SOUTH CAMBRIDGESHIRE DISTRICT COUNCIL

REPORT TO:	Leader and Cabinet	14 October 2004
AUTHOR/S:	Management Team	

Medium Term Financial Outlook and Financial Strategy

Purpose

1. The main purpose of the report is to enable the Council to develop its future planning processes by identifying priorities for the next three years and the resources to support them. The report responds to the following actions in the Performance Plan:

CAP 2: Develop three year programmes 2005/06 to 2007/08 demonstrating how the Council's agreed nine priorities will be pursued (showing outcomes and resources)

CAP3: Develop and agree a five year Medium Term Financial Strategy to support the Council's priorities and reflecting factors impacting on the Council's resources in the medium term

2. The report also enables the Cabinet to give direction on the preparation of the budget for 2005/06 and the financial issues currently facing the Council.

3. This is a strategic report. More detailed planning will follow in the course of the year in accordance with the budget planning timetable agreed by the Cabinet in July.

4. The financial aspects of the report are focused primarily on the General Fund. However, a similar approach is being taken to the Housing Revenue Account (HRA).

Effect on Corporate Objectives

5.

Quality, Accessible Services	The purpose of the report is to provide adequate resources to enable the Council to achieve its corporate objectives in the medium term.
Village Life	
Sustainability	
Partnership	

Background

6. In July the Cabinet made the following main decisions, which were supported by the Council in August -

(a) Agreed that the Council should remain debt free.
(b) Reduce GF reserves to a working balance of £1.5m over a five year period (2009/10)
(c) Agreed that the Medium Term Financial Strategy should include provision for the use of capital receipts to support General Fund capital expenditure, subject to acceptable affects on the HRA
(d) Indicated a preferred maximum budget option of setting the Council Tax at the shire district average (**Appendix D** in the report) to keep within capping limits,

adjusted for all capital expenditure to be financed from capital receipts to enable a higher level of revenue expenditure to be supported

(e) Requested portfolio holders to identify 4% savings.

(f) Agreed arrangements for consultation on the budget.

Consultation Results

7. In the last few weeks consultation has been held on options for the Council Tax for 2005/06 and on services which are seen as more important and less important by Council Tax payers. The consultation has been carried out through a questionnaire circulated with South Cambs Magazine; through the Council's web site; and at a meeting with parish councils. At the time of writing this report, about 2,500 replies had been received. A separate report will be circulated to the Cabinet giving the results of the consultation.

Medium Term Issues Facing the Council

8. The purpose of a Medium Term Financial Strategy is to enable the Council to plan effectively to meet future spending needs, within the resources likely to be available. Some future spending requirements will be inescapable (for example to meet the needs of a growing population or new statutory requirements). The Council will also want to maximise the ability to achieve its priorities. A financial strategy is not only concerned with spending, but in making the best use of resources, through efficiency and ensuring that spending is in line with priorities and the views of local people.

9. There are many future pressures or other changes which will face the Council in the next five years and beyond. The most significant are given below:

(a) **Increasing population** – due to grow from 130,000 to 172,000 by 2016. This is likely to impact on all services, but particularly those where there is a direct link between additional houses and service requirements – eg waste collection and revenues.

(b) **The new settlements at Northstowe and around Cambridge**. There will be costs in terms of planning and providing the infrastructure for sustainable communities at the new settlements. These may be very different sorts of communities to our existing villages and different levels of costs may be incurred.

(c) **The CPA and efficiency/procurement**. As reported to the Cabinet in September, the government and Audit Commission will continue to use CPA to drive improvements in services and management and the focus will be broadened to include Community Strategy, partnership working and value for money. At the same time the government's implementation of the Gershon proposals will lead to an expectation on local authorities to achieve efficiency savings by, inter alia, a greater use of service procurement methods including partnership, joint provision and outsourcing.

(d) **Recycling and other national standards**. Councils will be expected to make progressive reductions in the waste going to landfill by waste minimisation and recycling. To some extent councils may be able to transfer the costs to users through charging mechanisms, but the impact on costs is not yet certain.

(e) **New legislation**. New legislation or regulation in areas such as environmental health; sustainability; planning or housing are likely throughout the medium term.

(f) **Community Strategy**. While many aspects of the Community Strategy fall within discretionary services, there will be increasing expectations that the Council will focus on the aims of the strategy – from partners and local people and the CPA process.

(g) **Changes in technology**. When the Council has completed its replacement of legacy systems and achieved the government's 2005/6 e-government target, there is likely to be a levelling out and reduction in investment in new technology. However, some new costs are inevitable as technology changes or user expectation increases.

(h) **Restructuring of the Council**. Two years ago PriceWaterhouseCoopers were invited to undertake a review of the Council leading to the establishment of the current departmental structure. It was envisaged that the Council would further restructure into a "front office/back office" model at an appropriate time, which would be in the period to be covered by the Financial Strategy.

10. There are also some potential significant changes which are unknown and of which the financial impact is uncertain – for example housing stock options appraisal and the possibility of regional government. For the purpose of this report, no assumption has been made about the outcome of the current housing stock option appraisal.

Proposals for Spending

11. In order to identify the spending requirements which the Financial Strategy must address, Service managers have been requested to identify possible additional spending needs over the next five years categorised as follows:

(a) Inescapable spending pressures.

(b) Areas where additional investment would produce substantial benefits in terms of the priorities adopted by the Council and those in the Community Strategy. These proposals would need to be accompanied by clear outcomes from the investment – for example improvement in performance indicators or clear quantifiable benefits to the public or service users.

12. The results are given in **Appendix A** and are summarised below for 2004/5 and the next three years. At this stage the figures are very approximate and are given to provide a broad perspective of the likely spending needs facing the Council.

	Category/Priority	Spending Pressures (£000s)			
		04/5	**05/6**	**06/7**	**07/8**
1	Not related to priorities	466.7	302.4	181.4	12.4
2	Improving Customer Service		449	314	198
3	Decent Homes – see below				
4	Affordable housing		*34*	10	10
5	Community Safety				
6	Provision for young people		25	25	26
7	Cleaner villages		*105*	205	220
8	Healthier lifestyles		91	43	38

	Category/Priority	Spending Pressures (£000s)			
		04/5	05/6	06/7	07/8
9	Access to the countryside		30	30	30
10	New settlements		68	103	105
11	Waste minimisation and recycling (Option 1)	172	281.5	206.5	361.5
12	Rural transport				
13	Climate change		3	3	3
14	Supporting Parish Plans		10	10	10
15	Capacity/Corporate Improvements	1	30	31	5
Sub Total		639.7	1,428.9	1,161.9	1,018.9
	Affordable Housing (possibly from capital receipts)		£1.0m	£1.0m	£1.0m
TOTALS:		**639.7**	**2,428.9**	**2,161.9**	**2,018.9**

Note: The above table combines both capital and revenue, with the exception of the bid for affordable housing which has been identified separately because of its significance and because it is the subject of a separate recommendation. At this stage no apportionment between the HRA and the GF has been undertaken for bids which will affect both.

13. The bids have been examined to give an initial assessment of those which are inescapable:

		04/5	05/6	06/7	07/8
Inescapable bids	Revenue	330	669	608	681
	Capital	300	240	47	-
TOTAL		**630**	**909**	**655**	**681**

14. The above proposals are the result of an initial review by services of possible future needs. There is still a great deal of work to be done to identify more clearly:-

(a) A fuller assessment of future spending pressures over the next 3-5 years in order to avoid unexpected demands on our resources over that period. It is almost certain that the work carried out so far has not captured all the changes that are likely to happen.

(b) Clear plans to progress our priorities – together with clear outcomes and timescales – ie what we want to have achieved - and performance indicators to measure our achievements. This will be required for the CPA Improvement Plan.

15. A number of strategic assumptions have been made in relation to planning:

(a) There will not be a further large increase in planning applications over the existing level of 2,700 per annum.
(b) Planning Delivery Grant will continue to finance the existing planning posts which have been created using the grant.
(c) The posts required for the growth areas (Northstowe, Eastern Fringe, Southern Fringe etc) will be funded by the Infrastructure Partnership.

16. Clearly if these assumptions prove to be incorrect, then further substantial costs will fall to be met by the Council.

17. The work referred to in paragraph 14 can proceed over the next weeks, but it would be assisted by some steer from Members in the light of the financial picture set out in this report and the consultation results.

Proposals for Savings

18. Cabinet asked portfolio holders and officers to exemplify 4% savings. The results of this exercise so far are given in **Appendix B** and summarised below:

Portfolio	**4% £000s**	**Savings total (£000s)**		
		05/06	**06/7**	**07/8**
Staffing and Resources	249	266.	435	435
Information and Customer service	138	244	209	209
Planning and Economic Development	121	99	159	159
Housing GF	56	67	67	67.
Environmental Health	218	210	255	253
Community Development	84	65	65	65
Conservation, Sustainability and Community Planning	27	25	29	25
TOTALS	**893**	**976**	**1219**	**1219**

Note: There are also plans to identify savings on the HRA in order to achieve an overall 4% saving on housing. In many cases the major part of a saving falls on the HRA.

19. The potential savings have been categorised as follows:

High Impact The saving would result in a high impact on the public or would otherwise have a major impact on the operations of the Council.

Low Impact. The saving would have an impact on the public or the Council, but would be lower.

Efficiency Saving. The saving would not have a significant impact. The same level of service can be provided

20. Applying these categories to the 2005/06 savings gives:

	Saving in 2005/06 (£000s)
High impact	215
Low impact	255
Efficiency savings	506
Total	**976**

21. It is important to take into account that some of the above savings are dependent on other decisions or negotiations and may not be achieved in full. Also, many of the savings, particularly those in the High Impact category, may not be acceptable.

22. The earlier section on spending identified substantial additional inescapable spending proposals for 2004/5 and 2005/6 (capital and revenue) – see paragraph 12. The additional inescapable revenue costs for the two years exceed the total savings

identified. If the Council wished to finance some of the desirable bids in order to promote its priorities, further savings or use of capital receipts would be required.

23. At this stage, the figures presented are very much estimates. The identification of savings and bids has been carried out in a short space of time to give Members a broad idea of the spending pressures facing the Council and the scope for meeting those pressures from savings. The figures will be worked up in more detail in the next stages of budget preparation. The figures presented raise a number of strategic issues which are addressed later in this report.

Priorities for 2005/06 and following years

24. As has been seen in the last section, the Council continues to meet year on year additional inescapable costs as a result of growth, government requirements and other factors. This will leave relatively little resource for service improvement and the Council will have to focus on the areas where it wishes to achieve improvement and to be creative in making the resources available.

25. As part of being focused, the Council will have to have fewer priorities; to be clear about how to translate those priorities to real service improvements experienced by the public; and to what resources are required.

26. In **Appendix A**, new spending proposals have been ordered according to the following priorities. These are the approved Council nine annual priorities to be tackled over a three year period together with four aims in the Community Strategy which are not covered by the Council's priorities.

Council Priorities (mostly shared with the Community Strategy)	
1	Improving Customer service
2	Decent Homes
3	Affordable Homes
4	Provision for Young People
5	Community Safety
6	Cleaner Villages
7	New Settlements
8	Recycling/waste minimisation
9	Rural Transport

Community Strategy Aims not covered by Council Priorities	
1	Healthier Lifestyles
2	Access to the Country side
3	Climate change
4	Supporting Parish Plans

27. It will not be possible to allocate adequate resources to address all these priorities effectively in the medium term. The Council's Financial Strategy will need to identify where additional resources will be directed and where they will not. This raises issues about the extent to which the Council can resource the Community Strategy.

28. In its response to the Audit Commission, the following priorities have been identified as the Council's "improvement priorities" for inclusion in the CPA Improvement Plan:-

- Improving customer service
- New Settlements
- Affordable Housing.

29. These are important because they address national priorities and local needs and the views of the public.

30. It is recommended that the Medium Term Financial Strategy should reflect these CPA priorities and, for the period 2005/6 to 2007/8, should aim to make resources available for the following purposes in the order given:-

(a) To meet inescapable requirements including population growth and statutory/central government requirements;

(b) To achieve agreed targets in relation to the three priorities of **improving customer service**, the **new settlements** and **affordable housing**.

The Use of Capital Receipts

31. At the July meeting Cabinet confirmed " the following financial policies to form part of the Medium Term Financial Strategy: …the use of capital receipts to fund General Fund capital expenditure in addition to the HRA and ICT, subject to the impact on the HRA being acceptable". The use of capital receipts is a fundamental issue in determining the Financial Strategy and the resourcing of Council priorities.

32. At the 31st March 2004 the Council had £26.6m of capital receipts. Later in this report and in **Appendix C**, four options are set out as possible financial bases for the future Financial Strategy. The four options incorporate different approaches to the use of the Council's capital receipts and savings. Possible approaches for the use of capital receipts are:

(a) **Continue to use capital receipts primarily for the HRA programme of housing maintenance** (**Option 1** in **Appendix C**). The policy of the Council has been to use capital receipts for HRA housing maintenance; ICT and new offices. In practice this approach would mean that in future capital receipts would be almost entirely used for the programme of housing repair, maintenance and improvement. This would be in accordance with the current capital strategy and business plan, which have been approved by the Government Office, which assume the continuing use of capital receipts (mainly from RTB) for investment in the Council's housing stock.

The current proposals for the use of capital receipts for the housing programme are as follows:

- 2004/5 to 2006/7: continue a housing programme of £7m-£8m per year for the maintenance and improvement of the housing stock, of which £4m - £5m is financed by capital receipts. By the end of this period all housing will have reached the Decent Homes standard and capital receipts are expected to have reduced to £17m.

- From 2007/8 to 2010/11: continue a housing programme at the same level to ensure that the Decent Homes minimum is maintained and to improve the housing stock to higher standards until the £17m is exhausted

- Subsequently, when the capital reserves are exhausted, the maintenance programme will be limited to £4m per annum (£3m from MRA and £1m from "in –year" capital receipts)

(b) **Use capital receipts for up to five years to meet all General Fund capital expenditure (ie capital spending currently financed from revenue and**

new capital spending proposals). (**Options 2 and 4** in **Appendix C**) The funding thereby released could be used either:

- to reduce the call on the Council Tax by approximately £20;

- to increase spending to meet the proposals in **Appendix A** or reduce the need for savings. Given the limited quantity of capital receipts, it would be prudent not to use this mechanism to incur recurring revenue expenditure.

(c) **Use capital receipts as in (b) PLUS £1m per annum for three years to finance affordable housing**. (**Option 3** in **Appendix C**). A recent Best Value review of affordable housing recommended the provision of £1m per annum for affordable housing. The following comments are relevant:

- It was suggested that this provision should be to support local village schemes away from the large developments at Northstowe and other major settlements. Value for money would be ensured through the application of the Housing Corporation guidelines and the contribution of privately raised funding by Housing Association partners. £1m would enable the building of 20 – 35 homes, depending on a range of circumstances including size and tenure.

- Affordable housing is a consistent priority of the public and of this Council.

- The review team did not recommend a means of financing this provision, although one of the means discussed was through the use of capital receipts.

- This proposed contribution would be in addition to other measures currently being considered - such as the proposal to make land available for affordable housing development at nil cost. Making the Council's housing land available at no cost would represent a loss of an HRA asset. One option open to the Council would be to place a limit on the total contribution made by the Council to affordable housing through the various means. So, for example, the proposed £1m contribution might be reduced by the value of free land made available.

- One of the CPA criticisms of the Council was that it had been slow to develop a future policy towards the extent and method of the Council's funding of affordable housing following the discontinuation of the LASHG scheme and other changes in housing finance.

33. (b) and (c) above would reduce the amount available for the housing maintenance programme. The projections in **Appendix C** demonstrate that overall:

- The use of capital receipts to meet General Fund capital expenditure ((b) above) would divert approximately **£6m** away from the HRA housing programme (**Options 2** and **4** in **Appendix C**)

- The use of capital receipts to meet General Fund capital expenditure **and** contribute to affordable housing ((c) above) would divert approximately **£9m** (**Option 3** in **Appendix C**)

34. What would be the impact of this transfer of resources? It would still be possible for the Council to meet its statutory obligations to achieve the Decent Homes standard for its own stock by 2010. From 2011/12 the Council would still have access to £3m per annum MRA. Up to now it has been assumed that the HRA housing programme would also be able to use the £1m capital receipts generated per year retained by the Council. Whether it would be possible to maintain Decent Homes standard with the resources available is not fully clear and would depend to some extent on whether in-year capital receipts are used for this purpose. A clearer picture will be available as a result of current projections being undertaken as part of the Housing Stock Options appraisal (see paragraph 36).

35. It is also important to note that the Decent Homes specification is accepted as a minimum standard and the Council currently operates a much higher standard that was supported by both Members and tenants. Although the structural integrity, thermal comfort and modern facilities are all part of the Decent Homes standard, many other improvement works that the Council currently provides and represent best practice are not included. Examples of excluded items are: environmental improvements to parking and lighting facilities, and internal redesign of properties to move bathrooms upstairs and provide better living accommodation. A reduction in resources would reduce the amount of such work undertaken. Disabled adaptations are also not included in the Decent Homes definitions but currently account for over £500,000 of work. (These adaptations have to be undertaken and, if not carried out under the HRA, would need to transfer to the General Fund.)

36. The Council is currently undertaking a Housing Stock Option Appraisal to determine the future for the housing stock based on a full evaluation of the stock condition in conjunction with the Council's financial position now and in the future. The outcome of the financial analysis is due before the end of the year and will give a detailed assessment of the current position based on current financial policy and model alternative scenarios based on given variables including the availability of capital receipts.

37. The Equity Share scheme operated by the Council requires a working balance of capital reserves to finance any imbalance between income and expenditure. Currently, a break even situation is projected, but a deficit in a particular year would need to be met and could impact on the capital receipts available for other purposes.

38. Under the current housing business plan, it is envisaged that the programme of housing maintenance will run down gradually as resources decline. This will allow staff reductions to be achieved over time through a process of natural change. The diversion of capital receipts to the General Fund now under consideration would result in a sharper reduction in the programme and implications for staff.

Conclusions and Issues

39. The purpose of this report is to enable the Council to be more specific about what it wants to achieve in the next 3-5 years and to set the framework for a Financial Strategy which enables those objectives to be delivered. More immediately, some steer is necessary to enable work to progress on service and budget planning for 2005/6.

40. These are some of the major issues arising from this report:

41. **What are our priorities and what do we want to achieve?** The financial picture presented in this report is one of diminishing financial resources as revenue balances and capital receipts are reduced, but with no let up of new external spending pressures (many of them inescapable). Resources available for service improvement are likely to be very limited. In this situation, the Council will need to focus on a small number of priorities and to be clear about what those priorities are expected to deliver.

42. In these circumstances, Management Team have recommended that for the next three years the Council make it clear that the first call for additional finance would be inescapable commitments then the three priorities put forward for inclusion in the CPA Improvement Plan – ie customer service, new settlements and affordable housing.

43. This would mean that all the other priorities would remain, but the Council is unlikely to be able to provide any additional resources for them in the next three years. This will clearly inhibit progress in areas important to Members, officers and the public. In particular, this could have implications for the extent to which the Council can support the Community Strategy. The Financial Strategy would be reviewed annually, to assess whether other priorities could be financed as the strategy is rolled forward.

44. **How will we most effectively use capital receipts to meet our priorities?** Difficult decisions need to be made about the use of capital receipts, balancing three competing demands: the existing use to maintain and improve the Council's housing stock; the priority for affordable homes; and the possible use to reduce pressure on the General Fund. If capital receipts are used to support recurring General Fund spending, it would not be a permanent solution, but only to "buy time" while other changes work through.

45. The possibility of the use of capital receipts for affordable housing raises a number of issues. Affordable housing is a priority for the Council, but £1m represents a considerable proportion of the Council's resources. It could be argued that given the changes in housing finance and other changes, this is now as much a national, regional or sub-regional responsibility. However, the Council may feel that it is appropriate to give a lead on this issue given its importance to local people and that it is appropriate for the Council to use its resources to support local village housing schemes which might not otherwise proceed. The Best Value review of affordable housing will be reporting to the Scrutiny and Overview Committee in November. Given the priority attributed to affordable housing, it might be appropriate to consider the redirection of capital or revenue resources from other non-priority areas for this purpose.

46. **How will we ensure that we can respond to future inescapable spending needs?** While the future is uncertain, it is inevitable that additional inescapable spending pressures will arise. This has been the pattern in the last three years and will continue to be so. So far, in the projections given to the Cabinet, no financial provision has been made for new inescapable spending in the years 2006/7 onwards or any new spending in support of our priorities. The Financial Strategy would not be realistic if it did not make provision for future additional spending. Experience from recent years is that at least £500,000 per year is likely to be necessary.

47. But where are those additional resources to come from? The recent savings exercise has demonstrated the difficulty in finding savings in a Council which is already running on lower resources and staffing levels than equivalent councils. Any further significant savings would require the substantial re-direction of resources from non-

priority services. If the Council uses capital receipts to finance General Fund capital spending, this mechanism cannot then be used again to find more savings in the revenue budget. The core problem is that the Council receives a relatively low level of government grant; has very limited other opportunities to generate income (such as car parking charges); and the other major source of income (Council Tax) is limited by the capping regime. On the other hand the Council is facing above average costs, because of growth pressures.

48. This is a fundamental issue facing the Council and which will need active discussion between officers and Members. Approaches considered by Management Team include: representations to central Government on the Council's position; building up a case by comparing the Council and its spending/efficiency with other councils through unit costs; undertaking a thorough service by service review to identify opportunities for savings or re-direction of resources.

49. **What will we do if Council Tax is capped at a point below our current plans?** It is possible that the situation faced will be very different, if the Government caps the Council Tax at a level significantly below our current planned level of £140 or if the results of public consultation indicate a need for a lower level.

50. Clear and agreed responses to these issues are required over the next few months to enable the Council to agree its future plans and the Medium Term Financial Strategy. Members' views are invited on the best way of progressing further deliberations and investigations.

Financial Options

51. In response to the points made in the foregoing paragraphs, it is proposed that the main thrust of the Financial Strategy should be to maximise the Council's ability to respond to inescapable spending pressures and make progress on its priorities, by:

(a) maximising the level of the Council Tax up to the district council average.

(b) using capital receipts to support spending on priorities and to meet inescapable commitments.

(c) continuing to seek efficiencies and opportunities to re-direct resources to meet Council priorities and reflect the views of the public.

52. Management Team has identified four possible options for the basis of the Financial Strategy. These are listed in **Appendix C** and summarised below:-

Option 1: Base 2005/6 and future years on the 2004/05 budget plus:-

- Known variations and additional approvals since adoption of the budget in February 2004
- All new spending proposals in **Appendix A**
- Capital spending based on the current policy – ie all capital to be funded from revenue except HRA housing programme, ICT and new offices, which are to be financed by capital receipts

Option 2: As Option 1 but with all existing capital spending and new capital proposals in **Appendix A** to be met from capital receipts for up to five years.

Option 3: As Option 2, but with £1m affordable housing financed from capital receipts for three years only.

Option 4: As Option 2, but with £500,000 savings in 2005/6. The savings have been projected into future years with added inflation.

53. The following table summarises the effects of the four options:

	Option 1	**Option 2**	**Option 3**	**Option 4**
Council tax	Above capping from 06/07	Above capping from 08/09	Above capping from 08/09	Below capping
GF balance reduces to £1.5m by	06/07	08/9	08/9	08/9
Capital receipts balance at 31/03/10	£5.3m	NIL	NIL	NIL
Reduction in HRA capital expenditure	No change	£0.5m cut in 09/10	£3.5m cut over 07/08 to 09/10	£0.5m cut in 09/10

54. In all cases it is assumed:

(a) that the capping limit remains at the average Council Tax of shire district authorities and that this, in itself, does not tend to raise up the average as lower tax councils increase up to the average. The nature of any capping becomes increasingly uncertain in the later years of the five year period.

(b) that all the spending identified in **Appendix A** is accepted. However, if Members accept the proposals on priorities elsewhere in the report, the total could be substantially reduced.

(c) that there would be no further additional GF expenditure of any kind (other than inflation) after 2005/6, that is not met from savings, underspends, reprioritisation or by further diversion of capital receipts.

55. Of the four options:

- **Option 1** enables the use of virtually all capital receipts for the HRA housing programme. With this option there is the greatest growth in the GF revenue budget (at net Portfolio Holder level) and the Council would reach the projected capping limit by 2006/7.

- **Option 2** is the equivalent to the diversion of £6m capital receipts to the General Fund, but it enables the Council to keep below the projected capping limit until 2008/9, without making savings.

- **Option 3** diverts £9m from capital receipts to the General Fund, but it enables the Council to make greater progress on affordable housing, which has consistently been a high priority for the public and the Council. As Option 2, the Council will continue below the projected capping limit until 2008/09.

- **Option 4** seeks savings of £500,000 in 2005/6 which would continue into later years. This enables the Council to keep below the capping limit for the five year period, but perhaps more realistically gives limited additional flexibility to meet future expenditure pressures.

56. Of all the four options, Management Team favour Option 4 because it provides greater flexibility to address future pressures.

Risk Management Implications

57. There are considerable uncertainties underlying the conclusions and comments in this report. Most of them have already been referred to – for example: the uncertainties of the capping regime; the fact that current projections do not provide resources to address future unforeseen spending pressures; and the assumptions that the Infrastructure Partnership will meet planning costs associated with the new settlements and that Planning Delivery Grant income will continue.

58. A further concern is that by completely draining capital reserves, the Council would be less able to respond to certain risks. Three of the above four options envisage that capital receipts will be exhausted by 2010. One risk regards insurance. Currently, the Council does not insure, for example, Council house properties because it would be possible to call upon capital receipts, in the event of major disaster. Another example, already mentioned, is the Equity Share scheme and the need to be able to cover years when obligations to re-purchase outweigh income. More generally, the Council will not have capital reserves to utilise for unforeseen replacements or eventualities. The Council will need some provision to make it less vulnerable to respond to these and other potential risks.

Financial and Staffing Implications

59. Financial implications are covered in the body of the report. There are a number of potential staffing implications. The possible impact of an accelerated reduction in the HRA housing programme has already been mentioned. The probable need to make savings to meet future spending pressures will also impact on staff. The proposed Workforce Plan will need to review approaches to the situations that might arise.

Recommendations

60. Management Team recommends that the following approach be adopted for the development of the Medium Term Financial Strategy, subject to further discussions, the results of consultation and more detailed work:

(a) That the following be adopted as the Council's priorities for the three years 2005/6 to 2007/8: improved customer service; the new settlements; and affordable housing.

(b) That the Medium Term Financial Strategy be based on the assumption that any capacity for new spending in the period 2005/6 to 2007/8 will be directed towards the following in the priority order given:

- Inescapable requirements such as population growth and government requirements.
- The three priorities (improved customer service; the new settlements; and affordable housing)

(c) That additional resources are unlikely to be made available corporately for service improvements in relation to any other priorities in the period 2005/6 to 2007/8;

(d) That Management Team be requested to bring forward to the Cabinet clear targets, action plans and resource needs for the three priorities (customer service; new settlements and affordable housing) for the three years 2005/6 to 2007/8 (also required for the CPA Improvement Plan);

(e) That the main thrust of the Financial Strategy should be to maximise the Council's ability to respond effectively to inescapable spending pressures and achieve the CPA Improvement Plan, by:

- maximising the capacity to invest in services within the prevailing capping criteria.
- using capital receipts to support spending on priorities and to meet inescapable commitments.
- continuing to seek efficiencies and opportunities to re-direct resources to meet Council priorities and reflect the views of the public.

(f) Subject to the views of public consultation, to agree **Option 4** in **Appendix C** as the base for the Financial Strategy, but with further scrutiny of the spending proposals in **Appendix A** to reduce them to what are truly inescapable or are necessary to meet the CPA Improvement Plan;

(g) If Members support **Option 4**, that Management Team be requested to bring forward recommendations for £500,000 achievable savings based on the results of consultation, Members' views and avoiding High Impact savings.

(h) That the scope for providing up to £1m capital funding for affordable housing for the three years 2005/6 to 2007/8 (and how this would be financed) be explored further with Members, including the possible redirection of resources from non-priority service areas;

(i) That Cabinet recognise the need to make provision for further new expenditure of at least £500,000 per annum in the years beyond 2005/6 to meet future spending pressures; and identify means of pursuing this, taking into account the possibilities considered by Management Team (paragraph 48)

61. Members are also requested to comment on how they would like to see Cabinet, Scrutiny and Overview Committee and other members involved in the further development of the proposals for the Medium Term Financial Strategy.

Background Papers: the following background papers were used in the preparation of this report: No unpublished papers

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