Appendix 5 – Lib Dem Budget Amendment - Section 25 Report

These budget amendments would not require any substantive changes to the existing Section 10 – Section 25 Report. **[Section 10, Page 52 refers]**

There are two types of amendment:-

- General Fund (GF) revenue amendments – spending proposals or reductions in savings and income are matched by funding generated with a small on-going saving generated in 2020/21. The funding comes from a variety of sources including:

    - Updating the inflation rate used to reflect the most recent forecasts
    - Increasing the surplus from trade waste operations and generating net income from a new housing company
    - Reducing the earmarked reserve (GF Development Fund) created from interest income earned from loans provided to fund development at the former Mill Road depot and at the Cromwell Road site by £488k over five years, thereby reducing the level of contingency funding available for these and other Cambridge Investment Partnership (CIP) projects.

  These proposals represent a reprioritisation of existing funding with the addition of some increases in income and the use of other available resources. As such they do not compromise the deliverability of the council's overall budget. It should be noted that some of the proposals support feasibility and development work that may give rise to future bids for funding.

- Capital bids – a proposal for £11,900k is financed from internal borrowing, with a number of smaller proposals totalling £296k financed from GF reserves.

  The proposal to invest in the provision of affordable housing at Living Rent the council's cash balances to invest £11.9m into a new housing company to buy and manage 40 residential properties. Interest rate returns of 1.4% will be foregone as a result. The expected 2% return on the proposal exceeds current returns on the council's cash investments by about £65k per year, but if interest rates rise, as expected in the medium term, this saving will be eroded and could fall below the returns that can be achieved on cash.

  Uncertainties relating to Brexit may impact the housing market, increasing the risk of falls in the value of properties. The timing of any property purchases will be significant both in relation to possible changes in capital value and when income from rents commences. For example, it is considered unlikely that a full year's income will be achievable within 2020/21.

  The affordable housing scheme has been financially assessed at current year prices with estimates made in line with those used for the 23 properties owned and managed by the council's existing housing company. However, it is intended that existing properties of various ages and locations around Cambridge will be purchased, rather than new build properties located on one or a small number of developments. There is therefore a risk that management, maintenance and capital costs will be higher than estimated. Rent income has been calculated assuming that across the properties an average rent will be achieved, based on the incomes of tenants. However, a mix of tenants with incomes at the lower end of the range would reduce the rental income of the scheme. The expected return will also be subject to differential inflation rates on pay and expenditure, such as maintenance costs.

Overall, the scheme is considered to be of marginal viability, with a low level of return that cannot be guaranteed due to the risks noted above and this level of return would leave little scope to cover normal operational risks. More detailed modelling is required to fully understand the risks and how they might be mitigated.

I therefore consider, in relation to the budget resulting from the application of these amendments, the estimates for the financial year 2020/21 to be sufficiently robust and the financial reserves up to 31 March 2021 to be adequate. I draw attention to the financial risks associated with the low level of projected return from the proposed housing scheme.

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