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**FINAL**

# **General Fund Medium Term Financial Strategy**

**October  
2020**

2020/21 to 2025/26

Cambridge City Council



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

## **Introduction**

Cambridge City Council produces two main financial documents each year, the Budget Setting Report (BSR) and this, the Medium-Term Financial Strategy (MTFS). Once approved by Full Council the BSR delegates the authority to run the council to our Officers, thereby providing services to the city and applying charges and fees in accordance with the budget. The MTFS fulfils an important role in the calendar, drawing together a review of financial information halfway through the year, making assumptions and forecasts for the future and providing a basis on which to prepare the budget for the year ahead.

## **Protecting our city through the Covid-19 pandemic**

The pandemic has had a profound impact on the daily life of the people of Cambridge. The national and international response to Coronavirus which culminated in the 'lockdown' that commenced at the end of March resulted in substantially reduced economic activity in the city. Like all other sectors of the economy this has created a significant challenge to planning the City Council's finances. To address the early and immediate impacts of the crisis an Interim MTFS was prepared and was presented at the Strategy and Resources Committee in July. The forecasting undertaken at that time indicated a net overspend of £9.8m. The most significant costs were from loss of income from car parking services and Cambridge Live, allied to increased spending on housing and homelessness. A number of savings measures were proposed across the council reducing the assumed budget gap to £2.1m.

Since the presentation of the Interim MTFS further detailed work has been undertaken in identifying the savings requirements, although the initial forecasts remain fairly accurate. It is important to stress that where possible the savings made relate to costs that can be delayed or deferred until a later date, and always in light of the core priorities of the council, namely tackling poverty, building more council houses and addressing climate change. However, when faced with such a shortfall it will be necessary to move some of our reserves to support revenue expenditure.

This does not mean a fundamental change to our ongoing strategy of primarily using reserves for investment, but simply recognises the immediate and pressing need caused by the crisis. Whilst we are fortunate to have reserves available, this is due to responsible and prudent management and we will continue to be guided by the mantra 'you can only spend reserves once'. Because of the ongoing uncertainty work has been undertaken to identify a base line over the next 5 years and then a best- and worst-case scenario. I would draw your attention to this work. It would be our belief that the economic impacts of Covid-19 will only start to be felt next year and the implications will be long term.

## **Tackling poverty**

The uncertainty caused by the pandemic is exacerbated by the historical impact of the policy of austerity implemented by successive governments. The legacy of this policy is that public services in Cambridge have been cut year after year, while at the same time letting market forces dictate rising costs e.g. energy. National evidence suggests this has hit lower income households far more than those on higher incomes, and the gap in wealth between rich and poor has widened significantly. Unfortunately, Cambridge is known as having one of the greatest inequalities of any city in the whole country. Parts of our city include people of great wealth while nearby there are pockets of people in poverty and severe deprivation, and we are determined that those people will continue to be a core target for delivery of council services. The poorest in our city need direct assistance and support via community organisations we grant-fund and our extra housing investment. One of the impacts of the pandemic has to been to foster an enhanced sense of "community", and the mutual aid networks are evidence of this. This will be allied to reviews of some of our Services. These reviews will be evidenced based and focus on outcomes. The council will continue to strive to improve our work and we will listen to our residents about the things that mean most to them. Everyone in Cambridge deserves the opportunity to share in our city's prosperity.

## **Managing Brexit**

As if the above isn't sufficient challenge the impact of leaving the EU looms large. As of August 2020, the outcome of the post-Brexit trade talks between the EU and the British Government remain uncertain. There is the potential for additional trade barriers with the EU hampering business activity. The worst scenarios for Brexit (UK Government, 2018) suggested an 8% reduction in GDP over a period of years whereas the Covid-19 crisis is already estimated to have reduced UK GDP by 13.8% in a single year. Whilst Cambridge is likely to be in a stronger position than most to manage the impact, it would be foolhardy not to cast a weather eye on the ramifications, and the council, like all institutions will be affected by further uncertainty.

## **Shortfalls in government funding**

It remains unclear how much additional funding will be made available by the government to offset the City Council's costs in managing COVID-19. It is possible we may get a small increase in funding for work we undertook to combat rough sleeping and homelessness, but we do not expect to get very much. The pandemic has also caused a delay to the Fair Funding Review which will ultimately have far reaching implications for the City Council's income. We await further clarity as to when the review will be completed.

## **Our strategy**

This is the challenging context within which we will develop our financial plans. As I hope can be seen, this is not easy as we are planning against a background of unprecedented uncertainty. We remain unsure of what limited funding will be provided by the government, despite early promises at the start of the pandemic to cover extra costs incurred by the council as a result of Covid-19. Therefore, developing other income streams will become ever more important and it remains our stated ambition to continue to use reserves as a tool for investment as opposed to offsetting short term immediate costs. However, this is not always feasible and it's against the background of the pandemic we therefore propose, based on current assumptions, to use £2.9m of reserves to support revenue expenditure next year.

The MTFS identifies the pressures we face in the years ahead. It will enable us to secure existing services and where possible to plan important new services and initiatives. Our primary goals will remain consistent, namely, to fight poverty and to protect and enhance the environment of Cambridge, to help the economic development of our city, and to assist in moving it towards a net zero carbon position. Against this we will maintain our commitment to the most deprived areas of the city, and those most likely to be adversely affected by the coronavirus. This MTFS will also help us plan the Budget Setting Report for 2021/22 which will be published in January. It embraces the core financial objectives of this council, namely sound and prudent financial management. We will continue to invest for the future and strive to create a fairer and more equal city for all.

**Cllr Lewis Herbert - Leader of the Council**

**Cllr Mike Davey – Executive Councillor for Finance and Resources**

# Section 1

## Introduction

### Background

The MTFS for the General Fund (GF) is part of the forecasting and budget setting process which leads to the Budget Setting Report (BSR) being presented to Council in February each year when the council tax level for the following financial year is set.

The MTFS sets out the council's financial strategy over the medium-term based on a range of assumptions and forecasts. This document takes the council's existing financial strategy and, if necessary, amends the key assumptions on which it is based. The previous year's 'direction of travel', as set out in the BSR, is revised in the light of factors such as national and local policy changes, current and forecast economic indicators and new legislation. This year, consideration is given to the current and potential future financial impacts of the Covid-19 pandemic.

Due to the significant financial impacts of the Covid-19 crisis on the council, MTFS 2019 has been updated on an interim basis to provide an analysis of increased costs, income losses and additional government funding received. The update set out a number of mitigations, including changes to revenue and capital budgets, with a view to achieving a balanced budget outturn for 2020/21. The interim update was approved by council in July 2020.

This MTFS identifies:

- Items which require immediate action or approval
- Items which provide context for decisions on the strategy or budget process:
  - o The level of savings requirements over the next five years
  - o Resources to be made available for funding the capital plan
  - o The level of GF general reserves

The GF MTFS incorporates a review of the current year's budget position and updated projections for five years. However, we have extended the period of the projections underlying this document to ten years (from 2020/21 to 2029/30) to provide a longer-term view to allow planning in response to

increasing pressures on local government finance. The later years of the projection are not presented, primarily due to the wide range of possible outcomes and the considerable levels of uncertainty in those years. The projections demonstrate the effects of changes in assumptions made and their impact in terms of savings requirements.

## Context and approach

The council has carried out a budget consultation exercise annually since 2002, using a variety of quantitative and qualitative methods.

In October/November 2020 the council will host events for local businesses and community representatives. The Leader will set out the vision and priorities for the Council within the context of the challenges we are facing. Subsequent questions, comments and discussions will be used to inform members of the nature of the debate and the feelings of the audience, so that these considerations can be taken into account as the council's budget is developed.

There is still a statutory requirement to consult local businesses on the council's financial expenditure. The nature of this consultation is not specified in the legislation and the current Leader's briefings with business representatives satisfy this requirement. There is also a requirement to consult under Section 3 of the Local Government Act 1999 (Best Value), which relates to fulfilling the duty of providing best practice. This has generally been interpreted as a requirement to consult with local people when there is a substantial change to local services, both those affected directly and non-directly.

## Timetable

Key dates and decision points are set out below.

Date	Task
<b>2020</b>	
7 October	Strategy & Resources Scrutiny Committee consider the GF MTFS for recommendation to Council by the Leader
17 October	Council considers both GF and HRA MTFS reports
<b>2021</b>	
4 January	Budget Setting Report (BSR) published
8 February	BSR and any budget amendment proposal considered by Strategy & Resources Scrutiny Committee
8 February	The Executive consider and recommend the BSR and Council Tax level to Council
25 February	Council approves Budget Setting Report and sets the level of Council Tax for 2021/22



# Section 2

## Policy context, priorities and external factors

### Local policy context and priorities

#### Corporate Plan

The council's [Corporate Plan](#) was approved in February 2020 at the same time as the budget for 2020/21. It sets out the aims and objectives of the council and how these will be achieved. The Leader's Foreword to this MTFS supplements the Corporate Plan 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 to bring additional benefits to the people who live, work and study in our area, especially through pooling of resources and skills to achieve a common aim.

#### The Greater Cambridge Partnership

The City Council is working with Cambridgeshire County Council, South Cambridgeshire District Council, the University of Cambridge and the business community to deliver infrastructure, housing and skills targets as agreed with Government in the Greater Cambridge City Deal. The deal consists of a grant of up to £500m, to be released over a 15 to 20 year period, expected to be matched by up to another £500m from local sources, including through the proceeds of growth.

The City Deal provided £100m for the first five years, with future funding subject to a 'gateway review' in 2019/20 to unlock further funding up to £400m. The GCP successfully passed this government gateway so was considered to be 'on track' to deliver the commitments made as part of the City Deal.

The City Deal will help Greater Cambridge to maintain and grow its status as a prosperous economic area. The Partnership is working to:

- Accelerate the delivery of 33,500 planned homes

- Enable delivery of 1,000 extra affordable new homes on rural exception sites
- Deliver over 420 new Apprenticeships for young people
- Provide £1bn of local and national public sector investment, enabling an estimated
- £4bn of private sector investment in the Greater Cambridge area
- Create 44,000 new jobs
- Provide a governance arrangement for joint decision making between local councils

The Partnership is currently developing proposals for transport improvements to enable people, goods and ideas to move more quickly, reliably and sustainably between centres of research, innovation and enterprise, and between places of residence, work and study.

One aspect of this is likely to be proposals to tackle congestion, and this may require ways of managing the number of vehicles on the most congested routes at the most congested times of the day. Whatever proposals are ultimately implemented may have impacts on City Council services, including potentially budgetary implications. The service and financial impact of such measures will be factored into the council's financial planning in more detail as the impacts become clearer.

The Partnership is also supporting delivery of a skills system that equips more young, local people with the skills they need to engage in the knowledge-based industries that comprise the Cambridge Cluster.

The Partnership is also bringing together public, private and academic experts to develop and exploit "smart city" technologies to help identify and address the challenges that Greater Cambridge faces.

The council, with the other local authority partners, have agreed to create an investment and delivery fund from a proportion of New Homes Bonus (NHB). As a result of this, the BSR considers the application of funds from NHB, earmarking part of future uncommitted funding in line with the expected levels of contribution to the fund.

## **Cambridgeshire and Peterborough Combined Authority**

In November 2016, eight organisations<sup>1</sup> in Cambridgeshire, including Cambridge City Council, agreed a devolution deal with the government to form the Cambridgeshire and Peterborough

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<sup>1</sup> Cambridge City Council; Cambridgeshire County Council; East Cambridgeshire District Council; Fenland District Council; Huntingdonshire District Council; Peterborough City Council; South Cambridgeshire District Council; Greater Cambridge Greater Peterborough Local Enterprise Partnership

Combined Authority (CPCA). The deal gives delegated powers to the Combined Authority and a new elected Mayor and brings funding to the region. Following elections on 5 May 2017, James Palmer was elected as Mayor for the Combined Authority. Councillor Lewis Herbert represents the council on the CPCA.

The CPCA will receive funding and powers from Central Government in a number of areas including:

- £100 million to deliver new homes over a five-year period in Peterborough and Cambridgeshire which includes affordable, rented and shared ownership housing, plus £70m for Cambridge City Council to deliver at least 500 new council homes.
- £20 million a year funding over 30 years to support infrastructure and boost economic growth in the region

The key ambitions for the CA include:

- doubling the size of the local economy
- accelerating house building rates
- improving transport and digital infrastructure.

It has been agreed that the Combined Authority costs will be funded from the gain share grant and therefore there will be no charge to the City Council for this. The Mayor has the power to raise a precept (i.e. a separate additional element of council tax to fund the running costs of the Mayoral office).

The Combined Authority (but not the Mayor) can levy constituent councils to make a contribution towards its functions but this would need to be unanimously agreed by those authorities through the budget making process for the CPCA. Each Council could also decide voluntarily to make a financial contribution to the CPCA.

The city's economy should benefit from the additional investment and improved infrastructure in the local area that the CPCA brings. The delivery of the £70m council building programme will bring an income stream to the Housing Revenue account as those houses come on stream.

## **Shared services**

The council shares some services with neighbouring councils. Benefits include improvements in service delivery, efficiencies and greater resilience. True savings arising from shared working will not be realised until all back office and support functions have been reduced to the same proportionate level as prior to a service being shared.

The following services are delivered in two or three way partnerships with South Cambridgeshire District Council (SCDC) and Huntingdonshire District Council (HDC):

With SCDC and HDC:

- 3C Building Control
- 3C ICT
- 3C Legal
- Home Improvement Agency

With SCDC:

- Greater Cambridge Shared Waste Service
- Greater Cambridge Shared Internal Audit
- Greater Cambridge Shared Planning
- Payroll

With HDC:

- CCTV

## External factors

### **Covid-19 pandemic**

The Covid-19 pandemic has had profound effects on daily life in the UK and worldwide. Starting in March 2020, travel bans, social distancing and self-isolation have substantially reduced economic activity. Through the summer a phased easing of the lockdown has been allowed, with high streets and workplaces operating with social distancing measures in place. Where increases in infection rates have been identified, local measures including limited lockdowns, have been put in place. Whilst the government has sought to soften the financial impact on individuals and businesses to support the lock-down, there are major financial consequences for councils arising from reduced income, service pressures and additional responsibilities. Whilst some funding has been made available, the level of funding provided to date does not meet the majority of budgetary pressures, many of which arise from reductions in income. There may be more funding available to councils in the future, but amounts, timing and conditions related to any funding are unknown at present.

## **The European Union (EU)**

The United Kingdom (UK) formally left the EU on 31 January 2020. An 11-month transition period started at that point during which the UK and EU will negotiate the shape of their future relationship with a new free trade agreement being a priority. Negotiations are ongoing and the likely outcome is not yet clear. It is therefore difficult to assess the likely impact on the UK economy and on businesses more locally.

## **Inflation rates**

Inflation used to drive expenditure assumptions in GF financial planning has been based on the Bank of England and Office of Budget Responsibility (OBR) forecasts for the Consumer Price Index (CPI). The interim update to the MTFS reflected exceptionally low inflation rates by removing all inflation increases in 2020/21 as a contribution towards balancing budgets in-year. The percentages currently applied in this MTFS, based on the Bank of England's May 2020 forecast, but also supported by the OBR's assumptions within its July 2020 Fiscal Sustainability Report, are 0.9% in 2021/22 (previously 2.1%), increasing to 2.0% in 2022/23 and later years (previously 2.3% and 2.4%). The lowering of inflation rates reflects reduced levels of economic activity and the expectation that in the longer term, CPI will settle at the 2.0% target level. Inflation rates will be reviewed again for the BSR in February 2021 and if changes in forecasts are significant, adjustments will be made at that point.

## **Interest rates on deposits**

The council lends its cash balances externally on a short-term basis, with a view to generating a return that can be spent on delivering council services whilst managing both security and liquidity of the cash. As a result of the recent coronavirus pandemic, the Bank of England base rate fell from 0.75% to 0.25% on 13 March 2020, and then to 0.1% from 23 March 2020. The next review of the rate is due on 6 August 2020. The reduction in the base rate results in a reduction in the rates that the authority can expect to earn on its investments. However, through the use of a variety of investments as permitted by our investment strategy, we achieved average rates of return of 1.45% in 2019/20. Based on our experience of reducing returns since the pandemic started in the UK, and forecasts from our treasury advisors, we have reduced our interest rate assumptions from 1.3% to 1.1%, as noted in Section 3. This assumption will be reviewed during budget-setting, as rates are currently volatile with considerable downward pressure.

The council's HRA is entitled to a proportion of interest earned on revenue and capital cash balances invested by the authority. This share is based upon the HRA receiving interest from the GF at the rate earned by the authority on term deposit accounts. This reflects the rate earned on deposits with minimal valuation risk, as the GF effectively indemnifies the HRA against downside risk on the value

of investments. Estimates of interest to be paid to the HRA in this MTFS have been reduced from 0.8% to 0.60%.

### **Interest rates on external borrowing**

The council has no GF borrowing. However, the council uses its cash balances to fund capital spending and to lend to the Cambridge City Housing Company (CCHC) and the Cambridge Investment Partnership (CIP). The council has a substantial interest in both these organisations, which provide financial returns to the council and enable the delivery of policy priorities. Use of cash balances in this way is known as 'internal borrowing' and may indicate a need to borrow externally in due course. The council keeps this situation under regular review and seeks advice from its treasury advisors (Link Asset Services) in this regard.

## **National policy context**

### **Government spending announcements**

The Chancellor made a summer statement on 8 July 2020. It was not a full fiscal statement but an update on the economic situation and an announcement of the government's latest economic measures. The first phase of the government's response to the coronavirus was "protection"; the second phase is "jobs"; and the next phase, later in the year, will be "rebuilding". There will be a full budget and three-year spending review in the autumn.

In his statement, the Chancellor said, "Over the medium-term, we must, and we will, put our public finances back on a sustainable footing". He stressed just how severe the recent economic downturn has been and that the 25% contraction in the economy has been the same amount as it grew over the previous 18 years:

- "The Office for National Statistics (ONS) estimates that Gross Domestic Product (GDP) in April was around 25% below the level recorded in February."
- "largest annual fall in output in over three hundred years and that the unemployment rate could peak at up to 10%."

The government's fiscal policy sets the overall parameters for public sector funding, and therefore the funding that is available for local government. However, most commentators agree that it is too early for the Chancellor to reset fiscal policy or to take any firm policy decisions. As a result, we do not know whether there will be a return to "austerity" or whether the Government will follow a more

expansionist fiscal policy, where deficits (and public debt) are allowed to increase. These questions are likely to be addressed in the autumn budget, with local government funding covered in a spending review also due in the autumn.

## **Local government finance**

### **2021/22 and future years**

The government and the local government sector have undertaken considerable work on distribution mechanisms for local government funding including the Fair Funding Review (FFR), consideration of increasing the Business Rates Retention share to 75% and a Business Rates baseline reset. The outcome of this work was expected to be consulted on in summer 2020 and implemented for 2021/22. As a result of the pandemic, implementation has been suspended with no announcement of a revised implementation date. Whilst a one-year delay is possible, longer could be needed as:

- It may not be possible to reset business rate baselines and equalise council tax if the future levels of taxation have not stabilised by 2021
- The overall finance settlement for local government is likely to be impacted by major changes to both social care and public health which are unlikely to be ready by 2021
- authorities will still be affected by the major financial upheaval following the “lockdown”.

In addition to the above, the Chancellor has announced a fundamental review of the business rates system. <https://www.gov.uk/government/publications/business-rates-review-terms-of-reference>

In the short term, the government has provided un-ringfenced Covid-19 emergency grants and grants to address specific cost pressures arising from the crisis. To date, these have been announced with little warning and allocated across local authorities in different ways. The council is taking advantage of the Coronavirus Job Retention Scheme (furloughing) where appropriate and continues to apply for specific grant funding where relevant. For example, the council has applied to the Cultural Recovery Fund for £500k to cover both the unavoidable operating costs of the Corn Exchange and some of the development costs of the 2021 Cambridge Folk Festival, and has just received confirmation of an award of £868k from the government’s Next Steps Accommodation Programme to fund temporary accommodation for rough sleepers. Funding to compensate authorities for losses of income has been announced, but at the time of writing, amounts are not yet known. Whilst this funding is welcome, it is not possible to estimate how much is likely to be received in 2020/21 and if any of these funding streams will continue in to 2021/22 and beyond.

At the Communities and Local Government Select Committee on 24 July 2020, ministers indicated that there will be a scheme to fund losses in council tax and business rates. The secretary of state said, "When information is clearer about the scale of the losses of income with respect to council tax and business rates, if necessary, we will implement a similar mechanism to the one we have seen with respect to income losses". According to the local government minister, "the principle has been accepted by the Treasury and I think that should reassure authorities that are concerned about council tax or business rates losses that there is serious protection on offer and that will be becoming fully clear in short order". Whilst plans to allow authorities to spread Collection Fund losses over three years have been announced, it is not clear whether this is the serious protection being offered here.

The Public Accounts Committee (PAC) published a report on the Government's response to the COVID crisis - <https://committees.parliament.uk/publications/2024/documents/19531/default/> - including a commentary on the funding that local government has received from central government. The PAC's main concern is that there is a lack of clarity about what the Government is funding – and that without clarity, authorities will have to make in-year cuts to services. MHCLG and the Treasury have told the committee that they are working on a "comprehensive solution to provide more certainty to local government" and that "it will look at long-term funding as part of the next spending review".

The factors above make forecasting of the overall funding available to the council over the period of this MTFS extremely problematic. The working assumption is that all elements (the FFR and the earlier business rates review) will be implemented in 2022/23 once a quantum of funding is known. Damping or other transitional arrangements are likely to be part of that implementation.

The base assumptions modelled in this MTFS are:

- The changes resulting from the FFR and business rates retention review are implemented in 2022/23
- There will be a full business rates baseline reset in that year
- Baseline Funding Levels (BFL) for district council services will not be indexed, allowing for increases in upper tier services such as Adults and Children's Social Care and Public Health.
- The local share of business rates is increased from 50% to 75%, with the District share retained at 40%



- In 2021/22, pending the baseline reset in 2022/23, the government will address accumulated business rates growth by redistributing it based on BFLs
- The impacts of the Covid crisis on collection rates and the business rates base of the city are modelled based on advice from Pixel Consulting, who support a large number of authorities in relation to local government funding. Their most likely scenario, based on current experience and forecasts from across their client authorities, has been used.

	2020/21 £000	2021/22 £000	2022/23 £000	2023/24 £000	2024/25 £000	2025/26 £000
<b>Baseline funding level (BFL) / Settlement funding assessment (SFA)</b>	<b>4,272</b>	<b>4,298</b>	<b>4,027</b>	<b>4,027</b>	<b>4,027</b>	<b>4,027</b>
Growth element and other adjustments	5,117	0	1,023	585	677	771
<b>Business rates income</b>	<b>9,389</b>	<b>4,298</b>	<b>5,050</b>	<b>4,612</b>	<b>4,704</b>	<b>4,798</b>

The current set of base assumptions used to model business rate income assume a significant recovery in economic activity and therefore in business rates income. However, the growth elements shown in the table above for 2022/23 and later years are considered to be high risk and not to be a reliable source of funding for service delivery. Therefore, for the purposes of this strategy they have been taken into the projection of reserves shown in section 7. If and when receipt of these amounts becomes more certain, they can then be considered for use.

## **New Homes Bonus**

NHB was designed to incentivise housing growth. Amounts awarded in 2020/21 are expected to be the last awards under this scheme, with legacy payments arising from previous years being the only amounts receivable in 2021/22 and 2022/23.

The government have indicated that a new stream of funding to incentivise growth will be created, but at this stage we have no indication of either the size of the amount to be committed to this funding stream, or how it will be distributed. Therefore, no receipts of any growth-related funding have been assumed beyond those indicated for NHB.

30% of NHB is set aside each year as a contribution to the GCP investment and delivery fund. From 1 September 2020 until the end of this funding stream in 2022/23 this contribution has been reduced to 10% in response to Covid-19 funding pressures.

In previous years, the council has chosen to use NHB to fund both revenue and capital spending related principally to growth and place. However, reductions in this funding stream mean that this expenditure can no longer be supported. The resulting savings requirements were identified and allowed for in BSR 2020/21 and have been adjusted following the reduction in the contribution to the GCP fund.

Description / (£000)	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26
<b>Confirmed NHB funding at February 2020 BSR</b>	<b>(4,913)</b>	<b>(2,983)</b>	<b>(1,496)</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Commitments against NHB</b>						
Funding for service budgets	2,937	1,610	1,346			
Direct revenue funding of capital (DRF)	1,075	1,075				
Contribution to GCP	901	298	150			
<b>Total commitments against NHB</b>	<b>4,913</b>	<b>2,983</b>	<b>1,496</b>	<b>0</b>	<b>0</b>	<b>0</b>

## Council tax

Council tax income in this MTFS is modelled based on a 1.99% increase per property for a band D property, reflecting an expected 2.00% referendum limit for council tax increases. In previous years, district councils have been permitted to increase band D council tax rates by 2.0% or £5, whichever was greater, however, for modelling purposes the lower increase has been assumed. As for business rates, the impact of the Covid crisis on collection and tax base has been modelled using the Pixel Consulting 'cash-based' scenario.

# Section 3

## Review of key assumptions

Budget forecasts presented in the February 2020 BSR 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 sets out where assumptions have been retained and where changes have been made (**shown in bold**) 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 / Sensitivity
Pay Inflation	Pay progression cost estimate (1.5%) plus: <b>2021/22 - 2.5%</b> (previously 2.0%) and 2.0% thereafter (no change)	An additional 1% increase would cost the council approximately £260k
Employee turnover	4%	In general, employee budgets assume an employee turnover saving of 4.0% of gross pay budget. Specific vacancy factors are applied where experience indicates that a different vacancy factor is more applicable.

Key area	Assumption	Comment / Sensitivity
General inflation (OBR/BoE)	<b>2021/22 – 0.9%</b> <b>2022/23 and after – 2.0%</b> (previously 1.8%, 2.1%, 2.3%, 2.4%)	Provisions have been updated in accordance with the Bank of England's latest forecasts.  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.
Major contracts	Inflation per contract	Major contracts and agreements, in term, are rolled forward based on the specified indices in the contract or agreement
Income and charges	2.0%	Income and charges – general assumption of 2.0% ongoing, but specific reviews of all charges required by committees. An overall review of charging is currently underway, with the financial impacts of any recommended changes to be brought forward through the budget setting report in February 2021. Property rental income based on detailed projections and rent reviews.
Investment interest rate assumption	<b>2020/21 and thereafter 1.10%</b> (previously 1.3%)	Based on current projections
Interest paid on HRA cash balances	0.6% (previously 0.8%)	Based on current projections
Capital funding contributions	<b>£1.660m</b> (previously £1.880m)	Capital funding contributions at base level of £1.660m per annum with feasibility budget of <b>£83k</b> (previously £94k) or 5% of that amount.
Council Tax increase	2021/22 onwards 1.99%	A 1% change in council tax represents about £90k p.a. for the council.  In previous years, district councils have been allowed to increase band D council tax by £5 if this is greater than 2.00%. This would provide about £43k more than an increase of 1.99%.

# Section 4

## Review of budgets and savings targets

### 2019/20 outturn

A favourable variance of £2k (2018/19: £371k) after approved carry forward requests of £990k (2018/19: £923k) was recorded on net service spending in the GF for 2019/20. After variances on government funding, capital accounting adjustments, contributions to/ from earmarked reserves, the application of direct revenue funding for capital and statutory adjustments have been taken into account, the overall net effect was an increase in the GF reserve of £1,693k (2018/19: £2,034k).

Efforts to control the variance on total staffing costs through the use of a 4% vacancy factor were successful for a second year, with a small favourable variance of £39k (0.1% of budget) recorded. In general, the outturn on income was less satisfactory, with variations above and below budget. Income from commercial rents and licensing showed significant upside, with income from bereavement services and parking falling short of expectations. Other variances were generally small, full details are shown in the outturn overview report to Strategy & Resources scrutiny committee.

### 2020/21 budgets and the impacts of the Covid-19 pandemic

Departmental budgets are regularly monitored and reported to the Senior Management Team and the Executive to ensure that the Council and its services spend only what is necessary to deliver its aims and objectives. Where variances are identified, either positive or negative, investigations are undertaken to ensure that there is a reasonable justification and whether the variance has a short or long-term impact.

The council is undertaking detailed monitoring of budgets affected by Covid-19. As at the end of July, services forecast a net unfavourable variance of £10.0m due to the pandemic, as follows.

Description / (£000)	2020/21
<b>Additional expenditure</b>	
Homelessness	1,728
Other	582
	<b>2,310</b>
<b>Income losses</b>	
Parking	3,480
Commercial income	1,238
Cambridge Live	1,385
Other	1,591
	<b>7,694</b>
<b>Total forecast Covid-19 pressure</b>	<b>10,004</b>

## In-year revenue proposals

An interim update to the MTFS was approved by council in July 2020, in which a total of £7.8m of additional income and budget savings were identified and approved to meet this shortfall. The forecast budget gap will be kept under review through the year, as additional costs and income losses crystallise and the final outturn becomes clearer. Further government funding is expected which will contribute towards balancing the budget at the year end. However, there may be a need to draw on reserves at that point.

There are no further revenue proposals for 2020/21 proposed in this report.

## Service reviews

In 2019, a number of service reviews were identified in response to the level of savings requirements identified. The first phase of these reviews is underway, with savings expected to be brought forward into the budget setting process during the autumn. A second phase of reviews is planned for 2021/22.

Alongside this existing work, the council is reviewing and refining its priorities, so that future budget decisions can be judged against what is most important for the council. Consideration is also being given to changes in service delivery as a result of the Covid-19 lockdown and the implications of these on future ways of working. Further consideration of these developments is covered in section 8, Budget strategy.

# Savings requirements

Applying changes to budget assumptions and allowing for expected ongoing pressures arising from the economic impact of the pandemic gives an indication of the minimum net savings requirements by year for the next 5 years, assuming that savings are delivered in the year that the requirement is identified.

However, each year the council experiences unavoidable budget pressures and income losses from various sources. When estimating savings requirements, allowance should be made for unavoidable items which have averaged £800k to £1.0m per year over the last five years, giving an illustration of the more likely level of savings to be made.

No adjustment to smooth savings requirements across all five years using reserves has been made in this MTFS for the following reasons:

- the financial modelling includes indicative unavoidable pressures, which may or may not crystallise into budget proposals, so any adjustment of the savings profile could be misleading
- significant uncertainty in relation to funding from government and Covid-19 impacts would similarly impact the saving profile

Applying revised assumptions, the net savings requirement before unavoidable items totals around £5.7m for the 5-year period, or £9.7m allowing for unavoidable items. However, the savings requirement in 2021/22 is exceptionally challenging due to the expected continuation of significant Covid-related pressures. Therefore, it is proposed to make a contribution from reserves to delay a portion of these savings until the following year. Based on the financial modelling presented, a contribution of £2.9m in 2021/22 would almost equalise the savings requirements in the first two years.

Description	2021/22 £000	2022/23 £000	2023/24 £000	2024/25 £000	2025/26 £000	Total £000
<b>Net savings requirement – new each year (Interim update to MTFS July 2020)</b>	<b>2,356</b>	<b>(392)</b>	<b>1,953</b>	<b>627</b>	<b>600</b>	<b>5,144</b>
<b>Covid-19 impacts:</b>						
Parking income	1,069	550				
Property rents – commercial and admin buildings	749	702	720	495	495	
Cambridge Live	750					
	<b>2,568</b>	<b>1,252</b>	<b>720</b>	<b>495</b>	<b>495</b>	
Changes to business rates assumptions	(26)	(329)	235	255		
Changes to council tax assumptions	409	293	168	216		
Changes to inflation assumptions	10	(54)	(62)	(63)		
Change to initial 2025/26 savings requirement estimate resulting from detailed calculations					25	
Additional contribution to / (use of) earmarked reserves (NHB)	(261)	150				
Additional contribution to / (use of) reserves	(2,900)	1,023	585	677		
<b>Net impact of funding changes, inflation and other assumptions</b>	<b>(2,768)</b>	<b>1,083</b>	<b>926</b>	<b>1,085</b>	<b>25</b>	
<b>Net indicative changes to funding and expenditure</b>	<b>(200)</b>	<b>2,335</b>	<b>1,646</b>	<b>1,580</b>	<b>520</b>	
<b>Revised (MTFS) net savings requirement (new each year) - <u>no unavoidable</u> indicative pressure and reductions in income</b>	<b>2,156</b>	<b>2,143</b>	<b>1,264</b>	<b>561</b>	<b>(460)</b>	<b>5,664</b>
<b>Revised (MTFS) net savings requirement (new each year) - <u>with unavoidable</u> indicative pressure and reductions in income (£800k p.a.)</b>	<b>2,956</b>	<b>2,943</b>	<b>2,064</b>	<b>1,361</b>	<b>340</b>	<b>9,664</b>



The level of net savings requirement identified by this MTFS provides a baseline for detailed budget setting work, with the higher requirement illustrating the challenge when allowance is made for unavoidable calls on limited resources. Any additional net spending pressures that emerge through the BSR process will increase savings requirements accordingly, whilst reductions in overall spending pressures and increases in income will reduce the savings required.

## Sensitivities

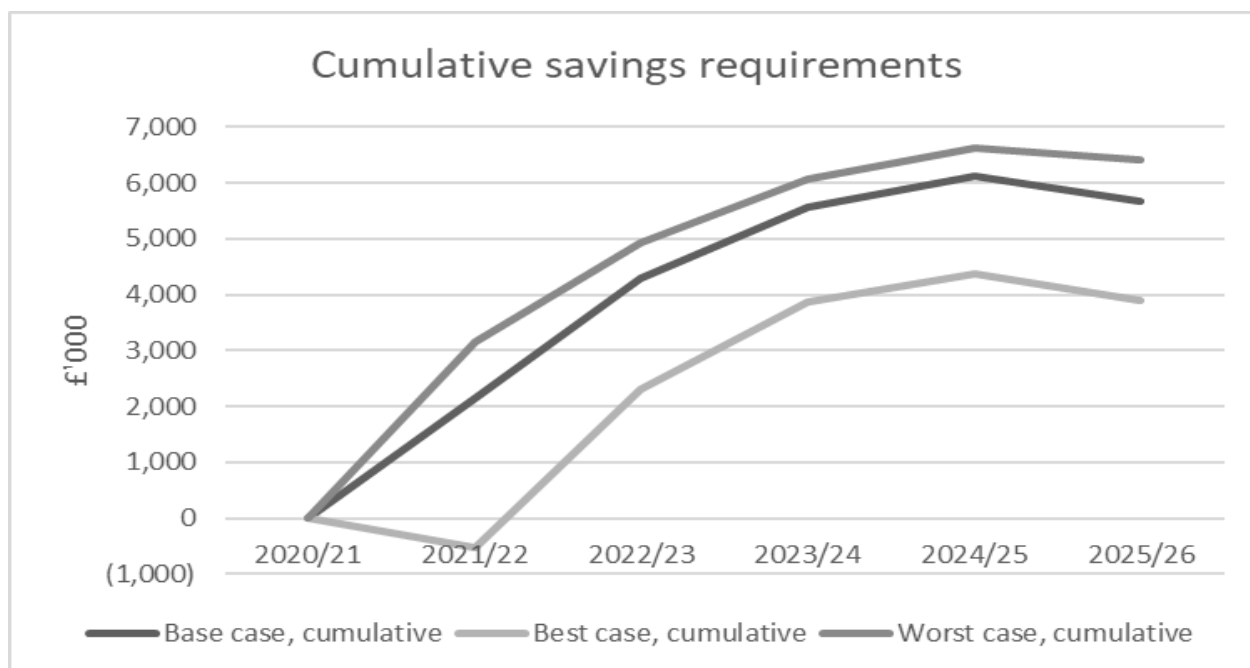
As noted in this report, the financial situation of the council is currently subject to exceptional levels of uncertainty, with both pressures arising from the pandemic and future funding streams being major contributing factors. The table above is derived from a 'base case' set of assumptions. To assist in financial planning 'best case' and 'worst case' scenarios have been modelled.

Description	Best case	Base case	Worst case
Council tax rate increase	Band D increase of £5 where greater than 1.99%	1.99% p.a.	1.99% p.a.
Council tax base	All years 2.00%	Post-Covid projections based on current expectations of local authorities advised by Pixel 2021/22 -3.7% 2022/23 1.10% 2023/24 3.20% 2024/25 1.00% (0.4% average)	All years 0%
Pay inflation	In line with CPI inflation 2021/22 – 0.9% Later years – 2.0%	2021/22 – 2.5% Later years - 2.0%	2021/22 – 3.0% 2022/23 – 2.5% Later years - 2.0%
Unavoidable revenue pressures and reductions in income	£600k p.a.	£800k p.a.	£1.00m p.a.
<b>Covid-19 ongoing pressures</b>			
All	Service forecasts reduced by 50%	In line with service forecasts	Service forecasts increased by 50%

No scenarios have been modelled for business rates as complexities within the system and the extent of future uncertainties make it difficult to identify plausible scenarios.

The following range of possible savings requirements were identified.

Savings requirements / £'000	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	Total
<b>Base case:</b>							
In-year savings, <u>no</u> unavoidable pressures and income reductions	0	2,155	2,145	1,262	562	(460)	5,664
In-year savings including unavoidable pressures and income reductions	0	2,955	2,945	2,062	1,362	340	9,664
<b>Best case:</b>							
In-year savings, <u>no</u> unavoidable pressures and income reductions	0	(513)	2,808	1,565	514	(474)	3,900
In-year savings including unavoidable pressures and income reductions	0	87	3,921	2,165	1,114	126	7,413
<b>Worst case:</b>							
In-year savings, <u>no</u> unavoidable pressures and income reductions	0	3,142	1,775	1,146	553	(195)	6,421
In-year savings including unavoidable pressures and income reductions	0	4,142	2,775	2,146	1,553	805	11,421



## **Use of reserves to support savings requirements**

The council's GF reserve balance is above the target levels required (See section 7). At the time of writing, £2.1m of this balance is expected to be used in 2020/21 to balance the budget and it is suggested that a further £2.9m be used in 2021/22 to support service budgets and to smooth savings requirements. Further amounts over and above the target level could be used to smooth or delay the need to make savings. However, reserves can only be used once, whereas savings, once made, have to recur year on year, i.e. use of reserves cannot permanently reduce the need to make savings.

# Section 5

## General Fund – Expenditure and funding

The following base-case projection of GF expenditure and funding results from applying the recommendations included in this report:

Description / £'000s	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26
<b>Expenditure</b>						
Net service budgets - base and inflation	30,809	23,365	22,421	22,272	22,649	23,214
Allowance for unavoidable revenue pressures and reduced income	0	0	0	0	0	0
Savings delivered from prior years	0	0	(2,155)	(4,299)	(5,563)	(6,124)
<b>Net service budgets</b>	<b>30,809</b>	<b>23,365</b>	<b>20,266</b>	<b>17,973</b>	<b>17,086</b>	<b>17,090</b>
Capital accounting adjustments	(6,353)	(6,353)	(6,353)	(6,353)	(6,353)	(6,353)
Capital expenditure financed from revenue	(1,174)	3,051	1,564	1,564	1,564	1,564
Contributions to earmarked funds	1,964	813	1,299	1,699	2,180	1,617
<b>Net spending requirement before in-year savings</b>	<b>25,246</b>	<b>20,876</b>	<b>16,776</b>	<b>14,883</b>	<b>14,477</b>	<b>13,918</b>
In-year savings	(0)	(2,155)	(2,144)	(1,264)	(561)	460
<b>Net spending requirement</b>	<b>25,246</b>	<b>18,721</b>	<b>14,632</b>	<b>13,619</b>	<b>13,916</b>	<b>14,378</b>
<b>Funded by:</b>						
Settlement Funding Assessment (SFA)	(4,272)	(4,298)	(4,027)	(4,027)	(4,027)	(4,027)
Locally Retained Business Rates – Growth Element	(5,117)	0	(1,023)	(585)	(677)	(771)
New Homes Bonus (NHB)	(4,913)	(2,983)	(1,496)	-	-	0
Covid grant and furloughing income	(1,901)	0	0	0	0	0
Appropriations from earmarked funds	(1,957)	0	0	0	0	0
Council Tax	(8,687)	(8,926)	(9,395)	(9,878)	(10,175)	(10,637)
Contributions to / (from) reserves	1,601	(2,514)	1,309	871	963	1,057
<b>Total funding</b>	<b>(25,246)</b>	<b>(18,721)</b>	<b>(14,632)</b>	<b>(13,619)</b>	<b>(13,916)</b>	<b>(14,378)</b>

# Section 6

## Capital plan

### Capital Strategy

The council publishes a capital strategy that outlines the principles and framework that shape the council's capital investment proposals. The principal aim is to deliver an affordable programme of capital investment consistent with the council's financial strategy and that contributes to the achievement of the council's priorities and objectives as set out in the corporate plan. The strategy defines at the highest level how the capital programme is to be formulated and designed; it identifies the issues and options that influence capital spending and sets out how the resources and capital programme will be managed.

As well as detailing the approved capital investment programme over the forthcoming five years, the document also sets out the Council's ambitions over the medium to longer term.

The Strategy incorporates:

- A direct relationship to the Corporate Plan
- A framework for the review and management of existing and future assets
- An investment programme expressed over the medium-term
- A document that indicates the opportunities for partnership working
- A framework that prioritises the use of capital resources
- A consideration of the need to pursue external financing (grants, contributions etc.)
- A direct relationship with the Treasury Management Strategy

An updated capital strategy will be published in February 2021 alongside the Treasury Management Strategy Statement and the Budget Setting Report 2021/22.

# Capital plan

The capital plan was approved by council in February 2020. Since then the plan has been updated as follows:

- Projects rephased from 2019/20, £27,773k
- Interim update to the MTFS - £1,745k spend deleted and £1,485k spend deferred to 2021/22 and a further £50k deleted from 2022/23 to mitigate Covid-19 financial pressures
- New projects funded from developers' contributions, see below - £1,028k

Ref.	Description / £'000s	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	Total
	<b>Approved since BSR Feb 2020:</b>							
SC739	Abbey Pool improvements (S106)	425	-	-	-	-	-	425
SC740	Chesterton Rec pavilion (S106)	178	-	-	-	-	-	178
SC741	Nightingale Rec Ground pavilion (S106)	425	-					423
	<b>Total Approved since BSR Feb 2020</b>	<b>1,028</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,028</b>

Mid-year capital proposals totalling £10.4m are presented for approval as follows:

**L2 Orchard Park development and equity funding (£10,400k in total):** Detailed proposals for this development will be put before the Housing Scrutiny Committee on 24 September for approval. The development is being delivered by CIP and will generate a surplus for the council on completion and an opportunity for the HRA to purchase the affordable housing on the site. This proposal is for the council to provide equity and development loans to CIP, earning 5% p.a. on these loans.

In addition to the above, commercial property on the site of the HRA's Colville Road III redevelopment is held in the council's GF as income-generating assets. Officers are exploring how to identify the costs that should be financed by the GF. At this stage, the full scheme cost has been incorporated into the HRA Medium Term Financial Strategy and Housing Capital Plan, to allow the scheme to proceed.

Ref.	Description / £'000s	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	Total
	<b>Proposals</b>							
SC744	L2 – Development loan to CIP	-	3,400	5,200				8,600
SC745	L2 – Equity loan to CIP	500	800	500				1,800
PV554	Development of land at Clay Farm (reprofiling existing spend)	(783)	49	14	15	705		0
	<b>Total proposals</b>	<b>(283)</b>	<b>4,249</b>	<b>5,714</b>	<b>15</b>	<b>705</b>		<b>10,400</b>

The table below shows the impact of these changes on the overall capital plan. The resulting detailed capital plan is provided in Appendix A(a) and its funding in Appendix A(b).

Capital plan / £'000s	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	Total
<b>Capital plan as approved at BSR Feb 2020</b>	<b>33,962</b>	<b>30,812</b>	<b>19,030</b>	<b>29,862</b>	<b>7,639</b>	<b>466</b>	<b>121,771</b>
Changes approved and adjustments made in year	25,571	1,485					27,056
<b>Current approved capital plan</b>	<b>59,533</b>	<b>32,297</b>	<b>19,030</b>	<b>29,862</b>	<b>7,639</b>	<b>466</b>	<b>148,827</b>
Mid year capital spending proposals	(283)	4,249	5,714	15	705		<b>10,400</b>
<b>Revised capital plan</b>	<b>59,250</b>	<b>36,546</b>	<b>24,744</b>	<b>29,877</b>	<b>8,344</b>	<b>466</b>	<b>159,227</b>

# Funding

£'000s	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	Total
<b>BSR Feb 2020: Funding available from revenue and unapplied</b>		(577)	(1,070)	(1,100)	(1,100)	(1,100)	(4,947)
Feasibility funding adjustment – to reduce funding in line with reductions in DRF		(11)	(11)	(11)	(11)	(11)	(55)
Funding released – spend re-allocated to R&R fund (refuse vehicle)		(375)					(375)
	-	(963)	(1,081)	(1,111)	(1,111)	(1,111)	(5,377)
<b>Changes approved and adjustments made in year:</b>							
<b>Spend:</b>							
Schemes approved since BSR 2020	1,028						1,028
Proposed	(283)	4,249	5,714	15	705		10,400
	<b>745</b>	<b>4,249</b>	<b>5,714</b>	<b>15</b>	<b>705</b>		<b>11,428</b>
<b>Funding:</b>							
S106	(1,028)						(1,028)
Internal borrowing	283	(4,249)	(5,714)	(15)	(705)		(10,400)
	<b>(745)</b>	<b>(4,249)</b>	<b>(5,714)</b>	<b>(15)</b>	<b>(705)</b>		<b>(11,428)</b>
<b>Revised capital funding availability</b>	-	<b>(963)</b>	<b>(1,081)</b>	<b>(1,111)</b>	<b>(1,111)</b>	<b>(1,111)</b>	<b>(5,377)</b>
<b>Memo: 5% top-slice of DRF (£1,660k) – revenue feasibility budget</b>		<b>83</b>	<b>83</b>	<b>83</b>	<b>83</b>	<b>83</b>	<b>415</b>

Work continues to develop a number of schemes within the Council capital strategy to be brought forward for funding approval through the BSR in February 2021 and beyond. These schemes will draw on capital funding available and reported above, expected capital receipts and potentially internal and external borrowing as appropriate for the scheme.



# Section 7

## Risks and reserves

### Risks

The council is exposed to risks and uncertainties which could affect its financial position. Additional risks have been identified in relation to the Covid-19 crisis, which has also increased the potential impact of existing risks. The table below summarises risks to the financial standing and sustainability of the council, using a High-Medium-Low assessment.

Risk	Probability (H, M, L)	Impact (H, M, L)	Overall assessment (H, M, L)	Mitigation
The economic impact of the Covid-19 pandemic (with a second spike or long, slow recovery) may impact some of the council's costs and income streams in future years. This could include the costs of homelessness, car parking income, commercial rents and planning fee income, with the degree of impact difficult to predict	H	H	<b>H</b>	Management overview, further government funding
The economic impact of the United Kingdom leaving the European Union may impact some of the council's income streams such as car parking income, commercial rents and planning fee income, with the timing and degree of impact difficult to predict	H	H	<b>H</b>	Management overview
The implementation of proposals to tackle congestion in Cambridge may adversely impact car parking income and the delivery of services that rely on officers travelling around the city. The council may also become subject to a workplace parking levy	H	H	<b>H</b>	Engagement with partners, strategic planning to mitigate service delivery and financial pressures
Funding from central government (Settlement Funding Assessment, including the outcome of the Fair Funding Review and other grants) may fall below projections	M	H	<b>H</b>	Monitor developments, plan delivery of savings and additional income, consider limited use of reserves
The impact of 75% business rates retention, coupled with any additional responsibilities handed down to the council at that time, may create a net pressure on resources	M	H	<b>H</b>	Monitor developments, plan delivery of savings and additional income, consider limited use of reserves

<b>Risk</b>	<b>Probability (H, M, L)</b>	<b>Impact (H, M, L)</b>	<b>Overall assessment (H, M, L)</b>	<b>Mitigation</b>
Business rates appeals, which may be backdated to 2010, may significantly exceed the provision put aside for this purpose. A specific risk exists around a claim for charitable status and mandatory relief made by NHS Trusts, where the outcome of a test case has been appealed	L	H	<b>H</b>	Review provision regularly
The actual impact and timing of local growth on the demand for some services may not reflect projections used.	M	M	<b>M</b>	Management overview and use of up-to-date data and intelligence
The council may not be able to replace time-limited funding for commitments to maintain open spaces associated with growth sites, or implement alternative arrangements for their maintenance;	M	M	<b>M</b>	Review of savings delivery and co-design of services
Unforeseen expenditure, such as major repairs to offices and commercial properties, may be required	L	M	<b>M</b>	Property condition surveys, review of property use
Assumptions and estimates, such as inflation, pay increases and interest rates, may prove incorrect	L	M	<b>M</b>	Management overview and monitoring
Savings plans may not deliver projected savings to expected timescales	L	M	<b>L</b>	Management overview and monitoring
Increases in council tax and business rates receipts due to local growth may not meet expectations	M	L	<b>L</b>	Management overview and monitoring
New legislation or changes to existing legislation may have budgetary impacts	L	M	<b>L</b>	Management overview and monitoring
The council may be impacted by spending cuts implemented by other agencies	H	L	<b>L</b>	Engagement with partners

# Reserves

## General Fund reserve

The GF reserve is held as a buffer against crystallising risks and to deal with timing issues and uneven cash flows. As such, the level of the reserve required is dependent on the financial risks facing the council which will vary over time. Therefore, the prudent minimum balance (PMB) and target level of the GF reserve has been reviewed in the light of current risks, particularly the heightened financial risks in relation to the Covid-19 pandemic. As a result, an increase in PMB is recommended.

The PMB will be reassessed during the budget setting process, as the current pandemic situation is volatile and changes in this risk may indicate that the PMB should be either reduced or increased at that point. Detailed calculations of these amounts are provided in Appendix B.

<b>General Fund reserves</b>	<b>£m</b>
February 2020 BSR	
- Target level	6.61
- Minimum level (PMB)	5.51
October 2020 MTFS – Recommended levels	
- Target level	7.59
- Minimum level (PMB)	6.33

The table below shows current and projected levels of the GF reserve.

<b>Description / £'000s</b>	<b>2020/21</b>	<b>2021/22</b>	<b>2022/23</b>	<b>2023/24</b>	<b>2024/25</b>	<b>2025/26</b>
<b>Balance at 1 April (b/fwd)</b>	<b>(17,470)</b>	<b>(19,071)</b>	<b>(16,557)</b>	<b>(17,866)</b>	<b>(18,737)</b>	<b>(19,700)</b>
Contribution (to) / from reserves per BSR 2020/21	(5,776)	(386)	(286)	(286)	(286)	(286)
Carry forwards	1,087					
Business rates growth - growth element	918	0	(1,023)	(585)	(677)	(771)
Use of reserves to support revenue spending in services	2,170	2,900				
<b>Balance at 31 March (c/fwd)</b>	<b>(19,071)</b>	<b>(16,557)</b>	<b>(17,866)</b>	<b>(18,737)</b>	<b>(19,700)</b>	<b>(20,757)</b>

As noted above, the levels of risk to the financial sustainability of the council are considerable and are increased by delays in the delivery of funding reforms and the impact of Brexit uncertainty alongside a worsening global and national financial outlook as a result of the Covid-19 pandemic. This council is fortunate to have reserves available to fund one-off transformational activity and capital requirements. No specific proposals have been made on the use of reserves pending the outcome of the Fair Funding Review when a re-basing of budgets with a longer-term view will be possible.

## Earmarked and specific funds

In addition to the GF reserve, the GF 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 for a summary of principal earmarked funds.

These funds are subject to annual review as part of the MTFS to ensure that agreed principles are applied: -

- Major policy-led funds, such as the Climate Change Fund, are ongoing
- Selected Repairs and Renewals (R&R) Funds – for vehicles and Bereavement Services are ongoing
- Any other reserves will only be held as required for statutory or accounting purposes, to record balances held by the council for other organisations or partnerships or to reflect ring-fenced appropriations.
- Uncommitted balances will be moved to the GF reserve, and funds closed when all committed balances are spent.

Through the interim update to the MTFS in July, £734k was released from the Office Accommodation Strategy reserve as capital schemes were deleted pending re-evaluation of office accommodation needs and a further £892k was approved for direct transfer from earmarked reserves, both amounts to fund Covid-19 spending pressures in the interim update to the MTFS in July 2020.

Type of earmarked or specific fund	Balance at 31 March 2020 £000	Balance at 31 March 2019 £000
Major policy-led funds	2,661	11,518
Asset replacement funds (R&R)	2,100	1,618
Statutory and accounting reserves	4,332	3,648
Shared / partnership funds	7,341	7,300
Other – to be closed once committed balances are spent	1,179	964
<b>Total</b>	<b>17,613</b>	<b>25,048</b>

# Section 8

## Budget strategy

### General Fund savings requirements

Description / £'000	2021/22	2022/23	2023/24	2024/25	2025/26	Total
<b>Net savings requirement (BSR Feb 2020)</b>	<b>635</b>	<b>635</b>	<b>635</b>	<b>635</b>	<b>598</b>	<b>3,138</b>
Net impact of the Covid-19 response in the interim MTFS and subsequent changes in assumptions in this report	1,520	1,509	629	(74)	(1,058)	2,526
<b>Revised (MTFS) net savings requirement</b>	<b>2,155</b>	<b>2,144</b>	<b>1,264</b>	<b>561</b>	<b>(460)</b>	<b>5,664</b>

### General Fund budget strategy

#### Budget process

The GF budget process for 2021/22 will remain broadly similar to that for previous years, working within an overall cash limit designed to meet known financial pressures. The base model used to prepare this report has driven the recommendations in respect of the 2021/22 budget process and provided indications of the level of savings required to meet both current and anticipated spending needs.

The GF MTFS has highlighted:

- Unprecedented financial uncertainties for the council as the impacts of Covid-19 feed through into the national and local economy, further exacerbated by the forthcoming end of the Brexit transition period

- An ongoing lack of clarity in the future direction of local government funding
- Increasing pressure on council services as a result of Covid-19 and its impact on vulnerable residents, local businesses and visitors, alongside the need to deliver services in a Covid-safe way, all with consequent additional cost
- A need to take action to balance the budget in the short term and to ensure financial sustainability for the council in the long term

## **New ways of working and maintaining priorities**

The Council's commitments to address poverty, housing need and homelessness, and climate change remain, and we will continue to invest our resources to prioritise this work. For example, and with regard to the latter, these will include investing to reduce our own energy usage and bills and the carbon emissions from our fleet, buildings and assets. We remain committed to replace our non-waste vehicle fleet with electric vehicles in the coming years. We must not forget these core areas of work and deliver against existing promises.

However, it is imperative that even in the most difficult of times that we continually look to improve our Services. Bringing delivery closer to communities and working in alignment with our statutory partners to ensure a better fit with local capacity and needs, we can increase representation and participation by rethinking the relationship between the council and residents. The community response to the Covid-19 pandemic and lockdown and the development of mutual aid networks has shown the level of skill and the ability to deliver that already exists within our communities. This is combined with a real appetite within communities for greater involvement in activities which support their local areas.

Therefore, the council will be embarking on a transformation process centred around a review of how it works both externally with residents, communities, partners and others, as well internally across departments and teams.

- We hope to build community capacity, working co-operatively and collaboratively to care for the city; addressing the long-term causes of 'wicked issues' such as poverty and inequality. We will take a local or 'neighbourhood' approach, ensuring a closer relationship with communities and targeting resources at the areas of greatest need.
- The council will encourage an 'enabling' role through our influence on other stakeholders, increasing our impact in areas like anti-poverty and climate change, where many activities which have the greatest impact are outside our direct control; ensuring better outcomes for

our communities and making best use of the incredible knowledge, capacity and skills which exist in Cambridge as a city

- We will aim to work as an agile, dynamic organisation, informed by evidence and insight about local need, targeting its skills, capacity and resources towards the most important priorities and outcomes for the community, innovating and improving its services, delivering them from whichever place is the best fit for the job.

## **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. However, as in previous years, it is expected that the value of new savings found will decrease over time as services become leaner and more cost effective.

As in previous years, the council is continuing with a long-term programme of transformation to bring about fundamental changes to the way the council delivers services and interacts with residents, tenants and other parties. The approach to service review and savings delivery has been refocused into reflect the 'new ways of working' thinking outlined above.

It is also proposed that we will review of the way the council sets its fees and charges and continuing work on developing investments to provide regular income streams will directly address the financial sustainability of the council.

The BSR 2021 will present budget proposals for savings and increased income, and bids for the delivery and implementation costs arising from these initiatives, including anticipated costs of change.

# **Achieving financial sustainability and resilience**

Despite continuing pressures and uncertainties, the council's finances remain healthy. However, there is no foreseeable end to scarce funding for local authorities and economic conditions remain challenging, particularly with no end in sight to the Covid-19 pandemic or its economic effects. It is important, therefore, to ensure that the council is prepared to manage financial challenges as they arise. To ensure financial resilience the council must: -

- Maintain healthy levels of reserves
- Plan and deliver savings in a controlled and sustainable way
- Ensure savings and income plans are firm and robust and that gaps / savings still to be found are minimised, particularly in the next two or three financial years
- Minimise unplanned overspends and/or carrying forward undelivered savings into the following year.

The council maintains a sound system of financial management and control. However, it is continuing to enhance its planning and monitoring with a view to ensuring that circumstances that might lead to financial stress are identified and acted upon in a timely manner. To this end, all Heads of Service review financial and performance monitoring reports council-wide, ensuring greater challenge, visibility and ownership.

Delivery of projects has been strengthened by:

- Revising the council's project management toolkit
- Implementing a corporate project management system, PM3
- Providing project management training for project managers and sponsors
- Improving programme and project monitoring by reviewing and enhancing key programme boards



**Appendix A(a): Capital Plan 2020/21 to 2025/26**

Ref.	Description	Lead Officer	2020/21 (£000's)	2021/22 (£000's)	2022/23 (£000's)	2023/24 (£000's)	2024/25 (£000's)	2025/26 (£000's)
<b>Capital-GF Projects</b>								
PR030h	S106 Romsey 'town square' public realm improvements	J Richards	7	0	0	0	0	0
PR031q	S106 Bramblefields nature reserve: to improve biodiversity and access	A Wilson	2	0	0	0	0	0
PR031r	S106 Chesterton Rec Ground skate and scooter park	J Richards	50	0	0	0	0	0
PR032w	S106 Accordia open space improvements	A Wilson	5	0	0	0	0	0
PR032y	S106 Trumpington Rec Ground skate park	J Richards	3	0	0	0	0	0
PR032z	S106 Trumpington Rec Ground trim trail and climbing frame	A Wilson	7	0	0	0	0	0
PR040z	S106 Public art: Historyworks: Michael Rosen Walking Trail 2	N Black	10	0	0	0	0	0
PR042d	S106 Romsey Mill community facility grant	J Hanson	21	0	0	0	0	0
PR042g	S106 To the River - artist in residence	N Black	60	0	0	0	0	0
PR042m	Public art grant - Chesterton village sign (S106)	N Black	10	0	0	0	0	0
PR042n	Public art grant - HistoryWorks: Travellers and Outsiders (S106)	N Black	15	0	0	0	0	0
PR050d	Mobile working (OAS)	D Prinsep	15	0	0	0	0	0
PR050g	Office optimisation (OAS)	D Prinsep	50	0	0	0	0	0
SC548	S106 Southern Connections Public Art Commission	A Wilson	13	0	0	0	0	0
SC571	Procurement of IT System to Manage Community Infrastructure Levy	S Kelly	20	0	0	0	0	0
SC590	Structural Holding Repairs & Lift Refurbishment - Car Parks	S Cleary	200	0	0	0	0	0
SC601	Replacement Telecommunications & Local Area Network	F Bryant	14	0	0	0	0	0
SC627	Guildhall Large Hall Windows refurbishment	W Barfield	0	101	0	0	0	0
SC633	S106 Reinforcing grass edges along paths across Parker's Piece	A Wilson	77	0	0	0	0	0
SC644	Acquisition of land adjacent to Huntingdon Road Crematorium	G Theobald	42	0	0	0	0	0
SC645	Electric vehicle charging points	J Dicks	386	0	0	0	0	0
SC646	Redevelopment of Cambridge Junction	J Wilson	31	219	0	0	0	0
SC651	Shared ICT waste management software - Alloy/Yotta	J Carré	297	0	0	0	0	0
SC654	Redevelopment of Silver Street Toilets	D O'Halloran	0	476	0	0	0	0
SC655	Resealing the roof at Robert Davies Court	W Barfield	177	0	0	0	0	0
SC658	Cambridge City CCTV infrastructure	J Carré	12	0	0	0	0	0
SC659	My Cambridge City online customer portal	E Rospigliosi	46	0	0	0	0	0

Ref.	Description	Lead Officer	2020/21 (£000's)	2021/22 (£000's)	2022/23 (£000's)	2023/24 (£000's)	2024/25 (£000's)	2025/26 (£000's)
SC660	Council Anywhere - desktop transformation	F Bryant	204	18	0	0	0	0
SC662	Shared Planning Service software implementation	S Kelly	32	0	0	0	0	0
SC672	Mill Road Redevelopment - Development Loan to CIP	C Ryba	7,100	0	0	0	0	0
SC674	Mill Road Redevelopment - Equity Loan to CIP	C Ryba	4,265	0	0	0	0	0
SC678	Crematorium - additional car park	G Theobald	339	0	0	0	0	0
SC679	Crematorium - cafe facilities	G Theobald	307	0	0	0	0	0
SC680	CCTV equipment upgrade	J Carré	3	0	0	0	0	0
SC684	Property Management software	P Doggett	96	0	0	0	0	0
SC688	Environmental Health software	J Carré	40	0	0	0	0	0
SC689	Income management software	C Norman	15	32	0	0	0	0
SC690	Secure phone payments	C Norman	24	0	0	0	0	0
SC691	HRIS new system	D Simpson	149	0	0	0	0	0
SC692	CHUB - community extension to Cherry Hinton library	J Hanson	766	0	0	0	0	0
SC693	Lion Yard shopping centre investment	D Prinsep	6,000	0	0	0	0	0
SC694	Meadows Community Hub and Buchan St retail outlet	C Flowers	2,594	1,892	0	0	0	0
SC695	Cromwell Road Redevelopment - equity loan to CIP	C Ryba	5,000	350	0	0	0	0
SC696	Cromwell Road Redevelopment - development loan to CIP	C Ryba	13,500	1,000	0	0	0	0
SC700	S106 Nightingale community garden hut	G Belcher	11	0	0	0	0	0
SC701	Dales Brewery fire alarm system	C Mitchell	2	0	0	0	0	0
SC708	Replacement plantroom at Jesus Green outdoor pool	I Ross	140	0	0	0	0	0
SC710	Guildhall Small Hall wooden floor	J Wilson	0	45	0	0	0	0
SC711	Guildhall PA system	J Wilson	0	25	0	0	0	0
SC712	Automation of Bishops Mill sluice gate	A Wilson	90	0	0	0	0	0
SC713	Replacement air quality monitoring equipment	J Smith	200	0	0	0	0	0
SC714	Changing Places toilets at Quayside	A Wilson	100	0	0	0	0	0
SC715	Additional refuse vehicle for property growth shared with SCDC	T Nicoll	0	375	0	0	0	0
SC716	Replacement telephony system with call centre	E Rospigliosi	150	0	0	0	0	0
SC718	Data centre capacity growth 2020-2024	F Bryant	34	0	0	0	0	0

Ref.	Description	Lead Officer	2020/21 (£000's)	2021/22 (£000's)	2022/23 (£000's)	2023/24 (£000's)	2024/25 (£000's)	2025/26 (£000's)
SC719	Cyber security improvements	F Bryant	10	0	0	0	0	0
SC721	Call management for 3C ICT service desk	F Bryant	7	0	0	0	0	0
SC722	Purchase of link tip bodies	T Nicoll	18	0	0	0	0	0
SC724	Provision of extra electric charging points	S Cleary	50	50	0	0	0	0
SC727	Logan's Meadow vehicular access	J Carré	32	0	0	0	0	0
SC731	Cambridge Food Hub	S Roden	100	0	0	0	0	0
SC732	Park Street car park development	F Bryant	9,744	26,521	18,534	29,396	7,173	0
SC734	Grant for Arbury Court meeting room - voluntary services (S106)	J Hanson	3	0	0	0	0	0
SC735	S106 Grant for Chesterton Methodist Church improvements	J Hanson	15	0	0	0	0	0
SC736	S106 Grant for St George's Church improvements	J Hanson	15	0	0	0	0	0
SC738	Wilberforce Road artificial pitches (S106)	I Ross	250	0	0	0	0	0
SC739	Abbey Pool improvements (S106)	I Ross	380	0	0	0	0	0
SC740	Chesterton Rec pavilion (S106)	I Ross	178	0	0	0	0	0
SC741	Nightingale Rec Ground pavilion (S106)	I Ross	425	0	0	0	0	0
SC742	L2 development loan to CIP	C Ryba	0	3,400	5,200	0	0	0
SC743	L2 equity loan to CIP	C Ryba	500	800	500	0	0	0
<b>Capital-GF Projects</b>			<b>54,458</b>	<b>35,304</b>	<b>24,234</b>	<b>29,396</b>	<b>7,173</b>	<b>0</b>
<b>Capital-Programmes</b>								
PR010	Environmental Improvements Programme	J Richards	180	0	0	0	0	0
PR010a	Environmental Improvements Programme - North Area	J Richards	14	0	0	0	0	0
PR010b	Environmental Improvements Programme - South Area	J Richards	48	0	0	0	0	0
PR010c	Environmental Improvements Programme - West/Central Area	J Richards	58	0	0	0	0	0
PR010d	Environmental Improvements Programme - East Area	J Richards	47	0	0	0	0	0
PR017	Vehicle Replacement Programme	D Cox	695	200	0	0	0	0
PR035	Waste & Recycling Bins - New Developments (S106)	T Nicoll	143	0	0	0	0	0
PR039	Minor Highway Improvement Programme	J Richards	48	30	30	0	0	0
PR050	Office Accommodation Strategy Phase 2 (OAS)	D Prinsep	24	0	0	0	0	0
PR051	Building works at the Guildhall to reduce carbon emissions and improve energy efficiency	W Barfield	58	0	0	0	0	0
PR053	Commercial property repair and maintenance	W Barfield	225	300	300	300	300	300

Ref.	Description	Lead Officer	2020/21 (£000's)	2021/22 (£000's)	2022/23 (£000's)	2023/24 (£000's)	2024/25 (£000's)	2025/26 (£000's)
PR054	Administrative buildings maintenance	W Barfield	94	216	166	166	166	166
<b>Capital-Programmes</b>			<b>1,634</b>	<b>746</b>	<b>496</b>	<b>466</b>	<b>466</b>	<b>466</b>
<b>Capital-GF Provisions</b>								
PV007	Cycleways	J Richards	0	387	0	0	0	0
PV018	Bus Shelters	J Richards	1	0	0	0	0	0
PV192	Development Land on the North Side of Kings Hedges Road	P Doggett	0	60	0	0	0	0
PV554	Development Of land at Clay Farm	D Prinsep	357	49	14	15	705	0
PV682	Local investment bond	C Ryba	2,800	0	0	0	0	0
<b>Capital-GF Provisions</b>			<b>3,158</b>	<b>496</b>	<b>14</b>	<b>15</b>	<b>705</b>	<b>0</b>
<b>Total GF Capital Plan</b>			<b>59,250</b>	<b>36,546</b>	<b>24,744</b>	<b>29,877</b>	<b>8,344</b>	<b>466</b>

## Appendix A(b): Capital Funding 2020/21 to 2025/26

Description	2020/21 (£000's)	2021/22 (£000's)	2022/23 (£000's)	2023/24 (£000's)	2024/25 (£000's)	2025/26 (£000's)
<b>External Support</b>						
Developer Contributions	(1,844)	0	0	0	0	0
Prudential Borrowing	(9,744)	(26,521)	(18,534)	(29,396)	(7,173)	0
Other Sources	(591)	(93)	0	0	0	0
<b>Total - External Support</b>	<b>(12,179)</b>	<b>(26,614)</b>	<b>(18,534)</b>	<b>(29,396)</b>	<b>(7,173)</b>	<b>0</b>
<b>City Council</b>						
Direct Revenue Financing (DRF) - GF Services	(60)	0	0	0	0	0
Direct Revenue Financing (DRF) - Use of Reserves	(3,180)	(2,677)	(1,577)	(1,577)	(1,577)	(1,577)
Earmarked Reserve - Capital Contributions	(3,573)	0	0	0	0	0
Earmarked Reserve - Office Accommodation Strategy	(24)	0	0	0	0	0
Earmarked Reserve - Repair & Renewals Fund	(889)	(575)	0	0	0	0
Internal Borrowing - Temporary Use of Balances	(39,300)	(7,491)	(5,714)	(15)	(705)	0
Usable Capital Receipts	(45)	(152)	0	0	0	0
<b>Total - City Council</b>	<b>(47,071)</b>	<b>(10,895)</b>	<b>(7,291)</b>	<b>(1,592)</b>	<b>(2,282)</b>	<b>(1,577)</b>
<b>Total Available Finance</b>	<b>(59,250)</b>	<b>(37,509)</b>	<b>(25,825)</b>	<b>(30,988)</b>	<b>(9,455)</b>	<b>(1,577)</b>
<b>Capital Plan</b>	<b>59,250</b>	<b>36,546</b>	<b>24,744</b>	<b>29,877</b>	<b>8,344</b>	<b>466</b>
<b>Net Funding Available</b>	<b>0</b>	<b>(963)</b>	<b>(1,081)</b>	<b>(1,111)</b>	<b>(1,111)</b>	<b>(1,111)</b>

# Appendix B

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

Description	Level of risk	Amount at risk	Risk
		£	£
Employee costs	Low	31,394,880	62,790
Premises costs	Low	7,494,240	14,988
Transport costs	Low	671,810	2,687
Supplies and services	Low	36,001,820	18,001
Grants and transfers	Low	28,496,400	28,496
Grant income	Low	35,944,760	35,945
Other income	High	63,136,280	1,420,566
Miscellaneous	Low	379,210	569
Total one year operational risk			1,584,043
<b>Allowing three years cover on operational risk</b>			<b>4,752,000</b>

General and specific risks	Amount (£)	Probability (%)	
Unforeseen events	1,000,000	30%	300,000
Legal action - counsel's fees	100,000	50%	50,000
Data Protection breach	500,000	30%	150,000
Capital project overruns	750,000	50%	375,000
Project failure / delays to savings realisation	1,000,000	50%	500,000
Cover for lower level of earmarked and specific reserves	500,000	30%	150,000
Fuel cost inflation - currency fluctuations due to Brexit	100,000	50%	50,000
<b>General risks</b>			<b>1,575,000</b>

<b>Prudent Minimum Balance (PMB)</b>	<b>6,327,000</b>
<b>Target (PMB + 20%)</b>	<b>7,592,000</b>

<b>Operational cost risk profiles</b>					
			<i>Low</i>	<i>Medium</i>	<i>High</i>
Employee costs		overspend	1.00%	3.00%	5.00%
	£31,394,880	probability	20.0%	15.0%	10.0%
		<b>amount at risk</b>	<b>£62,790</b>	<b>£141,277</b>	<b>£156,974</b>
Premises costs		overspend	1.00%	3.00%	5.00%
	£7,494,240	probability	20.0%	15.0%	10.0%
		<b>amount at risk</b>	<b>£14,988</b>	<b>£33,724</b>	<b>£37,471</b>
Transport costs		overspend	2.00%	4.00%	6.00%
	£671,810	probability	20.0%	15.0%	10.0%
		<b>amount at risk</b>	<b>£2,687</b>	<b>£4,031</b>	<b>£4,031</b>
Supplies and services		overspend	1.00%	3.00%	5.00%
	£36,001,820	probability	5.0%	10.0%	15.0%
		<b>amount at risk</b>	<b>£18,001</b>	<b>£108,005</b>	<b>£270,014</b>
Grants and transfers		overspend	1.00%	2.00%	3.00%
	£28,496,400	probability	10.0%	7.5%	5.0%
		<b>amount at risk</b>	<b>£28,496</b>	<b>£42,745</b>	<b>£42,745</b>
Grant income		overspend	1.00%	2.00%	3.00%
	£35,944,760	probability	10.0%	7.5%	5.0%
		<b>amount at risk</b>	<b>£35,945</b>	<b>£53,917</b>	<b>£53,917</b>
Other income		overspend	5.00%	10.00%	15.00%
	£63,136,280	probability	5.0%	10.0%	15.0%
		<b>amount at risk</b>	<b>£157,841</b>	<b>£631,363</b>	<b>£1,420,566</b>
Other		overspend	1.00%	2.00%	3.00%
	£379,210	probability	15.0%	10.0%	5.0%
		<b>amount at risk</b>	<b>£569</b>	<b>£758</b>	<b>£569</b>

# Appendix C

## Principal earmarked and specific funds

<b>Fund</b>	<b>Balance at 1 April 2020</b>	<b>Anticipated contributions</b>	<b>Forecast expenditure</b>	<b>Forecast balance at 31 March 2025</b>
Greater Cambridge Partnership (formerly City Deal) Investment and Delivery Fund	(5,328)	(1,349)	6,677	0
Sharing Prosperity Fund	(85)	0	85	0
Climate Change Fund	(129)	(500)	500	(129)
Asset Replacement Fund (R&R)	(1,575)	(3,250)	5,000	175
Bereavement Services Trading Account	(525)	(800)	1,518	193
Local Plan Development Fund	(943)	(600)	1,823	280
A14 Mitigation Fund	(1,500)	0	1,500	0
Cambridge Live Development Plan	(213)	0	213	0
<b>Total</b>	<b>(10,298)</b>	<b>(6,499)</b>	<b>17,316</b>	<b>519</b>

The majority of these funds are subject to future contributions and expenditure which cannot be exactly stated. This table reflects our best estimates.

The Local Plan Development Fund is used to fund work with South Cambridgeshire District Council on the joint Local Plan.