Version 4
Council (Final)

Budget-Setting Report 2017/18

February 2017

2017/18

Cambridge City Council

CAMBRIDGE
CITY COUNCIL

Version Control

	Version No.	Revised version / updates for:	Content / Items for Consideration
	1	Strategy & Resources Scrutiny Committee (23 January 2017)	Initial budget overview and budget proposals
		The Executive (26 January 2017)	Proposals of the Executive
	2	Special Strategy & Resources Scrutiny Committee (13 February 2017)	Amendments to Executive proposals Opposition budget amendment proposals
	3	Council (23 February 2017)	Final Proposals to Council Incorporating updates relating to; - Head of Finance final Section 25 report
Current	4	Council (Final)	Approved Budget-Setting Report incorporating - Final Local Government Finance Settlement 2017/18 - Decisions of Council - Appendix B(b) Council Tax Setting following receipt of County Council, Police and Fire Authority precepts

Anticipated Precept Setting Dates

Cambridgeshire Police and Crime Commissioner	Cambridgeshire & Peterborough Fire Authority	Cambridgeshire County Council
1 February 2017	9 February 2017	14 February 2017

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

Our budget for Cambridge

Each year, the City Council produces a financial plan for the year ahead – our budget for Cambridge. Backing this up we have a vision to lead a united city, 'One Cambridge - Fair for All', in which economic dynamism and prosperity are combined with social justice and equality. It's a vision we will share and develop, working with our citizens and partner organisations.

This budget will provide the resources to deliver our seven objectives of:

- Delivering sustainable prosperity for Cambridge and fair shares for all
- Tackling the city's housing crisis and delivering our planning objectives
- Making Cambridge safer and more inclusive
- Investing in improving transport
- Protecting our city's unique quality of life
- Protecting essential services and transforming council delivery
- Tackling climate change, and making Cambridge cleaner and greener

In producing a budget to achieve these objectives existing resources have been reviewed and reused or, where appropriate, rechannelled into providing improvements in delivery of existing services. For example, we have invested in shared council service delivery with South Cambridgeshire since 2014 which involves extra initial costs, but which then cuts our overall operating costs, and can also lead to improved service quality too.

In addition, new resources will be provided to further develop priority services or add new ones. In October 2016, £200,000 was added to the Sharing Prosperity Fund and a further £100,000 will be provided in this 2017 budget to fund extra work on alleviating poverty.

Projects being developed to be paid for from this fund include:

- Work to reduce fuel and water poverty in Cambridge
- Cookery classes for families with low incomes having to stretch meagre budgets

- Outreach work by Cambridge CAB in health centres for some of our most disadvantaged residents
- Financial literacy work with young people and adults.

The council is committed to tackling environmental and sustainability issues. To exemplify this, an additional (half time) Air Quality Officer and additional rapid electric charging points will be funded in 2017. Where possible electric vehicles will be bought when it comes to replacing any of the council's fleet of vans. The Climate Change Fund will be topped up with a further £250,000 enabling extra work to reduce the council's carbon footprint. Projects could include:

- Installation of LED lighting and improved boilers and control systems in council buildings
- Upgrading our properties with insulation and energy efficient double or secondary glazing
- Installation of photovoltaic panels on some council buildings, and adding a small combined heat and light power station in the Guildhall.

The Government's changes to social housing and welfare policy have had a serious impact on the ability of the council to plan and deliver its budget for managing and maintaining over 7,000 homes. There is a severe challenge to balancing the Housing Revenue Account and this is the subject of a separate report.

The council's extensive work to tackle homelessness and poor accommodation in the private housing sector will be further supported by a new post in the council's Housing Development Agency and the extension of the Town Hall Lettings Service, which helps small-scale local landlords rent their property to local people who need a place to live.

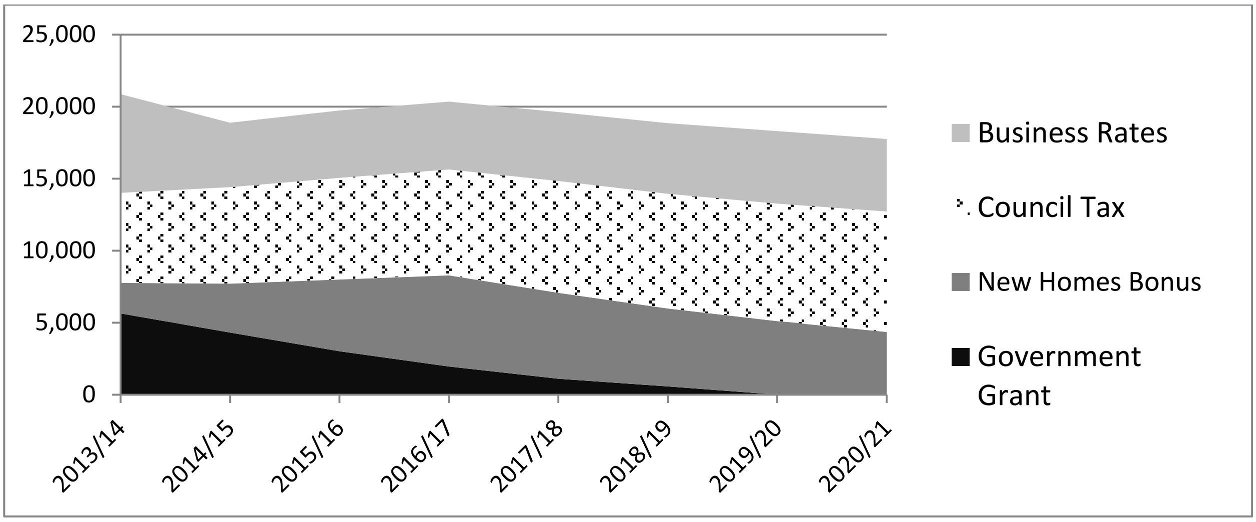
In 2016, given the need to help keep safe the many people out at night in our city, we decided to step in following county council cuts and keep all street lights on from 2am until 6am each night. We welcome the recent county council decision to reverse this cut, but have now decided to pay for the streetlights to be brighter from 10pm to 2am than they plan, including in residential areas and the city centre, increasing lighting levels by a third from their planned 60% overnight level, to 80% to increase safety.

Funding the budget

Local government has very little control over its core income. Business rates and national grants are controlled by the Government, who also restrict increases in council tax. In response to this highly regulated control over core income, the council has evolved a strategy which protects the council's financial future and the services that our residents rely on. Fundamental to the strategy are developing ways of running the council more productively and establishing ways which make us less reliant on government funding. In this way we will be more certain to have the finances to achieve our objectives.

In October 2016 an efficiency plan was produced covering the next four financial years to 2020/21. That document took on board the vision and objectives this council has set and which need resourcing. It brought together and further developed the range of policies built up over the past few years to cut costs and enhance income. We have now produced a budget for the first of those years ahead.

Producing the efficiency plan has led to the government agreeing to provide the council with certainty as to the minimum grant and other support to be received for the four years to 2020. While this is welcomed, it also reflects the reality that by 2019 the government will no longer be paying the council any core grant at all.



Historic and projected grant and tax income in £000

This chart shows the annual government grant dropping to nil by 2019. It also shows the reducing value of New Homes Bonus funding following the changes announced by the Government in December. The combination of these cuts puts more pressure on the council's budgets in the next few years and demonstrates the Government's intention that councils should be funded primarily locally, through the council tax and business rates. These are both regressive forms of taxation applied uniformly regardless of income, and this change highlights the importance of the council's strategies of supporting those in most need and running the council as efficiently as possible.

Over the last few years the council has been working hard to find savings and develop income earning services to protect services our residents value the most, and protect Cambridge residents who most need our support. Our Efficiency Plan tackles the need to deliver good services with fewer resources through six complementary strands of activity:

- Transforming the way the council delivers services by focusing on what's important to service users and delivering that well, sharing services with neighbouring councils where possible to reduce costs and to create stronger and more resilient teams.
- Reducing the number of council offices, including the sale of Hobson House on St Andrews Street and plans for relocating Streets and Open Spaces operations to a new base at Cowley Road, north Cambridge.
- Investment in major capital projects including planning the redevelopment of major council assets starting with Park Street car park and Mill Road depot and opportunities for more housing on both sites.
- Developing new council businesses, including a new vehicle maintenance garage and fleet operation at Waterbeach, and ensuring all services think commercially and explore income generating opportunities.
- Investing money wisely so it does not sit in bank accounts earning very little but works to generate a better return for council tax payers. Since we took control of the council in 2014, an impressive £50 million of underused council resources has been freed up to invest in commercial property assets and to invest in housing via Cambridge City Housing Ltd, generating income for reinvestment while addressing affordable housing need.
- Challenging the council's capital programme to reduce low priority capital commitments by over £10m and ensure those schemes that do go ahead are well planned and delivered in a timely way.

Our work continues for the whole Cambridge community. We are determined to do everything we can to avoid cuts to frontline services and to deliver extra funding on our priorities. All of this is only possible due to our ambition, our financial prudence, and our determination to prioritise social justice. Our budget, described in detail in this document, will help deliver more for you, despite cuts in funding, and help deliver our commitment of "One Cambridge, Fair for All".

Cllr Lewis Herbert, Leader
Cllr Richard Robertson, Executive Councillor for Finance and Resources

Section 1
Introduction

Purpose

The Budget-Setting Report (BSR) is designed to provide an integrated view of the council's finances and outlook. It covers General Fund (GF) revenue and capital spending, highlighting the inter-relationships between the two, and the resultant implications. Detailed budget proposals for the Housing Revenue Account are presented and considered separately from this report.

On 20 October 2016 the council approved the Medium Term Financial Strategy (MTFS). The MTFS set out the financial strategy for the council in light of local and national policy priorities, external economic factors and the outlook for public sector funding. The MTFS also reviewed key assumptions and risks, thereby confirming the framework for detailed budget work for 2017/18 and beyond.

The BSR reviews the impacts of developments since the MTFS and sets the financial context for the consideration of detailed recommendations and budget finalisation to be made at council on 23 February 2017. The document proposes a detailed budget for the next financial year, and indicative budget projections for the following four years.

Background

The financial planning context for the BSR is set by the MTFS. This identified a total net savings requirement of £2.2m over the next 5 years, after taking into account changes to base assumptions and £212k of pressures and £106k of savings identified at that time.

	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m	Total £m
Net savings requirement	(0.737)	0.560	0.560	0.560	0.560	2.240

These savings requirements stem from significant reductions in government funding, unavoidable cost increases and pressures, including the additional net cost of services for every new home in the City. Considerable levels of risk and uncertainty remain, including the possible impacts of the review of business rates retention and associated additional responsibilities, business rates revaluation as at April 2017 and the future of New Homes Bonus. Whilst the council has a record of identifying and delivering savings though service reviews and value for money improvements, many such savings have already been delivered and it is becoming more difficult to identify and deliver further savings and efficiencies.

The council continues to deliver a programme of on-going transformation targeted at the way it delivers services and interacts with residents, tenants and other parties. There is an increasing emphasis on identifying and implementing proposals for income generation to make the council more financially sustainable. This BSR builds on what has been achieved, with particular emphasis on the continuing delivery of transformation projects, including shared services with neighbouring councils and the consolidation and improvement of the council's office accommodation.

Key dates

The key member decision-making dates are as follows:

Date	Task
2017	
23 January	Strategy and Resources Scrutiny Committee considers BSR
26 January	The Executive recommends BSR to Council
13 February	Special Strategy and Resources Scrutiny Committee considers any budget amendment proposals
23 February	Council approves the budget and sets the council tax for 2017/18

Section 2

Local and national policy context

Local policy context

The local policy context and priorities for the council are agreed each year through the adoption by council of an Annual Statement. The Annual Statement for 2016/17 was approved in May 2016 and can be accessed on the council's web site at:

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

The Annual Statement reflects and informs the council's Corporate Plan, which is included in this report at Appendix A. The plan sets out in more detail how the vision 'Building a fairer Cambridge together' will be delivered. The Corporate Plan is reviewed annually, with fuller reviews to be undertaken in 2018 and 2020.

MTFS 2016 included a foreword by the Leader of the Council and the Executive Councillor for Finance and Resources which supplements the Annual Statement and confirms the direction of travel for the council. It advocates planning ahead to make the council more productive and less reliant on external funding while maintaining and developing services. It embraces financial objectives of sound and prudent financial management, minimisation of the need for cuts to services and investment in a fairer and more equal city. This is reflected in the detailed framework for the budget work.

Corporate Plan

The Corporate Plan sets out the strategic objectives for Cambridge City Council for the years 2016-19. It sets out key activities the Council will undertake in order to achieve its strategic objectives and deliver its vision. Success measures and key performance indicators (KPIs) are shown, as are lead Executive Councillors and officers. The Corporate Plan provides a key component of the local policy context looking forward over the three year period it covers. It has been updated to reflect structures and responsibility changes. It is included as Appendix A to this report.

Review of demographic factors

Demographic factors impact on the council's financial strategies in terms of their effect on the level of demand for services, the specific types and nature of services and the income available to the council through council tax.

Services use projections and estimates of population growth and the number of new dwellings to plan for the impacts of growth. The expected location of these changes can also be significant, with an increase of nearly 20% in the Office of National Statistics (ONS) mid-year population estimates for the Trumpington ward from 2014 to 2015. This compares with an average population growth for the City of 0.3% in that year.

The direct budgetary impact of increased population could be a simple proportional uplift of service costs. However in other cases, a review of the current model of service delivery may be required, factoring in not only growth in population and dwellings, but also changes in demand, changes in the nature of that demand and the available funding envelope.

City Deal

The City Council is working with Cambridgeshire County Council, South Cambridgeshire District Council, the University of Cambridge and the Greater Cambridge Greater Peterborough Local Enterprise Partnership 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 will help Greater Cambridge to maintain and grow its status as a prosperous economic area. The deal is working to:

- Create an infrastructure investment fund
- Accelerate the delivery of 33,000 planned homes
- Enable delivery of 1,000 extra affordable new homes on rural exception sites
- Deliver over 400 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 45,000 new jobs
- Create a governance arrangement for joint decision making between local councils

The Greater Cambridge City Deal Executive Board engaged organisations and the public through the summer and autumn of 2016 on a set of proposals for tackling peak-time congestion in Cambridge and the resultant high levels of air pollution as well as travel disruption. The package of proposals put forward was suggested as a way of freeing up buses to run more rapidly and reliably, as well as promoting walking and cycling and other measures to move more people quickly and efficiently.

The City Deal team are assessing more than 9,000 consultation responses received. Proposals for how to achieve the objectives of moving people into and around the city and surrounding area will be developed during 2017. 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 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. This is covered further in Section 4, below.

Devolution

In Cambridgeshire and Peterborough, the councils and other major public services have come together to identify current barriers to economic growth and opportunities for further efficiency in major public services. A scheme has been developed with central government which devolves powers and functions to a Combined Authority with a directly elected Mayor, where these powers and functions can be more effectively carried out at a local level, rather than by national government and its agencies.

The Cambridgeshire and Peterborough Devolution Deal delivers:-

- A new £20m annual fund for the next 30 years to support economic growth, development of local infrastructure and jobs
- £100m for non-Housing Revenue Account (HRA) affordable, rent and shared ownership housing
- A further £70m for affordable housing in Cambridge, to build new council homes
- Government support for developing a university at Peterborough

- A Peterborough Enterprise Zone
- A local integrated job service
- A National Work and Health Programme
- A devolved skills and apprenticeship budget
- Potential rail improvements, including new rolling stack and improved King's Lynn – Cambridge – London rail
- Potential acceleration of transport improvements, including the A14/A142 junction and upgrades to the A10 and A47
- Further integration of local health and social care resources to provide better outcomes for residents

The council and its partners have agreed establishment of the Combined Authority. Work now continues to finalise arrangements and implement this decision, with mayoral elections planned for May 2017. At present, no financial impact from this decision on the City Council is expected, but this will be kept under review.

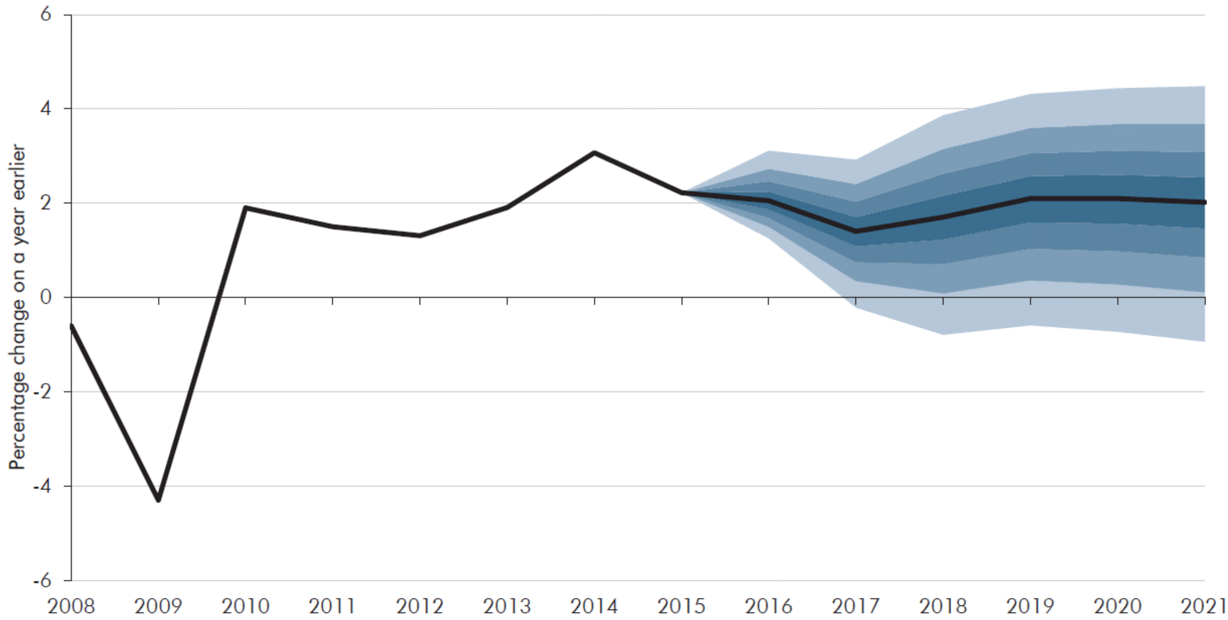
National policy context

Economic factors

2016 has seen a number of developments in the UK, EU, US and beyond that have a major impact on economic forecasts. These include Brexit and the result of the US Presidential election. These have caused volatility in currency, bond and stock markets around the world and make forecasting fraught with difficulty. In particular, the decline in the £ sterling against the US Dollar has increased inflation rate expectations. At the time of writing, considerable economic uncertainty remains. For example, economic forecasters will need to consider:-

- A range of outcomes possible in relation to Brexit negotiations, with no information available about the government's goals and expectations.
- Possible slowing of import and export growth as new trading arrangements are negotiated.
- The eventual timing of the UK leaving the EU
- Changes to net migration figures and their impact on the economy

However, by making assumptions and judgements, the Office of Budget Responsibility (OBR) forecasts a reduction in GDP growth, increases in CPI inflation, declines in business investment and private consumption and some small rises in unemployment. The chart below, showing a range of forecasts for real Gross Domestic Product (GDP) illustrates the level of future uncertainty.



Source: ONS, OBR

Forecasts confirm that the government is unlikely to achieve a balanced budget in the current parliament. Originally a budget surplus was projected for 2019/20 but the OBR now forecasts a deficit of £21.9bn. Public sector net borrowing is now expected to fall more slowly than previously forecast, reflecting weaker tax receipts and a more subdued outlook for economic growth following the Brexit referendum result.

As a result the Chancellor has proposed a looser 'fiscal mandate' with the objective to 'return the public finances to balance at the earliest possible date in the next parliament'.

Bank of England Gross Domestic Product (GDP) and Consumer Price Index (CPI) inflation forecasts from quarterly inflation reports are as follows:

Forecast (%)	**2016**	**2017**	**2018**	**2019**
GDP – November 2015	2.5	2.6	2.5	-
GDP – August 2016	2.0	0.8	1.8	-
GDP – November 2016	2.2	1.4	1.5	1.6

Forecast (%)	2016	2017	2018	2019
CPI – November 2015 (Q4)	1.2	2.1	2.2	-
CPI – August 2016 (Q3)	0.8	1.9	2.4	-
CPI – November 2016 (Q4)	1.3	2.7	2.7	2.4
CPI – MTFS October 2016	-	1.9 (2017/18)	2.4 (2018/19)	2.4 (2019/20)

These inflation forecasts show an under-provision of inflation in the MTFS of approximately 0.6% in 2017/18 (£126k) and 0.3% in 2018/19 (£63k). No adjustment to budgets is proposed at this time, as these amounts are small in relation to expenditure.

Interest rates

Interest rates are set by the Bank's Monetary Policy Committee. The MPC sets an interest rate it judges will enable the inflation target to be met. At its meeting ending 3 August 2016, the MPC voted for a package of measures designed to provide additional support to growth and to achieve a sustainable return of inflation to the target of 2%. This package included a 25 basis point cut in Bank Rate to 0.25%.

Latest projections for interest rates from the council's treasury management advisors (Capita) as at November 2016, set out below, show the first rise in base rate (an increase to 0.50%) in June 2019.

%	2016/17			2017/18				2018/19				2019/20			
	NOW	Dec	Mar	Jun	Sep	Dec	Mar	Jun	Sep	Dec	Mar	Jun	Sep	Dec	Mar
BANK RATE	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.50	0.50	0.75	0.75
3 mth LIBID	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.40	0.50	0.60	0.70	0.80	0.90
6 mth LIBID	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.50	0.60	0.70	0.80	0.90	1.00
12 mth LIBID	0.70	0.70	0.70	0.70	0.70	0.70	0.70	0.80	0.80	0.90	1.00	1.10	1.20	1.30	1.40
PWLB															
5 year	1.50	1.60	1.60	1.60	1.60	1.60	1.70	1.70	1.70	1.80	1.80	1.90	1.90	2.00	2.00
10 year	2.30	2.30	2.30	2.30	2.30	2.30	2.30	2.40	2.40	2.40	2.50	2.50	2.60	2.60	2.70
25 year	3.00	2.90	2.90	2.90	2.90	3.00	3.00	3.00	3.10	3.10	3.20	3.20	3.30	3.30	3.40
50 year	2.70	2.70	2.70	2.70	2.70	2.80	2.80	2.80	2.90	2.90	3.00	3.00	3.10	3.10	3.20

Interest rates projection at November 2016(Capita)

The 2016 Autumn Statement

The government published the Autumn Statement on 23 November 2016.

In the light of the deteriorating economic context, the government has chosen to borrow to invest in infrastructure and innovation targeted at improving productivity. Government departments will continue to deliver spending plans set at Spending Review 2015. The efficiency review announced at Budget 2016, designed to deliver £3.5bn of savings, was reaffirmed. As a result government department spending control totals are unchanged and are expected to grow with inflation in 2020/21 and 2021/22.

The statement contained few items of relevance to the council, with little or no impact on the council's GF budget:

- Lettings agent fees will be banned. This will affect the council's housing company, removing one of its competitive advantages.
- The government has confirmed the transitional scheme to be applied to the 2017 revaluation for business rates.
- The national Living Wage will be increased by 4.2% to £7.50/hour from April 2017.
- Employer and employee thresholds for National Insurance (NI) will be aligned, simplifying the payment of NI for employers.
- Reforms to off-payroll working rules in the public sector will move responsibility to councils for operating these rules, increasing the administrative burden.

However, the statement included a number of announcements relating to housing that are relevant to and provide opportunities for the council. Where applicable to the Housing Revenue Account (HRA), they are addressed in the HRA BSR which is presented to the Housing Scrutiny Committee and then to Council alongside this report. Housing announcements included:-

- A £2.3bn Housing Infrastructure Fund to deliver infrastructure to support the building of 100,000 new homes in high demand areas. This will be allocated to local government on a competitive basis. Once details are available, the council along with local partners will consider making a bid for this funding.

- An additional £1.4bn of funding for building an additional 40,000 homes from the Affordable Homes Programme.
- A confirmation that the "Pay to Stay" scheme would be voluntary for councils.
- The cap on Housing Benefit and Local housing Allowance rates in the social rented sector will be delayed by one year to 2019.

The government also announced that in future there will be one major fiscal event per year in the autumn. There will be both a spring and autumn Budget in 2017. Thereafter the OBR will produce a spring forecast and the government will make a Spring Statement to respond to that forecast.

Section 3
Public budget consultation

Context and approach

The Council has carried out a budget consultation exercise annually since 2002.

This year the council commissioned Mel Research, an independent research company, to carry out a residents' survey following methodology set out in the Local Government Association's (LGA) 'Are you being served' guidelines[1]. This involved sending out by post a questionnaire to a random sample of 4,400 residents. From this random sample 1,250 people returned questionnaires, providing a robust view of what Cambridge residents think.

The questionnaire asked what residents thought about the council, the level of importance they attached to council services, how satisfied they were with services, and how they interacted with the council. Some questions were comparable with those asked in surveys carried out in 2011 and 2008, allowing for changes over a period of time to be identified. Where other local authorities have used the same LGA approach it has been possible to benchmark results.

Because a random sample was used some of the participating residents may have had little contact with the council or experience of council services. For council services that target small groups of people, such as the homeless, this meant that respondents were more inclined to say "neither disagree or agree", giving a lower net-satisfaction score for the service. This should be born in mind when considering net-satisfaction results in the report.

The final report also includes insights provided by two workshops - the first involving residents from low income households and the second representatives from local businesses. These two groups are important because of the direction given by the council's Anti-Poverty

[1]Local Government Association's (LGA) 'Are you being served' guidelines can be found here: http://www.local.gov.uk/web/10180/home/-/journal_content/56/10180/3484891/ARTICLE ?

Strategy and the need for the council's to fulfil its best value duty to consult about its budget priorities.

The residents' survey was published[2] on 17 November 2016.

Key consultation findings

Headline results

The headline results of the residents' survey report show increased levels of satisfaction with council services and the way in that the council runs things. The main headlines were:

- 76% of residents are satisfied with the way the council runs services, which is an improvement of 20% since 2011
- 55% of residents agree that the council provides value for money, which is an improvement of 22% since 2011
- 80% of residents agree that the city council is accessible to the public, 79% agree that it cares about the environment and 75% agree that the city council is easy to contact, and
- 78% of residents indicate they are well informed about how to contact the city council and 64% said the council keeps them "well informed".

Importance of services

Residents were asked to rank the level of importance they attached to each of twenty four council services listed and to indicate whether they felt a service could be provided at lower standard or stopped.

Residents said that the two most important services for them were:

- The collection of rubbish, recycling and green waste (98%), and
- Work with the Police to prevent crime and anti-social behaviour and promote community cohesion (95%).

For services that residents felt could be provided at a lower standard they highlighted:

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[2] The residents' survey 2016 can be found here: https://www.cambridge.gov.uk/budget-consultation

- Managing and maintaining the city car parks (39%) and,
- Funding arts and entertainment activities (34%).

Very few residents, 5% or less, identified services that they felt should be stopped all together.

Finding savings

Residents were also asked to consider a range of statements about how the council could find savings, to help meet the financial challenges it is facing, and to state their level of support for each approach.

The two most supported approaches to finding savings were:

- Working with other councils to deliver efficient shared services (93% agreed), and
- Partnership working with local trusts/not for profit organisations (88% agreed).

The two approaches that received the least support were:

- Increase charges for public supplied services and the vast majority (54% disagreed), and
- The council should reduce capital spending on physical community assets (80% disagreed).

Views from workshops

Residents in the workshop involving people from low income households, whilst generally supportive of the council and its services, raised concerns about levels of anti-social behaviour in their neighbourhoods, the cleaning of communal areas and the collection of waste and recycling from communal collection areas.

In the workshop with local business representatives, who have an interest in the city and the way the city council may choose to prioritise its services in the future, most business representatives expressed satisfaction with the local environment and how the council maintained street cleaning and associated services. However, they wished to see greater support for housing services, to assist with recruitment and a focus on improving transport and reducing car parking charges.

Next steps

The council will continue to work hard to deliver good quality services, against a background of financial challenges, and whilst it is pleasing to see this evidence of improved levels of satisfaction the council will take time to consider all of the detail from the survey and will look closely at what people have said so that we can continue to improve the way we work.

Section 4
General Fund resources

Local government finance settlement 2017/18

In December 2015, as part of the provisional local government settlement, a four year funding guarantee was offered to councils that submit an efficiency plan. The City Council's plan has been accepted by government, confirming revenue support grant (RSG) and baseline levels of business rates for 2016/17 to 2019/20.

The provisional finance settlement was published on 15 December 2016 with the final settlement following on 20 February 2017. The final settlement provides firm funding figures for 2017/18 and indicative figures for the following two years. However, certain elements are subject to the funding guarantee described above. The government has responded to its consultation on New Homes Bonus (NHB), with initial reductions coming through into the settlement figures presented below. Certain aspects of the proposed changes to this funding stream remain to be decided; these are covered in more detail in the section below on NHB.

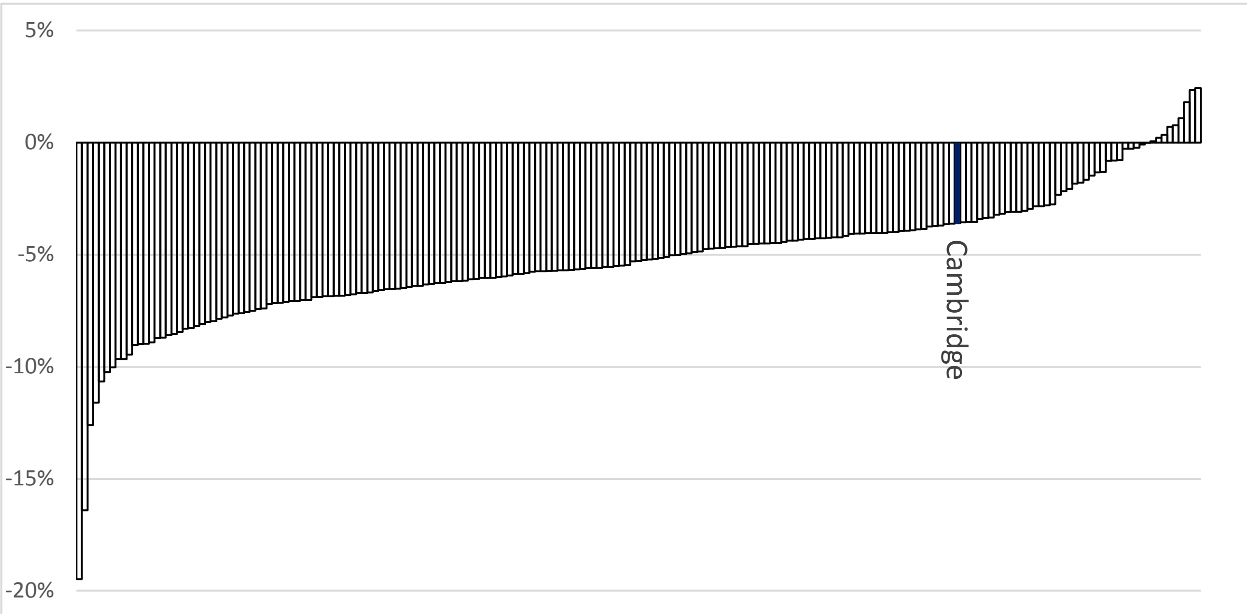
Uncertainty remains for 2018/19 and beyond as government continues to develop the 100% business rates retention scheme. This work includes identifying further responsibilities to devolve to councils to match higher levels of business rates retention and a review of needs and distribution.

Core spending power

Element of core spending power (£000)	2016/17	2017/18 Final	Change	2018/19	2019/20
Settlement Funding Assessment (SFA):					
- Revenue Support Grant (RSG)	1,954	1,103	(43.6%)	571	0
- Business rates baseline	3,910	3,990	2.0%	4,118	4,264
- Business rate tariff adjustment	-	-	-	-	(24)
	5,864	**5,093**	**(13.1%)**	**4,689**	**4,240**
New Homes Bonus (NHB) grant[1]	6,332	5,973	(5.7%)	4,559	4,374
Council tax income[1]	7,440	7,861	5.7%	8,301	8,760
Core spending power	**19,636**	**18,928**	**(3.6%)**	**17,549**	**17,374**

[1] – Figures based on government projections

Lower Tier Authorities: Change in core spending power 2016/17 – 2017/18



These figures imply a decrease of 3.6% in core spending power over 2016/17, including a confirmed decrease of nearly 6% for NHB. It should be noted that government projections of council tax are based on assumptions relating to council tax yields (a combination of increases in council tax and in the tax base). The core spending power measure, based on illustrative amounts for NHB, shows a decline of 8.2% over the four years of the spending review period.

There are no material changes in the SFA from that included in MTFS 2016, as this funding has been guaranteed following the government's acceptance of the council's efficiency plan.

Future prospects

The final settlement provides confirmed amounts for the SFA for 2017/18 and the following two years. However NHB and therefore core spending power is not guaranteed by the multiyear settlement.

SFA	**2016/17 £000**	**2017/18 £000**	**2018/19 £000**	**2019/20 £000**
Final finance settlement	5,864	5,093	4,689	4,240
MFR 2016 projection	5,864	5,090	4,675	4,235
(Shortfall) / Excess	**0**	**3**	**14**	**5**
NHB				
Final finance settlement[1]	6,332	5,973	4,559	4,374
MFR 2016 projection	6,332	7,262	8,531	9,694
(Shortfall) / Excess		**(1,289)**	**(3,972)**	**(5,320)**

[1] – The 2017/18 amount has been confirmed by government. Later amounts are as presented in the finance settlement papers and have been calculated by government by apportioning available funding across councils based on 2017/18 figures.

No adjustments have been made for the proposed 100% retention of business rates (see below) as the outcome of consultation and development work has yet to be finalised.

Local retention of business rates

The SFA approach enables local authorities to benefit directly from supporting local business growth. The assessment includes a baseline level of business rates receivable (indexed linked from an initial assessment in 2013/14) with the level of rates receivable above that being taken by government as a 'tariff' – which will be used to 'top-up' local authorities who would receive less than their funding level. Government intends that this will be fixed until 2020.

In addition, the council can retain 50% of any business rates collected above the assumed baseline level, paying the remainder to central government as a 'levy'. If business rates income falls to less than 92.5% of the baseline, the council receives a 'safety net' payment so that any loss of income below the baseline is capped at 7.5%

One of the challenges faced by all authorities is effectively predicting the level of movement in the business rate tax base. This is dependent on accurately forecasting the timing and incidences of new properties, demolitions and significant refurbishments – together with the consequent effect on valuations. This is further complicated by the need to assess the level of appeals that will be lodged successfully against new / revised valuations, together with their timing.

Although there has been growth in the tax base in the city since the scheme started in 2013/14, there have also been significant reductions as a result of the settling of appeals against rateable value (including backdated aspects).

Forecasting the effects and timing of new development and redevelopment on the city's tax base remains difficult. Significant development is continuing, for example on the Cambridge Biomedical campus and in the station area. However, there are significant uncertainties around the operation of the business rates retention scheme in the next few years. These include:

- The DCLG is currently working with local authorities and other interested parties on changes to the local government finance system to pave the way for the implementation of 100% business rate retention by the end of the parliament. A first set of consultations took place in summer 2016. The review may rebalance the distribution of business rates away from district councils towards those authorities with social care responsibilities, for example by changing the tariff and top-up payments, or the relative shares of income between the tiers of local government. The government has also indicated that 100% retention will mean the transfer of additional funding burdens to local government. The exact timing of the change or whether it will be phased in is not clear.

- A rates revaluation at 1 April 2017. The Valuation Office Agency issued draft ratings lists on 30 September. The business rates multiplier will also be revised so that the overall national business rates bill will only rise in line with inflation. Although intended to be fiscally neutral overall, it will be difficult for the impact of the revaluation to be completely neutral for every authority. Although the council's share of income is expected to increase, the government will make a compensating adjustment to the tariff paid by the council, and is currently consulting on how this will be calculated.

The appeals position remains difficult to forecast accurately, with appeals settled elsewhere in the country having knock-on effects nationally. NHS Foundation Trusts, including those in the city, are also pursuing a claim for award of mandatory charitable relief, backdated a number of years.

Given these uncertainties the BSR takes a cautious approach to forecasting business rates income. The overall position is currently projected to reflect additional net income above the baseline of £800k in each year.

In addition to the current national business rates retention scheme the government announced a pilot 100% retention scheme for Cambridgeshire in spring 2015. This scheme additionally allows the council to retain an extra 50% of any growth above the 15/16 baseline, inflated by the multiplier and 0.5% each year. The detailed regulations covering this have yet to be made. The council did not accrue any significant additional income for 2015/16. As this money may be pooled with similar amounts from other local authority partners and allocated to joint projects, the BSR has not assumed any contribution from the pilot.

New Homes Bonus

The allocation of NHB for 2017/18 was announced by the DCLG in December 2016 and forms the basis for BSR 2017/18. Illustrative amounts for the following three years were provided within the provisional finance settlement, see above.

The outcome of the technical consultation on the NHB scheme was published alongside the provisional settlement. This confirmed the expected direction of travel, 'sharpening the incentive' for councils to deliver new housing. Specifically:-

- The length of NHB payments will be cut from six to five years in 2017/18, and further reduced to four years from 2018/19 onwards.

- A national baseline, or ‘deadweight’, of 0.4% has been introduced, below which NHB will not be paid. The government has retained the option of adjusting this baseline, effectively providing a mechanism to control the total NHB payable to councils. The City Council will receive 80% of NHB payable on increases in housing stock above the 0.4% deadweight, with the County Council receiving the remaining 20%.
- From 2018/19 the government will consider withholding NHB payments from councils without a local plan, and for houses built following planning appeals. Work continues to complete the processes for adopting the Local Plan but the specifics including timing are also dependent on the Planning Inspection process.

The table below includes estimates of future NHB payments based on expected housing completions and the years of payment and deadweight indicated in the government’s consultation response. Any changes in these factors could materially impact these estimates.

NHB is currently used to fund both revenue and capital spending related principally to growth and place. Currently 50% of NHB is set aside as a contribution to the City Deal Investment and Delivery Fund, with remaining amounts reserved for schemes to mitigate the impacts of the A14 upgrade. However, the council’s revenue expenditure and A14 mitigation take priority over the contribution to the City Deal Investment and Delivery Fund.

Projections of future NHB indicate that it will not be possible to maintain the 50% contributions to the City Deal. After discussions with partners and considering various options it has been agreed that City Deal contributions will be reduced to 40% from 2017/18 onwards. The following table illustrates the impact of contributing 40% of gross NHB receipts to the City Deal Investment and Delivery Fund. Uncommitted NHB receipts in 2017/18 and 2018/19 will be held in reserve to fund the A14 mitigation contribution.

New Homes Bonus	**2016/17 £000**	**2017/18 £000**	**2018/19 £000**	**2019/20 £000**	**2020/21 £000**	**2021/22 £000**
Confirmed NHB funding at February 2016 BSR	**(6,332)**	**(4,801)**	**(2,947)**	**(1,360)**	**-**	**-**
Add						
Confirmed NHB receipts for 2017/18	-	(1,161)	(1,161)	(1,161)	(1,161)	-
Estimated NHB receipts for 2018/19	-	-	(1,302)	(1,302)	(1,302)	(1,302)
Estimated NHB receipts for 2019/20	-	-	-	(1,274)	(1,274)	(1,274)
Estimated NHB receipts for 2020/21	-	-	-	-	(610)	(610)

New Homes Bonus	2016/17 £000	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000
Estimated NHB receipts for 2021/22	-	-	-	-	-	(952)
Potential New Homes Bonus Total	**(6,332)**	**(5,962)**	**(5,410)**	**(5,098)**	**(4,348)**	**(4,139)**
Commitments against NHB						
Funding for officers supporting growth e.g. within planning	785	785	785	785	785	785
Replacement of Homelessness Prevention Funding subsumed into the SFA	564	564	564	564	564	564
Public Realm Officer - Growth X3782	35	35	35	-	-	-
Direct revenue funding of capital	1,075	1,075	1,075	1,075	1,075	1,075
Contribution to A14 mitigation	-	-	-	1,500	-	-
Further approvals	-	400	-	-	-	-
A14 mitigation contribution funded from reserved amounts	-	-	-	(1,505)	-	-
Contribution to City Deal Investment and Delivery Fund	3,166	2,385	2,164	2,039	1,739	1,656
Total commitments against NHB	**5,625**	**5,244**	**4,623**	**4,458**	**4,163**	**4,080**
NHB reserved for A14 mitigation	**0**	**718**	**787**	**0**	**0**	**0**
Cumulative amounts reserved for A14 mitigation	**0**	**(718)**	**(1,505)**	**0**	**0**	**0**
NHB uncommitted	**707**	**0**	**0**	**639**	**185**	**59**

The above summary shows significant levels of reduction in expected NHB receipts in future years (£14.6m over the four years from 2017/18), demonstrating the importance of keeping this funding distinct from the core funding required to support ongoing services.

Earmarked and specific funds

In addition to general reserves, the council maintains a number of earmarked and specific funds held to meet major expenditure of a non-recurring nature or where the income has been received for a specific purpose but not yet spent. Details of opening and closing balances, with approved/anticipated use over the budget period are set out in Appendix F.

These funds have been rationalised over the last couple of years, with the aim of retaining only major policy-led funds. A number of funds still remain with residual balances and commitments; however these will be closed as soon as the commitments are delivered. The major earmarked and specific funds are listed below.

Sharing prosperity fund

The fund provides resources to fund fixed-term and one-off projects and proposals that support the objectives of the council's Anti-Poverty Strategy, namely:

- Helping people on low incomes to maximise their income and minimise their costs
- Making the move into work easier
- Helping low income families with the cost of raising a child
- Breaking the link between poor health and poverty
- Ensuring that vulnerable older people get the services that they need and reducing the social isolation they can experience
- Helping people with high housing costs and improving the condition of people's homes
- Working in partnership to tackle wider barriers to employment and engagement (e.g. transport, learning and skills)

To date 25 allocations have been made from the fund, which have a total value of £1,084,813. These allocations were made through: the Budget Amendment in July 2014; the Budget Setting Report (BSR) in February 2015; and decisions made in September 2015, March 2016, June 2016 and November 2016 following the approval process outlined above.

Some of the projects supported by the fund to date have included:

- Living Wage campaign officer and associated promotional budget
- Expansion of credit union services and a junior savers project in schools
- A programme of apprenticeships in council services
- Outreach advice work for people with mental health issues associated with low income and debt
- Work to address fuel and water poverty, including promotion of water meters, energy efficiency measures and a county-wide collective energy switching scheme

- Free swimming lessons for children from low income families
- Promotion of healthy eating through cookery skills workshops for low income families and a programme of free holiday lunches at community centres and other venues
- A programme of arts and cultural activity to develop self-awareness, resilience and leadership skills amongst young people from low income families
- Provision of training and other support to promote digital skills and inclusion

A further £200k was allocated to the fund through the MTFS in October 2016, and officers were invited to submit proposals for new projects by 28 November 2016. These proposals were considered by the Anti-Poverty Strategy Project Board on 13 December 2016 and will be submitted for approval by the Executive Councillor for Communities in early January 2017.

Climate change fund

The Council's five key objectives in relation to climate change are set out in its Climate Change Strategy for 2016-2021. The first of these objectives is 'reducing emissions from the City Council estate and operations'.

To ensure a strategic approach to this objective, the council has produced two Carbon Management Plans for 2011/12 - 2015/2016 and 2016/17 - 2020/21. We delivered 47 carbon reduction projects during the period of the first plan, and have identified 22 projects so far for delivery during the first two years of the second plan.

In 2008 the Council established a dedicated Climate Change Fund (CCF) to finance projects that will contribute to the reduction of carbon emissions from the Council's estate and operations. The fund supports projects focussing on:

- Energy and fuel efficiency;
- Sustainable transport;
- Waste minimisation; or
- Management of climate change risks.

Activities that can be supported include infrastructure, equipment, feasibility studies and awareness activities to change the behaviour of staff. Project proposals are assessed using a number of key criteria, including:

- Annual reduction in carbon dioxide emissions;
- Cost effectiveness (£ per tonne of CO_2 saved);
- Annual financial savings resulting from the project; and
- Payback period on investment.

Between 2008/09 and 2016/17, over £800k has been allocated to the Climate Change Fund and 29 projects have been supported by the fund, including some of those set out in the Carbon Management Plans. In addition to this, a range of other sources of funding have been used to support carbon reduction projects. Projects funded to date through the CCF have included:

- A solar thermal system to provide hot water at Abbey Pool, pool covers at Parkside and Abbey Pools, and energy efficiency measures at Parkside Pool changing rooms
- LED lighting at Mandela House, the Corn Exchange, the Crematorium, and Grafton West, Grafton East and Grand Arcade car parks
- Voltage optimisation technology at the Guildhall, Mandela House and Grafton East car park
- Upgrading boilers and installing heating controls at a number of community centres, leisure centres and administrative buildings.

Future allocations will be used to support projects identified in the Carbon Management Plan for 2017/18 and beyond, including a range of energy efficiency improvements to the Guildhall, potentially including solar photo-voltaics, LED lighting, a Combined Heat and Power system and a Building and Energy Management system.

City Deal investment and delivery fund

The Council has committed to pooling a proportion of gross NHB receipts with its local authority partners to provide funding to enable delivery of City Deal objectives which will support and address the impacts of growth. The governance of the fund will be aligned with the governance of the City Deal.

Invest for income fund

This fund was set up at BSR 2015 with contributions of £8m over three years. The purpose of the fund is to invest to create income streams to support service delivery in future years. Since inception, work has been undertaken to identify, investigate and evaluate a number of investment proposals. The Invest for income fund could be used to fund schemes where there is a high likelihood of achieving returns of 5% or more. Larger schemes would need to combine several sources of funding.

Asset replacement funds

These are maintained to fund the periodic replacement of assets. Annual contributions are based on estimated replacement costs, spread over the anticipated life of the assets; these funds are kept for vehicles only.

Office accommodation strategy fund

This fund was set up at BSR 2016 to fund the ongoing programme of office / depot rationalisation. The office accommodation strategy works towards consolidating the council's city centre office accommodation at the Guildhall and developing longer term options for building rationalisation. The depot will be released by relocating operational services to new depot facilities elsewhere in Cambridge and to Waterbeach Shared Waste and Garage sites. A significant amount of cultural change in how and where staff work will be required. This will include smart working, changes in how teams are managed, reductions in space per desk and desk to staff ratios. These will need to be underpinned by investment in smart working technology and further roll out of data and records management regimes.

A14 Mitigation Fund

As proposed in the NHB section above, a temporary earmarked fund will be set up to accumulate surplus NHB contributions to meet the requirement for funding of projects to mitigate the impacts in Cambridge of the A14 upgrade.

Tax base and council tax

Tax base

The tax base is one element in determining both the level of council tax to be set and the amount it is estimated will be collected. This calculation is governed by regulation and the formal setting of the tax base is delegated to the Head of Finance to enable notification to be made to the major precepting authorities during January each year.

The tax base reflects the number of domestic properties in the city expressed as an equivalent number of band D properties, calculated using the relative weightings for each property band. The calculation of the tax base takes account of various discounts (for example a 25% discount for single adult households) exemptions and reliefs. Allowances are also made for the projected growth in the number of dwellings as well as including a deduction assumed for non-collection.

The tax base for 2017/18 has been calculated as 41,977.2 and details of its calculation are given in Appendix B (a) and will form the basis of the final approved level for tax setting and precepting purposes. This reflects a 2.6% increase in the tax base compared with 2016/17.

Collection fund

Operation of the fund

The collection fund is a statutory fund, maintained by billing authorities such as the City council, into which income from council tax and business rates is recorded and out of which respective amounts set for the year, are paid to the City council and precepting bodies.

Forecast position at 31 March 2017

The collection fund for council tax is projected to have a deficit at the end of the current year of £282,761. The City council's share of this projected year-end deficit is £32,169 and this will need to be taken into account in setting the council's budget for 2017/18. The position for business rates was described in Section 3.

Council tax thresholds

Under the Localism Act, local authorities are required to hold a local referendum if they propose to increase council tax above the relevant limit set by the Secretary of State.

In recent years this threshold has been set at 2%, with some shire districts, including the City council, permitted to increase their element of council tax by up to £5, where this is higher than 2%. The government has confirmed the £5 limit for all shire district councils for 2017/18. The £5 increase may be available in future years, but this has not been confirmed. Therefore, for future years, increases of 2% have been retained in projections of council tax income.

The overall effect of the referendum requirements is such that a local authority would need to have reasonable expectation of public support for a level of council tax increase deemed to be excessive compared to the threshold, if acting in a prudent manner.

Council tax level

Financial projections of the council tax level made for the September 2016 MFR included the assumption of an increase of £5 for 2017/18 and approximately 2% per annum thereafter.

In light of the position with regard to the council tax threshold, as described above, the BSR incorporates a council tax increase in 2017/18 to £186.75 for band D and proportionately for other bands.

Section 52Z of the Local Government Finance Act 1992 requires the authority to consider whether the relevant basic amount of council tax for the financial year in question is excessive, based on the principles determined by the Secretary of State. As noted above, the threshold set for 2017/18 is that an increase is excessive where it is more than £5 on the band D charge, which means that the City council's proposed increase would not be deemed excessive.

The table below shows the City council element of council tax for 2016/17 for each property band together with the proposed levels for 2017/18:

	City Council tax		
Band	**2016/17 £**	**2017/18 £**	**Difference £**
A	121.17	124.50	3.33
B	141.36	145.25	3.89
C	161.56	166.00	4.44
D	**181.75**	**186.75**	**5.00**
E	222.14	228.25	6.11
F	262.53	269.75	7.22
G	302.92	311.25	8.33
H	363.50	373.50	10.00

Section 5
General Fund revenue budgets

Revised budget 2016/17

GF revenue budgets for the current year (2016/17) were reviewed as part of the MTFS. It should be noted that the revised budget includes carry forward approvals from 2015/16. No adjustment of 2016/17 revenue budgets is proposed, as budgets are monitored monthly through the review of variances and forecast outturns, and management actions taken to ensure that spending is controlled and income optimised.

Budget proposals

The GF revenue projections for 2017/18 to 2021/22 as presented in the MTFS have been reviewed and changes proposed. Proposals have arisen from policy initiatives, additional income opportunities balanced by additional staffing costs where appropriate, on-going service transformations, unavoidable increases in costs and savings opportunities. The impact of these proposals is shown below. The detailed proposals are set out in Appendices C (a) and C (b).

Performance against savings target

Savings Targets	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000
MTFS 2016 - Current Savings Target (new savings each year)	**(737)**	**560**	**560**	**560**	**560**
Previous year savings not achieved / (over achieved)	-	512	-	-	-
Revised savings target	**(737)**	**1,072**	**560**	**560**	**560**
New pressures in year *	1,247	(734)	(25)	1	-
Revised savings target including pressures	**510**	**338**	**535**	**561**	**560**
New deliverable savings found in year *	(735)	(100)	(219)	-	-
Savings still to be found	**(225)**	**238**	**316**	**561**	**560**

Memo:					
Net new pressures and savings - see Appendices C (a) and C (b)*	512	(322)	(566)	(565)	(565)
Year on year impact on savings target	-	(834)	(244)	1	-

This shows that the savings target for 2017/18 should be achieved in year. For the purposes of this table, it has been assumed that where there are savings still to be found they will be achieved in the year, and will not therefore roll forward to later years. It should be noted that the Council has embarked on a long-term programme of savings and income generation, which will require an on-going focus on delivery. Work is already in progress to identify more projects to contribute to savings requirements going forward.

The table shows that the overall effect of the measures recommended in the BSR has:

- Resulted in a total level of net savings of £1.7m across the period from 2017/18 to 2021/22.
- Resulted in a net savings requirement of £238k for the next budget year (2018/19), and £316k net savings requirement for the year after that. These comparatively low levels of savings in the first two years of the budget period will provide time for the delivery of longer term, more challenging transformational projects that are now required.

Review of significant proposals

Contribution to the Climate Change Fund

An additional allocation of £250k is proposed to support carbon reduction projects to be delivered in 2017/18. These include a range of energy saving measures at the Guildhall, which could include solar PV, LED lighting, a combined heat and power system and a building and energy management system.

Contribution to the Sharing Prosperity Fund

An additional allocation of £100k is proposed to support the delivery of projects which will support residents on low incomes and meet needs identified in the Anti-Poverty Strategy. This could include: further work to promote financial literacy and inclusion; further work to address fuel and water poverty; continued support for volunteering and skills development; and projects to improve the mental and physical health of residents on low incomes.

Transformation programme funding

Additional funding of £423k over two years is requested for the business transformation programme. The council has previously allocated significant funding for a complex council-wide programme of transformational change, including shared services. This additional funding will enable further projects to be delivered over the next two years, providing additional change resources and other staffing costs associated with the programme.

Unavoidable revenue pressures

A pressure of £266k arising from the effects of the business rates revaluation on the council's property portfolio has been identified. In future this may be reduced on appeal. Changes to the way in which holiday pay must be calculated have given rise to a pressure of £47k for the GF.

Additional commercial property income and associated capacity to deliver

Increased rental income from commercial property, £235k in 2017/18 rising to £610k p.a. in 2018/19 and future years has been identified. This will arise from ongoing rent reviews, lease renewals and lettings on existing properties and from rental income from future acquisitions funded by £20m allocated to commercial property investment in the Medium Term Financial Strategy. A related bid for £57k is also presented to provide an additional officer to support the increased workload within Property Services arising from the enlarged commercial property portfolio, the general fund development programme and other growth-related work.

Non-cash limit items

In general, non-cash limit items do not impact on savings requirements - they are use of, or contributions to, reserves. As such, they are only used for one-off items, principally of a transformational or policy nature.

Funding variances

Differences in funding allocations and outturns from previous estimates are actioned as non-cash limit items, for example, differences on the local government finance settlement such as the changes in NHB noted above, changes arising from re-estimation of the council tax base and the council's share of the council tax collection fund deficit. Detailed proposals are shown in Appendix C (c).

Other considerations – pension fund contributions

The council is an employing authority within the Cambridgeshire Local Government Pension Scheme. Contributions to the scheme are subject to revision following regular triennial valuations. The latest valuation, which will determine contributions for the years 2017/18, 2018/19 and 2019/20, is now available in draft and is subject to discussion and agreement with the scheme actuary. Initial indications are that pension contribution rates will be agreed within available budgets for these years and therefore no budget proposals are required.

The council has the opportunity to consolidate lump sum deficit recovery payments due in the three year period into one payment in 2017/18. This would reduce the amount paid in total and is likely to provide a better 'return' on cash than is currently available through the approved investment strategy. The viability of this approach will depend on actuarial and technical accounting considerations which are currently under investigation.

Bids for external or earmarked funds

As set out in Section 4, in addition to general reserves, the council maintains a number of earmarked and specific funds held to meet major expenditure of a non-recurring nature or where the income has been received for a specific purpose but not yet spent. There are no bids against these funds requiring consideration in this report. However, a remit exists for each major policy-led fund setting out the purpose of the fund and the process for allocations from the fund during the year.

Appendix C (d) provides details of a bid for contributions towards the costs of the Local Plan, to be funded from NHB.

Section 6

General Fund: Expenditure and funding 2016/17 to 2021/22

Description	2016/17 £000	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000
Expenditure						
Net service budgets	21,339	19,378	20,582	19,218	21,037	21,458
Revenue Budget Proposals - BSR	-	512	(322)	(566)	(565)	(565)
Capital accounting adjustments	(6,155)	(6,155)	(6,155)	(6,155)	(6,155)	(6,155)
Capital expenditure financed from revenue	3,599	2,264	1,564	1,786	1,786	1,786
Contributions to earmarked funds	9,175	5,768	3,951	3,679	2,924	2,715
Revised net savings requirement	0	225	(238)	(316)	(561)	(560)
Net spending requirement	**27,958**	**21,992**	**19,382**	**17,646**	**18,466**	**18,679**
Funded by:						
Settlement Funding Assessment (SFA)	(5,864)	(5,093)	(4,689)	(4,240)	(4,240)	(4,240)
Locally Retained Business Rates – Growth Element	(800)	(800)	(800)	(800)	(800)	(800)
Other grants from central government	0	0	0	0	0	0
New Homes Bonus (NHB)	(6,332)	(5,962)	(5,410)	(5,098)	(4,348)	(4,139)
Appropriations from earmarked funds	(1,792)	0	0	0	0	0
Council Tax	(7,353)	(7,807)	(8,178)	(8,450)	(8,776)	(9,132)
Contributions to / (from) reserves	(5,817)	(2,330)	(305)	942	(302)	(368)
Total funding	**(27,958)**	**(21,992)**	**(19,382)**	**(17,646)**	**(18,466)**	**(18,679)**

Section 7
Capital

Introduction

The council's asset portfolio as at 1 April 2016 is shown below.

Category	Value £000	%
Operational assets:		
Council dwellings	586,941	63.1
Other land and buildings	138,449	14.9
Vehicles, plant and equipment	19,726	2.1
Infrastructure assets	4,262	0.5
Community assets	1,173	0.1
Total operational assets	**750,551**	**80.7**
Non-operational assets		
Investment properties	144,274	15.5
Surplus properties	3,682	0.4
Assets under construction	31,853	3.4
Total non-operational assets	**179,809**	**19.3**
Overall total	**930,360**	**100.0**

The portfolio includes council housing, assets for direct service provision such as swimming pools, community centres, car parks, vehicles and equipment, as well as substantial areas of common land. In addition to the assets used for service provision, the council has a portfolio of commercial property. Each asset needs to provide an appropriate return on the investment made by the council and also be fit for the purpose for which it is used.

The council has developed long-term accommodation strategy to consider the best use of our administrative buildings. This review is linked to work to determine the most appropriate service delivery models (e.g. shared services) and working practices (e.g. flexible and/or remote working) for the future.

Capital plan

The council's capital plan shows anticipated expenditure for the next 5 years, where relevant, for each programme or scheme.

Capital proposals

The majority of capital bids address the on-going renewal, updating and major repairs of the council's buildings and operational assets. As such they support income generation (car parks, commercial property), and the delivery of services (vehicles, building repairs, etc). All capital proposals are shown in detail in Appendix E (a) and the funding requirements in Appendix E (b). Approvals since the MTFS Oct 2016 are shown in Appendix E (c).

Following a review of the capital plan, it is recommended that the funding from a number of schemes is released and made available for new capital proposals:

Ref.	Scheme	Funding to release £000	Notes
35527 – PR010di	Riverside / Abbey Road junction	31	Scheme complete, release excess funding
39149 – PV532	Cambridge City 20mph zones	55	Scheme as designed complete, release excess funding
38168 – PR027	Bins - Parks	48	Major replacement complete, future maintenance to be funded from revenue
38174 – PR028	Bins - Streets	23	Major replacement complete, future maintenance to be funded from revenue
	Total	**157**	

Financing

Capital schemes are funded from a variety of internal and external funding sources. The use of certain funding types is restricted, for example developer and other contributions, grants, and earmarked and specific funds.

Internal:

- Earmarked and specific funds (e.g. R&R)
- Capital receipts
- NHB
- Revenue resources

External:

- Developer and other contributions
- Grants, National Lottery etc.
- Prudential borrowing

Capital funding Available	2016/17 £000	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000
Funding available and unapplied (MTFS Oct 2016)	**(75)**	**(1,548)**	**(1,548)**	**(1,786)**	**(1,786)**	**(1,786)**
Approvals since MTFS Oct 2016	75					
Schemes removed from capital plan (see above) and rephased into 2017/18[1]	-	(157)	-	-	-	-
Capital bids requiring funding (gross)[1]	-	1,939	25	25	25	-
Rephase DRF (Reserves NCL3981)	-	(234)	234	-	-	-
Net Funding Available	**-**	**-**	**(1,289)**	**(1,761)**	**(1,761)**	**(1,786)**

[1] – The items in both these lines are combined into Appendix E (b)

The projections in the remainder of the BSR assume that all of the capital proposals are approved.

Future capital receipts

The council has a small portfolio of potential development land that could be sold to generate significant capital sums. This would provide land for commercial or housing development to meet the growth requirement within the city and funds for reinvestment. Alternatively, the council may choose to invest its resources in some of these sites, depending on the level of returns.

The current capital plan, updated for schemes removed and proposals for new schemes is shown in detail in Appendix E (d). The tables below summarise the capital plan and shows how it is funded.

Capital plan spending	2016/17 £000	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000
Programmes	22,232	3,573	300	-	-	-
Projects	9,826	3,036	61	25	25	-
Sub-total	**32,058**	**6,609**	**361**	**25**	**25**	**-**
Provisions	11,768	1,145	220	56	487	-
Total Spend	**43,826**	**7,754**	**581**	**81**	**512**	**-**

Capital plan funding	2016/17 £000	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000
External support						
Developer contributions	(7,847)	(343)	(121)	-	-	-
Other sources	(4,600)	(50)	(50)	-	-	-
Prudential Borrowing	-	-	-	-	-	-
Supplementary Credit Approvals (SCA)	-	-	-	-	-	-
Total - External support	**(12,447)**	**(393)**	**(171)**	**-**	**-**	**-**
City Council						
Developer contributions						
Direct Revenue Financing (DRF) - GF services	(944)	(315)				
Direct Revenue Financing (DRF) - Use of reserves	(3,599)	(2,264)	(1,564)	(1,786)	(1,786)	(1,786)
Earmarked reserves - Capital Contributions	(2,334)	(454)				
Earmarked reserve - Climate Change Fund	(429)	(300)	-	-	-	-
Earmarked reserve - Repair & Renewals Fund	(1,059)	(2,556)	(15)	-	-	-
Earmarked reserve - Technology Investment Fund	(2)	-	-	-	-	-
HRA Capital Balances	-	-	-	-	-	-
Internal borrowing - Temporary use of balances	(22,641)	(1,086)	(120)	(56)	(487)	-
Usable capital receipts	(371)	(386)	-	-	-	-
Total - City Council	**(31,379)**	**(7,361)**	**(1,699)**	**(1,842)**	**(2,273)**	**-**
Total funding	**(43,788)**	**(7,754)**	**(1,870)**	**(1,842)**	**(2,273)**	**-**
Net Funding Available	**-**	**-**	**(1,289)**	**(1,761)**	**(1,761)**	**(1,786)**

Projects under development (PUD)

The council maintains a list of projects which may come forward for funding in due course. These projects may be fully planned and ready for delivery, or require further feasibility work and outline project planning before they are ready to be included on the capital plan. When there is funding available, schemes that have been fully developed and costed will be considered for funding.

The PUD list, with an indication of the status of each project, shown in brackets [xxx], is included at Appendix E (e).

Section 8
Risks and reserves

Risks and their mitigation

Risks and sensitivities

The council is exposed to a number of risks and uncertainties which could affect its financial position and the deliverability of the proposed budget. These risks include:

- Savings plans may not deliver projected savings to expected timescales;
- Assumptions and estimates, such as inflation and interest rates, may prove incorrect;
- Funding from central government (NHB and other grants) may fall below projections;
- The actual impact and timing of local growth on the demand for some services may not reflect projections used;
- 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;
- Increases in council tax and business rates receipts due to local growth may not meet expectations;
- Business rates appeals, which may be backdated to 2010, may significantly exceed the provision set aside for this purpose;
- The business rates revaluation, due to come into effect in April 2017 may reduce business rates receipts and increase the level of appeals;
- The impact of 100% business rates retention, coupled with any additional responsibilities handed down to the council at that time, may create a net pressure on resources;
- New legislation or changes to existing legislation may have budgetary impacts;
- Unforeseen capital expenditure, such as major repairs to offices and commercial properties, may be required;
- 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 work place parking levy; and

- 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.

The budget process addresses these risks by applying principles of prudence and sustainability throughout. The sensitivity of the budget to estimates and assumptions has been assessed and is presented in Appendix D.

Equality impact assessment

As a key element of considering the changes proposed in this BSR, an Equality impact assessment has been undertaken covering all of the Budget 2017/18 proposals. This is included in this report at Appendix G. Assessing the potential equality impact of proposed changes to policies, procedures and practices is one of the key ways in which public authorities can show that they have treated everyone fairly and without discrimination.

Section 25 Report

Section 25 (s. 25) of the Local Government Act 2003 requires that the Chief Financial Officer (CFO) reports to the authority, when it is making the statutory calculations required to determine its council tax or precept, on the following:

- The robustness of the estimates made for the purposes of the calculations, and
- The adequacy of the proposed levels of financial reserves.

This includes reporting and taking into account:

- the key assumptions in the proposed budget and to give a view on the robustness of those assumptions;
- the key risk areas in the budget and to assess the adequacy of the council's reserves when reviewing the potential financial impact of these risk areas on the finances of the council; and
- it should be accompanied by a reserves strategy

This report has to be considered and approved by full council as part of the budget approval and council tax setting process.

The majority of the material required to meet the requirements of the Act has been built into the key reports prepared throughout the corporate budget cycle, in particular:

- MTFS 2016

- The corporate plan and the budget reports to the January cycle of meetings.

This reflects the fact that the requirements of the Act incorporate issues that the council has, for many years, adopted as key principles in its financial strategy and planning; and which have therefore been incorporated in the key elements of the corporate decision-making cycle.

This also reflects the work in terms of risk assessment and management that is built into all of the key aspects of the council's work.

The Section 25 report will be included as Section 10 in the version of the BSR to be submitted to council.

General reserves

GF reserves are held as a buffer against crystallising risks, and to deal with timing issues and uneven cash flows. As such, the level of reserves required is dependent on the financial risks facing the council, which will vary over time. The prudent minimum balance (PMB) and target level of GF reserves were reviewed and amended in the MTFS No further changes are recommended at this time.

GF reserves	£m
October 2016 MTFS / February 2017 BSR – Recommended levels	
- Target level	6.37
- Minimum level	5.31

The projected levels of reserves for the budget setting period, based on the proposals included in this report, and assuming that all net savings requirements are delivered, are as follows:

Description	2016/17 £000	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000
Balance as at 1 April (b/fwd)	**(16,012)**	**(10,194)**	**(7,864)**	**(7,559)**	**(8,501)**	**(8,199)**
Contribution (to) / from reserves	5,817	2,330	305	(942)	302	368
Balance as at 31 March (c/fwd)	**(10,194)**	**(7,864)**	**(7,559)**	**(8,501)**	**(8,199)**	**(7,831)**

Section 9

Future strategy and recommendations

Future issues and prospects

The impact of a number of uncertainties and challenges outlined below are likely to become clearer in the early part of 2017/18. The new or developing issues and projects which are not clear at the time of agreeing this BSR include:-

- **New Homes Bonus (NHB)** – certain elements of the 2016 consultation on the future of this funding stream have yet to be finalised. Additionally the implementation of a deadweight factor which can be adjusted by the government year by year increases the level of uncertainty surrounding any projections of NHB income.

- **100% business rates retention** – it is still unclear how this policy will be implemented, and therefore its impact on the council finances cannot be assessed at this point.

- **Delivery of planned savings** – the council has delivered significant savings in previous years. As a result, current and future savings are more difficult to deliver and the council is undertaking a complex, cross-cutting programme of change, both on its own and with partners to achieve them. This represents a considerable challenge for the organisation.

- **Financial pressures on other partners** - as other agencies come under spending pressure there may be direct impacts on services which are currently funded by them or in partnership with them. The County council is facing significant cuts over coming years and the Cambridgeshire and Peterborough health economy continues to be under stress. Even where there are not direct cuts to city council funding there are likely to be indirect impacts on our community based services.

- **Devolution** – following agreement of Phase 1 of the Cambridgeshire and Peterborough devolution deal, the council continues to explore further opportunities

(Phase 2) for the devolution of government powers and spending with local partners. This could provide new opportunities to deliver services in different ways.

- **Welfare reform** – the government's plans to reform the country's system of welfare payments continue to have implications for the Council not least the introduction of Universal Credit. The timing of the handover of services is expected to start in May 2018. The government has made clear its expectation that staff will not TUPE across to the Department for work and pensions and so the council will need to run down the service as elements transfer across.

- **Changes to housing policy** - the significant impact recent changes to government policy is having on the HRA will require significant in housing related savings funded by the HRA. They will also have a knock on impact on support services funded through the HRA and other housing related services funded by the GF.

Future savings strategy

Our efficiency plan

The council submitted its efficiency plan to government in October and the Minister for Local Government, Marcus Jones, wrote to the council in November confirming that this efficiency plan will be rewarded by a multi-year financial settlement. This means the council can now expect at least the minimum stated allocation of business rates and revenue support grant up to 2019-20. In return the council will continue its ambitious programme of service transformation.

The programme laid out in the efficiency plan tackles the need to deliver good services with fewer resources through five complementary strands of activity:

- Transforming the way the council delivers services by focusing on what's important to service users and delivering that well, sharing services with neighbouring councils where possible to reduce costs and to create stronger and more resilient teams.
- Reducing the number of council offices and reusing other assets.
- Developing new council businesses and ensuring all services think commercially and explore income generating opportunities.
- Investing money wisely so it does not sit in bank accounts earning very little but works to generate a better return for council tax payers.

- Challenging the council's capital programme to reduce capital commitments and ensuring those schemes that do go ahead are well planned and delivered in a timely way.

Underpinning all of this is a commitment to targeting scarce resources to help people who need help and to meet the needs of most vulnerable.

Delivery of our transformation programme in 2017

Transforming the way the council delivers services by focusing on what's important to service users and delivering that well, sharing services with neighbouring councils where possible to reduce costs and to create stronger and more resilient teams

We will continue to pursue plans to share services with other councils focusing particularly on the opportunities for sharing further services, including planning and finance, with South Cambridgeshire Council during 2017/8. We will look at the opportunities to develop our digital agenda in partnership with other councils and the opportunities for reforming public services as a result of devolution. We will also continue to look at the services we already share to identify whether further efficiencies can be generated. Our programme of systematic service reviews will continue the next phase focusing on streets and open spaces, community centres and our ICT contract.

Reducing the number of council offices and re-using other assets

We will continue with the implementation of our office and accommodation strategy which will see Mill Road depot freed up for the development of housing and the sale of Hobson House on St Andrews Street. We will also begin the redevelopment of Park Street car park.

Developing new council businesses and ensuring all services think commercially and explore income generating opportunities

We will consolidate our new vehicle maintenance garage and fleet operation at Waterbeach and continue to identify further opportunities for more commercial approaches to our services.

Investing money wisely so it does not sit in bank accounts earning very little but works to generate a better return for council tax payers

In total £50 million in underused financial reserves has been freed up since 2014 to secure more commercial property assets, and to invest in housing via Cambridge City Housing Ltd, generating income for reinvestment while addressing affordable housing need.

Challenging the council's capital programme to reduce capital commitments

We have reviewed all projects the council's capital programme, and the methodology for approving and delivering capital commitments. As a result we have cut out avoidable and poorly specified capital projects and also reduced the requirement to raise revenue to fund the capital programme.

Conclusions

This report presents a balanced budget for 2017/18 and a continuing strategy to maintain the council on a firm financial footing in the medium-term. However, significant financial challenges and uncertainties remain.

The overall budget and medium term financial strategy are not without risk, as they rely on the successful delivery of a challenging programme of transformational projects, some of which rely on collaborative working with partners. They are also dependent on increasing levels of income which could be adversely impacted by local or national economic factors, such as Brexit. The council actively manages the level of its reserves to give some protection against these risks.

Increasingly, the financial health of the council and hence its ability to deliver services to local residents and visitors to the city will be under the council's control. The key will be to balance policy-driven spending with commercialism, and prudent management with well-considered risk-taking for reward.

Section 10
Section 25 Report

Section 25 of the Local Government Act 2003 requires the Council's S151 officer to report to the council when it is considering its budget requirement and consequent council tax. The report must deal with the robustness of the estimates made for the purposes of the calculations and the adequacy of the reserves allowed for in the budget proposals.

The rationale is to ensure that the estimates are sufficient to cover regular recurring costs plus any reasonable risks and uncertainties and, in the event of unexpected expenditure, there are adequate reserves to draw on. The calculations relate to the budget for the forthcoming year and the legal requirement may, therefore, be interpreted as reporting only on the 2017/18 estimates and reserves up to 31 March 2018.

Robustness of estimates

The council has well established and robust budget processes. These have been followed when compiling the 2017/18 budget and medium term projections.

Estimates and assumptions were reviewed during the preparation of the MFR in October 2016, and confirmed during the development of this BSR. Appendix D reviews these estimates and assumptions and indicates the sensitivity of each in financial terms.

The key driving factor through the process has been the requirement to identify savings to address projected decreases in core funding. The savings requirement has been addressed in two principal ways:-

- By continuing the ambitious transformation programme, sharing services with other local councils and working to reduce the number of council buildings ; and
- Using cash balances and earmarked reserves released to generate additional income.

These actions require substantial change to be delivered within the organisation to demanding timescales and in a controlled way. The transformation programme includes savings resulting from sharing services with other local authorities and the creation of alternative service delivery vehicles. There are, therefore, significant levels of risk around the estimation of potential income and savings and the timing of their delivery. These risks are mitigated, to a certain extent, by management review and challenge of the proposals, regular budget monitoring and management, and the implementation of governance processes for the transformation programme.

Adequacy of reserves

The requirement for financial reserves is acknowledged in statute. Section 32 of the Local Government Finance Act 1992 requires billing authorities in England and Wales to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the budget requirement.

It is the responsibility of the S151 officer to advise local authorities on the level of reserves that they should hold and to ensure that there are clear protocols for their establishment and use. Reserves should not be held without a clear purpose.

The council holds two types of general fund reserves:

- The general fund is a working balance to cushion the impact of uneven cash flows. The reserve also acts as a contingency that can be used in year if there are unexpected emergencies, unforeseen spending or uncertain developments and pressures where the exact timing and value is not yet known and/or within the council's control. The reserve also provides cover for grant and income risk.
- Earmarked reserves are set aside for specific and designated purposes or to meet known or predicted liabilities, e.g. insurance claims.

Earmarked reserves remain legally part of the general fund, although they are accounted for separately.

A key mitigation for financial risk is the S151 officer's estimate of a prudent level of reserves. A risk assessment was undertaken in MFR 2016 to determine the level of non-earmarked general reserves required by the council. Section 8 of this report recommends no changes to the assessment at this time. In making the recommendation for the level of reserves, the S151 officer has followed guidance in the CIPFA LAAP Bulletin 77 – Guidance notes on Local Authorities Reserves and Balances. The risk analysis shows that a prudent minimum level of reserves for 2017/18 will be of the order of £5.3m.

The final table in Section 8 shows that the anticipated level of the general fund reserves will remain above the prudent minimum level for the duration of the medium term planning period.

I therefore consider that the estimates for the financial year 2017/18 to be sufficiently robust and the financial reserves up to 31 March 2018 to be adequate.

Caroline Ryba
Head of Finance and S151 Officer