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**South
Cambridgeshire
District Council**

1 September 2021

To: The Leader – Councillor Bridget Smith
Deputy Leader – Councillor Neil Gough
Members of the Cabinet – Councillors Bridget Smith, Neil Gough, John Batchelor, Bill Handley, Dr. Tumi Hawkins, Peter McDonald, Brian Milnes and John Williams
Quorum: Three (including Leader or Deputy Leader)

Dear Councillor

This is a supplement to the previously-published agenda for the meeting of **Cabinet** on **Monday, 6 September 2021**, containing those reports which had not been received by the original publication deadline.

Yours faithfully

Liz Watts
Chief Executive

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

	Agenda	Pages
5. Public Questions		
	The deadline for receipt of public questions is noon on Friday, 27 August. The Council's scheme for public speaking at committee meetings may be inspected here: Public Questions at Committee Meetings	
a) Question from Dr. Douglas de Lacey		
	Girton is one of the villages already defined as a consent area. However, we have to fight a running battle with unlicensed traders, particularly those selling ice cream. Will Cabinet, if it agrees to designate the whole of the District, also take steps to provide the resources to enable our licensing team to crack down on rogue traders?	
14. General Fund Outturn		1 - 10
15. Medium Term Financial Strategy		11 - 40

Agenda Item 14



South
Cambridgeshire
District Council

Report to:	Cabinet	6 September 2021
Lead Cabinet Member:	John Williams, Lead Cabinet Member for Finance	
Lead Officer:	Peter Maddock, Head of Finance	

2020/21 Provisional General Fund Revenue and Capital Outturn

1. Executive Summary

2. The report reviews the General Fund Revenue and Capital outturn position for the financial year 2020/21 with Reserve balances as at 31 March 2021, and to agree proposed changes to the Capital Programme.
3. The report provides a statement of the year-end financial position and progress with approved capital investment projects.

Key Decision

4. No

Recommendations

5. It is recommended that Cabinet consider the report and, if satisfied, to:
 - (a) Acknowledge the 2020/21 general fund revenue outturn position and the net underspend (after income from Taxation and Government Grants) in the year of £0.281 million and the explanations provided for the variances compared to the revised 2020/21 revenue budget;
 - (b) Acknowledge the consequent decrease in the General Fund as at 31 March 2021 of £1.994m to around £14.5m;
 - (c) In relation to the Capital Programme:
 - (i) Note the 2020/21 capital outturn of £43,252 million;
 - (ii) Recommend to Council the carry forwards of £2.081 million in relation to General Fund capital projects due mainly to slippage.
 - (iii) Recommend to Council additional lending of £5.237 million in 2021/22 to enable Ermine Street housing to meet its target of 500 property purchases.
 - (iv) To note that a full review of the Capital Programme will be submitted to Cabinet at its December 2021 meeting to include re-phasing of the existing programme and new Capital bids for the next budget cycle.

Reasons for Recommendations

6. To advise the Cabinet of the 2020/21 revenue and capital outturn position, the impact that this will have on the General Fund and to consider the carry forward of slippage within the 2020/21 capital programme. Also, to note that a full review of the Capital Programme including new bids will be carried out and presented to this committee on 19th October 2021.

Details

2020/21 Revenue Budget – Outturn

7. This report sets out the 2020/21 Outturn position with a brief commentary on some of the variances. The Council's draft Statement of Accounts for 2020/21 are unlikely to be approved until next calendar year; and given that both 2020/21 and 2019/20 accounts are both unaudited it is quite possible the outturn may change and therefore the figures in this report need to be considered as 'provisional'.
8. The table below sets out the outturn position for each Directorate. The variance reported in column 5 is against the original approved budget (Column 2) but because of additional expenditure related to Covid and the inclusion of Pension adjustments the revised estimate is shown for comparative purposes (Column 4) The overall position when compared to the revised is an underspend of £296,000:

	Revised Net Budget £ million	Outturn £ million	Variance £ million	Variance %
Chief Executive & Chief Operating Officer	0.854	0.843	(0.011)	(1.3)
Head of Finance	4.345	3.196	(1.149)	(36.0)
Head of HR & Corporate Services	1.239	1.203	(0.036)	(3.0)
Head of Housing	2.111	1.928	(0.183)	(9.5)
Head of Shared Waste & Environment	8.416	9.804	1.388	14.2
Head of Transformation	2.371	2.023	(0.348)	(17.2)
Director of Planning	5.726	5.381	(0.345)	(6.4)
Operational Net Cost	25.062	24.378	(0.684)	2.8
City Deal and Drainage Levy	0.712	0.935	0.223	23.9
Investment Income & Expenditure	(4.214)	(4.147)	0.067	1.6
Appropriation to/(from) Earmarked Reserves	(0.550)	1.795	2.345	130.6
Accounting reversals and MRP	6.444	4.197	(2.247)	(53.5)
Non Operational Budgets	2.392	2.780	0.388	14.0
Total	27.454	27.158	(0.296)	(1.1)

The Operational Net Cost of the Council relates to the day to day spending/service areas of the Council. The outturn for Net Operational Cost is £24.378 million which is £0.684 million below the revised estimate. When the budget was revised adjustments relating to the net service cost of pensions and additional service related expenditure due to the pandemic were added in. The former is reversed out below the net cost of services line as they are an accounting adjustment and should not impact on the general fund balance or the Council Tax. The latter is funded by additional grant which is shown in the table at para 11. This is offset by an overspend of £0.388 million in relation to Non-Operational Budgets. The revised estimate and actual include a contribution to Capital of £5 million but this increase is somewhat masked by other accounting adjustments relating to Capital Financing charges, Pensions adjustments and Minimum Revenue Provision (MRP). The net position being an underspend of £0.296 million.

9. The key variances in operational areas are detailed below with a little commentary on each area:

Directorate	£ million	Reason for Variance
Chief Executive & Chief Operating Officer	(0.011)	Insignificant.
Head of Finance	(1.149)	Significant additional expenditure in revenues and benefits due to covid was factored into the revised budget. In the event not all was required in 2020/21 and is expected in 2021/22. This will be funded from the Covid Support grant as originally planned but a year later. The expected provision for doubtful debts was scaled back in the actual as some debts expected to turn bad did not do so. There is a positive variance showing in Housing Benefits due to additional grants received and improved levels of Overpayment recovery.
Head of HR & Corporate Services	(0.036)	There were savings on staffing costs in democratic services due to vacancies and electoral registration costs for postage and supplies were lower than expected.
Head of Housing	(0.183)	Some additional grant was received that wasn't expected and although additional homelessness costs were higher than originally expected due to the pandemic they were slightly lower than that in the revised estimate.
Head of Shared Waste & Environment	1.388	The cost of the footway lighting project is charged here in its entirety (£1.534 million). Whilst this expenditure is of a capital nature the assets belong to parishes and cannot therefore be included on the Council's balance sheet hence have to be charged to revenue. The cost is met from earmarked reserves rather than the general fund. There were some savings on covid related costs where expenditure was a little below that predicted in the revised estimate.

Head of Transformation	(0.348)	Majority of this positive difference is driven by additional income of £0.269m received in Localism, further increased by a small drop in Community Chest grants paid and savings on services such as Advertising and Marketing.
Director of Planning	(0.345)	This variance has arisen from additional grants and higher than expected fee income received in the year. The Income forecast was revised down part way through the year due to expected losses as a result of the pandemic, but with the economic recovery this has exceeded expectations. This was partly offset by staff costs being overspent due to the work needed to generate the aforementioned additional income.
Non Operational Budgets	0.388	This is made up of two main variances. The contribution to reserves was higher due to unused covid grants being added for use in 2021/22 and less use of the renewables reserve due to the delays on the South Cambs Greening Project. Borrowing costs and MRP were both lower than expected. The former due to the continued low interest rates and the latter due to lower borrowing required than expected.

10. It is usual practice to submit any requests for rollover to 2021/22 as part of this report however there are none this time.
11. In addition to operation and non-operational income and expenditure above the following table shows the outcome for Council Tax, Business rates and the various other non-ringfenced grants received from Central Government.

	Revised Net Budget	Outturn	Variance	Variance
	£ million	£ million	£ million	%
Total Expenditure (from above)	27.454	27.158	(0.296)	1.1
Government Grants	(2.898)	(2.898)	0	0
Council Tax	(9.562)	(9.562)	0	0
Business Rates Income	(9.479)	(8.937)	542	6.1
Business Rates Pool gain	(1.100)	(1.439)	(0.339)	(23.6)
Covid Support Grant	(1.922)	(1.922)	0	0
Business Rates – Collection Fund Surplus	(0.119)	(0.307)	(0.188)	(61.2)
Council Tax - Collection Fund Surplus	(0.099)	(0.099)	0	0
Income from Taxation and Government Grants	(25.179)	(25.164)	0.015	0
Appropriation (to)/from General Fund.	2.275	1.994	(0.281)	(14.1)

12. The Outturn position set out in the table above reflects the following:

- Business Rates income has been affected by numerous changes over the last few years with a significant number of new reliefs coming in. the pandemic has made this even worse with pandemic reliefs being granted and an income compensation scheme. The small business and retail reliefs introduced because of the pandemic were quite significant and has meant that any resulting negative affect on the collection fund is to be spread over three years. The actual income achieved is below that expected mainly due to the reliefs and compensation scheme introduced in 2020/21 which will also effect future years income.
- In 2020/2021 a business rates pool was set up involving South Cambs, East Cambs, Fenland, Peterborough, The County Council and Fire Authority. The purpose of this is to ‘pool’ all of the business rate tariffs payable (Districts and Peterborough) to and top ups receivable (County Council and Fire) from central government of the authorities involved and any business rates growth that has been achieved since the current business system was brought in. Each authority if remaining outside the pool would have had to pay half of the growth they achieved to Central Government. By setting up a pool this half can be retained within the county and shared between the pool members in line with the signed memorandum of understanding. South Cambridgeshire is the administering authority and our contribution to the pool was the most significant of all members due to the growth seen in the District. The pool gain was estimated at £1.1 million the actual was £1.439 million. A pool cannot function without the involvement of a top up authority namely the County Council.

- Grant of £1.922 million for additional expenditure pressures relating to the pandemic was received in four tranches during the year. This is shown as un-ringfenced as there were no restrictions attached to the use of this funding. The related expenditure is shown within the services to which it relates in line with proper accounting practice. Not all of this funding was used in 2020/21 and is therefore held in a reserve to finance expenditure in 2021/22.
 - The surplus on the Business Rates Collection Fund (£0.307 million) was higher than originally expected and is related to interaction between the collection fund and the general fund and the requirement to spread any in year losses over three years.
 - There were several grant schemes introduced during 2020/21 to help businesses through the pandemic. £24 million was paid out under the original scheme during the first lockdown for businesses on the business rates register. £1.183 million was also paid out to others in discretionary grant. There were further payments of £11.119 million during subsequent lockdowns under a number of different schemes. Not all the funding received was paid out in 2020/21 and a little over £5 million was carried forward and paid out in 2021/22. These figures have **not** been included in the tables as they would distort the figures somewhat as effectively the council was acting as an agent of Central Government and administering the use of government money rather than distributing its own money.
 - The Council tax figure quoted remains unchanged as this was fixed when the budget was set in February 2020.
13. The original budget assumed a £1.451 million addition to the General Fund Balance and the revised a £2.275 million reduction. This was primarily due to the inclusion of a £5 million contribution to General Fund Capital Expenditure agreed in February 2021. The actual position fell between the two figures and is a reduction of £1.994 million and an underspend of £0.281 million.
- Reserves
14. The reserves are reviewed from time to time a full review occurred as part of the budget process for 2020/21 and some were amalgamated and others re-aligned however there needs to be a regular review process to ensure they are adequate and relevant to the priorities of the Council and the budget cycle is the best time for that to happen. As at 31st March 2021 the balance on General Fund earmarked reserves was over £37 million.
15. The major reserves the Council holds are detailed below with some commentary on each:-

New Homes Bonus (NHB) GCP Reserve

£4.330 million: This reserve was set up to receive a proportion of the NHB monies the authority receives from the Government. The amount set aside was 30% until August 2020 and 10% thereafter. It is not clear exactly when or if all amounts set aside will be dispersed to the partnership, but this will become clearer over the coming months.

Infrastructure and A14 upgrade Reserve

£4.800 million: The first call on this reserve occurred in 2020/21 and the first £200,000 contribution has been charged to that year. There will be a further charge in each of the next 24 years until this balance is exhausted.

Renewables Reserve

£4.981 million: Set up at the end of 2015/16 in order to fund an investment programme to build new sources of renewable energy. The funds are built up from amounts retained in respect of Renewable Energy Schemes as per NNDR3 returns and the pool gain from the business rates pool. The fund has increased by £242,000 on the previous year with Additions totalling £2 million and usage of £1.7 million the largest element being on the footway lighting project.

Property Investment Reserve

£3.748 million: The funds are available to meet any costs that do not fall within the responsibility of the tenant under tenant repairing leases such as improvements to environmental standards. An amount of £200,000 is added annually.

Transformation Reserve

£3.546 million: Set aside to meet one off costs associated with the Council's transformation programme. The programme will be running over the next two years or so and any unused balance once the programme is completed will be returned to the General Fund. During the year £357,000 of the reserve was used to meet expenditure against an expected usage of £584,000.

General Fund Capital Programme 2020/21 – Outturn

16. The outturn in relation to the 2020/21 Capital Programme identifies an expenditure underspend of £5.369 million and equivalent financing underspend. The budget for comparison purposes is the revised budget that was reported to Council as part of the 2020/21 budget papers:

	Revised Budget £ million	Outturn £ million	Variance £ million	C/Fwd
Housing Services	1.435	1.402	(0.033)	0
Health & Environmental Services	2.218	1.888	(0.330)	0.330
Corporate Services	0.749	0.427	(0.322)	0.322
Planning Services	0.015	0	(0.015)	0.015
Transformation	0.180	0.069	(0.111)	0.111
Advances to Housing Company	13.824	12.350	(1.474)	1.474
Investment Property	30.000	26.916	(3.084)	3.084
A14 Contribution	0.200	0.200	0	0
Expenditure	48.621	43.252	(5.369)	5.336
Capital Receipts	1.151	0.992	(0.159)	
Revenue (inc. Reserves & HRA)	7.929	7.278	(0.651)	
Contributions (inc. Section 106)	0.717	0.717	0	
Borrowing	38.824	34.265	(4.559)	
Funding	48.621	43.252	(5.369)	

17. Expenditure on Housing includes the Orchard Housing System, re-purchase of General Fund Sheltered Properties and Private Sector Housing Grants including Disabled Facilities grants (DFG's). With regard to the orchard system, expenditure was £12,000 below the budget. The implementation continued into 2021/22 so this underspend needs to be added to the existing allocation of £40,000 in 2021/22 to complete the project. Expenditure in relation to General Fund property purchases is difficult to predict, a budget of £525,000 was set but expenditure exceeded this at £561,000. The budget for Private Sector Housing Grants was reduced in the revised estimate and expenditure was a little below the revised estimate line with the revised budget. Overall in Housing there was a minor underspend of £33,000.
18. The Health and Environmental Services budget is provided in the main for vehicle replacements for the waste and street cleansing fleet. The underspend of £264,000 was primarily due to the street cleansing truck replacement and air quality monitoring equipment purchase not taking place as planned. This will now occur in 2021/22.
19. The Human Resources and Organisation budget includes ICT projects and Capital works at the Camborne offices. Overall budgets were underspent by £322,000. The largest underspend was on the greening project (£317,000). This is slippage and needs to be carried forward into 2021/22. The project has been significantly delayed from its original timeline mainly due to the pandemic.
20. It was expected that £13.824m would be advanced to Ermine Street Housing Ltd, the Council's wholly owned subsidiary. In the event £12.349m was actually advanced as

although some of the delays caused by the pandemic were recovered not all were. The Company is nearing its target of 500 property purchases but is going to need additional funding over and above the carry forward amount of £1.474m so a recommendation is included in the report to increase the allocation in 2021/22 to £10m an additional allocation of £5.237m.

21. The Investment Strategy was approved toward the end on 2018/19 but purchases did not start until 2019/20. The revised budget was set at £30m for the year and spend was £26.916m. Two properties were purchased, 296 Cambridge Science Park and the Vitrum building on St John's Innovation Park. There was also significant spend on 270 Science Park to prepare the building for letting during 2021/22. An amount of £3.084 million is requested for carry forward to 2021/22 however the programme does need to be reassessed in light of the Governments response to the PWLB consultation which does not allow authorities to buy property primarily for yield if it wishes to access the PWLB borrowing facilities.
22. The other item relates to the A14 contribution which is as expected. This is treated as Revenue expenditure funded from capital as it does not result in the creation of a Council asset but the expenditure is of a capital nature.
23. All sources of funding, other than Section 106, were lower than expected due to the underspend on the capital programme. Though as regards Revenue the underspend related entirely to use of Earmarked Reserves. Section 106 usage was as expected as this had been set in stone at the time of the budget.

Options

24. Other options involve not agreeing some or all the carry forward amounts or the additional funding for the lighting scheme. This is not recommended as delays would be introduced and unfinished works would occur.

Implications

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

Financial

26. As detailed in the report. There are additional resources required to fund the further loans to Ermine Street though interest on lending the Council takes out to fund this will be at a lower rate than the interest income the council receives from Ermine Street.

Consultation responses

27. None.

Alignment with Council Priority Areas

Growing local businesses and economies

28. The report provides the 2020/21 outturn position on expenditure that it would not normally incur whilst providing extra support to local businesses during the lockdown period of the pandemic.

Housing that is truly affordable for everyone to live in

29. The Council provides the 2020/21 outturn position on the New Homes Bonus and Property Investment Reserves which supports the business plan of providing homes which are truly affordable.

Being green to our core

30. The 2020/21 outturn provides an update on a number of schemes which relate to the green to our core element of the Council's business plan.

A modern and caring Council

31. The report supports the Council's business plan by providing the position on the grant schemes which were introduced during 2020/21 to help businesses and residents through the pandemic.

Background Papers

- Budget Report – Report to Cabinet: 5 February 2020
- Budget Report to Council - Report to Council 20 February 2020
- Business Plan 2020 - 2025 – Report to Council: 20 February 2020
- Medium Term Financial Strategy – Report to Council 21 February 2020

Appendices

None

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Agenda Item 15



South
Cambridgeshire
District Council

Report To: Cabinet **Date:** 6 September 2021

Lead Cabinet Member(s): Councillor John Williams,
Lead Cabinet Member for Finance

Lead Officer: Peter Maddock, Head of Finance

General Fund Medium Term Financial Strategy

Purpose

1. The Council reviews its Medium-Term Financial Strategy (MTFS) and financial forecasts twice a year in accordance with best practice. Once at the start of the budget process and again toward the end. This report updates the MTFS to the financial year 2026/2027 and sets out the updated medium term financial plan following the outcome of a review of financial forecasts.
2. The assumptions within the document may need to be updated as the budget progresses and information becomes available and needs to be viewed in that context. In particular the outcome of the November spending review will provide greater clarity for future forecasts.
3. This is not a key decision as there are no resource implications directly arising from the report at this stage. The report does, however, ensure that the Council is aware of the financial challenges over the medium term and the financial forecasts outlined in the MTFS assist in the Council's financial planning.

Recommendations

4. That Cabinet is requested to consider the report and, if satisfied, to:
 - (a) Acknowledge the projected changes in service spending and the overall resources available to the Council over the medium term.
 - (b) Recommend to Full Council the refreshed Medium Term Financial Strategy at Appendix A and updated financial forecast at Appendix B.

Reasons for Recommendations

5. To ensure that the Cabinet is aware of the financial challenges over the medium-term and the strategy that is required to ensure that the Council will be in a position to deliver sustainable public services in the future.
6. To provide Cabinet with an update of the financial position and forecasts for the General Fund over the medium term following a review of financial assumptions.
7. To enable the Cabinet to recommend the MTFS to Council for approval in order to assist in the Council's financial planning.

Details

Background

8. The MTFS is the Council's overarching Financial Strategy document and gives financial expression to the Council's plans and fiscal challenges over the medium term. It sets out a range of financial assumptions and in so doing sets parameters within which the Council will deliver key public services over the medium term. This report includes an updated financial forecast, including risks arising due to COVID-19.
9. The MTFS comprises two key elements (i) an assessment of the resources available to the Council over the medium term and (ii) an assessment of spending pressures based on existing levels of service delivery and known policy/legislative changes. Taken together the movement over the planning period of these two elements represents the financial challenge facing the Council.
10. There is a need, as part of effective medium term financial planning, to undertake a mid-year review of financial forecasts and projected changes in service spending. This will enable an updated forecast of the level of savings that need to be achieved to deliver the indicative Council Tax level.
11. The impact of COVID-19, in particular, has impacted on the financial forecasts and projections have, therefore, been further refreshed from the report that was submitted to Cabinet on 7 December 2020 to take account of subsequent announcements made by MHCLG on public sector funding and actual experience in the year to date. Specifically, the forecast takes account of:
 - Forecast pressures against the Council Tax Yield in the initial MTFS period.
 - Forecast pressures against Business Rates Yield in the initial MTFS period.
 - Forecast reduction in service-related income in the initial MTFS period; and
 - Forecast additional expenditure in the initial period of the MTFS.
12. It should be noted that these forecasts are based on assumptions in relation to both the duration and severity of COVID-19 and the speed of the UK economic recovery. A longer duration will increase costs and reduce income to a greater degree; an increased severity in economic terms will increase demand led spending and suppress recovery of income levels. The MTFS assumes that the economy will broadly recover by the end of financial year 2023/2024.
13. As far as 2021/2022 is concerned, the Council has received £0.634 million in support grant and, based upon returns to Government, anticipates that this will adequate to offset the increased costs and loss of income arising from the impact of COVID-19.
14. To be able to deliver the Council's aspirations, set out in the refreshed Business Plan approved by Council on 20 May 2021, and meet its statutory responsibilities the Council must take a proactive approach to managing its resources effectively. The MTFS is a key tool for proactive financial management which allows for future projected funding requirements to be identified thus enabling the Council to identify appropriate actions to deal with any funding shortfalls. Coupled with the Service Transformation Programme, introduced during 2019/2020, the Council is able to manage its resources effectively in line with its established priorities.
15. The MTFS covering the period 2021/2022 to 2025/2026 was considered by Cabinet on 7 December 2020 and subsequently approved by Council at its meeting on 23 February 2021. The document sets out the framework within which financial forecasts, as part of the medium-term financial plan, are determined. The Strategy

has now been reviewed and refreshed to cover the period 2022/2023 to 2026/2027. The updated version of the MTFS is attached at **Appendix A** with the proposed minor changes identified in red and crossed through text.

16. This document sets out the framework within which the financial forecast, summarised at **Appendix B**, has been determined. The forecast shows the estimated funding gap between expected resources and expenditure, and between the period 2022/2023 and 2026/2027, stands at **£4.489 million**.
17. In considering the impact of the financial forecasts on revenue budgets during the MTFS period and the key issues for consideration, due regard has been given to the local and national policy context, current financial position, economic indicators, risks and assumptions relating to financial planning. It must be stressed, however, that the financial forecasts, and imminent budget setting process, are being prepared in the context of difficult economic circumstances with the impact of the UK withdrawal from the European Union in January 2020 and the implications of the pandemic; these factors have created real uncertainty and some market volatility.

Resources

18. The Local Government Finance Settlement for 2021/2022 was confirmed on 4 February 2021 and, in financial terms, overall Core Spending Power (CSP) increased by 4.6% (rather than the 4.5% in the provisional settlement). This uplift is entirely driven by the Greater London Authority, who have been given permission to increase its Precept by £15. The additional £47 million that it generates takes the overall increase in CSP from 4.5% to 4.6%.
19. The review of Local Government Finance that will comprise (i) the quantum and how existing funding streams will feature within this and (ii) the methodology to allocate funding (known as Fair Funding) has now been further delayed. Consequently, over the MTFS period there remains uncertainty as to the level and distribution of local government funding.
20. Within the 2021/2022 Local Government Settlement there were no additional papers published regarding the local government funding reforms that were previously planned for introduction from April 2021, including the originally proposed increase in local business rate share to 75% (from 50%), a business rate baseline reset, a Fair Funding Review, and further other changes to key funding streams, such as social care and New Homes Bonus (NHB). A consultation on the replacement for NHB was published in February 2021, with changes expected to be implemented from 2022/2023, alongside the wider local government reform package. There is no confirmation on the timescale for implementation but an emerging view is that the reforms will not impact until the financial year 2023/2024.
21. The issues highlighted in previous MTFS reports (and set out below), therefore, remain relevant:
 - (a) There is no recognition of the proposed increase in local business rate share to 75% (from 50%) in that it is unclear when (or indeed whether) this will be introduced given current public finance turbulence. It should be noted that in the event of this being introduced that it is intended to be fiscally neutral, i.e. existing grants will be funded by Business Rates.

- (b) The Government will consult on Fair Funding proposals that will form the mechanism to allocate a share of the Local Government Control Total to Local Authorities. The Review will look at factors that drive spend (population, deprivation) as well as a Council's ability to raise local finance (Council Tax).
 - (c) The Government is additionally looking at how best to build on the current business rates retention scheme and will consider issues such as appeals, growth and revaluation frequencies/baseline resets.
22. Given the extent of unknowns in relation to the Fair Funding Review and 75% Business Rates Retention, it has been assumed that Business Rates (for modelling purposes) will continue at a 50% retention level as at present (movement to 75% will be funding neutral for councils).
23. For the Council, the delay to the major changes in local government funding has resulted in broadly the same level of resource in 2021/2022 as allocated in 2020/2021. There remains, however, very significant risks to the funding level for District Council's in future years with the expectation that the Council will lose a significant share of its funding as a result of the likely funding changes – the business rate baseline reset is particularly damaging. Indications are, however, that the Fair Funding Review may not now be implemented until 2023/2024.
24. Council Tax has been the most predictable and stable element of Local Government funding, although COVID-19 has created a whole new level of uncertainty. This source of income is predicted to yield £10,033 million in 2021/2022 based upon the £5 increase in Council Tax (the maximum level permitted by Government) and an increase in the "tax base" based upon the latest estimates of housing growth. Good collection rates have generally been maintained during these difficult times but the Furlough scheme, introduced in spring 2020 in an attempt to stop people being laid off by their employers during lockdown, is expected to cease in September 2021 and the ongoing situation in relation to collection rates will need to be kept under review.

Medium Term Financial Planning

25. The MTFS forecast, reproduced at [Appendix B](#), outlines the current financial position, economic forecasts and the headline figures for the medium term based upon the risks and assumptions relating to financial planning. These forecasts are set out in the table below which incorporates a number of planned savings and estimated additional investment income but factors in only limited additional service pressures beyond 2021/2022. Further service pressures will exaggerate the funding gap and, wherever possible, these should be managed within existing budgets.

	2022/2023 £'000	2023/2024 £'000	2024/2025 £'000	2025/2026 £'000	2026/2027 £'000
Council Tax	10,688	11,266	11,860	12,468	13,050
Retained Business Rates	9,879	7,300	7,446	7,595	7,747
Revenue Support Grant	-	-	-	-	-
New Homes Bonus	1,478	1,000	1,000	1,000	1,000
Rural Services Grant	137	-	-	-	-
Section 31 Grant	-	-	-	-	-

Collection Fund Surplus	-	-	-	-	-
Total Resource	22,182	19,566	20,306	21,063	21,797
Net Budget Requirement	21,828	20,992	21,659	22,101	22,823
Net Resource Position	(354)	1,426	1,353	1,038	1,026

26. Spending pressures are, however, inevitable as the Council responds effectively to the needs of the service and customer expectations and, in this regard, Service Areas have been tasked to identify the existing budget pressures that need to be managed, and to prepare growth bids where existing resources and budgets need to be strengthened; these will be subject to review and refinement as part of the 2022/2023 budget setting process. Service Areas are also continuing to identify efficiency/savings opportunities across the Council's services that are realistic, achievable and sustainable (including possible invest to save initiatives and income generation opportunities).
27. The forecast assumes the continuation of the service transformation programme that was developed during 2019 in response to the funding gap and the financial challenges over the medium term. This includes a programme of targeted service reviews to ensure that value for money is obtained in the delivery of services. The impact of COVID-19 has to some extent necessitated a reorientation of the programme and a reassessment of some projects and lead times and the resulting impact of the range of planned savings and areas of potential additional income has been regularly reported to Cabinet as part of the ongoing budget monitoring.
28. Since the previous MTFS was adopted the PWLB consultation response has been factored in and no new stream 1 investments have been assumed after 26th November 2020. This has meant a significant increase in the net budget requirement and it will now be necessary to rely on other additional income or savings to plug the gap. The transformation programme is expected to deliver savings of around £2m and this has not yet been factored into the savings/income identified line below. The budget cycle now commencing for 2022/2023 will need to reflect the savings expected in that year and indeed the final MTFS produced as part of the budget will also reflect this.
29. The other factor affecting the figures is interest payable which has been increased slightly on figures previously as longer term borrowing has been assumed from 2022/2023. This needs to be kept under review with our treasury advisers but it is still likely that shorter term borrowing will be substantially cheaper for the council over the medium term.
30. The overall impact of the budget pressures, planned savings opportunities and other base budget adjustments (such as the cost of borrowing, investment income and pay and price inflation) is shown in the table below:

	2022/2023 £'000	2023/2024 £'000	2024/2025 £'000	2025/2026 £'000	2026/2027 £'000
Net Budget Requirement: Before Adjustments	23,303	21,828	20,992	21,659	22,101

Budget Pressures	163	24	23	23	-
Savings/Income Identified	(1,709)	(477)	(239)	(238)	(238)
Other Base Budget Changes	71	(383)	883	657	960
Budget Requirement c/f	21,828	20,992	21,659	22,101	22,823

* Further service pressures will exaggerate the funding gap and, wherever possible, should be managed within existing budgets.

- 31. The transformation agenda will continue to be pursued to target and deliver financial savings to contribute to the inevitable funding challenges that will arise from the review and redistribution of local government funding.
- 32. The changes to the rules around accessing borrowing from the Public Works Loans Board (PWLB) for investment in commercial property must also be taken into account given the direct impact on the income generation opportunities that were a key element of the transformation agenda. The MTFS itself has also been updated to reflect the focus of the Investment Strategy towards commercial and service investment and, in particular, the presumption against the acquisition of commercial assets primarily for yield having regard to the new borrowing rules.
- 33. It is inevitable that the expected major review of local government financing would be accompanied by some form of “damping support” to reduce any sudden, adverse impact, on Council finances although it is acknowledged that this reduction would be phased out over a number of years.
- 34. The financial forecasts are based upon the latest modelling data, but the medium-term forecasts and damping should be treated with caution as the final position is uncertain until the provisions of the post 2022/2023 Spending Review are known and are eventually confirmed. There is also concern that any further service pressures over the medium term will exaggerate the funding gap. The estimated damping has not, therefore, been included in the current figures.

Financial Modelling

- 35. The Council subscribes to an external funding advisory service, with access to well developed and well-respected modelling data. The financial modelling is based upon the latest available data and the following key assumptions have been made in deriving the latest MTFS financial planning forecast:

(1) Council Tax

- 36. Council Tax is expected to remain the most predictable and stable element of Local Government funding, despite the impact of COVID-19. This source of income is predicted to yield £10,688 million in 2022/2023 based upon an assumed £5 increase in Council Tax (the maximum level that it is assumed will be permitted by Government), an additional sum of £200,000 derived from the sharing agreement and an increase in tax base based upon the estimates of housing growth.

1. Council Tax Yield has been adversely affected through a combination of an increased uptake of Council Tax Support (Council Tax Reduction Scheme) and an assumed reduction in Council Tax collected in year. The Secretary of State for Local Government has put in place arrangements to allow local authorities with a Council Tax deficit to phase the cost over three years. The MTFS allowed for a repayment of the authority's share of the overall exceptional balance deficit of £72,000 which will be phased equally over the next three years starting in 2021/2022.
- 2.
3. It is expected that the authority will continue to see moderate growth in the number of dwellings introduced through the introduction of new developments across the MTFS period, with an assumed Council Tax base increase of between 1.6% and 2.3%. The MTFS forecast includes an annual increase in Council Tax of £5 each year; this increase is for planning purposes only, and no decision has been made on the actual level of Council Tax increases in the medium term.

(2) Business Rates

4. The Business Rate Retention Scheme (BRRS) was introduced in April 2013 to provide Councils with stronger financial incentives to support property development and boost the economy in their local area. The scheme provides that Councils bear a proportion of the real terms change in business rates revenues in their area: gaining when revenues grow in real terms, losing when they fall. The proportion was initially set at 50% across England. In two-tier areas, like Cambridge, 40% is retained by the District and 9% is retained by Cambridgeshire County Council and 1% by the Cambridgeshire Fire Authority.
5. In estimating rates yield from retained business rates for the purpose of the MTFS, COVID-19 has been considered in terms of the immediate and medium-term impact on business activity and economic recovery. The following key assumptions have also been made:
 - The current provision for existing Appeals is materially sufficient.
 - There are no further significant changes to valuation schemes resulting from Tribunal or Court decisions.
 - There are no significant variations to the levels of rate reliefs.
 - Projected bad debts is higher than historical trends, with the potential impact of the COVID crisis on business bankruptcies and, therefore, non-payment of business rates. The overall forecast used is that bad debts will be higher (2.5% compared to 1.5% of gross rates).
 - The compensation to Local Authorities by way of Section 31 grants to cover the cost of measures introduced to help businesses (e.g. Small Business Rates Relief) will continue and will be increased annually in-line with inflation (if the grants are discontinued it is anticipated there will be a compensating increase in the yield).
6. Estimates have been made in relation to a reduced Business Rate yield and a forecast Collection Fund deficit impact of £1.260 million for the current financial year. The financial forecast assumes neither a surplus or deficit in the period to 2026/2027.
7. Significant relief has been awarded to a number of businesses during the current financial year to recognise the pressures on trading opportunities. The Council was

recompensed for the lost rates income in the form of section 31 grants. For the purposes of the MTFS, it is assumed that reliefs will be consistent with those recorded prior to the pandemic. It is also expected that the Council will see moderate growth in rates yield as a result of new developments over the MTFS period.

8. The Government announced, in its March 2020 budget, a review of business rates and a consultation paper was published in July 2020 and closed in October 2020. The 2020 Spending Review, announced on 25 November 2020, confirmed the continuation of the existing BRSS for a further year but also confirmed that the fundamental review of the system would be reported in Spring 2021. Subject to the broad review of business rates, it was expected that the introduction of the new funding model for Local Government, predicated on changes to BRSS to enable a 75% retention of Business Rates, would be introduced effective from 2022/2023.
9. The Fair Funding Review has proposed a number of scenarios for redistributing business rates income when/if the transition to 75% retention takes place. This includes (a) losing all growth since the baseline was set (2013), known as a full reset, (b) losing part of the growth, known as a partial reset, or (c) Districts retaining the current income but the additional 25% going to upper tier authorities. Commentators generally seem to think that option (b) is the most likely outcome though some suggest a combination of (b) and (c). It must be stressed that even if option (a) is the basis of the new model, there will no doubt be a tapered removal of support rather than going straight to the new formula. The financial forecasts are based 2020/2021 values (some form of partial reset) with a 2% increase for growth year on year. The timetable for the Fair Funding Review is uncertain with commentators indicating that the impact may now be further delayed until 2023/2024.
10. The Government, however, announced on 18 February 2021 that the Business Rates Review would be delayed until Autumn and, instead of the expected details in Spring, there would be a “Tax Day” announcement on 23 March 2021, where the Chancellor published a number of tax-related consultations, with the intention that this would be followed by a final report from the Government in the Autumn.

(3) Rural Services Grant

11. The Council currently receives a Rural Services Grant in the sum of £131,000 in recognition of the additional cost of providing services in sparse rural areas. Given the delay to the Fair Funding Review, it has been assumed to continue into 2022/2023 at the sum of £137,000 before being phased out in subsequent years.

(4) Lower Tier Services Grant

12. This new one-off grant of £113,000 was provided to lower tier authorities in 2021/2022 to support service provision and is un-ringfenced. It has been assumed in the financial forecast that this will not continue in subsequent years.

(5) New Homes Bonus

13. The New Homes Bonus (NHB) was introduced in 2011 to provide an incentive for local authorities to encourage housing growth in their areas. The aim of the bonus was to provide a financial incentive to reward and encourage local authorities to help facilitate housing growth. It is based on the amount of extra Council Tax revenue

raised from new-build homes, conversions and long-term empty homes brought back into use. NHB funding is currently based on the following:

- (a) NHB is payable on housing growth over a threshold of 0.4% of the Tax Base.
 - (b) Payments are based on a rolling 4-year period.
14. Housing growth has been significant for this Council area and, as such, the Council has benefited from high levels of NHB. The Government has, however, stated its commitment to review NHB; this is bad news for the Council, as the Council has been a major beneficiary of the grant, receiving a peak of £5.2 million in 2016/2017.
15. Initial reforms have, however, already reduced payments year on year with £2.768 million received in 2020/2021. The 2020 Spending Review confirmed that NHB would continue for a “further year with no new legacy payments”. The sum of £2.192 million has been included in the 2021/2022 revenue budget and it had been anticipated that the last NHB payment would be made in the financial year 2022/2023.
16. The long-awaited consultation on the replacement for NHB was published on 10 February 2021 and closed on 7 April 2021. Details of the consultation are available at the following link: <https://www.gov.uk/government/consultations/the-future-of-the-new-homes-bonus-consultation>. The consultation paper outlines a number of options for reforming the programme to provide an incentive which is more focused and targeted on ambitious housing delivery, complements the reforms outlined in the Government’s Planning White Paper, and dovetails with the wider financial mechanisms the government is putting in place, including the community infrastructure levy and the Single Housing Infrastructure Fund.
17. Distribution options include rewards for housing growth (with higher thresholds or based on past performance), greater incentives for authorities with low land values, and then a range of incentives for other policy objectives. The consultation indicated that legacy payments from the existing scheme would not be continuing in the longer term. It is not clear whether the overall quantum will remain the same and, if this is the case, whether the reward-per-unit will increase as a result.
18. It had been expected that the changes to NHB would be implemented from 2022/2023 onwards, alongside the wider local government reform package. There is insufficient information at this time to determine the outcome of the consultation, whether in fact it will be implemented in 2022/2023 or which types of authority will gain or lose from the new NHB reforms, but the situation will be kept under review.
19. Previously the medium-term forecast had assumed that NHB would be phased out. The recent consultation that has now closed does, however, propose a replacement scheme so it would now be over cautious to assume nil income in future financial forecasts but too optimistic to assume a similar level of reward to that achieved in 2021/2022. The financial forecast has, therefore, sought to indicate a realistic level of reward from NHB with continued income from a revised scheme set at a lower level.
- (6) Other Base Budget Changes**
20. In terms of service pressures, an allowance has been made for the cost of waste collection and disposal with an additional waste round in 2024/2025 arising from the increase in the number of new properties across the District. An allowance has also been made for inflation on the Council’s key contracts and fees and charges.

Allowance for a pay award and pay increments (including National Living Wage) over the period has also been included. Until finalised, provision for these future costs are included as corporate costs and not allocated to Directorates.

21. The revenue impact of the latest approved Capital Programme has been included in the revised projections. Interest rate forecasts have been assumed to continue at low levels for the duration of the MTFS. Investment income has been determined having regard to the level of expected balances, including capital receipts and expenditure, together with Reserves and Provisions held by the Council and in line with the Council's approved Treasury Management Strategy.

(7) COVID-19 Costs

22. It has been assumed that there will be some additional costs included in 2022/2023 that will continue to have a financial impact in the near term but will unwind over the MTFS period to 2026. The financial impact over the medium term includes:
 - Non delivery of efficiency savings planned for 2021/2022 due to resources required to deliver savings being deployed to meet the demands of COVID-19 and the consequent changed circumstances in service areas.
 - Staff operating model incorporating revised working practices that may well become embedded for a period of time.
 - Increased Bad Debt Provision.
 - Reduced income aligned to business confidence (commercial rents, planning applications).

23. There are a number of significant risks in relation to COVID-19 in that it is not clear as to the duration of the virus and severity and length of the economic downturn. In addition, social distancing requirements will more than likely increase costs in some services areas.

(8) General Reserve

24. The Council has a healthy General Reserve balance of around £14.5 million, taking into account the 2020/2021 General Fund revenue outturn position and the net underspend (after income from Taxation and Government Grants) in that year of £0.281 million, as also reported to Cabinet on 6 September 2021.
25. In considering future financial forecasts it was on the basis that a sum of £5 million, would be applied as revenue contributions to capital outlay in 2020/21. This was considered to be prudent as a reasonable level of General Fund balance will be maintained and capital projects, or investments, can proceed without recourse to more expensive funding sources and negate the need to provide a Minimum Revenue Provision.
26. The risks and assumptions will continue to be reviewed and this, together with savings and income generation opportunities from the transformation agenda and known service pressures, will enable the forecasts, reproduced at [Appendix B](#), to be refined and updated as part of the Council's medium term financial planning. It must be recognised, however, that the assumptions used in the financial forecasts could

vary significantly for the actual outcome and there is more certainty than ever about the long-term funding for Local Government.

Alternative Scenarios

27. The table and chart below set out the impact of alternative scenarios on the cumulative funding gap. The alternative scenarios reflect a change to Council Tax, Business Rates, Corporate Pressures (including Inflation) and the ability to realise planned savings. The Negative Economic View additionally increases the Base Budget reflecting a broader assessment of an increased net spend.

	Pessimistic View (A), (B) and (C):	Optimistic View:	Negative Economic View:
Base Budget Requirement			2.5% increase on Base Budget Requirement due to cost and demand pressure arising from increased economic friction due to a move away from the existing trading relationship with the EU and slower recovery from the pandemic.
Council Tax	2.5% reduction in yield due to weaker economic recovery forecast	2.5% increase in yield due to improving economic conditions	As per Pessimistic View (A)
Business Rates	(A) 2.5% reduction in yield due to weaker economic recovery forecast	2.5% increase in yield due to improving economic conditions	As per Pessimistic View (A)
	(B) 10% reduction in yield due to Fair Funding Review (from 2023/2024)		
	(C) 20% reduction in yield due to Fair Funding Review (from 2023/2024)		
Budget Pressures/Demand	5.0% increase in demand due to socio economic factors arising from a forecast weaker economic recovery	2.5% reduction in demand due to improving socio economic factors leading to less demand for Council services	As per Pessimistic View (A)
Other Base Budget Changes (inc. Inflation)	5.0% increase in demand due to socio economic factors arising from a forecast weaker economic recovery	2.5% reduction in corporate costs due to lower pay and price uplift assumptions	As per Pessimistic View (A)
Ability to realise planned savings/income identified (e.g. due to impact of COVID-19)	5.0% reduction in overall planned savings level from service reviews	No variation from Baseline Scenario	As per Pessimistic View (A)

28. The impact of the scenarios is set out in the table below. This demonstrates the gap in resources to spend over the medium-term period and compares the scenario to the Baseline Case. It should be noted that, although these are high level assessments, the scenarios nevertheless give an indication of the potential impact on the Council's budgets over the MTFS period.

	2022/2023	2023/2024	2024/2025	2025/2026	2026/2027	TOTAL
Baseline Case	(354)	1,426	1,353	1,038	1,026	4,489
Outcome of Scenarios:						
Pessimistic View (A)	258	2,032	2,034	1,784	1,850	7,958
Pessimistic View (B)	258	2,579	2,593	2,354	2,431	10,215
Pessimistic View (C)	258	3,309	3,337	3,113	3,205	13,222

Optimistic View	(874)	945	831	479	425	1,806
Negative Economic View	841	2,615	2,617	2,367	2,433	10,873
Comparison to Baseline:						
Pessimistic View (A)	612	606	681	746	824	3,469
Pessimistic View (B)	612	1,153	1,240	1,316	1,405	5,726
Pessimistic View (C)	612	1,883	1,984	2,075	2,179	8,733
Optimistic View	(520)	(481)	(522)	(559)	(601)	(2,683)
Negative Economic View	1,195	1,189	1,264	1,329	1,407	6,384

Implications

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

Legal

30. It is a legal requirement that the Council set a balanced budget for the ensuing financial year; the MTFS provides the framework for this and brings together funding and spending assumptions over the medium-term thereby identifying funding shortfalls and providing sufficient time for decisions to be made in order to achieve balanced budgets over the medium term.

Policy

31. To demonstrate financial resilience, the Council sets out its potential funding position over the medium term thereby enabling the most effective strategies to be put in place to ensure that the Council is able to set a balanced budget (as required by statute) on an annual basis. Given the demand for services outstripping income sources, coupled with the impact of COVID-19, the MTFS identifies a funding gap that needs to be addressed over the medium term.
32. The financial strategy needs to have regard to the “resource envelope” available to the Council. This includes the transition to the new funding model, introduced in 2013/2014, predicated on the Business Rates Retention Scheme which means that the Council’s net spending is financed from local sources; Business Rates and Council Tax. As part of this continued transition the Government have been consulting on a Fair Funding Formula that will change the method of distributing funding levels across Councils based on “Need” and “Local Resources”. In addition, the MTFS period is outside of the current Spending Review period and, as such, the Government has not set out the spending limits beyond 2021/2022.
33. The Council has adopted its Business Plan for the period 2020-2025 and this was refreshed by Council on 20 May 2021. The areas of focus and key priorities within the Business Plan inform the policy framework for achieving the required ongoing savings whilst meeting the Council’s strategic objectives and statutory obligations.

Finance

34. The MTFS is the Council's key financial planning document and sets out the Council's strategic approach to the management of its finances and Council Tax levels over the medium term, thereby allowing sufficient lead time to develop services consistent with the forecast resource envelope.
35. The updated medium-term forecast covering the period 2022/2023 to 2026/2027, is attached at **Appendix B**, and is based upon the assumptions underpinning the financial projections and overarching plan. The forecast shows the level of savings that need to be achieved to deliver the indicative Council Tax level.
36. As further information is available in respect of the review of local government funding, it may be necessary to review the forecasts and provide a further report to Cabinet and Council on the implications.

Risk

37. There are inherent risks in developing a financial strategy over the medium term, not least due to the uncertainty of funding streams (this is particularly relevant as the outcomes of the Fair Funding Review and Spending Review post 2021/2022 are not known) and the demands placed on the Council in delivering services.
38. The current economic environment, arising from the impact of COVID-19, creates further risks in that the Council's resource forecasts take into account the impact on Council Tax and Business Rates yields. These assumptions are based on an economic recovery over the period to 2026.
39. The Council's overall reputation and performance assessment is at risk if it is not aware of the challenges presented by the reduction in resources available to it and their impact on key areas of performance of the Council. There are a number of other risks that need to be understood and broadly these fall into the following categories:
 - (a) Savings: it is inevitably more difficult to continue to reduce costs and put in place savings after an extended period of reduced funding, without impact on service provision. It should be noted that the legal requirement to set a balanced budget on an annual basis requires the Council to reduce its net costs in line with funding.
 - (b) Economic: The impact of Brexit on top of the current forecast turbulence may result in a greater drag on the economy and, as such, may impact on the Council's finances over the medium term. The risk is deemed to arise from (i) reduced economic activity adversely business rate income and increased levels of unemployment, (ii) reduced income from fees and charges, (iii) increased costs, including welfare related costs and increased demand for services and (iv) potential impact on the Council's supply chain.
 - (c) Climate Change: The Office for Budget Responsibility review of Fiscal Risks (July 2019) set out risks in relation to climate change and additionally recognised the need to develop greater sophistication in modelling such impacts. Adverse climate events will have financial consequences; an estimate of the one-off costs will form part of the General Fund risk assessed

level whereas those that potentially impact ongoing income/spending need to be considered as potential cost implications over an MTFS period.

40. As the Council reviews the MTFS twice a year, it is able to assess the robustness of the financial forecast, reassess risk and, where appropriate, refresh the forecast.

Environmental

41. There are no environmental implications arising directly from the report. The Council is fully committed to the “Green to Our Core” agenda as part of its approved Business Plan and it is, therefore, appropriate that environmental implications will need to be considered in the context of specific proposals that emerge.

Equalities Impact

42. In preparing this report, due consideration has been given to the Council’s statutory Equality Duty to eliminate unlawful discrimination, advance equality of opportunity and foster good relations, as set out in Section 149(1) of the Equality Act 2010.
43. A relevance test for equality has been completed. The equality test determined that the activity has no relevance to the Council’s statutory equality duty to eliminate unlawful discrimination, advance equality of opportunity and foster good relation. An equality analysis is not needed.

Effect on Council Priority Areas

44. Timely and robust consideration of the Council’s financial forecasts and budget setting is vital to ensure that financial performance is in line with expectations, emerging issues are identified and tackled and that Business Plan priorities are met.

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.

The following documents are relevant to this report:

- Service Transformation Programme – Report to Cabinet: 4 December 2019
- General Fund Revenue Budget 2021/2022 – Report to Cabinet: 3 February 2021
- General Fund Revenue Budget 2021/2022 – Report to Council: 23 February 2021
- Medium Term Financial Strategy – Report to Council: 23 February 2021

- Business Plan 2020/2025 – Report to Cabinet: 22 March 2021
- Business Plan 2020/2025 – Report to Council: 20 May 2021

Appendices

- A Medium-Term Financial Strategy
- B Financial Forecasts 2022/2023 to 2026/2027

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Medium Term Financial Strategy 2021-2026 2022-2027

November 2020 September 2021

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Lead Member for Finance

Peter Maddock
Head of Finance

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Introduction

1. The Medium-Term Financial Strategy (MTFS) is the Council's key financial planning and policy document. It sets out the:
 - Policy Context of the Strategy;
 - Linkage of the Medium-Term Financial Strategy to the Business Plan;
 - Revenue Budget;
 - Capital Budget;
 - Financial Outlook – Capital and Revenue;
 - Efficiency Requirements;
 - Risk.
2. The MTFS has to be considered as part of a corporate wide process and it links into the wider decision making of the Council.

Policy Context of the MTFS

3. The MTFS is the Council's overarching Financial Strategy and Policy document. The purpose of the MTFS is to give financial expression to the Council's plans over the medium term in the context of the Council's longer-term plans as set out in the approved Business Plan (approved by Council on ~~20 February 2020~~ **20 May 2021**).
4. The MTFS sets out the Council's funding plan, for achieving its goals and priorities, thus balancing available financing and spending ambitions. It highlights the financial projections for financing, spending (revenue and capital), and reserves. It also highlights the underlying financial strategy, the financial assumptions, and the inherent financial risks. Importantly, it endeavours to link decisions on resource allocation to decisions on policy priorities.
5. In addition, the Council has approved corporate policies which, in addition to the MTFS, act as a cornerstone of its Financial Management. These include:
 - Investment Strategy;
 - Corporate Asset Plan;
 - Value for Money Strategy;
 - Procurement Strategy;
 - Organisational Development Strategy;
 - Risk Management Strategy;
 - Digital Strategy.
6. Looking ahead, the Council's financial planning process will continue to develop. It will promote the best use of limited financial resources and facilitate the alignment of those resources to the Council's priorities. Base budgets will be analysed with increasing sophistication and spending that does not contribute to Council priorities will come under increasing levels of scrutiny.

Linkage to the Business Plan

7. The Council's key priorities and areas of focus are expressed in its approved Business Plan and the allocation of resources over the medium term is intended to reflect the established priorities.
8. In developing the Business Plan and the MTFS, it is important to give full regard to the following:
 - national and local priorities;
 - stakeholder and partner views;
 - external drivers, including funding variations and requirements to improve economy, efficiency and effectiveness;
 - capital investment plans and their revenue implications;
 - risk assessments and financial contingency planning;
 - sensitivity analysis;
 - expected developments in services.
9. The Council needs to manage the continued high level of population growth and economic growth and the resulting impact on Council services, while continuing to improve, in order to meet its ambition to become an excellent authority. The MTFS must recognise these challenges and, in doing so, takes its lead from the strategic goals and priorities outlined in the approved Business Plan.

Revenue Budget

Revenue Budget Planning

10. The Council's financial planning for ~~2021/2022 to 2025/2026~~ ~~2022/2023 to 2026/2027~~, as set out in this Strategy, is to contribute to the Council's overall vision and priorities by:
 - Securing stable and sustainable budgets within the financial resources available;
 - Ensuring that limited resources are focussed towards the Council's highest priorities;
 - Recognise risks and ensure an adequate level of financial protection against risk by maintaining a prudent level of financial reserves;
 - Securing an understanding of sources of potential finance;
 - Building financial capacity for fundamental change;
 - Being flexible to allow shifts in spending if circumstances change;
 - Ensuring that the Council is not overburdened with financial commitments.
11. The Council's MTFS is reviewed twice per year on a rolling basis and, through the revenue budget determination process, seeks to link decisions on resource allocation with decisions on policy priorities.

12. The clear message is that budget setting and medium term financial planning will be tough over the duration of the MTFS and the following financial objectives will, therefore, help guide budget proposals:
 - A sustainable medium term financial plan that allows the achievement of the Council's key objectives;
 - Realistic levels of year on year spending which are supportable via annual income streams and do not require the use of general reserves to support recurring expenditure;
 - General reserves should be maintained at all times at or above the agreed minimum level;
 - Constraining annual Council Tax increases to an acceptable level (and within any Referendum Limit issued by The Secretary of State);
 - The pursuance of "invest to save" opportunities with a financial return on the investment in transforming activities over an acceptable payback period;
 - A commitment to explore income generation opportunities and to maximise income from fees and charges;
 - A commitment to maximise efficiency savings.
13. Full regard will be given to Revenue Budget forecasts (annually updated in this Strategy) and any increase in the ongoing annual Revenue Budget (by way of use of the contingency provision or virement) will be subject to the expenditure being either legally unavoidable or considered affordable after taking into account:
 - any forecast savings targets;
 - Implications on Council Taxpayers in future years.
14. In the light of any forecast savings targets, every effort will be made to increase annual income sources and reduce annual expenditure without materially reducing front line services provided by the Council.
15. Notwithstanding 14 above, if the Council is facing a position whereby the ensuing year's forecast expenditure is more than the forecast total income to be received, it can elect to consult Council Taxpayers on either the option to reduce service levels or increase Council Tax and the Council will have regard to the consultation outcome before it reaches its final decision. The Council is required to hold a referendum for any Council Tax rise in excess of an amount set by the Secretary of State, in January each year, to ensure that Taxpayers support the proposed Council Tax increase.

Revenue Budget Policy

16. To ensure a continuously stable financial base for the provision of Council services and functions, the Council will ensure that annual ongoing General Fund revenue expenditure can be covered by annual income sources across the MTFS period.
17. The Council recognises that any significant use of reserves to fund ongoing expenditure commitments is unsustainable in the medium term.
18. A prudent level of revenue contingency [defined as Precautionary Items] will be maintained to enable unforeseen and "one off" needs (i.e. having no long term ongoing revenue commitment) to be considered for funding.

19. Under Section 25 of the Local Government Act 2003, before approving the ensuing year's Capital and Revenue Budget, the Council is required to receive and take into account a report of the Chief Finance Officer on the robustness of the estimates leading to the Council's Council Tax requirement and the adequacy of financial reserves. Council needs to consider:
 - affordability (having regard to Council Tax implications);
 - prudence (having regard to Council policies/strategies);
 - sustainability (having regard to forecast annual expenditure and income);
 - In addition, it must also take into account risks and impact on reserves.
20. The Council's financial strategy reflects the anticipated funding gap over the medium term and, as such, it highlights that over the period resources are not going to be able to sustain the current level of spend. Consequently, the Council has put in place a transformation programme comprising service and efficiency reviews that will look to reduce costs and better focus resources on the Council's Business Plan priorities.

Revenue Budget Monitoring

21. There is a need for effective budget monitoring to be undertaken in line with the Council's Financial Regulations as this will enable the Cabinet to put plans in place to address forecast budget issues.
22. The Cabinet will, therefore, receive regularly reports in respect of budget trends and, as part of these monitoring reports, will identify potential variations to the approved budget and consider appropriate action. Where possible, performance data will be developed over time and reported as part of the process of linking budget allocations to performance attainment.

Value for Money

23. Each Service/Function Budget submitted to Cabinet/Council as part of the annual budgetary process will have regard to the need to secure economy, effectiveness and efficiency as detailed in the Council's approved Value for Money Strategy.

Financial Regulations

24. Council, Cabinet and Lead Cabinet Members shall adhere to all Budgeting (including Budget Preparation, Monitoring and Control) requirements as set out in the approved Financial Regulations of the Council. Officers shall adhere to detailed financial procedures issued by the Head of Finance (as the statutory Chief Finance Officer) as required by Financial Regulations.

One-Off Savings, Fortuitous Income and Fixed Term Funding

25. Given that the Council, from time to time, achieves one-off revenue savings or receives fortuitous income these monies will ordinarily accrue to the general contingency and could be used to meet:

- any unavoidable one-off expenditure;
- one-off expenditure consistent with Business Plan Priorities.

Growth Prospects

26. The Local Government Finance Act 2012, and associated subsequent regulations, introduced extensive changes to local government finance from April 2013, including provisions for local authorities to retain a portion of the revenue that is collected from the Non-Domestic Rates payable in respect of properties situated in their area.
27. The Business Rates Retention Scheme is based upon a policy initiative to promote economic growth through aligning financial and business growth benefit for Councils and, given the economic outlook and the increased reliance on locally raised taxation, the Council's financial planning needs to address the benefits and risks of this funding structure. The Council will, therefore, actively pursue growth opportunities through its Economic Growth Strategy in order to maximise revenue from this source but also give due regard to the potential for and impact of reduced yield arising, for example, from rating appeals (i.e. reductions in rateable value).

Investment Opportunities

28. The Council has finite resources and will seek to supplement its resource base by exploring income generation opportunities, with appropriate emphasis on the pursuance of "invest to save" opportunities where statutory powers exist and where there is a financial return on the investment over an acceptable payback period. This includes, for example, returns generated from the wholly owned company (Ermine Street Housing) **and** investment in the Council's commercial property portfolio in line with the approved Investment Strategy. ~~with a view to enhancing revenue benefits and deriving a financial payback from acquisition of new income earning assets. Investment opportunities solely for yield (i.e. acquisition of commercial assets) is not part of the Council's Capital Strategy.~~
29. The Investment Strategy sets out how the Council determines its capital investment priorities in particular in relation to corporate priorities taking into account the capital resources available including borrowing in line with the Council's approved Prudential Indicators. In determining the appropriateness of investment opportunities, the provisions of the Investment Strategy should be fully observed.

Reserves

30. The Cabinet, as part of the annual budgetary process, or at such other times where it is necessary, will identify one-off unavoidable expenditure and one-off expenditure for identified requirements. Such funding will be held in earmarked reserves until spent but will be subject to annual review by the Cabinet as part of the annual budget process to determine whether the monies still need to be held and that the balances held comply with professional guidance.
31. ~~The Cabinet will, as part of the provisional outturn each year, review the level of General Fund Balance based on a risk assessment. The General Fund Balance should not be adjusted without a full risk assessment. The General Fund Balance is based on~~

a risk assessment and is an integral element of the MTFS in that the General Fund's purpose is Financial Resilience over the medium term.

32. Thus, the policy on reserves is to:

- (a) establish earmarked reserves for specific commitments and make them subject to review as outlined above;
- (b) only adjust the General Fund Balance based on a full risk assessment.
- (c) enable Directorates/Service Areas to carry forward legitimate under-spends for project based work and planned expenditure commitments subject to:
 - i. An overall underspend within the Council (with any overspends taking first call on any underspends);
 - ii. An overall underspend within the Directorate (with any overspends taking first call on any underspends);
 - iii. A brief explanation by the service demonstrating the reasons for the underspend and the continuing service requirement;
 - iv. Approval by the Head of Finance.

Contingency Allocation

33. The appropriate level of contingency will be assessed as part of each budget setting process in the context of the risk profile and the level of reserves available. Specific contingency items shall be identified as Precautionary Items in the Council's revenue budget and these Precautionary Items shall not be released until year end, and then should be allocated to areas that have incurred unexpected costs or not achieved expected income levels during the financial year.

34. The contingency is to cover:

- (a) any net reductions in income sources during the year compared to the levels estimated;
- (b) any unavoidable expenditure falling on the Council during the year which is not known at this time;
- (c) any "one-off" expenditure needs which arise during the year and are considered critical to achieving the Business Plan requirements.



Capital Budget

Capital Strategy

35. The Council's Capital Programme is determined, prioritised, delivered and monitored in accordance with the Council's approved Capital Strategy. This Strategy is subject to annual review by the Cabinet.
 36. The Capital Strategy outlines the Council's approach to capital investment ensuring that it is directed to the Council's Business Plan priorities. It provides the framework for the Council to maximise the finance available for investment together with the allocation of capital reserves.
 37. The Strategy, therefore, provides a mechanism for the Council, the Cabinet and its officers to manage, measure and monitor the Council's Capital Programme including an annual review of investment needs targeted to key investment priorities.
 38. Capital Scheme Bids will be evaluated and prioritised in accordance with the approved Capital Strategy and based on the priorities in the approved Business Plan.

Capital Finance Policy

39. The Council has a number of methods of ensuring the most effective use of available capital finance. These include:

 - (i) The Council will each year consider the proposed Capital Programme having regard the CIPFA prudential indicators. Council will consider the extent of borrowing based on these indicators.
 - (ii) The Council will seek to maximise resources for capital investment from all potential sources.
 - (iii) Any savings made on capital schemes will potentially reduce the need for external borrowing.
 - (iv) A prudential financial framework will be maintained so that, once priorities have been determined, no capital scheme can be authorised (and no commitment made) until:
 - (a) capital finance is in place to cover the full capital costs; and

- (b) it has been determined that the ongoing revenue cost consequences are affordable in the light of forward three year Revenue Budget forecasts and related Council Tax consequences.
40. An annual review of the Capital Programme will be undertaken and, in doing so, full regard will be given to the Prudential Indicators before any proposals/decisions are made in respect of a revised programme. There is a need to be cautious in terms of future borrowing requirements given the capital financing costs and future decisions will need to balance the need for, and cost of, investment or failure to invest. Endeavours will be made to support revenue contributions to capital expenditure to ensure that funding is available for essential ongoing investment needs.

Efficiency Requirements

41. The ongoing financial challenges will require the Council to continue to make radical changes in order to transform itself to deliver sustainable services to its residents. The indications are that future spend pressures will significantly exceed the forecast growth in resources (with a significant impact on the delivery of services), which requires the Council to plan for ongoing efficiencies in relation to the provision of services. The financial planning process will, therefore, facilitate the identification and delivery of efficiency savings with emphasis on challenging service delivery, comparing performance, outcomes and delivery options, ensuring competitiveness and consulting fully on emerging proposals and service options.
42. In recognition of the level of Government Grant, set against anticipated spending demands, and the ongoing commitment to efficient and cost effective service delivery, the Council has put in place a programme of initiatives designed to review services delivered, review and improve internal processes and reappraise the workforce model required to deliver services in the most efficient and effective manner.
43. The Council will continue to look for efficiencies and better ways of working as part of the day to day operations of the business, including:
- (a) Creating capacity through additional efficiencies and service delivery options;
 - (b) Implementing demand management strategies including investment in technology to enable Channel Shift, including greater agile working;
 - (c) Increasing Business Rate income through economic development activity;
 - (d) Raising additional revenue such as increasing income and external funding;
 - (e) Identifying opportunities to “invest to save”.
44. As part of this process, all bids for additional resources must be accompanied by a quality business case and such proposals will be subjected to more rigorous challenge through the strong corporate ‘management line’ within Services, as well as peer review by other Services.



Risk

45. As far as possible, changes in the Council's financing and spending from year to year should be predictable and manageable so that key services can be protected. That can never be entirely the case, hence the need for the Council to recognise and manage financial risks, including the identification of the significant risks in terms of the spending assumptions (see section 43 above). Sound financial planning processes are critical in predicting and managing the limited resources available.
46. The purpose of this strategy is to provide the key financial planning tool of the Council. Without forward financial planning difficulties will arise in respect of:
 - not meeting the Council's own policy on Council Tax increases;
 - not meeting any Government targets on Council Tax increases so as to avoid a Council Tax Referendum;
 - not having sufficient Capital Resource to fund the approved Capital Programme.
47. It is important that, in considering Revenue and Capital Budgets, factors which could make the projections worse are identified. The Council will, therefore, as part of its decision making, consider the risk implications of all proposals. By adopting the actions in this Strategy, the risks outlined above should be mitigated.
48. The impact of the COVID-19 pandemic has and continues to have an impact on the demand for Council services, both in terms of how services are delivered and the income generated by the Council. This will have an undoubted impact on the Council during the period of the MTFS. This impact will be kept under review.

Summary & Conclusion

49. This Strategy sets out how the Council will resource its Revenue Budget and Capital Programme over the Medium-Term having regard to the policy objectives of keeping Council Tax increases within Government guidelines.
50. The MTFS represents the Council's overarching Financial Strategy and Policy document and it gives financial expression to the Council's plans for the next five years, in the context of the plans set out in its Business Plan. It, therefore, sets out the Council's funding plan, for achieving its goals and priorities, balancing available financing and spending ambitions and, in doing so, highlights the underlying financial strategy, the financial assumptions, and the inherent financial risks. Importantly, decisions on resource allocation are linked to decisions on policy priorities.

51. The MTFS will be kept under review and, as a minimum, will be reviewed:

- In Autumn prior to considering the annual budget setting report to Council;
- As part of the budget setting report, taking into account the financial forecasts that are available at that time.



Appendix B

Medium Term Financial Strategy Financial Forecasts 2022/2023 to 2026/2027

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	For Information				
	2021/2022 £'000	2022/2023 £'000	2023/2024 £'000	2024/2025 £'000	2025/2026 £'000
Council Tax	10,033	10,688	11,266	11,860	12,468
Retained Business Rates	7,951	9,879	7,300	7,446	7,595
Revenue Support Grant	-	-	-	-	-
New Homes Bonus (NHB)	2,192	1,478	1,000	1,000	1,000
Rural Services Grant	244	137	-	-	-
Section 31 Grant	2,562	-	-	-	-
Collection Fund Surplus	(1,260)	-	-	-	-
Total Resource	21,722	22,182	19,566	20,306	21,063
Net Budget Requirement: Before Adjustments		23,303	21,828	20,992	21,659
Budget Pressures *		163	24	23	23
Savings/Income Identified		(1,709)	(477)	(239)	(238)
Other Base Budget Changes **		71	(383)	883	657
Net Budget Requirement	23,303	21,828	20,992	21,659	22,101
Net Resource Position	1,581				
Earmarked Resource Movements	1,059				
Appropriation from General Reserve	522				
		(354)	1,426	1,353	1,038
					1,026
					4,489

* Further service pressures will, however, exaggerate the funding gap and, wherever possible, should be managed within existing cash limit budgets.

** Other base budget adjustments include the cost of borrowing, investment income and pay and price inflation.

MTFS: Key Assumptions

The assumptions made in determining the financial forecasts can be summarised as follows:

- (a) Council Tax: An increase in Band D Council Tax of the higher of £5 or 1.99% in each year, together with £200,000 additional income from the sharing agreement. The increase in the Council tax-base is calculated using the Council's housing trajectory which results in a Council tax base increase of between 1.6% and 2.3% per annum.
- (b) Business Rates: No further growth has been assumed in the baseline mode, balancing the opportunities of the growth area with the current economic caution, but an inflationary increase of 2% has been applied to the Business rates multiplier.
- (c) Business Rates: The current provision for existing Appeals is sufficient and there are no further significant changes to valuation schemes resulting from Tribunal or Court decisions or to the levels of rate reliefs.
- (d) New Homes Bonus: The consultation on a potential replacement scheme has concluded and it is expected that a replacement scheme will be in place for 2022/2023. A realistic level of bonus has been assumed for 2022/2023 with the anticipation that the replacement scheme will provide a reduced return (but will not be phased out as originally assumed).
- (e) Other Base Budget Changes: Allowance has been made for the following:
 - The revenue impact of the latest Capital Investment Programme needs and priorities has been included in the projections.
 - Interest rate forecasts have been assumed to continue at low levels for the duration of the MTFS.
 - Investment income has been determined having regard to the level of expected balances, including capital receipts and expenditure, together with Reserves held.
 - An allowance has been included for projects related to the reduction in the Council's carbon footprint in line with the Council's aspiration to be carbon neutral by 2050.
 - An allowance has been made for inflation on the Council's key contracts; and fees and charges. Allowance for a pay award and pay increments (including National Living Wage increases) over the period has also been included.
 - An estimate of the impact of the Welfare Benefit Reforms and, in particular, the impact of the Housing and Council Tax Benefit Grant has been included.
 - The MTFS incorporates estimated income from Ermine Street Housing Limited for the repayment of loans to reflect the commitments made in the Capital Programme.