Section 3 – Budget Strategy

Contents

1: Chief Finance Officer's statement

Section 25 of the Local Government Act 2003 requires the Chief Finance Officer for Cambridgeshire County Council to report to the Council in two areas:

- How robust our budget estimates are.
- What risks there might be; how we will manage them and whether we have sufficient reserves.

The Act also requires us to consider this assessment when we make budget decisions.

This report deals with these key issues. At the same time, it gives us an opportunity to highlight the core elements of the 2014-15 Budget Strategy that support the Council's overall vision and priorities.

Our financial strategy – how and where it fits in

The Council's financial planning covers a five year timescale. This allows us to make links with our longer term financial modelling and planning for growth. The budgets set out in this report are firm for 2014-15 based on all the information that the Council has at its disposal at this point. They also suggest likely budget figures for 2015-16 and for the three years after this.

We have an integrated approach to setting our objectives and associated performance levels, and deciding on our financial strategy. Our approach forms the basis of the Business Planning Process (BPP). This financial report is a key part of the Business Plan.

The process for preparing this year's plan started in the early summer of 2013, when we reviewed the financial situation and our service provision in light of the needs of service users, residents, partners and businesses in Cambridgeshire. We reconsidered our existing organisational priorities following the Government's Budget in March 2013 and the Autumn Statement in December 2013.

Although recent economic data has shown more positive signs of recovery, Government remains committed to maintaining their focus on austerity. It is likely that this approach will continue until the 2020s.

Cambridgeshire is the fastest growing county in the country which brings with it significant additional demand for services driven by increased demography. When this is combined with the Government's austerity drive it creates what has been described as the "perfect storm". Being able to balance our resources will become increasingly more challenging as we progress through the period of this strategy.

The contents of this Business Plan have deliberately been written with a greater degree of openness and transparency. Whilst we will continue to minimise and mitigate the impact of this reduction in resources on the most vulnerable members of our county, the savings required over the period of this Plan will lead to reductions in service levels, increases in the charges levied, changes to the way that services are delivered and, in some circumstances, the cessation of services. These are not decisions the Council will take lightly but they are the inevitable outcome given the size of the financial challenges that lie ahead.

Financial position

The economy

The UK economy performed more strongly in 2013 than initially expected. Private consumption and housing investment have grown but business investment and net trade have continued to disappoint. Forecasts for GDP growth in 2013 as a whole are up from 0.6% to 1.4%, but this surprise positive growth is considered to be cyclical, reducing the amount of spare capacity in the economy, rather than indicating stronger underlying growth potential that will be sustained in 2014. While consumer confidence, credit conditions and the housing market have improved, productivity and earnings growth have remained weak. Ultimately, productivity-driven growth in real earnings is necessary to sustain the recovery and so an initial slow-down of growth is predicted for 2014-15, followed by a gradual strengthening as productivity picks up.

Central Government funding

With economic uncertainty remaining prevalent, the Government is continuing with the programme of austerity which it embarked on in May 2010. The Autumn Statement on 5 December 2013 set out a fiscally neutral judgement to reflect “the Government’s commitment to deficit reduction”. As a result, the improvement in the fiscal forecast “contributes to returning the public finances to a sustainable position”, with public sector net debt now forecast to fall in 2016-17. As a percentage of GDP, the deficit is forecast to have halved by 2014-15.

For 2014-15, Cambridgeshire will receive £538.8m of funding excluding £213.8m grants retained by its schools. The key sources of funding are Council Tax, for which a provisional increase of 1.99% has been assumed and Central Government grants (excluding grants to schools) which see a like for like reduction of 5.3% compared to 2013-14.

Localisation of Business Rates and Council Tax Benefit

Following the Local Government Resource Review the Government has introduced the Business Rates Retention Scheme and localisation of Council Tax Benefit.

The Business Rates Retention Scheme was introduced in April 2013, and local areas now retain a percentage of the Business Rates collected in their area; previously the Government pooled all rates received and redistributed them to local authorities via the 'Formula Grant'.

Under the localisation of Council Tax Benefit, also introduced in April 2013, billing authorities set the criteria for Council Tax Benefit in their area and authorities will be allocated a grant from Government; previously the Government reimbursed billing authorities for the total Council Tax Benefit paid out. The grant allocation is approximately 90% of Council Tax Benefit disbursed by Government in previous years. This shortfall has been covered by redesigned City and District Council schemes for Council Tax discounts, exemptions and premiums. However, there remains an additional impact of this change which has implications on the Council’s ability to raise income via Council Tax in future years.

The ongoing impact of these changes is being closely monitored and evaluated by the billing authorities. The longer term impact could well change over the period of the Business Plan and given the impact this will have on our funding levels it is an issue we will monitor closely.

Additional income

Our ability to raise income levels by increasing Council Tax and charges for services remains limited. We do however believe that every opportunity should be taken to maximise the revenue-raising capacity of the Council. In the coming year we will seek to regularise the review of charges and ensure that the Council makes a conscious decision not to increase charges rather than this be the default position. Our ability to raise income by increasing Council Tax has been diminished as a result of Government policy; there has been a continuation of the offer of a freeze grant and rises above 2% are relatively unaffordable due to a requirement to hold a referendum.

Inflation

We have responded to the uncertainty about future inflation rates relating to our main costs by making a prudent assessment of their impact. Our policy of maintaining reserves to cover such uncertainties provides further protection.

Addressing the shortfall

We will always seek to drive greater efficiencies and service transformation to meet the challenge of falling levels of funding and the economic constraints on our ability to raise additional income. However given the savings that have been delivered over the last three years, all the “low hanging fruit” has already been taken. We must accept therefore that more and more of the budget challenge will be met through service reductions.

Creating budget estimates

During the summer we developed initial high level estimates to identify expected levels of income and costs for the five year planning period. We used benchmarking and comparative value for money data to highlight areas where we could make improvements. Our calculations showed that, allowing for likely increases in demand and inflation, we needed very significant levels of savings to balance our budget.

We used a programme of informal workshops in the summer and autumn to explore proposals for service transformation, savings and investments across all Council activities. We first considered how to minimise the negative impact of proposals on the County’s residents. We then examined which investments might best help to maintain focus on the Council’s priorities. Members and senior officers worked together to understand the possible effects of the proposals and identify areas where we might coordinate them to best effect.

We then developed selected proposals in greater detail, and assessed them according to the following criteria: timing of the changes; how achievable they were; the resulting savings; and the relative benefits of investments. Where possible, we planned savings for the first two years of the planning period. Because of the size and complexity of some of the changes, however, savings are also planned for later years.

The draft budget was produced significantly earlier than in previous years and has been considered in detail by the Overview and Scrutiny Committees. The comments made by the Committees have been considered by Cabinet before making their final proposals to Council.

The process resulted in detailed budgets for services, linking service development planning with financial planning. These budgets show savings, inflation, demography, pressures and investments. All budgets for 2014-15 are allocated to individual service level, and each budget is allocated to a named budget holder linked with performance targets. The actions arising are allocated to individual managers in the appraisal and goal setting process.

Service transformation will continue into the later years of the plan as the services complete their change programmes to achieve the significant level of cuts needed to balance our budgets. We will be developing detailed financial plans for these years in due course, in line with our policy of planning each year in detail for the following two years.

Risks and contingencies

In providing budget estimates, we have carefully considered financial and operational risks. The key areas of risk, and the basic response to these risks, are as follows:

- **Containing inflation to funded levels** – we will achieve this by closely managing budgets and contracts, and further improving our control of the supply chain.
- **Managing service demand to funded levels** – we will achieve this through clearer modelling of service demand patterns using numerous datasets that are available to our internal Research Team and supplemented with service knowledge. A number of the proposals in the Business Plan are predicated on averting or suppressing the demand for service.
- **Delivering savings to planned levels** – we will achieve this through SMART (specific, measurable, achievable, relevant and timely) action plans and detailed review. All savings – efficiencies or service reductions – need to be recurrent. We have built savings requirements into the base budget and we monitor these monthly as part of budgetary control.
- **Containing the revenue consequences of capital schemes to planned levels** – capital investments sometimes have revenue implications, either operational or capital financing costs. We will manage these by ensuring capital projects do not start without a tested and approved business case, incorporating the cost of the whole life cycle.

- **Responding to the uncertainties of the economic recovery** – we have fully reviewed our financial strategy in light of the most recent economic forecasts, and revised our objectives accordingly. We keep a close watch on the costs and funding sources for our capital programme, given the reduced income from the sale of our assets and any delays in developer contributions.
- **Future funding changes** – our plans have been developed against the backcloth of continued reductions in Local Government funding.

2: Revenue funding

Funding summary

We have carried out a detailed examination of the revenue resources that are available to the Council. Revenue funding comes from a variety of national and local sources, including grants from Central Government and other public agencies, Council Tax, Business Rates and other locally generated income. Based on the analysis set out below, we have used the following assumptions about revenue funding to set cash limits for services. We have then produced a balanced budget within these cash limits.

Table 2.1: Total funding 2014-15 to 2018-19

	2014-15 £000	2015-16 £000	2016-17 £000	2017-18 £000	2018-19 £000
Business Rates plus Top-up	57,927	61,383	63,280	65,404	67,892
Council Tax	235,673	242,243	250,455	259,057	267,646
Revenue Support Grant	72,017	52,989	35,101	19,439	933
Other Unringfenced Grants	12,960	11,091	33,593	34,005	34,351
Dedicated Schools Grant (DSG)	239,756	239,756	239,756	239,756	239,756
Other grants to schools	14,579	14,579	14,579	14,579	14,579
Better Care Funding	10,652	13,148	13,148	13,148	13,148
Other Ringfenced Grants	30,783	30,971	8,206	7,933	7,933
Fees & Charges	78,326	81,383	83,192	84,906	86,036
Total budget	**752,673**	**747,543**	**741,310**	**738,227**	**732,274**
Less grants to schools (1)	-252,433	-252,433	-252,433	-252,433	-252,433
Schedule 2 DSG plus income from schools for traded services to schools	38,596	38,596	38,596	38,596	38,596
Total budget excluding schools	**538,836**	**533,706**	**527,473**	**524,390**	**518,437**

(1) The Dedicated Schools Grant (DSG) and other grants to schools are received by the Council from Government but are ring fenced to pass directly on to schools (less a £1.9m deduction for corporate overheads). Therefore, this plan uses the figure for “Total budget excluding schools”.

The budgetary context for 2014-15

Local Government Finance Settlement

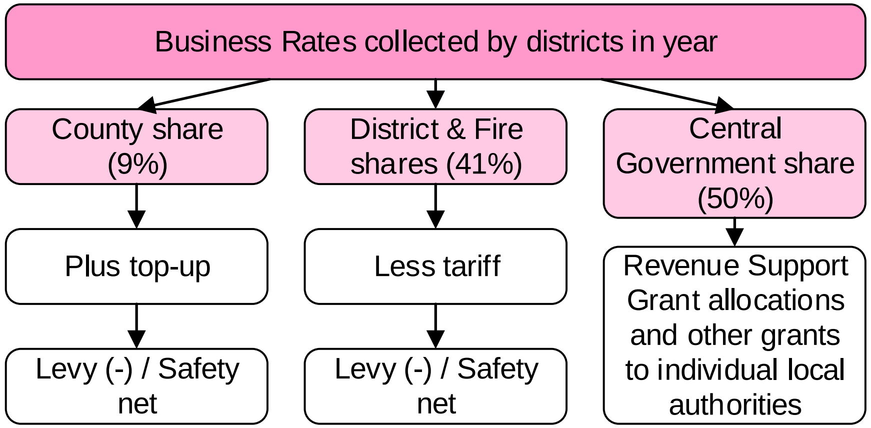
The Spending Review published in 2010 covers the period 2011-12 to 2014-15. In June 2013 the Government published a one-year Spending Round covering 2015-16. Within the context established by these two reviews, the Local Government Finance Settlement announced by the Government in December 2013 set out detailed grant allocations for individual local authorities for 2014-15 and 2015-16.

Business Rates Retention Scheme

The Business Rates Retention Scheme replaced the Formula Grant system from 2013-14. The scheme takes the business rates collected in a geographical area during the year and applies various splits, additions and/or reductions to calculate an authority's final allocation. Part of the Government's rationale in setting up the scheme was to allow local authorities to retain an element of the future growth in their business rates.

Figure 2.1 illustrates how the scheme calculates funding for local authorities. Government decided that county councils will only receive 9% of a county's business rates. Although this low percentage has a beneficial effect by insulating the Council from volatility, it also means we see little financial benefit from growth in Cambridgeshire's business rates.

Figure 2.1: Business Rates Retention Scheme



The business rates collected during the year by billing authorities are split 50:50 between Central Government and Local Government. Central Government's share is used to fund Revenue Support Grant (RSG) and other grants to Local Government.

Each authority then pays a tariff or receives a top-up to redistribute business rates more evenly across authorities. The tariffs and top-ups were set in 2013-14 based on the previous 'Four Block Model' distribution and have been uprated by September 2013 RPI inflation. A levy and 'safety net' system also operates to ensure that a 1% increase in business rates is limited to a 1% increase in retained income, with the surplus funding any authority whose income drops by more than 7.5% below their baseline funding.

In the years where the 50% local share is less than Local Government spending totals, the difference is returned to Local Government via RSG. This is allocated pro-rata to local authorities' funding baseline.

Implications of the Business Rates Retention Scheme

Despite moving to a new funding framework the new model locks in elements of the previous system which are a concern. The relative allocation of top-up and RSG is effectively determined by the 2012-13 Four Block Model distribution. Cambridgeshire County Council has long been concerned about the use of the Four Block Model, particularly in reflecting accurately the costs and benefits of growth as well as the relative efficiency of local authorities and the pockets of deprivation in some areas of Cambridgeshire. The Business Rates Retention Scheme does allow for a welcome re-assessment of areas every seven years, however, the first reset is not due until 2020 at the earliest.

A more significant implication of the new framework is its failure to account for changes in relative population between different authorities. The 2011 census confirmed that Cambridgeshire is the fastest growing county in the country. As such, we believe our relative share of government funding should be increasing as Cambridgeshire's share of the national population increases. Although the business rates we receive through the new funding mechanism do reflect Cambridgeshire's growth, our relative share of top-up and RSG remains static.

The scheme makes accurately forecasting future business rates an important part of an authority's budgeting process. We have used modelling undertaken by Cambridgeshire billing authorities (City and District Councils) to forecast our share of business rates. However, there is a significant risk to the accuracy of these forecasts due to the number of appeals facing the billing authorities and the significant backlog at the Valuation Office.

Cambridgeshire's settlement

The headline position for Cambridgeshire County Council is a 5.3% reduction in Government revenue funding (excluding grants to schools) in 2014-15 and an 8.0% reduction in 2015-16. This comparison incorporates larger cuts to general funding which are offset by increases in grants targeted to particular areas such as Adult Social Care and Public Health.

We are forecasting a small but steady increase in business rates and top-up from 2016-17, averaging around 3.5% per annum. This forecast is based on the following parameters:

- A prudent 0% real growth in business rates collected in Cambridgeshire.
- September RPI (Retail Prices Index) rates as per the Office for Budgetary Responsibility's March 2013 Economic and Fiscal Overview forecasts (3.2% in 2016-17, 3.6% in 2017-18 and 3.9% in 2018-19).

Table 2.2: Comparison of Cambridgeshire's 2013-14, 2014-15 and 2015-16 overall Government funding

	2013-14 £000	2014-15 £000	2015-16 £000
Business Rates plus Top-up	58,323	57,927	61,383
Revenue Support Grant	85,869	72,017	52,989
Other Unringfenced Grants	13,654	12,960	11,091
Better Care Funding	8,318	10,652	13,148
Other Ringfenced Grants	28,563	30,783	30,971
Government Revenue Funding (excluding schools)	**194,727**	**184,339**	**169,582**
Difference		**-10,388**	**-14,757**
Percentage cut		-5.3%	-8.0%

Although no figures have been provided for Revenue Support Grant from 2016-17 onwards, we are forecasting such significant cuts to make this a minor source of funding by 2018-19. These reductions are based on reductions of 14% to 15% in the Local Government Spending Control Totals as set out to the right.

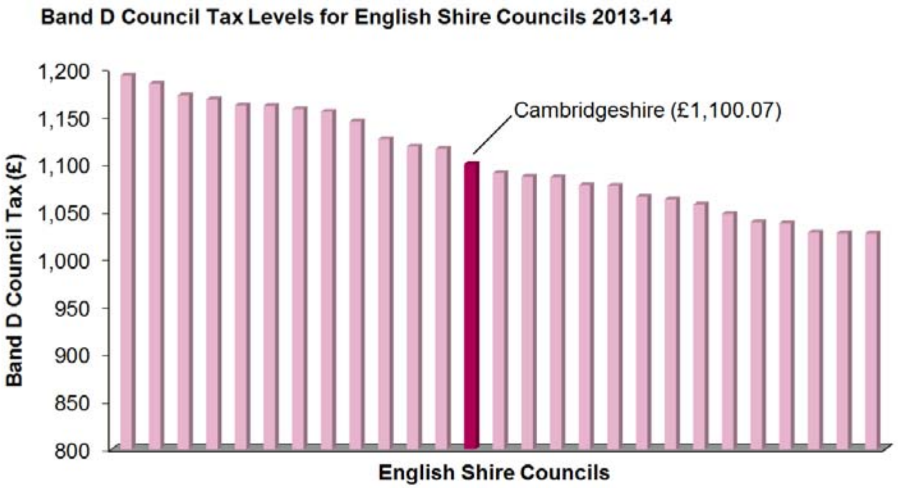
Table 2.3: Government Spending Control Totals 2013-14 to 2018-19

	SR2010		SR2013	Internal Modelling		
	2013-14 £m	**2014-15 £m**	**2015-16 £m**	**2016-17 £m**	**2017-18 £m**	**2018-19 £m**
Spending Control Total	26,074	23,786	20,651	17,605	15,052	12,838
% change		**-8.8%**	**-13.2%**	**-14.7%**	**-14.5%**	**-14.7%**
Of which RSG (England)	15,175	12,675	9,233	5,822	2,845	155
% change		**-16.5%**	**-27.2%**	**-36.9%**	**-51.1%**	**-94.6%**
RSG (CCC)	85.9	72.0	53.0	35.1	19.4	0.9
% change		**-16.1%**	**-26.4%**	**-33.8%**	**-44.6%**	**-95.2%**

The Spending Control Total has two elements: business rates and RSG. Since business rates are forecast to increase, the cuts to the Spending Control Total must fall entirely on RSG, giving rise to the pronounced reductions illustrated.

Council Tax

Cambridgeshire County Council starts the Business Planning Process with a Council Tax rate slightly below the average for all counties.



The Government first announced Council Tax Freeze grants as part of the Emergency Budget in 2010, which offered a grant equivalent to a 2.5% increase in Council tax for 2011-12 (adjusted for growth in the tax base) if those councils agreed to freeze Council Tax at 2010-11 levels for one year, with the added protection of offsetting the foregone tax for three more years, to prevent authorities from having to make sharp increases or spending cuts in following years – called the 'cliff edge' effect.

We took advantage of the Council Tax Freeze Grant in 2011-12 but decided not to take up the offers of subsequent grants for a lower level (1%) that do not offer further protection, with the choice being made to set Council Tax at 2.95% in 2012-13 and 1.99% in 2013-14. These figures were below inflation levels and were close to the Treasury's long-term expected inflation rate. Our decisions in the last two years to increase Council Tax will avoid the need for sharp increases in precepts in the future.

The Government announced a fourth Council Tax Freeze Grant for 2014-15. The value of the grant equates to a 1% increase in Council Tax and would be paid in 2014-15 and 2015-16. The Council carefully considered the Government's offer and decided to reject it. The value of the grant offered was insufficient to avoid a significant shortfall compared to the Council Tax increases built into last year's Business Plan and taking it would have added unsustainably to the already significant budgetary pressure on the Council.

In order to inform decisions on Council Tax the County Council used a consultation exercise. Part of this was a You Choose survey, which involves using an online budget simulator to encourage members of the public to consider where council budget cuts should fall, and this was undertaken in September and October 2013. A representative sample of 1,124 individuals chose an average rise in Council Tax of 17.3%, with 95% of respondents prepared to accept a rise. More information about the consultation results can be found in Section 5 of the Business Plan.

Other sources of funding

As well as the main funding streams of Business Rates, Council Tax and Revenue Support Grant the Council also receives income from various other sources. These include unringfenced and ringfenced grants, charges from fees, income from sales and partnership funding from other public-sector bodies.

Other grants

In 2013-14 a number of specific grant streams were merged into Revenue Support Grant and the Council received a number of new grants to help fund additional responsibilities that have been transferred to local authorities by Government.

The Spending Round announced in June 2013 set out the Government's intention to redirect a proportion of the New Homes Bonus grant to Local Enterprise Partnerships from 2015-16. Following a consultation exercise on this issue, the Government announced in the recent Autumn Statement its intention not to pursue this proposal. It is however unclear at this point how the funding of LEPs will be achieved in the future.

Fees and charges

We have carefully considered all income streams, taking into account inflation levels and acknowledging the increased pressure on the finances of many service users. There are a number of proposals within the Business Plan that are either introducing charging for services for the first time or include a significant increase where charges have remained static for a number of years. The Council will adopt a more robust approach to charging reviews going forward and proposals will be presented to Members on an annual basis.

Table 2.4: Unringfenced grants for Cambridgeshire 2014-15 to 2015-16

	2014-15 £000	2015-16 £000
New Homes Bonus	3,140	3,919
Education Services Grant	6,104	3,869
Returned New Homes Bonus Topslice	195	497
Social Fund	1,027	1,027
Other	2,494	1,779
Total specific grants	**12,960**	**11,091**

Partnership funding

In August 2013 the Local Government Association and NHS England announced a pooled funding of £3.8bn through the Better Care Fund, which will take full effect in 2015-16, of which £2bn is previously unannounced funding. This fund is intended to allow health and social care services to work more closely in local areas.

In line with the Secretary of State's announcement as part of the Local Government Finance Settlement and the concomitant announcement by the Department of Health, we have assumed that we will receive all sources of funding due to the Council. This includes Better Care Funding for Adult

Social Care, routed via Clinical Commissioning Groups (CCGs) and the Local Health and Wellbeing Board.

Dedicated Schools Grant

The Council receives the Dedicated Schools Grant (DSG) from the Government and it is therefore included in our gross budget figures in table 2.1. However, this grant is ring fenced to pass directly on to schools. This plan therefore uses the figure for "total budget excluding grants to schools". Part 3 of this report provides a full explanation of gross budget. The DSG for 2014-15 is yet to be confirmed although we expect it will be reduced from the amount received in 2013-14 as a result of schools converting to academies. The impact will include schools converting from 1 April 2014 as well as the full year effect of schools that converted during 2013-14. As an estimate, based on our knowledge of schools converting to academies, we have used a figure of £239.8m in this report.

3: Revenue costs

Cash limits

We have carried out a detailed review, looking at the costs involved in providing services at a certain level and to specific performance standards. We then combined this analysis with an estimation of the overall level of savings needed. This was used to propose the following changes to cash available over the next five years:

Table 3.1: Changes to service gross budgets 2013-14 to 2018-19

	Revised Budget 2013-14 (1) £000	Proposed % cash change 2013-14 to 2018-19
Children, Families and Adults Services (CFA)	361,578	-7.0%
Economy, Transport and Environment (ETE)	83,293	-1.4%
Corporate & Managed Services (CS)	21,060	-4.2%
Financing Debt Charges	35,204	27.2%
LGSS - Cambridge Office (LGSS)	24,230	-6.6%
Public Health	13,717	8.3%
Environment Agency (EA) Levy	368	1.4%
Total budget	**539,450**	**-3.9%**

(1) 2013-14 budget has been revised so that it is comparable to the 2014-15 budget.

In light of these changes, services have been set the following cash limits (Table 3.2). The cash limit is the amount of money for each of the next five years that services can spend. Within these limits, the budget will balance. These cash limits include assumptions about the impact of inflation and demographic growth, any developments and the savings we intend to make.

Table 3.2: Service gross budgets 2014-15 to 2018-19

	2014-15 £000	2015-16 £000	2016-17 £000	2017-18 £000	2018-19 £000
CFA	352,472	347,724	339,106	336,710	336,158
ETE	86,962	86,025	83,849	82,368	82,106
CS	21,085	20,546	20,242	19,959	20,178
Financing Debt Charges (1)	34,142	39,127	43,477	44,281	44,769
LGSS	24,069	24,013	23,705	23,113	22,628
Public Health	14,482	14,774	15,074	15,312	14,856
EA Levy (2)	373	373	373	373	373
Net movement on reserves (3)	5,251	1,124	1,647	2,274	-2,631
Total budget	**538,836**	**533,706**	**527,473**	**524,390**	**518,437**
% Change in budget	0.9%	-1.0%	-1.2%	-0.6%	-1.1%

(1) Financing debt charges refers to the net cost of interest and principal payments on existing and new loans.
(2) EA Levy refers to the contribution to the Environment Agency for flood control and flood mitigation.
(3) Net movement on reserves reflects use of the various reserve funds (see chapter 7).

Cash limits for each directorate and the policy areas in the above services are shown in the detailed financial tables of Section 4.

Building the budget: net to gross

Prior to 2011-12, the Council's budget had always been analysed in this report as a 'net' figure. This meant that it only included funding or expenditure related to Council Tax and the Formula Grant. This net figure was called the Budget Requirement and we were required to report it to Central Government. From 2012-13, we have instead been required to report our Council Tax Requirement, which relates directly to our funding from Council Tax.

It was deemed more appropriate to present the Council's budget on a 'gross' basis. This is due to the forecast fluctuations in specific grants, which are not included within the net budget figure but form a large proportion of our funding. Therefore the total budget figures in this report are gross and relate to all sources of funding available to us (see chapter 2 of this report for these sources).

Inflation

In the past, there has not always been a direct link between the inflation we have faced and nationally published inflation indicators such as the Consumer Price Index (CPI). Inflation faced by the Council has often been significantly higher due to the more specific nature of the goods and services that we have to purchase. But we have taken specific action in the last few years to manage these inflation pressures down, both now and in future.

When estimating the pressure from inflation, therefore, we have taken the same approach as last year. Estimates of 2014-15 inflation have been based on indices and trends, and they include specific pressures such as inflationary increases built into contracts. Our medium term plans assume inflation will run at around 0.2% above Treasury CPI forecasts, having taken account of the mix of goods and services we purchase, and improved contracting.

The table below shows expected overall inflation levels for the Council:

	2014-15	2015-16	2016-17	2017-18	2018-19
Inflation cost increase (%)	2.4%	2.3%	2.2%	2.2%	2.2%

Demography

Demography is a term used to include all demand changes arising from increased numbers (e.g. clients served, road kilometres); increased complexity (e.g. more intensive packages of care as clients age); and any adjustment for previous years where demography has been under/overestimated. Expected cost increases from demography are shown below:

	2014-15	2015-16	2016-17	2017-18	2018-19
Demographic cost increase (£000)	9,324	10,221	10,508	10,553	10,440
Demographic cost increase (%)	2.0%	2.2%	2.3%	2.4%	2.4%

These figures compare with an underlying population growth of around 2.1% per year (a total increase of 7.5% between 2014 and 2019). The difference is due to faster growth in certain client groups; changes in levels of need and catch up from previous years.

Service pressures

We recognise that there are some unavoidable cost pressures that we will have to meet. The Cabinet of Cambridgeshire County Council has considered whether we should fund these from available resources, or whether we should require services to find additional savings themselves to cover these pressures.

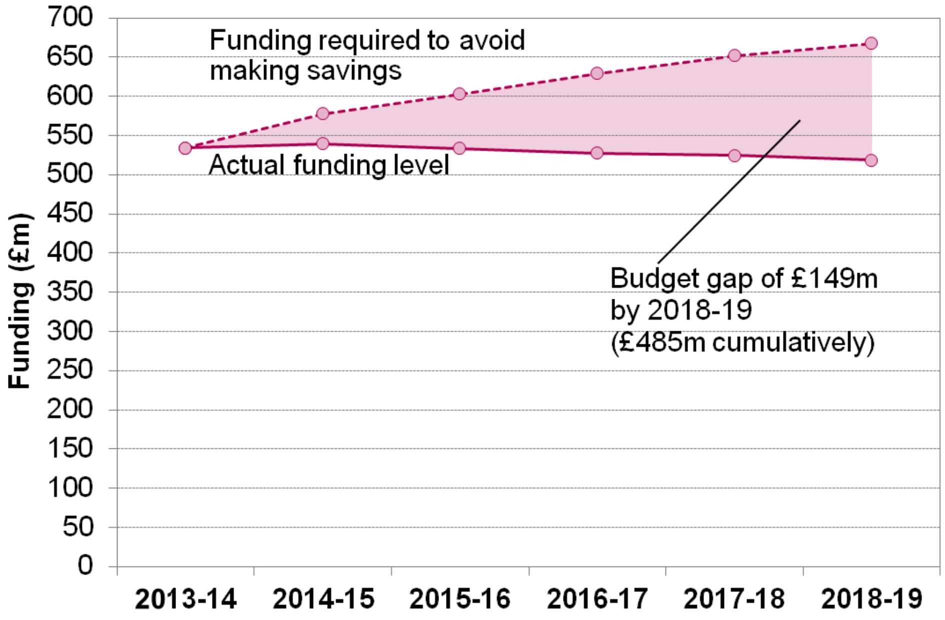
The final cash limits reflect a commitment to use available resources to achieve our Council priorities, optimising service delivery while minimising risk.

Priority investments

When considering savings proposals, the Cabinet has looked at them alongside existing priority investment proposals and any new investment proposals that we fund through additional savings.

Savings proposals

Inevitably, cost pressures will outstrip available resources, given the rising costs caused by inflation, growth and associated demographic pressures combined with significantly reduced levels of funding. So we will need to make significant savings to close the budget gap.



In some cases services have opted to increase locally generated income instead of cutting expenditure by making savings. For the purpose of balancing the budget these two options have the same effect and are treated interchangeably.

The following table shows the total amount of savings / increased income necessary for each of the next five years, split according to the factors which have given rise to this budget gap:

Table 3.3: Analysis of budget gap 2014-15 to 2018-19

	2014-15 £000	2015-16 £000	2016-17 £000	2017-18 £000	2018-19 £000	Total £000
Loss (+) / Gain (-) of funding (1)	-11,622	7,399	7,235	3,970	6,238	13,220
Inflation	11,309	10,499	10,142	9,898	9,845	51,693
Demand	9,324	10,221	10,508	10,553	10,440	51,046
Pressures & Investments (2)	9,417	-787	-85	-244	95	8,396
Capital	-62	4,985	4,350	804	488	10,565
Reserves	5,782	-4,127	523	627	-4,905	-2,100
Other (3)	14,076	2,496	-	-273	-	16,299
Total	**38,224**	**30,686**	**32,673**	**25,335**	**22,201**	**149,119**
Cumulative	**38,224**	**107,134**	**208,717**	**335,635**	**484,754**	

(1) The gain in funding in 2014-15 is as a result of the inclusion of income from Norwich City Council as part of LGSS (£7.7m) and an increase in Better Care Funding (£2.3m) and an increase in schools funding (£4.1m).
(2) This includes a £6.5m recurring pressure for 2014-15 on Older People's services, which has developed as a result of increased demand and demographic pressures.
(3) This includes the increase in budget as the Council takes on the functions described in note 1.

To achieve these £149m of savings over the next five years, services have developed proposals to meet their own savings targets.

During the last few years services have made significant savings through increasing efficiency and targeting areas that are not our highest priority with the aim of minimising the impact on our service users. With no respite from the continuing cuts to our funding, we have entered an environment where any efficiencies to be made are minimal.

Achieving the savings required by this Business Plan has meant making tough decisions on which services to prioritise. Members and Senior Officers have scrutinised the savings proposals through the workshop process. Management teams working with their Lead Member have then prioritised these proposals. The planned savings are set out in the finance tables in Section 4.

Major developments and financial uncertainties

Uncertainties remain throughout the planning period in relation to funding, inflation, demography, major developments and the impact of the economic downturn. In line with good practice, we intend to reserve funds that we can use throughout and beyond the planning period. Together with a better understanding of risk and the emerging costs of future development proposals, this will help us to meet such pressures.

4: Council Tax precept

The current Council Tax Requirement (and all other factors) gives rise to a 'Band D' Council Tax of £1,121.94. This is an increase of 1.99% on the actual 2013-14 level. This figure reflects information from the districts on the final precept and collection fund.

Taxes for the other bands are derived by applying the ratios found in Table 4.1. For example, the Band A tax is 6/9 of the Band D tax.

Table 4.1: Ratios and amounts of Council Tax for properties in different bands

Band	Ratio	Amount £	Increase on 2013-14 £
A	6/9	747.96	14.58
B	7/9	872.62	17.01
C	8/9	997.28	19.44
D	**9/9**	**1,121.94**	**21.87**
E	11/9	1,371.26	26.73
F	13/9	1,620.58	31.59
G	15/9	1,869.90	36.45
H	18/9	2,243.88	43.74

Table 4.2: Build-up of recommended Council Tax Requirement and derivation of Council Tax precept 2014-15

	2014-15 £000	% Rev. Base
Adjusted base budget	**750,050**	
Transfer of function	3,237	
Revised base budget	**753,287**	
Inflation	11,309	1.5%
Demography	9,324	1.2%
Pressures	8,205	1.1%
Investments	1,150	0.2%
Savings	-35,853	-4.8%
Change in reserves/one-off items	5,251	0.7%
Total budget	**752,673**	**99.9%**
Less funding:		
Business Rates plus Top-up	57,927	7.7%
Revenue Support Grant	72,017	9.6%
Dedicated Schools Grant	239,756	31.7%
Unringfenced Grants (including schools)	27,539	3.7%
Ringfenced Grants	41,435	5.5%
Fees & Charges (1)	78,326	10.4%
Surplus/deficit on collection fund	1,005	0.1%
Council Tax requirement	**234,668**	**31.2%**
District taxbase	209,163	
Band D	**1,121.94**	

(1) This figure includes an increase in income of £2,371k, which taken with the £35,853k savings makes up the total £38,224k savings/income requirement.

5: Capital funding and spending

Capital strategy

The Council's Capital Strategy can be found in full in Section 7 of the Business Plan. It describes how the Council's investment of capital resources in the medium term will optimise the ability of the authority to achieve its overriding vision and priorities. It represents an essential element of the Council's overall Business Plan and is reviewed and updated each year as part of the Business Planning Process.

The Strategy sets out the approach of the Council towards capital investment over the next ten years and provides a structure through which the resources of the Council, and those matched with key partners, are allocated to help meet the priorities outlined within the Council's Strategic Framework. It is also closely related to, and informed by, the Cambridgeshire Public Sector Asset Management Strategy. It is concerned with all aspects of the Council's capital expenditure programme: planning; prioritisation; management; and funding.

To assist in delivering the Business Plan the Council needs to provide, maintain and update long term assets (often referred to as 'fixed assets'), which are defined as those that have an economic life of more than one year.

Capital expenditure and funding

Capital expenditure, in accordance with proper practice, results in the acquisition, creation or enhancement of fixed assets with a long term value to the Council. Capital expenditure is financed using a combination of internal and external funding sources, including grants, contributions, capital receipts, revenue funding and borrowing.

Working in partnership

The Council is committed to working with partners in the development of the County and the services within it. There are various mechanisms in place that provide opportunities to enhance the investment potential of the Council with support and contributions from other third parties and local strategic partners.

Examples of specific capital schemes currently being delivered in partnership include;

- Rolling out and exploiting better broadband infrastructure across the County; with Peterborough City Council, the district councils, the Local Enterprise Partnership, local businesses and the universities;
- Building the Cambridge Science Park Station; working with Central Government and Network Rail; and
- Making Assets Count (MAC) projects, including delivery of a Joint Operations Centre for public sector partners in the south of Cambridgeshire (co-locating highway, ground and housing maintenance, fleet servicing and vehicle storage operations services), and creation of a public property partnership (joint venture) to deliver property-related benefits in key market towns, including public services, housing, retail and regeneration. Both these projects will be delivered in conjunction with the MAC partners.

External environment

The recent downturn in the property market, the Government’s programme of austerity, as well as some significant changes to the mechanism of some major funding sources are all having an impact on the ability of the Council to obtain external capital financing.

In particular, the new methodology for distributing funding for additional school places does not appear to reflect the Government’s commitment to fully funding all new school places. Cambridgeshire’s provisional allocation for 2015-16 and 2016-17 of £4.4m in total is £32m less than the Council’s current budget estimates for those years – this is reflected in funding table 5.1 below which shows the shortfall on a separate line (although only at £30m, due to some carry forward funding from 2014-15). Given the growth the County is facing, it is difficult to understand these allocations and the Council will be responding accordingly as part of the consultation process.

At the same time as external funding is reducing, the County continues to grow. This places additional strain on our infrastructure through higher levels of road maintenance, increased pressure on the transport network, a rise in the demand for school places, a shortage of homes and additional need for libraries, children’s centres and community hubs.

Therefore, as with the revenue position, the external operating environment poses a significant challenge to the Council as it determines how to invest in order to meet its vision and priorities, whilst facing reduced levels of funding and increasing demands on its infrastructure.

Development of the capital programme

The Council operates a five year rolling revenue budget, and a ten year rolling capital programme (increased from five years as part of the 2014-15 Business Plan). The very nature of capital planning necessitates alteration and refinement to proposals and funding during the planning period; therefore whilst the early years of the Business Plan provide robust, detailed estimates of schemes, the later years only provide indicative forecasts of the likely infrastructure needs and revenue streams for the Council.

All new schemes are developed by the Service and are scrutinised and challenged. An Investment Appraisal of each scheme (excluding schemes with 100% ringfenced funding) is undertaken/revised, which allows the scheme to be scored against a weighted set of criteria such as strategic fit, business continuity, joint working, investment payback and resource use. This process allows schemes across all Services to be ranked and prioritised against each other, in light of the finite resources available to fund the overall programme and in order to ensure the schemes included within the programme are aligned to assist the Council with achieving its priorities.

Revenue implications

All capital schemes have a potential two-fold impact on the revenue position, due to costs of borrowing, and the ongoing revenue impact (pressures, or savings/additional income). Therefore to ensure that available resources are allocated optimally, capital programme planning is determined in parallel with the revenue budget planning. Both the borrowing costs and ongoing revenue costs/savings of a scheme are taken into account as part of the Investment Appraisal of a scheme, and therefore the prioritisation process.

In addition, the Council is required by CIPFA's Prudential Code for Capital Finance in Local Authorities 2011 to ensure that it undertakes borrowing in an affordable and sustainable manner. In order to ensure that it achieves this, the long term cost of borrowing is scrutinised fully by both Strategic Management and Council Members. If the long term cost of borrowing is deemed to be too high then the Council will look to either re-work schemes in order to reduce borrowing levels, or limit the number of schemes included within the programme according to the ranking of schemes within the prioritisation analysis. For further information about the cost of borrowing to the Council see chapter 8.

Invest to Save and Invest to Earn schemes are schemes that generate revenue savings, income or capital receipts and will be self-funded in the medium term. However, if the scheme requires borrowing in the short term there will be a revenue cost to this as with all other schemes funded by borrowing. Therefore, these schemes will be included in the scrutiny of financing costs in order to ensure revenue funding for direct service delivery is protected. However, it is expected that these schemes should be a high priority due to their payback; therefore this is reflected in the Investment Appraisal weighting for this particular category.

Managing the capital programme

The capital programme is monitored in-year through monthly reporting, incorporated into the Integrated Resources and Performance Report. Services monitor their programmes using their monthly Finance and Performance reports, which then feed into the Integrated Report. This is submitted to the Strategic Management Team and is subsequently reviewed and approved by Cabinet. The report identifies changes to the capital programme to reflect and seek approval for;

- new / updated resource allocations;
- slippage or brought forward programme delivery;
- increase / reduction in overall scheme costs; and
- virements between schemes to maximise delivery against the priorities of the Council.

For further detail on the Capital Strategy, including further explanation of the development and management of the capital programme, please see Section 7.

Summary of the 2014-15 capital programme

Capital programme spending

Major new investments underway or planned include:

- Major road maintenance (£90m)
- Ely Crossing (£31m)
- Cambridge Science Park Station (£30m)
- Rolling out superfast broadband (£30m)
- A14 Upgrade (£25m)
- Housing provision (£18m)
- Northstowe (£15m)
- King’s Dyke Crossing (£14m)
- Development of Archives Centre premises (£12m)
- Renewable Energy (£10m)
- Providing for demographic pressures regarding new schools and children’s centres (£560m – over ten years)

Table 5.1 shows a summary of available funding for the capital programme.

Table 5.1: Funding the capital programme 2014-15 to 2018-19

	2014-15 £m	2015-16 £m	2016-17 £m	2017-18 £m	2018-19 £m	Later years £m	Total £m
Grants	61.8	35.3	26.3	33.0	33.0	118.1	307.5
Basic Need Funding Shortfall	-	16.1	13.9	-	-	-	30.0
Contributions	31.3	43.6	49.0	46.6	26.1	82.3	278.9
Prudential borrowing	81.8	96.2	24.6	24.1	13.3	68.0	308.0
General capital receipts	4.7	4.3	30.7	11.1	4.6	7.8	63.2
Total funding	**179.6**	**195.5**	**144.5**	**114.8**	**77.0**	**276.2**	**987.6**

Table 5.2 provides a summary by service of capital expenditure, whereas Table 5.3 is a summary of schemes according to scheme start date. These tables include schemes that were committed in previous years but are scheduled to be completed from 2014-15 onwards. Section 7 later in the Plan sets out details of the 2014-15 to 2023-24 capital schemes; the following tables provide a summary.

Table 5.2: Services capital programme for 2014-15 to 2023-24

Scheme	Total Cost £m	Prev. Years £m	2014-15 £m	2015-16 £m	2016-17 £m	2017-18 £m	2018-19 £m	Later years £m
CFA	738.6	166.9	76.4	83.7	65.2	70.0	44.0	232.4
ETE	540.0	193.7	91.0	92.4	66.4	34.8	26.0	35.7
CS & Managed	81.3	11.7	12.2	19.4	12.9	10.0	7.0	8.1
Total	**1,359.9**	**372.3**	**179.6**	**195.5**	**144.5**	**114.8**	**77.0**	**276.2**

Table 5.3: Capital programme for 2014-15 to 2023-24

	2014-15 £m	2015-16 £m	2016-17 £m	2017-18 £m	2018-19 £m	Later years £m	Total £m
Ongoing	47.9	42.4	51.4	25.2	25.2	31.3	223.4
Commitments	77.9	64.0	16.3	5.1	1.6	2.6	167.5
New starts:							
2014-15	47.8	37.3	15.0	16.1	5.3	-	121.5
2015-16	5.0	50.3	42.0	7.4	2.4	-	107.1
2016-17	0.6	0.6	12.9	11.4	15.7	2.7	43.9
2017-18	0.4	0.9	6.8	48.7	18.8	24.4	100.0
2018-19	-	-	0.1	0.9	8.0	30.2	39.2
2019-20	-	-	-	-	-	5.1	5.1
2020-21	-	-	-	-	-	111.7	111.7
2021-22	-	-	-	-	-	11.3	11.3
2022-23	-	-	-	-	-	34.9	34.9
2023-24	-	-	-	-	-	22.0	22.0
Total spend	**179.6**	**195.5**	**144.5**	**114.8**	**77.0**	**276.2**	**987.6**

The capital programme includes the following Invest to Save / Invest to Earn schemes:

Table 5.4: Invest to Save / Earn schemes for 2014-15 to 2023-24

Scheme	Total Investment (£m)	Total Net Return (£m)
Housing provision (primarily for rent) on CCC portfolio	17.5	16.4
Renewable Energy	10.2	10.2
MAC Public Property Partnership & Market Towns Project	7.0	9.4
Central Library	0.3	4.3
Disposal / Relocation of Huntingdon Highways Depot	1.6	3.6
Street Lighting – Central Management System	1.5	1.7
Solar PV	0.3	0.3
MAC Joint Operations Centre	3.2	- [1]
County Farms Investment	5.0	- [1]

(1) Schemes expected to break-even, however additional returns are not yet quantifiable.

6: Cash and balance sheet management

As part of our overall approach to balance sheet management, we model the balance sheet position over the same five years as our financial plan. We set targets for each of the key components of the balance sheet, and report progress as part of the monthly budgetary control process.

Debtors

We will improve our cash flow by controlling the absolute level of debt through the planning period.

We will continue our programme of improvements. This will include actively pursuing overdue debt within the 30 to 60 day period, and handling debt issues quickly. The targets for the next five years are as follows:

Table 6.1: Debtor targets 2014-15 to 2018-19

Debtor targets at 31 March	2014 %	2015 %	2016 %	2017 %	2018 %	2019 %
Total debt as % of turnover	10.25%	10.00%	10.00%	10.00%	10.00%	10.00%
% debt over 90 days	20.00%	20.00%	20.00%	20.00%	20.00%	20.00%

Due to the continuing difficult economic climate, we have maintained the target for percentage of debt overdue by more than 90 days at 20%. This target is reviewed annually.

Creditors

We will continue to manage our creditor position more actively. In particular, we will seek opportunities to secure discounts for prompt payment within 30 days.

This approach will be monitored by the value of total creditors, and the proportion of payments made (for undisputed invoices) within the agreed terms throughout the planning period. The targets for the next five years are as follows:

Table 6.2: Creditor targets 2014-15 to 2018-19

Creditor targets at 31 March	2014	2015	2016	2017	2018	2019
Aggregate value (£m)	7.65 - 10.35	7.65 - 10.35	7.65 - 10.35	7.65 - 10.35	7.65 - 10.35	7.65 - 10.35
% Invoices paid within term	97.50%	97.50%	97.50%	97.50%	97.50%	97.50%

Financing

We anticipate that improvements in debtor and creditor management will lead to a reduced demand on working capital. We are also planning further activity to manage the costs of financing debt within tighter limits, through continued active management of the debt portfolio. In particular, we will seek to exchange short term loans for long term loans to offset the impact of recent and potential in-year fluctuations in interest rates.

Capital – prudential code

As part of the budget setting process, the Council must approve indicators for prudential capital for one year ahead; with an indicative further four years (see Table 6.3). There are two main indicators that we must approve:

- financing costs (as % of revenue expenditure)
- maximum limits on total debt

Table 6.3: Prudential indicators

	2014-15 £m	2015-16 £m	2016-17 £m	2017-18 £m	2018-19 £m
Financing costs					
Net Revenue Expenditure	365.6	356.6	348.8	343.9	336.5
Financing costs	35.2	40.2	44.6	45.4	45.9
% of Net Revenue Expenditure	9.6%	11.3%	12.8%	13.2%	13.6%
Debt limits					
Authorised limits for debt	627.5	688.5	692.9	696.2	688.1
Operational boundary for debt	597.5	658.5	662.9	666.2	658.1
Forecast average debt for CCC	413.5	470.3	503.0	506.8	504.4

We will report performance against these indicators as part of the outturn report after the end of the financial year. There is no Government guidance on suggested limits; each council is responsible for setting what it believes to be ‘prudent’ limits.

For Cambridgeshire:

- Financing costs (debt charges) are part of the full Council budget for the next five years. We have determined the affordability of debt charges in line with the overall budget-setting process. We have allowed an average interest rate of 4.3% across the full range of the debt portfolio. We recommend that a ceiling is placed on debt charges at 13.5% of net revenue expenditure.

- Forecast average debt is within the normal limit (Operational Boundary) at £176m below this level for 2014-15, and well within the maximum upper limit (Authorised Limit).

- The capital funding and spending outlined in chapter 5 described plans to support the capital programme through prudential borrowing. We have made full revenue provision for these borrowing costs. We anticipate that some of this borrowing will be repaid from future developer contributions. This will reduce both interest and revenue provision costs in future years.

Debt portfolio

We are also required to report on our debt portfolio, both in terms of interest rate exposure and debt maturity. Further details can be found in the Treasury Management Strategy.

Over half of the Council's debt consists of fixed-rate loans with a maturity of over ten years. This gives stability to future interest costs. It also enables us to lock in better interest-rate deals when they are available.

Our overall level of debt is lower than that of other county councils of a comparable size to Cambridgeshire.

Treasury management

The treasury management function is managed in accordance with the relevant professional codes. The Council's overall Treasury Management Strategy outlines our approach to treasury management and investment, and is approved by Council. Likewise, key indicators are refreshed and approved each year as part of the budget setting process. The full strategy, and treasury and prudential indicators, can be found in Section 8 of the Plan.

A summary of the proposed borrowing activity for 2014-15 is shown in Table 6.4.

Table 6.4: Borrowing activity

	Estimated Debt 1 April 2014 £m	Net Movement £m	Estimated Debt 31 March 2015 £m	Interest 2014-15 £m
Long term:				
Fixed	387.1	52.7	439.8	17.2
Variable	-	-	-	-
Short-term	-	-	-	-
Total	**387.1**	**52.7**	**439.8**	**17.2**

We follow a very prudent approach when lending cash surpluses and have reviewed our strategy in line with revisions to the Codes of Practice following the exposure of some local authorities to the Icelandic banks and other institutions which were in financial difficulty. We continue to keep our treasury management arrangements under regular review in light of the changing position in the financial markets. A summary of the proposed investment strategy for 2014-15 is as follows:

- Cash is only invested, in accordance with the relevant code of practice, when not required to repay loans or finance expenditure.
- The security of our investments is paramount. We have a low level of cash investments compared with other local authorities. Given this, a restricted list of lenders and a limited range of instruments provide sufficient diversification against risk while giving us an opportunity to earn a market rate of interest. Further details can be in the Treasury Management Strategy.

Debt repayment

The Council is required to make a provision for the repayment of debt following guidance issued by the Secretary of State. From 2011-12 onwards, we only make a provision to repay debt on assets that are complete. Under the guidance, charges will be spread over the estimated life of the asset in equal instalments. For assets financed by borrowing completed before 2011-12, we make a provision for debt repayment of 4% of the Capital Financing Requirement as defined by Government regulations.

Balance sheet forecasts

Taking into account the revenue and capital plans set out in this document, together with our approach to creditor and debtor management, and borrowing set out in the rest of this chapter, the forecast balance sheet at year-end for the next five years is as follows:

Table 6.5: Forecast balance sheets 2014-15 to 2018-19

	31 March 2014 £m	31 March 2015 £m	31 March 2016 £m	31 March 2017 £m	31 March 2018 £m	31 March 2019 £m
Long Term Assets	1,823.0	1,925.0	2,063.4	2,113.7	2,152.8	2,137.1
Current Assets	108.3	106.3	104.4	102.5	100.6	98.8
Current Liabilities	-151.0	-151.1	-153.5	-152.0	-154.8	-153.4
Long Term Liabilities	-939.3	-961.1	-1,019.3	-1,032.8	-1,043.6	-1,014.7
Net Assets	**841.0**	**919.1**	**995.0**	**1,031.4**	**1,055.0**	**1,067.8**
Usable reserves	66.9	69.4	72.4	72.7	72.6	72.6
Unusable reserves	774.1	849.7	922.6	958.7	982.4	995.2
Total Reserves	**841.0**	**919.1**	**995.0**	**1,031.4**	**1,055.0**	**1,067.8**

7: Risk, sensitivity and reserves

Need for reserves

We need reserves to protect and enhance our financial viability. In particular, they are necessary to:

- maintain a degree of in-year financial flexibility
- enable us to deal with unforeseen circumstances and incidents
- set aside monies to fund major developments in future years
- enable us to invest to transform and improve service effectiveness and efficiency
- set aside sums for known and predicted liabilities
- provide operational contingency at service level
- provide operational contingency at school level

Reserve types

The Council maintains four types of reserve:

- **General reserve** – a working balance to cushion the impact of uneven cash flows. The reserve also acts as a contingency that we can use in-year if there are unexpected emergencies, unforeseen spending or uncertain developments and pressures where the exact timing and value is not yet known and/or in the Council's control. The reserve also provides coverage for grant and income risk.
- **Office reserves** – reserves we have set aside to meet known commitments within Directorates and to provide some degree of contingency for in-year financial risks.
- **Earmarked reserves** – reserves we have set aside to meet known or predicted liabilities e.g. insurance claims, or that we set aside for specific and designated purposes.
- **Schools reserves** – we encourage schools to hold general contingency reserves within advisory limits.

Level of reserves

We need to consider the general economic conditions, the certainty of these conditions, and the probability and financial impact of service and business risks specific to the Council in order to calculate the level of reserves we need to hold.

There are risks associated with price and demand fluctuations during the planning period. There is also continued, albeit reducing, uncertainty about the financial impact of major developments currently in progress.

At the operational level, we have put effort into reducing risk by providing a corporately held fund for transformation initiatives, and more robust savings plans to generate the required level of cash-releasing efficiencies and other savings.

Table 7.1: Estimated level of reserves by type 2014-15 to 2018-19

Balance as at:	31 March 2014 £m	31 March 2015 £m	31 March 2016 £m	31 March 2017 £m	31 March 2018 £m	31 March 2019 £m
General reserve	12.1	15.1	14.9	14.7	14.6	14.5
Office reserves	2.3	2.3	2.3	2.3	2.3	2.3
Earmarked reserves	22.1	20.8	22.2	24.0	26.4	23.9
Schools reserves	14.7	14.2	14.2	14.2	14.2	14.2
Total	**51.2**	**52.4**	**53.6**	**55.2**	**57.5**	**54.9**
General reserve as % of gross non-school budget	2.5%	3.0%	3.0%	3.0%	3.0%	3.0%

Greater uncertainties in the Local Government funding environment, such as arise from the Business Rates Retention Scheme and localisation of Council Tax Benefit, increase the levels of financial risk for the Council. As a result of these developments we have reviewed the level of our **general reserve** and have set a target for the underlying balance of no less than 3% of gross non-school spending.

We consider this level to be sufficient based on the following factors:

- Central Government will meet most of the costs arising from major incidents; the residual risk to the Council is just £1m if a major incident occurred.
- We have identified all efficiency and other savings required to produce a balanced budget and have included these in the budgets.

Adequacy of the general reserve

We have paid specific attention to current economic uncertainties and the cost consequences of potential Government legislation in order to determine the appropriate balance of this reserve. The table below sets out some of the known risks presenting themselves to the Council. There will inevitably be other, unidentified, risks and we have made some provision for these as well.

Table 7.2: Target general reserve balance by 2014-15

Risk	Source of risk	Value £m
Inflation	0.5% variation on Council inflation forecasts.	0.6
Demography	0.5% variation on Council demography forecasts.	0.6
Interest rate change	0.5% variation in the Bank of England Base Rate.	0.1
Council Tax	Inaccuracy in District taxbase forecasts to the value of 10% Council Tax Benefit Localisation grant shortfall.	1.3
Business Rates	Inaccuracy in District taxbase forecasts of County share of Business Rates to the value which triggers the Safety Net.	2.4
Unconfirmed specific grant allocations	Value of as yet unannounced specific grants different to budgeted figures.	1.3
Academy conversions higher than expected	Impact on Education Services Grant from increase in academy conversions.	0.2
Deliverability of savings against forecast timescales	Savings to deliver Business Plan not achieved.	3.8
Additional responsibilities	Potential additional responsibilities under new Public Health guidelines.	0.5
Non-compliance with regulatory standards	E.g., Information Commissioner fines.	0.5
Major contract risk	E.g., contractor viability, mis-specification, non-delivery.	1.6
Unidentified risks	n/a	2.1
Balance		**15.0**