

SOUTH CAMBRIDGESHIRE DISTRICT COUNCIL

REPORT TO: Corporate Governance Committee 26 September 2007
AUTHOR/S: Chief Executive / Finance Project Officer

STRATEGIC FINANCIAL DIAGNOSTIC

Purpose

1. The purposes of this report are to summarise the findings of the independent strategic financial diagnostic review and to outline the Council's responses to its recommendations.

Background

2. The Audit Commission undertook a Corporate Governance Inspection (CGI) of South Cambridgeshire District Council in October 2006. The report was published on 8 February 2007 and made some key recommendations. The Council is working with its improvement partners on the integrated improvement plan, Inspire.
3. A short focused project around the finances of the Council was proposed to provide a picture of the Council's current financial situation and advice regarding medium term financial planning in relation to the Council's improvement path.
4. The specification for the project was that it should answer two key questions:
 - (a) What is the size of the medium term financial gap facing the Council ? and
 - (b) Is the Council planning effectively to bridge that gap ?
5. The Council sought competitive quotations from three consultants recommended by either the Department for Communities and Local Government (DCLG) or the Government Office for the East of England (GO East) and Neil Newton was appointed to carry out the review. The project has been funded by the DCLG.

Considerations

6. A copy of the independent consultant's report is attached as **Appendix A** and the main conclusions and recommendations are summarised in paragraphs 8 and 9 below. The report does not identify any issues that the Council were not already aware of; indeed, many of the report's observations, conclusions and recommendations were already being taken forward.
7. The report's main conclusions are:
 - (a) The latest version of the Medium Term Financial Strategy (MTFS, February 2007) shows that in three years' time there will be a shortfall of just below £1m p.a. between planned spending and expected resources. This is provisionally estimated to increase by around £600,000 p.a. after adjusting for additional funding necessary to resolve capacity issues and reflecting the discontinuation of the business process review exercise.
 - (b) The assumptions behind the figures are robust enough for planning purposes. Balances in the February 2007 MTFS are shown as £5m in five years' time, but are now estimated to reduce to £2m (still above normal levels, although not inordinately so). This is a provisional figure. The MTFS and the

underlying assumptions are currently being reviewed in detail and will be reported later this year.

- (c) As soon as the next MTFS is agreed, the Council should seek dialogue with the Government to try and agree the balance between council tax increases and use of reserves to support required spending. The balance thus agreed should be related to the Council's own and local circumstances, not just based on national capping criteria. As part of that dialogue, the Council must be seen to be putting its own house in order, by demonstrating tighter budgeting and a clear focus on the improvement plan.

8. The report's main recommendations for Council action are:

- (a) The authority must tighten up its budget setting and monitoring processes:
 - (i) accuracy of operational budgets;
 - (ii) savings proposals should have supporting implementation plans;
 - (iii) identify major budget variances earlier;
 - (iv) a rational and variable factor in estimates for staff vacancies;
 - (v) review the method of monitoring interest on balances.
- (b) The authority should use its short term financial strength to resource the improvement plan to rectify the deficiencies referred to in the CGI report.
- (c) The MTFS should concentrate on the next three years, with more detail on the growth pressures and the delivery of the improvement plan:
 - (i) growth elements in the MTFS should be detailed and linked with corporate and partnership priorities;
 - (ii) growth bids for essential services should be challenged, but not declined simply to meet a particular level of council tax or restriction on use of balances; rather, the resulting realistic budget should be the subject of continuing dialogue with the Government over the consequences of meeting the national policy of rapid growth in the area;
 - (iii) other budget savings should be justified in relation to the Council allocating a lower priority to the services to which the savings relate.

9. The principal actions the Council is taking to address the report's recommendations are:

- (a) Budgetary control in 2007/08 is identifying budget variances and monitoring staff vacancy levels and interest earned on balances. The next budget setting exercise will scrutinise operational budgets, savings proposals and bids to support growth or service development.
- (b) The Council has approved up to £300,000 p.a. from 2007/08 for posts to strengthen its capacity to respond to the CGI recommendations, with the expenditure being financed initially by the use of reserves and reviewed as part of the next revision of the MTFS.
- (c) The review of the MTFS (due to be approved at Cabinet on 18 October 2007) will incorporate the report's recommendations.
- (d) The service planning process is being revised to link more closely with financial planning (including the MTFS) and service budgeting, as well as with the recently adopted corporate objectives and service priorities for 2008/09 onwards.
- (e) Actions to improve some of the Use of Resources scores have been included in the Accountancy division's service plan for 2007/08.

Implications

10. Financial	The Council's MTFS underpins the achievement of its priorities and objectives and the delivery of its services. Implementing the independent consultant's recommendations will enable the Council to ensure that the MTFS is as accurate and robust as possible.
Legal	No specific implications.
Staffing	The Council needs sufficient staffing capacity to deliver both the improvement plan and existing and future service requirements. Implementing the independent consultant's recommendations will assist the Council to achieve this.
Risk Management	The Council's ability to deliver the MTFS was assessed as the highest strategic risk facing the Council in the most recent review of the strategic risk register in June 2007. Actions to mitigate this risk included implementing outcomes from the strategic financial diagnostic review and investigating possible sources of external funding. Implementing the independent consultant's recommendations outlined in paragraph 8 above will satisfy these mitigating actions.
Equal Opportunities	No specific implications.

Consultations

11. The independent consultant's report has been circulated informally to members of the Council's Cabinet, to inform them of its conclusions and recommendations.
12. The contents of the report and the question of further consideration by the Council will have been discussed with the Resources Portfolio Holder at her meeting on 23 August 2007 and I will be in a position to update the Improvement Board on the outcome at its meeting.
13. In implementing the report's recommendations, the Council will seek best practice advice and guidance from improvement partners, peer authorities and other organisations, as appropriate.

Effect on Annual Priorities and Corporate Objectives

14. Affordable Homes	The Council's financial position and financial planning affect all its annual priorities and corporate (and service) objectives. The Council's priorities and objectives will be achieved to the extent that the Council is able to fund existing and future service delivery.
Customer Service	
Northstowe and other growth areas	
Quality, Accessible Services	
Village Life	
Sustainability	
Partnership	

Conclusions/Summary

15. The independent consultant's report presents an accurate picture of the Council's current and future financial position and actions the Council should take to improve its financial planning. As stated earlier in the report, none of the consultant's observations, conclusions or recommendations were a surprise.

16. The Council intends to implement the consultant's recommendations in the next review of the MTFS and the next round of budget setting and monitoring, as set out in paragraph 9.

Recommendations

17. The Improvement Board is recommended to note the independent consultant's report and to join the Council in lobbying the Government for specific additional financial support and/or a relaxation in the application of the council tax capping criteria for the Council, so that the Council can adequately fund the implementation of its improvement plan, ongoing service delivery and pressures on services from the local development growth.

Background Papers: the following background papers were used in the preparation of this report:

- Strategic Financial Diagnostic report, July 2007

Contact Officer: John Garnham – Finance Project Officer
Telephone: (01954) 713101