

SOUTH CAMBRIDGESHIRE DISTRICT COUNCIL

REPORT TO: Leader and Cabinet
AUTHOR/S: Senior Management Team

12 October 2006

MEDIUM TERM FINANCIAL STRATEGY – INTERIM REPORT

Purpose

1. To enable the Cabinet to review the Medium Term Financial Strategy (MTFS) and establish the basis for a sustainable budget over the next five-year period.

Executive Summary

2. In the next five years the Council will face major spending pressures particularly from the growth areas. These are currently not provided for in the Medium Term Financial Strategy and can only be met from savings or additional income. This represents a very serious financial position for the Council. The report recommends an approach comprising:
 - (a) Further work to reduce estimated spending pressures to a more manageable level.
 - (b) Initiating a savings exercise, taking into account the implications for the Council's priorities.
 - (c) Seeking external assistance from the Government and working with partners.

Background

3. In response to September's "State of the Nation" report, it was agreed to bring a report to this meeting giving a draft Medium Term Financial Strategy, taking into account projections of future spending pressures and an indication of savings required. It is intended next to report to the November meeting of the Cabinet with a final strategy, including detail of areas where savings will be sought.
4. Prior to Council Tax capping, the Council's financial strategy was based on the running down of reserves and the increase of Council Tax to bring the Council to a sustainable point where it was no longer dependent on reserves and had a Council Tax at about the district council average.
5. As a result of capping, this strategy is no longer possible. Council Tax is capped at a level which (excluding parishes) was the 9th lowest in the country for 2006/7. The Council is in the position of having to make savings to replace diminishing income from reserves; to compensate for the lower income from Council Tax than planned; and to meet increasing spending pressures – particularly arising from the growth areas.
6. Capping has already required the Council to make £2.6m of savings and further savings will be necessary over the next five-year period. This is particularly difficult for a council in the lowest spending quartile per head of population for most services.
7. The fundamental purpose of the MTFS is to provide the resources to maximise the Council's ability to provide and improve the services that the public need. In service terms, the aim of the strategy is to:
 - Provide resources to continue services at a level to meet statutory requirements

- Achieve whatever improvement or development is possible in the Council's priorities – ie customer service, affordable housing and growth areas

Spending Pressures

8. Officers have carried out an exercise to identify the main spending pressures facing the Council in the next five years and the results are given in **Appendix 1**.
9. These figures represent officers' best assessment of the additional expenditure the Council will need to incur to meet statutory and other essential requirements. There is no element of service improvement built in. By far the largest element is the major expenditure involved in planning and developing Northstowe and other growth areas and in providing services to the new communities. The spending identified is essential in meeting the Council's objective of achieving successful, sustainable communities at Northstowe and the other growth areas. The proposals will provide the minimum necessary to meet Government guidance on sustainable communities.
10. In summary, the figures in Appendix 1 show additional revenue spending demands as follows:

Table 1: Totals of quantifiable revenue savings pressures.

	07/08	08/09	09/10	10/11	11/12
New Spending Commitments (£000s)	588	1,048	1,426	2,100	2,083

11. The following assumptions have been used in preparing these figures:
 - a) They are at 2006/07 prices. No allowance has been made for inflation or, in the case of new posts, for increments or cost of living increases.
 - b) Housing and population projections are based on the figures in the draft LDF on house completions. It is possible that actual completions will fall below these projections. Much will depend on factors outside the Council's control, such as the national economic situation.
 - c) A house occupancy rate of 2.4 has been assumed. This is the rate for recent house completions in the district. However, the future rate may be lower.
 - d) Assumptions have been made about funding from Section 106 Agreements and other funding sources, which are included in Appendix 1.
 - e) It has been assumed that Planning Delivery Grant (or subsequent arrangement) will continue at its current level. The government is currently consulting on a revision to the system, which will place more emphasis on housing completions rather than permissions. The effect on the level of grant received by the Council cannot be assessed at this stage.
12. There are considerable uncertainties about the financial impact of the growth areas – in particular, uncertainties about the housebuilding rate; the type of housing to be built; the fact that the LDF is still not final; the uncertainty about planning applications and what will be covered by S.106 agreements; the availability of finance from various sources; and the funding arrangements with the parish/town council. The Council's approach towards funding and responsibility for functions in the context of villages and parish councils may not be appropriate in the case of a more urban development such as Northstowe.
13. It is stressed that the figures in Appendix 1 are not to be taken as firm bids. At this stage they have not been worked up in detail. They are included in the report as an indication of the totality of future spending pressures facing the Council. Some of the quantified costs may not proceed. However, it should be noted that Part B of Appendix 1 also includes a range of other spending pressures, which cannot be quantified at present, some of which might also need to be financed. It is also almost

certain that over the next five years other spending needs, currently unanticipated, will emerge.

14. As Members will be aware, the current MTFS makes no provision for any additional spending from 2007/08 onwards. Any additional costs included in the MTFS would need to be met from savings or additional income. The sheer scale of the additional spending pressures in Appendix 1 makes it impossible to meet them in full. It is recommended that for financial planning purposes, the following figures be included for additional spending in the MTFS, on the basis that more work will be undertaken to firm up the costs by the November meeting:-

Table 2: Recommended provision in the MTFS to address future spending pressures.

	07/08	08/09	09/10	10/11	11/12
Revenue provision to be included in the MTFS for additional service costs due to population growth etc (£000s)	400	700	1,000	1,300	1,500

15. If this approach is taken, the full costs of spending pressures will not be met. This might involve some risks – for example risks to the quality of development at Northstowe; risks of future community problems at Northstowe; and risks that service standards will fall. But, on the other hand, achieving savings or income up to the full extent required will not be possible without unacceptable cuts in services which would lead to different risks.

Priorities for 2007/08

16. At its September meeting, the Cabinet confirmed that the Council should retain its current three priorities for 2007/08 (customer service, growth areas and affordable housing) and that a realistic number of clear quantified targets should be set for achievement in that year. It is recommended that targets should be set in the following areas:-
- (a) Arrangements to allow service users to have a more active role in influencing service improvements.
 - (b) A small number of realistic performance indicator targets to make incremental improvement in important customer facing services – eg planning applications; searches; benefits; environmental services; and housing repairs.
 - (c) A Customer Service Review, six months after the introduction of customer service standards, incorporating complaints and a future programme for Service First
 - (d) Realistic customer service targets for the continuing improvement of the Contact Centre.
 - (e) A target for the number of affordable house completions
 - (f) A target for the percentage of residential planning permissions, which are for affordable housing.
 - (g) A Community Development Trust for Northstowe.
 - (h) Milestones for key stages of LDF, planning permission and Section 106 Agreement for Northstowe.
17. Members are requested to consider whether these represent the most important areas where they wish to progress the Council's priorities in 2007/08. If these areas are agreed, officers will work with portfolio holders to set more specific targets and identify any financial implications. At this stage it is not envisaged that significant additional spending will be required, with the possible exception of the Community Development Trust. But, Cabinet is recommended that the capacity to achieve the targets should be protected, if possible, in the course of any savings exercise.

Position on Capital

18. Projections of capital spending are given in the following appendices:-
- **Appendix 2a** gives a projection of capital spending based on current policies and programmes.
 - **Appendix 2b** gives revised capital spending projections if the housing repair programme is restricted to the spending necessary to achieve the Decent Homes minimum standard as well as other statutory requirements.
19. Both appendices do not at this stage include the capital spending proposals in Appendix 1, because further work is still required on them. The financial impact of Appendix 2b would be to retain a higher level of capital receipts and therefore the interest accruing to the General Fund. Cumulatively, this would add £1,290k of income to the General Fund in the five year period 2007/08 – 2011/12. There would, however, be a negative impact on the Housing Revenue Account because the revenue funded responsive repairs service would be likely to increase as a consequence of reduced planned preventative maintenance and because it would no longer be possible to capitalise a number of staffing costs. The financial effect is estimated to be an extra £2,250k of expenditure (cumulative) on the HRA over the five-year period (£450k per annum) which may have to be met from savings in the HRA, given the restrictions on rent increases.
20. At this stage Cabinet is recommended to make no change to the capital programme – ie to plan on the basis of the projections in Appendix 2a. However, it would be appropriate to review the position in the light of the outcome of the current Housing Stock Condition survey and revised Housing Business Plan.

Draft Medium Term Financial Strategy

21. Two options are given in Appendices 3A and 3B for the General Fund MTFs. Both appendices include the costs of new spending as recommended in Table 2 above, together with the total savings targets which will then be necessary.
- **Appendix 3A** (Equalised Savings) is based on achieving savings as necessary throughout the five year period
 - **Appendix 3B** (Delayed Savings) is based on delaying savings, by making greater use of balances earlier in the five year period.
22. The two appendices are based on the following assumptions:-
- a) They are based on current spending commitments and the forward projections of those commitments, together with inflation at 2.5% for pay and goods and services. Members may already be aware that the Government is recommending only 2% for public pay sector increases.
 - b) They assume the achievement of projected savings from the business process reviews as estimated in the Mouchel Parkman report.
 - c) They include funding for the staffing proposals reported to the September meeting of the Cabinet (the Appendix to the State of the Nation report)
 - d) They include previous savings targets, including those to meet Gershon targets, plus additional savings to meet the future spending pressures recommended at Table 2.
 - e) Additional Council Tax income from population growth has been already factored in through the Council Tax base.
 - f) It is assumed that there will be a continuing Council Tax cap of 5%.
 - g) It is assumed that Formula Grant from the government will increase by an inflation allowance of 2.5% per annum and that it will provide for 50% of the growth in the tax base. This inflation level is higher than that allowed by other authorities

- h) Council Tax base projections are based on estimated housing completions.
 - i) At this stage, no provision is made for any changes which may arise from the Lyons review.
 - j) It is assumed that there will be no significant underspends.
23. Appendix 3A is based on a gradual run down of reserves and on achieving savings of an average of £1.4m per year in the period 2007/08 to 2011/12. Balances would reach their minimum acceptable level of £1.5m in 2011/12. This would require further substantial savings (of about £0.9m) in 2012/13, which would be the first year in which balances would not be available to support General Fund spending.
24. Appendix 3B runs down balances to the minimum level more quickly (by 2009/10), thus avoiding the need for savings in the early years of the strategy, but then requires high levels of savings from 2009/10 onwards. It may be that by 2009/10 other factors may have come into play – for example as a result of the Lyons Review or White Paper. The approach in Appendix 3B could be seen as putting off the problem and the fact that long-term issues are not being addressed may result in staff retention and recruitment problems and a general inability to plan for the future. For this reason the strategy in Appendix 3A is recommended.

Strategy to achieve a Balanced Financial Position

25. If the projections in Appendix 3A are adopted, the Council will need a strategy to deliver them – and in particular to bring future spending commitments and savings into balance. The strategy will need to progress on three fronts:-
- Reducing the future expenditure commitments in Appendix 1 to the targets in Table 2.
 - Maximising savings and cost reductions to cover the spending pressures.
 - Seeking external help
26. Work will continue between officers and portfolio holders to improve the forecasts of future spending pressures in Appendix 1 and to identify how the costs can be reduced to the targets in Table 2.
27. A savings exercise is being set up with service heads and portfolio holders based on the methodology used last year – which systematically used criteria such as statutory/non statutory; impact on priorities; value for money etc to allocate savings between services. A key consideration in the exercise will be to maintain the Council's ability to make progress on its priorities.
28. Given the gravity of the situation it is also necessary to look at all other possible areas of savings or income generation – particular areas that have been identified are:-
- Initiating with appropriate local authorities a dialogue about the savings that could be achieved by the joint provision of services
 - Exploring the possibility of developer contributions.
 - Maximising Growth Area funding.
 - Exploring with LSP partners how LPSA reward money could be used.
 - Income maximisation – particularly through opportunities in the growth areas such as energy generation trust or car parking income.
 - Greater use of information about unit costs to direct our savings exercise
 - Explore the possibility of petitioning the Government to apply a lower RTB maximum discount in this area in order to increase capital resources.

Other suggestions are invited from Members.

29. Reducing discretionary rate relief is a potential area of savings, but at least 12 months statutory notice must be given. It is planned to give notice to all recipients that discretionary rate relief will be terminated from April 2008. This will allow relief to be re-instated, if it is not decided that this is to be an area of savings.
30. The financial problem facing the Council is not one that can be solved by the Council alone. A strong case needs to be put to the Government that the current financial position is not in the interests of the public of South Cambridgeshire and cannot be addressed without some movement from the Government in terms of capping, grant or financial support for the growth areas. It is also suggested that discussions are held with Cambridgeshire Horizons on how the needs of the growth areas can be met in the financial circumstances, which will apply over the next five critical years.

Housing Revenue Account

31. As a consequence of the savings achieved in 2005/06 and 2006/07 through service reorganisation, the revenue spending of the HRA has been put on a sustainable footing. The major financial issue for the HRA is the capital programme and use of capital receipts which was covered earlier in this report.

Risks

32. The current situation gives rise to a number of strategic risks: for example risks involved in growth areas; risks arising from not addressing all possible spending pressures; the need to take a risk based approach when identifying savings; and the balance of risks in the decision between the two strategies in Appendix 3A and 3B.

Recommendations

33. Cabinet is recommended:
 - a) To note the scale of future spending pressures on the Council indicated in **Appendix 1** and to agree to include in the MTFs the levels of future expenditure in Table 2;
 - b) To retain current policies and programmes for the capital plan (**Appendix 2a**) and to review the position further in the light of the outcome of the stock condition survey and the clarification of the future capital spending pressures in Appendix 1;
 - c) To approve in principle the targets in paragraph 16 (a) – (h) to progress the Council's three priorities in 2007/08; to request service heads and portfolio holders to work up more quantified targets; and to seek to retain the Council's capacity to deliver these targets in the savings exercise;
 - d) To adopt the projections in **Appendix 3A** as the basis for the MTFs;
 - e) To recommend Council to approve the posts approved in principle last cycle;
 - f) To request portfolio holders and service heads to report to the November Cabinet with recommendations to meet the savings targets in Appendix 3A, informed by the methodology devised last year;
 - g) To request the further areas for savings identified in paragraph 28 (together with any further suggestions from Members) to be pursued;
 - h) To make approaches to the Government and Cambridgeshire Horizons as suggested in paragraph 30;
 - i) To request all service heads to produce service plans for the growth areas to provide greater certainty in financial planning.

Background Papers: all background papers used to prepare this report are already published.

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