Version 1

General Fund
Mid-year Financial Review

CAMBRIDGE
CITY COUNCIL

October 2014

2014/15 to 2019/20

Cambridge City Council

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Foreword by the Leader of the Council and the Executive Councillor for Finance and Resources

This Mid-year Financial Review shows the enormous financial challenge faced by Cambridge City Council in delivering the quality future services our residents need. It reveals that the scale of savings required, in the context of existing government spending cuts, is greater than previously assumed due to a long list of unavoidable and unpredictable pressures on our budget. It also shows how the financial risks faced by the council have increased in recent years because of the extra responsibilities passed down from central to local government. Addressing these issues is a daunting, but not unassailable, task. This document gives an initial indication of our strategy as we move towards the new administration's first budget in early 2015.

The underlying challenge is the Coalition Government's austerity programme, which has fallen particularly hard on local government, as well as too often on the poorest in our community. This review underlines the likelihood of continued likely yearly funding cuts of 13% per year. Other sources of funding are also uncertain, such as New Homes Bonus and the retained element of business rates. In the latter case, the risk inherent in the collection of business rates, valuations of which are subject to an unpredictable appeals process, means that the anticipated growth in business rate revenue is not materialising. The transfer of risk to local government has been exacerbated by the rushed and poorly-planned process by which the government has implemented it, and other measures like welfare reform.

These increased risks are why we have recalculated our target general reserves level slightly upwards. This will provide a more robust basis for our long-term financial stability, as well as redirecting some of the risk-bearing burden away from earmarked reserves towards general reserves.
In addition to the effect of the predictable continued reduction of our core government funding, which already implied a savings target for 2015/6 of approximately £1.3m, a series of unforeseen revenue pressures has effectively increased our savings requirement to over £1.8m. This is in the context of the overall projection of the need for £6m savings in the next 5 years. Pressures include changes to accounting for the division of interest on capital receipts between the General Fund and the Housing Revenue Account, disappointing projected reductions in rental income on the Lion Yard, and similar rental reductions from our wider commercial property portfolio.

A detailed programme of savings will be developed. Those published now have been assessed to be at a sufficient stage of readiness to be included in this Mid-year Financial Review. We have erred on the side of caution in only including, at this stage, quantified savings that we are absolutely certain of, both in terms of deliverability and scale.

We will continue work on our four budget strategy themes. Initiatives underway such as the new building cleaning contract will deliver further savings in due course, but we have decided against giving a false sense of security now by prematurely estimating their impacts, before their scale and deliverability are completely certain.

As such, the current set of deliverable savings included in this document does reduce the savings target to a more manageable level of approximately £1.2m for 2015/16, but we still face huge challenges. This raises the question of our future financial strategy.

A major part of this will be the delivery of detailed service reviews and savings, and opportunities to make our assets work harder, for inclusion in the next Budget Setting Report (BSR) to be published in January. These will include major transformations in the way we deliver services, such as by setting up external trusts to run services in a socially-inclusive but more efficient way, as in the case of 'Cambridge Live', our new Cultural Trust, as well as shared services working with South Cambridgeshire District Council, Huntingdonshire District Council and other partners. It also includes hard choices on issues left to us from the previous administration such as the reduction of the Community Grants budget, which will be carefully planned and focussed to help deliver our social objectives of reducing inequality and poverty in Cambridge. We will continue to focus our discretionary services more intelligently in order to concentrate assistance on those in most need, while not losing our ambition to deliver for all our residents, businesses and visitors and be far more than an 'average' district council. As the Business Transformation Programme comes fully on-stream, a new range of innovative initiatives will become possible. We will reduce overheads as the Council transforms into a more stream-lined operation. We will update how we interact with our residents by means of digital innovation and inclusion. On the City Deal, more radical visions of shared services in areas such as planning and transport will be implemented.

In the short term, we will need to find more immediate savings, as many of our transformational projects are 'back-loaded', producing significant, but not instant, efficiencies. As such, we need to look at other areas for means of promptly finding the scale of savings required.
Part of this will be on the capital side. This review gives more detail on our proposed review of the capital projects plan, which will feed into the 2015/16 budget. The Council's capital planning has been plagued by slippage and delay for years. It is unwieldy, and has been funded partly by an

annual revenue contribution to capital of £880,000, which, due to backlogs in delivery, has built up to the tune of £3m in the current year. We will look very carefully whether the scale of this revenue contribution to capital, which is much larger than comparable local authorities, is sustainable. A more manageable capital plan that promises less but delivers more is expected to be the way forward. Savings should also be possible from the upcoming review of earmarked reserves, yearly contributions to which routinely total around £3m.

We will become more entrepreneurial. The investment return from the property portfolio promised by the previous administration has not been delivered, because it was based on an unreliable funding source that has not materialised. In the 2015/16 budget, in order to gain the long-term revenue streams that will help us address our future savings targets, we will rectify this by freeing up the resources from the existing capital plan to make a substantial new investment in commercial property. As part of the 2015/16 budget strategy, we are also conducting a more extensive and innovative budget consultation, incorporating new software and online engagement, to give our residents the chance to understand the pressures the council is under and give us a steer on how they would tackle the situation. This will inform our choices and allow us to better comprehend the priorities of the people of Cambridge, within the context of the real-life, complex set of budgetary choices that the council faces.

In conclusion, we have not tried to present a 'mini-budget' in this review, nor the lengthy and speculative analysis that featured in parallel reviews in earlier years. We have instead limited it to its core purpose of assessing the challenges we face, reviewing our assumptions and giving a clearer picture to inform the next budget, as well as giving an initial outline as to how we will strategically address our overall financial situation. It is a slimmed down and purposeful document, which will act as a prelude to detailed examination of how we will protect the council's long-term viability and secure crucial front-line services. In addition to protecting services for all, we are also determined to find the resources for our top priorities, particularly the recommendations of the developing Anti-Poverty Strategy and the task of building a more equal and socially united city: 'One Cambridge, Fair for All'.

Cllr Lewis Herbert - Leader of the Council

Cllr George Owers – Executive Councillor for Finance and Resources

Section 1
Introduction to the Mid-year Financial Review (MFR)

Background

The Mid-year Financial Review (MFR) for the General Fund (GF) is part of the forecasting and budget setting process which culminates in the Budget Setting Report (BSR) being presented to Council in February each year, at which time the Council Tax level for the following financial year is set.

The BSR sets out the Council's financial strategy over the medium-term, based on a range of assumptions and forecasts. This review takes the BSR as the effective 'direction of travel', reviews the key assumptions on which it is based and makes any changes necessary as a result. Other factors such as national and local policy changes, current and forecast economic indicators and new legislation may also give rise to amendments.

This MFR reflects the change in control at the Council, and introduces a number of fundamental reviews of the way the council uses and manages its finances. The recommendations from these reviews will be used to inform the BSR in February 2015.

The GF MFR incorporates a review of the current year's budget position (2014/15), and updated projections for the 4 years from 2015/16 to 2019/20, to demonstrate the full-year effects of any changes in assumptions made and of their impact in terms of savings requirements and potential changes required in services and their delivery.

A key part of the mid-year review processes is the identification of:

- Items which require immediate action or approval
- Items which provide context for decisions on the strategy or process, influencing:

- The level at which any Priority Policy Fund (PPF) is set
- Resources to be made available for funding the Capital Plan
- The level of spending reductions required
- The level of the GF general reserves

Budget consultation

Cambridge City Council is consulting residents in the city during September 2014 on priorities for its budget in 2015/16. We are using the interactive YouChoose software, developed by the London Borough of Redbridge and the Local Government Association. This allows residents to play the role of a Councillor, suggesting how the Council should spend money on services. They are able to suggest how much the budget for key services should be increased or decreased by, provided the overall budget they identify balances at the end of the exercise. Residents taking part in the consultation will need to make some difficult choices, as the total budget (net annual spend) they identify will need to be £6 million lower than the Council's current budget, to reflect the level of savings that the Council needs to achieve over the next four years.

To ensure that the consultation reflects a range of views, a representative sample of Cambridge residents will be interviewed in their homes. The final report from the consultation will be available in early December 2014 and the findings will inform the decisions that Councillors make about the Council's budget for 2015/16.

Timetable

The detailed financial planning and budget preparation timetable is included at Appendix A. Key dates and decision points are set out below:

Date	Task
2014	
29 September	Strategy & Resources Scrutiny Committee consider the GF MFR for recommendation to Council by the Leader
6 November	Council considers both GF and HRA MFR reports
2015	
7 January	Budget Setting Report (BSR) published

(Provisionally)	
19 January	BSR considered by Strategy & Resources Scrutiny Committee
22 January	The Executive consider and recommend the BSR and Council Tax level to Council
5 February	Special Strategy & Resources Scrutiny Committee to consider any budget amendment proposals
26 February	Council approves Budget Setting Report and sets the level of Council Tax for 2014/15

Section 2
Policy context, priorities and external factors

Local policy context and priorities

Annual Statement

The local policy context and priorities for the Council are agreed in May or June each year through the adoption by Council of an Annual Statement. The Annual Statement for 2014/15 was approved in June 2014, and can be accessed on the Council's web site at:

https://www.cambridge.gov.uk/annual-statement

The Leader's Foreword to this MFR now supplements the Annual Statement by setting a direction of travel for the Council which responds to the future financial outlook.

Partnership working

The Council works in partnership with a range of other bodies where this can bring additional benefits to the people who live work and study in our area, especially when this leads to a pooling of resources and skills to achieve a common aim. Significant changes in partnership working since publication of the February 2014 BSR are highlighted below.

City Deal

The City Council has been working with Cambridgeshire County Council, South Cambridgeshire District Council, the University of Cambridge and the Greater Cambridge Greater Peterborough Local Enterprise Partnership to develop proposals for a Greater Cambridge City Deal with Government. The Chancellor's Budget in March 2014 announced a grant of "up to £500 million", to be released over a 15 to 20 year period. This has the potential to be matched by up to another £500 million by the local partners including through using the proceeds of growth. The first £100m is expected to be released in 2015/16. The final wording of the agreement is available on the web, and the detail of the "triggers" is now being discussed with central Government.

National policy context

The impact that National Policy announcements, outside of the control of the organisation, have on financial forecasts are shown below.

Government spending announcements

The Chancellor published the Budget Settlement on 19 March 2014, which set out the position on the national finances and a number of measures that the Government were intending to take.

- Government will consult on a 'Right to Build' which will give builders the right to a plot from public sector land and a £150 million repayable fund to help provide up to 10,000 serviced plots for custom build. There will also be a £500 million Builders' Finance Fund, which will provide loans to developers to unlock 15,000 housing units stalled due to difficulty in accessing finance.
- The landfill tax for 2015-16 will be effectively frozen for one year with only an increase in inflation from the 2014-15 rate. A consultation will be held later in 2014 to determine eligibility and the standard and lower rates from 2016-17 onwards.
- A welfare spending cap for the years 2015-16 to 2018-19 at the level of the Office for Budget Responsibility's forecast. The level of the cap is set at £119.5 billion for 2015-16. A forecast margin of 2 per cent above this level will ensure that action is not triggered by small fluctuations in the forecast. The cap will apply to all welfare spending in the "Annually Managed Expenditure", with the exception of the state pension and the automatic stabilisers.
- A commitment to a City Deal for Greater Cambridge, see above.

Local Government finance

Although there are some early positive signs of recovery within the economy as a whole, the rebalancing exercise that the Government is committed to has not yet been fully delivered. Therefore it appears likely that there will be continued pressure on core funding for local authorities throughout the period of the next Parliament, with little scope for change to public spending plans relating to District Councils.

2015/16 and future years

The 2014 BSR includes the latest announcement from the Government of the funding level (Settlement Funding Assessment, or SFA) provided for 2015/16. This is £6,901,322 compared to £8,115,278 for 2014/15, a reduction of 15% or £1.21m.

The Government has not yet given any indications of the likely core funding levels for 2016/17 and beyond at a local authority level. Therefore, the 2014 BSR assumes that the level of SFA continues to reduce at a similar rate to that over the last two years until such time as the entire Revenue Support Grant (RSG) element has been removed. This equates to a 13% reduction on SFA in each of the 4 years from 2016/17. It is also assumed that there is no increase in entitlement through locally retained share of business rates. Whilst any funding levels projected for 2016/17 and beyond are hypothetical at this stage, this projection is considered to be a prudent basis for the purpose of developing indicative budgets for these years.

The effects on the projections, which are included in the February 2014 BSR, are shown below:

	2015/16 £000	2016/17 £000	2017/18 £000	2018/19 £000	2019/20 £000
Total SFA - per February 2014 BSR	6,901	6,014	5,224	4,552	3,962
Increase in net revenue savings required in year		**887**	**791**	**671**	**590**

New Homes Bonus

The New Homes Bonus (NHB) was launched in 2010 as a non-ringfenced payment to all local authorities based on the number of new homes added each year within its area. The eligible amount is then paid for each of a period of 6 years.

NHB receipt estimates, based on projections of future housing completions and empty homes brought back into use, are shown below. It should be noted that for the purposes of the GF funding projections given in Section 5, only NHB relating to new homes added in 2014/15 and before has been included. This is a prudent approach, as the continuation of this funding source is considered to be uncertain.

Description	2014/15 £000	2015/16 £000	2016/17 £000	2017/18 £000	2018/19 £000	2019/20 £000
Confirmed NHB funding at February 2014 BSR	**(2,085)**	**(2,085)**	**(2,085)**	**(1,298)**	**(563)**	**-**
add						
Estimated NHB receipts for 2014/15	(1,291)	(1,291)	(1,291)	(1,291)	(1,291)	(1,291)
Estimated NHB receipts for 2015/16	-	(1,358)	(1,358)	(1,358)	(1,358)	(1,358)
Estimated NHB receipts for 2016/17	-	-	(1,968)	(1,968)	(1,968)	(1,968)
Estimated NHB receipts for 2017/18	-	-	-	(1,516)	(1,516)	(1,516)
Estimated NHB receipts for 2018/19	-	-	-	-	(1,158)	(1,158)
Potential New Homes Bonus Total	**(3,376)**	**(4,734)**	**(6,702)**	**(7,431)**	**(7,854)**	**(7,291)**
Commitments against NHB						
Funding for officers supporting growth e.g. within planning	818	785	785	785	785	785
Replacement of Homlessness Prevention Funding subsumed into the SFA	564	564	564	564	564	253
Direct revenue funding of capital – to supplement other sources of capital funding	880	1,020	880	-	-	-
Other approvals	1,114	-	-	-	-	-
Total commitments against NHB	3,376	2,369	2,229	1,349	1,349	1,038
NHB uncommitted	**-**	**(2,365)**	**(4,473)**	**(6,082)**	**(6,505)**	**(6,253)**

As part of the Greater Cambridge City Deal, the Council is currently in negotiation with partners regarding future contributions towards the funding of infrastructure development to be taken from this NHB funding. The use of NHB, including existing commitments, will be reviewed and detailed proposals will be included in BSR2015.

Welfare reforms

The introduction of Universal Credit, which replaces a range of existing means-tested benefits and tax credits, with a single payment, has been delayed, with introduction in Cambridge now anticipated to be on or after April 2017.

From this date new claims for working age people for Job Seekers Allowance (income based), Income Support, Employment & Support Allowance (income related), Child Tax Credit, Working Tax Credit and Housing Benefit will claim Universal Credit. Customers will be paid directly, and will receive one monthly payment, in arrears, administered centrally by the DWP. Pensioners continue to be excluded from these arrangements at present.

External factors

After a period of generally disappointing growth in 2011 and 2012, the UK economy showed clear signs of recovery during 2013 and this has continued in 2014/15. All major industry sectors and regions are now showing positive growth trends.

Inflation appears to be under control for now, but interest rates are likely to start rising gradually from late 2014 or early 2015 in order to keep inflation around target in the longer term. The housing market remains an important source of risk for the UK economy, together with possible global shocks and relatively weak productivity growth.

Inflation rates

The base rate of inflation used to drive expenditure assumptions in the GF financial forecasts has been the Consumer Price Index (CPI). The base level of inflation included within forecasts for the BSR from 2014/15 onwards was 2% reflecting the Government target for CPI. For June 2014 CPI was 1.9%, up from 1.5% in May. Over the past year, inflation has fallen, and is currently a little below the 2% target. While the outlook is uncertain, the Bank of England's latest forecasts contained in the May 2014 Inflation Report project that inflation is likely to remain close to 2% over the next few years.

Interest rates on deposits

The Council lends externally, on a short-term basis, any cash balances that are held at any point within the financial year. Although anticipated to be slow, recovery in the rates available is predicted in the longer term.

Status	Year	Interest Rate Earned on Balances
Council Estimated Rates (Capita)	2014/15	0.64%
	2015/16	0.78%
	2016/17	0.78%
	2017/18	1.00%
	2018/19	1.00%

Interest rates on borrowing

The Council secured preferential borrowing rates from the Public Works Loans Board (PWLB), of between 3.46% and 3.53% for the HRA self-financing loan portfolio of just under £214m taken out on 28th March 2012. Any additional borrowing must be within the level of the current Authorised Borrowing Limit, resulting in maximum borrowing in the region of £16m still being available. Interest rates on any additional borrowing will depend on the source of the borrowing, the duration of the loan(s) and interest rates prevailing at the time.

Section 3
Review of key assumptions

Review of key assumptions

Budget forecasts presented in the February 2014 Budget Setting Report were based on a number of key assumptions, for example levels of general and pay inflation, interest rates, future funding requirements and Council Tax levels.

These key assumptions have been reviewed taking account of changes in external factors, Government announcements, latest forecasts and circumstances. The table below highlights where assumptions have been retained and where changes have been made for the purposes of forecasts presented in this document.

Forecast assumptions for future Government grant funding and the prudent minimum balance and target level of the GF Reserve are included in more detail in sections 2 and 7 of this report respectively.

Key area	Assumption	Comment	Status
Pay Inflation	Pay progression cost estimate plus: 2014/15 – 1.0% 2015/16 – 1.0% 2016/17 – 1.5% 2017/18 – 2.0% and 2.5% thereafter	Reflects Government guidance for 2015/16 and a stepped increase thereafter, reflecting economic recovery.	Retained

Key area	Assumption	Comment	Status
Employee turnover	3%	In general, employee budgets assume an employee turnover saving of 3.0% of gross pay budget. Specific vacancy factors are applied where experience indicates that a different vacancy factor in more applicable.	Retained
General inflation (CPI)		Updated central provisions have been made as appropriate for fuel, electricity and gas based on current knowledge of these markets or revised contractual commitments. The same inflation factors are applied to Central and Support Services as for direct services.	Retained
Major Contracts	Inflation per contract	Major contracts and agreements, in term, are rolled forward based on the specified indices in the contract or agreement	Retained
Income and charges increases	2.5%	Income and Charges – general assumption of 2.5% ongoing, but specific reviews of all charges required by committees. Property rental income based on detailed projections and rent reviews.	Retained
Capital funding contributions	£0.880m	Capital funding contributions at base level of £0.880m per annum.	Retained
Council Tax increase	2.0% ongoing	Council Tax increase assumed at 2.0% for 2014/15 ongoing.	Retained
Government grant	2015/16 as notified. Straight line reduction assumed thereafter.	Assumption made of decreases each year for 2016/17 onwards until the Revenue Support Grant element reaches zero.	Retained

Section 4
Mid-year budget issues

2013/14 Outturn

The position for the net spending on General Fund revenue services for the year 2013/14 was an under spending of £1,642k, after allowing for approved carry forward requests of £469k. Taking into account variances on Government funding, statutory capital accounting adjustments, contributions to/ from earmarked reserves and the application of direct revenue funding for capital the overall net effect was an increase in the GF Reserve of £1,204k.

Individual budgets with 2013/14 underspends have been reviewed and on-going savings of £176k have been identified.

2014/15 Mid-year review of budgets

Revenue savings and spending pressures

A review undertaken of the budget position for 2014/15 has identified a number of revenue savings and spending pressures which require in year management and consideration of their impacts on future savings requirements and budgets. A summary of these pressures and savings are given below and they have been included in the revised projections for the General Fund and savings requirements given in Section 5.

Description	2014/15 £000	2015/16 £000	2016/17 £000	2017/18 £000	2018/19 £000	2019/20 £000
Pressures						
Cowley Road ex Park and ride site - Unavoidable loss of income from non-renewal of lease.	60					
Balance of Land Charges settlement	30					
Lion Yard - revised rental income projections		150	150	150	150	150
Guildhall - reduction in turnover rent receipts.	40	40	40	40	40	40
Trade Waste - Increased disposal costs.	40	40	40	40	40	40
Shortfall in budgeted commercial property income due to investment not made	46	69	84	84	84	84
Investment estate (excluding Lion Yard) – rent and service charge projections		96	96	96	96	96
Statutory adjustment of interest on capital receipts between GF and HRA	166	166	166	166	166	166
Total pressures	**382**	**561**	**576**	**576**	**576**	**576**
Deliverable savings						
Rebalancing of recharges from GF to HRA	(81)	(81)	(81)	(81)	(81)	(81)
Corporate Strategy	(17)	(17)	(17)	(17)	(17)	(17)
Safer City Grants - Reduction.	(11)	(11)	(11)	(11)	(11)	(11)
Home Improvement Grants – savings as a result of underspends in previous years.	(10)	(10)	(10)	(10)	(10)	(10)
Waste savings	(125)	(55)	(55)	(55)	(55)	(55)
Business rates on moorings not now needed.	(8)	(8)	(8)	(8)	(8)	(8)
Pre application planning advice	(5)	(5)	(5)	(5)	(5)	(5)
Grants to the voluntary sector – savings following review		(308)	(308)	(308)	(308)	(308)
Revised provision for supplies and services inflation		(100)	(100)	(100)	(100)	(100)
HR Savings	-	(56)	(56)	(56)	(56)	(56)
Total deliverable savings	**(257)**	**(651)**	**(651)**	**(651)**	**(651)**	**(651)**
Total pressures less deliverable savings	**125**	**(90)**	**(75)**	**(75)**	**(75)**	**(75)**

Applying these budget savings and pressures gives an indication of the net savings requirements by year for the next 5 years.

Description	2014/15 £000	2015/16 £000	2016/17 £000	2017/18 £000	2018/19 £000	2019/20 £000	Total £000
Current Savings Target (new savings each year)	-	1,315	1,308	798	1,073	1,547	**6,041**
Impact on savings target - pressures	-	561	15	-	-	-	**576**
Revised savings target including pressures	**-**	**1,876**	**1,323**	**798**	**1,073**	**1,547**	**6,617**
Impact on savings target - deliverable savings	-	(651)	-	-	-	-	**(651)**
Savings still to be found	**-**	**1,225**	**1,323**	**798**	**1,073**	**1,547**	**5,966**

Section 5

General Fund - Expenditure and funding

The following projection of GF expenditure and funding results from applying the recommendations included in this report.

Description	2014/15 £000	2015/16 £000	2016/17 £000	2017/18 £000	2018/19 £000	2019/20 £000
Expenditure						
Net service budgets	19,813	18,488	17,763	17,002	17,048	16,817
Revenue budget proposals	125	(90)	(75)	(75)	(75)	(75)
Future years PPF provision	0	100	100	100	100	100
Capital accounting adjustments	(4,656)	(4,656)	(4,656)	(4,656)	(4,656)	(4,656)
Capital expenditure financed from revenue	3,224	3,656	2,457	1,075	1,075	1,075
Contributions to earmarked funds	2,678	2,959	3,263	3,357	2,622	2,369
Revised net savings requirement	0	(1,225)	(1,323)	(798)	(1,073)	(1,547)
Contribution to reserves	0	0	0	258	0	0
Net spending requirement	**21,184**	**19,232**	**17,529**	**16,263**	**15,041**	**14,083**
Funded by:						
Settlement Funding Assessment (SFA)	(8,115)	(6,901)	(6,004)	(5,224)	(4,545)	(3,954)
Locally Retained Business Rates – Growth element	(670)	(800)	(800)	(800)	(800)	(800)
Other grants from central government	(93)	0	0	0	0	0
New Homes Bonus (NHB)	(3,376)	(3,376)	(3,376)	(2,589)	(1,854)	(1,291)
Appropriations from earmarked funds	0	0	0	0	0	0
Council Tax	(6,706)	(7,024)	(7,349)	(7,650)	(7,842)	(8,038)
Contributions from reserves	(2,224)	(1,131)	0	0	0	0
Total funding	**(21,184)**	**(19,232)**	**(17,529)**	**(16,263)**	**(15,041)**	**(14,083)**

Section 6
Capital plan

Approved plan

The Capital Plan was approved by Council in February 2014. Since then, Council has approved further changes to the plan including adding projects carried forward from 2013/14, new approvals and budget amendments.

	2014/15 £000	2015/16 £000	2016/17 £000	2017/18 £000	2018/19 £000	Total £000
Approved at BSR 2014:						
Programmes	5,800	2,932	449	389	0	9,570
Projects	1,835	2,100	1,715	35	0	5,685
Sub-total	**7,635**	**5,032**	**2,164**	**424**	**0**	**15,255**
Provisions	12,163	1,788	352	761	0	15,064
Total	**19,798**	**6,820**	**2,516**	**1,185**	**0**	**30,319**

Changes approved in year:						
Programmes	242	1,488	0	0	0	1,730
Projects	1,088	0	0	0	0	1,088
Sub-total	**1,330**	**1,488**	**0**	**0**	**0**	**2,818**
Provisions	8,258	263	0	0	0	8,521
Total	**9,588**	**1,751**	**0**	**0**	**0**	

Current approved plan:						
Programmes	6,042	4,420	449	389	0	11,300
Projects	2,923	2,100	1,715	35	0	6,773
Sub-total	**8,965**	**6,520**	**2,164**	**424**	**0**	**18,073**
Provisions	20,421	2,051	352	761	0	23,585
Total	**29,386**	**8,571**	**2,516**	**1,185**	**0**	**41,658**

Mid-year review of the plan

On-going monitoring of all projects within the plan indicates a high level of slippage, particularly within the Provisions category, which includes a number of large items such as Green Deal, where delivery timescales are outside the direct control of the Council. As a result, significant rephrasing is proposed.

In addition, a new scheme is recommended for inclusion in the Plan, subject to a detailed project appraisal. The scheme relates to the replacement of air cooling systems to ensure that the latest legislative requirements are met. The total cost is £166,950, to be met partly from available capital funding, see below, and partly from Repairs and Renewals Funds.

	2014/15 £000	2015/16 £000	2016/17 £000	2017/18 £000	2018/19 £000	Total £000
Current approved plan – as above:						
Total	**29,386**	**8,571**	**2,516**	**1,185**	**0**	**41,658**
Changes proposed:						
Programmes - rephasing	(697)	697	0	0	0	0
Projects – rephasing	(582)	529	21	(4)	36	0
Projects – new scheme	167	0	0	0	0	167
Sub-total	**(1,112)**	**1,226**	**21**	**(4)**	**36**	**167**
Provisions - rephasing	(6,273)	6,125	20	128	0	0
Total	**(7,385)**	**7,351**	**41**	**124**	**36**	**167**
Proposed plan:						
Programmes	5,345	5,117	449	389	0	11,300
Projects	2,508	2,629	1,736	31	36	6,940
Sub-total	**7,853**	**7,746**	**2,185**	**420**	**36**	**18,240**
Provisions	14,148	8,176	372	889	0	23,585
Total	**22,001**	**15,922**	**2,557**	**1,309**	**36**	**41,825**

The effect of these changes on the level of unapplied capital funding available is shown in the table below.

	2014/15 £000	2015/16 £000	2016/17 £000	2017/18 £000	2018/19 £000
Funding available and unapplied (per Feb 2014 BSR)	**(246)**	**(44)**	**(562)**	**(880)**	**(880)**
Proposed new scheme	97				
Revised capital funding availability	**(149)**	**(44)**	**(562)**	**(880)**	**(880)**

Planned review of capital processes and plan

The current size and complexity of the capital plan gives rise to a number of concerns including the:

- Capacity to deliver projects to time, cost and quality;
- Dependency on revenue funding at a time when revenue funding is reducing and revenue budgets are under pressure;
- Inclusion of items that should not, on reflection, be included in the capital plan, such as unallocated funds, projects in an early stage of development and items more properly treated as small enhancements or maintenance spend.

There are also concerns that the processes leading up to the inclusion of an approved project in the capital plan are complex, time-consuming and may not support the effective prioritisation of limited capital spend in line with the Council's objectives.

Therefore it is proposed that a focused review of the processes and procedures underlying capital planning and delivery are performed in advance of setting the 2015/16 budget in February 2015, with a view to delivering improved, fit for purpose processes and a sustainable capital plan.

Section 7
Risks and reserves

Risks

The Council is exposed to a number of risks and uncertainties which could affect its financial position:-

- Savings plans may not deliver projected savings to expected timescales;
- Assumptions and estimates, such as inflation and interest rates, may prove incorrect;
- Funding from central government may fall below projections;
- The actual impact and timing of local growth on the demand for some services may not reflect projections used;
- Increases in council tax and business rates receipts due to local growth may not meet expectations;
- The economic recovery may slow or reverse, impacting some of the Council's income streams such as car parking income, commercial rents and planning fee income;
- New legislation or changes to existing legislation may have budgetary impacts; and
- Unforeseen capital expenditure, such as major repairs to offices and commercial properties, may be required.

Reserves

General Fund reserves

GF reserves are held as a buffer against crystallising risks, and to deal with timing issues and uneven cashflows. As such, the level of reserves required is dependent on the financial risks facing the council, which will very over time. Therefore, the prudent minimum balance (PMB) and target level of GF reserves has been reviewed in the light of current risks. Detailed calculations of these amounts are provided in Appendix B.

As a result, the following changes are recommended and have been included in the calculations of net savings requirements in this report.

General Fund reserves	£m
February 2014 BSR	
- Target level – to be achieved by 2017/18	5.00
- Minimum level	2.50
September 2014 MFR – Recommended levels	
- Target level	5.28
- PMB	4.40

The table below shows current and projected levels of GF reserves.

Description	2014/15 £000	2015/16 £000	2016/17 £000	2017/18 £000	2018/19 £000's)	2019/20 £000's)
Balance as at 1 April (b/fwd)	**(9,176)**	**(6,952)**	**(5,821)**	**(5,821)**	**(6,079)**	**(6,079)**
Contribution (to) / from reserves	2,224	1,131	-	(258)	-	-
Balance as at 31 March (c/fwd)	**(6,952)**	**(5,821)**	**(5,821)**	**(6,079)**	**(6,079)**	**(6,079)**

Earmarked and specific funds

In addition to the General Reserve, the General Fund maintains a number of earmarked or specific funds which are held for major expenditure of a non-recurring nature or where the income is received for a specific purpose, see Appendix C.

A review of the purpose and use of these funds is currently underway. The outcomes of this review will be used to inform the BSR 2015.

Section 8
Conclusion

General Fund savings requirements

The February 2014 BSR set a target of £1.3m for ongoing net savings in the GF in 2015/16. Current financial projections, taking account of revised assumptions and incorporating all changes proposed as part of this GF Mid-year Financial Review, show that work remains to be done to balance the budgets for 2015/16 and beyond, with total net savings of over £6.0m to be found in the next five years.

Description	2015/16 £000	2016/17 £000	2017/18 £000	2018/19 £000	2019/20 £000	Total £000
Net savings requirement (BSR 2014)	**1,315**	**1,308**	**798**	**1,073**	**1,547**	**6,041**
Contribution to savings target (Section 4)	(90)	15	-	-	-	**(75)**
Revised (MFR) net savings requirement	**1,225**	**1,323**	**798**	**1,073**	**1,547**	**5,966**

General Fund budget strategy

The budget process

The GF budget process for 2015/16 will remain broadly similar to that for previous years, working within an overall cash limit designed to meet both known financial pressures and to create policy space through the provision of Priority Policy Fund (PPF) funding.

The updated base model used to prepare this report has driven the recommendations in respect of the 2015/16 budget process and provided indications of the level of savings required to meet both current and anticipated spending needs.

The GF Mid-year Financial Review has highlighted:

- Additional one-off net spending pressures in the current year, 2014/15;

- On-going pressures arising from reductions in income projections on commercial property and unavoidable cost increases;
- Savings identified for the years 2015/16 to 2018/19, arising mainly from underspends in 2013/14 and reductions in grants awarded; and
- Significant reductions in Government funding in 2016/17, with a strong expectation of reductions at similar levels going forward.

Identification of further savings

The Council has a record of identifying and delivering savings, through both service reviews and improvements in value for money obtained over all categories of spending. These approaches to finding and delivering savings will continue, but it is expected that the value of new savings found will decrease over time as services become leaner and more cost effective. All the easy to make savings have now been taken.

Funding reductions to date and those projected within this MFR strongly indicate that other methods of generating savings will be required. As a result, the Council has embarked on a long term programme of transformation which will make fundamental changes to the way the Council delivers services and interacts with residents, tenants and other parties. Many of these transformational projects are 'back-loaded' with the aim of producing significant, but not instant, efficiencies. However it is only by taking this more fundamental approach that we can ensure the council will deliver the savings it needs to make into the longer term, whilst developing a new style and shape of organisation which is fit for the new environment we find ourselves in.

The Council's long term budget strategy will be based on the following four themes, which will be reflected in the Budget Setting Report published in January 2015

1.Transforming how we deliver services

We will fundamentally reshape the organisation's continued delivery of quality services by:-

- maximising potential for sharing delivery of a number of services, working with South Cambridgeshire District Council, Huntingdonshire District Council and other partners

- delivering more radical visions of shared services in areas such as planning and infrastructure delivery through the City Deal

- tackling unnecessary bureaucracy and reducing the costs of administration and management

- setting up external trusts and arm's length arrangements where they can run services in a socially-inclusive but significantly more efficient way, as in the case of 'Cambridge Live', our new Cultural Trust and the planned 'destination management organisation' for tourism.

2. Making best use of all our assets

- Identifying resources that can be used more effectively to provide pump priming for transformation projects and short term savings to allow these projects to deliver results, including reviewing how we use capital and reserves

- Reviewing our commercial property portfolio, and looking to invest more in property to enhance income, where returns are attractive

- Reducing the number of buildings occupied by the Council so we can free up land for development use and sell surplus properties

- Being more entrepreneurial in the way we deliver services including income generating services

- Working with partners to find new ways of increasing the supply of the affordable housing the city needs.

3. Delivering inclusive and easy to use services for all

- Investing in technology to drive more efficient ways of working

- Transforming how our customers contact us and developing new ways of doing business with the Council

- Working with partners to improve digital skills amongst our residents and reducing digital exclusion.

4.Targeting our services and meeting the needs of the most vulnerable

- Ensuring we are focused on delivering the services our residents need.
- Targeting the Community Grants budget on reducing inequality and poverty in Cambridge
- Concentrating our discretionary services on those who most need our help.

Appendix A

Financial planning timetable

Items that are applicable to the HRA (only) are shown as shaded lines.

Date	Major Stage
2014	
12-Jun	Council adopts Annual Statement setting out plan & priorities from 2014/15
27-Aug	SLT / Exec consider MFR items
17-Sep	General Fund (GF) Mid-Year Financial Review (MFR) published for S&R Scrutiny Committee
18-Sep	Housing Revenue Account (HRA) MFR published
w/c 22 Sep	Finance despatch Budget Process Guidance and Budget Proposal Forms
29-Sep	S&R Scrutiny Committee / Leader recommendation of GF MFR to Council
30-Sep	Housing Committee considers the HRA MFR
01-Oct	Finance despatch Budget Working Papers.
Sept / Oct	MFR & budget briefing for Members
Sept / Oct	Budget process workshops for managers
15-Oct	Managers to complete and return Budget Proposal Forms to Finance for 2015/16 Revenue and Capital Budget Proposals
20-Oct	SLT consider HRA and Capital Budget Proposals
22-Oct	Finance to send proposals to officer groups, including corporate strategy, to assess climate change and poverty ratings and EqIA requirements
w/c 27 Oct	Officer Working Groups meet to consider and comment on budget proposals
28-Oct	SLT / Exec consider HRA and Capital Budget Proposals
29-Oct	GF MFR published for Council on 6 November
03-Nov	SLT consider General Fund Budget Proposals
06-Nov	Council considers GF and HRA Mid-Year Financial Review reports
17-Nov	SLT consider General Fund Budget Proposals
21-Nov	Managers to complete and return budget working papers, incorporating all budget proposals, to Finance
25-Nov	SLT / Exec consideration of General Fund Budget Proposals
08-Dec	HRA EqIA Deadline
10-Dec	SLT / Exec review General Fund and HRA BSR's
15-Dec	General Fund EqIA deadline
17-Dec	Publish HRA Budget Setting Report 2015/16
Dec	Provisional Government Settlement Announcement

Date	Major Stage
2015	
05-Jan	Publish HRA Opposition Budget Amendment
05-Jan	GF budget proposals for Environment Scrutiny Committees published
07-Jan	GF budget proposals for Community Services Scrutiny Committees published
09-Jan	Publish General Fund Budget Setting Report and GF budget proposals for Strategy & Resources
13-Jan	Environment Scrutiny Committee consider budget proposals for own portfolios
14-Jan	Meeting of The Executive agenda published
14-Jan	**Housing Committee considers any HRA Budget Amendment** **Executive Councillor for Housing approves rent levels and revenue budgets** **Executive Councillor makes final capital proposal recommendations to Council** **Housing Committee considers General Fund Housing budget proposals**
15-Jan	Community Services considers GF proposals for its own portfolios
19-Jan	Strategy & Resources Scrutiny Committee considers GF budget proposals for its own portfolios and GF Budget Setting Report
Jan	Final Government Settlement Announcement
22-Jan	**Meeting of The Executive to consider and recommend GF Budget Setting Report and Council Tax requirement**
05-Feb	Publish General Fund Opposition Budget Amendment
13-Feb	**Special Strategy & Resources Scrutiny Committee considers any GF budget amendment proposals**
26-Feb	**Council approves GF Budget and sets Council Tax (including precepts)** **Council approves General Fund Capital Plan** **Council approves Housing Capital Plan as part of HRA BSR**
31-Mar	Approved budget reports to be sent to Cost Centre Managers by Finance

Appendix B

General fund reserves – calculation of Prudent Minimum Balance (PMB) and target level

Description	Level of risk	Amount of risk £	Risk £
Employee costs	*Medium*	31,313,173	93,940
Premises costs	*Medium*	9,079,909	54,479
Transport costs	*Medium*	1,426,720	8,560
Supplies and services	*Medium*	15,931,051	31,862
Grants and transfers	*Medium*	41,119,810	61,680
Grant income	*Medium*	41,017,108	61,526
Other income	*High*	35,451,993	531,780
Miscellaneous	*Medium*	4,004,158	8,008
Total one year operational risk			**851,835**
Allowing three years cover on operational risk			**2,555,505**
General and specific risks	**Amount £**	**Probability (%)**	
Unforeseen events	2,000,000	25%	500,000
Legal action - counsel's fees	100,000	50%	50,000
Impact of business rates appeals	670,000	100%	670,000
Data Protection breach	300,000	25%	75,000
Capital project overruns	100,000	50%	50,000
Project failure / delays to savings realisation	500,000	50%	500,000
Prudent Minimum Balance			**4,400,505**
Target (PMB + 20%)			**5,280,606**

Operational cost profiles		Low	Medium	High
Employee costs	overspend	1.00%	2.00%	3.00%
	probability	20.0%	15.0%	10.0%
	amount at risk	**62,626**	**93,940**	**93,940**
Premises costs	overspend	2.00%	4.00%	6.00%
	probability	20.0%	15.0%	10.0%
	amount at risk	**36,320**	**54,479**	**54,479**
Transport costs	overspend	2.00%	4.00%	6.00%
	probability	20.0%	15.0%	10.0%
	amount at risk	**5,707**	**8,560**	**8,560**
Supplies and services	overspend	1.00%	2.00%	3.00%
	probability	15.0%	10.0%	5.0%
	amount at risk	**23,897**	**31,862**	**23,897**
Grants and transfers	overspend	1.00%	2.00%	3.00%
	probability	10.0%	7.5%	5.0%
	amount at risk	**41,120**	**61,680**	**61,680**
Grant income	overspend	1.00%	2.00%	3.00%
	probability	10.0%	7.5%	5.0%
	amount at risk	**41,017**	**61,526**	**61,526**
Other income	overspend	5.00%	10.00%	15.00%
	probability	15.0%	12.5%	10.0%
	amount at risk	**265,890**	**443,150**	**531,780**
Other	overspend	1.00%	2.00%	3.00%
	probability	15.0%	10.0%	5.0%
	amount at risk	**6,006**	**8,008**	**6,006**

Appendix C

Earmarked & Specific Funds (all figures in £'000s)

Fund	Balance at 31 July 2014	Current Commitments	Uncommitted balance
Repairs & Renewals Funds	(15,401.2)	5,872.0	(9,529.2)
Climate Change Fund	(347.1)	347.1	0
Council Tax Earmarked for Growth	(287.6)	127.9	(159.7)
Development Plan Reserve	(684.3)	711.9	27.6
Efficiency Fund	(334.0)	213.8	(120.1)
Pension Fund Reserve	(985.5)	985.5	(0.00)
Keep Cambridge Moving Fund	(700.0)	0	(700.0)
Project Facilitation Fund	(124.5)	90.5	(34.0)
Fixed-Term Priority Project Fund	(300.0)	55.0	(245.0)
Property Strategy Fund	(103.4)	92.2	(11.2)
Sharing Prosperity Fund	(509.8)	484.2	(25.6)
Total	**(19,777.4)**	**8,980.10**	**(10,797.20)**