

SOUTH CAMBRIDGESHIRE DISTRICT COUNCIL

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

17th November 2004

MEDIUM TERM OUTLOOK AND FINANCIAL STRATEGY

Purpose

1. At the meeting of the Cabinet on 14th October, Members began the process to:-
 - Agree a Medium Term Financial Strategy for the period 2005/06 to 2007/8
 - Agree the priorities to be supported by this strategy
2. The purpose of this report is to address outstanding issues from that October meeting and to enable a wider range of Members to contribute to development of the Medium Term Financial Strategy. All Members are strongly encouraged to attend the meeting to contribute to this issue of vital importance for the Council. **All Members attending the meeting are advised to read the Medium Term Financial Outlook and Financial Strategy report to Cabinet on 14th October.** (Enclosed as a separate document).

Format of the Meeting

3. The first part of the meeting will be an informal discussion session to which all Members are invited to contribute.
4. The second part of the meeting will be a formal Cabinet meeting which will make recommendations to Council taking into account the views expressed at the informal stage.

Effect on Corporate Objectives

5.

Quality, Accessible Services	The proposals in this report are all aimed at achieving the Council's objectives. In particular, Members are advised that the identification of priorities for the years 2005/6 to 2007/8 should reflect the Council's long term priorities
Village Life	
Sustainability	
Partnership	

Background – Decisions from the Meeting on 14th October

6. In October the Cabinet adopted the following approach for the purpose of developing the Medium Term Financial Strategy, subject to further work and the views of a wider range of Members:-
 - (a) To draw up the Medium Term Financial Strategy on the basis that any capacity for new spending in the period 2005/6 to 2007/8 will be directed towards:
 - Inescapable requirements such as population growth and government requirements.
 - The three priorities (**improved customer service; the new settlements; and affordable housing**)
 - (b) To recognise 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

- (c) To request Management Team to bring forward to the Cabinet clear targets, action plans and resource needs for the three priorities (customer service, new settlements and affordable housing).
- (d) To adopt Option 4 as the basis for the Medium Term Financial Strategy. This option is based on the 2004/5 budget projected forward and including:-
- An allowance for inflation
 - Known variations and additional expenditure approved since the budget was approved in February 2004;
 - All new spending proposals which are inescapable or relate to the three priorities (customer service, new settlements and affordable housing)
 - Financing all existing and new GF capital spending from capital receipts for up to five years
 - Finding £500,000 savings for 2005/6
- (**Appendix 1** gives Option 4, revised to take into account the recommendations in this report. See paragraph 45 for a commentary on **Appendix 1**)
- (e) To give further consideration as to how it would be possible to finance the requested £1m per annum to support affordable housing.
- (f) To recognise that Option 4 above does not provide finance for any new expenditure for inescapable spending pressures or to progress the Council's priorities in the years beyond 2005/6; and to consider ways of addressing this issue.

Issue 1 – Priorities and Spending Proposals: 2005/6 to 2007/8

7. The Council will have limited resources for service development/improvement over the next three years. It is important therefore to be realistic about the number of priorities which can be financed over that period. On 14th October, Cabinet proposed the following priorities:-
- Improving customer service
 - The new settlements
 - Affordable housing
8. These are the same priorities which the Cabinet put forward for the CPA Improvement Plan. The reasons for the importance of these priorities are:-
9. **Improving Customer Service.** The Council has made substantial financial investment in the last four years in ICT systems for the purpose of improving the service provided to customers. However, as observed by the CPA team, the investment has not yet sufficiently followed through into service improvements. Substantial more work needs to take place in areas such as completing the Contact Centre project; establishing customer service standards for all services and delivering on them; achieving a customer care approach across the Council; enabling a much wider range of services to be delivered through the web-site and so on. All councils are required to achieve government targets by December 2005 and March 2006 for ensuring that specific services are available electronically.
10. This priority will involve all departments; it is an important priority both nationally and locally and to lose momentum on this priority at this stage would erode the value to the Council of the substantial investment made.
11. **New settlements.** For this priority, also, timing is critical. To maintain control over the situation, the Council must continue to maintain the impetus on the planning process. The new settlements at Northstowe and around Cambridge will have an impact on this district for

years to come. It is essential to put as much effort into “getting this right” from the outset. There are substantial opportunities to be gained in terms of affordable housing and sustainability by effective involvement by the Council through the planning process and the range of partnerships involved. To do this, officers across the Council need to place a high priority on contributing to this process and identifying and planning for the impact on the users of their services. All services, but particularly planning and community services will be affected. The development of new sustainable communities in this region is also a national priority.

12. **Affordable Housing.** This is largely linked with the previous priority as the new settlements will be the major way in which substantial new affordable housing will be delivered. Hence, also there is a timing issue, in that as a Council we need the resources and framework in place to make the most of the opportunities that arise. However, the Council’s approach will also involve measures to progress local schemes. Affordable housing is a consistent priority of the public and impacts on a wide range of Council functions – such as economic development; health, recruitment into the public sector, sustainable travel and quality village life.
13. The proposal is to adopt these three priorities for a three year period (up to 2007/8) and to limit new spending to these priorities and inescapable commitments. If this is confirmed, the next step would be to develop a CPA Improvement Plan for each of these priorities setting out clearly for the next three years: actions to be undertaken; outcomes to be achieved; milestones and resources needed. This work has not yet started in detail, but the actions and outcomes for each priority area are suggested to be:-

Improving Customer Service – actions, milestones and resources to:-

- (a) Complete the Contact Centre project and provide a high standards of service for residents using it.
- (b) Achieve government targets for e-government and specific service delivery.
- (c) Establish a wider range of services, including transactions, on the web site
- (d) Establish service standards across the Council and publish them. Monitor progress against them; provide training; integrate with Council systems;
- (e) Improve and use complaints and compliments systems.
- (f) Improve user satisfaction figures by the time of the three yearly survey in 2006.

New settlements – actions, milestones and resources to:-

- (a) Adopt clear objectives and corporate arrangements for pursuing them.
- (b) Clarify the ongoing role of the Council in the changing district.
- (c) Ensure the timely completion of the LDF, Action Area Plans, masterplans, design guidance etc to achieve the Council’s objectives.
- (d) Ensure that the needs of services are effectively pursued through the development process.
- (e) Achieve and contribute to effective partnership arrangements

Affordable Housing – actions, milestones and resources to:-

- (a) Continue to achieve at least 300 units of affordable housing per year, including an element of local village schemes.
- (b) Contribute to the LPSA County wide target of 290 affordable houses without grant.
- (c) Ensure planning policies, partnership arrangements and resources are available to meet these targets.

14. The adoption of these priorities (and the resourcing of the activities suggested above) would make it unlikely that resources would be available for other purposes, when inescapable commitments have also been financed. **Appendix 2** shows the impact of financing the known inescapable commitments and proposals to meet the three priorities in the next three years. These are summarised below:-

	Category/Priority		Spending Proposals (£000s)			
			04/5	05/6	06/7	07/8
1	Inescapable - not related to priorities	Revenue	296	367	342	530
		Capital	343	100	35	-
2	Improving Customer Service	Revenue	-	392	357	206
		Capital	-	245	12	-
3	New settlements	Revenue	-	98	218	75
		Capital	-	-	-	-
4	Affordable housing	Revenue	-	34	10	10
		Capital	-	-	-	-
	TOTALS	Revenue	296	891	927	821
		Capital	343	345	47	-
	GRAND TOTAL:		639	1236	974	821

15. The process of completing the CPA Improvement Plans may identify the need for further resources. For example, a project team has been established to improve customer services across the Council through various means such as agreeing customer service standards; training; consulting customers etc. This may need limited resources in 2005/6, but the requirements have yet to be identified.
16. **Appendix 3** shows the bids submitted to the last meeting which would not proceed, if the Council accepts the recommendations in this report.
17. The limitation of new spending to the three priorities (customer service; new settlements; and affordable housing) would mean that there would be no additional resources available to improve other services. Any improvements would need to be financed from within existing resources. This would have a major impact on the development of other services which have previously been seen as priorities for the Council – eg:-
- Cleaner villages
 - Improving recycling/waste minimisation
 - Youth provision
 - Rural Transport
 - Community Safety
 - Decent Homes
18. Also, progress on some aims in the Community Strategy would be slower than hoped – for example:-
- Access to the Countryside
 - Climate change
 - Healthier communities
19. However, major aspects of the Community Strategy relating to the new settlements, access to services and affordable housing would be pursued.
20. It is to be regretted that the Council cannot make progress on all the areas that it would like, but given the financial circumstances facing the Council, the three areas of improving customer service, new settlements and affordable housing are recommended as being the most time critical. The Financial Strategy will be rolled forward annually, and it will be possible to assess the scope for financing other priorities at that time.
21. Members are **recommended** to
- (a) Confirm that for the period 2005/6 to 2007/8 the Medium Term Financial Strategy should be based on meeting:-

- inescapable new commitments;
- proposals to be developed in the CPA Improvement Plan to progress the three priorities (improving customer service, new settlements and affordable housing)

If Members feel that other priorities are more important, the CPA improvement priorities should be aligned to those preferred priorities.

- (b) Request Management Team to prepare a draft CPA Improvement Plan based on paragraph **13**;
- (c) Give approval in principle to the spending proposals in **Appendix 2**, subject to the preparation of more detailed costs and justifications and the outcome of the preparation of the CPA Improvement Plan;
- (d) Request officers to prepare short justifications and firmer costs for the expenditure proposals in **Appendix 2** for 2005/06 for consideration of Cabinet on 9th December.
- (e) Agree to consider the additional spending for 2004/05 given in **Appendix 2** in the revised estimates process

Issue 2: Savings in 2005/6

22. **Appendix 4** gives the recommendations of Management Team in response to the request to put forward £500,000 savings for 2005/06. The savings are based on the principle of accepting mainly the bids which were categorised in the October report as “Efficiency Savings” and some of those classified as “Low Impact”.
23. The grand total for the savings is £458,200 for 2005/06, but the annual effect exceeds £500,000 for 2006/7 onwards. If Members wish to “top up” the savings for 2005/6 to £500,000, this could be achieved by implementing in 2005/06 some of the savings suggested later in this report for 2006/07 onwards.
24. Members are **recommended** to accept these savings and authorised them to be included in draft estimates.

Issue 3 – Capital Receipts and Affordable Housing

25. The report to the Cabinet on 14th October covered in some detail the use of capital receipts for General Fund capital expenditure, including the impact on the HRA programme of housing repair and maintenance. Members are invited to refer to the report for this discussion.
26. Management Team have considered the possible allocation of £1m of capital receipts to support affordable housing programmes.
27. The Scrutiny and Overview Committee is due to consider a report on 18th November from the Best Value review team on affordable housing. The report makes various recommendations on means of increasing the supply of affordable housing, including the use of capital receipts to finance local housing schemes, which are unlikely to gain central funding.
28. In considering this issue, the following factors are relevant:-
 - a) Affordable housing is one of the priorities of the public and the Council. The availability of housing that local people can afford has wide ranging implications – including on the

local economy; public sector recruitment; sustainable travel patterns; homelessness; and quality of village life.

- b) The latest Housing Needs survey (in 2002) estimated that about 870 units of affordable housing need to be achieved per annum to meet need in the district. The target of the Council is to provide a minimum of 300 per year over the next few years.
 - c) The Council's ability to facilitate affordable housing provision has been very much reduced by the termination of the LASHG scheme and the pooling of housing capital receipts. In response, various other means are being looked by the Council and at a sub-regional level to achieve affordable housing with lower levels of subsidy by working effectively with developers and through the planning system.
 - d) One of the ways that the Council can make resources available for affordable housing is to release land at no cost for schemes to increase the supply of affordable housing on the land owned by the Council. At the last Council meeting a number of sites were released in this way. This represents a loss of an asset to the HRA. One of the recommendations of the Best Value review team is to carry out a comprehensive review of land owned by the Council to identify opportunities for the provision of affordable housing by development or redevelopment, and if this proposal is accepted, more proposals for the release of land at no cost could come forward. The limitation of this means of subsidising affordable housing is that it only applies to development on sites owned by the Council.
 - e) In advising on this matter, Management Team have tried to assess the impact that £1m could have, if invested in affordable housing, compared with its effectiveness if invested in the General Fund or the programme of repair and maintenance of the Council's housing stock. Approximately, each £1m made available by this Council would enable 20-35 units of affordable housing to be provided; this compares with targets to achieve 300 units per year.
29. In taking these and other issues into account, the advice of Management Team is that the most appropriate means of supporting affordable housing is through the release of land at no cost. Members are therefore **recommended** to continue to support Option 4 (as amended in **Appendix 1**) and in particular to:-
- (a) Confirm the previous decision to use capital receipts to finance existing General Fund capital expenditure and approved new capital expenditure (ie in **Appendix 2**);
 - (b) Support the principle of releasing land and property at nil value to support affordable housing schemes ;
 - (c) Decide not to provide £1m of capital receipts pa to support affordable housing.
30. Members may wish to refer to the Best Value report on affordable housing to the Scrutiny and Overview Committee for more information on this issue.

Issue 4 – Meeting spending pressures in 2006/7 and future years

- 31. The report to the October meeting of the Cabinet spelt out the range of uncertainties and spending pressures which the Council will need to address in the next 3-5 years. The last few years have demonstrated that each year new inescapable pressures arise.
- 32. The rate of change is not declining. Factors such as the new settlements; population growth, a likely General Election and government with a new programme in 2005; and others are likely to mean that spending pressures will continue. Perhaps one element of respite is that

spending on ICT systems is likely to level out, as the Council meets its and the government's e-government targets in 2005 and 2006.

33. **Appendix 1** now includes a provision of £500,000 for new spending in 2006/07. This sum is projected into future years – ie it would allow the continuation of spending authorised in 2006/7 but would not allow new spending to be initiated in future years. This is unlikely to be sufficient. Experience in this year and previous years has been that bids substantially in excess of £500,000 are put forward. Many of the bids are inescapable and many involve recurring revenue expenditure. As it stands, the Medium Term Financial Strategy would not be a realistic response to future needs. It would provide a good starting point to meet new requirements in 2006/7 but not in 2007/8 and beyond.
34. One important consideration is that councils are very soon likely to be requested by the government to achieve savings in response to the Gershon review. The latest information is that councils will be expected to achieve efficiency savings of 2.5% per annum for each of the three years 2005/6 to 2007/8. Some element of this must be in cash savings to reduce the budget and call on Council Tax; and some can be in terms of improved service at the same cost. How or whether this exercise will help the Council to address future spending pressures is not yet clear.
35. Another important development is that the Audit Commission are currently drawing up their proposals for the inspection regime (from April 2005) and the CPA in future years. This will include a much greater emphasis than previously on achieving value for money and efficiency – particularly through improved procurement of services. It is likely that the Council will be subject to audit commission inspections of services from 1st April 2005 which include an assessment of efficiency and value for money.
36. There are a number of ways in which the Council could seek to make a more realistic level of resources available for spending pressures in 2006/7 onwards:-
 - a) **Continuing to seek percentage savings across the board.** As this year, the Council could try again to find savings by requiring services to shave costs from their budgets. The disadvantage of this approach is that it has a demoralising effect across the Council and affects priority services and less important services equally.
 - b) **Undertake independent reviews of the scope for savings.** The approach would be to identify possible areas where savings might be found by such measures as clarifying and reducing objectives; reviewing processes and aligning them with objectives; zero based budgeting; reviewing procurement arrangements etc. It might prove to be necessary to do something like this in response to Gershon and the new inspection regime.
 - c) **Seek to identify areas where income could be maximised.** The Council has generally tried to do this wherever possible, but a fresh look at the opportunities, motivated by the Council's future financial position might be productive. Areas to consider could be charging for services where no charges are currently made and sponsorship.
 - d) **Continue to press for recognition of the Council's financial position from government.** This could include building a case that the Council is already operating efficiently in comparison with other councils. This might be required anyway as part of the revised CPA and Inspection regime. The difficulty would be in identifying costs which are genuinely comparable between local authorities.
 - e) **Redirect resources from low priority service areas.** It is suggested that the starting point for this exercise would be services which were seen as least important by the public in the recent consultation exercise and to identify how the Council might make savings in these areas, but clearly identifying also what corresponding reductions in service levels would result.

37. In relation to (e) above, the following are the relevant results from the recent consultation on priorities. The final column gives the % of respondents who included the service concerned in the five that they felt least important.

	Council services in order of importance to the public (least important first)	%
1	Arts development and support & promotion for arts/theatre events in villages	77
2	Economic development and tourism	61
3	Sports development, sports facilities and Milton County Park	45
4	Regulation and licensing (eg, building safety, taxi licensing, liquor licensing)	36
5	Community grants (eg, support for village halls, community groups and projects)	31
6	Benefits (administering Housing and Council Tax benefits)	26
7	Conservation (eg, historic buildings, landscapes, nature)	25
8	Youth provision (support for activities for young people and youth involvement).	23
9	Housing advice, improvement grants, affordable housing, help for homeless	21
10	Planning policy – shaping future land use in the district	16
11	Traveller issues	14
12	Food safety, pollution monitoring & control, and pest control	11
13	Planning permissions and enforcement action against unauthorised development	11
14	Community safety (projects to tackle crime and disorder)	6
15	Street cleaning, including the removal of fly-tipping and abandoned vehicles	3
16	Refuse collection and recycling	2

38. Management Team have identified the following potential service areas from which resources might be redirected, if necessary:-

Service	Potential Resources to be re-directed (£000s)
Museums	63
Arts provision	130
Sports provision	130
Tourism	60
Restructuring - back office/front office	100
Library	17
Cycleways	100
Discretionary Rate Relief	175
Footway lighting	60
Recycling Payments	65
TOTAL	900

39. In identifying these areas, account has been taken of the results of public consultation; whether services are statutory or discretionary; and practical considerations.
40. If the Council is to make meaningful progress in finding resources to meet future spending pressures, some element of redirecting resources from lower priorities is almost certain to be necessary. This might be combined with other options from paragraph **36** above.
41. If Members wish to proceed with redirecting resources from some or any of the above suggested areas, it would be important to undertake further work to identify:-
- a) The impact of redirecting resources from the services in question in terms of service provision, staff, risks and any implications on joint funding arrangements or other

commitments.

- b) The best way of implementing the proposals to minimise the impact.
- c) The impact on the Council's priorities and the Community Strategy. For example, reducing sports provision could affect other Council priorities such as community safety and youth provision.

42. Members are **recommended** to indicate their preferred options for resourcing future spending pressures from 2006/07 onwards from the options given in paragraphs **36** to **38** and indicate their preferred means of pursuing them.

Issue 5 – Council Tax capping

43. The report to Cabinet in October, highlighted the possibility that Government capping rules might be changed in such a way that the Council's proposed £140 Council Tax for 2005/6 might not be permitted and a substantially lower limit imposed. In the context of recent government statements that Council Tax rises in "low single figures" are expected, this might be a distinct possibility.

44. A Council Tax cap significantly lower than the £140 proposed, would put the Council in extreme difficulties for 2005/6 and future years. The imposition of a limit of a punitive nature on a Council whose spending and Council Tax would still be below average would seem unreasonable and a return to the "crude and universal capping" of previous years. Nevertheless, it would be prudent to be in a position to respond to such an eventuality and Members are **recommended** to consider what preparations might be necessary.

Financial Implications

45. Option 4 (as set out in **Appendix 1**) was originally presented to Cabinet on 14th October. It has been updated to take account of:-

- (a) The reduction in the spending proposals in this report compared to the proposals on 14th October, the variance being:

	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10
	£'000	£'000	£'000	£'000	£'000	£'000
Cabinet 14/10/04						
Total expenditure	840	1,429	1,162	1,019	964	957
Less capital expenditure	(343)	(285)	(12)	0	(25)	0
Revenue expenditure	497	1,144	1,150	1,019	939	957
Cabinet 17/11/04						
Total expenditure	639	1,236	974	821	837	862
Less capital expenditure	(343)	(345)	(47)	0	0	0
Revenue expenditure	296	891	927	821	837	862
Reduction in revenue expenditure						
	201	253	223	198	102	95

- (b) The estimate for future pay awards has been reduced from 3.5% per annum to 3% per annum; on a rough estimate of the General Fund paybill of £10 million, this only saves £50,000 in 2005/06 but the effect is cumulative, i.e. £50,000 in 2005/06, £100,000 in 2006/07, etc.

- (c) The original Option 4 gave Council Tax projections which were below the assumed capping level of the projected shire district average; the revised Option 4 shows a

projected SCDC Council Tax of £175 in 2009/10 which is at the projected capping level for shire districts and just below at the underlying level of £177. With regard to capping, this may be considered to be a higher risk strategy as the capping criteria might be made more stringent. Balances as at 31st March 2010 are projected to be £1.918 million for the General Fund and NIL for usable capital receipts.

- (d) There is now scope in the updated Option 4 for new recurring revenue expenditure of £500,000 in real terms in 2006/07 and this has been built in to the attached projections from 2006/07. This will contribute towards the cost of new spending proposals in 2006/07 with any balance having to come from savings.

Other Implications

46. There would almost certainly be staffing implications from any proposals to redirect resources in response to the suggestions in paragraphs **37** onwards. A number of issues covered in the report indicate an element of risk. For example, the need to plan to avoid the risk of not being able to meet additional financial commitments and to prepare for the risk of Council Tax capping.

Recommendations

47. Recommendations are given separately under each of the issues addressed in the report and can be found at the following paragraphs:-

Issue 1: Priorities and spending proposals	paragraph 21
Issue 2: Savings in 2005/6	paragraph 24
Issue 3: Capital Receipts and Affordable Housing	paragraph 29
Issue 4: Spending Pressures in 2006/7 and future years	paragraph 42
Issue 5: Council Tax Capping	paragraph 44

Background papers: No unpublished background papers have been used in the preparation of this report.

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