly, falling by 9.9% over the year (the largest annual fall since 1709). Growth in 2021 is expected by the Office for Budgetary Responsibility (OBR) to be around 6.5%, with the economy returning to its pre-pandemic level by the start of 2022-23. The estimate of Covid 'scarring' on the economy, the relatively lower economic position we are in compared to where we would have been without the pandemic, is expected to be 2%.

The UK economy appears to be recovering from the pandemic quicker than expected, with all medium-term forecasts having been revised upwards between March and October 2021 by the OBR.

Figure 2.1: Monthly real GDP outturns and near-term forecast



Source: OBR and ONS

The economic ‘scarring’ as a result of the pandemic has been assessed by the OBR as less severe than originally thought. The strong returns to the labour market after the end of furlough, investment levels being not as bad as expected, and government support having limited damage to companies are the main causes of this.

At the same time, the new wave of Covid caused by the Omicron variant is causing a rise in uncertainty, with some further restrictions internationally and a lack of clarity over the economic impact of the variant in the short-term. There is some evidence that the recovery from the pandemic has slowed in recent months.

The pandemic has continued to affect the UK economy in several ways:

- Global supply chains remain disrupted due to business shutdowns and changing demand patterns
- The high degree of uncertainty surrounding the economic outlook is likely dampening business’ inclination to invest
- Returning demand for goods and services is driving rising inflation

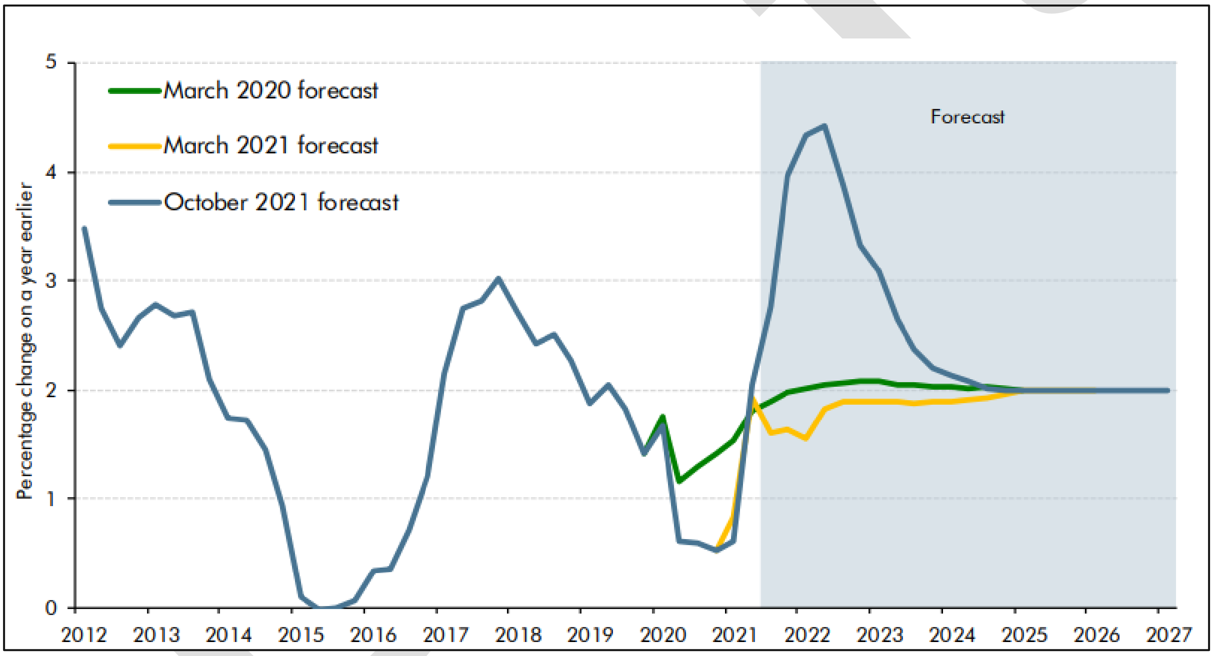
The growth that has been seen since the initial downturn in 2020 has been driven by rebounding private consumption, the significant rise in house prices and buoyant housing market, and increased business investment.

The UK’s exit from the European Union has also impacted on the economic picture. Evidence suggests a 15% reduction in both import and export intensity. It remains too early to definitively conclude what the impact has been economically as the full terms of the Trade and Co-operation Agreement commence in 2022, and how businesses are adjusting to the changing relationship will likely take several further years to come through. The shock of the pandemic will also have disguised some of the impact of this and will take time for analysts do disentangle.

The impact of the pandemic on the labour market has been lower than originally feared, in particular due to government support schemes for jobs, and the labour market continues to be strong. Insofar as the pandemic has impacted on labour that has generally been through hours worked rather than the employment level, and different sectors have been affected in differing ways. Wage growth is higher than expected and the unemployment forecasts have been revised down.

Inflation has risen sharply in recent months, with the Consumer Price Index reaching 4.6% in November 2021 up from a low of 0.3% in November 2020. This is partly the rebound from a low level in 2020, but also reflects rising global commodity prices, energy prices and low levels of unemployment. We expect inflation to continue to rise into 2022-23, with indications that it will return to the target level of 2% by the end of 2024. Expectations were originally that this spike in inflation would be for a much shorter time, but projections are increasingly cautious about how quickly the high level of inflation will subside.

Figure 2.2: CPI Inflation

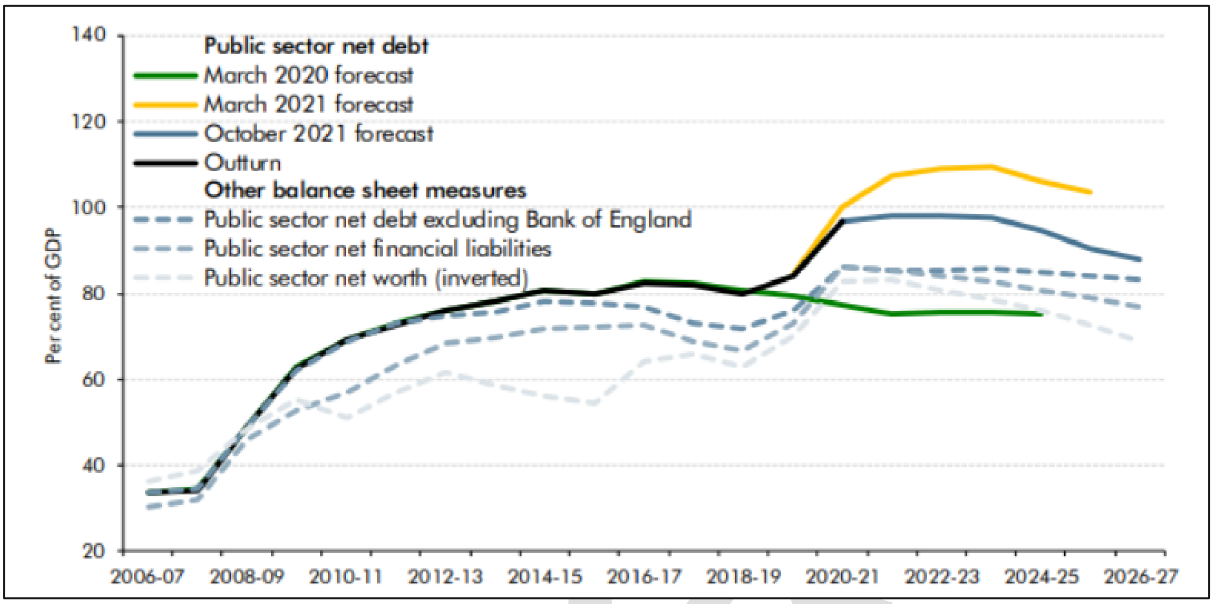


Source: OBR and ONS

Public sector spending and debt

The total level of public sector debt in the UK has risen considerably over the last two years, mainly due to the pandemic. Government support schemes, as well as reduced taxation, has increased the gap between public sector receipts and spending. The last significant rise in public sector debt occurred as a result of the 2008 financial crisis, and that was followed by years of reduced government expenditure. It is important to note, however, that government borrowing is currently comparatively cheap, as the safe investments have proved attractive to certain types of investor. The latest forecast level of debt shows a lower overall debt level than the forecast made in March 2021, suggesting a quicker return to more usual levels of government expenditure than expected.

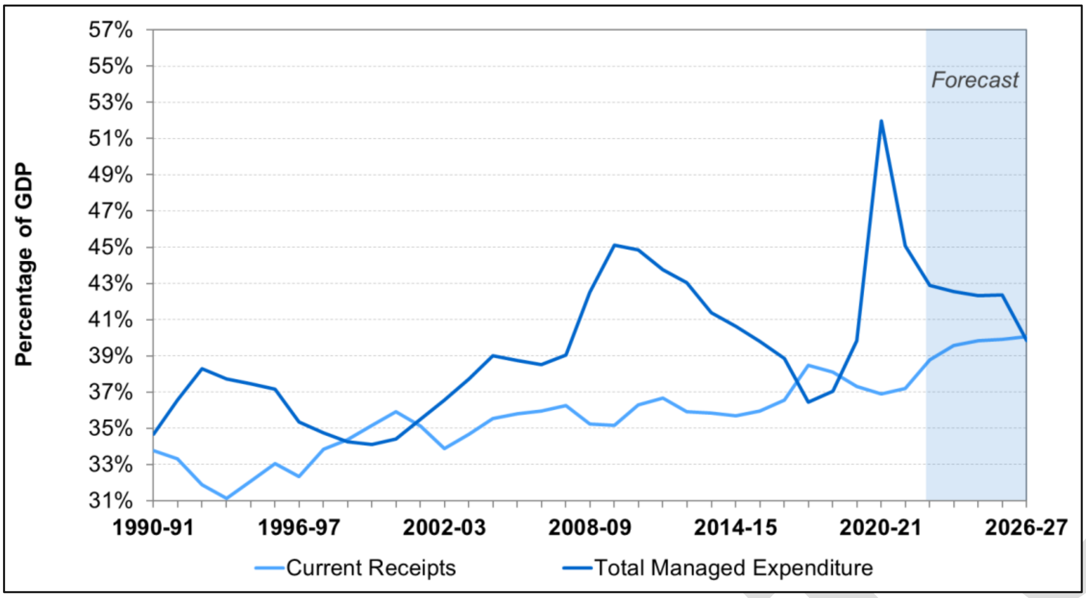
Figure 2.3: Public sector net debt projections



Source: OBR and ONS

At its height during the pandemic, public sector spending was nearly a quarter higher than its pre-pandemic levels. This high point was around half of the national gross domestic product. Spending reduced quickly from that high point as restrictions eased and normal economic activity started to resume. It is forecast that spending will reduce further, back to a position where it matches government receipts by 2026-27. Some increase in receipts is forecast over that period, but as the chart below shows the government is relying mostly on reducing expenditure to bring the public finances to balance.

Figure 2.4: Public sector spending and receipts

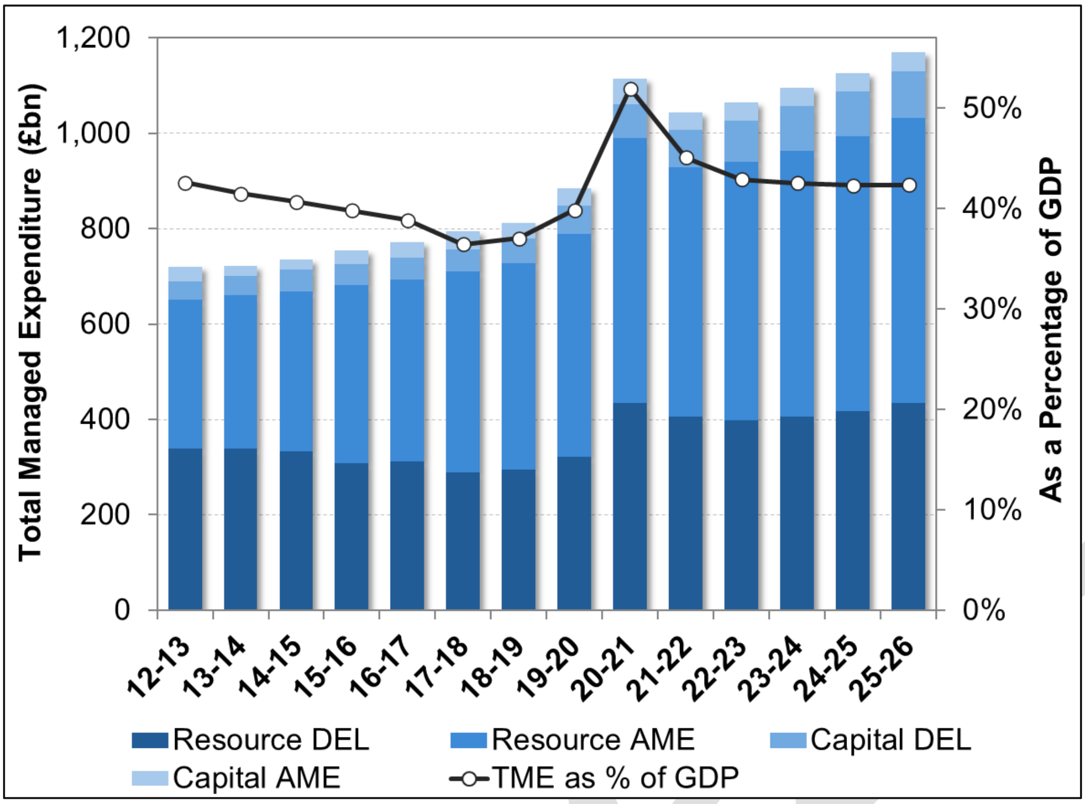


Source: OBR and ONS

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. There is also capital expenditure similarly categorised. This is important as local government funding forms part of this TME.

Our internal modelling is currently based on the existing system of 50% business rates retention with Government grants assumed to continue on a cash flat basis unless otherwise confirmed or unless there is good reason to take a different approach. During 2022-23 we will develop a revised model based on 75% local retention of business rates, incorporating new developments in methodology which will emerge as the consultation process progresses.

Figure 2.5: Total Managed Expenditure



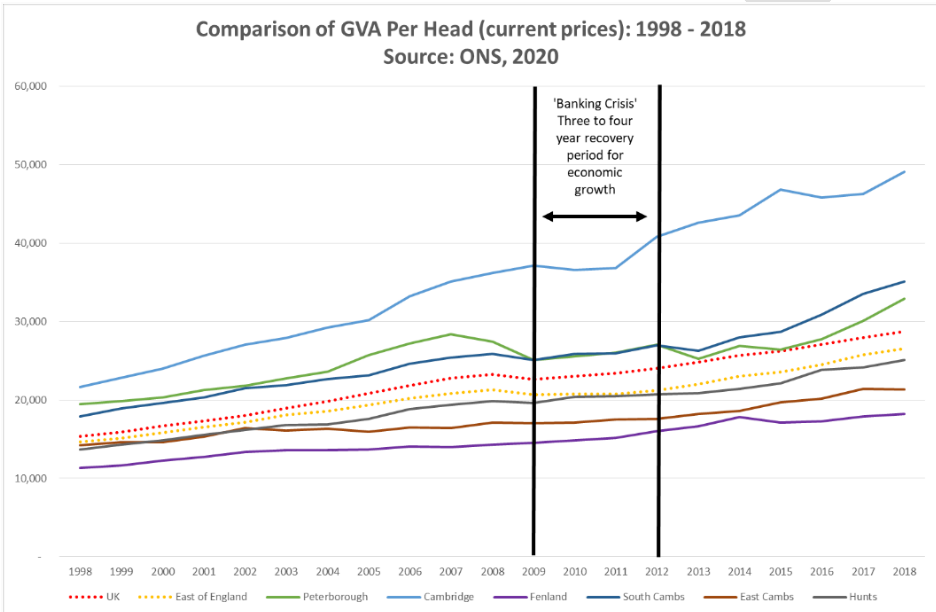
Source: OBR and ONS

3 – Local Context

Economic context

Economic growth in Cambridgeshire has outpaced both the East of England and UK over the last decade. This has been driven primarily by rapid business creation and growth in Cambridge and South Cambridgeshire. Innovation-rich Cambridgeshire businesses have attracted significant investment from overseas, promoting an entrepreneurial business environment which has seen Cambridge City producing the highest number of patent applications per head of population of any City in the country

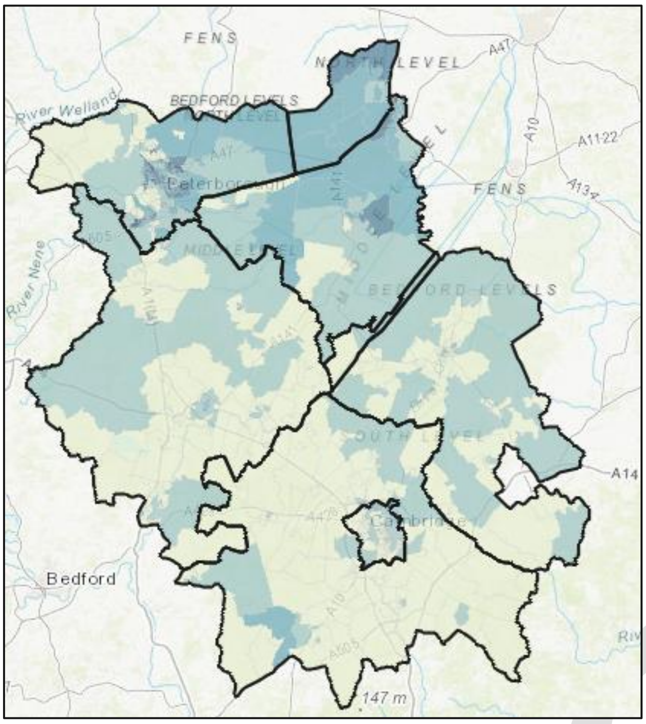
Figure 3.1: Gross value added per head



Source: ONS

Deprivation across Cambridgeshire is not evenly distributed, with the north of the county on average being more deprived and having access to fewer job opportunities than in the south. This is also the case for people's health and links to the levels of services that need to be accessed from the Council. Despite this geographic difference, there is high levels of deprivation within the southern part of the county, with Cambridge City in particular having some of the most deprived areas in Cambridgeshire (As well as some of the most prosperous).

Figure 3.2: Deprivation by area (including Peterborough) – dark is more deprived



Source: Cambridgeshire Insight

More recently, the local economy has been affected by both the pandemic and the UK's exit from the European Union. Despite being relatively buoyant during the pandemic, the local economy is feeling the effects of labour shortages in key sectors and historically has relied on EU nationals working in the region (higher than any region other than London). The East of England was the second highest net importer of goods and services from the EU after the South East, and a reduction in the availability of goods from the EU or EU nationals willing to work here will have an impact on the local economy. The local care sector has also relied upon workers from outside of the UK, a shortage of which could impact on the availability or price of care that the Council purchases.

Population

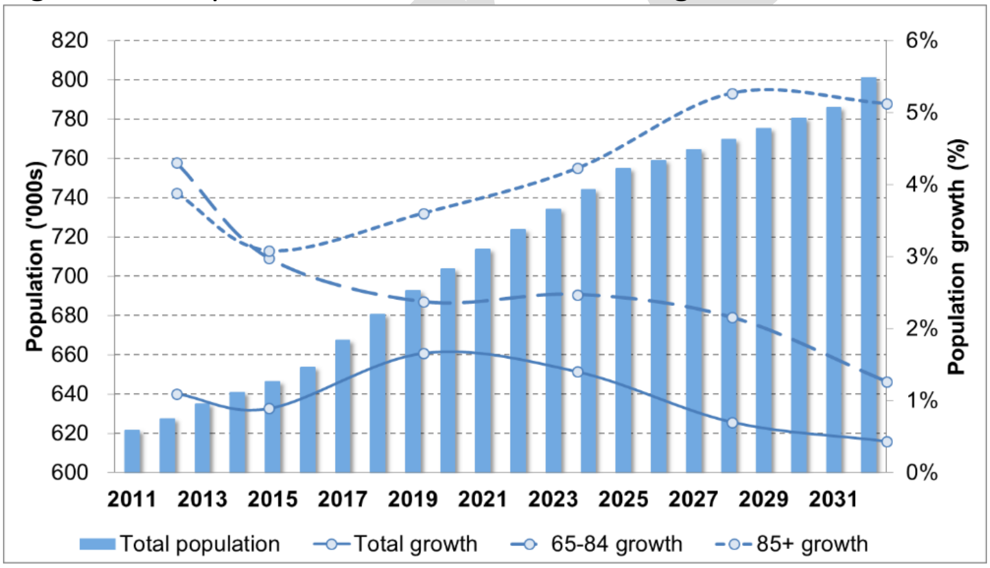
Cambridgeshire County Council's population estimates show that the county's population has continued to grow since the 2011 census, rising by around 40,000 residents to 657,000 by 2020.

At the time of the 2011 census, Cambridgeshire was the fastest growing county in the UK with the county's population having a growth rate of 12%

over the ten-year period from 2001 to 2011. A growing county provides many opportunities, but 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. As much of government funding to councils is based on outdated population and relative needs estimates, there is a compounding effect from our growing population. 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 25% 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 123,200 in 2018 to 181,800 in 2038, and forecast to account for 26% 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 3.3: Population forecasts for Cambridgeshire

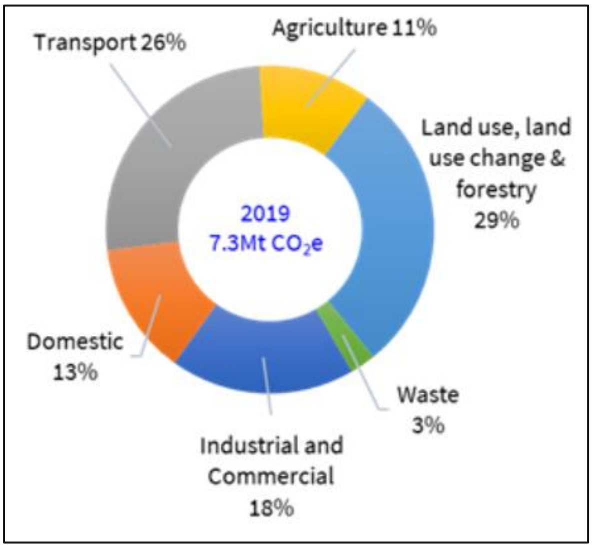


Source: Cambridgeshire research team

Climate Change

Recent government datasets show the carbon footprint for Cambridgeshire as a region was around 7.3 million tonnes of CO_2e in 2019, the largest element of which came from land use and land use change.

Figure 3.4: Carbon emissions in Cambridgeshire by type



Source: Department of Business, Energy & Industrial Strategy

All public sector bodies have a duty to limit the negative impact of climate change by reducing carbon emissions, and the Council has a role to play in reducing them across the whole county. Government has set a legal target of 78% carbon reduction by 2035 compared to 1990 levels, and this duty is increasingly a central part of our financial strategy.

4 - 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 2022-23, Cambridgeshire is expected to receive £778m of funding excluding grants retained by its schools. The key source of funding is Council Tax, which is budgeted to rise at 4.99% in 2022-23 and at 2% each year thereafter.

Table 4.1: Medium term funding forecast

	2022-23 £m	2023-24 £m	2024-25 £m	2025-26 £m	2026-27 £m
Schools Grants[1]	259	259	259	259	259
Council Tax[2]	346	359	374	388	401
Fees & Charges	140	148	151	153	154
Business Rates	67	69	71	73	74
Government Grants	116	110	110	110	110
Revenue Support Grant[3]	0	0	0	0	0m
Other Grants	82	76	76	76	76
Better Care Funding	34	34	34	34	34
Total funding	927	940	960	977	994

(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) Assumed to increase at 4.99% for 2022-23, and 2% thereafter
(3) Unlike many councils, Cambridgeshire receives no revenue support grant from central government

As is evident from Figure 4.1, the Council will continue to face a challenging funding environment over the medium term. In 2022-23, we are expecting an increase of 6.63% on 2021-22 on the total funding we receive from all sources, but with more significant demand and inflationary pressures. The Council expects to see an overall increase in funding (excluding schools grants) of 9.31% to 2026-27. This is primarily due to increases in Council Tax, which is one of the few funding sources that we can plan an increase to over the medium-term. However inflationary pressures, population growth and increased demand for services are expected to result in much higher additional budget pressures over the same period.

In recent years local government funding has stabilised following a period of significant fiscal tightening from around 2010. During this period income from government grants fell sharply – the Revenue Support Grant, worth £86m a year to the Council in 2013-14, was withdrawn completely in 2019-20. 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 and increasing complexity of need. 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, which over recent years has not been announced more than one year in advance.

Notwithstanding the unprecedented fiscal and economic shock to the public finances as a result of Covid-19, these challenges remain and have been increased by the impacts of the pandemic on care providers and on vulnerable people. It is therefore considered unlikely that the sector will face a further period of significant fiscal tightening during the period of the current MTFS, but due to the government's fiscal targets it is also unlikely that the sector will receive sufficient funding to meet the growth in cost from demand increases, inflation and legislative changes.

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). The government has announced some funding for this, covering 2022-23, with high level amounts announced for later years. We will need to consider the cost locally of implementing these reforms, and whether any of our existing budget provisions have pre-empted it.

Sources of Funding

Council Tax, and Adult Social Care Precept (37% of income)

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, but the increase is generally capped by government and so savings need to be increased to remain within this cap.

In recent years, the rate of growth in Council Tax has been effectively capped by central government at between 2% and 3%. Any growth beyond that would require a referendum locally. The specific referendum limit is set by government each year.

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.

Council Tax receipts can also increase if the underlying taxbase (the number of taxable properties) 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 been between a further 1-3% increase and is ringfenced for adult social care services.

The table below sets out the current assumptions about Council Tax and the ASC Precept over the MTFS, based on assumptions made in 2021-22.

Table 4.2: Council Tax Assumptions

	2022-23	2023-24	2024-25	2025-26	2026-27
General Council Tax	1.99%	2.00%	2.00%	2.00%	2.00%
ASC Precept	3.00%	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, should be met from or returned to a dedicated earmarked reserve to avoid one-off shocks to our budget.

Council Tax Requirement

The current Council Tax Requirement (and all other factors) gives rise to a 'Band D' Council Tax of £1,469.61. This is an increase of 4.99% on the actual 2021-2 level which comprises a 1.99% increase in the general precept and 3% increase in the Adult Social Care Precept. 1% of this ASC Precept is the level the government is allowing for 2022-23, and 2% is the level below This figure reflects information from the districts on the final precept and collection fund.

Table 4.3: Build-up of recommended Council Tax Requirement and derivation of Council Tax precept 2022-23

	2022-23 £000
Starting base budget	897,663
Inflation	9,991
Demand	9,615
Pressures	16,236
Investments	7,253
Savings	-4,189
Change in reserves/one-off items	-9,612
Total budget	926,957
Less funding:	
Business Rates plus Top-up	67,056
Revenue Support Grant	0
Dedicated Schools Grant	248,545
Unringfenced Grants (including schools)	48,401
Ringfenced Grants	78,069
Fees & Charges	139,663
Surplus/deficit on collection fund	-1,311
Council Tax requirement	346,534
District taxbase	235,800
Band D	1,469.61

Taxes for the other bands are derived by applying the ratios found in Table 4.4. For example, the Band A tax is 6/9 of the Band D tax.

Table 4.4: Ratios and amounts of Council Tax for properties in different bands

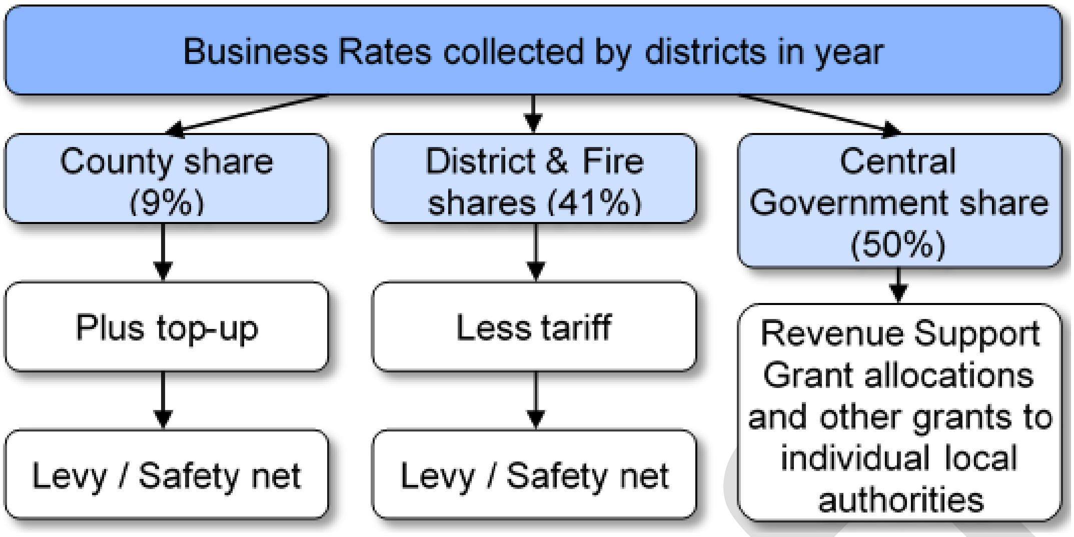
Band	Ratio	Amount £	Increase on 2021-22 £
A	6/9	979.74	46.56
B	7/9	1,143.03	54.32
C	8/9	1,306.32	62.08
D	9/9	1,469.61	69.84
E	11/9	1,796.19	85.36
F	13/9	2,122.77	100.88
G	15/9	2,449.35	116.40
H	18/9	2,939.22	139.68

Business Rates (7%)

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 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 currently receive a 9% share of Business Rates as compared to the District Councils' share of 40% which provides 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. It does, however, insulate us from some of the volatility in business rates income. Figure 4.5 illustrates how the current scheme works:

Figure 4.5: Business rates funding process



In two tier areas such as Cambridgeshire, the County Council will receive a top-up from the Government 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.

We are 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

Ring-fenced Grants (8%)

These are grants received from central government for a very 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 £27m) and the Improved Better Care Fund Grant (over £15m, 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 a revised business rates retention scheme. 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.

Non-ringfenced Grants (4%)

These grants are received from government without strict conditions for spending. They go to the corporate centre and are used to fund services generally. 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 £37.808m in unringfenced grants in 2022-23, excluding schools grants, a reduction of £16.026m on the total 2021-22 allocation of £53.834m. The majority of the change can be seen through the £15.651m reduction of Section 31 grants and local taxation support and the removal of the COVID Tranche 5 Grant, worth £11.887m.

New grant funding has been announced for Councils in 2022-23. This includes a one-off Services Grant totalling £4.508m, a £5.501m increase in the Social Care Support Grant and a Market Sustainability & Fair Cost of Care Fund amounting to £1.569m, which has conditions linked to the government's social care reforms.

A further new grant has been announced, called the Adult Social Care Market Sustainability & Fair Cost of Care Fund. This grant is given to enable local authorities to begin to implement government's proposed reforms to adult social care. This first tranche is intended to be used by councils to equalise rates paid for care between local authority and private clients, as well as to do preparatory work ahead of the full reforms being implemented. It is expected that further tranches of this grant will be announced.

Table 4.6: Unringfenced grants for Cambridgeshire 2022-23

	2022-23 £000
Social Care Support Grant	18,885
Services Grant	4,508
Section 31 grants and local taxation support[1]	4,934
New Homes Bonus	2,096
Education Services Grants	2,313
Other unringfenced grants	5,072
Total unringfenced grants	37,808

(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

Fees & Charges (15%)

A significant, and increasing, proportion of the Council's income is generated by charging for some of the services it provides. 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 12.

Dedicated Schools Grant (29%)

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”.

A total DSG overspend of around £12.5m across SEND in 2020-21 which, combined with underspends on other DSG budgets resulted in a net DSG overspend of £9.7m to the end of the year. When added to the existing DSG deficit of £16.6m brought forward from previous years, and allowing for required prior-year technical adjustments, this resulted in a cumulative deficit of £26.8m to be carried forward into 2021/22. As a result of continuing increases in the numbers of pupils with Education Health & Care Plans, the Council anticipates an increased overspend of around £14.4m in 2021-22, bringing the total DSG deficit carried forward into 2022-23 to around £40m.

Local Authorities are currently permitted to carry deficits in their DSG funding between financial years however this remains a serious issue for the Council with uncertainty around treatment of this deficit from 2023/24 onwards. A deficit recovery plan has been submitted to the Department for Education and the Council has established an SEND recovery board to support its implementation. However it is likely that the Council will continue to carry a significant DSG deficit over the medium term until additional government support is forthcoming.

Table 4.7: 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 for 2023-24 onwards
Top-up	• National CPI inflation for 2023-24 onwards
General Council Tax	• Level set by Council for 2022-23 (1.99%), and 2% thereafter • Occupied Cambridgeshire housing stock (1.51% – 2.03% annual increase, as per District Council forecasts)
Adult Social Care Precept	• Level set by Council for 2022-23 (3%), no increase thereafter • Same growth assumption as general council tax
Government grants	• Grants allocated by individual government departments assumed to be flat cash unless otherwise known
Fees & charges	• Charges set by Council (average 2.5% annual increase over MTFS period)

Local Government Finance Settlement

In November 2021 the government announced a spending review covering 2022-25, which is three financial years. The financial implications of the headline funding announcements for individual local authorities were set out in the provisional Local Government Finance Settlement published by the Government in December 2020. This settlement only covered one year, despite the multi-year spending review.

The Council's core spending power will increase by 8% next year according to government figures accompanying the settlement. However, nearly two thirds of this relates to the additional Council Tax that the government is allowing councils to levy. This is alongside changes in legislation (Such as the national insurance rise) that the government has imposed on councils. Overall, government funding is going up by less than the increased pressures we are facing.

The Council will receive an additional £11.84m of grant in 2022-23, with no further increases announced for 2023-24 or 2024-25. £4.5m of this relates to a new Services Grant, which is one-off funding, and an Adult Social Care Grant which is ringfenced to spend on reforms. The New Homes Bonus will also be reducing by £184k from 2022-23.

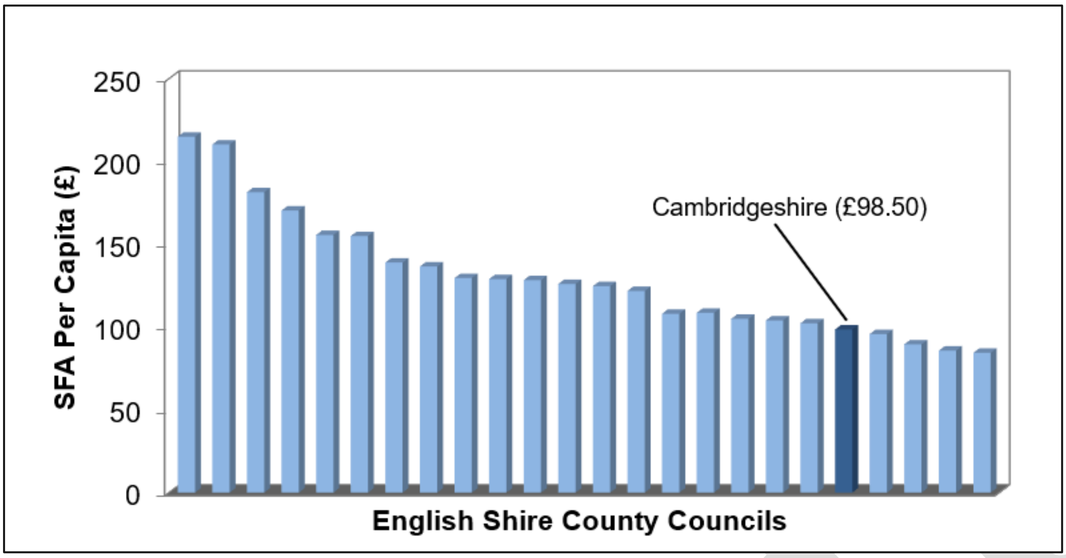
Table 4.8: Comparison of Cambridgeshire's overall Government funding 2016-17 to 2022-23

	2017-18 £000	2018-19 £000	2019-20 £000	2020-21 £000	2021-22 £000	2022-23 £000
Revenue Support Grant	15,312	3,915	-	-	-	-
Covid Grants	-	-	-	-	27,538	-
Other Unringfenced Grants	8,380	11,305	14,645	23,831	26,296	37,808
Better Care Funding	21,487	24,744	27,854	31,675	31,675	33,809
Other Ringfenced Grants	40,208	38,312	38,140	43,079	43,059	44,260
Government Revenue Funding (excl. schools)	85,387	78,276	80,639	98,585	128,568	115,877
Difference	-13,326	-3,512	+3,865	+20,550	+16,908	-2,398
Percentage Increase	-8.3%	-2.4%	+2.7%	+13.9%	+10.0%	-1.3%

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 received by the Council until 2019-20. For 2022-23 Cambridgeshire's SFA award per head of population will be the fifth lowest of all shire county councils, at only £98.50 compared to the average of £129.33.

If Cambridgeshire's SFA allocation was based on local population estimates, which account for the impact of population growth more accurately than national estimates, and if Cambridgeshire received the average level of SFA per head of population, we would receive £26m more in Government grant funding for 2022/23.

Figure 4.9: County Council SFA per Capita 2022-23



Fairer Funding Model

The current tariffs and top-ups for business rates were set in 2013-14 based on the previous 'Four Block Model' distribution and increased annually by September's CPI inflation. 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.

A consultation on the review of local authorities' relative needs and resources was released as part of the 2019/20 provisional settlement. The Government was minded to implement a per capita foundation formula alongside seven service-specific funding formulas covering key areas of spending such as adult social care and highways maintenance. An Area Cost Adjustment would adjust for differences in labour and business rates costs between local authority areas and will also assess the impact of remoteness and accessibility of services.

It is likely that a notional Council tax level will be used to account for the relative resources of local authorities and to adjust reallocated income accordingly. Shire Counties stand to benefit from this adjustment as they levy relatively high levels of Council Tax and will therefore lose a smaller proportion of their funding via an adjustment set at an average level.

The tier split of business rates between upper and lower tier authorities is one of the most contentious issues to be addressed during the consultation. Shire

Counties have long argued for a larger proportion of business rates income however any change in the current allocations will be limited by the financial sustainability for District Councils. Transitional arrangements and damping adjustments will limit any significant short-term changes to local authority funding. Additionally, as Cambridgeshire has historically ranked relatively close to average in terms of relative need and relative resources, any changes in funding allocation are unlikely to substantially impact the deliverability of the business plan over the medium term.

In April 2020, the government announced that it would delay the move to 75% Business Rates Retention and the implementation of the fair funding review due to the shift in resources required to respond to the pandemic. It was confirmed in the 2022-23 local government finance settlement that the review would not commence in 2022-23. We hope the review will commence for 2023-24. In the meantime, the Council continues to campaign for fairer funding through all available forums including the County Councils Network and the Society of County Treasurers.

5 - 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 2022-23 and beyond due to the exceptional levels of uncertainty surrounding the impacts of Covid-19 on service provision for the current MTFS period. In the future, our spend projections will take account of future carbon emissions liabilities, supported by analysis of the carbon costs of all activities the Council commissions or directly undertakes.

Inflation

We have responded to the uncertainty about future inflation rates, and the duration of the currently high rate, relating to our main service costs by making a prudent assessment of their impact. Our policy of maintaining reserves to cover such uncertainties mitigates this risk.

There is not a direct link between national inflation indices (such as CPI or RPI) and the inflationary pressures that our services face due to the mix of costs that we face, and the specific goods and services that we purchase. For example much of our costs are employee related, 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 and are generally budgeted for as pressures (as they result from government policy changes rather than general economic conditions).

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 65 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. Taking into account the mix of goods and services we purchase, this plan assumes an average inflation rate of 1.7% for 22-23. As noted above, cost increases due to policy changes can replace inflationary pressures which has the effect of making our overall budgeted inflation look low.

Staff pay inflation has been budgeted at 2.5% per year following the announcement of the end of the public sector pay freeze in the 2021 Spending Review. As well as this, increases to the real living wage will be factored in for staff paid at that level. Local Government pay is subject to national negotiations for the sector whilst some grades are subject to local decisions, so at this stage a 2.5% increase is only our estimate of what budgetary provision will be required for increasing pay costs.

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

Table 5.1: Inflation pressures

	2022-23 £000	2023-24 £000	2024-25 £000	2025-26 £000	2026-27 £000
Inflationary cost increase (£000)	10,005	9,329	10,477	10,679	10,920
Inflationary cost increase (%)	1.7%	1.5%	1.6%	1.6%	1.6%

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 5.2: Demand pressures

	2022-23 £000	2023-24 £000	2024-25 £000	2025-26 £000	2026-27 £000
Demand cost increase (£000)	9,615	15,919	16,144	16,233	16,792
Demand cost increase (%)	1.6%	2.5%	2.5%	2.5%	2.5%

These demand pressures take into account any impact modelled from Covid-19. In some cases we have seen permanent increases in people's care needs or profiles of demand as a result of the pandemic. In other cases, increases are expected to be temporary. Substantial additional funding was included in the 2021-26 MTFS for Covid pressures in some services that now have returned to a more normal position, particularly in Place & Economy, and the above demand projections factor in the removal of this unneeded funding.

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 minimum wage and changing environmental regulations around odours being emitted from waste treatment plants. Negative numbers in the table show where temporary pressures are reversed.

Table 5.3: Other pressures

Service	2022-23 £000	2023-24 £000	2024-25 £000	2025-26 £000	2026-27 £000
People & Communities	11,637	9,015	5,615	4,833	4,833
Place & Economy	3,422	-2,510	-650	0	0
Corporate Services	1,177	-774	160	-13	55
Total Pressures	16,236	5,731	5,125	4,820	4,888
Pressure cost increase (%)	2.72%	0.91%	0.79%	0.73%	0.73%

Investments

Despite the challenging financial position that the Council is in, there remains a need to invest in some services. This may be to improve service outcomes, 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 9 of this MTFS provides more detail on the source of reserves funding used for investments that require only short-term budget. As with pressures above, negative numbers in the table below show temporary pressures being reversed – including in the case of Corporate Services pressures in 2021-22 being removed.

Table 5.4: Investments

Service	2022-23 £000	2023-24 £000	2024-25 £000	2025-26 £000	2026-27 £000
P&C	5,278	489	2,267	-2	-462
P&E	485	845	890	-150	0
CS	-981	960	627	-220	-68
PH	170	-45			
Total Investments	4,952	2,249	3,784	-372	-530
Investment cost increase/reduction (%)	0.83%	0.36%	0.59%	-0.06%	-0.08%

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 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. 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.X below:

Table 5.5: Capital financing charges – absolute and change year on year

	2022-23 £m	2023-24 £m	2024-25 £m	2025-26 £m	2026-27 £m
2022-23 Business Plan	34.0	36.8	40.5	41.1	42.6
Year-on-Year Change	+3.8%	+2.7%	+3.7%	+0.7%	+1.5%

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 XX 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

	2022-23 £m	2023-24 £m	2024-25 £m	2025-26 £m	2026-27 £m
P&C Adults	-3,667	-864	-395	-49	-
P&C Children	-2,595	-684	-345	-	-
P&C Communities	-64	-65	-	-	-
Place & Economy	-3,210	-730	150	120	-
Corporate Services	-1,831	-4,364	-2,145	-134	-530
Total Income and Savings Proposals	-11,367	-6,707	-2,735	-63	-530

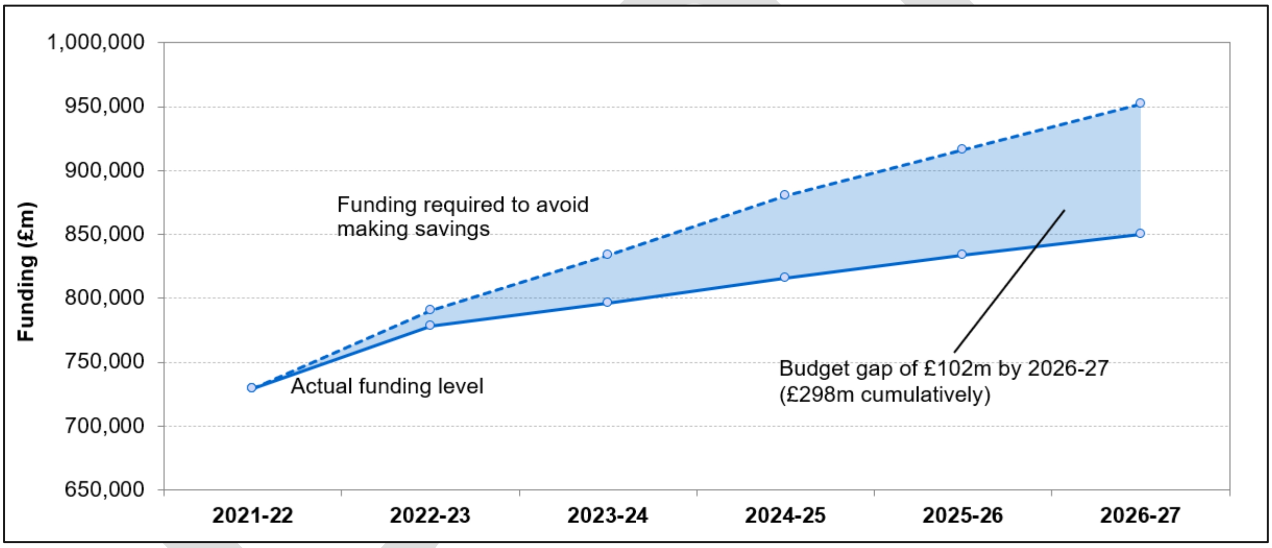
New savings and income proposals to balance 2022-23’s budget and close the budget gap over the medium term are described in chapter 6 below.

6 - Revenue Strategy: Balancing the budget

Every local authority has a legal responsibility 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 they are considered by Council.

Inevitably, cost pressures are forecast to outstrip available resources, given the rising costs caused by inflation, growth and associated demand pressures and renewed pressure on levels of funding for local government in the wake of the pandemic. Consequently, we will need to make significant further savings, or generate significant additional income, to close the budget gap.

Figure 6.1: Current Budget gap after funding change and budget pressures but before savings and additional income



Closing this budget gap over the next five years will mean making tough decisions on which services to prioritise. Some savings or additional income are already included in the draft business plan that partly close this gap.

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.

We now face demand pressures that are increasing year-on-year faster than expected, as well as an uncertain economic outlook. We must also, however, invest in services that can bring the most benefit and reduce cost pressures over the longer-term.

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. We must therefore focus on reviewing any service areas where we can disinvest, drive more innovative and transformative change across the medium-term, 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, and the areas where transformation is required to drive efficiencies. 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 should 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.

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.

New savings proposed to close the budget gap in 2022-23 and reduce the gap in future years are summarised in table 6.2 below and set out in detail in service finance tables in Section 3 of the business plan

Table 6.2: New savings or additional income proposals

	2022-23 £000	2023-24 £000	2024-25 £000	2025-26 £000	2026-27 £000
P&C Adults	-2,308	70	-	-	-
P&C C&YP	-650	-	-	-	-
P&C CS&I	-450	-60	-60	-	-
P&E	-135	-20	-	-	-
CS	642	-170	-	-	-
Total	-2,901	-180	-60	-	-

Note: positive figures are temporary savings being reversed

After factoring in identified savings and additional income, budget gaps remain in years 2023-24 to 2026-27, shown below.

Table 6.3: Budget gap 2022-23 to 2026-27

	2022-23 £000	2023-24 £000	2024-25 £000	2025-26 £000	2026-27 £000
Budget Gap	-	17,396	22,737	16,782	18,337

7 – 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 7.1 below.

Table 7.1: Total funding 2022-23 to 2026-27

	2022-23 £000	2023-24 £000	2024-25 £000	2025-26 £000	2026-27 £000
Business Rates plus Top-up	67,056	68,897	70,862	72,661	74,414
Council Tax	345,223	359,041	373,655	387,717	401,448
Revenue Support Grant	0	0	0	0	0
Other Unringfenced Grants	37,808	32,099	32,062	59,717	59,686
Dedicated Schools Grant (DSG)	248,545	248,545	248,545	248,545	248,545
Other grants to schools	10,593	10,593	10,593	10,593	10,593
Better Care Funding	33,809	33,809	33,809	33,809	33,809
Other Ringfenced Grants	44,260	44,279	44,298	16,609	16,609
Fees & Charges	139,663	147,668	151,387	152,987	154,297
Total gross budget	926,957	944,931	965,211	982,638	999,401
Less grants to schools [1]	-259,138	-259,138	-259,13	-259,138	-259,138
Schedule 2 DSG plus income from schools for traded services to schools[2]	110,039	110,039	110,039	110,039	110,039
Total gross budget excluding schools	777,858	795,832	816,112	833,539	850,302
Less Fees, Charges & Ringfenced Grants	-327,771	-335,795	-339,53	-313,444	-314,754
Total net budget	450,087	460,037	476,579	520,095	535,548

(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".

(2) The Council retains some DSG (schedule 2 DSG) to fund services to all schools (predominantly high needs services) as well as earning income through trading services to schools. Budget for these services is added back in here.

Expenditure Summary

The Council's projected revenue spending by department is summarised in table 7.2 below.

Table 7.2: Service net budgets 2022-23 to 2026-27

	2022-23 £000	2023-24 £000	2024-25 £000	2025-26 £000	2026-27 £000
People & Communities	321,580	346,150	372,026	396,709	421,754
Place & Economy	66,101	65,711	68,154	70,189	72,314
Corporate Services	27,411	9,110	-11,449	-23,074	-38,197
Financing Debt Charges	34,044	36,750	40,465	41,121	42,628
Public Health	-	-	-	26,571	26,571
Environment Agency Levy	433	442	451	460	469
Combined Authority Levy	9,685	9,976	10,276	10,585	10,903
Net movement on reserves	-9,212	-8,102	-3,344	-2,466	-894
Total budget	**450,042**	**460,037**	**476,579**	**520,095**	**535,548**
% Change in budget	3.4%	2.2%	3.6%	9.1%	3.0%

Robustness of Estimates

The Council’s s151 Officer is required to report annually on the robustness of estimates made in drafting the Council’s budget and for setting its Council Tax precept. A separate formal report on robustness of estimates is provided to the Council meeting that considers the draft budget, and the table below sets out the key assumptions and context used in preparing this business plan.

	Budget Assumption	Explanation of Approach
Pressures		
1	Inflation	2.5% has been assumed for staff pay inflation in 2022-23 and 2% across the rest of the medium-term. The Council is part of national arrangements for setting some pay scales and therefore pay awards will be influenced by any national agreements reached. Other pay scales are set locally. Each 1% increase in staff pay costs around £1.3m. Chapter 5 above sets out the approach to service inflation projections. Bespoke inflation indices are calculated for key services and reviewed annually. The relationship between general inflation and cost rises for our services is not linear, as set out in chapter 6 above.
2	Interest rates	Interest rate projections for our borrowing are based on discussions with the Council’s external treasury management advisor. Most borrowing is at a fixed rate, and interest rate fluctuations only affect new borrowing or refinancing.

3	Demand & demographic change	Pressures arising from increased demand for our main services are modelled annually and are based on demographic projections, trend analysis and review of activity data. The main areas of demand pressures are in social care (mainly Adults but also Children's), home to school transport and increasing waste tonnage.
4	Legislative changes	We estimate the cost of legislative changes on a case-by-case basis, depending on the certainty and materiality of them. For example, we know that the increasing minimum wage is an annual change made by the government and we take steps to estimate its trajectory, using the OBR forecasts as a basis. Where there are discreet changes to legislation proposed by government that will present new costs to the Council, we generally assume these will be funded in part through the new burdens principle. The largest legislative changes provided for in this business plan are around the minimum wage and the increase in national insurance. We also bear in mind proposed changes to adult social care as a key risk.
5	Policy decisions	Policy decisions by the Council can increase costs in our budget, either through new services or increasing spend on existing services. Officers work with senior councillors through the year to advise on and quantify policy decisions. Proposals are scrutinised for affordability and value for money. The largest examples of these costs in this budget are the implementation of the Real Living Wage in our social care supply chain and short-term investments towards a just transition.
Savings and income		
6	Savings	Savings development follows a rigorous process of business case development and scrutiny, through both individual services and at a corporate level. The Finance Service is involved in quantification, and amounts should not end up being budgeted for as savings unless there is a plan for delivery at that point in time and confidence in it. Recognising that somethings savings are later not fully deliverable in practice, there is an officer board that routinely looks for further savings in-year that can be brought forward to mitigate.

		We aim to provide savings lines to close later years in the medium-term as well as the first year. We also review actual spend in services against budgets and have a process for re-baselining services that are deemed to not need the full budget allocation.
7	Additional income	Inflationary increases in fees and charges for our services should be applied as a matter of course each year where this is allowed.
Other assumptions		
8	Funding changes	The Local Government Finance Settlement provided only one-year allocations of funding covering 2022-23. There is uncertainty about the allocation of funding beyond that year, as well as the review of the business rates system. These both mean that there is funding uncertainty facing the Council in 2023-24 and beyond. Consequently we have taken a prudent approach to interpreting the outcome of the settlement, assuming that brand new grant funding where not confirmed beyond that single year will not be continuing. There are several grants that have not yet had allocations confirmed for 2022-23 and where this is the case we generally do not provide for them in the budget.
9	Financial risks inherent in any significant new contracts, capital schemes or partnerships	Financial risks are included in our assessment of the prudent level of the general reserve in this strategy, along with some earmarked reserves to mitigate risks held in some of the more volatile services. Consequently, we intend not to budget for financial risks at a service level. We closely monitor revenue and capital spend to determine whether risks are materialising.
10	Availability of funds to deal with major events	The Council's general reserve has been assessed as part of this strategy and increased above its level in the previous MTFS. All reserves are reviewed annually. The council also has recourse to the national Bellwin Scheme in the event of disasters and emergencies.

11	Capacity to manage budget pressures	The Council's general reserves provides some cushion against unforeseen budget pressures in the short-term, providing enough time to establish plans to address pressures in a sustainable way. Our reserves level generally benchmarks quite low against our statistical neighbours, but this MTFS increases the level of our general reserve. We also retain earmarked reserves that could be redirected to bolster the general reserve if needed. In recent years, the Council has delivered a close to balanced position at year end, or an underspend, showing some capacity to deal with pressures as they arise in year.
12	Strength of financial reporting arrangements	The Council has a well-established process for monthly financial reporting, feeding from regular reviews by individual budget managers. This results in monthly Finance Monitoring Reports that contain budgets, actual spend and forecasts that are published at committee meetings. Training on budget managers on financial processes takes place, and the central Finance Service prioritises support to the most complex, risky or volatile budget areas. The Council's accounts are reviewed annually by our external auditors and reported on.

8 - Capital

The full capital strategy forms section 6 of this business plan, but key elements of the capital programme are summarised below.

The 2022-23 ten-year capital programme worth £680.2m is budgeted to be funded through £480.1m of external grants and contributions, £39.7m of capital receipts and £160.50m of borrowing (Table 8.1). This is in addition to previous spend of £675.1m on some of these schemes creating a total Capital Programme value of £1.4 billion. The related revenue impact of prudential borrowing is due to increase from £34.0m in 2022-23, to £42.6m by 2026-27. This includes some offset by the forecast income from the various Invest to Earn schemes.

Table 8.1: Funding the capital programme 2021-22 to 2030-31

	Prev. years £000	2022-23 £000	2023-24 £000	2024-25 £000	2025-26 £000	2026-27 £000	Later years £000	Total £000
Grants	189,471	62,059	33,105	28,424	28,126	23,226	33,400	397,811
Contributions	114,998	38,124	51,156	25,805	18,403	35,769	102,500	386,755
General capital receipts	13,437	10,974	2,344	6,343	2,500	500	17,000	53,098
Prudential borrowing	240,873	71,860	87,860	42,306	42,876	21,591	10,863	518,229
Prudential borrowing (repayable)	116,331	9,228	-5,349	-6,795	-103	-27,879	-85,972	-539
Total funding	675,110	192,245	169,116	96,083	91,802	53,207	77,791	1,355,354

Section 3 later in the Business Plan sets out the detail of the 2022-23 to 2031-32 capital schemes which are summarised in the tables below.

Table 8.2 summarises schemes according to start date, whereas Table 8.3 summarises capital expenditure by service. These tables include schemes that were committed in previous years but are scheduled to complete from 2022-23 onwards. Total expenditure on major new investments underway or planned includes:

- Schools (£503.8m)
- Children Support Services (£6.5m)
- Adult Social Care (£109.0m)
- Cultural & Community Services (£6.8m)
- Corporate Services & Transformation (£24.4m)
- Investments (£150.5m)
- Property (£35.7m)
- Transport (£500.9m)
- Planning Growth and Environment (£18.6m)
- Climate Change & Energy Service (£86.4m)
- Connecting Cambridgeshire (£23.7m)

Table 8.2: Capital programme for 2022-23 to 2031-32

	Prev. Years £000	2022-23 £000	2023-24 £000	2024-25 £000	2025-26 £000	2026-27 £000	Later Years £000	Total £000
Ongoing	94,801	-1,715	-2,374	8,922	10,911	17,050	28,605	156,200
Commitments	578,528	153,162	123,605	47,355	46,963	17,712	42,536	1,009,861
New starts:								
2021-22	421	3,376	7,575	9,968	-	-	-	21,340
2022-23	1,360	36,472	17,360	17,547	17,701	3,490	215	92,375
2023-24	-	200	10,100	4,600	380	-	-	15,280
2024-25	-	-	-	3,161	15,597	14,955	6,435	40,148
2025-26	-	750	12,850	6,300	250	-	-	20,150
2026-27	-	-	-	-	-	-	-	-
Total spend	675,110	192,245	169,116	96,083	91,802	53,207	77,791	1,355,354

Table 8.3: Services' capital programme for 2022-23 to 2031-32

Scheme	Previous Years £000	2022-23 £000	2023-24 £000	2024-25 £000	2025-26 £000	2026-27 £000	Later Years £000	Total £000
People & Communities	133,658	98,357	121,728	66,240	71,635	36,138	41,259	569,015
Place & Economy	368,057	85,383	43,984	27,417	18,907	16,269	22,932	582,949
Corporate Services	173,395	8,505	3,404	2,426	1,260	800	13,600	203,390
Total	675,110	192,245	169,116	96,083	91,802	53,207	77,791	1,355,354

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

Table 8.4: Invest to Save / Earn schemes for 2022-23 to 2031-32

Scheme	Total Investment £m	Total Net Return* £m
Independent Living Service: East Cambridgeshire	17.8	0.9
Independent Living Services	40.1	TBC
Swaffham Prior Community Heat Scheme	13.5	21.6
Smart Energy Grid Demonstrator scheme at the St Ives Park and Ride	4.9	2.9
Babraham Smart Energy Grid	7.5	7.6
Trumpington Smart Energy Grid	7.0	7.0
Stanground Closed Landfill Energy Project	8.3	8.9
Woodston Closed Landfill Energy Project	2.5	9.2
North Angle Solar Farm, Soham	26.4	40.0
Housing schemes	148.7	58.2
Lower Portland Farm	3.8	15.1
County Farms investment (Viability)	2.7	5.0
Shire Hall Relocation	18.7	45.2
TOTAL	301.9	221.6

*The net return includes the cost of financing the capital expenditure and the ongoing revenue costs associated with the investment (therefore a zero net return indicates that the project has broken even).

Flexible Use of Capital Receipts Policy

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 on the revenue costs of reform projects. The flexibility was originally announced for 2016-17 to 2018-19, extended by a further 3 years as part of the 2018-19 Local Government Finance Settlement, and is anticipated to be extended to the end of 2024-25.

This flexibility applies as long as the Council 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 (anticipated to be extended to 1 April 2024), and can only be met from capital receipts which have been received in the years to which this direction applies.

We will use this direction to fund those members of staff, primarily in the Business Improvement Directorate, who are working on designing and delivering service change. This will be used up to £1.682m per year from 2022-23 to 2024-25. The Council funded £2.9m of expenditure in 2017-18 using this direction, £3.9m in 2018-19, £2.7m in 2019-20, £1.5m in 2020-21 and is forecasting to spend £1.3m in 2021-22.

We expect this funding to be applied in 2022/23 to the following work:

Table 8.5: Change work to be funded by Capital Receipts in 2022/23

Scheme	Prior Years £k			2022-23 £k	
	ACTUAL COST	BUDGETED SAVING	ACTUAL SAVING	BUDGETED COST	BUDGETED SAVING
Adult Social Care Transformation	3,300	-22,634	-16,235	50	-164
Learning Disability Transformation	112	-930	-843		
Commissioning	367	-7,136	-6,745	82	
Children's Change Programme	1,362	-3,978	-3,612	150	
Children's Centres & Children's Health Services Transformation	207	-1,022	-1,022		
Learning Transformation	1,054	-819	-719		
Communities	40	-60	-60	100	-250
Public Health Transformation	0	-189	-189		
Transport Transformation	104	-2,509	-2,333	300	-380
Assets / Facilities work stream / Property projects	1,589	-2,115	-1,597	100	
Automation	339	-397	-191		
Organisational Structure Review	1,092	-1,793	-2,312	100	-100
Commercialisation	2,067	-7,351	-3,330	300	-500
Waste Transformation	13	-1,085	-310		
Libraries Transformation	222	-230	-230		
Shared Services	345	-1,615	-537	100	
IT Strategy	113				
Contract management				250	-310
Other	485			150	
TOTAL	12,811	-53,863	-40,265	1,682	-1,704

As a result of using capital receipts in this way rather than applying all capital receipts to the capital programme, prudential borrowing undertaken by the Council for the years 2017-18 to 2024-25 is budgeted to be between £1.5m and £3.9m higher in each respective year. This affects the Council's Prudential Indicators as follows:

Table 8.6: 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	2022-23 £m	2023-24 £m	2024-25 £m
Capital Financing Requirement	+2.9	+6.9	+9.6	+11.1	+12.5	+14.2	+15.8	+17.5
Operational Boundary (Total Borrowing)	899	985	1,058	1,063	1,044	1,060	1,110	1,160
Authorised Limit (Total Borrowing)	929	1,015	1,088	1,093	1,074	1,090	1,140	1,190

9 - Reserves Policy & 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 invest to transform and improve service effectiveness and efficiency
- set aside sums for known and predicted liabilities
- enable us to deal with any unexpected changes in legislation or court judgements
- provide operational contingency at service level
- provide operational contingency at school level

We must also bear in mind the risks and sensitivity of assumptions outlined in chapter 9 above.

Reserve types

The Council maintained the following types of reserve coming in to 2021/22:

- 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 (such as insurance claims or ongoing litigation), or that we set aside for specific and designated purposes (such as a reserve for risks within adult social care).

- Schools reserves – we encourage schools to hold general contingency reserves within advisory limits. The Chief Finance Officer and Director of Education, in collaboration with Schools Forum, monitor schools above the advisory limits, and take steps to encourage appropriate deployment. However, the Council's powers to intervene and insist on spending within delegated and ring-fenced schools budget is limited by legislation. It is also notable that after taking account of the carried forward deficit on the High Needs Block of the Dedicated Schools Grant, the consolidated schools balance is now negative. The Council is taking steps to manage demand on the high needs block and lobby government for a more sustainable long term funding solution.

- COVID-19 related – the Council received additional one-off funding from government related to the pandemic in advance of spending requirements. We earmarked some of that funding t to offset the medium- and longer-term effects of the pandemic and recovery.

- Transformation Fund – a reserve created several years ago from funding generated by a revision to the Council's policy on minimum revenue provision. It has a set of principles used to access funding and was designed to enable investments that deliver ongoing financial returns.

In considering the planning for 2022-27, we are mindful of the great deal of additional uncertainty that we face, particularly from:

- The long-term effects of COVID-19, and the costs we might face as we recover from the pandemic, bearing in mind the earmarked reserve for COVID-19 costs that we have
- The growing deficit on the High Needs Block of the Dedicated Schools Grant, which is projected to be around £37m at the start of 2022/23
- Announced government reforms, particularly in adult social care funding, where we do not yet have full details
- The ongoing effects of the United Kingdom's exit from the European Union
- Potential, unpredictable disruptions to global supply chains, increasing prices or causing shortages of goods
- Climate change and the need to move towards being a net-zero county

We also 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.

At the same time, we do need to ensure there are sufficient reserves to enable the funding of one-off costs that enable innovative or transformative pieces of work to take place, particularly where they contribute towards the longer-term financial sustainability of the Council.

We therefore need to review:

- The adequacy of the general reserve
- Providing an offset for the High Needs Block deficit
- Funds held for one off investment
- How we use our COVID-19 reserve

Adequacy of the general reserve

In previous years, the Council has had a policy of holding the general reserve at not less than 3% of gross non-school expenditure. This was reviewed ahead of setting the 2021/22 budget within the context of considerably increased uncertainty resulting from the COVID-19 pandemic and was deemed to be still appropriate given the additional contingency planning that had been part of core service budgeting process. Notwithstanding the policy minimum, by 1 April 2021, the Council actually held 4% in the general reserve.

As a result of the increasing uncertainty in the medium-term set out above, that target for the general balance should be set at no less than 4% of gross non-school spending for 2022/23, maintaining the current level of actual balance. The increase reflects a strategy of managing risks to the Council corporately rather than in specific services, reducing the level of ongoing budget that is committed to contingencies in services. As the Council's budget increases year-on-year, so does the minimum value of the general reserve to adhere to the 4% target balance. We will keep this under the review, in the context of the risks environment we face in future years.

If any of the general reserve is required to be used in a given year to meet a revenue pressure, it will be topped-up in the subsequent business planning round.

If the general reserve is above its targeted level at the end of a financial year, we will consider it as part of the next business planning round.

The table below sets out some of the known risks presenting themselves to the Council and their indicative values. There will inevitably be other, unidentified, risks and we have made a limited provision for these as well.

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

- The Council continues to hold substantial rolled-forward COVID-19 grant funding, which can be used in a sustainable way to offset COVID-19-related pressures
- We retain substantial other reserves that, while earmarked, are not necessarily fully committed to expenditure

Table 9.1: Target general reserve balance for 2022-23

Risk	Source of risk	Value £m
Inflation	1% variation on Council inflation forecasts.	2.2
Demand	4% variation on Council demand forecasts.	8
Interest rate change	1% variation in the Bank of England Base Rate.	0.4
Council Tax	Inaccuracy in District tax base forecasts and collection levels.	2
Business Rates	Inaccuracy in District tax base forecasts of County share of Business Rates to the value which triggers the Safety Net.	1.3
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.	1.5
Deliverability of savings against forecast timescales	Risk to contract savings due to financial challenges faced by suppliers, increase in service user need due to the pandemic, shortfall in commercial income due to economic downturn	5
Non-compliance with regulatory standards	E.g. Information Commissioner fines.	0.6
Major contract risk	E.g., contractor viability, misspecification, non-delivery.	3.2
Unidentified risks	Unknown or expected contingencies	2.7
Balance		27.4

High Needs Block Deficit

The deficit on the High Needs Block is estimated to be around £38m at the start of 2022/23. This is partly offset by balances held by maintained schools but is still in overall deficit. This deficit is currently ring-fenced to the DSG, and we are not currently required to use general reserves to offset it. Many Councils now have deficits on the High Needs Block, so it is a national issue.

The statutory instrument on treatment of this deficit expires at the end of 2022/23, and it is not clear how we will be expected to manage this deficit thereafter. We are working to reduce the growth in the deficit year-on-year through a programme of transformation, but realistically we are unlikely to be able to mitigate the whole deficit through this route.

There is a risk that government requires councils to meet their High Needs Block deficits. Although that is considered a worst-case outcome, if that were to happen, it could potentially overwhelm our general reserve causing significant medium-term disruption to our financial planning. Given the scale of the risk, it would be prudent to earmark some reserves to mitigate this threat. Bearing in mind the national scale of the issue, the transformation programme to reduce deficit growth, reserve balances held by schools, and ongoing engagement by the Department for Education with councils, we intend to earmark funding to offset 2021-22's expected growth in this deficit. We would call this the High Needs Block Offset.

The Council cannot drain its general reserve to create this offset reserve, and so it would need to be through a reallocation of other existing reserves. By 2023 we expect there to be further clarity on the longevity of the statutory override.

Investment

It remains a priority of the MTFS to ensure there is sufficient one-off resource to fund proposals that help us transition to a more sustainable future. That may be increased financial sustainability, environmental sustainability, or better and more sustainable outcomes for service-users. We have made a number of investments of this kind through this budget and will announce further details of this investment approach in due course.

Deployment of COVID-19 reserve

During 2020/21 and early 2021/22, central government provided significant support to Councils dealing with the effects of the COVID-19 pandemic in the form of un-ringfenced grant funding.

We faced substantial increases in costs during the pandemic, but several funding sources announced later in 2020/21 reduced the need to use the un-ringfenced grant. The main additional funding sources announced were:

- Support for infection control and testing in social care providers
- Outbreak management funding
- Compensation for lost sales, fees & charges
- Government funding/supply of Personal Protective Equipment

Much of our un-ringfenced funding was anticipated to have been used to meet costs that were later covered by the above funding. As a result, we retain a reserve created by this grant, which is available to use to mitigate the ongoing effects of COVID-19.

We expect to be feeling the effects of COVID-19 on our service delivery and financial position for at least several more years. This will particularly be felt in parts of our adult social care demand, uplift requirements for adult social care contracts, and lost income in some services. We will therefore release part of this grant reserve into revenue in a sustainable, reducing profile over the medium term, maintaining some balance for specific support schemes for people in the short-term. This will be used to fund specific pressure lines that remain in in the business plan around the effects of COVID-19 on demand and income, as well as funding part of the Adult Social Care demand growth that we believe is the result of the ongoing effects of the pandemic on people's needs.

Table 9.2: Estimated revenue reserves balances over 2022-27

Balance as at:	1 April 2022 £m	31 March 2023 £m	31 March 2024 £m	31 March 2025 £m	31 March 2026 £m	31 March 2027 £m
General reserve	27.41	27.41	28.08	28.84	29.54	30.25
Earmarked reserves[1]	40.24	44.56	41.75	39.03	39.03	39.03
Covid Grant Reserve[2]	26.99	16.82	11.50	7.02	3.28	1.02
School Reserves[3]	-23.00	-23.00	-23.00	-23.00	-23.00	-23.00
Just Transition Fund	14.00	10.78	9.78	8.82	8.07	8.07
High Needs Block Offset Reserve	14.40	14.40	14.40	14.40	14.40	14.40
Total	100.04	90.96	82.50	75.11	71.32	69.77
General reserve as % of gross non-school budget	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%

(1) Includes reserves for balances held by individual services for specific matters, agreed timing of government grant use, litigation risk, insurance claims, and provision to offset commercial and partnership risks. Use of these reserves, where known, is factored in.

(2) Unringfenced government grant funding given during early stages of the pandemic. To be applied to relevant spend across MTFS period.

(3) This comprises individual maintained school balances held as part of their delegated budgets (which are not available to the County Council centrally) set against the accumulated high needs block deficit. Under the current regulations this leads to a negative balance overall.

10 - Risks & Sensitivity

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 UKs exit from the European Union – we have fully reviewed our financial strategy in light of the most recent economic forecasts and continue to develop plans in response to emerging risks and opportunities presented as a result of Brexit.

- Future funding changes – our plans have been developed against the backcloth of continued uncertainty due to delays in the introduction of significant reforms to Local Government funding.

- Managing future carbon liabilities – the Council has committed to deliver net-zero carbon emissions by 2050 as part of its pledge to tackle the climate emergency. There is a risk that additional financial resources may be required to achieve this aim which have not been fully accounted for within the MTFS. The funding allocated to deliver the Climate Change and Environment Strategy will be reviewed annually in light of progress towards achieving the Council's net-zero carbon commitment.

- Responding to social care reforms – we will estimate the cost of these reforms and make budget provision for them when we are able to. We will work closely with NHS partners to ensure that additional funding provided to the health and social care system locally is appropriately used to meet the cost of government reforms.

In addition to these risks, there remains a general risk around recovery from the pandemic and the speed of economic recovery, as well as the prospects for the economy over the medium term. This may increase costs the Council faces, increase demand for our services, and reduce income (through lower charging income or taxation relief).

There is also a risk of sensitivity in all of the assumptions made throughout this strategy. The level of sensitivity of key assumptions is shown in the following table:

Table 11.1 – sensitivity analysis

10% savings delivery variance	+/- £2.3m
+/- 1% pay inflation	+/- £1.3m
+/- 1% general inflation	+/- £1.0m
+/- 1% Council Tax base	+/- £3.2m
+/- 1% Council Tax collection rate	+/- £3.2m
+/- 1% Business Rates base	+/- £0.7m
+/- 1% income from sales, fees & charges	+/- £1.3m
+/- 5% on cost of borrowing	+/- £1.0m
Range of sensitivity	+/- £14.0m

Uncertainties remain throughout the planning period in relation to the above risks. In line with good practice, we intend to maintain reserves that we can use throughout and beyond the planning period. This is set out in chapter 9 above. Together with a better understanding of risk and the emerging costs of future development proposals, this will help us to meet such pressures.

11 - 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 (S&R) Committee

S&R 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 S&R, though Full Council remains responsible for setting a budget. S&R 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."

S&R 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…"

12 – 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.

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 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 services during 2021-22:

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

For business planning purposes the standard assumption is that all fees and charges will be increased in line with RPI (retail price index), which is around 3% for each of the years covered by the Business Plan however some prices are subject to other indexation or must reflect changes to the underlying cost base that may be above or below this average inflation. 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 and cost 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.