

## Appendix A



**South  
Cambridgeshire  
District Council**



# **Medium Term Financial Strategy ~~2022-2027~~ 2023-2028**

**~~September 2021~~ December 2022**

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## Introduction

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

## Policy Context of the MTFS

3. The MTFS is the Council's overarching Financial Strategy and Policy document. The purpose of the MTFS is to give financial expression to the Council's plans over the medium term in the context of the Council's longer-term plans as set out in the approved Business Plan (approved by Council on ~~20 May 2024~~) **22 February 2022**.
4. The MTFS sets out the Council's funding plan, for achieving its goals and priorities, thus balancing available financing and spending ambitions. It highlights the financial projections for financing, spending (revenue and capital), and reserves. It also highlights the underlying financial strategy, the financial assumptions, and the inherent financial risks. Importantly, it endeavours to link decisions on resource allocation to decisions on policy priorities.
5. In addition, the Council has approved corporate policies which, in addition to the MTFS, act as a cornerstone of its Financial Management. These include:
  - Investment Strategy;
  - Corporate Asset Plan;
  - Value for Money Strategy;
  - Procurement Strategy;
  - Organisational Development Strategy;
  - Risk Management Strategy;
  - Digital Strategy.
6. Looking ahead, the Council's financial planning process will continue to develop. It will promote the best use of limited financial resources and facilitate the alignment of those resources to the Council's priorities. Base budgets will be analysed with increasing sophistication and spending that does not contribute to Council priorities will come under increasing levels of scrutiny.

## Linkage to the Business Plan

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

## Revenue Budget

### Revenue Budget Planning

10. The Council's financial planning for ~~2022/2023 to 2026/2027~~ **2023/2024 to 2027/2028**, as set out in this Strategy, is to contribute to the Council's overall vision and priorities by:
  - Securing stable and sustainable budgets within the financial resources available;
  - Ensuring that limited resources are focussed towards the Council's highest priorities;
  - Recognise risks and ensure an adequate level of financial protection against risk by maintaining a prudent level of financial reserves;
  - Securing an understanding of sources of potential finance;
  - Building financial capacity for fundamental change;
  - Being flexible to allow shifts in spending if circumstances change;
  - Ensuring that the Council is not overburdened with financial commitments.
11. The Council's MTFS is reviewed twice per year on a rolling basis and, through the revenue budget determination process, seeks to link decisions on resource allocation with decisions on policy priorities.

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

#### Revenue Budget Policy

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

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

#### Revenue Budget Monitoring

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

#### Value for Money

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

#### Financial Regulations

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

#### One-Off Savings, Fortuitous Income and Fixed Term Funding

25. Given that the Council, from time to time, achieves one-off revenue savings or receives fortuitous income these monies will ordinarily accrue to the general contingency and could be used to meet:
- any unavoidable one-off expenditure;
  - one-off expenditure consistent with Business Plan Priorities.

### Growth Prospects

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

### Investment Opportunities

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

### Reserves

30. The Cabinet, as part of the annual budgetary process, or at such other times where it is necessary, will identify one-off unavoidable expenditure and one-off expenditure for identified requirements. Such funding will be held in earmarked reserves until spent but will be subject to annual review by the Cabinet as part of the annual budget process to determine whether the monies still need to be held and that the balances held comply with professional guidance.
31. The General Fund Balance is based on a risk assessment and is an integral element of the MTFS in that the General Fund's purpose is Financial Resilience over the medium term.



32. Thus, the policy on reserves is to:

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

## Contingency Allocation

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

34. The contingency is to cover:

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





# Capital Budget

## Capital Strategy

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

## Capital Finance Policy

39. The Council has a number of methods of ensuring the most effective use of available capital finance. These include:
  - (i) The Council will each year consider the proposed Capital Programme having regard the CIPFA prudential indicators. Council will consider the extent of borrowing based on these indicators.
  - (ii) The Council will seek to maximise resources for capital investment from all potential sources.
  - (iii) Any savings made on capital schemes will potentially reduce the need for external borrowing.
  - (iv) A prudential financial framework will be maintained so that, once priorities have been determined, no capital scheme can be authorised (and no commitment made) until:
    - (a) capital finance is in place to cover the full capital costs; and
    - (b) it has been determined that the ongoing revenue cost consequences are affordable in the light of forward three year Revenue Budget forecasts and related Council Tax consequences.
40. An annual review of the Capital Programme will be undertaken and, in doing so, full regard will be given to the Prudential Indicators before any proposals/decisions are made in respect of a revised programme. There is a need to be cautious in terms of future borrowing requirements given the capital financing costs and future decisions will need to balance the need for, and cost of, investment or failure to invest. Endeavours will be made to support revenue contributions to capital expenditure to ensure that funding is available for essential ongoing investment needs.

## Efficiency Requirements

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



## Risk

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

## Summary & Conclusion

49. This Strategy sets out how the Council will resource its Revenue Budget and Capital Programme over the Medium-Term having regard to the policy objectives of keeping Council Tax increases within Government guidelines.
50. The MTFS represents the Council's overarching Financial Strategy and Policy document and it gives financial expression to the Council's plans for the next five years, in the context of the plans set out in its Business Plan. It, therefore, sets out the Council's funding plan, for achieving its goals and priorities, balancing available financing and spending ambitions and, in doing so, highlights the underlying financial strategy, the financial assumptions, and the inherent financial risks. Importantly, decisions on resource allocation are linked to decisions on policy priorities.
51. The MTFS will be kept under review and, as a minimum, will be reviewed:
- In Autumn prior to considering the annual budget setting report to Council;
  - As part of the budget setting report, taking into account the financial forecasts that are available at that time.

