

Section 2 – Medium Term Financial Strategy (extracts)

Appendix A

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1) Executive summary

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. The Coronavirus pandemic has transformed the environment in which local authorities operate with wide ranging repercussions for service provision and the financial resources required to deliver services. In this context, forward planning with any degree of certainty is extremely challenging. Over the first quarter of the 2020-21 financial year, the Council has seen its budget shortfall for the financial year 21/22 increase from £4m to between £33m-£82m due to significant projected income losses, foregone savings and new cost pressures associated with the on-going impact of the pandemic. Given the uncertainties that the virus has created on the Council's net resources it has begun budget planning for 2021-2026 with a scenario-based approach in order to provide a resource framework that can flex according to the ever changing environment.

The longer-term impacts of COVID are expected to extend considerably into the MTF5 period. Some of the specific challenges that the Council expects to face over the next five years are;

- Potential for growing regional, and more local, inequalities as a result of the economic fallout from the pandemic
- Significant losses of fees and charges and precept income are anticipated due to suppressed demand for some services and increases in Council Tax Support

- A number of new responsibilities for local authorities with significant resource implications, such as the provision of personal protective equipment, support to track and trace and outbreak containment as well as infection control measures. As yet the extent of Government support for local authorities in funding these new burdens on an ongoing basis remains unclear.
- Providing additional support for our local care markets to ensure sufficient appropriate care provision remains available

However, the shift in attitudes and behaviours resulting from the pandemic is also likely to provide a number of opportunities to adapt service delivery models to reduce costs;

- The introduction of Community Hubs to deliver targeted support for vulnerable people has led to increased collaboration across the wider public sector. The delivery mechanisms established during this period will be further developed through the Council's Think Communities Programme.
- A significant increase in agile working has yielded savings on overhead costs for the Council
- A shift towards providing services online, from social worker consultations to music lessons has helped the Council to reduce staff mileage, supporting both the Council's budget position but also our commitment to deliver net zero carbon emissions by 2050

In May 2019, the Council declared a Climate and Environment Emergency and in June 2019, the Government legislated for reaching net zero carbon emissions by 2050. 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 not least due to uncertainty around our future relationship with the European Union following Brexit. Potential impacts on economic growth, migration policy, and the cost of goods and services may influence levels of resources available to local authorities. In addition to the international uncertainty, there are a number of Central Government consultations currently underway (or 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 green paper on the longer term funding of Adult Social Care. Local Authorities had expected these funding reforms to take effect from 2021-22 however Government has confirmed that these will now be deferred until 2022-23. The outcomes of these consultations will be taken into account within the Business Plan as they become available.

The Fair Funding Review will affect how funding is allocated and redistributed between local authorities from 2022 onwards. It will reset business rate baselines which set out expected business rate receipts, funding baselines which determine relative need, and the tier split of business rates between County Councils and District

Councils. 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. The Council will raise this issue as part of our response to the ongoing consultations on the new funding model for Local Government.

In July 2020, Government issued a call for evidence on the future of the business rates system and committed to a "fundamental review" of business rates with results to be announced at the 2021 Spring Budget. The consultation covered issues pursuant to the current system, such as the frequency of revaluations and the business rates multiplier but also explored more radical options such as taxes levied on the capital values of business premises or online sales. It is possible that the funding model for local government could be impacted significantly by these reforms however the implications for the proposed 75% business rates retention scheme are as yet unclear.

The Government also announced that the next revaluation, originally scheduled for 2021, would instead take effect from April

2023. This is a welcome announcement for Cambridgeshire as a high-growth county and provides the Council with further certainty in the short term regarding its core revenue funding.

Local taxation models, including Council tax and business rates, have the potential to be adapted as a means of incentivising increased energy efficiency across existing domestic and on-domestic buildings. A number of pilot projects are currently underway which will aim to build evidence around the viability and appetite for introducing Council tax and/or business rates incentives as a means to stimulating the energy efficiency market and saving carbon.

The Council has developed a strategic approach to the creation of transformation and innovation proposals. This has helped to ensure that proposals and ideas are captured and turned from suggestions into realities. In order to support the continuation of this strategic approach The Council previously established a Transformation Fund currently held at more than £20m ensuring that finance is not a barrier to transformation. This has supported Adult's and Children's services in particular to transform the current models of delivery and in doing so sustain higher levels of service than could have been afforded without the transformation funding.

The Council has also created a number of investment opportunities to support the delivery of the Climate Change and Environment Strategy; from broadening the scope of the Transformation Fund to include schemes which improve environmental sustainability, to launching a £16m Environment Fund to decarbonise Council

properties, electrify the Council's vehicle fleet and assist oil-dependent communities in moving off oil.

The Council has to make some bold reforms but we are pushing at all boundaries to ensure that we are still able to fulfil our statutory duties, protect the most vulnerable and respond to the climate and environment emergency.

Some service reductions are inevitable, these will be less than otherwise would have been the case had the Council not embarked upon this journey, and we will always focus on transforming rather than cutting services within this approach. The Council will continue to seek to shape proposals so that the most vulnerable are the least affected. The Council has a statutory responsibility to set a balanced budget each financial year and the proposals that are already within the Business Plan for 2020-21 do contain some proposals, the delivery of which, will be challenging. This strategy sets out the issues and challenges for the next five financial years and creates a framework within which the detailed budgets will be constructed.

Cambridgeshire has one of the fastest growing populations 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. 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.

The key elements of this Strategy, on which basis the Business Plan is predicated, are set out below. A key point to note is that, as it stands, general Council tax is not currently expected to increase for the duration of Strategy period, but the Adult Social Care precept is assumed to increase by 2% in all five years. As yet there is no confirmation the precept will be available beyond 2020-21.

- No increases in general council tax from 2021-22 until 2025-26 (a 1% increase in the Council tax generates £3.0m)
- An increase in the Adult Social Care Precept of 2% for all five years of the Strategy;
- The strategic approach to developing savings and transformation proposals that support the Business Plan continue to evolve through a focus on demand management, (this entails employing a place based approach that builds on communities natural resources) efficiency, accountability, partnership and co-production;
- For the financial year 2021-22 the base budget will use the budget allocations built into the existing Business Plan but any variations will be managed, where possible, through the

transformation work-streams that will bring forward cross-Council and multi-agency proposals;

- Funding for invest to save schemes will continue to be made available via the Transformation Fund as part of the Business Planning process, , subject to robust business cases and with a major drive to reduce the carbon footprint of the Council and more broadly for Cambridgeshire, in partnership with others;
- The Council will continue to adopt a more commercial focus in the use of its assets (both human and infrastructure) looking for opportunities to generate income in order to protect frontline services;
- The General Reserve will be held at (and if necessary restored to) approximately 3% of expenditure (excluding schools expenditure and Combined Authority levy);
- Staff pay inflation for National Joint Council pay scales has been budgeted for at 2.75% for 2021-22 and 2022-23 and 2% thereafter. Inflation for locally agreed pay scales has been budgeted at 2% for all five years of the Strategy.
- Fees and charges will be reviewed annually in line with the Council's fees and charges policy;
- The capital programme will be developed in line with the framework set out in the Capital Strategy where prudential borrowing will be restricted and any additional net revenue borrowing costs would need Council approval;
- All savings proposals will be developed against the backdrop of the Council's outcome-based approach to Business Planning, recognising the need to embrace change and innovation;

- All opportunities for cross-sector and organisational working that drive end to end efficiencies and/or improvements in service delivery will be pursued;
- Business rates pooling will be fully explored with district councils and the Combined Authority where there is a mutual financial benefit to do so;
- The Council Tax assumption and forecasts are reviewed annually
- The Council will continue to lobby central government for fair funding leading into the national replacement of the current funding formula in 2022-23.

3) Transformation

Since 2016 we have invested heavily in an ambitious transformation agenda for Cambridgeshire citizens. Investment in a number of cross organisational change programmes through a dedicated team and fund has delivered significant financial and social returns. The Council has saved over £100m over the last four years with much of this work being supported by the Transformation Team, including £25m being saved as a direct result of investments made through the Transformation Fund.

The transformation programme is inter-linked with the Council's business planning process but predicting the on-going implications and financial consequences of COVID-19 is challenging and has necessitated the use of a different process (and underlying assumptions) in the development of the Business Plan for 2021-2022 and beyond. Our financial forecasts have been developed

using a number of different scenarios, which quantify (as far as possible) the financial implications on the Council of the changing national and local conditions. However, it is clear that the scope for traditional efficiencies has diminished. Therefore the development of the Business Plan is focused on a range of more fundamental changes to the way we work.

Some of the key themes driving the current thinking are;

- **Economic recovery** – we know that the impact of the measures to reduce the spread of COVID-19 will impact the economic recovery substantially. The Office for Budget Responsibility is forecasting at least a 10% drop in GDP in the UK in 2020. This will impact employment and household income levels for many people across Cambridgeshire. The stress and anxiety caused by worrying about money, or not having enough money to maintain the right housing or buy basic necessities or afford basic utilities, is an important factor that affects demand for many of our services. Economic recovery is therefore at the heart of improving outcomes for people and managing demand for Council services.
- **Demand Management** – this is fundamentally about supporting people to remain as healthy and as independent as possible, for as long as possible, which is a significant priority as demand increases as a result of COVID-19. It is about working with people and communities to help them help themselves or the person they care for or their community e.g. access to advice and information about local support, asset building in communities and access to assistive technology. We

saw communities rise to the challenges of the pandemic and support networks appearing to gather around those who needed it. We must build on this and look at how we further support these networks and groups to continue, and where public services are undisputedly needed, it is about ensuring support is made available early so that people's needs don't escalate to the point where they need to rely heavily on public sector support in the long term.

- **Think Communities** – In support of the need to manage demand and enable people to remain living in their own homes in their local communities and delay the need for more specialist services, continued investment in our Think Communities approach is paramount. Harnessing the capacity within our local district and parish councils, the voluntary, community and faith sectors, volunteers and local place based health, County Council and blue light services will enable us to build place based support services wrapped around our vulnerable people and communities; which will reduce or delay the need for more specialist expensive services and build resilient and sustainable communities where people feel proud to live.

Our aspiration for the transformation programme was to deliver a programme that would provide the Council with the financial capacity to invest in new service areas that would improve the quality of life for residents, contribute to the Cambridge economy and address the growing environmental challenges we face. As a result of this investment in transformation the Council has taken

great strides towards achieving this ambition. There are have a broad portfolio of examples to draw from which demonstrate our ability to drive efficiencies, deliver value and deliver better outcomes for people that cost less through changes to practice and use of technology and some of these are outlined below:

Programme	Financial benefit	Change in practice	Outcomes for citizens
<p>Adults Positive Challenge Programme A whole system 'behaviour change' transformation programme across Adults Social Care</p>	£3m of savings have been realised to date with additional savings expected over the next 3 years.	<p>Embedding 'strengths' based practice and early identification approaches within all customer 'touch points'</p> <p>Expansion and intensification of effective community and preventative solutions e.g. as Technology Enabled Care</p>	Increased independence of citizens and reliance / demand on public services. Significant long-term cost reduction to the health and social care system.
<p>Resilience and independence in the SEND environment Ensuring education and care support packages for children and young people with SEND were appropriate to meet need, of a high quality and support and enable young people to acquire, develop and maintain independence ahead of their transition to Adult Social Care.</p>	£1m of savings have been realised	Support the use of managed risk by professionals and providers in the commissioning and reviews of support packages provided to children and young people with special educational needs or disabilities.	Placements are able to offer the right support at the right time, without limiting or restricting independence and / or compromising individual and family resilience.
<p>Cambs 2020 Rationalisation of our buildings portfolio and workforce cultural change programme</p>	A revenue saving of £210k per year, and a capital income in excess of £45m over the next 40 years	New agile ways of working adopted across Council services. Our workforce is ready and adaptable to work within and across organisational boundaries.	Officers are located closer to both service users and partners ensuring that the right services can be accessed at the right time
<p>Reablement Recruitment Redesign of recruitment team and an innovative recruitment campaign to attract more reablement workers into Adult Social Care</p>	£750k saved Reduced agency worker cost and reduced onboarding time result in being able to deploy new workers sooner	Increased efficiencies and productivity in recruitment practices across all areas of children's and adults services Improved candidate / employee experience	Reduced delays in hospital discharge time. Increased number of individuals who could return home rather than going into care Increased recruitment from local area
<p>Total Mobile A mobile app integrating critical aspects of the Adult Social Care case management system to enable adult social care staff to access and input information via their mobile device.</p>	Significant improvements to the efficiency and productivity of frontline workers, maximising the avoidable demand	Supporting the workforce to become digital by default allowing for increased flexibility	A higher number of citizens will be able to access the support of preventative services due to increased efficiency, and worker access to real-time data and information will enable better quality,

Programme	Financial benefit	Change in practice	Outcomes for citizens
	opportunities identified in APCP.		strengths based support without any delay.
<p>SEND Transformation To positively influence the drivers of avoidable, high-cost demand for SEND services that don't maximise long-term independence for children and young people into adulthood.</p>	Reduced risk of exclusion, and associated challenges face as a result - 33% reduction in exclusions in settings that are utilising the new approach to date	Test and learn interventions focusing on different tools to support strengths based working, focusing on outcomes and impact on demand in the system.	Embedding trauma informed practice and 'STEPS'; a revolutionary new approach to managing behaviour in settings and schools in order to reduce exclusions and placement breakdown.

Flexible Use of Capital Receipts Strategy

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

This flexibility is 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, and can only be met from capital receipts which have been received in the years to which this direction applies.

The Council has decided to use this direction to fund the transformation resources that have been brought together to support the Transformation Programme, as well as the cost of redundancies required in order to deliver transformation of services. As a result of using this direction (using capital receipts partly to fund transformation rather than the capital programme), prudential borrowing undertaken by the Council for the years 2017-

18 to 2021-22 is budgeted to be between £3.0m and £3.9m higher in each respective year. This affects the Council's Prudential Indicators as follows:

Table 3.1: Effect of using Capital Receipts on Prudential Indicators

Prudential Indicator	2017-18 £m	2018-19 £m	2019-20 £m	2020-21 £m	2021-22 £m
Capital Financing Requirement	+3.0	+6.9	+10.2	+13.4	+16.6
Operational Boundary (Total Borrowing)	899.3	984.6	1,058.0	1,128.7	1,117.3
Authorised Limit (Total Borrowing)	929.3	1,014.6	1,088.0	1,158.7	1,147.3

This is expected to create additional Financing costs in the revenue budget of £88 - £161k in each of 2017-18 to 2021-22.

The Council funded £2.9m of expenditure in 2017-18 using this direction, £3.9m in 2018-19 and £2.7m in 2019-20. It is intended to fund a further £3.2m in 2020-21. This expenditure will help to deliver the following savings (all savings are ongoing):

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

Scheme	Prior Years £k			2019-20 £k			2020-21 £k	
	ACTUAL COST	BUDGETED SAVING	ACTUAL SAVING	ACTUAL COST	BUDGETED SAVING	ACTUAL SAVING	BUDGETED COST	BUDGETED SAVING
Adult Social Care Transformation	1,070	-11,941	-10,359	1,258	-4,582	-4,582	909	-3,800
Learning Disability Transformation	112	-480	-393	-	-450	-450	-	-
Commissioning	240	-451	-269	-	-2,051	-2,051	1,369	-4,634
Children's Change Programme	832	-2,808	-2,472	202	-340	-340	197	-830
Children's Centres & Children's Health Services Transformation	74	-772	-772	-	-	-	-	-
Learning Transformation	525	-819	-719	91	-	-	539	-4,753
Communities	-	-	-	-	-60	-60	-	-
Public Health Transformation	-	-	-	-	-189	-189	-	-
Transport Transformation	65	-1,999	-1,823	-	-460	-460	6	-50
Assets / Facilities work stream / Property projects	526	-894	-756	528	-21	-21	90	-397
Automation	339	-397	-191	-	-	-	-	-
Organisational Structure Review	1,032	-1,793	-2,312	-	-	-	-	-
Commercialisation	1,456	-5,400	-2,000	567	-1,351	-351	107	-600
Waste Transformation	13	-1,025	-250	-	-60	-60	-	-
Libraries Transformation	213	-230	-230	-	-	-	-	-
Shared Services	157	-	-	99	-1,615	-537	-	-
To be confirmed	200	-	-	-	-	-	-	-
TOTAL	6,855	-29,009	-22,546	2,745	-11,179	-9,101	3,218	-15,064

These workstreams are focused on delivering the following outcomes:

Transformation Scheme	Activity
Adult Social Care Transformation	<p>Through the Adults Positive Challenge Programme, the County Council has set out to design a new service model for Adult Social Care which will continue to improve outcomes whilst also being economically sustainable in the face of increasing demand and pressure on the sector. This work will focus on promoting independence and changing the conversation with staff and service-users to enable people to stay independent for longer, and has been in place has already had success in 2018/19 and 2019/20 and proposals are in place for 20/21 for Cambridgeshire and Peterborough.</p> <p>Following the implementation of Mosaic we will also look for opportunities to streamline reporting and information systems and release capacity of front line staff to work in an asset based and transformational way.</p>
Learning Disability Transformation	<p>Major programme to implement the revised model of care – meeting people’s needs through a strengths-based approach to social care. Programme also includes delivery of strategic commissioning activity, including the development of new care capacity to allow service users to return to live in-county – and converting residential provision to supported living to promote independence for people with learning disabilities as well as providing cost savings to the Council.</p>
Commissioning	<p>Supporting a review of market interventions and market shaping activities to ensure efficient delivery of statutory service provision; incorporating the development of sustainable market capacity, which is cost efficient, outcomes focused and aligns to place based community needs. This includes commissioning across older people, working age adults with physical disabilities, mental health, learning disabilities and children.</p>
Children's Change Programme	<p>Identifying additional opportunities within the children’s service to ensure services are targeted to those in greatest need. The programme has created a single front door for children’s services, and development of a new residential model for children on the edge of care.</p>
Child & Family and Children’s Health Service transformation	<p>Best Start in Life is a 5 year strategy which aims to improve life chances of children (pre-birth to 5 years) by addressing inequalities, narrowing the gap in attainment and improving outcomes for all children, including disadvantaged children and families. The vision is that “Every child will be given the best start in life supported by families, communities and high quality integrated service.</p>
Learning Transformation	<p>Responding to the growing demand for our SEND services by working with families and schools to provide the right level of support and to promote independence for children and young people. This is being done through a number of areas including providing independent travel training, this enables young people to have the skills and confidence to travel more independently for their education but also gives them life skills for their future.</p>

Transformation Scheme	Activity
Communities	A Review of required management and support functions within the team, depending on the outcome of funding bids.
Public Health Transformation	We have delivered efficiencies and shared good practice through creating a joint public health directorate across Cambridgeshire County Council and Peterborough City Council. We can now transform services and make efficiencies through joint commissioning of public health programmes across the Cambridgeshire and Peterborough area, working in partnership across both local authorities and local NHS commissioners.
Transport Transformation	Through the Total Transport transformation programme we are scrutinising contract services to ensure the Council delivers the most efficient special school transport services whilst ensuring all eligible pupils receive free transport in line with the Council's policy on journey times.
Assets / Facilities work stream / Property projects	<p>Generating income through commercialising property assets and re-shaping the property portfolio to support business outcomes.</p> <p>Includes the Cambs 2020 programme which will see the Council move out of its current main base in Cambridge and adopt a Hub and Spokes model of office accommodation.</p>
IT Strategy	<ul style="list-style-type: none"> • Provide systems and tools to enable staff to work effectively • Support joint working with an improved ability to collaborate and work seamlessly across the two councils • Be cost effective, minimising duplicate costs & rationalising systems • Support the delivery of savings elsewhere across the council
Commercialisation	<p>Development of a Strategic Investments model for the authority and creation of a dedicated investment vehicle to deploy multi-million pound investments for a commercial return.</p> <p>Review of specific areas identified within the contract register to discover what potential there is for savings through more commercially minded renegotiation, re-consideration of service specifications and consideration of where smarter payment processes may assist in driving down costs.</p>
Shared Services	A joint working agreement is now in place with Peterborough City Council along with a growing number of shared posts. A new operating model for services previously governed by the LGSS Joint Committee has been agreed and is being implemented during 2020-21.

7) Balancing the budget

Every local authority is required, under legislation, to set a balanced budget every year. It is the Chief Finance Officer's statutory responsibility to provide a statement on the robustness of the budget proposals when they are considered by Council.

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

Due to the extent of current uncertainties around the impacts of the pandemic on demand for services, fees and charges income and new duties for local authorities and the extent to which these will be funded by Government, a scenario planning approach was adopted during the first stage of business planning in order to allow the Council to set a balanced budget for 2021-22. The Council modelled three possible budget scenarios based on varying levels of ongoing disruption due to COVID-19. The parameters of each scenario can be broadly summarised as follows:

For each scenario the likely impacts on service demand or customer base have been modelled using a wide range of data drawn from published economic impact assessments, observed trends in service provision during 2020-21 and benchmarking against

forecasting models used by other local authorities. Some of the key areas of impact reviewed have included:

- The impact of excess deaths on our social care service user population
- The impact of 'deconditioning' amongst existing clients, either as a result of being unable to access preventative medical services or as a result of disruptions to their ordinary care package support
- Changes in choices about care – anticipating preferences about residential care to change given the risks reported on in national media
- Ensuring care and early years providers are resilient and viable to continue to provide support to service users
- Carer breakdown – as a result of increased pressures during lockdown, carers being unable to cope and increased support needed to provide for social care needs
- Economic and social pressures leading to increased safeguarding risk for children in families
- The impact of schools' changes in teaching and all-round curriculum on services that they usually pay the Council for
- The impact of changes in visitor / client numbers on services such as libraries
- The income effects of lower levels of economic activity, particularly in town centres, affecting service such as on-street parking, streetworks permits and Park and Ride and Guided Busway services
- The impact of higher unemployment and benefits claimants on Council Tax income
- The impact of economic downturn on property investments

The Council will progress its detailed service-level budget planning based on the most likely scenario; this will remain subject to revision until the point at which the budget is agreed by Full Council in February. However, broader planning will be undertaken as part of the budget setting process to consider measures that could be taken to allow the Council to set a balanced budget in each scenario.

The Council will monitor the trajectory of service demand and costs against the scenarios set out above throughout the budget setting process and will review the assumed scenario position prior to each decision point in the budget approval process. The scenarios provide fixed points of reference for budget planning spanning a range of possible circumstances and are subject to revision as the emerging picture becomes clearer. It may therefore be appropriate to incorporate elements from multiple scenarios in the assumed budget position at key decision points in order to take account of the most recent developments in the local and national outlook.

The Council also undertakes an annual budget review and rebasing exercise during the first quarter of each financial year to reassess the budget position in light of developments from the point at which the budget is approved by Full Council in February. This allows the budget to be flexed to take account of material changes in circumstances such as significant increases in inflationary pressures or new legislative requirements. This approach will allow the Council to adapt its budget to respond to any future challenges or opportunities that may emerge as a result of the pandemic.

The construction of the Council's budget is centred around its transformation programme. Savings and efficiency proposals are structured around the cross-cutting transformation themes set out in Section 3 which span multiple service blocks. As a consequence the Council no longer utilises the traditional service block cash limit approach but instead balances the budget by considering the requirement for savings or additional income across all areas of service provision. The Council prioritise the resources available to it to meet the changing and growing needs of the communities we serve, only considering savings as a last resort.

However, in order to distinguish the budgets which fall under the remits of each of the Council's Committees, the Council's budget is divided into the following service blocks:

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

Detailed spending plans for 2021-22, and outline plans for later years, are set out within Section 3 of the Business Plan.

The Council adopts a set of nine guiding principles for the development of a balanced and sustainable budget across the MTFS period and considers that these remain appropriate given the uncertainty of the pandemic:

1. Utilising sustainable revenue streams to reduce reliance on one-off sources of funding
2. Ensuring that the potential longer term impact of emerging pressures and rising demands are recognised
3. Ensuring that the Council provides efficient and well managed services with benchmarked unit costs
4. Driving effective investment in services to enable long term evidence-led reform
5. Utilising the Council's assets to generate an ongoing return rather than short term capital receipts
6. Ensuring the MTFS includes realistic but prudent assumptions around central government funding
7. Ensuring that the Council is well prepared to manage partnership risks
8. Maintaining a multi-year focus on longer term strategic planning
9. Managing future carbon liabilities and risks from climate change

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8) Reserves policy and position

Need for reserves

We need reserves to protect and enhance our financial viability. In particular, they are necessary to:

- maintain a degree of in-year financial flexibility
- enable us to deal with unforeseen circumstances and incidents
- set aside monies to fund major developments in future years
- enable us to invest to transform and improve service effectiveness and efficiency
- set aside sums for known and predicted liabilities
- provide operational contingency at service level
- provide operational contingency at school level

Reserve types

The Council maintains the following types of reserve:

- **General reserve** – a working balance to cushion the impact of uneven cash flows. The reserve also acts as a contingency that we can use in-year if there are unexpected emergencies, unforeseen spending or uncertain developments and pressures where the exact timing and value is not yet known and/or in the Council's control. The reserve also provides coverage for grant and income risk.

- **Earmarked reserves** – reserves we have set aside to meet known or predicted liabilities e.g. insurance claims, or that we set aside for specific and designated purposes.
- **Schools reserves** – we encourage schools to hold general contingency reserves within advisory limits. The Chief Finance Officer and Service Director - 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.
- **Transformation Fund** – an earmarked reserve created as a result of changes to the Minimum Revenue Provision, set aside to support innovative projects across the Council that will deliver savings in future years.
- **Innovate & Cultivate Fund** –£2m has been allocated to community organisations with big ideas for transformative preventative work that will positively impact the Council's expenditure. Projects demonstrably make an impact on County Council priority outcomes – particularly in relation to working with vulnerable people, thereby diverting children and adults from needing high-cost Council services.

Level of reserves

We need to consider the general economic conditions, the certainty of these conditions, and the probability and financial impact of service and business risks specific to the Council in order to calculate the level of reserves we need to hold.

The coronavirus pandemic has resulted in the most significant reduction in UK GDP in modern history and the trajectory of the economic recovery remains a key uncertainty which is dependent upon a number of interrelated factors including the impact of any subsequent peaks of the virus, changes in consumer behaviour and

Government's economic policy response to the pandemic. The socioeconomic impacts of Covid are expected to exert considerable upward pressure on demand for services whilst reducing the locally generated income available to the Council. The financial impact of service and business risks currently facing the Council has been modelled with a range of £49m, equivalent to 7% of the Council's gross budget. It is therefore expected that reserves will play a significant role in helping the Council to manage the financial impacts of risks that are likely to be realised during the current MTFS period.

Table 8.1: Estimated level of reserves by type 2021-22 to 2025-26

Balance as at:	31 March 2021 £m	31 March 2022 £m	31 March 2023 £m	31 March 2024 £m	31 March 2025 £m	31 March 2026 £m
General reserve	19.2	19.3	19.4	20.0	20.5	21.0
Earmarked reserves	30.8	30.8	30.8	30.8	30.8	30.8
Schools reserves	-15.9	-23.2	-23.2	-23.2	-23.2	-23.2
Transformation & Innovation Funds*	26.8	30.9	34.1	37.1	39.7	41.7
Total	60.9	57.8	61.1	64.7	67.8	70.3
General reserve as % of gross non-school budget	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%

*The Transformation and Innovation Funds have been created as a result of a revision to the calculation of the Council's minimum revenue provision (MRP) and only accounts for transformation bids approved by GPC. Whilst the balance appears to increase year on year, it is anticipated that as schemes come forward they are included in the strategy which will draw down funds once identified.

Adequacy of the general reserve

In previous years, the Council has set the general reserve at 3% of gross non-school expenditure in line with the advice of our External Auditor. The general reserve balance takes account of the level of uncertainty in the Local Government funding environment, such as the impact of Council Tax Benefit on the local tax base and grants available from Government, the uncertainties surrounding modelling of service cost pressures and the risk of failure to deliver savings initiatives. The Coronavirus pandemic has significantly increased the financial risk to the Council in each of these areas. However, the Council has opted to manage these risks as far as possible by adopting a scenario planning approach to budgeting which has allowed the Council to incorporate contingency planning into its core budgeting processes with the aim of reducing reliance on reserve funding.

The Council has reviewed the level of its **general reserve** and has set a target for the underlying balance of no less than 3% of gross non-school spending in 2021-22, this level will be maintained for the whole of the MTFs period. The table below sets out some of the known risks presenting themselves to the Council and their expected 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:

- In March 2020 the Government made a commitment to take any necessary measures to support local authorities in their response to Coronavirus. The Council has since been allocated over £34m additional Government funding to help meet 2020-21

financial pressures resulting from Covid-19. The Council is currently progressing discussions with MHCLG around ongoing financial support requirements.

- The Council holds a substantial Transformation Fund which continues to support our ambitious programme of investment in service efficiency. However, this fund also provides the Council with additional contingency should the general reserve be fully utilised.

Table 8.2: Target general reserve balance for 2021-22 to 2025-26

Risk	Source of risk	Value £m
Inflation	0.5% variation on Council inflation forecasts.	0.8
Demand	4% variation on Council demand forecasts.	6.4
Interest rate change	0.5% variation in the Bank of England Base Rate.	0.1
Council Tax	Inaccuracy in District tax base forecasts and collection levels.	1.7
Business Rates	Inaccuracy in District taxbase forecasts of County share of Business Rates to the value which triggers the Safety Net.	0.6
Business Rates payable	Impact of revaluation on Business Rates payable.	0.5
Unconfirmed specific grant allocations	Value of as yet unannounced specific grants different to budgeted figures.	1.4
Deliverability of savings against forecast timescales	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	4.0

Non-compliance with regulatory standards	E.g. Information Commissioner fines.	0.5
Major contract risk	E.g., contractor viability, mis-specification, non-delivery.	2.1
Unidentified risks	Unknown	1.0
Balance		19.1

10) Risks

In providing budget estimates, we have carefully considered financial and operational risks. The key areas of risk, and the basic response to these risks, are as follows:

- **Containing inflation to funded levels** – we will achieve this by closely managing budgets and contracts and further improving our control of the supply chain.
- **Managing service demand to funded levels** – we will achieve this through clearer modelling of service demand patterns using numerous datasets that are available to our internal Research Team and supplemented with service knowledge. A number of the proposals in the Business Plan are predicated on averting or suppressing the demand for services.
- **Delivering savings to planned levels** – we will achieve this through SMART (specific, measurable, achievable, relevant and timely) action plans and detailed review. All savings – efficiencies or service reductions – need to be recurrent. We have built savings requirements into the base budget and we monitor these monthly as part of budgetary control.

- **Containing the revenue consequences of capital schemes to planned levels** – capital investments sometimes have revenue implications, either operational or capital financing costs. We will manage these by ensuring capital projects do not start without a tested and approved business case, incorporating the cost of the whole life cycle.
- **Responding to the uncertainties of the 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 backdrop 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.

Additionally, the Council faces a number of emerging risks arising as a result of the Coronavirus pandemic. Some of the key risks are as follows:

- **Adult Social Care market resilience** - Covid-19 has greatly increased the costs faced by providers of social care. In particular, costs have increased due to greater use of personal protective equipment, as well as infection control processes. The Government is currently providing a substantial level of additional grant funding to support care providers in meeting these challenges but the extent of financial support in future years is currently unclear.
- **Increased safeguarding risks** – socioeconomic pressures such as rising unemployment and ongoing social restrictions are likely to increase the safeguarding risks for children. The recent trend in declining numbers of children subject to Child Protection Plans has halted and the Council is beginning to see increasing costs for Children in Care.
- **Speed of economic recovery** – the pandemic has brought about the largest recession faced by the UK economy in modern times. A deep and prolonged recession will lead to extensive job losses with varying regional impacts which could result in increased inequality in our county. Additionally, the resulting increase in Council Tax Support reliefs will reduce the precept income available to the council.
- **Income from traffic and enforcement services** – these income streams are significantly dependent upon levels of traffic and footfall in economic centres around the county. Traffic in Cambridge City is currently 15% lower than pre-Covid levels and bus passenger numbers are down by around 50%. It is unclear whether traffic and footfall will recover to pre-Covid levels in all areas.

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

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