

## SOUTH CAMBRIDGESHIRE DISTRICT COUNCIL

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

9<sup>th</sup> November 2006

### MEDIUM TERM FINANCIAL STRATEGY (MTFS) – 2007/08 TO 2011/12

#### Purpose

1. To enable the Cabinet to recommend a Medium Term Financial Strategy (MTFS) to the Council. The report focuses on the General Fund.

#### Executive Summary

2. In response to requests made at the last meeting of the Cabinet, progress has been made in reducing future spending pressures and identifying savings so as to achieve a balanced MTFS. Two options are given requiring different levels of savings to be achieved. The Cabinet is requested to approve the financial projections on which the MTFS will be based. The Council is still in a very difficult financial position. The savings required will have a cumulative impact on services and the Council will find it difficult to respond to any future eventualities not provided for directly in the MTFS.

#### Background

3. At the October meeting of the Cabinet, Members received an interim report on the MTFS. The report gave an initial assessment of the future spending pressures facing the Council over the period 2007/08 to 2011/12. In response to the report, Members agreed an approach towards achieving a balanced strategy – ie:-
  - To reduce future spending commitments to an affordable level
  - To identify savings which would enable a long term balanced strategy to be achieved
  - To make approaches to the Government and partners to assist the Council, given the pressures as a result of the growth areas.
4. The financial outlook has also been assisted by the anticipated significant variation from estimates in the current financial year, also reported to the last meeting.
5. Progress has been made since the last meeting, as follows.
6. **Reducing future spending commitments.** Future spending pressures have been re-assessed and the results are given in **Appendix 1**. In summary, the position is as follows:-

**Table 1: Future Spending Pressures**

		2007/08	2008/9	2009/10	2010/11	2011/12
(a)	Spending Pressures reported to the October meeting.	588	1048	1426	2100	2083
(b)	Revised spending on growth bids following reduction exercise (Appendix 1)	400	838	1031	1471	1582
(c)	Allocations for growth in MTFS	400	700	1000	1300	1500

7. As can be seen, the areas for additional revenue spending have been reduced significantly. The main spending proposals or pressures which have now been omitted are:-
- **Environmental Services:** plastics bins, HIA post; EHO post and proposals to improve recruitment and retention
  - **Planning:** support to implement access and DDA requirements; implementation of the Green Infrastructure strategy
  - **Community Services:** contributions to running costs of community centres at Northstowe and other growth areas; a technical officer to support the development of community and leisure facilities; and funding to support anti-social behaviour casework.
  - **Climate Change:** support for the development of an Energy Generation Trust for Northstowe
  - **Revenues and Benefits:** additional posts to enable the service to meet the needs of a growing population; and maintain customer service.
8. The reduction in the growth bids has been achieved by concentrating on those which are necessary to continue to provide statutory services and customer service at an acceptable level; to meet the needs of the growth areas; and to support the Transformation project.
9. There may be serious consequences as a result of the omission of some of the spending bids. There will be implications for our priorities – and particularly for our aim of developing successful, sustainable communities in Northstowe and other major growth areas. Some of the omitted spending plans may be financed from other sources. For example, the community services proposals relating to Northstowe may be funded by S.106 money or Growth Area Funding. However, if alternative funding is not available, it may be necessary to review whether proposals need to be re-included in the Council's financial planning.
10. As a result of the exercise carried out, the growth bids for **2007/08** match the provision in the draft MTFS. The growth bids for **2008/09** onwards still exceed MTFS provision but to a significantly less extent than previously. This is felt to be sufficient for planning purposes, given all the uncertainties which may occur by 2008/09 and future years. It must also be emphasized that –
- There are still many unquantifiable spending pressures given in Part B of Appendix 1 for which there is no provision in the MTFS
  - No provision has made for costs (assessment, redundancy, advertising etc) to complete the Transformation Project (2<sup>nd</sup>/3<sup>rd</sup> tier review); any future costs for the completion of the top tier restructuring; or any costs associated with the savings exercise
  - Some of the spending pressures which have now been omitted may prove inescapable – for example, if other funding sources are not found.
11. There are still therefore some substantial risks that the plan may underestimate the costs side of the equation. On the other hand there may be cost savings or other underspends.
12. Detailed justifications have been prepared for spending bids where there are implications for 2007/08 and these are included at **Appendix 5** for the approval of the Cabinet.

13. **Identifying savings necessary to balance the MTFS.** Potential savings have been identified by portfolio holders and service managers and are given in **Appendix 2** Savings totalling £1,133k in 2007/08 are shown, divided between portfolios as follows:-

**Table 2: Potential Savings identified (all costs £000s)**

Portfolio	Budget	Savings 07/08		Saving - ongoing full year	
		Saving	%	Saving	%
Resources, Staffing, Information and Customer Services	3,740.1	269.6	7	395.7	11
Environmental Health	5,193.4	155.2	3	158.9	3
Housing	1,722.8	102.7	6	102.7	6
Planning and Economic Development	4,309.4	208.0	5	26.0	1
Conservation, Sustainability and Community Planning	768.4	39.9	5	39.9	5
Community Development	1,165.0	98.9	8	98.9	8
Other (Vacancies, Training)		231.3		231.3	
Total (2006/07 prices)	16,899.0	1,105.6	7	1,053.4	6
Total (2007/08 prices)		1,133.0			
Total (2008/09 prices)				1107.0	

14. The approach taken to identifying the savings has taken into account the methodology used last year – which systematically used criteria such as statutory/non statutory status; impact on priorities; value for money etc.
15. In putting forward potential savings, every effort has been made to avoid savings which may impact on our priorities and services. Wherever possible, savings have been identified which are efficiency savings (ie providing the same service for less) or where the impact on the service received by users will be minimised. However, there will be some significant impacts on service users – for example:-
- A new bin delivery charge for new householders
  - Increasing the cost of a summons for non payment
  - Phasing out postal payments
  - Reducing support for arts development at village colleges and capital grants.
16. These implications will be on top of those recently experienced as a result of last year's capping cuts. It will also be noticed that the achievement of some of the savings are dependent on circumstances or service demands and may not necessarily be achieved – eg the budgeting of 2% savings to account for turnover/vacancies and savings on temporary accommodation.
17. Members are invited to consider the extent of savings to be taken, taking into account the overall financial projections discussed below and the implications for our priorities, the public and staff described in Appendix 2.
18. **Approaches to the Government and Partners.** Our MP, Andrew Lansley, has written to the Local Government Minister requesting an urgent meeting either at Westminster or at South Cambs to discuss the Council's financial position.

## Revised Financial Projections

19. Two revised financial projections have been prepared and are included as Appendices 3A and 3B:-
- **Appendix 3A.** This is based on the Appendix 3A agreed at the last meeting of the Cabinet as the basis for the MTFS. It has been updated to allow for underspends and other adjustments. It includes the same targets for future spending. This option does not utilise all the savings identified in Appendix 2 – ie requiring savings of £793k in 2007/08 and £971k in 2008/09 from the total savings available of £1,133k (2007/08) and £1,107k (2008/09). The effect of this option is that reserves reach the minimum level of £1.5m by 2011/12 and the budget is balanced (with Council Tax equating to “underlying Council Tax”) by 2012/13. However, to achieve this, further substantial savings of £1,454k are required in that year.
  - **Appendix 3B.** This option takes the whole of the savings in Appendix 2. Spending levels are the same. Consequently, reserves would be run down more slowly and would reach the minimum level by 2012/13. Again, substantial savings would be required towards the end of the period (but later than for Appendix 3A) - £0.4m in 2012/13 and £0.9m in 2013/14.
20. The major difference between the options is the extent to which savings would be required. Both options achieve a balanced MTFS. Appendix 3A requires fewer savings initially, but substantial further savings in 2012/13, whereas Appendix 3B requires more upfront savings and the future saving requirements would be needed (for the most part) a year later. Members are invited to consider whether they wish the MTFS to be based on Appendix 3A or 3B (or a different variation) based on the considerations here and in the conclusions.

## Capital Programme Projections

21. At its last meeting the Cabinet approved the principle of developing the MTFS on the basis of the current policy for the use of capital receipts. An updated capital programme based on this approach and showing the implications of the growth bids is attached at **Appendix 4**.

## Medium Term Financial Strategy

22. This report has discussed the figures and financial projections which will form the basis of the MTFS. However, the strategy will need to be a broader document addressing how the Council will manage its resources to deliver the financial projections and maximise the achievement of its priorities. So for example, it will need to draw together:-
- (a) The financial context for the strategy and the future issues facing the Council - in particular the growth agenda
  - (b) How the Council compares with other councils in terms of spending, performance and value for money
  - (c) How well the Council manages its finances
  - (d) Clear objectives for the strategy
  - (e) How the Council will deliver a balanced MTFS
  - (f) How it will improve future planning and link planning with its priorities
  - (g) The future policy for the level of the Council Tax

- (h) The future policy for the use of capital receipts
- (i) How the Council will continue to seek efficiency savings and value for money
- (j) How the Transformation Project will contribute to the delivery of the MTFS
- (k) How the workforce plan will be linked to the MTFS
- (l) How the Council will monitor the MTFS and take action where financial targets are at risk.

23. The Council has in place existing processes and agreed approaches covering most of these areas. It is proposed that the Chief Executive and Portfolio for Resources, Staffing, Information and Customer Services be requested to draft a MTFS for recommendation to full Council, based on the decisions at this meeting and covering the issues in paragraph 22 above.

### **Risks**

24. As mentioned throughout this report, there are many uncertainties and risks involved and delivering the MTFS will be very difficult. The risks include:-

- The possibility that some of the unquantifiable spending pressures in Appendix 1 (or other currently unforeseen spending needs) will materialise
- Uncertainties about the achievement of savings assumed from the business process reviews.
- The financing of the restructure of the second and third tiers
- The impact of further savings on an already overstretched workforce
- The possible impact of the White Paper or other government initiatives. Climate change, in particular, is very much an area where councils may be expected to increase their activity.

25. It will therefore be important to keep the achievement of the MTFS and factors affecting it under review and report on a regular basis. It is recommended that the MTFS be formally revised twice a year (in the autumn and in February/March, in the light of the final budget), but that reports be made as part of the quarterly monitoring process at other times of the year when issues affecting the deliverability of the MTFS occur.

### **Staffing Implications**

26. The savings listed in Appendix 2, if adopted in full, would require about two members of staff to be made redundant. There may possibly be implications for one or two fixed term posts. There would also be a small number of instances where savings would be achieved by reviewing arrangements on the retirement of members of staff.

27. The proposed savings would come on top of the capping savings and the effects of the business process reviews. Many staff in the organisation are under increasing pressure and there are risks of serious morale problems. Members are advised to be sensitive to the impact of these changes on staff. An important aspect of the Transformation Project will be for senior managers and Members to give clear guidance and leadership to staff about expectations on them, given the reduced resources available.

### **Consultation**

28. Following approval of the MTFS by Council, it is proposed to place a copy on the Council's web-site, inviting comments from the public. An article will appear in the December edition of South Cambs Magazine encouraging readers to give their

comments. The results of the consultation will then be taken into account when the Cabinet and Council revise the strategy in February in conjunction with approval of the budget and Council Tax.

## **Conclusions**

29. The report to the October meeting emphasized the difficult financial position the Council is in. This remains the case. Since the last meeting considerable efforts have been made to address future spending commitments and identify savings to achieve a balanced MTFs within a 6-7 year time frame. This has been achieved, but it is important not to overlook the fact that, together with the impact of capping, it will result in savings in the order of £4m (25% of the Council's GF budget) being made over the period 2005/06 to 2007/08, plus further substantial savings towards the end of the MTFs period. This is for a Council which is already one of the lowest spending district councils per head of population. Despite efforts to make efficiency savings and reduce the impact on the public, there have been cuts in services and there will be further instances of service reductions or the inability to meet public expectations. The cumulative savings will impact on the ability of staff to deliver services, for example as support services are weakened. The process of reducing the future spending commitments included in the strategy, could also have major implications – in particular on the Council's priority of achieving successful, sustainable communities at Northstowe and other major developments. It is still the case that external assistance from government or partners is essential, if the public of South Cambridgeshire are not to suffer unreasonably for the financial constraints placed upon the Council.
30. The next five years will see a great deal of change affecting the MTFs – both nationally (eg the White Paper, Lyons Review, Climate Change and a general election) and locally (the growth areas, a new Community Strategy and potentially LSVT). All these and more will affect the MTFs. In this context it is important to be realistic about the degree of accuracy which can be applied to future financial planning.
31. The important, and difficult, task will be to keep the Council on course throughout all this change, focusing on maximising the resources available for priorities, achieving efficiency and value for money, and on improving services. It will be important for the Council to monitor the delivery of the MTFs and respond effectively to change to support these activities. The Transformation Project and the principles agreed in the State of the Nation report will be of continuing importance in establishing the capacity to do this.

## **Recommendations**

32. Cabinet is recommended:-
  - a) To decide whether to base the MTFs on Appendix 3A, Appendix 3B or a variation;
  - b) If the full savings in Appendix 2 are not taken, to specify which are not to be pursued;
  - c) To request the Chief Executive and the Portfolio Holder for Resources, Staffing, Customer Service and Information to prepare a Medium Term Financial Strategy for consideration by the Council based on the decisions in response to (a) and (b) and the issues listed at paragraph 22;

- d) To approve the spending plans in Appendix 1 for 2007/08 (based on the justifications in Appendix 5) for inclusion in the budget and to approve the spending plans for 2008/09 onwards as the basis for future planning.
- e) To approve the capital programme in Appendix 4;
- f) To request the officers to investigate and report back on the “Other initiatives to be pursued/possible avenues for additional sources of finance” in Appendix 2 by June 2007, for consideration in the budget for 2008/09
- g) To approve the arrangements for consultation in paragraph 28;
- h) That the MTFS be reviewed formally twice a year (in the autumn and in February/March, in the light of the final budget), but that reports be made as part of the quarterly monitoring process at other times of the year when issues affecting the deliverability of the MTFS occur

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

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