Cambridgeshire County Council

Budget Strategy 2013-2018

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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 2013-14 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 2013-14. They also suggest likely budget figures for 2014-15 and for the three years after this.

We have an integrated approach to setting our objectives 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 2012, 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 2012 and the Autumn Statement in December 2012.

The Government remains determined to tackle the UK's structural deficit by both cutting spending (79% of the proposed reduction) and also increasing taxes (21%). These challenges are ever more pressing, with bleak predictions for future national economic growth and increasing uncertainty about the international economic situation.

At the local level, the economic situation increases pressure on demand led services such as social care. This means that, as a Council, we have an even greater responsibility to stimulate economic growth through investment and support for business.

Our vision and priorities take account of this local, national and international economic picture. But we are in a period of significant national and international uncertainty and a further Spending Review (SR) from Central Government later this year will only cover 2015-16, the last year of the current Parliament. We have focused on finding the savings necessary to balance our budget, while seeking to minimise the impact on our service provision and making selected investments in economic growth.

We take decisions on how we allocate our resources bearing in mind the impact of inflation, the changes in demand for our services, the challenges of public sector cuts and the continuing depressed economic climate. We have paid particular attention to understanding and minimising the impact of proposed savings on our most vulnerable residents. Where possible, we have tried to ensure that we align our plans with those of our partners.

Financial position

Central Government funding

Following the four year Spending Review in the autumn of 2010 and subsequent Autumn Statements by the Chancellor, the Government's provisional financial settlements to local authorities for 2013-14 and 2014-15 were announced in December 2012.

The SR stated that funding will be reduced, in real terms, by an average of 7.25% each year over the four year period. Schools, Fire and Rescue, and Police services are excluded from these cuts. The reductions were front loaded, which meant that the brunt of cuts fell in the earlier years (12% in 2011-12 and 7% in 2012-13). At a national level, we expected reductions in the later two years to be below this average level. For 2013-14 and 2014-15, the final two years covered by the SR, based on information currently available the effective funding reductions are 6% and 10% respectively (prior to adjustments for additional grants rolled into/removed from the total). The most recent announcements placed an additional burden on Local Government with a further reduction in the order of 2% for 2014-15.

Details of funding for local authorities after the current SR period are not yet available. Nevertheless, there is a clear indication from the general economic position and statement from senior ministers that similar funding reductions are to be expected for a number of years.

Localisation of Business Rates and Council Tax Benefit

Following the Local Government Resource Review the Government has made two significant changes which affect local authority funding: the Business Rates Retention Scheme and localisation of Council Tax Benefit.

Under the new Business Rates Retention Scheme to be introduced from April 2013, local areas will 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 from April 2013, billing authorities will 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.

Growth forecasts

The national economy moved back into recession for a short period in 2012 and there is a consensus that the move to the level of growth previously enjoyed by the UK is some way off. The local economy is, however, continuing to buck the national trends.

We have therefore revised our estimates of income, expenditure and demand in line with the information currently available, but we have been careful to maintain our flexibility to respond to changing circumstances.

Additional income

Our ability to raise income levels by increasing Council Tax and charges for services, and by selling assets such as property, remains limited. This is due to the current depressed state of the property market as well as our desire to limit the impact of charges or significantly increased taxes on the County's more vulnerable residents. 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. Further, the technical changes required by the Government's scheme to localise Council Tax Benefit will have an impact on collection rates.

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 have put in place a programme of service transformation and managed reduction to meet the challenge of falling levels of funding and the economic constraints on our ability to raise additional income. Unfortunately, we have been unable to avoid some service cuts if we are to balance our budgets over the five year planning period.

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 achieve 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.

During formulation of the draft budget there were briefing sessions with the chairs of scrutiny. This was subsequently followed up with full scrutiny of the draft budget before approval by 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 2013-14 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, reviewing adults' and children's services, and identifying key areas of demographic pressure.
- **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, such as repaying any borrowing or interest accumulated. We can contain this 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** – we have been preparing for the possible impacts of future 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 Central Government grants, other public agencies, Council Tax receipts and 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 2013-14 to 2017-18

	2013-14 £000	2014-15 £000	2015-16 £000	2016-17 £000	2017-18 £000
Business Rate Retention funding	144,192	130,034	116,856	106,925	96,707
Council Tax	225,694	234,476	242,710	251,162	259,690
Specific grants	42,217	42,106	43,794	41,602	40,579
Specific grants to schools	8,606	7,222	7,222	7,222	7,222
Dedicated Schools Grant (DSG)	241,627	241,627	241,627	241,627	241,627
NHS funding	8,318	8,715	8,715	8,715	8,715
External income	68,027	70,014	71,462	72,391	73,346
Total budget	**738,681**	**734,194**	**732,386**	**729,644**	**727,886**
Grants to schools (1)	247,831	246,947	246,947	246,947	246,947
Total budget excluding grants to schools	**490,850**	**487,247**	**485,439**	**482,697**	**480,939**

(1) The Dedicated Schools Grant (DSG) and Specific 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 grants to Schools".

The budgetary context for 2013–14

Local Government Finance Settlement

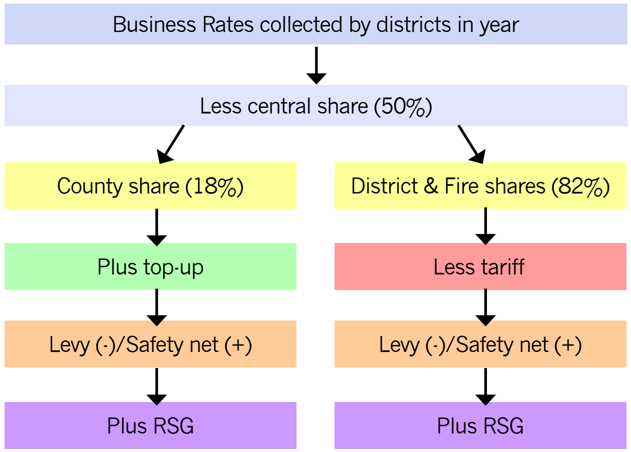
The Spending Review (SR) covers the period 2011–12 to 2014–15. The first two years of this period were covered by the Local Government Finance Settlement announced by the Government in December 2010. Following the Local Government Resource Review, which has resulted in changes to the distribution 'formula' for the Formula Grant, the Local Government Finance Settlement announced in December 2012 covers the remaining two years of the SR period: 2013–14 and 2014–15.

Business Rates Retention Scheme

The Local Government Resource Review has developed the Business Rates Retention Scheme as a replacement for 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 new scheme is to allow local authorities to retain part of the future growth in their business rates.

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

Figure 2.1: Business Rates Retention Scheme



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

Each authority then pays or receives a tariff or top-up, calculated in Year 1 as the difference between the business rates baseline and funding baseline. The business rates baseline is an authority's share of the Government's business rates forecast for 2013-14. The funding baseline is an authority's fair share of the local share of business rates as determined by Government via the 'Four Block Model' previously used to allocate Formula Grant. In future years the tariff or top-up will be uprated by the previous September's RPI inflation figure. The top-up/tariff system is intended to be self-funding.

An authority may then, potentially, be subject to a levy or safety net payment or receipt. The levy or safety net will operate on a 'proportional' basis. A 1% increase in business rates will be limited to a 1% increase in retained income. The safety net will then support local authorities whose income drops by more than 7.5% below their baseline funding.

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

There is, for the first time, a specific need for billing authorities to accurately forecast future business rates. The Cambridgeshire billing authorities (City and District Councils) have committed resources to this task but are hampered by the number of appeals on properties on their ratings list. There is, at the current time, a significant backlog at the Valuation Office which presents a significant risk to forecasts.

Four Block Model

Formula Grant was calculated according to the 'Four Block Model'. Although the Business Rates Retention Scheme replaces Formula Grant as the method by which Government allocates its main grant to authorities, the allocations determined by the Four Block Model are effectively built into the scheme from year one.

The model uses four 'blocks' of calculations. The first three blocks relate to population and council type (Central Allocation), local ability to raise Council Tax (Relative Resource), and population characteristics and need (Relative Need).

Specific grants are then brought in using 'tailored distribution'. The three blocks plus the tailored distribution are then subject to a fourth block – the damping mechanism. This is where Ministers decide for all authorities a minimum grant increase from the previous year – a 'floor'. Authorities with an increase above this floor have their grant reduced to pay for the guaranteed minimum increase in other authorities. The result is that, across the whole settlement, the adjustment is neutral.

The level of the floor for each council depends not only on the type of council (unitary, county etc), but also on the council's reliance on the Formula Grant as a source of funding. Those that rely most heavily on the Formula Grant are subject to the highest floor and therefore the smallest reduction, and vice versa.

Implications of the Business Rates Retention System

As has been set out above, despite moving to a new funding framework the new model locks in elements of the previous system which is a concern. Cambridgeshire County Council has long been concerned about the use of the Four Block Model. We believe that it isn't fit for purpose, particularly in reflecting accurately the costs and benefits of growth as well as the relative efficiency of local authorities.

At the beginning of the current SR period Cambridgeshire started from a relatively low funding base, having received a significantly lower than average increase in the Formula Grant for three years before the economic downturn. This is because the model had not kept pace with population increase in growth areas. It then penalised these authorities in high-growth areas by reducing funding to take into account anticipated Council Tax from new homes, without making equivalent adjustments elsewhere in the model.

Following the downturn of the economy, there are now new concerns. Cambridgeshire is in the highest band for damping (Band 4) because, in 2010–11, the Formula Grant made up only 33% of our combined income from Council Tax and Formula Grant. For comparison, this figure is as high as 83% for some authorities. This means that Cambridgeshire is subject to the largest reduction in funding.

Secondly, the weightings of the blocks in the model have been amended in favour of the Relative Needs block, benefiting those authorities that register well on the needs element. Cambridgeshire is not one of these authorities: we have pockets of high levels of deprivation which are hidden in the county's statistics due to greater prosperity elsewhere.

Elements of the model such as these – which are based entirely on subjective judgement – can effectively wipe out the distribution of funding that is indicated by evidence based formulae. This undermines the time and effort spent by both Central and Local Government investigating, researching and consulting on new formulae.

Cambridgeshire's settlement

There has been a radical overhaul of the Local Government finance framework, which makes a direct year on year comparison very difficult to present. There have been a number of specific grants which have been rolled into Formula Grant / Business Rates Retention alongside the localisation of Council Tax Benefit Support. The headline position for Cambridgeshire County Council is a 6.3% reduction in Government revenue funding (excluding grants to schools) in 2013-14.

Table 2.2: Comparison of Cambridgeshire's 2012–13 and 2013–14 overall Government funding

	2012-13 £000	2013-14 £000
2012-13 Formula Grant	107,436	
2012-13 NHS funding	6,038	
2012-13 Specific grants	47,746	
2012-13 Government Revenue Grants (excluding schools)	**161,220**	
2013-14 Business Rates Retention funding		144,192
2013-14 NHS funding		8,318
2013-14 Specific grants		42,217
2013-14 Government Revenue Grants (excluding schools)		**194,727**
Adjustment for new responsibilities in 2013-14		-22,795
Adjustment for Council Tax Benefit Localisation Grant received via Council Tax in 2012-13		-20,802
Adjusted 2013-14 Government Revenue Grants (excluding schools) to allow like for like comparison		**151,130**
Difference		**-10,090**
Percentage cut		-6.3%

Although no figures have been provided for the Business Rates Retention System from 2015–16 onwards, we have forecast a 10% decrease in our total funding from this source in 2015–16, an 8% decrease in 2016–17 and a 10% change in 2017–18. These reductions are based on applying the following parameters to our modelling of the Business Rates Retention System from 2015-16:

- 8% per annum reduction to the Local Government Spending Control Totals.
- 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 December 2012 Economic and Fiscal Overview forecasts (2.7% in 2015-16, 3.1% in 2016-17 and 3.4% in 2017-18).

Council Tax

Cambridgeshire County Council starts the Business Planning Process with a Council Tax rate below the average for all counties (12th lowest out of 27 counties).

As part of the Emergency Budget in 2010, the Government announced they would provide local authorities with 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.

The Spending Review concluded that funding would only be available to support a freeze in 2011–12 but the Government would continue to offset the 2011–12 Council Tax income that councils had foregone for a subsequent three years, in order to protect 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. A further non-recurring freeze grant was announced for 2012–13 but as this did not offer any of the protections provided with the previous freeze, we chose to set a 2.95% Council Tax increase for 2012–13. This figure was below then inflation levels and was close to the Treasury's long-term expected inflation rate. Our decision last year to increase Council Tax will avoid the need for sharp increases in precepts.

The Government announced a third Council Tax Freeze Grant for 2013-14. The value of the grant equates to a 1% increase in Council Tax and would be paid in 2013-14 and 2014-15. The Council carefully considered the Government's offer and decided to reject it. The value of the grant offered was much less than the previous two freeze grants and, therefore, the consequent shortfall compared to the Council Tax increases built into last year's Integrated Plan would have added unsustainably to the already significant budgetary pressure on the Council.

Other sources of funding

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

Specific grants

In 2013-14 a number of specific grant streams are being merged into the Business Rates Retention Scheme. The Council will also receive a number of new specific grants to help fund additional responsibilities that have been transferred to local authorities by Government. The specific grants are no longer ring fenced (apart from the new Public Health Grant):

Table 2.3: Specific grants for Cambridgeshire 2013-14 to 2014-15

	2013-14 £000	2014-15 £000
Public Health Grant	21,231	22,299
New Homes Bonus	2,403	3,169
Education Services Grant	6,766	5,185
Social Fund	1,043	1,027
Other	10,774	10,426
Total specific grants	**42,217**	**42,106**

Charges and income

We have carefully considered all income streams, taking into account inflation levels and acknowledging the increased pressure on the finances of many service users.

Partnership funding

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 NHS funding for Adult Social Care, routed via the Primary Care Trust (PCT).

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 2013-14 is yet to be confirmed although we expect it will be reduced from the amount received in 2012-13 as a result of schools converting to academies. The impact will include schools converting from 1st April 2013 as well as the full year effect of schools that converted during 2012-13. As an estimate, based on our knowledge of schools converting to academies, we have used a figure of £241.6m 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 cash limits 2012-13 to 2017-18

	Revised Budget 2012-13 (1) £000	Proposed % cash change 2012-13 to 2017-18
Children and Young People's Services (CYPS)	129,429	-13.2%
Adult Social Care (ASC)	195,289	-2.7%
Economy, Transport and Environment (ETE)	79,009	-3.3%
Corporate Services (CS)	17,477	-16.1%
LGSS	30,554	-20.6%
Public Health	13,928	5.9%
Financing	33,419	42.9%
Environment Agency (EA) Levy	384	-4.2%
Total budget	**499,489**	**-3.7%**

(1) 2012-13 budget has been revised so that it is comparable to the 2013-14 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 cash limits 2013-14 to 2017-18

	2013-14 £000	2014-15 £000	2015-16 £000	2016-17 £000	2017-18 £000
CYPS	125,583	119,765	116,131	113,093	112,352
ASC	195,512	188,835	187,667	187,017	190,061
ETE	75,623	77,489	76,971	76,319	76,432
CS	17,070	16,538	15,764	14,925	14,661
LGSS	28,342	26,700	25,927	24,863	24,258
Public Health	13,678	14,747	14,747	14,747	14,747
Financing (1)	35,204	39,818	44,877	48,377	47,758
EA Levy (2)	368	368	368	368	368
Net movement on reserves (3)	-530	2,987	2,987	2,988	302
Total Budget (4)	**490,850**	**487,247**	**485,439**	**482,697**	**480,939**
% Change in budget	4.0%	-0.7%	-0.4%	-0.6%	-0.4%

(1) Financing 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 8), as well as contributions to or from the Invest to Transform Fund.

(4) Expenditure by schools has not been included in this table or in table 3.1.

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 Retail Price Index. Inflation faced by the Council has often been 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 2013-14 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 0.5% above Treasury 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:

	2013-14	2014-15	2015-16	2016-17	2017-18
Inflation cost increase (%)	1.5%	2.1%	2.5%	2.6%	2.6%

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 catch-up from previous years where demography has been underestimated. Expected cost increases from demography are shown below:

	2013-14	2014-15	2015-16	2016-17	2017-18
Demographic cost increase (£000)	13,091	11,477	12,182	11,796	11,484
Demographic cost increase (%)	2.8%	2.5%	2.7%	2.7%	2.7%

These figures compare with an underlying population growth of around 2.1% per year (a total increase of 7.5% between 2013 and 2018). 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.

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

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 gap.

The following table shows the total amount of savings necessary for each of the next five years, split according to the different reasons we need to make these savings:

Table 3.3: Reason for savings 2013-14 to 2017-18

	2013-14 £000	2014-15 £000	2015-16 £000	2016-17 £000	2017-18 £000	Total £000
Loss (+)/Gain (-) of funding (1)	-32,859	4,487	1,808	2,742	1,758	-22,064
Inflation	6,910	9,512	11,304	11,214	11,410	50,350
Demand	13,091	11,477	12,182	11,796	11,484	60,030
Capital	2,952	3,614	5,059	3,500	-619	14,506
Reserves	6,485	3,517	0	1	-2,686	7,317
Other (2)	35,413	1,738	-564	-64	-174	36,349
Total	**31,992**	**34,345**	**29,789**	**29,189**	**21,173**	**146,488**
Cumulative	**31,992**	**98,329**	**194,455**	**319,770**	**466,258**	

(1) The increase in funding in 2013-14 includes grants for new responsibilities totalling £25.1m (£21.2m of which relates to Public Health) and an uplift due to the replacement of the estimated DSG grant figure for the prior year with the actual (£22.3m).

(2) This includes budgeted expenditure on new responsibilities totalling £20.7m (£16.8m of which relates to Public Health as the new grant includes services for The Drug and Alcohol Action Team (DAAT) previously undertaken by the Council), as well as pressures, investments and replacement of the estimated budgeted expenditure on schools for the prior year with the actual (£22.3m).

To achieve these £466m of savings over the next five years, services have developed proposals to meet their own savings targets.

Services have developed programmes to change the way we work so we can achieve further efficiencies as part of our ongoing commitment to improving value for money. We have targeted these areas as well as areas that are not our highest priority to find savings wherever we can. But we have been unable to avoid some service cuts in order to balance our budget.

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.

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.

In particular, we have made specific provision for several major developments that are likely to have both revenue consequences and investment returns. These include:

- Northstowe
- Cambridge Science Park station
- Ely Crossing
- major road maintenance initiative
- superfast broadband
- better use of property assets
- residential care home

4. Council Tax precept

Table 4.1: Build-up of recommended Council Tax Requirement and derivation of Council Tax precept 2013-14

	2013-14 £000	% Rev. Base
Adjusted base budget	**729,319**	
Transfer of function	18,001	
Revised base budget	**747,320**	
Inflation	6,910	0.9%
Demography	13,091	1.8%
Pressures	-411	-0.1%
Investments	4,293	0.6%
Savings	-31,992	-4.3%
Change in reserve/one-off items	-530	-0.1%
Total budget	**738,681**	**98.8%**
Less funding		
Specific grants (including to schools)	50,823	6.8%
DSG	241,627	32.3%
NHS funding	8,318	1.1%
External income	68,027	9.1%
Business Rates Retention funding	144,192	19.3%
Surplus/deficit on collection fund	-706	-0.1%
Council Tax requirement	**226,400**	**30.3%**
District taxbase		**205,805**
Band D		**1,100.07**

The current Council Tax Requirement (and all other factors) gives rise to a 'Band D' Council Tax of £1,100.07. This is an increase of 1.99% on the actual 2012-13 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 4.2. For example, the Band A tax is 6/9 of the Band D tax.

Table 4.2: Ratios and amounts of Council Tax for properties in different bands

Band	Ratio	Amount £	Increase on 2012-13 £
A	6/9	733.38	14.28
B	7/9	855.61	16.66
C	8/9	977.84	19.04
D	**9/9**	**1,100.07**	**21.42**
E	11/9	1,344.53	26.18
F	13/9	1,588.99	30.94
G	15/9	1,833.45	35.70
H	18/9	2,200.14	42.84

5. Invest to Transform

Background

The Invest to Transform Fund (ITT) is used to support projects that deliver cash-releasing efficiencies year on year. It helps us to meet our service, performance and financial requirements.

Objectives of the fund

The fund is designed to provide seed funding for both strategic and opportunistic projects that are in line with one or more of the following objectives:

- To release cash through more efficient and effective methods of service delivery.
- To make quantifiable improvements in quality and performance.
- To move already approved projects forward so that we can achieve the financial and non-financial benefits earlier.

Bids are categorised based on the nature of their proposal; we give consideration to projects that comply with one or more of the following criteria:

- **Invest to save** – proposals that require an investment to achieve a saving that will release cash in future years, in line with Council and service priorities agreed through the BPP.
- **Invest to improve** – proposals that achieve a quantifiable increase in performance (whether or not they generate savings), in line with Council and service priorities agreed through the BPP.
- **Invest to advance** – proposals that have a known and future income stream that could be started earlier with 'bridging finance', in line with Council and service priorities agreed through the BPP.
- **Invest to innovate** – smaller-scale and/or ad-hoc proposals from high-performing services that bring one or more of the benefits above but that, by their nature, are not part of the main BPP.

We evaluate bids in a structured way and attach particular importance to

- the return on investment
- the speed of payback
- the degree of performance improvement

Managing the fund

We operate the fund as a revolving credit account. The value of new approvals in any single year does not exceed the balance on the reserve plus forecast repayments. It's important that there is sufficient in the reserve so that we can

- approve the majority of bids conforming to the evaluation criteria in the year of submission
- support the likely phasing of loan drawdowns and paybacks over a five year cycle

To ensure the above, we propose that we

- review the overall level of the fund annually as part of the BPP
- normally retain a contingency of £1 million in the fund at year end (subject to the overall reserves review)

Resources available

Service funds

To allow flexibility at service level to deal with smaller scale bids with prompt paybacks (i.e. up to £100,000 in value with payback starting in the year after investment), shares of the fund are held at service level and issued at the discretion of the relevant Head of Finance and Performance. Taking into account the turnover of each service (excluding financing charges), the shares of the fund held and headroom for new bids are:

Table 5.1: Invest to Transform Fund – service funds

	CYPS £000	ETE £000	ASC £000	CS £000
Service allocation	200	125	275	75
Forecast capacity 2013-14	200	125	275	52

Corporate fund

Bids of more than £100,000 and/or with no savings payback are submitted to the Chief Finance Officer for consideration. Bids of more than £150,000 and/or when the payback proposed is greater than three years are referred to the Cabinet by the Chief Finance Officer if deemed appropriate.

The table below shows a summary of the ITT schedule. Currently, no activity is planned from 2015-16 onwards.

Table 5.2: Invest to Transform Fund – corporate fund forecast year end balances

(Note: the figures in this table include all approved schemes as at December 2012. No assumption is made on levels of loans to be approved in future years.)

	2013-14 £000	2014-15 £000	2015-16 £000	2016-17 £000	2017-18 £000
Opening balance	2,531	3,603	4,876	4,876	4,876
Loans out	-	-	-	-	-
Repayments made	1,072	1,273	-	-	-
Closing balance	**3,603**	**4,876**	**4,876**	**4,876**	**4,876**

Proposals

We have received no new proposals from the services with start dates in 2013-14 to draw down from this corporate fund. However, in-year bids may be received and, subject to approval, could be charged against the available ITT Fund.

6. Capital funding and spending

Introduction

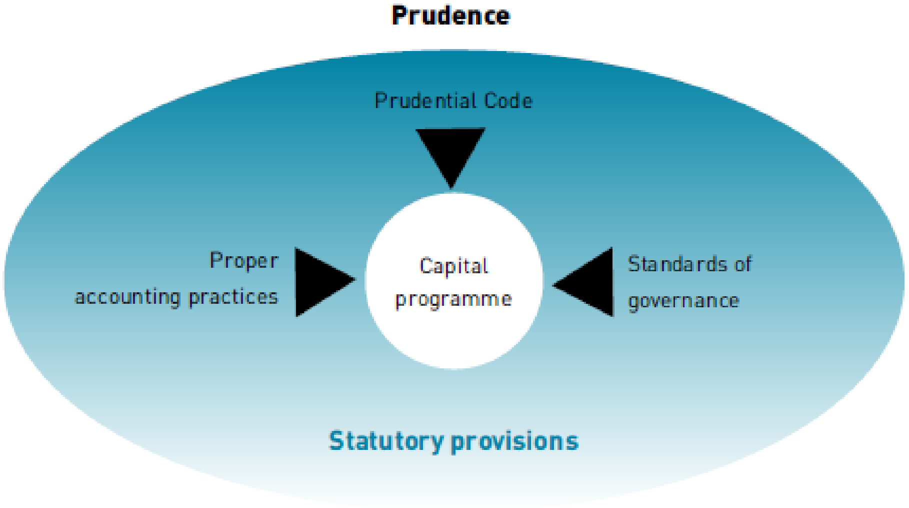
This section presents the Council's capital strategy. It represents an essential element within the Council's overall BPP. It relates to the Council's overriding vision and aims and to the planning and generation of capital financing resources in the medium term in order to optimise the Council's ability to achieve its priorities and objectives.

The Council's vision is *"Making Cambridgeshire a great place to call home"*. The Council is achieving this vision through the delivery of its Business Plan. To assist in delivering this plan the Council needs access to long term assets (often referred to as 'fixed assets'), which are defined as those that have an economic life of more than one year.

The strategy sets out the Council's approach to capital investment over the next five years and provides a framework through which the Council's resources, and those matched with key partners, are allocated to help meet the strategic priorities. It is concerned with, and sets a framework for, all aspects of the Council's capital expenditure: its planning; prioritisation; management; and funding. It is closely related to, and informed by, the Cambridgeshire Public Sector Asset Management Strategy and is an integral aspect of the Council's BPP.

Capital finance in Local Government is governed and operated under the Prudential Framework in England, Wales and Scotland. The Prudential Framework is an umbrella term for a number of statutory provisions and professional requirements that allow authorities largely to determine their own plans for capital investment, subject to an authority following due process in agreeing these plans and being able to provide assurance that they are prudent and affordable.

The framework is based on the following foundations:



Overview

Capital expenditure involves the acquisition, creation or enhancement of fixed assets with a long term value to the Council. Fixed assets shape the way services are delivered in the long term and create financial commitments for the future, including capital financing and ongoing revenue costs. The following table identifies the classification of fixed assets:

Table 6.1: Classification of fixed assets

Category	Type
Intangible fixed assets	• ICT software
Tangible fixed assets	• Land & buildings • Vehicles, plant & equipment • Infrastructure (roads & highways) • Community assets (including county parks and historic buildings) • Heritage assets
Non operational	• Investment properties • Assets under construction • Surplus assets held for disposal

The Council applies a de-minimus limit of £20k for items to be charged as capital expenditure. Items below this limit are charged to revenue in the year that it is incurred.

Funding streams

The capital programme is financed by a combination of the following funding sources:

- **Central Government and external grants**

  Grant funding is one of the largest sources of financing for the capital programme, totalling £36.5m for the 2013-14 capital programme. The majority of grants are awarded by Central Government departments including the Department for Education (DfE) and the Department for Transport (DfT). In addition, the Council receives grants from various external bodies including lottery funded organisations. Grants can be specific to a scheme or have conditions attached, including time and criteria restrictions.

- **Capital receipts**

  The sale of capital assets generates capital receipts, which are allocated in full to assist in financing the overall capital programme.

- **Section 106 (S106) and external contributions**

  S106 contributions are contributions from developers towards the provision of public assets or facilities. Capital schemes undertaken in new development areas are either completely or mostly funded by the S106 agreement negotiated with developers.

  The Council is committed to working with partners in the development of the county and its services. Various mechanisms provide opportunities to enhance the Council's investment potential with support and contributions from other third party and local strategic partners.

- **Private finance initiative (PFI) / Public private partnerships (PPP)**

  The Council makes use of additional government support through PFI and PPP. The Council has dedicated resource to manage schemes that are funded via this source. Current schemes funded this way are Waste, Street Lighting and Schools.

- **Prudential borrowing**

  The Council can determine the level of its borrowing for capital financing purposes, based upon its own views regarding the affordability, prudence and sustainability of that borrowing. The Council must further assess the level of its borrowing as part of the BPP, in accordance with the CIPFA Prudential Code for Capital Finance. The borrowing levels for the capital programme are therefore constrained by this assessment and by the availability of the revenue budget to meet the cost of this borrowing, considered in the context of the overall revenue budget considerations. Further information is contained within the Treasury Management Strategy Statement (Section 5 of the Business Plan).

External environment

The capital programme approved for 2011-12 until 2016-17 used capital funding from both Central Government grants and locally raised funding in the form of both capital receipts from the sale of assets and developer contributions.

The continued downturn in the housing and property market has meant development has remained slow and land values have fallen. This has in turn affected the Council's ability to fund capital investment through the sale of surplus land and buildings, or contributions from developers.

Following Government cuts to grants during the SR relating to Education and Transport in recent years, the 2013-14 Finance Settlement continues with these lower levels of funding being made available. Information currently available indicates the grant reductions are to plateau from 2014-15.

In addition to the reductions, we are now faced with further uncertainty; the detailed 2013-14 and 2014-15 grant announcements for Basic Need and maintenance for schools had not been received at the date of publication of this report. Any changes to the resources included within the Business Plan will be notified to Members of the Council at the meeting or when received if this is at a later date.

The Council therefore faces a challenging environment when deciding on capital investments that will assist in meeting the Council's vision and priorities and stimulating the local and national economy.

Developing the capital programme

It is in the very nature of capital planning that proposals and funding put forward in advance will undergo refinement and change. This is particularly true when considering operational requirements and gauging the true revenue consequences and benefits of each scheme.

Two years ago all services carried out a fundamental review of all capital schemes, cutting the programme to reflect reduced funding from Central Government, and re-prioritising in light of the economic downturn. We examined scheme budgets, funding estimates, timing and therefore the viability of all schemes in the previous year's Integrated Plan and included only those schemes we deemed essential in the programme.

In 2012-13 we retained this reviewed capital programme, but there were a number of additional investment proposals in line with our revised vision and priorities. These included developing Cambridge Science Park Station and Ely Crossing, investing in major road maintenance and rolling out superfast broadband. There was also capital investment in CYPS to meet the increased demographic pressure for new schools and children's centres.

For 2013-14 the capital programme has been rolled forward from 2012-13 and reviewed and updated accordingly. Additional investment proposals this year, which are in line with our vision and priorities, include the building of a residential care home, further investment to develop the Cambridge Science Park Station and to meet the increased demographic pressure for new schools and children's centres.

Current prudential borrowing includes £64.7m to 31 March 2013 to meet contract payments on the Guided Busway. This is necessary to meet the delayed receipt of S106 developer contributions, to fund contract payments greater than the target price, and to carry out additional work needed after the original contractor handed over the Busway. We anticipate that £19.3m from future developer contributions will be available to partly repay this debt, and the balance repaid by the contractor with interest, when the risk share process has been completed.

Managing the capital programme

The Council reviews its capital requirements and determines its capital programme as part of the annual BPP. Resource constraints mean that the Council continually needs to prioritise expenditure in the light of its aims and priorities and consider alternative solutions. To ensure that available resources are allocated optimally, capital programme planning is determined in parallel with the revenue budget planning.

Monthly reporting of the capital programme is incorporated into the Integrated Resources and Performance Report, which is submitted to both the Strategic Management Team (SMT) and Cabinet meetings. This report identifies changes to the capital programme to reflect

- new/updated resource allocations
- slippage in programme delivery
- reduction in programme costs
- virements between schemes to maximise delivery

In order to adhere to the financial regulations, any new capital scheme costing more than £150,000 that is identified outside of the BPP shall be appraised as to its financial, human resources, property and economic consequences before detailed estimate provision is made. The appraisal is to be approved by the relevant Strategic Finance Manager. Any new scheme identified as part of the BPP is approved as part of the overall Business Plan approval process.

Table 6.2: Funding the capital programme 2013-14 to 2017-18

Capital funding

Table 6.2 shows a summary of available funding for the capital programme.

	2013-14 £m	2014-15 £m	2015-16 £m	2016-17 £m	2017-18 £m	Later years £m
Grants (1)	36.5	36.2	33.5	33.5	33.5	17.7
Contributions (2)	33.3	53.1	55.5	36.6	31.7	33.6
Prudential borrowing (3)	63.6	84.7	87.8	8.0	18.1	-13.5
General capital receipts (4)	4.7	3.9	3.4	27.4	12.7	6.3
Total funding	**138.1**	**177.9**	**180.2**	**105.5**	**96.0**	**44.1**
Refund expected from Developer on Guided Bus	-	-47.6	-	-	-	-
Total funding	**138.1**	**130.3**	**180.2**	**105.5**	**96.0**	**44.1**

(1) If some of this funding from Central Government is not forthcoming, the programmes will be reduced and re-phased to accommodate the reduced income.

(2) Future years' budgets supported by developer contributions are based on current best estimates. Where this funding is not forthcoming, the related schemes will be reduced and re-phased as appropriate.

(3) The Council's assessment of its level of prudential borrowing is included in part 7.

(4) Capital receipts are the proceeds of asset sales, net of sales expenses.

Capital programme spending

The capital programme has been considered by the following services: Children and Young People's Services, Economy, Transport and Environment Services, Adult Social Care, Corporate Services and LGSS (Corporate schemes). The programme is composed of individual schemes, each of which has a robust business case. Officers and Members have evaluated these proposals, providing sufficient challenge where appropriate, and prioritised them within each service, and across services, ensuring they are aligned to assist the Council achieve its priorities.

This includes schemes that were committed in previous years but are scheduled to be completed from 2013–14 onwards. Section 4 later in the Plan sets out details of the 2013–14 to 2017–18 capital schemes; the following tables provide a summary. Table 6.3 is a summary by service, whereas Table 6.4 is a summary of schemes according to scheme start date.

Table 6.3: Services capital programme for 2013-14 to 2017-18

Scheme	Total Cost £m	Prev. Years £m	2013-14 £m	2014-15 £m	2015-16 £m	2016-17 £m	2017-18 £m	Later years £m
CYPS	**512.9**	140.7	69.3	67.9	83.3	48.7	71.9	31.1
ETE	**426.4**	190.8	51.4	47.6	79.6	40.9	15.9	0.2
ASC	**12.5**	0.4	6.8	5.0	0.3	-	-	-
CS	**14.4**	0.4	0.5	0.5	3.2	6.6	3.2	-
LGSS	**81.1**	20.8	10.1	9.3	13.8	9.3	5.0	12.8
Total	**1,047.3**	**353.1**	**138.1**	**130.3**	**180.2**	**105.5**	**96.0**	**44.1**

Table 6.4: Capital programme for 2013-14 to 2017-18

	2013-14 £m	2014-15 £m	2015-16 £m	2016-17 £m	2017-18 £m	Later years £m
Ongoing	23.8	23.3	28.6	24.8	20.2	6.7
Commitments	75.6	40.5	55.3	26.1	0.6	1.8
New Starts						
2013-14	37.0	21.7	7.2	8.6	7.0	1.5
2014-15	1.5	42.4	28.7	1.5	0.2	-
2015-16	0.2	2.3	59.8	26.8	2.1	-
2016-17	-	0.1	0.5	15.1	7.3	7.9
2017-18	-	-	0.1	2.6	58.6	26.2
Total Spend	**138.1**	**130.3**	**180.2**	**105.5**	**96.0**	**44.1**

7. 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 7.1: Debtor targets 2013–14 to 2017–18

Debtor targets at 31 March	2013 %	2014 %	2015 %	2016 %	2017 %	2018 %
Total debt as % of turnover	10.50%	10.25%	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 % debt overdue by over 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 7.2: Creditor targets 2013–14 to 2017–18

Creditor targets at 31 March	2013	2014	2015	2016	2017	2018
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	97.5%	97.5%	97.5%	97.5%	97.5%	97.5%

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 7.3). There are two main indicators that we must approve:

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

Table 7.3: Prudential indicators

	2013-14 £m	2014-15 £m	2015-16 £m	2016-17 £m	2017-18 £m
Financing costs					
Net Revenue Expenditure	369.8	364.5	359.6	358.1	356.4
Financing costs	35.3	38.9	44.0	47.5	46.9
% of Net Revenue Expenditure	9.6%	10.7%	12.2%	13.3%	13.2%
Debt limits					
Authorised limits for debt	562.6	627.5	692.3	674.4	666.6
Operational boundary for debt	532.6	597.5	662.3	644.4	636.6
Forecast average debt for CCC	426.6	462.1	481.2	500.1	500.1

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% for across the full range of the debt portfolio. We recommend that a ceiling is placed on debt charges at 13.50% of net revenue expenditure.

- Forecast average debt is within the normal limit (Operational Boundary) at £106m below this level for 2013-14, and well within the maximum upper limit (Authorised Limit).

- The capital funding and spending outlined in chapter 6 outlined 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 Statement.

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 Statement 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 5 of the Plan.

A summary of the proposed borrowing activity for 2013–14 is shown in Table 7.4.

Table 7.4: Borrowing activity

	Estimated Debt 1 April 2013 £m	Net Movement £m	Estimated Debt 31 March 2014 £m	Interest 2013-14 £m
Long term:				
Fixed	391.1	71.0	462.1	17.6
Variable	-	-	-	-
Short-term	-	-	-	-
Total	**391.1**	**71.0**	**462.1**	**17.6**

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 2013–14 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 Statement.

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 section, the forecast balance sheet at year-end for the next five years is as follows:

Table 7.5: Forecast balance sheets 2013-14 to 2017-18

	31 March 2013 £m	31 March 2014 £m	31 March 2015 £m	31 March 2016 £m	31 March 2017 £m	31 March 2018 £m
Long Term Assets	1,876.3	1,973.7	2,037.3	2,182.3	2,242.9	2,292.6
Current Assets	120.1	118.4	116.7	115.1	113.5	112.0
Current Liabilities	-199.0	-209.7	-209.8	-214.1	-210.9	-215.5
Long Term Liabilites	-871.7	-948.3	-945.9	-976.6	-976.7	-972.7
Net Assets	**925.7**	**934.1**	**998.3**	**1,106.7**	**1,168.8**	**1,216.4**
Usable reserves	73.6	86.1	90.0	92.9	95.7	96.0
Unusable reserves	852.1	848.0	908.3	1,013.8	1,073.1	1,120.4
Total Reserves	**925.7**	**934.1**	**998.3**	**1,106.7**	**1,168.8**	**1,216.4**

8. 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 five 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.
- **Invest to Transform Fund** – a particular reserve that we have set aside to invest in projects that make future savings, facilitate service transformation and deliver measurable improvements in service performance (see chapter 5 for details of allocations).
- **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 8.1: Estimated level of reserves by type 2013-14 to 2017-18

Balance as at:	31 March 2013 £m	31 March 2014 £m	31 March 2015 £m	31 March 2016 £m	31 March 2017 £m	31 March 2018 £m
General reserve	7.6	7.2	10.1	13.1	16.1	16.4
Office reserves	5.8	5.8	5.8	5.8	5.8	5.8
Invest to Transform Fund	2.9	4.1	5.5	5.6	5.6	5.6
Earmarked reserves	24.2	24.1	24.1	24.1	24.1	24.1
Schools reserves	20.2	19.7	19.2	19.2	19.2	19.2
Total	**60.7**	**60.9**	**64.7**	**67.8**	**70.8**	**71.1**
General reserve as % of gross non-school budget	1.6%	1.5%	2.1%	2.7%	3.3%	3.4%

Greater uncertainties in the Local Government funding environment, such as arise from the Business Rates Retention System 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 plan to build up the level of this reserve to meet this target over the period of the Business Plan.

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 be other risks not included and we need to make some provision for these as well.

Table 8.2: Target general reserve balance by 2016–17

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	Variation in the Bank of England Base Rate	0.5
Council Tax	Inaccuracy in District taxbase forecasts to the value of 10% Council Tax Benefit Localisation grant shortfall.	1.4
Business Rates	Inaccuracy in District taxbase forecasts of County share of Business Rates to the value which triggers the Safety Net.	2.6
Unconfirmed specific grant allocations	Value of as yet unannounced specific grants different to budgeted figures.	0.4
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	3.2
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
Balance		**12.1**