South Cambridgeshire District Council

Report To:	Cabinet	7 December 2020
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. This report sets out the medium term budget strategy for the Council. The Council refreshes its Medium Term Financial Strategy (MTFS) twice a year in accordance with best practice. This report updates the MTFS to the financial year 2025/2026.

2. 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

3. **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;

   (c) Note the growth bids, detailed at Appendix C, for inclusion in the Budget Setting Report in February 2021;

   (d) Note the proposed range of service efficiency savings/policy options detailed in Appendix D of the report and that these will undergo further refinement and consultation with employees and other stakeholders prior to forming part of the Budget Setting Report in February 2021.

Reasons for Recommendations

4. 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.

5. 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.

6. To enable the Cabinet to recommend the MTFS to Council for approval in order to assist in the Council's financial planning.

Details

Background

7. 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.

8. 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.

9. The report includes an updated financial forecast incorporating the financial risks arising from COVID-19 and it includes the 2021/2022 budget year, which would normally be excluded at this point, in order to provide a full picture of the financial position of the Council. This includes (i) the impact of the Government support package that was introduced to help councils respond to the Coronavirus pandemic and to ensure financial sustainability in the future and (ii) the actual experience of the Council in the year to date. Specifically, the forecast takes account of:

   - Forecast reduction in Council Tax Yield (2020/2021 and in the MTFS period);
   - Forecast reduction in Business Rates Yield (2020/2021 and in the MTFS period);
   - Forecast reduction in Service related income in the initial period of the MTFS;
   - Forecast additional expenditure in the initial period of the MTFS.

   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 could increase costs and reduce income to a greater degree; an increased severity in economic terms could 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.

10. As far as 2020/2021 is concerned, the Council has received £1.9 million in support grant and, based upon returns to Government, anticipates that this will be adequate to offset the increased costs arising from the impact of COVID-19.

11. In order to be able to deliver the Council's aspirations as set out in its Business Plan, approved by Council at its meeting on 20 February 2020, 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, currently just commencing, the Council is able to manage its resources effectively in line with its established priorities.

12. The MTFS was approved by Council at its meeting on 20 February 2020 (following consideration by Cabinet at its meeting on 4 December 2019) and it has now been reviewed and refreshed to cover the period 2021/2022 to 2025/2026. The updated version of the MTFS is attached at **Appendix A** with the proposed minor changes identified in red and crossed through text.

13. This document sets out the framework within which the financial forecast, summarised at **Appendix B**, has been determined. The forecast shows that the estimated funding gap between expected resources and expenditure, and between the period 2021/2022 and 2025/2026, stands at **£5.146 million**.

14. 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.

Resources

15. It had been expected that, following the one-year spending review for 2020/2021, the Comprehensive Spending Review would be held in 2020 and would apply from April 2021. This was to include major changes in local government funding itself with the planned increase in local business rate share to 75% (from 50%), a business rate baseline reset, a Fair Funding Review, and other changes to key funding streams, such as social care and New Homes Bonus. The delay to these anticipated changes in local government funding resulted in authorities receiving broadly the same resource in 2020/2021 as they did in 2019/2020.

16. This delay benefitted the Council financially in 2020/2021 compared to the existing MTFS forecasts but, in terms of forward planning, the forecast recognised that there would be very significant risks to the funding level from 2021/2022 for District Councils with the expectation that this Council would lose a significant share of its funding as a result of the funding changes – the business rate baseline reset would be particularly damaging in financial terms.

(1) Revenue Support Grant/Business Rates Retention

17. 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. It means 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, 9% by Cambridgeshire County Council and 1% by the Fire Authority.

18. 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 (Fair Funding) has now been delayed to 2022/2023. Consequently, over the MTFS period there remains uncertainty as to the level and distribution of local government funding. The issues highlighted in previous MTFS reports are set out below and, therefore, remain relevant:

    (a) It is not clear when (or indeed whether) the proposed 75% Business Rates Retention will be introduced given current public finance turbulence. It should be noted that, if introduced, the model is fiscally neutral (i.e. offset by reductions in funding elsewhere in the system) and, as such, the existing Revenue Support Grant (RSG) would be funded by Business Rates. This will not affect the Council as the level of retained Business Rates has exceeded the threshold at which RSG would have been payable;

(b) It has been assumed that the tier split for Districts will remain at 40% to enable the County Councils share to be increased to 35% (from 9%, with the Fire Authority proportion remaining unchanged) in order to provide additional funding towards adult social care. The Government's central share falls, as a consequence, from 50% to 25%.

(c) It is envisaged that there would be a full business rate baseline reset so that all authorities are at baseline when the Fair Funding Review is implemented. The Council would lose significantly from the reset as the total collected from this source is currently in excess of £7 million above the baseline and, in a full reset, this level of growth will be lost.

(d) It had been expected that the Government would be consulting on the planned Fair Funding Review that would form the mechanism to allocate a share of the Local Government Control total to Local Authorities. This review would look at factors that drive spend (population, deprivation) as well as a council's ability to raise local finance (Council Tax and possibly some elements of fee income).

(e) The Government is additionally looking at how best to build on the current business rates retention scheme and will consider issues such as business rates appeals, growth and revaluation frequencies/baseline resets.

19. The Government also announced, in its March 2020 budget, a review of business rates and a consultation paper was published in July 2020. The scope of the review is surprisingly broad, with potential outcomes ranging from minor reform of the current system, through to full localisation, and even replacement of the current system with a Capital Value Tax and an Online Sales Tax. Discontent with the current business rates system has been growing for a while now, and fundamental changes must be a very real possibility. Although BRRS is outside the scope of this review, any changes to local business taxes will have implications for the BRRS. None of the proposals in the consultation paper are, however, incompatible with a local retention scheme.

20. Business rates are a vital element of local government funding. There are, however, some critical concerns with business rates and, as a result, this latest consultation represents at least the fourth review of the tax since it was introduced in its current form in 1990. Some of the key criticisms identified in the consultation are:

(a) The proliferation in the number and value of reliefs means that about one-third of businesses do not pay business rates and this has the effect of narrowing the business rates base;

(b) The effect on businesses and their financial viability, with business rates penalising 'bricks and mortar' businesses (and potentially under taxing internet-based businesses).

(c) The tax is very complicated, with many reliefs (many overlapping) and eligibility often for many different reliefs.

(d) Reliefs are expensive but their benefit is dubious (or at least unproven). Reliefs can end up being capitalised into rents (i.e. rents are increased to offset the reduction in rates, so landlords benefit rather that the occupying businesses). Targeting is not always effective, and eligibility is not consistent

nationwide (the threshold for small business is the same across the country despite rateable values being much higher in London and the south-east).

21. Economic priorities have, however, been influenced by specific and largely unforeseen events. A recurring theme throughout 2019/2020 in the UK was the uncertainty regarding the withdrawal process from the European Union, acting as a dampener on growth and inflation expectations. The General Election in December 2019 provided a working majority to the Government and, in January 2020, withdrawal agreement legislation was passed, taking the UK into a transition period that is due to run until 31 December 2020. Any prospect that the move to the transition period, prior to withdrawal from the European Union, might lead to an increase in growth potential were, however, dashed as the full effects of the Coronavirus pandemic (COVID-19) emerged.

22. It is now suggested that there will not be a multi-year spending review as originally planned, but a single year plan, to be announced on 25 November, followed by the settlement which will be announced in December 2020.

It is expected that the settlement itself will be announced in December 2020.

(2) Rural Services Grant

23. 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. It is expected that this will continue into 2021/22 before being phased out.

(3) New Homes Bonus

24. The New Homes Bonus (NHB) is a grant paid by central government to local councils to reflect and incentivise housing growth in their areas; it is based on the amount of extra Council Tax revenue raised as a result of 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.

25. The Government has stated its commitment to review NHB. This is bad news for the Council because housing growth has been significant for the area and, as such, the Council has been a major beneficiary of the grant, receiving a peak of £5.2 million in 2016/2017. Initial reforms have, however, already reduced payments year on year with £2.768 million received in 2020/2021.

26. The 2020/2021 Local Government Finance Settlement stated that no legacy payments would be made in relation to the 2020/2021 allocation, therefore, the MTFS only incorporates legacy payments in relation to NHB payable prior to 2020/2021. This policy results in the last NHB payment being made in 2022/2023.

(4) Council Tax

27. 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 £9.949 million in 2021/2022 based upon an assumed £5 increase in Council Tax (the maximum level of permitted by Government) and an increase in the 'tax base' based upon the latest estimates of housing growth.

28. Given the uncertainty that exists, endeavours are being made to develop a range of forecasting scenarios to show the range of outcomes for South Cambridgeshire. The range is likely to be very significant – but this will show the uncertainty that exists as part of the budget setting process.

Medium Term Financial Planning

29. The MTFS forecast, reproduced at **Appendix B**, outlines the financial forecast and the headline figures for the medium term. These are set out in the table below which incorporates a number of planned savings and estimated additional investment income and factors in additional service pressures that have been identified in 2021/22 and beyond. Having said that further service pressures are inevitable and will exaggerate the funding gap and, wherever possible, these should be managed within existing budgets.

	2021/2022 £'000	2022/2023 £'000	2023/2024 £'000	2024/2025 £'000	2025/2026 £'000
Council Tax	9,949	10,424	10,847	11,277	11,714
Retained Business Rates	9,036	7,302	7,209	7,512	7,015
Revenue Support Grant	-	-	-	-	-
New Homes Bonus	1,008	478	-	-	-
Rural Services Grant	131	-	-	-	-
Section 31 Grant	-	-	-	-	-
Collection Fund Surplus/(Deficit)	(2,030)	-	-	-	-
Total Resource	**18,094**	**18,204**	**18,056**	**18,789**	**18,729**
Net Budget Requirement	18,249	17,923	19,498	20,541	20,807
Net Resource Position	**155**	**(281)**	**1,442**	**1,752**	**2,078**

30. 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. The proposed schedule of these bids is attached at **Appendix C** and these will be subject to further refinement as part of the 2021/2022 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).

31. A service transformation programme is due to commence 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, together with the continuation of the programme of investment and commercialisation that has commenced, and which has been strengthened by the adoption and review of the Investment Strategy. The impact of COVID-19 has to

some extent necessitated a reorientation of the programme and a reassessment of some projects and project lead times and the resulting impact of the planned savings and additional income is identified at **Appendix D**.

32. The overall impact of the budget pressures, 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:

	2021/2022 £'000	2022/2023 £'000	2023/2024 £'000	2024/2025 £'000	2025/2026 £'000
Net Budget Requirement: Before Adjustments	18,511	18,249	17,923	19,498	20,541
Budget Pressures*	234	163	24	23	23
Savings/Income Identified	(2,392)	(2,859)	(727)	(562)	(813)
Other Base Budget Changes	1,896	2,370	2,278	1,582	1,056
Budget Requirement c/f	**18,249**	**17,923**	**19,498**	**20,541**	**20,807**

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

33. It is inevitable that a major review of local government financing would be accompanied by some form of 'damping support' to reduce any sudden, adverse impact, although this reduction would be phased out over a period of years. Modelling, based upon the assumption that the reduction in overall resources does not exceed 5%, indicates damping support of about £2.091 million in 2022/2023, reduced by phasing to £1.057 million in 2023/2024 and fully phased out in 2024/2025.

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 outcome of the 2021/2022 Spending Review is known and eventually confirmed. There is also concern that any further service pressures over the medium term will exaggerate the funding gap. The estimated damping has therefore not 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 the MTFS forecast (Baseline Model):

Council Tax

(a) For Council Tax, it is assumed that Government will use the existing thresholds for Band D in both a roll-over in 2021/2022 and once a new spending review has been announced. The MTFS baseline model, therefore, includes an increase in Band D Council Tax of the higher of £5 or 1.99% in each year (in the case of South Cambs £5 would be the maximum). 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.

(b) 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. These assumptions have a twofold impact (i) a reduced Tax Base over the medium term and (ii) a Collection Fund Deficit arising in 2020/2021 which is currently forecast to be £75,000 as at 31 March 2021.

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 (although guidance on how this will operate has yet to be published). The MTFS, therefore, allows for a repayment of the deficit in 2021/2022, 2022/2023 and 2023/2024.

(c) The projected increase in the Council tax-base is calculated using the Housing Trajectory in 2021/2022 and the two-year moving average, but an adjustment has been made to the two year average for a spike that occurred in 2019/2020 [which resulted in much higher growth than the previous three years increase] in order to show a realistic future growth rate.

Business Rates

(a) The rateable values of non-domestic properties are subject to periodic revaluation by the Valuation Office Agency (VOA), normally every five years although as part of Business Rates Retention it has been suggested that a more frequent revaluation take place. The MTFS has been updated to reflect the revised baseline and yields based on the current position.

(b) In estimating rates yield from retained business rates for the purpose of the MTFS, the NNDR1 2020/2021 statutory return has been used and no further growth has been assumed in the baseline model. The following key assumptions have also been made:

- The current provision for existing Appeals is sufficient;
- The 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).

(c) Estimates have been made in relation to a reduced Business Rate yield and a forecast Collection Fund deficit impact of £1.955 million for the current financial year. This deficit is also likely to be phased across 2021/2022 to 2023/2024. It has been assumed that there will be a recovery over the period of the MTFS but this will be over more than one year.

Other Base Budget Changes

(a) 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, although the 1% increase in PWLB borrowing rates from 9 October 2019 has been factored into the forecasts. 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.

(b) 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. Although these are funded from Reserves the cash behind these is tied up elsewhere and borrowing may need to be used.

(c) 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.

(d) An estimate of the impact of the Welfare Benefit Reforms and, in particular, the impact of the Housing Benefit Grant has been included.

(e) The MTFS incorporates estimated income from Ermine Street Housing Limited for the repayment of loans to reflect the commitments made in the approved Capital Programme.

General Reserve

36. The Council has a healthy General Reserve balance of around £16.5 million, taking into account the 2019/2020 General Fund revenue outturn position and the net underspend (after income from Taxation and Government Grants) in that year of £4.665 million, as reported to cabinet on 2 September 2020. In considering future financial forecasts it has been assumed that a sum, in the order of £7 million, will be applied as revenue contributions to capital outlay. This is 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.

COVID-19 Costs

37. It has been assumed that COVID-19 will have a financial impact over the medium term as follows:

- Non delivery of efficiency savings planned for 2020/2021 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)

38. The financial impacts reflect current assumptions in relation to the duration and severity of COVID-19 and as current national measures unfold then the look and profile of the financial impact will alter.

39. 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.

Implications

40. 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

41. 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

42. 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. The financial strategy needs to have regard to the "resource envelope" available to the Council; this includes the new funding model, introduced in 2013/2014, predicated on the Business Rates Retention Scheme (BRRS) 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".

43. In addition, the Government commenced consultation in July 2020 on a broad review of business rates, with potential outcomes ranging from minor reform of the current system, through to full localisation, and even replacement of the current system with a Capital Value Tax and an Online Sales Tax. Any changes to local business taxes will have implications for the BRRS and the review will need to be kept under review and reported as part of future MTFS updates to Cabinet and Council.

44. Given the demand for services outstripping income sources, coupled with the impact of COVID-19, the MTFS forecasts identify a funding gap that needs to be addressed over the medium term. The MTFS has been updated to reflect the implications of COVID-19 and this impact will need to be kept under review.

45. The Council has adopted its Business Plan for the period 2020-2025. 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

46. 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.

47. The MTFS forecast covering the period 2021/2022 to 2024/2025, 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.

48. Normally at this point, the financial year 2021/2022 would not be included within the MTFS forecasts as this represents the next General Fund Revenue Budget, however, given the impact of COVID-19 on the delivery of services and overall Council's resources it is deemed prudent to include 2021/2022 with the MTFS forecast at this time as it could have a material impact on future year forecasts.

49. 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

50. There are inherent risks in developing a financial strategy over the medium term in that forecasts need to be made with regard to resources (e.g. Fair Funding Review and Tax Base buoyancy) and the service demands placed on the Council.

51. 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 and current economic climate, arising from COVID-19, creates further risks that may impact on the Council's finances over the medium term. It is, therefore, important for the Council to assess the potential level of risk which could arise from (i) reduced economic activity adversely business rate income and increased levels of unemployment, (ii) reduced income arising 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.

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

Environmental

53. There are no environmental implications arising directly from the report. It is appropriate that environmental implications will need to be considered in the context of specific proposals that emerge.

Equalities Impact

54. 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.

55. 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

56. 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:

- Medium Term Financial Strategy – Report to Cabinet: 4 December 2019
- Service Transformation Programme – Report to Cabinet: 4 December 2019
- General Fund Budget Report – Report to Cabinet: 5 February 2020
- Business Plan 2020/2025 – Report to Cabinet: 5 February 2020
- General Fund Budget Report – Report to Council: 20 February 2020
- MTFS – Forecasts and Assumptions: November 2020

Appendices

A Medium Term Financial Strategy

B Financial Forecasts 2021/2022 to 2025/2026

C Schedule of Budget Pressures

D Service Efficiencies/Income Generation Opportunities

Report Author: Peter Maddock – Head of Finance
e-mail: *peter.maddock@scambs.gov.uk*

Medium Term Financial Strategy 2021-2026

November 2020

Councillor John Williams
Lead Member for Finance

Peter Maddock
Head of Finance

Contents

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).

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, 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), 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.

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.

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 2021/2022 to 2025/2026

	For Information 2020/2021 £'000	2021/2022 £'000	2022/2023 £'000	2023/2024 £'000	2024/2025 £'000	2025/2026 £'000
Council Tax	9,562	9,949	10,424	10,847	11,277	11,714
Retained Business Rates	8,022	9,036	7,302	7,209	7,512	7,015
Revenue Support Grant	-	-	-	-	-	-
New Homes Bonus (NHB)	2,768	1,008	478	-	-	-
Rural Services Grant	131	131	-	-	-	-
Section 31 Grant	2,400	-	-	-	-	-
Collection Fund Surplus	406	(2,030)	-	-	-	-
Total Resource	**23,289**	**18,094**	**18,204**	**18,056**	**18,789**	**18,729**
Net Budget Requirement: Before Adjustments		18,511	18,249	17,923	19,498	20,541
Budget Pressures *		234	163	24	23	23
Savings/Income Identified		(2,392)	(2,859)	(727)	(562)	(813)
Other Base Budget Changes **		1,896	2,370	2,278	1,582	1,056
Net Budget Requirement	**18,511**	**18,249**	**17,923**	**19,498**	**20,541**	**20,807**
Net Resource Position	**(4,778)**	**155**	**(281)**	**1,442**	**1,752**	**2,078**	**5,146**
Earmarked Resource Movements	1,096					
Appropriation to General Reserve	**(3,682)**					

* 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 are outlined at paragraph 36 of the report and are summarised as follows:

(a) Council Tax: An increase in Band D Council Tax of the higher of £5 or 1.99% in each year.

(b) Council Tax: The increase in the Council tax-base is calculated using the Council's housing trajectory for 2021/2022 and the two-year moving average thereafter.

(c) 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 has been applied to the Business rates multiplier.

(d) 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.

(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, but the October 2019 increase in PWLB rates by 1% has been factored into the modelling.
- 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.