

SOUTH CAMBRIDGESHIRE DISTRICT COUNCIL

REPORT TO: Leader and Cabinet

9 September 2010

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SETTING THE BUDGET AND POLICY FRAMEWORK MEDIUM TERM FINANCIAL STRATEGY (GENERAL FUND) 2011-2016 AND STRATEGIC POLICY FRAMEWORK (AIMS, APPROACHES AND ACTIONS) FOR 2011-2012

Purpose

1. To provide a formal update on the latest projections for the Medium Term Financial Strategy (MTFS) for the General Fund revenue account, review the Council's Vision, corporate aims and approaches and agree key actions for consultation and as the basis for the preparation of 2011-12 service plans, in order to ensure the corporate aims are achieved.
2. This is a key decision because:
 - it is likely to result in the Council incurring expenditure which is, or the making of savings which are, significant having regard to the Council's budget for the service or function to which the decision relates.
 - it is likely to be significant in terms of its effects on communities living or working in an area of the District comprising two or more wards
 - it is of such significance to a locality, the Council or the services which it provides that the decision-taker is of the opinion that it should be treated as a key decision.

and it was first published in the July 2010 Forward Plan.

Recommendations and Reasons

3. It is recommended that Cabinet:
 - (a) agree, or approve amendments to, the assumptions built into the MTFS;
 - (b) agree the further continuation of the Council's Vision and Corporate Aims and Approaches as the strategic planning framework for the organisation
 - (c) agree the List of Corporate Actions at **Appendix B** for internal and external consultation, and as the basis for the preparation of draft service plans for 2011-12
 - (d) instruct EMT, as part of the service planning process, to consider potential savings options to meet the savings target set out in the MTFS; and
 - (e) instruct Senior Management Team to quantify and rank in priority future spending pressures identified through the service planning process, so that more accurate figures can be included in the MTFS

These recommendations are brought forward to ensure meaningful consultation at an early stage, the production of service plans that are properly linked to corporate objectives and an integrated approach to service and financial planning. It is important that this uncertain time before December/January is used to consult on these areas, both externally and internally.

4. The financial projections in this report are based on many assumptions; more information may be provided in the Government's spending review on 20th October but detailed information at individual local authority level will not be available until the provisional local authority finance settlement is announced, usually in early December. **The financial projections to be reported to Cabinet in January will almost certainly be substantially different to the projections in this report.**

Background

5. The MTFs was last reported to Cabinet on 11th February 2010. It showed that, by the end of the projection period of 31st March 2015 and after including ongoing efficiencies/cuts of £2.3 million per annum before inflation, the General Fund working balance was £3.8 million in credit. However, there was a £1.3 million deficit (appropriation from balances) on the account in 2014/15.
6. The Council has agreed a Vision for the district, supported by:
- Aims setting out how the Vision will be achieved
 - Approaches providing a framework within which the aims will be achieved;
 - Specific Actions, using these approaches to deliver the aims.
 - Service plans setting out service, team and individual objectives, aligned to the Vision and Corporate Aims through a 'Golden Thread'.
7. The Council has worked towards a series of key annual actions as part of the 'Three A's' approach during 2009-10 and 2010-11, and it is intended that a similar approach is taken for 2011-12. The eleven key actions for the current year are monitored through quarterly reports to senior management and Members.
8. The **assumptions made in February** included:
- (a) pay inflation of 0% in 2010/11, 1% in 2011/12 and 2012/13 and 2.5% thereafter;
 - (b) an employer's pension contribution rate of 21.7% for 2010/11 as stated in the last triennial actuarial valuation increasing to an assumed maximum of 25% in 2013/14;
 - (c) no financial provision for the implementation of job evaluation;
 - (d) an ongoing contribution of £0.652 million from the Housing Growth Fund via Cambridgeshire Horizons to fund salaries and oncosts of various staff on the growth agenda;
 - (e) non-pay inflation of 2.5% where applicable or actual rates where known;
 - (f) a one-off sum in 2009/10 £0.150 million for support for the economic downturn which was originally proposed to justify half of the 4.5% increase in council tax in 2009/10;
 - (g) a provision for spending pressures due to population growth of £0.3 million per annum starting in 2012/13;
 - (h) a reduction in Formula Grant, the main grant towards General Fund revenue expenditure, of 18% in real terms over the four years from 2011/12;
 - (i) concessionary fares transferring from district councils to county councils with an estimated reduction in expenditure of £0.7 million, a reduction in special

grant of £0.09 million and a loss in formula grant of £0.886 million; an estimated net loss of £0.276 million;

- (j) an increase in council tax of 2.5% per annum from 2011/12 onwards; and
- (k) future cash receipts of £2.5 million for Housing and Planning Delivery Grant for the years from 2010/11 to 2013/14 to finance General Fund revenue expenditure and the capital programme in future years and of £0.138 million for Local Authority Business Growth Incentive grant.

Considerations- MTFS

9. The MTFS was last reported to Cabinet in February and since then there has been the Government's budget on 22nd June and several other announcements affecting local government finance.
10. The MTFS (**Appendix A**) has now been rolled forward a further year and shows that by the end of the projection period of 31st March 2016 the General Fund working balance is estimated to be £3.0 million in credit but with a £2.1 million deficit (appropriation from balances) on the account in 2015/16. The minimum working balance is considered to be £1.5 million but this would not be sufficient to meet the deficit on the General Fund in following year, 2016/17.
11. This financial position has been achieved by assuming additional, as yet unidentified, ongoing savings in a full year of £1.2 million per annum starting part way through 2011/12 with savings of £0.6 million and one-off costs of £0.3 million to achieve those savings and with the full year effect of £1.2 million in 2012/13.
12. It should be noted that:

anticipating the likely financial position and making savings early results in the anomalous situation in 2012/13 of full year savings of £1.2 million resulting in a **surplus** (appropriation to balances) in the same year of £0.443 million; and

it is coincidental that the spending pressures and the unidentified additional savings required are both £1.292 million in 2015/16 and exactly net off against each other.
13. The **assumptions now made** in Appendix A include:
 - (a) pay inflation of 0% in 2010/11, but then 0% again in 2011/12 and 2.5% in 2012/13 and thereafter. For simplicity, the pay restraint of 0% has been assumed for all staff, i.e. it has not been assumed that those earning £21,000 or less will receive an increase of £250 as expected by the Government;
 - (b) an employer's pension contribution rate as assumed in February;
 - (c) no financial provision for the implementation of job evaluation as assumed in February;
 - (d) an ongoing contribution of £0.652 million from the Housing Growth Fund via Cambridgeshire Horizons as assumed in February, although other specific grants such as Housing and Planning Delivery Grant have already been completely abolished;
 - (e) non-pay inflation of 2.5% as assumed in February;

- (f) a further sum of £0.150 million for support for the economic downturn has been included in 2011/12;
- (g) the provision for spending pressures due to population growth has been continued for a further year to 2015/16, i.e. a total for new growth of £3.153 million for the four years from 2012/13 to 2015/16. The original figure of £0.3 million was an approximate figure but, given the cumulative cost of this provision for growth, it is now recommended that it should be quantified in more detail;
- (h) given that the predictions for cuts in Government departmental spending now range up to 40% over a four year period, the reduction in Formula Grant has now been increased from 18% in real terms to 30% which equates to cash reductions of -3.9%, -4.2%, -4.7% and -5.3% after inflation and increases in the council tax base assuming that the grant system is changed so as not to penalise local authorities for increases in their resources through increased council tax income.

There was no mention in recent consultation paper on formula grant that this change would be made and, if formula grant is adjusted for inflation only, then the reduction in formula grant is 25%.

Revised population figures have been issued which result in an increased population for this Council, which could result in additional formula grant, but this has not been reflected in the MTFS as it is not in the consultation paper.

It has also been assumed that there will be no cash increase / a cut in real terms in 2015/16 but by then the reductions in Government spending are likely to have been achieved;

- (i) concessionary fares are as assumed in February, which includes a loss in formula grant of £0.886 million. However, the recent consultation on formula grant showed exemplifications ranging from a loss of £0.6 million up to a loss of £1.8 million compared to formula grant for 2010/11 of £7.823 million;
- (j) an increase in council tax of 2.5% per annum from 2011/12 onwards as assumed in February. This results in extra income to the Council but, for the years 2011/12 and 2012/13, the council tax increase may be 0% with the Government providing extra income equivalent to a 2.5% council tax increase.

If the Government imposed a freeze on council tax with no compensatory funding, the cost would be £1.7 million for a council tax freeze in 2011/12 and 2012/13 over the period of the MTFS. This assumes that a council tax freeze results in a loss of income in the year and a lower base council tax for every year thereafter, i.e. a council tax freeze, instead of a 2.5% increase, cannot be recouped by a 5% increase the following year; and

- (k) Housing and Planning Delivery Grant (HPDG) and Local Authority Business Growth Incentive grant have been abolished from and including 2010/11.

HPDG is being used to finance the revenue salaries of certain posts in planning and the shortfall on the funding of the capital programme from 2012/13 onwards. This still left a credit balance as at 31st March 2015 of £1.3 million which has now changed to a deficit:

	£ million
Estimated balance in hand as at 31st March 2015	(1.303)
Loss of future receipts on abolition of HPDG	<u>2.500</u>
	1.197
Estimated expenditure in 2015/16	<u>0.896</u>
Deficit to be met from the General Fund	<u>2.093</u>

It has been assumed that there will be no cuts to the capital programme and that any shortfall in financing will be met from revenue, together with the cost of salaries. This has been shown as a separate line on Appendix A as "Loss of Housing and Planning Delivery Grant".

The Coalition Government has stated that it will provide incentives for local authorities to deliver sustainable development, including for new homes and businesses. The Housing Minister was reported in August to have said that the New Homes Bonus will enable councils to keep for six years 100% of the added value in council tax arising from new housing in their area and 125% for affordable homes. No allowance has been made in Appendix A as consultations will not start until after the spending review and the grant/bonus may only be awarded once an increase over a threshold has been achieved.

Considerations – Council Vision and the Three A's

14. Following informal discussions between Cabinet and the Executive Management Team, the Council's Vision and corporate aims have been reviewed, and a number of key actions brought forward to enable these aims to be achieved during 2011-12.
15. Following this review it is considered that the Council's Vision and Corporate Aims remain relevant and appropriate and should therefore be retained. This is based partly on a desire to move to a longer-term model of strategic planning to improve consistency and stability, but primarily on the organisation's understanding of the needs of the community brought about through a wide evidence base including the district's demographic profile, formal and informal feedback, local, regional and national policy trends and current performance.
16. It is therefore recommended that the Council's Vision remains:

To make South Cambridgeshire a safe and healthy place where residents are proud to live, and where there will be opportunities for employment, enterprise and world-leading innovation. We will be a listening Council, providing a voice for rural life and first-class services accessible to all

That the five key corporate aims remain:

AIM A – We are committed to being a listening Council, providing first class services accessible to all

AIM B – We are committed to ensuring the South Cambridgeshire continues to be a safe and healthy place for you and your family

AIM C We are committed to making South Cambridgeshire a place in which residents can feel proud to live

AIM D We are committed to assisting provision for local jobs for you and our family

AIM E We are committed to providing a voice for rural life,

And that the Council's strategic approaches to the delivery of these aims remain as set out in **Appendix B**.

17. During 2009-10 and 2010-11, the Council agreed a focussed number of key annual actions set out to deliver positive outcomes for the community against each aim. Bringing together the local intelligence and understanding of our organisation and community identified in paragraph 15 above, a number of specific actions for 2011-12 are proposed in Appendix 2 attached.
18. Given the current level of uncertainty regarding future funding levels and the expected pressures on resource levels moving forward, the actions for 2011-12 will require no additional funding and will be delivered through the allocation and reallocation of existing resources. As such, they are considered a realistic set of goals that will achieve positive results within a financial context in which, as identified elsewhere within this report, ongoing efficiencies must be sought. In agreeing the draft actions at this stage, services can be proactive in prioritising resources into key areas and can explore innovative and cost-effective means of delivering 'more for less'.

Options - MTFS

19. There are numerous alternative assumptions that could be made but Senior Management Team has proposed that Cabinet adopt one financial projection based on clearly explained and agreed core assumptions. The significant adverse and positive risks to these core assumptions have been set out in this report.
20. The Government has recently issued a consultation paper, "Local referendums to veto excessive council tax increases", which proposes to abolish council tax capping. Capping will be replaced by the Secretary of State determining "a principle" which is likely to be a % increase in council tax with a financial de minimis. It is intended that the determination will be issued at the same time as the provisional local authority finance settlement which is likely to be early December so the "principle" will be known before councils set their council tax in February whereas, with capping, the criteria were issued after councils had set their council tax. Any council exceeding the "principle" would have to hold a local referendum.
21. No indication has been given in the consultation as to the likely permitted percentage increase in council tax so it has been assumed in the MTFS that the increase will remain at 2.5% per annum.

Options – Strategic Policy Framework

22. Cabinet may agree the Vision, Aims, Approaches and draft Actions as recommended, or bring forward amendments as it wishes, providing such amendments can be demonstrated to be meeting the needs of the organisation and community it serves.

Implications

23.	Financial	As above
	Legal	None identified at this point until specific saving proposals are made.
	Staffing	Savings of the magnitude proposed are likely to have significant staffing implications although these have not been identified at this stage.
	Risk Management	Addressed by making contingency plans for potential savings in expenditure with actual savings to be confirmed when the financial situation is clearer
	Equal Opportunities	The draft Council Actions for 2011-12 are intended to provide an inclusive approach to service provision, which caters for the needs of all the members of our diverse community.
	Climate Change	The draft Council Actions for 2011-12 include specific commitments to improve energy efficiency, explore renewable energy sources and funding opportunities, with a view to meeting challenging but achievable carbon reduction targets.

Consultations

24. As indicated above, the Council's strategic policy framework is informed by local intelligence and the organisation's understanding of the customers it serves. Nevertheless, it is recommended that the draft framework be approved for external consultation to 'test' whether the priorities we have identified are the right ones, and internally to apply this same test, to ensure that the actions are meaningful and provide a realistic and coherent 'golden thread' for the staff tasked with implementing them. The consultation will provide information and seek feedback on the financial as well as policy context, in order to reflect an integrated approach; its results will be reflected within final service plans and the Council's budget and Corporate Plan for 2011-12 and beyond.

Effect on Strategic Aims

25. The MTFS determines the resources available to the Council to continue to provide General Fund services and to achieve its strategic aims as far as possible within the current financial constraints.

Conclusions / Summary

26. The MTFS in Appendix A is based on numerous assumptions and indicates a need for ongoing savings in General Fund expenditure. It is proposed to, as part of the service planning process, consider potential savings options to meet the savings target set out in the MTFS. This will be pending more definite information likely to be issued in December.
27. Cabinet is recommended to retain the same strategic policy framework for the following year and agree for consultation a series of key actions which, it is considered, provide a challenging, but realistic and achievable, set of goals within the financial parameters set out within the developing MTFS.

Background Papers: the following background papers were used in the preparation of this report: Corporate Plan 2010-11

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