Agenda Item No: 6

Business Planning Proposals for 2022-27 - Current position

To:	Strategy and Resources Committee
Meeting Date:	17 December 2021
From:	Gillian Beasley, Chief Executive Tom Kelly, Chief Finance Officer
Electoral division(s):	All
Key decision:	No
Forward Plan ref:	Not applicable
Outcome:	The committee is asked to consider: • the current business and budgetary planning position and estimates for 2022-2027 • the principal risks, contingencies and implications facing the Committee and the Council's resources • the process and next steps for the Council in agreeing a business plan and budget for future years
Recommendation:	It is recommended that the Committee; a) Note the progress made to date and next steps required to develop the business plan for 2022-2027 b) Note the budget and savings proposals that are within the remit of the Committee as part of consideration of the Council's overall Business Plan c) Note the changes to the capital programme that are within the remit of the Committee as part of consideration of the Council's overall Business Plan d) Note the draft Medium Term Financial Strategy for 2022/23 e) Note the draft Capital Strategy for 2022/23 f) Note the draft Treasury Management Strategy for 2022/23

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1. Purpose and background

1.1 The Council’s Business Plan sets out how we will spend the resources we have at our disposal to achieve our vision and priorities for Cambridgeshire, and the outcomes we want for people. This paper provides an overview of the updates to the Council’s financial position since October/Nov 2021 when Committees were last consulted on the draft Business Plan for 2022-27. The paper sets out the changes to key assumptions impacting financial forecasts, further risks and opportunities and next steps required to balance the budget and agree the Council’s Business Plan for 2022-27.

1.2 The paper also seeks to highlight the environment within which the Business Plan has been developed this year, the added complexity of developing the business plan whilst continuing to be in the middle of a world-wide pandemic, and the challenges of being a relatively low spend but effective organisation has on the opportunities to reduce costs further to address the financial challenges caused by COVID-19.

1.3 Whilst the impact of COVID-19 continues to be felt by all councils across England, for Cambridgeshire this comes on the back of many years of under-funding compared to other councils. As one of the fastest growing counties in the country, Cambridgeshire has been managing disproportionate increases in demand over many years which have not been reflected in the revenue grant system.

1.4 This report builds on the information provided to this Committee during October/November and sets out the latest financial position regarding the Business Plan for the period 2022-27. A number of Business Cases have been developed which provide further details of the proposed changes to our budget, and these will be reviewed by their relevant Service Committees in December, prior to being reviewed by Strategy and Resources Committee in January for endorsement to full Council in February 2022.

2. Context

2.1 On 9 February 2021, Full Council agreed the Business Plan for 2021-2026. This included a balanced budget for the 2021-22 financial year with the use of some one-off funding but contained significant budget gaps for subsequent years as a result of expenditure exceeding funding estimates.

2.2 The impacts of COVID-19 on the Council have been unprecedented and the pandemic remains a key factor of uncertainty in planning our strategy and resource deployment over the coming years. The Council continues to take a central role in coordinating the response of public services to try and manage the complex public health situation, impact on vulnerable people, education of our children and young people and economic consequences. Looking ahead we know that challenges remain as the vaccination programme progresses, winter illnesses re-emerge and potential further mutations of the virus. We are already seeing the impacts of the pandemic on our vulnerable groups as well as those who have become vulnerable as a result of health or economic impact of the pandemic. Significant workforce pressures in health and social care are leading to restricted supply of care to purchase, rising prices, and supplier disruption.

2.3 Longer term there will be significant increases and changes in the pattern of demand for our services alongside the economic aftereffects. In this draft business plan, there are COVID-19 impacts across demand for services, pricing and supplier changes, and impacts on funding and income. Emerging work is shifting the Council's decision-making framework to prioritise sustainable development for our county, whereby our citizens' social foundations are strengthened in the context of pandemic recovery and ongoing ecological emergency.

2.4 Predicting the on-going implications and financial consequences of COVID-19 remains challenging, particularly in terms of the impact on demand for council services. It is especially important this year that we keep these estimates under review as circumstances are so changeable over the course of this year. In this update there is a further re-baselining proposed to bring adult social care budgets in line with anticipated demand levels at the start of next year. While we expect demand growth in adult social care to be significant in 2022-27 and have allowed for such in the draft business plan, this will be from a starting point in April 2022 that is lower than previously budgeted.

2.5 Besides the pandemic, the other major risks and uncertainties in setting budgets for 2022-27 include the potential for national policy changes, such as reform of social care funding, the extent of any multi-year funding settlement from government, the availability and sustainability of supply chains and resources, and changing patterns of demand for our services that has been a longer-term trend. The Council must make its best estimate for the effect of known pressures when setting its budget and retain reserves to mitigate against unquantifiable risks.

2.6 Government has announced that there will be significant reform of social care funding with effect from October 2023, this includes a cap on the amounts that people will have to contribute to their care costs during their lifetime and significant revisions to the asset thresholds for making contributions towards those costs. £5.4bn per annum has been identified nationally as the cost of these changes and further details are awaited in terms of how this will be operated. There will be complex changes for the Council as a result.

It is important to note that the new funds announced nationally do not address underlying funding issues for social care, such as historic funding or surges in demand and costs emerging from the pandemic.

2.7 With changes in local and national policy coinciding with hopes for a stabilisation of the public health response to the pandemic, the overarching themes we have identified to help us develop the Business Plan are as follows:

- Economic recovery
- Prevention and Early Intervention
- Decentralisation
- Environment & climate emergency
- Social Value
- Efficiency and effectiveness of Council services

2.8 The Joint Agreement which explained the policy ambitions of the new administration was agreed in May 2021. The Joint Agreement prioritises COVID-19 recovery for all of Cambridgeshire and puts healthy living and bringing forward targets to tackle the climate emergency, central to its agenda. It also signals a commitment to form strong and positive partnerships at a local level as members of the Combined Authority and the Greater Cambridge Partnership in the areas of public health, support for business, climate change, public transport, and building affordable, sustainable homes. This first business plan will begin to put into effect this new set of policies; concurrently a new Corporate Framework is being developed which recognises the importance of making decisions based on financial, social and environmental factors to ensure future sustainability. The plans for 2022-23 in the business plan are detailed and represent a transitional year ahead of reform and review of the budget allocation and planning process for future years.

2.9 Cambridgeshire seeks to provide high quality support to its citizens whilst ensuring best use of the taxpayers money. Recent benchmarking data highlights that compared to nearest neighbours the majority of our services are provided at a lower cost per person with the exception of Public Health and Adult Social Care. The impact of the pandemic for Adult Services within Cambridgeshire has been particularly notable. As mentioned above the Council is prioritising COVID-19 recovery and is closely monitoring the evolving needs of the citizens of Cambridgeshire. These needs have been taken into account when developing the budget proposals.

3. Financial Overview

3.1 The previous update to committees in October/November set out progress that had been made in closing the budget gap for 2022/23 and in refining the budgets for later years. After an increase in the opening budget gap resulting from rising demand projections and other service pressures, savings had been identified that brought the gap down to £15.2m.

3.1.1 Previous committees have seen significant pressures added to the draft business plan as the effects of demand, inflationary and legislative pressures have been analysed. Demand pressures in 2022/23 total nearly £13m, particularly concentrated in adult social care, showing that we expect significant growth in numbers or complexity of people supported by our services. Inflationary pressures in 2022/23 are over £9m, mainly seen in expected increases in the cost of our employee wage bill and in the adult social care provider market. The main legislative pressure is the increasing minimum wage, which is adding costs of £7m in 2022/23. In total these three areas of pressures are expected to cost us £150m over the medium-term.

3.2 Since the previous update, work has continued to identify ways to close the remaining budget gap in 2022/23 including additional savings work, further review of pressures and revision of funding assumptions. We have also identified several investments that are required into services. A further £5m of improvement has been made through this work.

3.3. In October, however, the Autumn Budget and Spending Review made clear that the Council would face several additional pressures in 2022/23. The cost of these is set out in the table below, but in summary relate to the expected rise in employer national insurance contributions, a rise in the minimum wage that was higher than expected, and the formal end of the public sector pay freeze which is expected to drive salary costs up. Additional funding for local government was announced to meet these pressures in the form of a further grant of £1.6bn a year nationally for three years, but the distribution methodology for this has not been announced and will not be until the Local Government Finance Settlement in mid-December 2021.

3.4 As well as those pressures and that further funding, the Autumn Budget also announced:

- Council Tax referendum limits to be set at 2% for general Council Tax and 1% for the Social Care Precept (SCP) 2022-23. It has also confirmed that authorities who carried-forward unused SCP from 2021/22 may use that in 2022/23. Cambridgeshire has a further 2% increase in SCP available from this.
- £21bn for roads and £46bn for railways to connect towns nationally
- An increase in the core schools budget of £4.7bn nationally by 2024/25, with £2.6bn further being made available for places for children with special educational needs
- Business rates relief totalling £7bn, with Councils to be compensated for the effects through further grant

3.5 Section 2 above sets out the major uncertainty as to the ongoing consequences of the pandemic. The Council received substantial one-off funding from government to deal with the immediate pandemic reaction and ongoing effects, of which over £20m remains available. It is proposed to deploy this funding over the MTFS period aligned to specific pressures that resulted from the pandemic. These cover parts of budgeted pressures for rising demand in looked after children and adult social care, the rising cost of purchasing adult social care, IT hardware following higher than average replacements needed, and the remaining general revenue contingency available to deal with unknown effects of Covid in-year. This phased deployment of the reserve is shown in the table in 3.6 below.

3.6 After factoring in the progress made towards closing the budget and the pressures resulting from the Autumn Budget, the revised budget gap is set out in the table below:

	£000				
	2022-23	**2023-24**	**2024-25**	**2025-26**	**2026-27**
Budget gap at November Committees	**19,481**	**18,211**	**18,059**	**16,545**	**13,970**
Budget Reviews and Re-baselining					
Budget rebaselining in Adults (offset by pressure below)	-3,345	0	0	0	0
Budget rebaselining in Children's	-600	0	0	0	0
Rebaselining of income budgets in Place & Economy	-500	100	150	0	0
Inflation and Demand Adjustments					
Demand updates in Children's	0	1,230	1,269	1,265	1,210
Service Pressures					
Pressures in Adults (Learning Disabilities)	2,500	0	0	0	0
Pressures in Children's	-924	750	0	0	0
Pressures in Place & Economy	407	-260	0	0	0
Pressures in Corporate Services	88	90	0	0	0
Service Investments					
Paying the real living wage to social care staff	1,187	4,408	3,619	409	543
Investment in the SAFE team	268	0	0	0	0
Investment in health in all policies	125	0	0	0	0
EGI investment	75	0	0	0	0
EGI investment	105	40	0	0	0

New or additional savings					
Savings in Place & Economy	-100	-20	0	0	0
Savings in Children's	-780	-570	-345	0	0
Savings in Corporate Services	-124	-9	-154	-132	-136
Savings in Adults	-357	-161	0	-478	0
Savings in Public Health	-100	0	0	0	0
Other changes					
Rephasing of income expected from NHS pooled budget contributions	750	-1,000	-1,000	0	0
Reduction in the revenue cost of capital	-1,325	398	0	0	0
Reduction in the revenue cost of capital - use of capital receipts from asset sales	-600				
Increase in Public Health Grant	-32	32	0	0	0
Increase in grant/funding estimates	-210	-15	0	0	0
Replace highways/footways revenue investment with capital	-1,300	-1,000	-1,000	-1,000	0
Energy schemes - phasing of spend and income	290	-549	111	-127	-32
Inflation update	23	0	0	0	0
Use of Public Health reserves to fund health-related pressures	-400	0	200	200	0
Impact of Autumn Budget					
Increase in national insurance - Council staff	998	0	0	0	0
Increase in national insurance - social care supply chain	1,000	0	0	0	0
Increase in minimum wage above estimate - impact on social care	3,019	1,762	-19	-19	-19
Staff pay inflation, increase in assumption	170	180	183	187	188
Subtotal	**19,789**	**23,632**	**21,073**	**16,850**	**15,725**
Deployment of Covid Grant Reserve against existing lines in draft budget					
Funding for rising Looked After Children (LAC) Numbers and need	-1,200	-30	-39	317	191
Additional funding for Older People demand	-958	0	0	239	719
Additional funding for Learning Disability Partnership (LDP) demand	-750	0	0	187	563
Impact of inflation and increased prices on Adult Social Care prices	-700	0	700	0	0
Residual in-year Covid contingency budget	-600	600	0	0	0
IT hardware	-365	182	183	0	0
Revised Budget Gap in December	**15,216**	**24,384**	**21,917**	**17,593**	**17,198**
Change in budget gap	-4,265	6,173	3,858	1,048	3,228

3.7 We are expecting some funding to be announced from government as part of the local government finance settlement in December to cover recently added pressures, and we retain the flexibility to increase Council Tax by up to 5% (3% more than is in the draft budget) which will be considered once the results of the finance settlement are known. More detail about the proposals that make up this table relevant to this committee is set out in section 4 below.

3.8 As well as some ongoing investments into services, there will be a need to fund temporary (shorter term) investments to move towards more sustainable services. The Council has one-off resource to match to these time limited investments.

3.9 The latest updates in table 3.6 (and equivalent tables in previous updates) only show the changes made compared to the current draft business plan. In some cases, there were already proposals affecting 2022-27 in the existing published 2021-26 business plan, or in previous drafts of the new business plan presented at previous committee meetings. The full set of all proposed budget changes is presented in Table 3 of the budget tables in Appendix 1.

4. Assumptions and Risks

4.1 The Council's medium-term 2021-2026 budget currently assumes a 2% overall increase in Council Tax in 2022-23, consideration will be given to any revision to this assumption after announcement of the local government finance settlement.

There are a number of budgetary risks which are being monitored closely, these include:

- High Needs Deficit
  If the Government changes the approach to funding, the Council will have to fund the high needs deficit, resulting in the exhaustion of unallocated reserves.

- Staff Pay Award
  As mentioned in previous reports, unions have rejected the most recent offer. If staff pay award is negotiated higher than budgeted for, then costs will be higher than predicted resulting in a cost pressure. Some additional budget has been factored in following the Autumn Budget.

- COVID-19
  As stated earlier in the report, COVID-19 remains a high risk to our budgets. The long-term impact continues to be unknown and if there are further waves of COVID-19 and additional restrictions, then services may face disruption resulting in additional cost pressures.

- Central Government funding and reforms
  If Central Government brings in reforms/ changes funding, then costs to deliver services may increase/ funding received may reduce resulting in additional cost pressures.

- Uncertainty about demand for services
  Predicting demand continues to be difficult due to COVID-19 and if demand projections are inaccurate due to COVID-19/ other reasons, then financial projections will be incorrect resulting in incorrect budget provision allocated for demand.

- Inflation/ interest rates
  If inflation/interest rates increase by more than advisors are suggesting, then costs to deliver services and borrowing will increase, resulting in a cost pressure.

- Adult Social Care Provider Sustainability and Variation
  If the ASC market continues to be unstable, there may be an increased number of provider failures or variation requests for additional funding, resulting in increased budget pressures for the service.

- Funding from Partners
  Budgets are based on an assumption of a certain level of funding from our partners, such as the NHS. Close monitoring is taking place to understand whether assumptions are correct.

- Implications of the Care Act and part 2 reforms.
  We are currently waiting for further details but implementing the Care Act could result in a number of potential risks to the authority e.g. proposal of a cap to contributions as mentioned above. The implications are being monitored closely.

5. Capital Programme Update

5.1 Following on from October and November service committees, further work was required on some schemes, as well as continuing revision and update of the programme in light of ongoing review by the Capital Programme Board, changes to overall funding, or to specific circumstances surrounding individual schemes. The revised draft Capital Programme is as follows:

Service Block	2022-23 £'000	2023-24 £'000	2024-25 £'000	2025-26 £'000	2026-27 £'000	Later Yrs £'000
People and Communities	101,532	138,017	63,802	48,125	29,850	29,809
Place and Economy	69,722	43,364	29,186	18,907	12,268	23,756
Corporate Services	13,300	3,405	2,426	1,080	800	12,800
Total	**184,554**	**184,786**	**95,414**	**68,112**	**42,918**	**66,365**

5.2 This is anticipated to be funded by the following resources:

Funding Source	2022-23 £'000	2023-24 £'000	2024-25 £'000	2025-26 £'000	2026-27 £'000	Later Yrs £'000
Grants	56,921	32,739	28,052	27,755	18,854	21,437
Contributions	37,838	69,962	25,583	12,844	40,604	92,518
Capital Receipts	1,352	3,344	3,343	2,000	2,000	8,000
Borrowing	73,585	83,976	45,442	25,648	15,789	20,382
Borrowing (Repayable)*	14,858	-5,235	-7,006	-135	-34,329	-75,972
Total	**184,554**	**184,786**	**95,414**	**68,112**	**42,918**	**66,365**

* Repayable borrowing nets off to zero over the life of each scheme and is used to bridge timing gaps between delivery of a scheme and receiving other funding to pay for it.

All funding sources above are offset by an amount included in the capital variation budget, which anticipates a degree of slippage across all programmes and then applies that slippage to individual funding sources.

5.3 The following table shows how each Service's borrowing position has changed since the 2021-22 Capital Programme was set:

Service Block	2021-22 £'000	2022-23 £'000	2023-24 £'000	2024-25 £'000	2025-26 £'000	2026-27 £'000	Later Yrs £'000
People and Communities	-3,495	-15,332	22,122	18,805	22,257	14,901	2,484
Place and Economy	23,414	11,775	12,596	6,284	198	262	7,689
Corporate Services	-29,829	-2,471	-2,105	-5,344	-180	-129	-3,224
Corporate and Managed Services – relating to general capital receipts	-	-	-	-	-	-	-
Total	**-9,910**	**-6,028**	**32,613**	**19,745**	**22,275**	**15,034**	**6,949**

5.4 The table below categorises the reasons for these changes:

Reasons for change in borrowing	2021-22 £'000	2022-23 £'000	2023-24 £'000	2024-25 £'000	2025-26 £'000	2026-27 £'000	Later Yrs £'000
New	798	30,098	9,307	19,150	18,032	15,115	6,435
Removed/Ended	-6,327	-27,554	-7,950	-2,912	-2,125	-150	-430
Minor Changes/Rephasing*	-9,646	2,634	9,134	-2,362	730	-99	3,065
Increased Cost (includes rephasing)	-10,582	18,246	26,908	19,476	9,591	-4,225	0
Reduced Cost (includes rephasing)	-152	-893	0	0	0	0	-4,525
Change to other funding (includes rephasing)	-1,607	-24,235	4,531	-11,471	-1,977	6,123	1,402
Variation Budget	19,779	-4,451	-9,280	-2,714	-2,305	-2,478	648
Capitalisation of Interest	-2,173	127	-37	578	329	748	354
Total	**-9,910**	**-6,028**	**32,613**	**19,745**	**22,275**	**15,034**	**6,949**

**This does not off-set to zero across the years because the rephasing also relates to pre-2021-22.*

5.5 The changes made since October/November committees can be summarised as follows:

New Schemes

- (A&H) Independent Living Services (+£40,148k)
- (CS&I) Library Minor Works (+£85k)
- (CS&I) EverySpace - Library Improvement Fund (+£389k) [externally funded]
- (S&R) IT Education System Replacement (+£2,460k)
- (S&R) Mill Farmhouse, Somersham (+450k)

Increased Cost

- (CYP) Sutton Primary Expansion (+£385k)
- (CYP) Waterbeach new Town Primary (+£375k)
- (CYP) Alconbury weald secondary and Special (+£1,617k)
- (CYP) Sir Harry Smith Community College (+£291k)
- (CYP) Cambourne Village College Phase 3b (+£850k)
- (CYP) Duxford Community C of E Primary (+£195k)
- (CYP) New SEMH Provision Wisbech (+£489k)
- (H&T) A14 (+£920k)
- (H&T) Carriageway & Footway Maintenance including Cycle Paths (+£1,500k)
- (H&T) Footpaths and Pavements (+£10,000k)

Removed Schemes

- (CYP) St. Neots secondary (-£11,130k)

Changed Phasing or funding

- (CYP) Isleham Primary relocation & expansion
- (H&T) B1050 Shelfords Road
- (E&GI) Waste – Household Recycling Centre (HRC) Improvements
- (E&GI) Waterbeach Waste Treatment Facilities

In addition, the Capitalisation of Interest and Variation budgets have been updated in line with the above changes.

5.6 The Council is still awaiting funding announcements regarding various capital grants, plus the ongoing nature of the capital programme inevitably means that circumstances are continually changing. Therefore, Services will continue to make any necessary updates in the lead up to the January S&R meeting where the Business Plan will be considered.

6. Overview of Corporate Services' draft Revenue Programme

6.1 This section provides an overview of the savings and income proposals within the remit of the Committee.

6.2 All of the proposals within the remit of the Committee are described in the business planning tables (Appendix 2) and business cases (Appendix 3).

6.3 The Committee is asked to comment on these proposals for consideration as part of the Council's Business Plan for the next five years. Please note that the proposals are still draft at this stage, and it is only at Full Council in February 2022 that proposals are finalised and become the Council's Business Plan. The following proposals can be found in Appendix 2

6.4 The proposals for the Strategy and Resources Committee include:

- C/R.6.105 Member Allowances (-£40k savings)

It was estimated that -40k savings can be made due to the updated scheme for Members allowances. We are continuing to review this estimate and may be able to expand it, particularly taking account of reduced milage expenses claimed by Members. It is important to note this saving may reduce should Committee roles change or the pay award, mentioned above, be higher than the currently budgeted 1.75% figure.

- C/R.7.120 Agricultural Rent: (-£252k additional income)

Agriculture legislation permits rent reviews every three years with 12 months' notice required. As rent reviews during 2021-22 are nearing completion, the indications are that for those farms reviewed this year and for re-lets and new tenancy, the passing rent is rising by around 15% on average. Agricultural rents do not directly relate to a single inflation indices and it is acknowledged there are major uncertainties currently facing farming. The Council has secured additional rental increases recently as a result of catching up reviews previously due. Taken together we expect to put forward a healthy percentage increase for farms rent for the next financial year with ongoing increases at a more stable level thereafter.

- Capital receipts – application of funding to capital programme – where the Council receives receipts from disposal of assets this funding can be used to fund other capital work instead of borrowing. Several capital receipts will be applied to reduce the borrowing requirement and therefore the cost of capital on the revenue budget. The largest of these is disposal of land at Northstowe to Homes England following their exercising of a contractual option to purchase.

6.5 Further to specific budgetary responsibilities, the Strategy and Resources Committee are also responsible for the review of a number of Corporate Strategies for Business Planning, these include:

- Strategic Framework (to be presented to S&R Jan 2022)
- Medium-Term Financial Strategy (section 7)
- Capital Strategy (section 8)
- Treasury Management Strategy (section 9)

The corporate strategies provide further financial context and set the remits for financial planning. Due to the cyclical nature of financial planning, financial context becomes more certain the closer we get to setting a balanced budget, for example details of the Local Government Financial settlement are announced. Therefore, these documents will be developed further prior to being presented to full Council for endorsement as part of the Business Plan in February 2022.

6.6 As set out above, the strategic framework will be presented to this Committee in January, encapsulating the joint administration's policy vision. It is recognised that 2022-23 will act as a transitional year for the Council's budgets and policy framework, and associated processes. In the first year of the plan the Council will take important steps to implement joint administration priorities. Further reform is anticipated for 2023 onwards and as the medium-term planning process continues next year.

7. Medium-Term Financial Strategy

7.1 A key component of the Business Plan is the Medium-Term Financial Strategy (MTFS), which sets the financial framework that the Council should follow in developing and setting budget proposals. The MTFS and Business Plan are the responsibility of Full Council and cannot be delegated. This committee recommends the MTFS to Full Council as part of the overall draft business plan for adoption.

7.2 One of the major functions of the MTFS is to set out the Council's projected resources for the next five years. It also sets out the financial picture facing the Council and the Council's strategy for managing its resources effectively in response to the economic climate. The strategy does not set out detailed budgets and individual savings plans, as these are contained elsewhere in the business plan. The MTFS will however provide a guide and a context to aid services in developing their budgets and agrees several corporate methodologies for this process.

7.3 There will be a number of factors that affect the final proposals, such as action taken to close the budget gap, revised funding projections, legislative changes, investments into services or unforeseen service pressures. Budget allocations for services are still being developed, and there remains a budget gap that needs to be closed.

7.4 The 2022-27 MTFS is being developed during a period of continuing uncertainty surrounding the UK's public finances. Parts of the document must wait for the outcome of the local government finance settlement which is not expected until December. We do not yet know if the local government finance settlement will be multi-year or a single year and expected reforms to Council funding do not have a fixed date for completion. Clearly, developing medium-term plans, with much accuracy, in the context of an ongoing global pandemic and uncertainty about our funding beyond the current financial year is very challenging.

7.5 The MTFS will include significant narrative around the national and local financial and demographic context. The purpose of this being to provide the reader with an overview of the position the Council is in when developing this strategy. By its nature, this context is more certain earlier in the financial cycle and cannot be meaningfully updated until the outcome of the national budget and funding settlement are known. Parts of the MTFS that are not so dependent on those national settlements can be found in Appendix 4.

7.6 At this stage, the elements of the strategy that can be reviewed are:

1: Executive summary
6: Revenue strategy: Balancing the budget
9: Reserves policy and position
10: Risks and sensitivities
12: Business plan roles and responsibilities

7.7 The remainder of the MTFS will be presented to this Committee in January before it is presented to Council along with the Business Plan in February. This will include the Council's fees and charges policy, which will be brought to Committee separately.

Reserves

7.8 Two developments with respect to the Council's reserves position in 2020-21 are noteworthy. Firstly, the Council received additional one-off funding related to the pandemic ahead of spending requirements, meaning that those funds can be deployed in future as the medium-term impacts of the pandemic are realised. Secondly, at the budget meeting in February 2021, the decision was taken to discontinue additions to the transformation fund (which had previously been financed from the benefit of the Minimum Revenue Provision policy change). This leads to a number of proposed amendments to the reserves policy set out in the updated MTFS:

7.8.1 General reserves: will be maintained at 4% of gross budget (excluding schools). This sustains the current level of reserve actually held but is an increase from the policy level of 3%. Reviewing the position in the wider sector, 3% is generally considered to be a low level of adequate balance and it is assessed that contingencies, uncertainties and risks facing the Council are heightened at present justifying an increase to 4%.

7.8.2 High needs block offset: the intention is to create a new earmarked reserve, by way of re-allocation of reserves, to offset the growing risk arising from the increasing deficit on high needs funding within the Dedicated Schools Grant. Set in a national context, as at 1 April 2021, 70 local authorities were reporting a dedicated schools grant deficit totalling £743m across England. The Cambridgeshire deficit as at that date is £26m and expected to grow by £11m this year. In absolute terms this is in the top ten deficits in the country, relative to Council tax base it is in the top twenty. We will set this reserve at the level of growth in the DSG deficit in 2021/22.

7.8.3 Currently there is a statutory prohibition on transferring resources from the general fund into the ringfenced dedicated schools grant. However, these regulations expire in 2023 and if they are not renewed the Council could face needing to finance the negative balance from the general fund. While the Council agrees the regulations currently in force are appropriate protection for local council tax payers, at this point it appears prudent to set aside an amount equivalent to the growth in the deficit this year in order that future exposure does not grow, should it transpire that local resources are required to meet the currently ringfenced deficit. For clarity, the Council is not transferring this sum into the DSG, rather it will hold this amount separately in an earmarked reserve to mitigate the impact were the ringfencing regulations to expire. Were the deficit to be funded directly by government or from DSG in future, the Council would release this earmarked reserve through business planning.

7.8.4 Investment Funding: the current transformation fund will be reviewed alongside the Council's strategic framework and key priorities. There will remain a requirement for shorter-term and temporary investments into services to deliver ongoing positive interventions and innovation throughout the MTFS period.

7.8.5 Financial sustainability and the pandemic: As set out in section 2 there is major uncertainty as to the short, medium and long-range consequences of the pandemic on the Council's budget. We already know that since February there has been growth of £8.8m in forecasted demand, inflation and pressure facing the budget in 2022-23, with significant ongoing impacts across the MTFS period. Rather than deploy all available one-off funds at the beginning of the MTFS period (in excess of £20m), we recognise the impacts of the pandemic will be longstanding and require resourcing across the next five years. Through this MTFS, the Council plans to utilise the accumulated pandemic related funding on a sustainable and diminishing basis. This means funding will be aligned to a gradual reduction in expected financial impact each year across 2022-27, rather than face a more sudden cliff-edge resulting from a quicker deployment. Indication of this is shown in the table at 3.6.

7.8.6 Taken together, this approach to reserves provides a balance of risk mitigation, sustainable response to the challenges we face in terms of financial resilience and pandemic recovery, and facility to continue prioritised investment over the medium term. It is a strategic approach to the use of reserves whilst ensuring adequate contingency balances. Where investments lead to a surplus and an overall favourable outturn for the Council these will be added to reserves for re-investment. We will set out further and finalised details, in view of local government finance settlement, in January.

7.9 Although the projected budget gap for next year has reduced, the scale of it is still significant. In years 2 – 4 of the plan, the gap has widened. Whilst we continue to work on developing proposals that could reduce this further, any new proposals will not fully bridge this deficit. Whilst government funding may or may not reduce the gap further, it is highly unlikely to fully cover it.

7.10 As a consequence, the Council will have to consider how it intends to bridge this gap in order to comply with its statutory duty to set a balanced budget. The Committee will be aware that this will have to be found through some combination of the following:

- Additional funding announcement by government (pending upcoming settlement)
- Sustainable use of reserves
- Service efficiencies and generation of additional income
- Additional Council Tax increases (above the 2% already built into the projection)
- Service reductions

7.11 As outlined in the MTFS, using reserves in a way that is not aligned to temporary pressures will defer, rather than remove, the need for savings in future years.

7.12 The MTFS will continue to be developed in accordance with the Business Planning Cycle and in line with the national settlement timescales. An updated draft MTFS will be presented to committee in January for endorsement to full Council in February.

8 Capital Strategy

8.1 The Council’s Capital Strategy is revised each year to ensure it is up to date, fully comprehensive and considers any new statutory or recommended guidance. The Chartered Institute for Public Finance and Accountancy (CIPFA) have issued a new publication this year; Capital Strategy Guidance 2021 – a whole organisation approach. As such, the Capital Strategy is being significantly re-written to factor in this new guidance. The revised Strategy can be found in Appendix 5. As usual at this stage, this remains a working draft and further updates will follow alongside the Council’s Strategic Framework.

8.2 As all capital schemes have the potential to impact on the revenue position through the cost of borrowing and the ongoing revenue costs or benefits of a scheme, in order to ensure that resources are allocated optimally, capital programme planning needs to be determined in parallel with the revenue budget planning process.

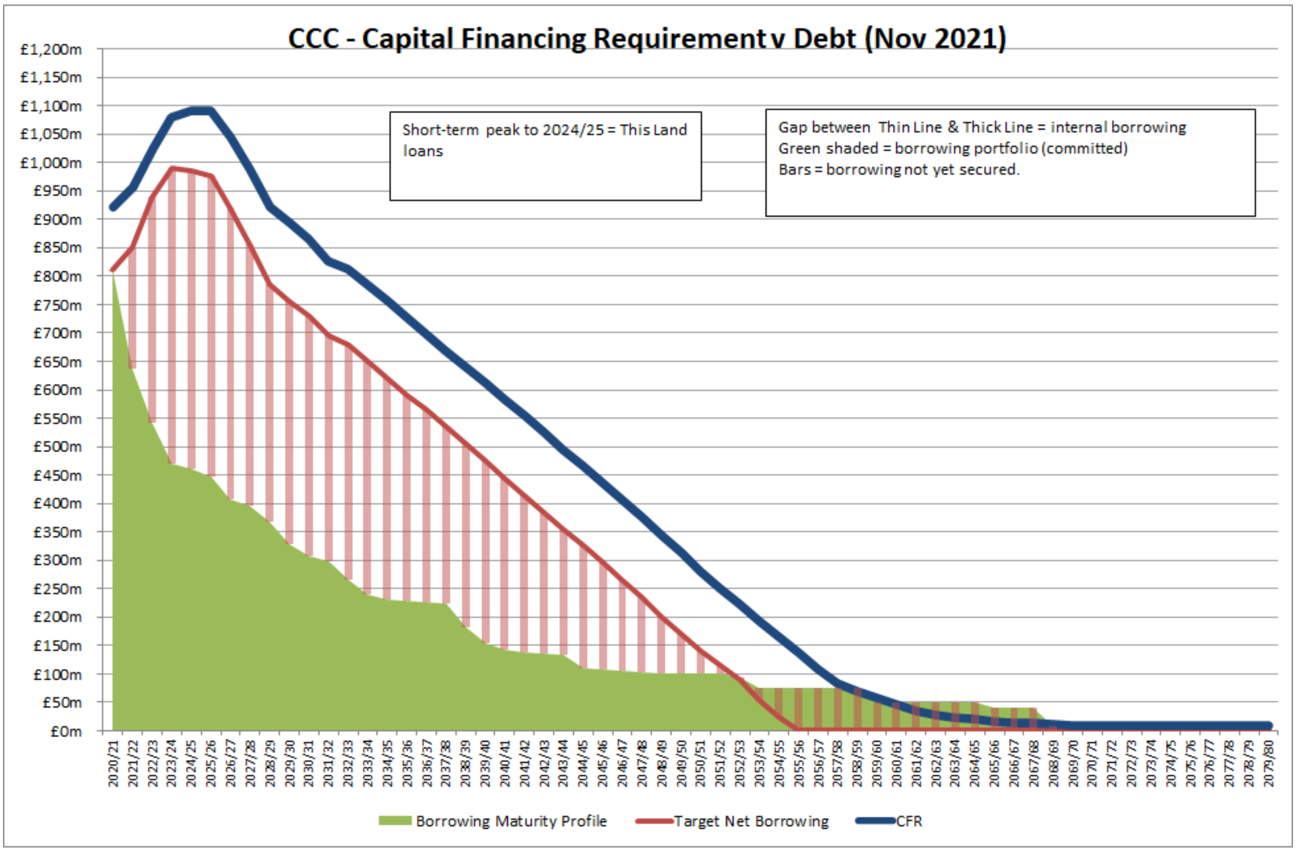
8.3 The Council is required by CIPFA's Prudential Code for Capital Finance in Local Authorities 2017 to ensure that it undertakes borrowing in an affordable and sustainable manner. In order to ensure that it achieves this, in November S&R Committee reviewed and recommended an advisory limit on the annual financing costs of borrowing (debt charges) over the life of the Plan to ensure that the level of borrowing arising from the capital programmes proposed by Service committees is prudential. Ultimately, if S&R Committee does not consider borrowing levels to be affordable and sustainable it has the option not to recommend the Business Plan to Council.

8.4 The table below sets out the current advisory limit on debt charges that S&R Committee confirmed in November is still appropriate. It is compared against the draft debt charges budget based on the capital programme being discussed by committees in December. As this work is ongoing with further revision to tables to be discussed in December and continuing review of interest rate forecasts, internal cash balances and Minimum revenue Provision charges, these figures are likely to change. Capital Programme Board have actively supported services in their review of the programme through consideration and challenge of updated Business Cases, with a view to reducing the revenue impact of the programme wherever possible.

Financing Costs	**2021-22 £m**	**2022-23 £m**	**2023-24 £m**	**2024-25 £m**	**2025-26 £m**	**2026-27 £m**
2022-23 draft BP (net figures excluding Invest to Save / Earn schemes)	29.8	33.6	36.3	40.5	41.1	41.8
Recommend limit	39.7	40.5	41.3	42.2	43.0	43.9
HEADROOM	**-9.9**	**-6.9**	**-5.0**	**-1.6**	**-1.9**	**-2.0**
Recommend limit (3 years)	121.5			129.1		
HEADROOM (3 years)	**-21.8**			**-5.5**		

8.5 Whilst noting that the impact of the Invest to Save/Earn schemes is not included above, even though the debt charges limit is not breached, S&R Committee still has an obligation to ensure that the overall total level of debt remains affordable. The following table and chart show the proportion of net budget (excluding schools) that is forecast to be spent on debt charges, and the estimated increase in borrowing levels over the period of the 2022/23 plan. Maintaining the proportion of budget spent on debt charges at 2022/23's level (9.5%) would reduce the revenue cost of capital schemes but would require a reduction or rephasing of the draft capital programme.

	2022-23	2023-24	2024-25	2025-26	2025-26
Debt charges (including Invest to Save / Earn schemes) as a percentage of Net Service Expenditure	9.5%	9.8%	10.4%	10.3%	10.0%
Debt charges (excluding Invest to Save / Earn schemes) as a percentage of Net Service Expenditure	6.7%	6.4%	7.0%	7.3%	7.9%



8.6 An Investment Appraisal of each capital scheme (excluding schemes with 100% ring-fenced funding) is undertaken / revised as part of the Investment Proposal, which allows the scheme to be scored against a weighted set of criteria such as strategic fit, business continuity, joint working, investment payback and resource use. Schemes that are already committed (i.e., where the asset is already part constructed, or we have entered into a commitment to incur expenditure) are not subsequently scored; nor are schemes that are fully funded by non-borrowing resources.

8.7 This process allows schemes within and across all Services to be ranked and prioritised against each other, in light of the finite resources available to fund the overall Programme and in order to ensure the schemes included within the Programme are aligned to assist the Council with achieving its targeted outcomes. However, it should be noted that it is difficult to score many of the school schemes for use of non-borrowing funding, as the allocation of

Basic Need / Capital Maintenance grants and prudential borrowing is often arbitrary and could in theory be moved around.

8.8 The process and criteria used for prioritising schemes is due to be reconsidered over the coming months to bring it in line with the updated Strategic Framework and key priorities of the new administration, with the intention to have the new system fully operational for the next round of planning.

9 Treasury Management Strategy

9.1 The Treasury Management Strategy (Appendix 6) adheres to the following guidance and has been amended to ensure continued compliance:

- The Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code 2017 and Treasury Management Code 2017
- Central Government Local Authorities Investment Guidance
- Central Government Minimum Revenue Provision Guidance
- Public Works Loan Board (PWLB) Eligibility

9.2 CIPFA is currently consulting on a revised Prudential Code and Treasury Management Code, anticipated for implementation in 2023/24 Treasury Management Strategies. The proposed draft Codes contain some significant changes, including:

- A new objective for proportionate commercial investments
- Replaced paragraph on no borrowing in advance of need with a new requirement not to borrow to invest primarily for financial return
- Authorities with commercial financial investments who expect to borrow will have to provide an annual strategy to review options for exiting commercial investments
- New prudential indicator for net income from commercial and service investments as % of net revenue stream
- Revised definition of Investments (to include non-financial assets held primarily for financial return)

9.3 As part of the current guidance, the Council is required to approve Prudential Indicators for 2022/23 to 2026/27. These include indicators for the authorised limit and operational boundary for external borrowing, the cost of servicing debt as a percentage of net revenue and the Council's underlying borrowing requirement. Maximum principal sums invested for periods longer than 365 days, fixed and variable interest rate exposure and the maturity profile of debt are also reported.

9.4 An under borrowed position will be maintained throughout 2022/23. This means that borrowing is reduced through the use of cash balances, thereby keeping borrowing costs down. As a result, cash balances are generally low, and the level of loan debt is lower than it might otherwise be. However, loan debt is expected to rise significantly throughout the medium-term planning period as a direct result of capital investment.

9.5 The Council's planned approach to borrowing is a mixture of taking borrowing over short periods of time (1-3 years) at low rates of interest to generate revenue savings, whilst fixing out longer periods of financing whilst PWLB rates are low in order to spread the maturity profile over the next 50 years and reduce the amount of refinancing required on an annual basis. Should borrowing rates be forecast to rise significantly, the Council may lock further into borrowing at low rates for periods of up to 50 years.

9.6 The Council will continue to prioritise the security and liquidity of capital and achieve an investment return that is commensurate with these priorities. A prudent investment strategy is proposed, and external advice provides a guide on the creditworthiness of institutions. The majority of the Council's investments are in liquid instruments and shorter-term deposits with Money Market Funds and high credit quality banks. The Council has also invested money into Multi-Class Credit Funds, Infrastructure Funds, the CCLA Local Authority Property Fund and CCLA Diversified Income Fund as 3-to-5-year strategic treasury investments to generate additional interest income.

10. Next steps

10.1 The high-level timeline for business planning is shown in the table below.

January	Strategy and Resources Committee will review the whole draft Business Plan for recommendation to Full Council
February	Full Council will consider the draft Business Plan

11. Alignment with corporate priorities

The purpose of the Business Plan is to consider and deliver the Council's vision and priorities and section 1 of this paper sets out how we aim to provide good public services and achieve better outcomes for communities, whilst also responding to the changing challenges of the pandemic. As the proposals are developed, they will consider the corporate priorities:

11.1 Communities at the heart of everything we do

11.2 A good quality of life for everyone

11.3 Helping our children learn, develop and live life to the full

11.4 Cambridgeshire: a well-connected, safe, clean, green environment

11.5 Protecting and caring for those who need us

12. Significant Implications

12.1 Resource Implications
The proposals set out the response to the financial context described in section 4 and the need to change our service offer and model to maintain a sustainable budget. The full detail of the financial proposals and impact on budget will be described in the financial tables of the business plan. The proposals will seek to ensure that we make the most effective use of available resources and are delivering the best possible services given the reduced funding.

12.2 Procurement/Contractual/Council Contract Procedure Rules Implications

There are no significant implications for the proposals set out in this report. Any implications within specific proposals will be included within the individual business cases within Appendix 3.

12.3 Statutory, Legal and Risk Implications
The proposals set out in this report respond to the statutory duty on the Local Authority to deliver a balanced budget. Cambridgeshire County Council will continue to meet the range of statutory duties for supporting our citizens.

12.4 Equality and Diversity Implications
Each business case will consider whether there are any impacts (positive or negative) to vulnerable, minority or protected groups and this information is included within each of the business cases in Appendix 3.

Full Equality Impact Assessments that will describe the impact of each proposal, in particular any disproportionate impact on vulnerable, minority and protected groups are being developed where identified / required and, if available, will be included with the relevant business cases (in Appendix 3). Where they are still in development, they will be included when business cases go to S&R Committee in January.

12.5 Engagement and Communications Implications
Our Business Planning proposals are informed by the CCC public consultation and will be discussed with a wide range of partners throughout the process. The feedback from consultation will continue to inform the refinement of proposals. Where this leads to significant amendments to the recommendations a report would be provided to Strategy and Resources Committee.

12.6 Localism and Local Member Involvement
As the proposals develop, we will have detailed conversations with Members about the impact of the proposals on their localities. We are working with members on materials which will help them have conversations with Parish Councils, local residents, the voluntary sector and other groups about where they can make an impact and support us to mitigate the impact of budget reductions.

12.7 Public Health Implications
We are working closely with Public Health colleagues as part of the operating model to ensure our emerging Business Planning proposals are aligned.

12.8 Environment and Climate Change Implications on Priority Areas
The climate and environment implications will vary depending on the detail of each of the proposals. The implications will be completed accordingly within each business case in Appendix 3.

Have the resource implications been cleared by Finance?
Yes
Name of Financial Officer: Stephen Howarth

Have the procurement/contractual/ Council Contract Procedure Rules implications been cleared by the CCC Head of Procurement?
Yes
Name of Officer: Henry Swan

Has the impact on statutory, legal and risk implications been cleared by the Council's Monitoring Officer or LGSS Law?
Yes
Name of Legal Officer: Fiona McMillan

Have the equality and diversity implications been cleared by your Service Contact?
Yes
Name of Officer: Beatrice Brown

Have any engagement and communication implications been cleared by Communications?
Yes
Name of Officer: Christine Birchall

Have any localism and Local Member involvement issues been cleared by your Service Contact?
Yes
Name of Officer: Julia Turner

Have any Public Health implications been cleared by Public Health?
Yes
Name of Officer: Jyoti Atri

If a Key decision, have any Environment and Climate Change implications been cleared by the Climate Change Officer?
Yes
Name of Officer: Emily Bolton

13. Source Documents

Appendix 1a: Intro to Finance tables
Appendix 1b: CS Revenue Tables 1-3
Appendix 1c: CS Capital Tables 4&5

Appendix 2: Savings / Income Proposals

Appendix 3: MTFS Sections 1,6,9,10,12
Appendix 4: Capital Strategy
Appendix 5: Treasury Management Strategy