

SOUTH CAMBRIDGESHIRE DISTRICT COUNCIL

REPORT TO: Council

16th November 2005

AUTHOR/S: Finance and Resources Director

REVIEW OF MEDIUM TERM FINANCIAL STRATEGY

Purpose

1. To advise Members of the financial options available to the Council. This agenda item is for discussion only at this stage. Council will be requested to agree a revised medium term financial strategy under a later agenda item after issues concerning the Transformation Project have been resolved.

Effect on Corporate Objectives

2.	Quality, Accessible Services	Every effort has been made to minimise the impact of capping on services to customers and the community but some loss of performance in respect of all the corporate objectives is virtually inescapable.
	Village Life	
	Sustainability	
	Partnership	

Background

3. South Cambridgeshire's budget for 2005/06 has been capped by the Government at a maximum amount of £11.350 million, resulting in a council tax of £92.93 for a band D dwelling and a permanent ongoing budget reduction of £2.6 million. Council agreed on 28 July to a financial strategy based on a maximum budget of £11.350 million with future council tax increases of 5.5% per annum. Council also agreed on 27 October to net budget reductions of £1.651 million in 2005/06 (with the balance coming from reserves) and £2.742 million in 2006/07, net of savings in recharges which accrue to the Housing Revenue Account.

Considerations

4. Members may wish to review the financial strategy in view of the fact that some councils are budgeting on the basis of council tax increases of 5% or less as a result of the Government's continued warnings that it will not hesitate to use its capping powers if it considers their use necessary. However, the Local Government Association (LGA) as part of the initial stages of the local authority finance settlement is predicting council tax increases of 10% unless the Government injects extra cash with the current proposed increase in grant to local authorities not even being enough to cover basic inflation.
5. The Government is revising the population figures included in the finance settlement and has recently issued proposed amending reports for 2004/05 and 2005/06 which show this authority receiving an additional £0.046 million and £0.014 million respectively. The figure of £0.046 for 2004/05 falls well short of the estimate of £0.200 million previously included in the financial strategy. The new financial projections now include £0.084 million being £0.024 million for 2003/04, £0.046 million for 2004/05 and £0.014 million for 2005/06.

6. The settlement is likely to follow a similar timetable to last year when the provisional figures were released on 2 December. In addition to the provisional settlement for 2006/07, the Government will also be releasing provisional figures for 2007/08.
7. It has been assumed that:
 - a) the required Gershon efficiency savings can be found from within the net budget reductions already identified and further savings to be identified;
 - b) the net budget reductions include all bids for new revenue expenditure in 2006/07 so that the provision for new expenditure of £0.500 million per annum in the financial strategy starts in the year 2007/08. Some new expenditure is likely to be unavoidable due to new statutory duties, population growth, etc.;
 - c) it has previously been assumed that the tax base for tax setting purposes (the number of band D equivalent properties used to estimate the council tax bill for the district) will increase by 2% per annum in future years. However, this tax base has only increased by 0.9% in 2005/06 compared to 2004/05. Current calculations show an increase of only 1.2% in 2006/07 and the Development Services Director has indicated that it is unsafe to assume a rate of housebuilding higher than 1.75%, some of which may be exempt or eligible for discount for council tax purposes. The financial projections now assume an increase in the tax base of 1.5% per annum in future years, this being the annualised rate of increase over the last ten years;
 - d) to be consistent with the above, it is now assumed that the element of formula grant (external support from the Government) for growth areas will increase by 1.5% per annum instead of the previously assumed 2%;
 - e) both general and pay inflation will be 2.5% per annum in future years and the pension contribution rate will increase by 2.1 % per annum up to the year 2010/11, i.e. 11.2% in 2005/06, 13.3% in 2006/07, etc.; and
 - f) the travellers budget, excluding inflation and recharges, will remain at £550,000 for 2006/07, then reduce to £275,000 in 2007/08 and to £138,000 per annum for later years. The approved budget for 2005/06 consists of legal costs of £100,000, which is almost already spent, and £450,000 for direct action. If this year's budget of £450,000 for direct action is not spent, a request will be made for the budget to be rolled forward

Options

8. The options shown in the appendices include indicative figures for the year 2010/11 but these figures, looking five years ahead, are not sufficiently accurate to form the basis for major policy decisions.
9. The options which have been evaluated are:
 - a) Option1 (Appendix 1) - 5.5% council tax and 4% formula grant

This option is on the same basis as option 4 which was approved by Cabinet and Council on 21st and 28th July respectively in so far as it assumes council tax increases of 5.5% in line with the capping criteria for the current year. It now assumes increases in formula grant (external support) of 1.5% for growth districts

plus 2.5% for price increases. The savings approved by Cabinet and Council on 13th and 27 October respectively have now been incorporated.

This option indicates the need for a further ongoing reduction in the General Fund budget of £1.3 million in 2007/08. Even with this further reduction, the estimated council tax for 2009/10 at £115 is still £27 below the underlying level (the council tax excluding use of reserves) of £142 and a further ongoing reduction of £2.1 million might be needed in 2010/11.

b) Option 2 (Appendix 2) - 5% council tax and 3% formula grant

Subsequent to the Medium Term Financial Strategy being approved in July, discussions with the LGA indicated that the assumptions on council tax and formula grant may be optimistic and, therefore, this option allows for council tax increases of 5% and increases in formula grant of 1.5% for growth districts plus 1.5% for price increases.

This option indicates the need for a further ongoing reduction in the General Fund budget of £1.6 million in 2007/08. Even with this further reduction, the estimated council tax for 2009/10 at £113 is still £28 below the underlying level (the council tax excluding use of reserves) of £141 and a further ongoing reduction of £2.3 million might be needed in 2010/11.

c) Option 3 (Appendix 3) - 5% council tax and 3% formula grant and including estimated costs/savings of the Transformation Project

This is the same as option 2 with the addition of the estimated costs/savings from the Transformation Project showing separate costs/savings for business process review and the senior management team (SMT), the latter being based on a two person SMT and a most expensive case scenario of all four officers of the current management team being made redundant with early retirement benefits.

The Transformation Project is the subject of a separate report on this agenda. The projected costs/savings in the Project have been calculated by the consultants, Mouchel Parkman, on the basis of capitalised pension costs and at constant prices. Capitalised pension costs have been converted to revenue costs and, where applicable, constant prices converted to cash outturn prices in Option 3.

This option indicates the need for a further ongoing reduction in the General Fund budget of £1.4 million in 2007/08. Even with this further reduction, the estimated council tax at £113 is still £25 below the underlying level (the council tax excluding use of reserves) of £138 and a further ongoing reduction of £2.1 million might be needed in 2010/11.

The full effect of savings from the Project will not occur until 2011/12 when all the pension payments to the pension fund for early retirements, which are spread over five years, have been made. In 2011/12, when the steady state position has been achieved, estimated savings of £520,000 per annum, at 2011/12 prices and net of ongoing added years' pension benefits, should be realised.

Financial Implications

10. As mentioned above, all the options illustrate the need for further savings in addition to those approved by Cabinet and Council on 21st and 28th July respectively. All the options also include provision for new expenditure of £0.500 million per annum starting in the year 2007/08, some of which may be unavoidable.

Legal Implications

11. Further savings could affect the provision of statutory services.

Staffing Implications

12. Payroll costs are the largest item in the Council's budget and further savings may regrettably result in more terminations of contracts of employment. The possible reduction in staff resources may lead to increased pressure on remaining staff and increased sickness absence.

Risk Management Implications

13. The risks include:
 - a) the capping criteria may be relaxed, for example, by excluding local authorities setting council taxes below average, and/or the Government may substantially increase formula grant. In both cases budget reductions will have been made unnecessarily. The likelihood is considered to be very low;
 - b) the planned savings may not materialise. This risk can be offset by careful budget monitoring and the likelihood is, therefore, considered to be low; and
 - c) the approved and any further budget reductions may have an adverse impact on the Council's Comprehensive Performance Assessment and on other performance indicators. The likelihood is considered to be significant.
14. An option which has not been considered is to increase substantially the council tax in future years instead of making further budget reductions. The likelihood of being capped is considered to be high and, in addition, there would be a reputational risk to the Council which has always shown prudent financial management in the past.

Consultations

15. Statutory arrangements exist for consulting with Trade Unions where redundancies are proposed. Consultation on the Transformation Project forms part of an on-going dialogue locally with representatives of Unison and the GMB. If appropriate ALACE, (Association of Local Authority Chief Executives) will also need to be included in the consultations.
16. Staff generally are being kept informed of progress and a series of staff briefings are envisaged in due course.
17. Officers of Cambridgeshire County Council, a key partner organisation, are aware of the Transformation Project and will be involved more fully if Member support is forthcoming.

Conclusions/Summary

18. None.

Recommendations

19. A decision on which option to adopt as the medium term financial strategy will need to be made under a later agenda item.

Background Papers: The Mouchel Parkman report version 5.0 dated November 2005.
Council agenda and minutes for meeting of 28 July 2005 and 27
October 2005.

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