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11 November 2016

To: The Leader – Councillor Peter Topping
Deputy Leader – Councillor Nick Wright
Members of the Cabinet – Councillors Francis Burkitt, Simon Edwards, Lynda Harford, Mark Howell, Robert Turner and Tim Wotherspoon
Quorum: Majority of the Cabinet including the Leader or Deputy Leader

Dear Councillor

This is a supplement to the previously-published agenda for the meeting of **CABINET** on **THURSDAY, 17 NOVEMBER 2016**, containing those reports which had not been received by the original publication deadline.

Yours faithfully
ALEX COLYER
Interim Chief Executive

Requests for a large print agenda must be received at least 48 hours before the meeting.

AGENDA

9. Medium Term Financial Strategy

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Agenda Item 9



South
Cambridgeshire
District Council

Report To: Cabinet
Lead Officer: Interim Chief Executive

17 November 2016

General Fund - Medium Term Financial Strategy (MTFS)

Purpose

1. To update the council's MTFS with the latest information available on underlying assumptions, pressures, savings, funding and risks.
2. This is not a key decision but is presented to Cabinet as it provides a context for the setting of the council's budget for 2017/18. It was first published in the July 2016 Forward Plan.

Recommendations

3. It is recommended that Cabinet:
 - (a) Notes the General Fund forecast at Section 4 and Appendix A of the attached report;
 - (b) Approves the assumptions underpinning the MTFS (Section 3)
 - (c) Instructs the Head of Finance to bring forward detailed draft estimates for 2017/18 based on the assumptions and issues contained in this report for consideration by Cabinet in the new year; and
 - (d) Instructs the Executive Management Team (EMT) to identify and develop other options for meeting the MTFS additional income / savings requirement.

Reasons for Recommendations

4. The background and underlying detail supporting recommendations are set out in the attached GF MTFS report.

Background

5. The attached report updates the GF MTFS approved by Council in February 2016.

Considerations

6. Included in the attached report.

Implications

7. In the writing of this report, taking into account financial, legal, staffing, risk management, equality and diversity, climate change, community safety and any other key issues, the following implications have been considered: -

Financial and Risk Management

8. Included in the attached report.

Effect on Strategic Aims

9. The report addresses the financial context in which the Council operates and therefore provides critical support to all strategic aims.

Background Papers

Where [the Local Authorities \(Executive Arrangements\) \(Meetings and Access to Information\) \(England\) Regulations 2012](#) require documents to be open to inspection by members of the public, they must be available for inspection: -

- (a) at all reasonable hours at the offices of South Cambridgeshire District Council;
- (b) on the Council's website; and
- (c) in the case of documents to be available for inspection pursuant to regulation 15, on payment of a reasonable fee required by the Council by the person seeking to inspect the documents at the offices of South Cambridgeshire District Council.

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Version 6
Cabinet

General Fund Medium-Term Financial Strategy



**November
2016**

2016/17 to 2020/21

South Cambridgeshire District
Council

Section 1

Introduction

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Section 1

Introduction

Background

The Medium-Term Financial Strategy (MTFS) for the General Fund (GF), is part of the forecasting and budget setting process which leads to the Estimates Book (Budget) being presented to Council in February each year. At this time the Council Tax level for the following financial year is set.

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

The GF MTFS incorporates a review of the current year's budget position and updated projections for the 5 years from 2017/18 to 2021/22. These demonstrate the effects of any changes in assumptions made and their impact in terms of savings requirements. A key part of the MTFS process is the identification of:

- Items which require immediate action or approval
- Items which provide context for decisions on the strategy or process:
 - The level of spending reductions required
 - The level of GF general reserves

Timetable

Key dates and decision points are set out below:

Date	Task
2016	
17 November	Cabinet considers both GF and HRA MTFS reports
2017	
19 January	Cabinet consider the implications of the Local Government Finance Settlement on the Budget Setting Report
7 February	Scrutiny and Overview Committee considers the Budget Setting Report
9 February	Cabinet recommends the Budget Setting Report to Council
23 February	Council approves Budget Setting Report and sets the level of Council Tax for 2017/18

Section 2

Policy context, priorities and external factors

Local policy context and priorities

Corporate Plan

The [Corporate Plan](#) for 2016/17 was agreed on 25 February 2016 and sets out the local policy context and priorities for the council.

The Corporate Plan sets the direction of travel for the council which responds to the future financial outlook.

Partnership working

The council works in partnership with a range of other bodies where this can bring additional benefits to the people who live work and study in our area, especially when this leads to a pooling of resources and skills to achieve a common aim.

City Deal

The council is working with Cambridgeshire County Council, Cambridge City 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 £500 million, to be released over a 15 to 20 year period, expected to be matched by up to another £500million from local sources, including through the proceeds of growth.

The Greater Cambridge City Deal Board is engaging organisations and the public through the summer and autumn 2016 on proposals for tackling congestion in Cambridge. The proposals are intended to reduce peak time congestion, freeing up buses to run more rapidly and reliably, helping employees get to work quickly and efficiently. The package that has been put forward contains eight elements, some of which may have an impact on the council and the wider district.

Following the public consultations, details of the package are due to be decided on in January 2017, so at this stage it is not possible to predict the precise nature or extent of their impact on the council. Any service and financial impacts of the proposed measures will become clearer in 2017 and beyond and will be factored into the council's financial planning in more detail as potential impacts can be identified.

Shared services

The council currently shares some services with neighbouring councils and is working with these councils to develop other shared services where it makes sense to do so. The benefits of working together include improvements in service delivery, efficiencies and greater resilience. Shared services for Waste and Recycling, Legal, ICT, Building Control, Housing Development Agency and Payroll are operational, with additional collaborations for Planning and other back office services planned.

Devolution

South Cambridgeshire District Council, along with Peterborough City Council and the other councils in Cambridgeshire have negotiated a devolution deal for Cambridgeshire and Peterborough with the government. The deal would see powers and funding devolved from central government to the area. Following a consultation with residents across Cambridgeshire and Peterborough, the deal is subject to approval by the Secretary of State. The City Council, along with all other councils involved, will decide whether to proceed at meetings in November.

The deal covers the potential transfer of a wide range of resources and powers for infrastructure, housing, economic development, employment and skills from the government. To access the funding and to be able to make decisions more locally, the councils in Cambridgeshire and Peterborough would need to set up a new body called a Combined Authority and have an election for a directly elected Mayor to chair the Combined Authority.

The deal will provide a new £20m annual fund for the next 30 years (£600m) to support economic growth, development of local infrastructure and jobs and £100m for affordable, rented and shared ownership homes across the area.

The council will not have to contribute to costs associated with the implementation and administration of devolution proposals, including the establishment of the Combined Authority and Mayoralty, this will be funded from government grant. Thereafter, it is possible that the ongoing administrative costs of the new authority will be funded through an

additional precept (Council Tax) levied by the authority, although other funding sources may be available at the time.

External factors

EU Referendum vote to leave / Brexit

The outcome of the EU referendum, which took place on 23 June 2016, was a vote for the United Kingdom (UK) to leave the European Union (Brexit). This heightened the levels of uncertainty that existed before the vote, led to a change in Prime Minister and Cabinet, and speculation on the timing and consequences of negotiations to leave.

These higher levels of uncertainty were immediately reflected in volatility in financial markets and a sharp drop in the value of the pound. Financial indicators have stabilised since the result, but many questions remain. The medium and longer term economic consequences of Brexit cannot be predicted at this point in time, and will depend on the outcome of trade negotiations with Europe and other major trading nations.

Economic commentators generally agree that the UK will see lower growth than had been expected, with businesses being reluctant to invest in the UK and some industries relocating to mainland Europe. As a result the government has abandoned its policy to return government finances to surplus by 2020. However, lower taxation take, pressures to spend former EU funds on the NHS and replacing grant funding received from the EU make it unlikely that the funding pressure on local authorities will be eased.

Inflation rates

The base rate of inflation used to drive expenditure assumptions in the GF financial forecasts is the Consumer Price Index (CPI). Previously the base level of inflation included within forecasts was 2% reflecting the Government target for CPI. However, the Bank of England's August 2016 forecast, which incorporates their view of the impact of the Brexit vote on inflation, predicts a sharp increase in CPI. We have therefore revised our assumptions to align with the Bank of England's forecasts, see Section 3. It should be noted that CPI forecasts may be subject to considerable revision in the coming months as the effect and timing of Brexit become clearer. Rates used will be reviewed again for the Budget in February 2017.

Interest rates on deposits

The council lends its cash balances externally on a short-term basis, with a view to generating a return that can be spent on delivering council services whilst managing both security and liquidity of the cash. On 4 August 2016, the Monetary Policy Committee of the Bank of England lowered the base rate from 0.5% to 0.25% in response to increased uncertainty and the worsening economic outlook following the EU referendum outcome. Rates available to investors are expected to reduce further before recovering in the longer term. As a result, our assumptions relating to the rates at which we can lend out our cash balances have been reduced, as noted in Section 3.

Interest rates on external borrowing

The Council has no GF borrowing; however, it is planned that loans will be taken out in the year 2016/17 and estimates included in the MTFS in February 2016 assumed borrowing at the rates available from PWLB at the time. This has been updated in the current projections.

National policy context

Government spending announcements

The government published the Budget on 16 March 2016. The following announcements included in the budget will impact on the council and therefore require consideration:-

- Overall growth forecasts were reduced, putting pressure on the 2019/20 target for eliminating the deficit and requiring £3.5bn of additional efficiency savings
- Some of these savings could technically be required from local government, although the 2016/17 local government finance settlement offered certainty of funding for four years for those councils publishing an efficiency plan
- Small business rate relief will apply to a greater number of businesses, but the effects of this will be funded by central government
- Proposals for the review of business rates were published, including more frequent business rates revaluations and a switch from RPI to CPI for inflation of the business rates multiplier.

Since the Brexit vote and the change of Prime Minister and Cabinet, there have been a number of relevant announcements, but no emergency budget or equivalent. The Chancellor's Autumn Statement, due on 23 November, is likely to be the first opportunity for

a coherent package of fiscal proposals to be set out in response to the changes in economic outlook for the country. However, the following announcements give some indication of current government thinking:-

- The government has abandoned its policy to return government finances to a surplus by 2020. It is possible to infer from this announcement that further cuts in public spending are unlikely, at least until 2020
- Devolution will remain a government priority.

Local government finance

2017/18 and future years

The local government finance settlement for 2016/17 also provided indicative figures for the three following years. However, considerable uncertainty remains for 2017/18 and beyond, as the government is consulting on changes to New Homes Bonus (NHB) and business rates, and a full revaluation of business properties is to be done for April 2017.

As part of the provisional local government finance settlement on 17 December 2015, it was announced that authorities producing an efficiency plan could fix certain elements of the settlement for the 4 years, 2015/16 to 2019/20. These elements are Revenue Support Grant (RSG), Transitional Grant and Rural Services Delivery Grant. In addition, business rates tariffs and top-ups in 2017/18, 2018/19 and 2019/20 will not be altered for reasons related to the relative needs of local authorities, and in the final year may be subject to the implementation of 100% business rates retention.

The council has submitted an efficiency plan and awaits confirmation from DCLG that it is acceptable.

This MTFS therefore assumes that the level of Settlement Funding Assessment (SFA) will be as indicated in the 2016/17 settlement, included in the February 2016 Budget and as shown below. There is considerable uncertainty relating to SFA for 2020/21 and 2021/22, as this is beyond the current parliamentary term and after the implementation of 100% business rates retention. The overall SFA has therefore been assumed to remain at 2019/20 levels. The provisional local government finance settlement is expected in December 2016.

	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000
Revenue Support Grant (RSG)	230			-	-
Rural Services Grant	105	81	105	-	-
Transition Grant	76	-	-	-	-
Business rates baseline	2,470	2,543	2,624	2,674	2,725
Business rate tariff adjustment		(191)	(661)		
Total SFA - per 2016/17 finance settlement	2,881	2,433	2,068	2,674	2,725

New Homes Bonus

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

A cut of approximately two-thirds of the funding available for NHB was announced in the 2015 Spending Review, followed by a technical consultation on the future of the scheme. The outcome of that consultation is awaited. In the absence of any further information, projections presented in February 2016 MTFS assumed shortening of the payment period of any amounts arising after 2013-14 to 4 years instead of 6. This is the scenario presented below. NHB receipt estimates, based on projections of future housing completions and empty homes brought back into use are shown along with current commitments in the following table:

Description	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000
Confirmed NHB funding at February 2015 BSR	2,619	2,064	1,049	-	-
Add					
Confirmed NHB receipts for 2016/17	867	867	867	867	-
Estimated NHB receipts for 2017/18	-	1,315	1,315	1,315	1,315
Estimated NHB receipts for 2018/19	-	0	1,618	1,618	1,618
Estimated NHB receipts for 2019/20	-	-	-	1,725	1,725
Estimated NHB receipts for 2020/21	-	-	-	-	-
Potential New Homes Bonus Total	3,486	4,246	4,849	5,525	4,658

Description	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000
Commitments against NHB					
Contribution to GF	1,803	1,803	1,803	1,803	1,803
Infrastructure projects	200	285	65	15	15
A14 upgrade contribution	-	-	-	-	5,000
Contribution to City Deal Investment and Delivery Fund	1,743	2,123	2,425	2,763	2,329
Total commitments against NHB	3,746	4,211	4,293	4,581	9,147
Surplus/(Deficit) for year	(260)	35	557	945	(4,489)
Infrastructure Reserve Fund					
B/fwd	3,218	2,958	2,993	3,550	4,494
Surplus/(Deficit) for year	(260)	35	557	945	(4,489)
C/fwd	2,958	2,993	3,550	4,494	5

Along with partners, the Council has committed 50% of NHB funding each year to a City Deal Investment and Delivery Fund. If NHB reduces, it is this contribution that would be impacted first. Reductions greater than these amounts may require savings in revenue or capital spending, with the spending listed above being considered against other spending priorities.

One of the options consulted on which achieved a reduction in funding of two-thirds, is to reduce the payment period for NHB from six years to two. Applying this indicates that continued funding for all listed commitments cannot be maintained even after ceasing contributions to the City Deal Investment and Delivery Fund. In this case over the four years to 2020/21 contributions to the fund suffer a reduction of 92% from £9.1m to £0.7m.

Council Tax

The recently released technical consultation on the finance settlement indicates that district councils will be able to raise Band D council tax by £5 p.a. for the remainder of the parliament. and at 2% thereafter. The MTFs has been modelled on this basis, with the assumption that increases will be limited to 2% thereafter. The effect is shown in the table below, with differences arising from modelled increases in tax base.

Council tax Band D rate	2016/17 £	2017/18 £	2018/19 £	2019/20 £	2020/21 £	2021/22 £
February 2016	130.31	135.31	140.31	145.31	148.21	151.17
November 2016	130.31	135.31	140.31	145.31	148.21	151.17
Resulting council tax yield	2016/17 £000	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000
February 2016	7,852	8,268	8,719	9,189	9,531	9,872
November 2016	7,890	8,308	8,761	9,234	9,577	9,920
Differences	38	40	43	45	47	48

Section 3

Review of key assumptions

Budget forecasts presented in the February 2016 Budget were based on a number of key assumptions, for example levels of general and pay inflation, interest rates, future funding requirements and council tax levels.

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

Forecast assumptions for future government grant funding and the prudent minimum balance and target level of the GF Reserve are included in more detail in sections 2 and 6 of this report respectively.

Key area	Assumption	Comment / Sensitivity
Pay inflation	1% through to 2020, 2% thereafter	Reflects Government guidance for the four years from 2016/17, providing for an increase thereafter.
Employee turnover	Taken a straight £0.5m split 450K GF 50K HRA.	This is a historical approach for a number of years
General inflation (CPI)	17/18 1.6% to 1.9% 18/19 2.0% to 2.4% 19/20 2.1% to 2.4% 20/21 2.0% to 2.4%	General provision for inflation based on the BoE Inflation report.
Major contracts	Inflation per contract	Not used for MTFs, but individual accountants, if aware of an inflation provision in the contract, will build it into a budget estimate.

Key area	Assumption	Comment / Sensitivity
Incomes and charges increases	On a case by case basis	These are reported through to portfolio holder and cabinet members as part of the budget reporting process
Incremental salary increases	Included at the detailed estimate level	These are reported through to portfolio holder and cabinet members as part of the budget reporting process
Council tax increase	Assumed £5 through to 2020, 2.0% thereafter	As indicated within the previous year's local government finance settlement, confirmed by the recent technical consultation.
Government grant (SFA)	Indicative levels of grant as notified through the final local government finance settlement in early 2016.	The council's efficiency plan will be accepted by government and these grant levels confirmed.

Section 4

Review of budgets and savings targets

2015/16 outturn

A favourable variance of £126k before approved carry forward requests of £530k for General Fund Revenue budgets was recorded on net service spending in the GF for 2015/16. After variances on government funding, statutory capital accounting adjustments, contributions to/ from earmarked reserves and the application of direct revenue funding for capital have been taken into account, the overall net effect was an increase in the GF reserve of £334k.

2016/17 budgets

Departmental budgets are regularly monitored and action is taken where necessary to bring over spending in line with budgets. Where it looks likely that the annual budget will not be spent in full, this is kept under review to ensure that the service spends only what is necessary to deliver its aims and objectives. However, variance from 2016/17 budgets requires consideration of the impacts on future savings requirements and budgets.

A summary of these impacts and other quantifiable pressures and savings identified at this time are given in the table below. The resulting savings targets are then shown. Revised projections for the GF are given in Section 5.

Additional items of potential pressure on the budget – which cannot be quantified at this time – include a number of items relating to the Northstowe development. One of these is the investment that may be required to improve the land drainage infrastructure at Mare Fen, between Swavesey and Over, prior to the future development at Northstowe. In partnership with the HCA, a comprehensive study has been undertaken the outcome of which, along with likely costings will be brought before EMT and Cabinet later this year. A future decision will then need to be taken surrounding funding arrangements to meet this substantial commitment as they are outside of the current budget framework.

Description	2016/17 £000	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000
Pressures:						
Pressures included within changes to base assumptions since February 2016:						
Allowing for changes to National Insurance contribution rates and bands;	11	11	11	11	11	11
Providing for an apprenticeships levy w.e.f. 1 April 2017 (approx. £51k on General Fund) and ;		51	52	52	53	53
Providing for the reclaim of the apprenticeship levy as it is used for training;			(26)	(26)	(26)	(26)
General inflation forecasts have been increased in line with the BOE inflation report;		8	31	54	75	98
Reduction of Benefits Admin grant – 50% over 3 years welfare reform - change from estimate in February 2016		(77)	(64)	(52)	(6)	27
Additional expenditure on developing e-forms for Council Tax notifications approved by EMT in July 2016, where the upfront investment of £92.5K net is not fully recovered until the year 2022/23;		93	(13)	(20)	(20)	(20)
Subtotal	11	87	(9)	19	87	144
Pressures within base assumptions in February 2016:						
Provision for Homelessness Funding expected to be increase due to the changes in provision of benefits;		250	250	250	250	250
Correction for an item double-counted in the Local Plan.		(115)				
Pressures not included within base assumptions:						
Reductions in interest receivable as a result of lower interest rate expectations;	107	433	423	403	357	(169)
Provision for Business Rates appeals	1,500	1,500	1,500	1,500	1,500	1,500
Subtotal	1,607	2,068	2,173	2,153	2,107	1,581
Total pressures	1,618	2,155	2,163	2,172	2,194	1,724

Description	2016/17 £000	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000
Deliverable savings and increased income:						
Included within changes to base assumptions since February 2016:						
Single Shared Waste Service: round optimisation.	(75)	(75)	(150)	(150)	(150)	(150)
Reduction in the number of Councillors from 57 to 45;			(58)	(58)	(58)	(58)
Subtotal	(75)	(75)	(208)	(208)	(208)	(208)
Within base assumptions in February 2016:						
Planning Policy – Local plan including SPDs;		83	(298)	(298)	(348)	(348)
Not included within base assumptions:						
Council tax increase % moved from 2.0% to 2.4% in year 2020/21;					(1)	(1)
South Cambs Ltd, trading as Ermine Street Housing, including additional income from the lack of borrowing requirement until 2016	(786)	(788)	(1,145)	(1,574)	(1,869)	(1,464)
- In-house Bailiff Service (pilot)	(30)	(30)				
- Business Hub (pilot)	(20)	(20)				
- GF shared equity properties	(150)	(275)				
Subtotal	(986)	(1,030)	(1,443)	(1,872)	(2,218)	(1,813)
Projected increase in funding:						
Increase in the tax base for Tax Setting purposes and corresponding increase in the Council Tax Requirement to be raised from council taxpayers;	(38)	(40)	(43)	(45)	(84)	(126)
Surplus on Business Rates Collection Fund	115	(864)				
Increased income from Retained Business Rates;		(547)	(672)	(1,045)	(1,095)	(1,146)
Subtotal	77	(1,451)	(715)	(1,090)	(1,179)	(1,272)
Total deliverable savings	(983)	(2,556)	(2,366)	(3,170)	(3,605)	(3,293)

Description	2016/17 £000	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000
Incremental changes, new proposals and re-phasing, included in changes to base assumptions:						
Allowing for contributions in 2016-17 of £100k towards the shared service programme office and £10k towards a shared service finance resource;	110					
Potential cost of holiday back pay due to the court case clarifying the rules on calculating holiday pay;		27				
Additional expenditure of £66K for an uninsured claim for subsidence due to a tree not being removed by the Council;	66					
Costs of sale of St Denis Church, East Hatley, approved in October 2013;	60					
Potential outturn overspend;	(29)					
Website online form portal and intranet		45				
Total new proposal and re-phasing	207	72	0	0	0	0
Total changes to future indicative budgets	842	(329)	(202)	(998)	(1,410)	(1,569)

Description	2016/17 £000	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000
Summary of changes to base assumptions (taken from table above):						
Pressures:	11	87	(9)	19	87	144
Deliverable savings and increased income:	(75)	(75)	(208)	(208)	(208)	(208)
Incremental changes, new proposals and re-phasing, included in changes to base assumptions:	207	72	0	0	0	0
Total changes to base assumptions:	143	84	(217)	(189)	(121)	(64)

Applying these budget savings and pressures gives an indication of the net savings requirements by year for the next 5 years, assuming that savings are delivered in the year that the requirement is identified.

Description	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000
Current net savings target ¹	1,380	1,380	1,380	1,380	1,380
Changes to base assumptions, including Proposals and re-phasing	84	(217)	(189)	(121)	(64)
New pressures in year, not included in changes to the base assumptions	2,068	2,173	2,153	2,107	1,581
New deliverable savings found in year, not included in changes to the base assumptions	(1,030)	(1,443)	(1,872)	(2,218)	(1,813)
Net savings still to be found	2,502	1,893	1,472	1,148	1,084
Projected increase in funding	(1,451)	(715)	(1,090)	(1,179)	(1,272)
Net savings still to be found²	1,051	1,178	382	(31)	(188)

¹ Includes annual £450k salary saving target, currently treated as an in-year savings requirement delivered through employee turnover. No employee turnover saving has been included within the 'New deliverable savings found in year' figures above.

² In the short term savings can be met from continuing to target in-year staff turnover underspends of £450k per year and the application of reserves.

Section 5

General Fund – Expenditure and funding

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

Description	2016/17 £000	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000
Expenditure						
Net service budgets*	16,340	16,815	16,835	17,089	17,555	18,020
Rollovers from 2015-16 to 2016-17	530					
Financial Position Report (Q2 16-17)	(29)					
Internal Drainage Boards, Reversal of Depreciation and MRP	(479)	(339)	(44)	(14)	(27)	(27)
Deficit/(Surplus) on Business Rates Collection Fund	115	(864)				
Net Interest	(1,190)	(1,010)	(1,380)	(1,820)	(2,121)	(1,733)
Provision/Contingency for business rates appeals/revaluations	1,800	1,500	1,500	1,500	1,500	1,500
Net spending requirement	17,088	16,102	16,911	16,755	16,907	17,761
Funded by:						
Locally Retained Business Rates – Growth Element	(3,604)	(4,323)	(4,516)	(4,599)	(4,836)	(5,081)
Other grants from central government	(1,131)	(410)	(81)	(105)		
New Homes Bonus (NHB)	(1,803)	(1,803)	(1,803)	(1,803)	(1,352)	(901)
Appropriations from infrastructure fund	(554)	(200)	(285)	(65)	(15)	(15)
Council Tax	(7,890)	(8,308)	(8,761)	(9,234)	(9,577)	(9,920)
Additional income/savings	(50)	(330)	(330)	(330)	(330)	(330)
Contributions (from) / to reserves	(3,163)	(728)	(1,135)	(620)	(797)	(1,513)
Total funding	(17,088)	(16,102)	(16,911)	(16,755)	(16,907)	(17,761)

* Net service budgets include savings and pressures identified in Section 4. And assume that savings are identified and delivered as required.

Council tax included in the table above is calculated as follows:

Council tax calculation	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
Tax base including discount for localised council tax support	60,551.10	61,399.42	62,442.19	63,545.34	64,618.56	65,620.62
Band D council tax (£)	130.31	135.31	140.31	145.31	148.21	151.17
Council tax to be raised from council tax payers	7,890	8,308	8,761	9,234	9,577	9,920

Section 6

Risks and reserves

Risks

The council is exposed to a number of risks and uncertainties which could affect its financial position. These are summarised below, but attention is drawn to the significance of the Business Rates projections on pages 15 and 16 and the risks associated with these projections:-

Risks associated with Business Rates

- Business rates appeals, which may be backdated to 2010, may significantly exceed the provision put aside for this purpose;
- Increases in council tax and business rates receipts due to local growth may not meet expectations;
- The business rates revaluation, due to come into effect in April 2017 may reduce business rates receipts;
- 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;

Other significant risks

- Savings plans may not deliver projected savings to expected timescales;
- Assumptions and estimates, such as inflation and interest rates, may prove incorrect;
- 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 planning fee income;
- Funding from central government (SFA, NHB and other grants) may fall below projections;

- 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.

Reserves

General Fund reserve

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

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

General Fund reserves	£m
September 2016 MTFS – Recommended levels	
- Target level	3.05
- PMB	2.54

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

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)	(10,588)	(7,424)	(6,696)	(5,561)	(4,941)	(4,144)
Total Contribution (to) / from reserves	3,163	728	1,135	620	797	1,513
Balance as at 31 March (c/fwd)	(7,424)	(6,696)	(5,561)	(4,941)	(4,144)	(2,631)

Earmarked and specific funds

The other key reserve is the Infrastructure Fund which has been created to support the infrastructure needs of future developments and will also provide the council's contribution to the A14 upgrade. Contributions to this fund are made up of the unallocated portion of NHB funding, see Section 2.

Section 7

Budget strategy and efficiency plan

General Fund savings requirements

In February 2016 the need to find £1,380k (£450k employee turnover savings, £930k other savings) of ongoing net savings in the GF in 2017/18 was identified in financial reports. This amount was after the application of £750k 2016/17 savings identified in excess of that year's requirement and £77k of net new pressures in 2017/18 already identified in February 2016. Current financial projections, taking account of revised assumptions and incorporating all changes proposed as part of this GF MTFS show that work remains to be done to balance the budgets for 2017/18 and beyond.

Description	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000
Net savings requirement (MTFS Feb 2016)	1,380	1,380	1,380	1,380	1,380
Contribution to savings target (Section 4)	(329)	(202)	(998)	(1,411)	(1,568)
Revised (MTFS) net savings requirement	1,051	1,178	382	(31)	(188)

General Fund budget strategy

The budget process

The GF budget process for 2016/17 will remain broadly similar to that for previous years, working within an overall cash limit designed to meet known financial pressures.

The GF MTFS has highlighted:

- An on-going pressure arising from a reduction in interest rates earned on cash balances;
- Higher than previously expected levels of inflation on expenditure;
- Increased levels of risk and uncertainty in a number of areas, with both direct and indirect impacts on the finances of the council. Direct risks include current consultations on business rates and NHB. Indirectly, the current negative economic outlook could impact planning and interest income and increase the demand for the council's services;

Identification of further savings

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

Therefore, the council has embarked on a long term programme of transformation which will make fundamental changes to the way the council delivers services and interacts with residents, tenants and other parties. This approach is set out in the efficiency plan.

Efficiency plan 2016 to 2020

The council has submitted an efficiency plan and awaits confirmation from DCLG that it is acceptable. This section will be updated once this confirmation is received.

MEDIUM TERM FINANCIAL STRATEGY for the General Fund

October 2016 - UPDATE

Appendix A

	General provision for Inflation			2.1%	1.9%	2.4%	2.4%	2.4%	2.4%
	Actual	Estimate	Projected	Projected	Projected	Projected	Projected	Projected	Projected
	2015/16	2016/17	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2021/22
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
EXPENDITURE									
Base Budget	14,876	16,204	16,340	16,815	16,835	17,089	17,555	18,020	
Additional income/savings to maintain working balance	(106)	(300)	(50)	(330)	(330)	(330)	(330)	(330)	(330)
Less Infrastructure projects funded from the Infrastructure fund	(568)	(554)	554	(200)	(285)	(65)	(15)	(15)	
Rollovers from 2015-16 to 2016-17			530						
Financial Position Report (Q2 2016-17)			(29)						
Net Portfolio Expenditure	14,201	15,350	17,346	16,285	16,220	16,694	17,210	17,675	
Net Interest on balances other than ESH	(620)	(511)	(404)	(222)	(235)	(246)	(253)	(269)	
Internal Drainage Boards, Reversal of									
Depreciation and Minimum Revenue Provision	(736)	(479)	(479)	(339)	(44)	(14)	(27)	(27)	
District Council General Fund Expenditure	12,845	14,359	16,462	15,724	15,941	16,434	16,931	17,380	
INCOME									
Revenue Support Grant	(1,802)	(926)	(926)	(230)	(81)	(105)	0	0	
Rural Services Grant		(130)	(130)	(105)					
Transition Grant		(76)	(76)	(76)					
Retained Business Rates	(4,020)	(3,604)	(3,604)	(4,323)	(4,516)	(4,599)	(4,836)	(5,081)	
ESH net interest			(786)	(788)	(1,145)	(1,574)	(1,869)	(1,464)	
(Surplus)/Deficit on Council Tax Collection Fund	(142)	(38)	(38)	0	0	0	0	0	
(Surplus)/Deficit on Business Rates Collection Fund	1,442	153	153	(864)	0	0	0	0	
Council Tax Requirement to be raised from council taxpayers	(7,479)	(7,852)	(7,890)	(8,308)	(8,761)	(9,234)	(9,577)	(9,920)	
Provision/Contingency for business rates appeals/revaluations		1,800	1,800	1,500	1,500	1,500	1,500	1,500	
New Homes Bonus (contribution to the GF)	(1,803)	(1,803)	(1,803)	(1,803)	(1,803)	(1,803)	(1,352)	(901)	
Appropriations to/(from) General Fund working balance	390	(1,884)	(3,163)	(728)	(1,135)	(620)	(797)	(1,513)	
District Council General Fund Income	(13,413)	(14,359)	(16,462)	(15,724)	(15,941)	(16,434)	(16,931)	(17,380)	
Tax Base for Tax Setting Purposes including discount for localised council tax support	Number 59,680.4	Number 60,257.0	Number 60,551.1	Number 61,399.4	Number 62,442.2	Number 63,545.3	Number 64,618.6	Number 65,620.6	
Basic Amount of Council Tax	£	£	£	£	£	£	£	£	
District only	125.31	130.31	130.31	135.31	140.31	145.31	148.21	151.17	
Underlying Council Tax with no appropriations from the General Fund Balance or Earmarked Reserves	£	£	£	£	£	£	£	£	
	109.26	131.71	152.82	122.74	134.47	131.46	137.33	151.37	
Balances at Year End	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	
General Fund (recommended minimum level £2.5 million)	(10,588)	(8,703)	(7,424)	(6,696)	(5,561)	(4,941)	(4,144)	(2,631)	

Appendix B

General fund reserves – calculation of Prudent Minimum Balance (PMB) based on 2016-17 budget and target level

Description	Level of risk	Amount at risk	Risk
		£	£
Staff costs	Medium	12,930,930	51,724
Departmental recharges	Medium	11,690,630	93,525
Travel costs	Low	363,870	1,455
Supplies and services	Medium	37,233,300	93,083
Income	High	34,171,560	85,429
Capital Costs	High	14,422,540	21,634
Total one year operational risk			346,850
Allowing three years cover on operational risk			1,040,551

General and specific risks	Amount (£)	Probability (%)	
Unforeseen events	2,000,000	25%	500,000
Legal action - counsel's fees	100,000	50%	50,000
Data Protection breach	300,000	50%	150,000
Capital project overruns	100,000	50%	50,000
Project failure / delays to savings realisation	1,000,000	75%	750,000
General risks			1,500,000
Prudent Minimum Balance (PMB)			2,540,551
Target (PMB + 20%)			3,048,661

Operational cost risk profiles

			Low	Medium	High
Staff costs		overspend	1.00%	2.00%	3.00%
	12,930,930	probability	25.0%	20.0%	15.0%
		amount at risk	32,327	51,724	58,189
Departmental recharges		overspend	2.00%	4.00%	6.00%
	11,690,630	probability	25.0%	20.0%	15.0%
		amount at risk	58,453	93,525	105,216
Travel costs		overspend	2.00%	4.00%	6.00%
	363,870	probability	20.0%	15.0%	10.0%
		amount at risk	1,455	2,183	2,183
Supplies and services		overspend	1.00%	2.50%	5.00%
	37,233,300	probability	15.0%	10.0%	5.0%
		amount at risk	55,850	93,083	93,083
Income		overspend	1.00%	2.50%	5.00%
	-34,171,560	probability	10.0%	7.5%	5.0%
		amount at risk	-34,172	-64,072	-85,429
Capital Costs		overspend	1.00%	2.00%	3.00%
	-14,422,540	probability	10.0%	7.5%	5.0%
		amount at risk	-14,423	-21,634	-21,634

Appendix C

Principal earmarked and specific funds

Fund	Balance at 1 April 2016 £000	Potential contributions £000	Potential Commitments £000	Uncommitted balance to end of 2021/22 £000
New Homes Bonus Infrastructure Reserve	(4,502)	(498)	5,000	0
Pension Deficit Reserve	(1,049)	0	1,049	0
Planning Enforcement Reserve	(500)	0	0	(500)
Major Developments Fees Reserve	(382)	0	(382)	0
Northstowe Reserve	(128)	0	(128)	0
Parish Liaison & Site Development Reserve	(178)	0	(178)	0
Business Efficiency Reserve	(240)	0	(240)	0
Shared Waste Service	(85)	0	(126)	0
Renewables Reserve	(675)	Pending detailed decision on the use of the reserve.		
Business Rates Growth Reserve	(1,507)	Pending detailed decision on the use of the reserve.		
Total				

NOTES:

- New Homes Bonus Infrastructure Reserve £4,501,672 – NHB monies the authority receives from the Government, which aren't allocated to the City Deal or used towards General Fund expenditure previously funded by Housing & Planning Delivery Grant or to meet Local Plan and associated costs; the A14 contribution will eventually come from this reserve. The reserve is projected to be at £0 at the end of 2021-22.

- Pension Deficit Reserve £1,048,585 – An allocation from employer pension contributions to meet the current deficit on the Cambridgeshire Local Government Pension Scheme over the next few years.

- Planning Enforcement Reserve £500,000 (Capped) – Established to meet legal etc costs arising from planning enforcement actions. This reserve is to be maintained in case of major enforcement and will be topped back up if used.

- Major Developments Fees Reserve £382,070
- Northstowe Reserve £127,505. Reduced from £181,365 in February 2016 MTFS.

These two reserves have been established from pre-app and planning application fees received in respect of Northstowe and other major developments, identified separately in recognition of their importance, to be called on as and when necessary to ensure planning teams are resourced to support and progress applications for those developments.

- Parish Liaison & Site Development Reserve £178,082.55. Reduced from £271,220 in February 2016 MTFS.

The balance remaining from the Planning Enforcement Reserve when it was decided to reduce that reserve from a maximum of £1m to £500,000, set aside to fund two two-year fixed term posts, one in housing and one in planning, to support parish liaison and site development initiatives.

- Business Efficiency Reserve £240,000 – Set aside to meet costs associated with Council Actions, implementation of Business Improvement and Efficiency Programme and Commercialisation Programme projects and the Shared Services Programme. The Leaders of Cambridge City Council, Huntingdonshire District Council and SCDC have committed £200,000 of this reserve towards the costs of the 3C Programme Office over two years.

- Shared Waste Service £85,000 – Set up to meet the authority's share of costs resulting from implementation of the Single Shared Waste Service with Cambridge City Council. The reserve will be converted into a SSWS saving. Reduced from £126,000 in February 2016 MTFS.

- Renewables Reserve £675,017
- Business Rates Growth Reserve £1,506,788

Set up at the end of 2015/16 in order to fund an investment programme to build new sources of renewable energy.