Version 2

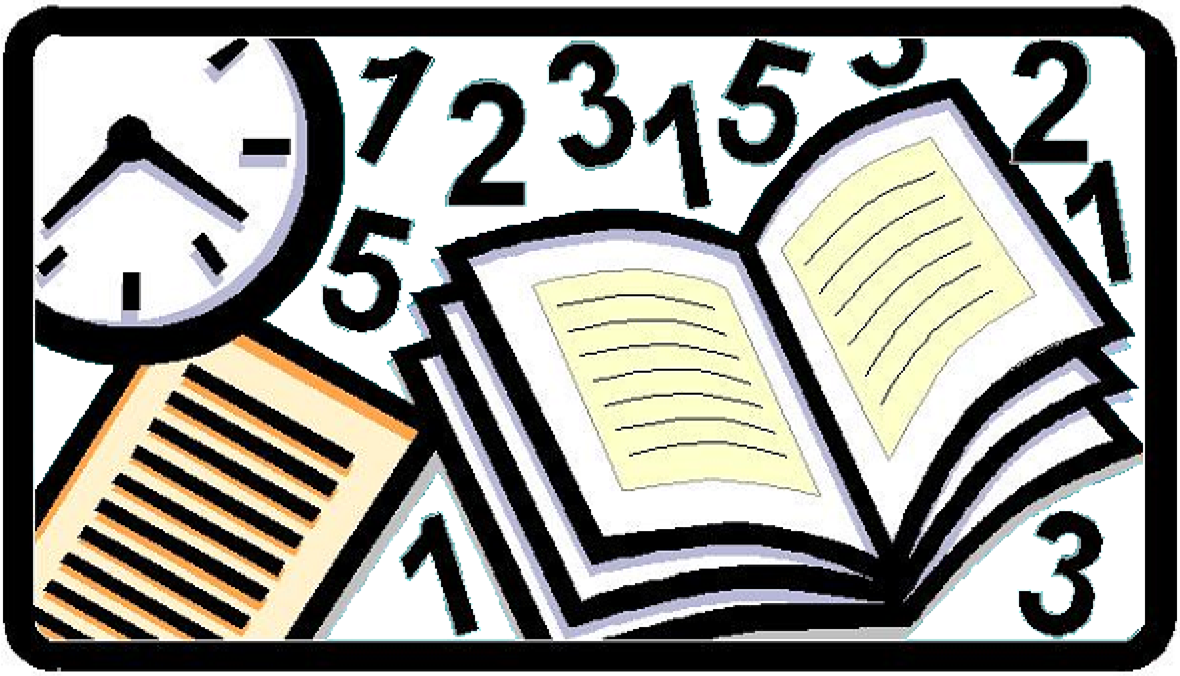
Executive

CAMBRIDGE
CITY COUNCIL

EXECUTIVE SUMMARY

MEDIUM TERM STRATEGY

SEPTEMBER 2009



Covering the period :

2009/10 to 2013/14

Executive Summary

Introduction

1) The Medium Term Strategy (MTS) is the Council's key financial planning document. It sets out, and considers the implications of, the Medium Term Objectives (MTOs) and priorities approved by the Council.

2) It is part of a wider corporate process, which is shown in Appendix A, together with an outline timetable of key events; at Appendix B.

3) The September 2009 MTS faces particular challenges in seeking to manage the significant pressures represented by the current economic downturn, the losses on the online ticketing for the 2008 Folk Festival and investments with Icelandic banks.

4) In managing these pressures the Council's key principles for medium and long-term financial management need to be met, whilst ensuring that the use of scarce resources most effectively meets the objectives that the Council has identified.

Policy Context

5) The key policy context for the MTS was outlined in the MTOs, and supporting detail, which were approved by the Council at its meeting on 21 May 2009. A revised set of MTOs were approved by Council on 20 July 2006.

6) This included determination of the priorities for decision-making in budget setting. The key elements for prioritisation are :

- Contribution to the MTOs (adverse effects will be reflected in low prioritisation)
- Improving Council performance as measured by nationally significant Performance Indicators (savings resulting in adverse effects would be a very low priority)
- Bids are expected to have explored procurement options, including partnership working
- Bids representing additional cost to existing services must demonstrate that no further offsetting efficiency savings are available in that service.

7) The Cambridge Sustainable Community Strategy for 2008 to 2010 was developed with our partners in the Cambridge Local Strategic Partnership (LSP). The strategy sets out 3 key themes for Cambridge and the priorities for taking them forward.

8) The Sustainable Community Strategy's key themes were used (along with themes from the other 4 District level Sustainable Community Strategies in Cambridgeshire) to develop the Cambridgeshire Local Area Agreement (LAA).

9) This means we have a clear alignment of priorities between County and District level. A key role of the Cambridge LSP is to ensure that the LAA action plan, as it relates to the City, is being delivered. The LSP does this by holding partners and partnerships to account and by commissioning projects that will help to achieve our priorities.

10) The LAA for Cambridgeshire, which came into effect from June 2008, was 'refreshed' in March 2009 following negotiations with the Regional Government Office. It has 5 themes – growth, economic prosperity, economic sustainability, equality and inclusion and strong communities.

11) The LAA spells out what the local partners will aim to achieve within these 5 themes by setting challenging improvement targets against 50 National Indicators. Partners, including the City Council, are prioritising resources and working together to deliver these targets.

12) The improvement targets are now an important part of our core business and are integrated into our current service planning processes. They will also be integrated into 2010/11 service plans.

13) Cambridgeshire Together, the LAA Board, will receive reward grant according to how well we perform with our partners against the agreed targets. However, there will be a minimum level of performance which LAA partners will need to achieve by 2011 before any reward is payable. The detail of how the scheme will work in practice is still not clear and there will need to be discussion locally as to how any reward grant should be used and allocated. The government has made around £340m available nationally to fund the scheme. The Improvement and Development Agency (IDeA) estimates this is equivalent to an average of £2.2m for each LAA.

14) Cambridgeshire's Local Public Service Agreement (LPSA) formed part of the first LAA agreement. The LPSA contained 'stretch targets' that partners in the county negotiated with Government across 12 topic areas. These targets had to be delivered by March 2007. Partners needed to achieve at least 60% of each 'stretch target' in order to be awarded reward grant. Across the County we achieved a total of £9m 'one-off' reward grant.

15) Cambridgeshire Together used £915,000 to help support the concessionary fares bus scheme and is using £525,000 for capacity building of the LAA over a three year period. LSPs were asked to decide how the remaining reward grant (approximately £1.5m per LSP) should be used to deliver projects over the period January 2009 to April 2012. Collectively, partners agreed to spend some of the grant on countywide projects that will help achieve the targets in the new LAA. The rest is being spent on local projects, commissioned by each of the 5 District LSPs

16) The Cambridge City LSP has commissioned a package of projects that will help deliver the City's Sustainable Community Strategy, and this package is being co-ordinated on behalf of the LSP by officers in Strategy and Partnerships who are monitoring delivery. Most of the projects are already underway or due to commence later in 2009. All projects have to be completed by April 2012.

Demographic Factors

17) Demographic factors affect the Council's planning in a number of ways :

- Changes in total population affect the Council's entitlement to Government grant under the current grant distribution formula
- Changes in the number of households affect the taxbase for Council Tax purposes, and hence the total amount which will be raised from this source

- The characteristics of both population and households can help identify specific implications for the type and nature of many services provided by the Council
- All of the above factors affect the level of demand for, and use of, services provided by the Council

18) Census 2001 had significant implications for the Council, as the data showed a significant fall in the resident population (108,832) compared with the interim projected figure (124,400).

19) This was of particular significance as resident population is the key element for the distribution of Government grant under the present Formula Grant system.

20) The adverse effect of this was initially compounded for the City Council by the fact that the continued use of detailed data from the 1991 Census (where the updated 2001 data was still unavailable at that level) was disadvantageous. The use of 2001 data was implemented as part of the 2006/07 Local Government Finance Settlement, which has served to significantly increase the Council's grant entitlement.

21) Recent revisions to the estimation process used by the Office of National Statistics (ONS) in determining the population estimates used in the formula grant mechanism, have resulted in the City again being attributed with positive net effects of international migration. However, work by the County Research Group has suggested that the ONS projections may, again, be overstated.

22) It is important to note that the ONS official national estimates are demographic "trend based" forecasts and do not take into account any local policy considerations, meaning that they will exclude revisions to reflect the full 2001 census results and the planned house-building and growth agenda as laid out in Local Plans, and the Regional Spatial Strategy for this area which would be included in the County Research Group's "policy based" dwelling-led forecasts.

23) The impact of revised national estimates would have come to light under the next Census, and so this change has merely served to bring forward the effect. This will effect the Council's position relative to the Floor for Formula Grant purposes.

24) Regional planning issues will also have an impact for the services delivered by the Council, primarily in the medium and longer-term. This will reflect the final adoption of the new Local Plan, and particularly the implications of the City's position within the Growth Agenda.

25) Overall, the scale of growth projected for Cambridge presents a huge challenge for the City Council and its partners. The Regional Spatial Strategy (RSS) for the East of England, published in May 2008, set a target for the increase in dwellings in the city between 2001 and 2021 of at least 19,000 new homes (that is, over 40% more). The 2007 mid-year population estimates from Cambridgeshire County Council's Research Group also forecast that Cambridge will grow from 109,800 residents in 2001 to 151,300 residents in 2021 – an increase of almost 38%.

26) The City is working with key stakeholders, in particular Cambridgeshire Horizons, South Cambridgeshire District Council and the County Council, to estimate and plan for the implications of the Growth Agenda.

27) Whilst Government funding and Section 106 funding will assist with the provision of the required infrastructure, this may not cover the full cost; and will certainly not support the ongoing service (and consequent revenue cost) pressures which will affect the City from not only its own increased level of residents but also those in neighbouring districts using services provided in the City.

28) The Council continues to update the modelling of the income and expenditure effects of the projected level of growth in establishing both overall affordability and enabling effective planning and management of each element of growth. It has adopted the approach of earmarking the additional Council Tax income resulting from Growth to fund the revenue costs associated with Growth. This approach has already allowed the funding of the revenue costs associated with a new Chamberlain refuse collection round, and seeks to minimise any pressure on other services. Any new bids will be taken into account as part of the Budget-Setting Report in February 2010.

29) Whilst the main impact in terms of growth of households and population numbers had been expected to be seen within the City from 2009/10, the current economic climate has resulted in significant impacts on the sale of houses and housebuilding activity, although planning applications for the first developments in the Southern Fringe are due to be determined shortly. However, the significant growth which has already started within South Cambridgeshire could have an effect for some City services in the immediate future.

30) This will be a key area for development as part of the budget process, and in future MTS documents, and represents a key area of potential risk for the Council.

Treasury Management

31) The Council achieved debt-free status at 31 March 2003, and has a current policy of retaining this position. This has significant implications in terms of both revenue and capital.

32) The initial move to, and maintenance of, debt-free status was clearly to the overall advantage of the Council due to ability to use 100% of Right-to-Buy receipts and to achieve improvements in the net interest position for the General Fund. However, with the end of the prevailing capital control system in March 2004 and the transitional benefits that accompanied the move to the current system the advantage of remaining debt-free have largely diminished.

33) With particular reference to the implications for housing, the borrowing policy for future years is reviewed as part of the each MTS and budget process. This flexibility may be important in terms of the Government's current review of the Housing Revenue Account and a possible future 'Self-Financing for Housing' framework.

34) Independent consultancy work supporting the last Stock Option Appraisal confirmed that Prudential Borrowing would be less effective over the longer-term than direct revenue funding of capital expenditure, using the stream of revenue funding available within the HRA, under current regulations.

35) The main factor for projections of actual investment income continues to be the levels of market interest rates. The Bank of England's Monetary Policy Committee (MPC) last cut Bank Rate in March 2009, to an historic low of 0.50%. This ended a run of cuts started in October 2008 as a measure to try and stimulate the economy and to counter the dual concerns over a possible recession and deflation.

36) Following cuts in the Bank Rate, the MPC increased the amount of asset purchases under the Bank's quantitative easing (QE) programme from £75bn to £125bn in May 2009. The MPC still retains the option to extend these purchases by a further £25bn before having to ask the Chancellor for further authorisation. However, while QE does at least seem to have been successful in improving liquidity in financial markets, its impact on the wider economy remains limited.

37) Interest rate changes are a significant factor for the Council, as an increase or decrease of 1% in rates would have an estimated impact of around £497,680 on investment receipts in 2009/10, though falling to £362,470 in 2010/11 as existing higher rate lending is repaid to the Council.

38) Inflationary pressures within the economy continue to reduce with, as at July 2009, RPI standing at -1.4% (following the historic low of -1.6% in June) and CPI at +1.7%. The rate for CPI has now come down to below the Government's target level of 2.0% for the first time since September 2007.

39) In its August 2009 Inflation Report the MPC of the Bank of England noted that the immediate prospect was for CPI inflation to fall substantially below the 2% target. The analysis in the report led the MPC to judge that to keep CPI inflation on target it should maintain Bank Base Rate at 0.5% and increase the size of the programme of asset purchases financed by the issue of central bank reserves to a total of £175b.

40) The next meeting of the MPC will be on 9 & 10 September 2009, with the next Bank of England Inflation Report due for publication on 11 November 2009. These will give further indications on the medium term prospects.

41) The Council continues to work with the Local Government Association and other affected Councils to seek the return of as much of its investments in Icelandic banks as possible, but it is clear that not all of the funds can be recovered.

42) The Council has taken advantage of the Capital Finance Regulations, issued in March 2009, to defer the impact on the General Fund of the impairment of these investments. However, under the regulations as they currently stand, the Council must transfer the balance of the impairment (held temporarily on the Financial Instruments Adjustment Account) to the General Fund no later than 31 March 2011.

43) A key challenge for the construction of this MTS has been to identify the means to fund the projected level of impairment. This has been achieved in the financial projections, based on the latest indications of recovery of 80 pence in the pound for Heritable Bank Plc investments and 83 pence in the pound for Landsbanki Islands hf investments.

Financial Projections - Revenue

44) The key aim of the MTS is to develop a series of financial projections to determine the achievability and sustainability of the financial plans, which are required to deliver the aims set out in the MTOs.

45) As in previous years, the approach is to use the current financial year as a base position, inflate this to the price base of the budget year, and add unavoidable spending pressures and the implications of immediate priorities. This is then measured against the projection of available funding to determine affordability. The package of measures required to equalise the two form the financial strategy for the budget year.

46) The key assumptions for the preparation of these projections are shown in Appendix N.

47) Key revenue spending pressures have also been reviewed. This has identified a number of areas where spending pressures are deemed to be 'unavoidable' for the purposes of the MTS, and have been included in the projected spending requirement. These items are detailed in Section 8 of the MTS, and Appendix J.

48) The level of ongoing unavoidable pressures for 2010/11, in particular the consequences of the economic downturn, has presented a significant challenge for the Council in this MTS. However, the robust nature of the Council's financial planning framework is demonstrated by the ability to manage these effects.

49) The review has also highlighted a significant number of areas where the impact on revenue spending cannot be quantified with sufficient accuracy, at this point in the process. As in previous years, these have been included as 'Uncertainties' and this listing (shown in Appendix K) will form the basis for ongoing review through the period of the budget process.

50) The main issue in terms of funding availability is the estimation of the level of Government grant which the Council will be entitled to. Although this has been set for the period to 2010/11, future trends are still critical in effective longer-term financial planning and to ensure real financial sustainability.

Government Grant Projections

51) The Government introduced a new Formula Grant (FG) distribution system as part of the Provisional Settlement announcement on 5 December 2002. The main effect of this for the City Council was a significant reduction in grant entitlement, largely resulting from the reduction in resident population level to 108,832, identified through Census 2001.

52) The Government also implemented a system of protection to handle significant changes for individual authorities, as a result of the new system - known as 'Floors' (setting a minimum level of increase year-on-year).

53) For 2008/09 the 3-year Final Settlement confirmed a 'Floor' for district councils at only 1.0%, compared with 2.7% for 2007/08. This significant reduction must also be viewed in the context of the rising level of inflationary pressure being faced by the Council at that time.

54) The Settlement also confirmed a 'Floor' level for district councils of just 0.5% for both 2009/10 and 2010/11, representing even greater pressure on spending given the projections for inflation over that period, resulting in a difficult period for the Council.

55) The impact of the 2008/09 Settlement for Cambridge is shown below :

	2008/09 Final (£ 's)	2009/10 Final (£ 's)	2010/11 Provisional (£ 's)
Share of National NNDR Pool	10,810,065	11,978,470	11,996,606
Revenue Support Grant - Basic	1,151,323		
- Floor adj.	353,526	398,019	441,765
Total External Support (TES)	**12,314,914**	**12,376,489**	**12,438,371**
Change on previous year (cash basis) - £'s	*193,135*	*61,575*	*61,882*
- %'age	*1.59%*	*0.50%*	*0.50%*

56) As noted above, the continued use of 'Floors' as part of the system is particularly important for the City Council, and the Floor element within Formula Grant for the City is detailed below.

Financial Year	Total External Support (£'s)	Increase at 'Floor' *[c.f. Prior Year Adjusted]* (%)	Level of Protection through 'Floors' included in FG (£'s)	Protection as a percentage of Formula Grant (%)
2003/04	11,217,610	3.0%	1,950,309	17.39%
2004/05	10,725,430	3.0%	1,807,310	16.85%
2005/06	11,026,479	2.5%	1,304,364	11.83%
2006/07	11,840,035	3.0%	387,138	3.27%
2007/08	12,121,779	2.7%	262,019	2.16%
2008/09	12,314,914	1.0%	353,526	2.87%
2009/10	12,376,489	0.5%	398,019	3.22%
2010/11	12,438,371	0.5%	441,765	3.55%

57) Although the level of Floor protection reduced significantly from the sum of £1.95m in 2003/04 through to £262,019 in 2007/08, from 2008/09 onward the level starts to rise again, representing increased risk to the Council.

58) As illustrated in the table above, the amount of protection and the proportion of total grant represented by the Floor adjustment grant is now increasing year-on-year. This is particularly significant in the context of the sub-regional growth agenda, in that until the Council's entitlement moves above floor level, increases in population (or inclusion of other 'positive' data changes) will not result in a direct cash increase in grant, merely serving to reduce the gap to the Floor.

59) Although the level of Floor protection up to 2010/11 is relatively limited (at just 3.55% of Formula Grant, this could be far higher if the Council were (again) to suffer a reduction in the population figures used to determine grant entitlement.

60) The introduction of 3-year Settlement periods, with the proposal that data used in the calculations will be frozen over the period, has provided greater certainty on grant levels, but could be a risk during a period of significant growth if the system does not use projections which accurately reflect the planned scale of that growth.

61) There is particular uncertainty about Formula Grant projections at this point, due to the lack of clarity on the timing and content of the next Government Spending Review and in terms of the funding implications of the probable transfer of responsibility for the national Concessionary Fares scheme to upper tier and unitary authorities.

62) Whilst it is generally anticipated that there will be a significant reduction in funding through Formula Grant for District Councils the exact magnitude remains unclear, and it is assumed for forward projections that this will be offset by the reduction in the current net spending pressure for the City resulting from Concessionary Fares.

63) The Council received significant additional funding under the initial Local Authority Business Growth Incentives (LABGI) initiative. This also meant that the County Council received an associated grant under the scheme.

64) Following a consultation last autumn, a revised LABGI scheme was announced which will mean that councils who, working with sub-regional partners, achieve business growth in their area, will qualify for a share of the new reward fund. No funding was allocated for the 2008-09 financial year.

65) The reformed scheme will distribute £100m amongst local authorities (£50m for each of 2009/10 and 2010/11), as opposed to the £150m proposed in the Comprehensive Spending Review 2007.

66) The funding from LABGI has been reinvested in commercial development within the City, with recommendations for its use to fund the Guildhall Project and further development phases at Lion Yard. Recommendations for the use of the £63,234 received in 2009/10 continue to be based on this principal, adding to the provision for the Council's contribution to the Phase 2 works at Lion Yard.

67) The Council remains committed to the identification of efficiency measures and the delivery of value for money services, both through Service Reviews and wider budget processes. The identification and reporting of Efficiency Gains, under the Gershon initiative, has been integrated within the existing corporate processes operated by the Council, and this approach has been extended to the NI179 process. This has served to avoid any unnecessary additional or duplicated effort, whilst ensuring that Gains are considered at the most appropriate point in the annual process.

68) Over the period of Spending Review 2004 (i.e. to March 2008) the Council achieved cumulative cashable and non-cashable savings of £3.8m against a target of £1.6m. This reflected the fact that the Council has a long-standing commitment to the identification and achievement of efficiency savings.

69) National Indicator (NI) 179 Value for Money Gains has replaced Gershon efficiency statements as the measure of annual savings. The new indicator is reported twice annually, a forecast in October and actuals in July.

70) The amount submitted as new, ongoing 2008/09 cash savings is £463,149, which after adding the surplus cashable savings from Gershon of £1,343,543 after inflation, gave a total savings submission for 2008/09 of £1,806,692. The target for 2008-2011 at 3% [compound] plus 1% is £4.4m. Our cash efficiency savings target for the next two years is therefore £2.6m.

71) The targets for NI179 are more onerous than Gershon in that we must make 3% cash savings per annum over 3 years (now 9.3% compound plus 1.0%). Each savings initiative has to have an impact in three successive years to be considered as having a 'Value for Money cash releasing impact'. One off savings do not contribute at all to this indicator, the thrust of the programme is to encourage transformation.

72) The Council has, for many years, sought to identify efficiency opportunities as being the most effective means to free-up resources to enable the provision of new or enhanced services. The Council would expect to continue to strive to identify all such opportunities as an integral part of its annual budget and review processes.

Housing Revenue Account (HRA)

73) Following sign-off of the Stock Option Appraisal in 2005, and the agreement to retain the housing stock, the key focus for the HRA continues to be delivery against the extensive programme of works to achieve and maintain the enhanced Decent Homes standard, in consultation with tenants.

74) Following an Audit Commission Inspection of landlord services in October 2008, the Housing Service achieved a two star rating, with excellent prospects for improvement.

75) The City Council was one of six 'high performing' authorities (3 with ALMOs and 3 without) who participated in an exercise undertaken by the Department for Communities and Local Government (CLG) to examine the costs and benefits of operating their HRA finances outside of the national HRA subsidy system.

76) A two year review of the HRA subsidy system has subsequently taken place, with CLG and Treasury working with a range of local authorities, stakeholders and professional housing bodies to "develop a sustainable, long term system for financing council housing, one that is consistent with wider housing policy, including the establishment of a regulator of social housing".

77) The Review has culminated in a Consultation Paper 'Reform of Council Housing Finance' which seeks views on a proposed HRA self-financing model, with Local Authorities retaining all future rental streams in return for a one-off payment representing redistribution of national housing debt.

78) The review identifies the potential for Local Authorities to re-invest future HRA surpluses in enhanced services and new build Council Housing, thus going some way towards replacing affordable housing stock lost through the right to buy process.

79) The Housing and Regeneration Act 2008 has seen the creation of the Tenant Services Authority (TSA) as a new agency to regulate and protect the interests of tenants. It is anticipated that a future direction by the Secretary of State will see the TSA playing a key role in rent policy.

80) In the context of the HRA Review, regulations have been relaxed to allow Local Authorities to build again and Homes and Communities Agency (HCA) grant funding has been made available, in a further bid to see this achieved.

Key Unavoidable Pressures and Bids Requiring Funding in the MTS

81) There are a number of items which require the approval of funding changes as part of the MTS. A number of these have both capital and revenue consequences.

82) The Council is currently implementing its Customer Access Strategy proposal, which proposes radical changes to the way the Council delivers and organises its customer-facing services to provide more joined-up services for customers, more efficiently. There is also an associated project for a corporate implementation of Electronic Document and Records Management (EDRM). This will support the new customer access service, and also facilitate the achievement of significant efficiencies in back office functions through business process reengineering.

83) The Council continues to have to bear significant net revenue costs (currently around £1.5m or 23% of the total raised for the City through Council Tax) associated with the current national Concessionary Fare scheme. Proposals are currently being consulted upon to move this function to upper tier and unitary authorities, but the details of the financial adjustments that would accompany this are still to be determined.

84) Given the circumstances associated with this issue the Council will be looking to continue to work with similarly affected authorities across the country, as well as national groups such as SDCT and LGA, to lobby for the issue to be addressed so that Cambridge residents are not disadvantaged through the need to reduce other services to this degree in order to compensate.

85) A number of other pressures are identified through the MTS, and funding proposals included in the forward projections.

Capital

86) The previous funding policy has been successful in providing a base position with uncommitted capital funding available in future years. However, this is based on the ability to continue making revenue contributions each year (currently £890k for 2009/10, £1,030 for 2010/11 and at the rate of £1.38m per year subsequently for the General Fund).

87) The introduction of the new Prudential Framework for capital finance, with effect from 1 April 2004, had little immediate impact for the Council. The advantage of remaining debt-free for the first three years to benefit from transitional arrangements for national pooling of housing receipts has more than offset any advantage from Prudential Borrowing.

88) However, this approach is being reviewed as part of the MTS and budget process, with particular reference to the implications for housing, to determine the most appropriate longer-term policy. Work to date has confirmed that Prudential Borrowing would be less effective over the longer-term than direct revenue funding of capital expenditure, using the stream of revenue funding available within the HRA.

89) The February 2009 Budget-Setting Report highlighted the potential need to borrow £1.1m under Prudential Borrowing during 2010/11, for a 3-year period, to meet cashflow pressures. The BSR noted that it was hoped that this would not actually be required, and removal of this need has been a key aim in constructing the financial planning within this document. The projections confirm that this borrowing will not be required, with a sum of £400k being required for a period of less than a year in 2010/11, which can be met through internal borrowing.

90) The proceeds of dwelling sales under the Right to Buy scheme have historically been a major source of regular ongoing capital receipts. However, a significant decline in right to buy sales over the last three years, coupled with the current National Pooling of housing capital receipts regulations, results in the availability of minimal capital resources from this source.

91) The projected availability of uncommitted capital funding is :

	2009/10 (£ 000's)	2010/11 (£ 000's)	2011/12 (£ 000's)	2012/13 (£ 000's)	2013/14 (£ 000's)
Schemes	10,369	4,239	0	0	0
Programmes	24,233	16,132	10,766	8,260	7,595
Total Spend	**34,602**	**20,371**	**10,766**	**8,260**	**7,595**
Available Funding	(34,602)	(20,609)	(11,741)	(9,640)	(8,975)
(Surplus) / Shortfall in Funding	**0**	**(238)**	**(975)**	**(1,380)**	**(1,380)**

92) The significant degree of development around the City has provided the Council with opportunities to bring forward land for development (commercial and / or housing), with resultant additional capital receipts. However, the effects of the economic downturn on the national economy has resulted in a significant slow-down in development, and this has served to depress the level of land values. Although the local economy has, initially, been more buoyant than the national one, we are now seeing this effect within the City. This raises questions about the timing of any planned disposals.

93) The current pressures on the Capital Plan are evident from the lack of any uncommitted funding available in 2009/10 and the relatively low level of just £238k for 2010/11. This will significantly restrict the potential for new capital schemes in the short-term, although over the medium-term the capital position is still relatively positive.

94) Current Programmes which are reaching the end of their approved remits, and the capital Hold List, will be reviewed as part of the budget process; in addition to the consideration of new bids arising.

Financial Strategy

95) In addition to the assessment of requirement to spend described above, the projections have been constructed to include £500k per annum of Priority Policy Fund (PPF) within the General Fund from 2011/12, although one of the measures agreed in the February 2009 BSR was to remove the provisions of any funding for PPF bids in 2010/11. For the Housing Revenue Account, projections have been made including PPF of £40k for 2010/11, returning to £75k per annum ongoing.

96) The General Fund PPF provides an effective means of enabling the redistribution of resources between committee cash limits, in recognition of priorities identified through the MTOs and public budget consultation.

97) For the HRA, updated inflation assumptions and changes in the interest rates used within the subsidy system, coupled with additional spending pressures, result in the need to identify savings of £173k in management costs to produce a balanced budget for 2010/11. This is in addition to the assumed reduction in repairs expenditure in line with anticipated stock reductions, whether through right to buy, market disposal or scheme remodelling.

98) The need to identify savings in the HRA could be partially offset (reduced to £133k) if the HRA PPF were removed for 2010/11, but this would negate the potential to invest in any new initiatives.

99) For the General Fund there is a requirement for savings totalling £0.985m in 2010/11, based on no provision for PPF funding, with the current round of Service Reviews (though not yet complete) indicating that around £210k could be realised.

100) A similar process generates the projected savings requirements for future years. As noted above, the aim of this MTS has been to enable a position where a savings level for the next 3-years is identified that will allow the future level of savings to be reduced to a more manageable level

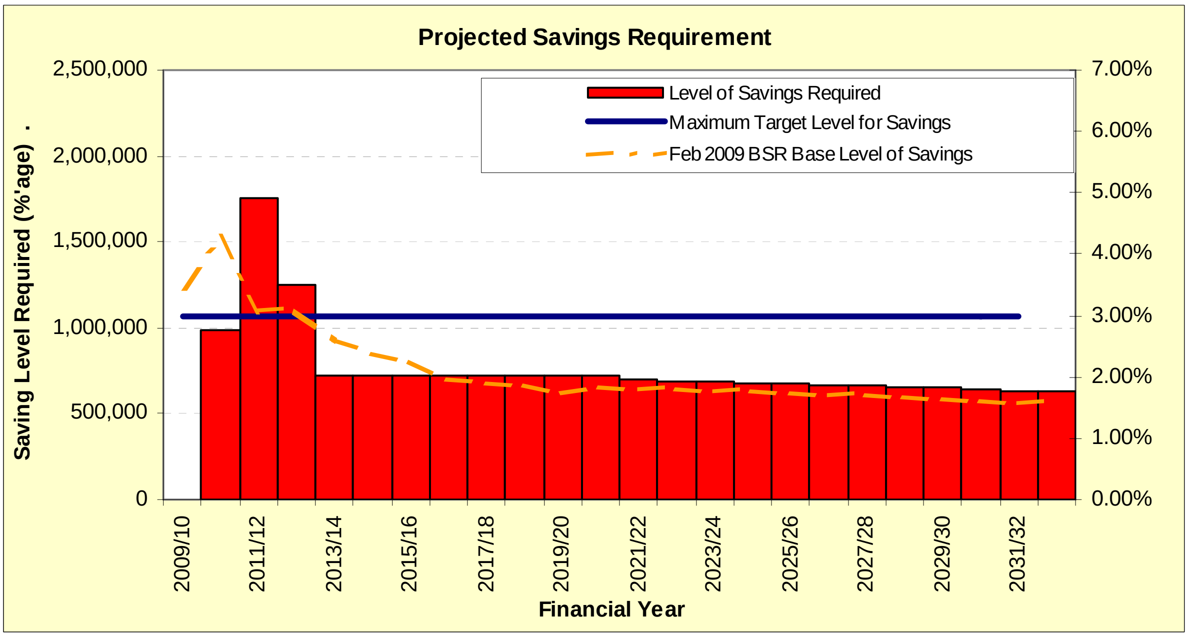
101) In doing this the actual profile of savings to be achieved over the 3-year period has been designed to reflect the fact that, in practice, this will involve a number of material changes to services which may take time to fully implement; as well as the fact that there will be limited time available to achieve significant changes for 2010/11.

102) The resulting projections are based on savings of £3.985m over a 3-year period to 2012/13. This is based on the achievement of £985k in 2010/11 (as detailed above), £1.75m in 2011/12 and £1.25m in 2012/13.

103) Given the importance of delivering these savings, and reflecting the degree of change implied and the need to ensure smooth transition for services and users, a provision has been made to facilitate these changes and meet pump-priming costs. This is achieved through making contributions to the Efficiency Fund of £75k in2010/11, £475k in 2011/12 and £200k in 2012/13.

104) After this 3-year period, savings requirements are reduced to a level of £725k p.a. from 2013/14 to 2020/21. For 2021/22 the requirement falls to £700k p.a. and continues to fall until reaching a level of £615k at the end of the 25-year projection period.

105) The profile of savings requirements, and the comparison with the levels projected in the February 2009 BSR are shown graphically below :



106) It should be noted that the ongoing level of £725k includes a sum of £500k to provide funding for a Priority Policy Fund, so only £225k p.a. is 'required' in order to produce a balanced budget.

107) On this basis the approach adopted in the MTS is deemed to achieve a balance of prudence and deliverability. The position will be reviewed as part of the February 2010 BSR.

108) The compilation of the September 2009 MTS has, thus, served to confirm a set of key parameters which are both appropriate and achievable in the context of the Council's overall objectives. These are :

General Fund

- Council Tax to increase at 2.5% in 2010/11, 3.5% in 2011/12 and 4.5% from 2012/13 onward
- Savings target of 2.58%
- No PPF for 2010/11, but a provision of £500k per year from 2011/12
- A revenue contribution to capital spending of £0.98m in 2010/11, £1.03m in 2011/12 and then £1.38m per annum ongoing
- Reserves target level of £5m in the medium term, with a £1.5m working balance requirement

Housing Revenue Account

- Rent to increase in line with Government Rent Guideline
- Savings target of 3.0% for 2010/11 and 2011/12, increasing to 3.9% in future years
- PPF at £40,000 for 2010/11, returning to £75,000 ongoing.

- Reserves target level of £3m over the medium-term, with a £1m working balance requirement

109) The proposed level of Council Tax increase has been set in the context of the cost pressures being faced by the Council, but also to reflect the impact of the economic downturn on households within the City over the next two years. The proposals are expected to result in the City's Council Tax remaining amongst the lowest levels for a District area in the country.

110) The uneven impact of unavoidable costs, in particular the increased employers pension contributions, and the requirement to temporarily fund the cost of a number of major developments (until associated savings can pay back the initial investment) has been demonstrated to be manageable from the reserves held by the Council.

111) For both the General Fund and HRA, reserves will be in line with the target levels within the medium-term 10-year projection period.

112) Risk analysis has also been undertaken to identify the impact of potential changes in a number of the key variables, and to identify measures that have been taken to mitigate against the highest areas of risk, with the key findings contained within the MTS.

Budget Process

113) The main budget process for 2010/11 is very similar to that which has been successfully developed over the last few years. However, there will be a greater emphasis on considering multi-year measures and changes, reflecting the need for a more strategic response to the medium-term pressures the Council faces as a result of the economic downturn.

114) Reflecting this the focus will be on the achievement of savings totalling £3.985m over the 3-year period from 2010/11 to 2012/13 inclusive. The longer time-frame will allow a comprehensive examination of the allocation of resources against the Councils MTOs, ensuring that services can be protected whilst financial stability is maintained.

115) In reviewing the budget process for 2009/10 it has been determined that there will be an additional meeting of the Executive, to be held on 14 September 2009. This change allows the Executive to determine the basis of the final MTS to be recommended directly to Council. This links to changes in the timings of the Council's scrutiny committee cycles with the return to a complete June/ July cycle (i.e. with Strategy & Resources and Council meetings added – previously in September), whilst the November / December cycle has been brought forward to October

Budget Consultation

116) For a number of years the Council's budget process has included consultation with the citizens of Cambridge to find out which services were most important to residents and what they thought spending and savings priorities should be for the coming budget year.

117) We have used a mixture of surveys and workshops to build up trend data on the views of residents about spending and saving priorities and we have found that views have been quite consistent over time.

118) This year we commissioned cello mruk research to run 2 consultation workshops with residents. These were held on 13 and 14 July 2009, lasted 3 hours and were attended by 15 (workshop 1) and 16 (workshop 2) residents. The full report detailing these workshops and the outcome from them is available on the Council's web site and is summarised in the full version of the MTS.

119) A further citizens survey is planned for autumn 2009. This survey will be run using a postal methodology and the aim will be to achieve 1,100 responses. Previous citizens surveys have used a face-to-face methodology and so any comparison of the results will need to done with care. However, the postal survey will be much cheaper and will give us robust quantitative data about residents perceptions of the Council and the services we provide. It will also enable us to compare the 'instinctive reactions' of residents responding to the questionnaire with the more informed and deliberative views of residents from the 2 workshops.

120) Results from the citizens survey will be available at the end of November 2009.

Summary & Conclusions

121) The MTS has reviewed the key elements of the existing strategy, confirming that these are still both appropriate and realistic over the medium-term. In doing so, a framework has been determined for detailed budget work to develop the Council's 2010/11 Budget.

122) Financial modelling has determined a sustainable approach, which still enables the inclusion of £40k of PPF for the HRA in 2010/11, although none within the General Fund, with £75k and £500k for the HRA and General Fund respectively in future years. This is designed to facilitate ongoing progress towards the Council's MTOs, despite the significant cost pressures faced by the Council.

123) Work on the financial projections for the MTS has been accompanied by risk analysis work, and the recommended strategy reflects this in terms of the setting of the target level of reserves. This incorporates a review of the Council's corporate risk and assurance database, as well as detailed work specific to the MTS.

124) A summary of the key risks and associated controls and mitigations are shown in Appendix P. This has been enhanced by a review of key events (shown in Appendix X), and a sensitivity analysis (shown in Appendix W).

125) The strategy includes a process to consider the priorities which can best be addressed through application of the capital and revenue resources available to the Council within both the General Fund and Housing Revenue Account.