

**30 September
2024**

Strategy and Resources
Scrutiny Committee

General Fund Medium Term Financial Strategy

**September
2024**

2025/26 to 2034/35

Cambridge City Council



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Foreword by the Executive Councillor for Finance and Resources

About the Medium Term Financial Strategy

The General Fund Medium Term Financial Strategy (MTFS) and Budget Setting Report (BSR) are the two main annual financial documents for all services the Council delivers to residents excluding Council housing.

This MTFS sets out the overarching strategy through which the Council will ensure its medium-term financial sustainability. This includes the Council's approaches to addressing forecast budgets gaps and using its reserves to mitigate financial risk.

The MTFS shows the Council's expenditure on day-to-day services is funded by fees, charges and other sources such as commercial property and its core spending power. The latter, which the Government sets annually, determines council tax increases, retention of business rates and receipt of grants.

Our budget challenge

In a context of financial uncertainties, the government requires all local authorities to set a balanced budget every year. The external auditor of the Council's accounts provides a commentary on value for money which is judged against:

Financial sustainability, how the Council plans and manages its resources to ensure it can continue to deliver its services,

Governance, how the Council ensures it makes informed decisions and properly manages its risks,

Improving economy, efficiency and effectiveness, how the Council uses information about its costs and performance to improve the way it manages and delivers its services.

To address a structural budget deficit, we have over the past two years already made £5.4 million of revenue savings through efficiencies, increased income and prudent financial management.

However, our base forecast is for a recurring budget gap of £11.5 million per annum against current net service expenditure of £28.6 million per annum. This structural budget deficit is due to:

- A forecast reset of business rates retention monies at a cost of up to £7.1 million per annum
- A cost pressure of £3.2 million per annum due to higher than forecast inflation
- Government spending plans for real term reductions in spending power of 3% per annum for local government as an unprotected public service
- Loss of income on capital due to falling interest rates on declining balances
- Government restraints on investing for revenue

Our services and budget making principles

In reading this document, it is important to bear in mind the budget provides the means for the Council to deliver positive ends for the City's residents, economy and environment.

Your Labour Council is a positive, progressive and productive service provider. We are committed to protect from budget constraints our priorities that matter most:

Building Council Homes and investing in community spaces: We are preparing a 10-year delivery programme for a further 1,445 council homes alongside improving the energy performance and standards of existing council homes. New community spaces are being opened and developed across the city to facilitate community life and cohesion in our neighbourhoods which contribute so much to our quality of life.

In 2022/23 the Council built 330 new low energy Council homes, the highest number of any local authority in England, Wales and Scotland.

Tackling the climate and biodiversity emergencies: The Council is collaborating with Cambridge University and all 29 of the colleges to develop a City Centre Heat Network to provide renewable energy. Through our emerging Joint Local Plan for Greater Cambridge - with South Cambridgeshire District Council - we are setting new standards for low energy and low water consumption and higher targets for biodiversity net gain in new development.

The Council has an 'A' score under the Climate Disclosure Project and is the second highest district council in the Climate Emergency UK's ranking of all local authorities on climate action.

Supporting residents in need and preventing homelessness: Your Labour Council supports cross community partnerships that provide the last safety net for people in greatest need of our compassion and support. The city's network of food hubs has been recognised through a Gold Award for Sustainable Food Cities.

Through multi-agency work we prevent families from becoming homeless and provide street sleepers with winter shelter. Supporting local partnership enables us to deliver innovative ways to end homelessness. These include providing modular homes, winter shelter and gaining better understanding of the needs of our most vulnerable residents.

Protecting and enhancing local services: Your Labour Council is a prudent council; we are committed to fulfilling our statutory duty to balance the budget and serve residents as a value for money council. In budget making we will:

- Protect and improve the quality of the services we have statutory duties to provide
- Protect the non-statutory services which we know are important to residents
- Listen to your voices on the choices about savings that could be made from non-statutory discretionary services

Our work towards balancing the budget

To address the forecast structural deficit, we have invested in a multi-year transformation programme to increase the Council's productivity. This work is focussed on meeting needs through better targeting, investing in digital technologies for more effective ways of delivering services and introducing flatter management structures.

The investment in modernising services has put the Council in a position to achieve £6 million in recurring next savings over the financial years 2025/26-2026/27.

Of this amount, it is proposed to find £2.5 million of savings which would not have an adverse impact on service delivery, through deleting recurring underspends and vacant posts, reducing management costs, and identifying opportunities for efficiencies.

This will leave the remaining £3.5 million of savings to be realised through changes to service delivery, and a review of the Council's fees and charges.

Please make your voice heard to inform our difficult decisions.

Cambridge is a globally renowned city for its universities, life science and technology sectors. Innovations in new products and services developed in Cambridge have positive economic, social and environmental impacts around the world.

Public sector poverty, widening inequalities, infrastructure deficits and environmental harm are not the handmaidens of global competitiveness for business and a high quality of life. We are making a strong case to the new government to secure and guide investment for social progress, housing, infrastructure and environmental enhancement. This investment crucial to repairing the broken Britian legacy of 14 years of Tory austerity and maladministration.

Tory broken Britain has left us with difficult decisions to balance the budget for 2025/26 and beyond.

Against this challenge, we will be asking residents, businesses, public and third sector organisations, staff, trade unions and councillors to give us their views and choices for balancing the budget in the forthcoming budget consultation.

Please take up this invitation to make your voice heard during the consultation which will run from 23rd October to 4th December 2024.

You can be assured, as the Council leader, Mike Davey, has said, this Labour-led council will continue to make principled and strategic decisions about how we best spend local money to enable residents, businesses and City to thrive.

Councillor Simon Smith – Executive Councillor for Finance and Resources

Section 1

Executive summary

Context

Cambridge City Council produces two main financial documents each year, the Budget Setting Report (BSR) and this, the Medium Term Financial Strategy (MTFS). The MTFS draws together a review of the financial information halfway through the year, making assumptions and forecasts for the future and providing a basis upon which to prepare the budget for the year ahead.

Budget gap

The current BSR, which was approved in February 2024, identified a five-year budget gap of £9.5 million. This MTFS revises the gap upwards to £11.5 million, driven primarily by changes to inflation assumptions based upon updated economic data.

The budget gap is significant in the context of the Council's current net service budget of £28.6 million, and is primarily driven by the following key factors:

- Anticipated changes to local government funding arrangements which could see the Council lose £7.1 million per year of funding from 2026/27 (largely as a result of a national 'reset' of accumulated business rate growth).
- Significant unforeseen inflationary pressures over the past three years – net service expenditure in 2024/25 is now £3.2 million higher than predicted five years ago.
- Real terms cuts in central government funding over a number of years. For example, despite the Consumer Price Index (CPI) peaking at 11.1% in October 2022, the following year's settlement only saw the Council's core spending power increased by 4.5%, whilst council tax increases were limited by government to 2.99%.
- An expectation that current high levels of income from the Council's treasury management investments (budgeted at £2.4 million in the current year) will significantly reduce over the next two years as the Council's excess cash is invested in capital projects, and interest rates continue to fall.

It should also be noted that the Council relies heavily upon its own income generation ability to fund services. The current year budget includes £38.9 million of fees, charges, commercial and investment income, without which the cost of running Council services would be £67.5 million rather than the current £28.6 million. Whilst this strong income base is a key financial strength of the Council, it is often a challenge to increase these income streams in line with inflation. For example, many fees and charges are subject to government regulation and/or market forces, whilst investment and property income is often reliant upon external economic factors.

Risks and reserves

In calculating the projected budget gap, it has been necessary to make significant assumptions relating to future arrangements for local government funding and wider economic conditions. These are summarised at section 3 of this report. If actual outcomes differ from these assumptions, this could have a material impact on the Council's future finances. Scenario modelling undertaken as part of this MTFS indicates that the five-year budget gap could reasonably range between £9.2 million and £22.7 million. Further details on the key financial risks faced by the Council over the medium term are set out at section 7.

One of the ways in which the Council mitigates risk to its medium-term financial sustainability is through the holding of reserves. Most Council reserves are earmarked for specific purposes, either for legal or contractual reasons (such as ringfenced grants), or because the Council has taken a decision to allocate reserves to a specific activity or project. In addition, the Council maintains an unallocated General Fund reserve in order to manage short-term working capital requirements, and to provide a contingency against significant unexpected events and overspends.

The target level of General Fund reserves is reviewed on a regular basis, based upon advice from the Council's Chief Finance Officer. The current proposed target level is £7.8 million, and the forecast balance at the end of the current financial year (31 March 2025) is £19.1 million, i.e. an excess of £11.3 million. However, as set out above there are significant projected budget gaps in the medium term, and without action to address these, General Fund reserves are projected to fall below their target level by 2027/28, and could be fully exhausted by 2028/29.

Budget strategy

The level of challenge in achieving the required £11.5 million of recurring savings over the next five years should not be underestimated. Section 6 of this MTFS sets out the Council's approach to meeting this challenge, starting with a focus on delivering £6.0 million of recurring savings by 1 April 2026. This approach will satisfy the need for immediate action, whilst also reflecting a realistic pace of delivery, taking into account the scale of transformation which will be needed. The Council will utilise General Fund reserves to reduce the need for savings in the earlier years, whilst still ensuring the budget gap can be met in full over the five-year MTFS period.

The approach to delivering savings will be twofold. Firstly, the Council will seek to maximise savings which do not impact upon its service users, for example through making structures and processes more efficient, challenging existing budget underspends, and reviewing long-term capital plans. However, it will not be possible to deliver all the required savings through such activities alone, and there will be a need to consider changes to council services and how these are funded.

Outline strategic budget proposals reflecting this need have been set out in the 'Our Cambridge – Group Design Programme and Alignment with BSR' report to the Strategy & Resources Committee on 30 September 2024, and, subject to approval by the Executive, these proposals will form the basis of the public consultation on the 2025/26 budget which will launch in October 2024.

Section 2

Local context and economic assessment

This section of the Strategy explains the approach taken to incorporate the global and national economic context in the MTFs including an assessment of the resources the Council expects to receive from government through the Local Government Finance Settlement.

Local context

Cambridge is a vitally important city both to the wider region and the whole UK economy. As well as being a world-renowned centre of academic and scientific excellence, it continues to be a hub for high economic growth, attracting innovative businesses from across the globe. It is a place which takes pride in its environmental sustainability, having been named the second greenest city in the UK in the ENDS Report 2024. Meanwhile, the city's historic centre and exemplary green spaces drive a thriving tourism industry and make Cambridge a great place to live and work.

As the centre of a globally competitive life science and technology cluster, Cambridge is a key provider of new technologies that drive the UK's productivity and exports, and a source of demand for supply chains across the country. The city is a significant net contributor to the Treasury, with the Council collecting over £120 million in business rates alone every year, the vast majority of which is remitted to central government.

These strengths provide the city and the Council with a strong economic foundation and have been recognised by successive governments, including most recently in the 'Case for Cambridge' report published by the previous government in March 2024. This report makes a strong case for continued investment in the growth of the city, but also recognises some of the significant challenges involved.

The city's international competitiveness relies heavily on its ability to attract and retain the world's best scientists and technologists, who in turn expect a high quality of life underpinned by exemplary public services and housing. A shortage of affordable housing and research space, particularly when compared to international rivals, risks hampering future growth and preventing the city from reaching its full economic potential. In addition, despite

Cambridge's ongoing success, the benefits of economic growth are not always equally distributed, and it remains the most unequal city in the UK.

Against this context, in July 2024 the Council agreed an updated [vision](#) for the city of 'One Cambridge, Fair for All'. This envisages a city where:

- Residents enjoy a high quality of life and exemplar public services
- Decarbonisation and sustainability are central to prosperity
- Innovation benefits people and planet
- Development is sustainable and inclusive
- Arts, sports and culture are thriving
- Democratic accountability is genuine and accessible

It must be acknowledged, however, that in common with all UK local authorities the Council is experiencing a period of significant financial pressure. In order to deliver the above vision, it will therefore be necessary to take difficult decisions about the prioritisation of Council resources. Further information on how this will be achieved is set out at section 6 below. This will be challenging, but success will reap benefits not only for the city and its residents, but also for the whole UK economy.

Council priorities

The Council's [Corporate Plan 2022-2027](#), approved in February 2022, sets out four key priorities for the city, as well as describing what success will look like and performance indicators to measure progress. The priorities are:

- Leading Cambridge's response to the climate and biodiversity emergencies and creating a net zero council by 2030
- Tackling poverty and inequality and helping people in the greatest need
- Building a new generation of council and affordable homes and reducing homelessness
- Modernising the council to lead a greener city that is fair for all

Economic assessment

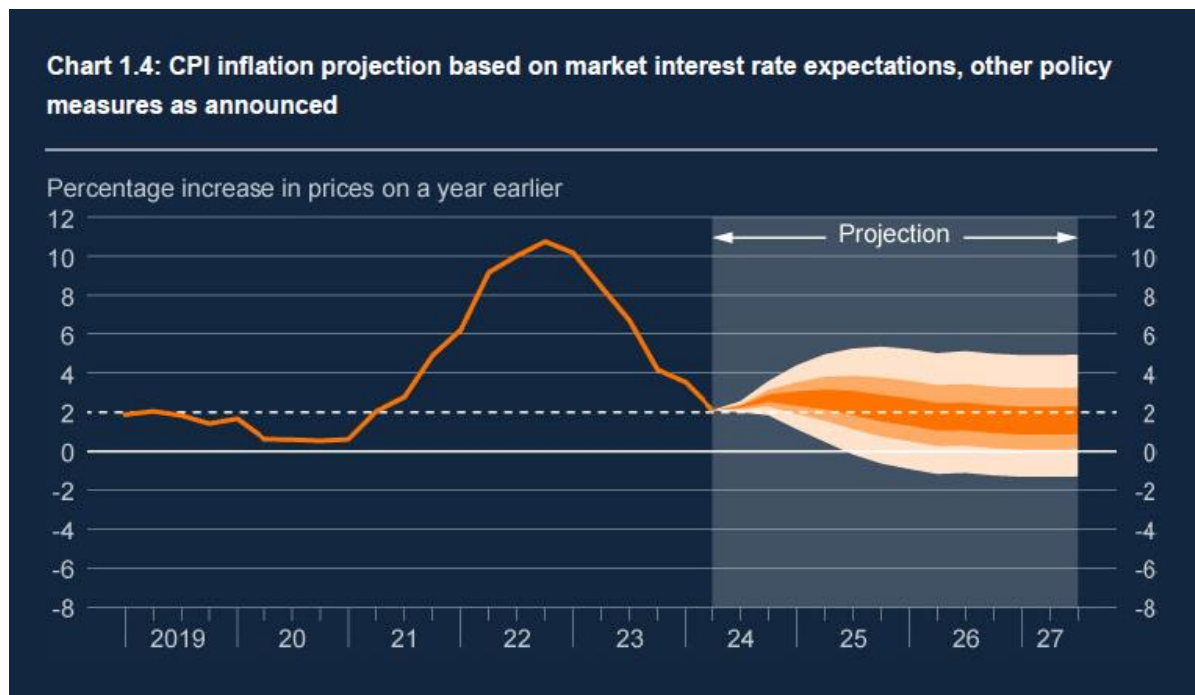
The Council's finances are impacted by a combination of global, national and local factors. In developing this MTFs, it has been necessary for judgements to be made based upon available economic forecasts, and assumptions about how future changes to key economic metrics may impact the Council's budget over the medium term. This section sets out the economic context within which this MTFs has been developed, whilst the key assumptions used are set out in more detail at section 3.

Inflation rates

Like all organisations, the Council is subject to inflationary pressures on its cost base, often with restrictions on the extent to which it can generate additional income to cover these extra costs (for example through limits on annual council tax increases).

The base rate of inflation used to drive expenditure assumptions in this MTFS is the Consumer Price Index (CPI). The last three years have been particularly volatile, with an unprecedented rise in CPI from 1.5% in April 2021 to 11.1% in October 2022, before falling to 2.0% in May 2024, and rising again marginally to 2.2% by August 2024. The last two years have seen huge inflationary increases in utility, fuel and food prices, alongside steep rises in other operating costs. As a consequence, the net cost of running Council services in 2024/25 is now likely to be over £3 million higher than was predicted five years ago.

The Bank of England's Monetary Policy Report of August 2024 forecasts an average CPI of 2.5% across 2024/25 and 2.3% for 2025/26, before falling to 1.6% for 2026/27. The overarching view is that there will be a slight increase from where we are now, before rates are expected to stabilise over the next few years. This is set out in the chart below:



The shaded area reflects the Bank of England's forecast of where CPI inflation is likely to sit up until Q2 2027. There is an estimated 30% likelihood that inflation will sit within the central (dark orange) band in any given quarter, a 60% likelihood it will sit within the middle band, and a 90% likelihood it will sit within the largest (light orange) band.

Interest rates

The Council currently invests significant excess cash balances in line with the agreed Treasury Management Strategy and is therefore exposed to changes in interest rates, which can significantly impact the income generated by these investments. In addition, the Council undertakes borrowing to finance some of its capital expenditure, which introduces interest rate risk both at the point of initial borrowing, and at the point of future refinancing if sufficient resource has not been set aside to repay the principal by the time the debt matures.

In response to high levels of inflation in recent years, the Bank of England increased the base interest rate on 14 consecutive occasions, from a record low of 0.10% in December 2021, to 5.25% by August 2023. Interest rates were then held at this level for around a year, before being reduced to 5.00% in August 2024.

The Council's treasury management advisers, Link, have forecast further reductions in the base rate throughout the remainder of 2024 and 2025, with the rate reaching 3.00% by September 2025 and then remaining at this level for the foreseeable future. This is consistent with Bank of England inflation forecasts showing CPI hovering around the 2% target throughout this period.

Local government finance

Since 2019/20, the local government sector has been subject to a series of single year finance settlements. This creates significant uncertainty and makes it extremely difficult for local authorities to plan for the medium term. The incoming government has now committed to multi-year settlements to provide more certainty, but it remains to be seen whether this will apply from 2025/26, or whether more work will be required to put this into place.

Currently, local government settlement figures are based upon relative needs data (such as population figures) which are over a decade out of date. This disadvantages Cambridge, which has seen the highest percentage population growth of any English local authority over this period. On the other hand, the Council is benefitting significantly from the accumulated growth of business rates in the city since the current funding baseline was set in 2013/14.

The previous government has been considering a review of both these factors for several years now, but this has been delayed first by Brexit, then Covid-19, and then the difficult economic conditions of the past few years. At the point that a reset occurs, this is expected to have a significant detrimental impact on the Council, as the loss of accumulated business rate growth will far outweigh any additional resources made available as a result of population growth. The current MTF5 assumes a full reset of the funding system in 2026/27, as suggested by the Council's external funding consultants, and at this point it is anticipated

that the Council could see a net reduction in its funding settlement of around £7.1 million per year. Whilst there may be some transitional funding available to support authorities which are significantly impacted, this cannot be guaranteed, so has not been assumed for the purposes of this MTFS.

In addition, the following factors have been identified which may significantly impact on future funding levels, but where the potential impacts are currently too uncertain to include in this MTFS:

- The incoming government has a stated manifesto pledge to replace the business rates system, raising the same revenue in a fairer way. This could have a significant impact on the local government funding landscape, although the details and timing of any changes are currently unknown.
- Government has a commitment to reform arrangements for waste collection and recycling. On the basis that the 'producer pays', Councils expected to start receiving payments from producers in October 2024. This now been delayed until October 2025 and significant uncertainties remain regarding the implementation and financial impact of the scheme. It is likely that any additional income generated for councils will be clawed back through a revised finance settlement approach.

Taking the above into account, an estimate of future funding settlements has been made using a model provided by the Council's external funding consultants. It should be stressed that the outcomes of this model are currently highly uncertain. It is hoped that more will be known following the new government's Autumn Statement in October 2024, at which point the model will be refreshed in time for the publication of the 2025/26 Budget Setting Report.

The key assumptions used in this model are as follows:-

- The 2025/26 settlement will roll over from 2024/25 with no increase in cash funding for the sector.
- There will be one further one-year extension to New Homes Bonus in 2025/26.
- Changes resulting from local government funding reform, including the impact of demographic changes, will be implemented from 2026/27. These changes include the resetting of the business rates baseline with a further reset assumed in 2030/31. No dampening protections are assumed.

This results in the following assumed finance settlement figures over the next five years:

Forecast Finance Settlement (£m)	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30
Business rates baseline	4.557	4.786	4.881	4.947	5.013	5.100
Accumulated business rates growth	4.199	7.513	2.051	2.652	3.279	3.949
Core government grants	3.739	2.316	2.410	2.345	2.280	2.192
New Homes Bonus	1.733	1.816	-	-	-	-
TOTAL	14.228	16.431	9.342	9.944	10.572	11.241

Due to the significant uncertainty around future funding settlements, the Council's policy is to plan to use only the first £1.5 million of income from accumulated business rates growth to fund services each year, with the remainder being transferred directly to General Fund reserves. This policy will be reviewed in light of any announcements made in the Autumn Statement, and any changes proposed as part of the Budget Setting Report 2025/26.

Section 3

Key assumptions

Key financial modelling assumptions reflect the economic assessment in the previous section and other factors specific to the council.

Key area	Assumption	Comment / Sensitivity
General inflation	2025/26: 2.5% 2026/27: 2.3% 2027/28: 1.6% 2028/29: 1.6% Subsequent years: 2.0%	Based upon Bank of England forecasts for the next four years, then reverting to the 2.0% long-term Bank of England target level. This is applied both to general expenditure and fees and charges income, except where better information is available in respect of specific budget lines.
Pay inflation	As general inflation, but with an additional 1.0% per annum to reflect pay progression	Each additional 1% increase would cost approximately £325,000.
Employee turnover	4.0%	Specific vacancy factors are applied where experience indicates that a different vacancy factor is more applicable. Not applied to those services which need to maintain a core number of staff.
Pension costs	17.6% employer contribution plus known deficit repair contributions up to 2025/26, with £2.108m per annum assumed thereafter	Next actuarial valuation due to be received in mid-2026 reflecting valuation at 31 March 2025. This will set the deficit repair contributions (if any) to be made for the three year period from 2026/27 to 2028/29. As at 31 March 2024 the pension fund was in surplus, but this cannot necessarily be assumed to continue.
Investment interest rate	4.5% for 2024/25, then 3.0% from 2025/26 ongoing	Investment income built into the MTFS reflects forecast rates on the cash balance held. The core rates used are adjusted for specific investments where better information is available.
Annual council tax increase	2.99%	Annual increases are limited by the government's referendum principles. Each additional 1% increase would generate approximately £103,000.
Council Tax Base	Based on local housing trajectory forecasts	A net increase of 1,000 homes in the city would generate additional income for the Council of around £172,000.
Local government funding settlement	As outlined in section 2	

Section 4

Revenue expenditure

This section provides an overview of the factors pertinent to modelling revenue income and expenditure.

2023/24 outturn

The 2023/24 outturn position on net service costs was an underspend of £6.007 million (with £440,000 of this amount agreed to be carried forward to 2024/25). The most significant contributors to this underspend were:-

- Increased interest income and reduced borrowing costs totalling £3.714 million. This was due to capital slippage which removed the anticipated need for the Council to borrow in year and left higher cash balances to invest externally. In addition, interest rates remained higher for longer, increasing the return on Council investments.
- A net underspend on staff costs of £659,000, due to higher than anticipated vacancy levels across a range of services.

Interest rates are now beginning to fall, and the expectation remains that the Council will need to use its existing cash balances, and undertake additional external borrowing, in order to fund its capital spending needs over the coming years. On staff costs, vacancy factors are likely to decrease from 2025/26 onwards as a result of the Council's ongoing transformation work. As such, for modelling purposes it cannot be assumed that either of these underspends will be repeated.

In addition to the underspend on services, there was a net underspend of £2.786 million on non-service budgets (capital financing, government funding, council tax and transfers to/from earmarked reserves). Of this, £2.673 million relates to in-year capital slippage, and this amount has been approved for carry forward to be spent in 2024/25.

The 2023/24 budget also included a planned contribution to General Fund reserves of £4.961 million, reflecting the fact that the Council continues to benefit from significant accumulated business rates growth (see section 2).

Taking all of this together, the total movement on unallocated General Fund reserves in 2023/24 was an increase of £13.754 million. Of this, amounts totalling £3.113 million have been carried forward to be spent in 2024/25.

2024/25 forecasts

This MTFS has been prepared at an earlier point in the year than in 2023/24, in order to develop a budget strategy to support the Council's ongoing transformation programme (see section 6). As such, there is limited in-year forecasting currently available in respect of 2024/25.

For the purposes of this MTFS, it has therefore been assumed that the currently approved revenue budgets will be achieved for 2024/25. As always, the Council will continue to review in-year performance throughout the year, and this review will inform the budget setting process over the autumn.

Revenue budget projections

Taking into account the above factors, and the key assumptions set out at section 3, the table below sets out the projected revenue position of the Council over the following five years, before any action to address funding gaps:

Revenue Budget Projection (£m)	2025/26	2026/27	2027/28	2028/29	2029/30
Expenditure					
Net service expenditure	29.077	29.256	30.154	31.175	32.401
Capital accounting adjustments	(5.997)	(5.997)	(5.997)	(5.997)	(5.997)
Financing of future capital expenditure	0.392	1.706	3.054	4.359	4.606
Transfers to earmarked reserves	0.395	1.742	1.742	1.742	1.742
Net spending requirement	23.867	26.707	28.953	31.279	32.752
Funding					
Finance settlement (retained business rates and grants)	16.431	9.342	9.944	10.572	11.241
Less excess business rate income transferred to general reserves	(7.918)	(0.551)	(1.152)	(1.779)	(2.449)
Council tax	10.638	11.068	11.484	11.953	12.449
Total available funding	19.151	19.859	20.276	20.746	21.241
Budget gap	4.716	6.848	8.677	10.533	11.511

The above table shows that budget gaps have increased slightly since the last Budget Setting Report was published in February 2024. The key movements are as follows:

Budget Gap (£m)	2025/26	2026/27	2027/28	2028/29	2029/30
Budget gap identified in BSR Feb 2024	1.852	6.244	8.161	9.466	9.466
Changes to inflation assumptions on service income and expenditure	0.331	0.494	0.210	0.354	1.484
Additional pressures and other adjustments	0.031	0.046	0.181	0.613	0.449
Changes to finance settlement assumptions	2.489	0.019	0.018	0.017	0.018
Changes to council tax assumptions	0.013	0.045	0.107	0.083	0.094
Updated budget gap	4.716	6.848	8.677	10.533	11.511

The main reason for the change to finance settlement assumptions for 2025/26 is that the Council is currently forecasting a significant deficit on the collection fund in the current year, of which the Council's share is likely to be around £1.905 million. This has arisen largely as a result of business rates appeals being settled in year, following the 31 March deadline for the submission of appeals relating to the 2017 rating list.

The budget gaps above are significant in the context of the Council's total expenditure on services. Without action to address these, General Fund reserves will fall below the Prudent Minimum Balance (currently £6.541 million) by 2028/29 at the latest (or 2026/27 should the Council stop receiving additional income from business rates growth), as shown in the table below:

GF Reserve Projection (£m)	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30
Balance at 1 April	41.815	15.318	9.602	2.754	(5.923)	(16.456)
Transfer to Civic Quarter Development Reserve	(20.000)	-	-	-	-	-
Transfer to Climate Change Fund	(0.750)	-	-	-	-	-
Use of reserve to balance budget in-year (in absence of recurring savings)	(4.747)	(4.716)	(6.848)	(8.677)	(10.533)	(11.511)
Indicative funding for further restructuring arising from future phases of Our Cambridge	(1.000)	(1.000)	-	-	-	-
Balance at 31 March without business rates growth (c/f)	15.318	9.602	2.754	(5.923)	(16.456)	(27.967)
Business rates growth – indicative growth element (at risk)	3.813	7.918	0.551	1.152	1.779	2.449
Balance at 31 March including business rates growth	19.131	21.333	15.036	7.511	(1.243)	(10.305)

It is therefore necessary to take immediate action to close the budget gap, and the strategy for achieving this is set out at section 6.

Section 5

Capital expenditure

Capital plan

The table below summarises changes to the General Fund capital plan which have taken place since it was last approved as part of the Budget Setting Report in February 2024 (including one bid proposed as part of this MTFS):

GF Capital Plan (£m)	2024/25	2025/26	2026/27	2027/28	2028/29	Total
Capital expenditure approved within BSR Feb 2024	85.352	17.169	1.724	0.795	0.700	105.740
Rephasing of 2023/24 budget approved as part of GF Outturn Report Jul 2024	19.855	-	-	-	-	19.855
New s106 funded projects approved under delegated powers	0.206	-	-	-	-	0.206
Other adjustments to existing s106 funded projects approved under delegated powers	0.004	-	-	-	-	0.004
Capital bid – increase to budget for Jesus Green riverbank repairs	0.487	-	-	-	-	0.487
Capital expenditure per MTFS	105.904	17.169	1.724	0.795	0.700	126.292

A summary of the current capital plan following the above changes is set out at Appendix B.

Capital bid – Jesus Green riverbank repairs

In recent times, the section of river wall between Jesus Green Lido and Jesus Green Lock has been rotating, resulting in an up to two feet wide gap between the wall concrete capping beam and the soil bank. This has been under regular observation and periodic repairs have been made. Cambridge City Council is the landowner and 'riparian owner', and as such has a statutory responsibility to maintain the riverbank.

In recognition of the works required to rectify the situation, previous capital bids totalling £375,000 have been approved, of which approximately £8,000 has been spent to date.

However, further investigation, including an underwater survey, has now revealed a previously unknown cause of movement to the entire 105m length of affected section. As a result, a complete new/replacement wall structure is now required in front of the existing wall for the length of defect. This will require an additional budget bid of £487,000, bringing the estimated total project cost across all phases up to £862,000. It is proposed that this is funded from unallocated General Fund capital receipts.

Capital financing

Under statutory regulations, all capital expenditure must be financed from one of the following sources:-

- Capital grants or contributions
- Capital receipts (e.g. from the sale of assets)
- Revenue reserves
- Borrowing

Where capital expenditure is financed through borrowing, this creates an ongoing revenue pressure in two respects. Firstly, there is an interest cost associated with external borrowing (or, where internal cash balances are used, an opportunity cost arising from the fact that less cash is available to generate investment income elsewhere). Secondly, the Council is required to repay the principal borrowed from revenue resources over the life of the asset – this is known as Minimum Revenue Provision (MRP). As such, the Council will generally seek first to apply specific capital (or revenue) resources, before resorting to borrowing.

The table below sets out the agreed funding sources to be applied to the capital expenditure in the current capital plan (assuming the capital bid above is approved):

GF Capital Financing (£m)	2024/25	2025/26	2026/27	2027/28	2028/29	Total
Capital grants and contributions	12.140	0.221	0.060	-	-	12.421
Capital receipts	14.247	3.448	1.664	0.795	0.700	20.854
Revenue reserves (including earmarked reserves)	6.905	-	-	-	-	6.905
Borrowing	72.612	13.500	-	-	-	86.112
Total capital financing	105.904	17.169	1.724	0.795	0.700	126.292

The planned borrowing in the table above includes £64.262 million in relation to the Park Street redevelopment. This project is financed primarily by way of external borrowing at rates fixed in advance in December 2021, and is not therefore subject to significant interest rate

risk. A further £20.277 million relates to future planned capital loans to Cambridge Investment Partnership to finance the development of affordable and market housing across the city. These loans do not require up front financing or the application of MRP, as they can be financed in arrears from the cash received upon repayment of the loan.

However, in predicting the total future impact of the Council's capital financing strategy, it is also necessary to take into account unavoidable capital spend which is likely to occur, for which formal budget bids have not yet come forward. The Council maintains a rolling 10-year capital forecast for this purpose. Whilst there is considerable uncertainty surrounding this forecast, it shows that the Council's need to borrow to fund General Fund capital expenditure is likely to increase significantly over the coming years, leading to increased revenue pressure which has been reflected in this MTFS (see 'Cost of revised capital financing strategy' at Appendix A).

Section 6

Budget strategy

This section of the Strategy sets out the proposed approach to addressing the medium-term budget gaps identified, including through the 2025/26 budget setting process

Savings approach

As set out at section 4 above, the Council has identified significant projected budget gaps within the General Fund revenue budget over the coming years. Without significant action to address these gaps, General Fund reserves will run out by 2028/29 at the latest.

Our Cambridge - Transformation and recovery programme

In January 2022, the Council embarked on an ambitious transformation programme known as 'Our Cambridge'. The programme has already achieved a number of key successes, including:

- **Senior management review:** the successful transition to a flatter management structure, saving £300,000 per year, and delivering a structure that better empowers the middle leadership cohort.
- **City Services Group design programme (phase 1):** delivered £200,000 of ongoing savings by implementing a flatter structure and making better use of digital technology.
- **Partnerships by default:** secured £700,000 in external funding, which has been used to support projects which enable community resilience and empowerment.

As part of the 2023/24 MTFs, recognising both the success of Our Cambridge but also some of the challenges to delivery which had been encountered, it was agreed to extend the programme to December 2025, in the anticipation it would remain a key contributor to closing the Council's medium-term budget gap. However, it was recognised at the time that this would still not provide all the recurring savings the Council needed to make.

In July 2024, Our Cambridge launched a council-wide Group Design Programme, bringing together four individual group design projects (City Services, Communities, Corporate, and Economy and Place) under one shared banner and timetable. The Group Design

Programme is looking at the organisational structure of the whole Council, using the following key principles:

- The group design projects are the major focus of the Our Cambridge programme and are purpose-led.
- The group design projects are designed to challenge the status quo and redesign service delivery based on the available budget.
- The group design projects are starting with redefining how staff work together to deliver services, based on functions or activities.
- This is a collaborative approach, using feedback from staff in each group to shape the future of service delivery across the Council.

The timetable for the programme is such that many of the changes arising will be implemented with effect from 1 April 2025, although it is recognised that some areas may take longer (for example where significant technological or process change is required), and following redesign there will remain a need for continuous challenge and improvement.

Savings target

Last year's MTFS set a target for the Council to find £6.0 million of recurring savings over the following three years. Whilst the 2024/25 Budget Setting Report did deliver around £1.2 million of recurring savings, it also identified an additional £1.0 million of service pressures, meaning a net improvement to service budgets of only £0.2 million. This has left the Council in a position where the need to deliver ongoing revenue savings is becoming increasingly urgent.

As such, it is felt that the time is now right to refocus the Council's efforts on delivery of a single savings target through the forthcoming budget setting process. This acknowledges the fact that the Our Cambridge Programme, and the Group Redesign Programme in particular, will continue to contribute heavily towards this target, whilst also encouraging budget managers to seek out other opportunities for recurring savings or increased income outside of the programme.

In setting the savings targets to be achieved over the MTFS period, a balance has to be struck between ensuring the ongoing financial sustainability of the Council, and not setting targets which are unachievable. As such, it is planned to meet some of the budget gap in the earlier years using the Council's General Fund reserves, whilst still aiming to achieve a balanced budget without the use of reserves by the end of the five-year period. This is set out in the following table:

Savings Approach (£m)	2025/26	2026/27	2027/28	2028/29	2029/30
Budget gap	4.716	6.848	8.677	10.533	11.511
Use of General Fund reserves	(2.716)	(0.848)	(0.677)	(0.533)	-
Impact of recurring savings achieved in earlier years	-	(2.000)	(6.000)	(8.000)	(10.000)
New recurring savings required	2.000	4.000	2.000	2.000	1.511

Savings identification

Given the opportunity presented by the ongoing Group Redesign Programme, along with the need to make substantial recurring savings in a relatively short timescale, the Council will focus its efforts over the coming months on identifying how it will deliver an initial £6.0 million of recurring savings by 1 April 2026.

Where possible, the Council will seek to maximise savings which do not impact upon its service users, for example through making Council structures and processes more efficient, challenging existing budget underspends, and reviewing long-term capital plans. However, it will not be possible to deliver all the required savings through such activities alone, and there will be a need to consider changes to Council services and how these are funded.

Outline strategic budget proposals reflecting this need have been set out in the 'Our Cambridge – Group Design Programme and Alignment with BSR' report to the Strategy & Resources Committee on 30 September 2024, and, subject to approval by the Executive, these proposals will form the basis of the public consultation on the 2025/26 budget which will launch in October 2024.

Following the public consultation period, a final set of budget proposals for 2025/26 will be developed over the autumn for scrutiny by the Strategy & Resources Committee. The Executive will then make their final recommendations to Full Council, who will meet to approve the final budget in February 2025.

As set out above, it is recognised that not all of the changes required to deliver the savings identified will be fully deliverable by 1 April 2025. It has instead been assumed that around one-third of the requirement (£2.0 million) can be achieved in the first year (after taking into account one-off transition costs). This is a relatively conservative assumption, and should it be possible to deliver more in the first year this will reduce the need to use General Fund reserves to balance the budget.

Budget principles

Alongside the Group Redesign Programme, the budget setting process this year will include a review of all service budgets to ensure that they are robust and realistic. This will include:

- A review of the Council's cost centre and subjective code structure to ensure that budgets are transparent and well understood, and to promote strong financial management throughout the organisation.
- Challenge of recurring underspends, including long-term vacant posts, in order to identify potential opportunities for ongoing savings.
- A review of recurring overspends, to look for opportunities to reduce these, or alternatively to adjust budgets where required to ensure they are realistic (subject to the principles below).
- Removing the lower limit on individual budget proposals, in order to maximise the opportunity to ensure accurate budgeting at a service level.

Whilst the focus of this year's budget setting process will inevitably be on identifying recurring savings, there will always be additional cost pressures, and there will be opportunities to bring forward proposals to increase expenditure in the following limited circumstances:

- Invest to save proposals where there is a net financial benefit to the Council (i.e. through reduced expenditure or increased income elsewhere).
- Externally funded proposals (e.g. through government grant), but on the principle that there should be no ongoing costs arising beyond the funding period.
- Unavoidable cost pressures, e.g. where there is a new or enhanced statutory duty, or increased costs linked to providing statutory services to a growing population.
- Areas of member priority as agreed with the relevant Executive Councillor.

Finally, there will be a detailed review of capital budgets, including the approved capital plan, 10-year capital forecast, and the Council's approach to capital financing, in order to identify further opportunities for ongoing savings and better prioritisation of Council resources.

Timetable

Date	Task
2023	
30 September	Strategy and Resources Scrutiny Committee consider the GF MTFS for recommendation to Council
10 October	Council considers and approves the GF MTFS
14 October	The Executive considers the outline strategic budget proposals and approves commencement of the budget consultation process
23 October	Budget consultation commences
4 December	Budget consultation closes
2024	
10 February	Draft GF Budget Setting Report (BSR) considered by Strategy and Resources Scrutiny Committee
10 February	The Executive consider and recommend the GF BSR and council tax level to Council
24 February	Council considers the GF BSR and amendments, approves the GF budget and sets the level of council tax for 2025/26

Section 7

Risks and reserves

This section of the Strategy sets out the key risks to the proposed budget strategy, and how the Council will mitigate these risks including through maintaining an appropriate level of reserves.

Risks

The most significant risks to the Council's medium-term financial sustainability can be summarised as follows:

- There is significant uncertainty surrounding future local government finance settlements (as set out in more detail at section 2). This MTFS assumes that the long anticipated reset of the funding system occurs in 2026/27, using a similar approach to previous funding reviews. However, there is no guarantee that the new government will continue to adopt this approach. In particular there is a stated manifesto pledge to replace business rates, which could have a significant impact on the local government funding landscape. Should there be a change in the timing of, or approach to, the funding review, this could materially alter the level of resource the Council has available to spend in future years (for better or worse).
- The Council's budget strategy as set out at section 6 is heavily reliant upon finding significant ongoing revenue savings in future years. This begins with the need to identify £6.0 million of recurring annual savings over the coming autumn, to be fully delivered by 1 April 2026. Should the Council be unable to deliver this level of recurring savings, there is a significant risk to its financial sustainability in the medium-term, with General Fund reserves forecast to fall below the Prudent Minimum Balance by 2028/29 at the latest if no action is taken.
- The Council is currently in the midst of an organisational wide transformation programme, Our Cambridge. Whilst the programme continues to deliver successfully, the extent of change involved increases the inherent risk of unforeseen costs and/or service failure if not carefully managed.
- The Council's involvement in high value development projects across the city (including Park Street, Hartree, Civic Quarter, and the delivery of significant housing

projects through the Cambridge Investment Partnership) exposes it to the inherent risks associated with such projects, including cost overruns and project slippage.

- The Council holds an extensive portfolio of operational and commercial property within the General Fund. This brings with it an inherent risk of future unforeseen costs which could be significant, arising for example from a need for emergency repairs and maintenance, potential health and safety issues, or changes to building standards.
- Cambridge has seen continuing increases in its population, both within the city boundaries and in the closely surrounding areas, and this places additional demands on a range of services including Leisure, Environmental Health and Homelessness. In addition, there is an inherent risk of additional costs linked to new or enhanced statutory duties placed on local authorities, which may not always be fully funded.
- In common with all organisations, the Council is subject to uncertainty in the wider economic environment. Should future inflation or interest rates differ significantly from the assumptions used in this MTFs, this could have a substantial impact on the Council's cost base in future years. As an illustration of this risk, following significantly higher than anticipated inflation over the past two years, budgeted net service expenditure for 2024/25 is now £3.2 million higher than was being predicted five years ago.
- Employee costs make up a significant proportion of the Council's total expenditure on services. The Council is subject to the decisions of the National Joint Council (NJC) in respect of pay and conditions, including the level of annual pay awards. Should future pay settlements be higher than anticipated, this could add significant cost pressure. Similarly, employer pension contributions are determined on a triennial basis by an independent actuary. The pension fund was in surplus as at 31 March 2024, but should it fall into deficit again in the future, a substantial increase in contributions may be required.
- The Council has ambitious plans to be a net zero Council by 2030. However, there is limited funding available from central government to support these plans, exacerbated by market-driven increases in the cost of net zero works due to a shortage of skilled professionals in the relevant industries. Therefore, there is significant risk to the delivery of net zero within these timescales and within the resources available to the Council.

Scenarios

This MTFS is built upon a series of key assumptions (as set out in section 3), which represent the Council's view of the 'most likely' position over the coming years. However, given the significant risks identified above, it is prudent to consider the impact that a wider range of scenarios would have on the Council's finances. This section sets out two potential scenarios based upon the upper and lower bounds of the Bank of England's inflation projections at the 90% confidence level, i.e. the Bank consider that there is a 90% likelihood that actual inflation will fall within this range.

Scenario 1 – High inflation

In this scenario, CPI inflation continues to increase throughout the remainder of 2024 and 2025, peaking at 5.3%, before reducing slightly and stabilising at around 4.9%. In response, the Bank of England holds the base rate of interest at 5.00% for the whole MTFS period.

In light of ongoing increased financing costs, the rate of assumed housing growth in the city is reduced by 50% from 2025/26, which directly impacts on the council tax base.

This scenario also assumes that the nationally negotiated pay award for local government employees is 5.5% for 2024/25, broadly in line with other public sector pay awards recently announced by the government, with subsequent awards of CPI+2% in 2025/26 and CPI+1% in later years.

Finally, in this scenario it is assumed that the Council loses the benefit of being able to retain a share of business rates growth in the city, in line with the government's manifesto pledge to replace the business rates system.

The impact of this would be to increase the five year budget gap from £11.5 million to £22.7 million, as follows:-

Budget Gap – High Inflation Scenario (£m)	2025/26	2026/27	2027/28	2028/29	2029/30
Budget gap – base case	4.716	6.848	8.677	10.533	11.511
Impact of increased inflation on service budgets	1.228	2.883	4.919	7.075	9.217
Net impact of increased interest rates on borrowing costs and investment income	(0.660)	(0.152)	0.014	0.164	0.231
Impact on local government finance settlement	0.054	0.003	0.003	0.003	0.003
Impact of reduced housing growth on council tax income	0.000	0.056	0.101	0.167	0.241
Loss of business rates growth income	1.500	1.500	1.500	1.500	1.500
Budget gap – high inflation scenario	6.838	11.138	15.214	19.442	22.703

Scenario 2 – Low inflation

In this scenario, CPI inflation drops rapidly from the end of 2024, reaching negative territory by mid-2025 and remaining there for the rest of the MTFS period.

Negative inflation in the wider economy will not necessarily translate to reduced costs for the Council, since many inflation-linked contracts will not provide for price reductions, and there may be an expectation of small annual pay awards even in a low or negative inflation environment. As such, for the purposes of modelling this scenario, a 'floor' level of inflation has been set at 0.0% for non-pay costs and fees and charges income, and 1.0% for pay costs.

In response to prolonged low or negative inflation, interest rate cuts are likely. This scenario therefore assume that the Bank of England base rate continues to fall in the short-term, averaging 2.50% in 2025/26 and 1.00% in subsequent years.

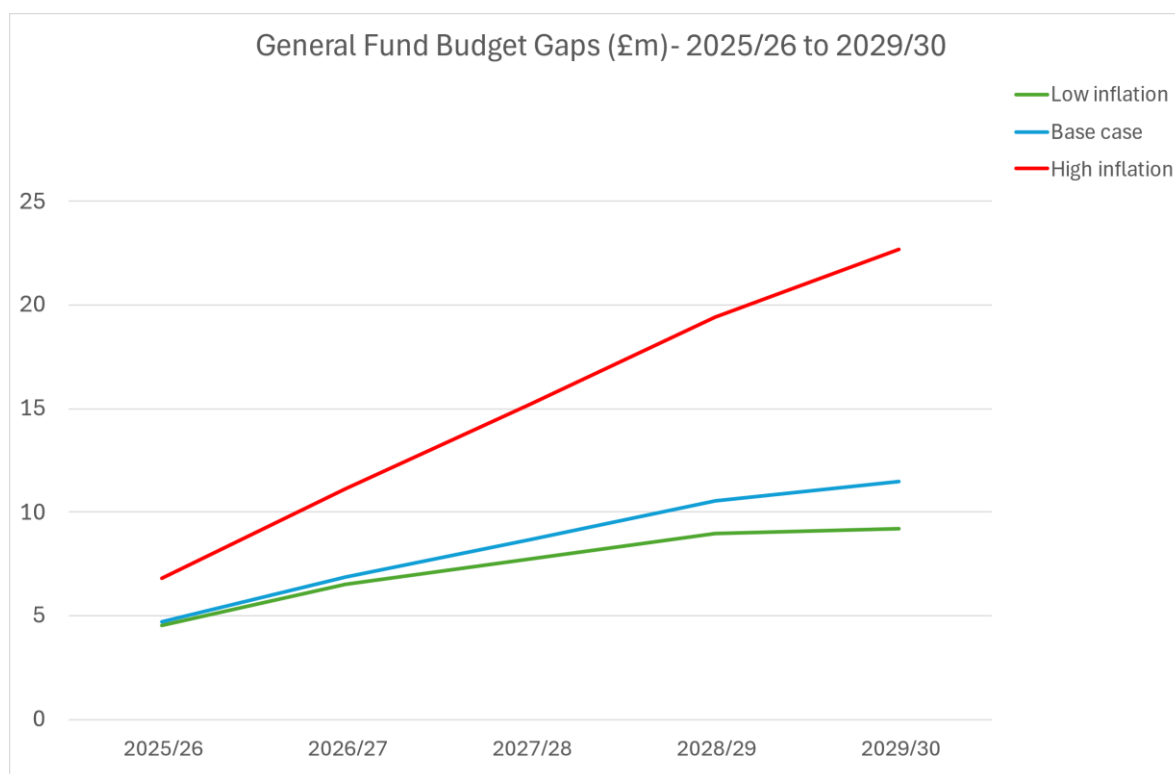
Low inflation is also likely to be associated with a period of economic stagnation. As such, no general growth in business rates is assumed over the MTFS period (although growth relating to specific developments which are either in progress or awaiting entry to the rating list has been retained).

The impact of this would be to decrease the five year budget gap from £11.5 million to £9.2 million, as follows:

Budget Gap – Low Inflation Scenario (£m)	2025/26	2026/27	2027/28	2028/29	2029/30
Budget gap – base case	4.716	6.848	8.677	10.533	11.511
Impact of decreased inflation on service budgets	(0.303)	(1.045)	(1.507)	(1.983)	(2.663)
Net impact of decreased interest rates on borrowing costs and investment income	0.165	0.152	(0.014)	(0.164)	(0.231)
Impact on local government finance settlement	(0.047)	(0.003)	(0.003)	(0.003)	(0.003)
Reduction in business rates growth	0.000	0.569	0.569	0.569	0.569
Budget gap – low inflation scenario	4.531	6.521	7.722	8.952	9.183

Summary

The following chart illustrates the range of reasonably possible budget gaps projected over the next five years in line with the above scenarios:



Reserves

General Fund reserve

The General Fund reserve is held as a buffer against crystallising risks and to deal with timing issues and uneven cash flows. The Prudent Minimum Balance (PMB) and target level of the GF reserve has been reviewed in the light of current risks (see Appendix C), and an increase of 10.2% is recommended. This reflects an increase in both the Council's cost base, and income from fees and charges, which increases the inherent risk associated with any variances.

General Fund Reserve (£m)	February 2024 BSR	September 2024 MTF5
Target level	7.121	7.849
Prudent Minimum Balance (PMB)	5.934	6.541

The table below shows current and projected levels of the GF reserve, assuming that all savings are delivered in accordance with the budget strategy set out in section 6 above. Due to the inherent risks associated with future income from accumulated business rates growth (as explained above), the table shows the reserve position as it would look both with and without this income.

GF Reserve (£m)	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30
Balance at 1 April	41.815	15.318	11.602	10.754	10.077	9.544
Transfer to Civic Quarter Development Reserve	(20.000)	-	-	-	-	-
Transfer to Climate Change Fund	(0.750)	-	-	-	-	-
Planned use of reserve to balance budget in-year	(4.747)	(2.716)	(0.848)	(0.677)	(0.533)	-
Indicative funding for further restructuring arising from future phases of Our Cambridge	(1.000)	(1.000)	-	-	-	-
Balance at 31 March without business rates growth (c/f)	15.318	11.602	10.754	10.077	9.544	9.544
Business rates growth – indicative growth element (at risk)	3.813	7.918	0.551	1.152	1.779	2.449
Balance at 31 March including business rates growth	19.131	23.333	23.036	23.511	24.757	27.206

The table above shows that, provided the Council can deliver the recurring savings requirements identified in section 6, the GF reserve balance is forecast to remain above the target level over the next five years, even without the benefit of additional business rates growth. Should the business rates growth be achieved, the Council will be able to use these amounts to fund additional capital projects in the future (perhaps linked to sustainability and climate change or city centre regeneration), and/or to reduce the need to borrow (and resultant revenue costs) to fund essential capital expenditure which is already anticipated.

However, if planned ongoing savings are not delivered, the GF reserve balance could fall below the Prudent Minimum Balance as early as 2026/27 (if additional business rates growth income is not forthcoming beyond the current year).

Earmarked reserves

The GF maintains a number of earmarked reserves which are held for major expenditure of a non-recurring nature, or where income is received for a specific purpose.

Earmarked Reserves by Type (£m)	Balance at 1 April 2024
Major policy-led funds	17.848
Asset replacement funds (R&R)	1.150
Statutory and accounting reserves	7.055
Shared / partnership funds	2.777
Other – to be closed once committed balances are spent	0.752
Total	29.582

A more detailed summary of principal earmarked funds is included at Appendix D.

Reserves policy

The Council's management of reserves has been formalised as a reserves policy, attached at Appendix E and recommended for approval.

Appendix A – General Fund revenue projection

The following table assumes that future savings are delivered in line with the budget strategy set out at section 6 of this MTF5.

GF Revenue Projection (£m)	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	2032/33	2033/34	2034/35
Expenditure											
Net service expenditure – base plus inflation	28.550	29.077	29.256	30.154	31.175	32.401	33.662	34.957	36.286	37.654	39.106
Savings delivered from prior years	-	-	(2.000)	(6.000)	(8.000)	(10.000)	(11.511)	(12.851)	(13.889)	(15.005)	(15.718)
Net service budgets	28.550	29.077	27.256	24.154	23.175	22.401	22.151	22.106	22.397	22.649	23.388
Capital accounting adjustments	(5.997)	(5.997)	(5.997)	(5.997)	(5.997)	(5.997)	(5.997)	(5.997)	(5.997)	(5.997)	(5.997)
Capital expenditure financed from revenue	2.803	-	-	-	-	-	-	-	-	-	-
Cost of revised capital financing strategy	0.041	0.392	1.706	3.054	4.359	4.606	5.202	5.465	5.782	5.717	5.717
Contributions to earmarked funds	21.318	0.395	1.742	1.742	1.742	1.742	1.742	1.742	1.742	1.742	1.742
Net spending requirement before in-year savings	46.715	23.867	24.707	22.953	23.279	22.752	23.098	23.316	23.924	24.111	24.850
Recurring savings to be implemented in-year	-	(2.000)	(4.000)	(2.000)	(2.000)	(1.511)	(1.340)	(1.038)	(1.116)	(0.713)	(0.845)
Net spending requirement	46.715	21.867	20.707	20.953	21.279	21.241	21.758	22.278	22.808	23.398	24.005
Funded by:											
Business rates baseline	(4.557)	(4.786)	(4.881)	(4.947)	(5.013)	(5.100)	(5.187)	(5.187)	(5.187)	(5.187)	(5.187)
Accumulated business rates growth	(4.199)	(7.513)	(2.051)	(2.652)	(3.279)	(3.949)	(2.401)	(2.401)	(2.401)	(2.401)	(2.401)
Government grants (including NHB)	(5.472)	(4.132)	(2.410)	(2.345)	(2.280)	(2.192)	(2.105)	(2.105)	(2.105)	(2.105)	(2.105)
Council tax	(10.253)	(10.638)	(11.068)	(11.484)	(11.953)	(12.449)	(12.966)	(13.486)	(14.016)	(14.606)	(15.213)
Appropriations from earmarked funds	(0.550)	-	-	-	-	-	-	-	-	-	-
Contributions to / (from) reserves	(21.684)	5.202	(0.297)	0.475	1.246	2.449	0.901	0.901	0.901	0.901	0.901
Total funding	(46.715)	(21.867)	(20.707)	(20.953)	(21.279)	(21.241)	(21.758)	(22.278)	(22.808)	(23.398)	(24.005)

Appendix B – Capital Plan

The following table sets out the approved capital plan for the next five years.

GF Capital Plan (£m)	2024/25	2025/26	2026/27	2027/28	2028/29	Total
Park Street car park development	64.262	-	-	-	-	64.262
Loan to CIP to purchase land south of Cambridge	6.777	13.500	-	-	-	20.277
Sustainable Warmth Grant – Home Upgrade Grant 2	9.028	-	-	-	-	9.028
Depot Relocation programme to create Operational Hub	8.884	-	-	-	-	8.884
East Barnwell new centre	1.471	1.996	0.677	-	-	4.144
Administrative buildings maintenance	0.187	0.400	0.400	0.400	0.400	1.787
Commercial property repair and maintenance	0.486	0.300	0.300	0.300	0.300	1.686
WREN solar project at Waterbeach	1.519	-	-	-	-	1.519
Decarbonisation works – Abbey pool, Parkside pool	0.785	0.400	-	-	-	1.185
Development of the Civic Quarter	1.000	-	-	-	-	1.000
Essential repairs to Jesus Green river bank	0.854	-	-	-	-	0.854
Development of land at Clay Farm	0.839	-	-	-	-	0.839
Recommended maintenance at Abbey pool, Parkside pool	0.286	0.240	0.175	-	-	0.701
Redevelopment of Silver Street toilets	0.540	-	-	-	-	0.540
Investment programme for public toilet re-purposed property	0.492	-	-	-	-	0.492
CHUB – community extension to Cherry Hinton library	0.427	-	-	-	-	0.427
Additional refuse vehicle for property growth	0.420	-	-	-	-	0.420
Environmental Improvements Programme (EIP) options	0.416	-	-	-	-	0.416
Waste – electric replacement vehicles	0.406	-	-	-	-	0.406
Laptop and desktop replacement	0.199	0.100	0.100	-	-	0.399
Crematorium – additional car park	0.338	-	-	-	-	0.338
Cambridge Corn Exchange – infrastructure improvements	0.327	-	-	-	-	0.327
Cycleways	0.314	-	-	-	-	0.314
SPF-UK Green Business Grants	0.312	-	-	-	-	0.312
Chalk Streams projects in Cambridge	0.176	0.120	-	-	-	0.296
Crematorium – cafe facilities	0.283	-	-	-	-	0.283
Wetlands at Logan's Meadow LNR	0.276	-	-	-	-	0.276
Minor projects funded through S106 contributions	1.198	0.010	-	-	-	1.208
Other minor projects (individually <£250,000)	3.402	0.103	0.072	0.095	-	3.672
Total Capital Plan	105.904	17.169	1.724	0.795	0.700	126.292

Appendix C – Prudent Minimum Balance

Description	Level of risk	Amount at risk	Risk
		£	£
Employee costs	Low	37,789,770	75,580
Premises costs	Medium	9,977,790	44,900
Transport costs	Medium	623,940	3,744
Supplies and services	Medium	46,498,620	139,496
Grants and transfers	Low	27,480,700	27,481
Grant income	Low	40,780,100	40,780
Other income	Variable	44,878,700	846,545
Total one year operational risk			1,178,526
Allowing three years cover on operational risk (rounded)			3,536,000

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	6,000,000	33%	1,980,000
Cover for lower level of earmarked and specific reserves	500,000	30%	150,000
General risks			3,005,000

Prudent Minimum Balance (PMB)	6,541,000
Target (PMB + 20%)	7,849,000

Appendix D – Earmarked reserves

Earmarked Reserves (£m)	Balance at 1 April 2024
Major policy-led funds	
Development reserve	11.893
Transformation reserves (including Our Cambridge)	1.591
A14 mitigation fund	1.500
Insurance fund	1.294
Depot relocation programme	1.000
Climate change and energy funds	0.570
	17.848
Asset replacement funds (R&R)	1.150
Statutory and accounting reserves	
Specific revenue grants	6.364
Other statutory and accounting reserves	0.691
	7.055
Shared / partnership funds	
3C Building Control	1.290
Shared planning reserves	0.584
Other shared / partnership funds	0.903
	2.777
Other – to be closed once committed balances are spent	0.752
Total earmarked reserves	29.582

Appendix E – Reserves policy

Introduction

This policy establishes a framework within which decisions will be made regarding the level of reserves held by the Council and the purposes for which they will be used and maintained. Sections 32 and 43 of the Local Government Finance Act 2003 require local authorities to have regard to the level of resources needed to meet estimated future expenditure when calculating the annual budget requirement.

Regard should be had to the best practice guidance published by the Chartered Institute of Public Finance & Accountancy (CIPFA) in CIPFA Bulletin 13 Local Authority Reserves and Balances.

Definitions

Reserves are sums of money held by the Council to meet future expenditure. There are two principal types of reserves:

- **General:** non-specific reserves which are kept to meet short-term, unforeseeable expenditure needs and to enable significant changes in resources or expenditure to be properly managed over the period of the council's five year Medium Term Financial Strategy (MTFS). The council's general revenue reserves are held in the General Fund reserve balance.
- **Earmarked reserves:** held for specific purposes and which are established either by statute or at the discretion of the Council. They remain legally part of general reserves.

A summary of all reserves, including in-year movements and year end balances are contained in the council's Statement of Accounts.

General reserve balance

The Council's Financial Regulations state that it is the responsibility of the Chief Finance Officer to advise the Executive and/or Full Council on prudent levels of reserves for the Council.

The Council will maintain an adequate level of general reserve balance to:

- Provide a working balance to cushion the impact of uneven cash flows and avoid unnecessary short-term borrowing.
- Provide a contingency to cushion the impact of unexpected events or emergencies.
- Plan for potential major items of expenditure.

The appropriate level of reserves for this purpose will be determined by the Council's MTFS, which will be reviewed annually and will be subject to approval by Full Council. However, the Council will not maintain levels of general reserve balances that are excessive compared with appropriate minimum levels. In this context, "excessive" will be assessed and reviewed annually in the MTFS with regard to:

- The projected level of General Reserve balance at the end of the MTFS, less the appropriate minimum level.
- The annual planned use of reserves in each year of the MTFS.
- The impact of sudden large changes in the annual use of balances on services or council tax levels.

The adequacy of the general reserve balance will be determined by assessing the financial risks associated with meeting continuing obligations to provide services. This risk assessment will be reviewed annually.

CIPFA provides guidance on the factors which should be taken into account in determining the overall level of reserves and balances. These are:

- Assumptions regarding inflation and interest rates
- Estimates of the level and timing of capital receipts
- Treatment of demand-led pressures
- Treatment of planned efficiency savings/productivity gains
- Risks inherent in any new partnerships, major outsourcing arrangements or major capital developments
- Financial standing of the council, including the level of borrowing, debt outstanding, capacity to manage budget pressures, etc.
- General financial climate to which the council is subject
- Impact of major unforeseen events and the likely level of government support following such events

The general reserve balance will be reviewed and projections on future balances will be made at key points during the financial year, namely as part of the budget setting process and update of the MTFS. In exceptional circumstances, the actual level of the Council's balance may fall below the level which is considered appropriate. This is consistent with the need to meet short-term unforeseen expenditure. However, the actual level will be monitored against balances outlined in the MTFS. If the balance falls below the agreed target level, a plan will be agreed by the Council to restore balances to the appropriate level.

Earmarked reserves

Earmarked reserves are not available to the Council for use in setting its ongoing base budget. They are required for specific purposes and are a means of building up funds to meet known or predicted liabilities.

Creation of such reserves must be approved by the Chief Finance Officer, with Full Council approval required for major policy led funds (see below).

Each earmarked reserve will have a clear protocol setting out:

- The reason for/purpose of the reserve
- How and when the reserve can be used
- Procedures for the reserve's management and control

Balances should be reasonable for the purpose held and must be used for that purpose only. Reserves will be reviewed annually for continuing relevance and adequacy. If the reserve is no longer required for its original purpose, or no longer required at its current level, the balance will transfer to the General Fund reserve balance, as approved by Full Council.

Earmarked reserves are analysed as follows:

Type of earmarked reserve	Reason for holding
Major policy-led funds	Established to manage corporate priorities including transformation and cross-group policy issues
Asset replacement funds (R&R)	Funds set aside for specific asset replacement
Statutory and accounting reserves	As required, for example to hold the unspent balance of specific revenue grants or any surplus/deficit on services which are required to break even over time
Shared/partnership funds	Retained for use by shared services/partnerships
Other	As required for specific issues – limited time reserves to be closed once committed balances are spent