

**South Cambridgeshire District Council**

**Medium Term Financial Strategy 2005/6 to 2009/10**

Context – Long term view of the Council's General Fund (GF) Financial Position

- A1. Seven years ago the Council was distinctive in having low levels of spending, staffing and Council Tax. In 1998/99, actual General Fund net expenditure (net committee spending) was about £8.5m and Council Tax was set at zero. The result was a comparatively low level of investment in services and the infrastructure required to run a Council serving a population of over 120,000.
- A2. In the last seven years spending has increased to a level of £18.14m (net Portfolio Expenditure) for 2005/6 and a projected £21m by 2009/10. This increase has been largely the result of government pressure through Best Value and other regimes for councils to achieve a certain standardisation in terms of services provided and the way those services are delivered. There have also been local factors such as the pressure for new development, Cambourne and the aspiration to improve customer service using new technology.
- A3. The financial effect of much of this growth in spending has been cushioned by the ability to use balances, capital receipts and the interest arising. As a result Council Tax has not risen commensurately. For the last few years the Council's Council Tax has continued as one of the lowest in the country, while its spending has been growing more quickly.
- A4. Over the next five years there is unlikely to be a let-up in pressures for new spending. Examples include:-
- a) The planning and provision of services at Northstowe and other growth areas.
  - b) Continuing spending on ICT (but at a lower level than in the last four years) to improve services and keep pace with technological change and users' expectations.
  - c) Long term plans to address improvements in recycling, waste minimisation and, potentially, other aspects of a growing climate change agenda.
  - d) Expectations for the Council to develop its community leadership role in particular in relation to the Community Strategy.
  - e) The need to make improvements in services identified as areas for improvement – for example street cleaning – driven by local expectations and CPA.
  - f) Other new government requirements or expectations.
  - g) Factors which are currently completely unknown and unexpected.
- A5. However, revenue balances and capital receipts will no longer be available to the same extent as in previous years to meet these pressures:-

- Capital receipts will run down as a result of the government decision to pool 75% of capital receipts for the sale of RTB housing. Current projections, based on the proposals in this strategy are that capital receipts will reduce to less than £1m by 2009/10 (See Appendix 2)
  - Revenue balances have fallen from a level of greater than £10m to a projected minimum level of £1.5m by 2009/10
- A6. As a result, throughout the period covered by this strategy, new spending will fall more directly on Council Tax; or will have to be met through other means such as:-
- efficiency savings;
  - transferring resources from areas of lower priority
  - increasing income.
- A7. New spending will also need to be increasingly well justified and prioritised and budgets controlled tightly. Similarly, the recent decision to fund GF capital spending from capital receipts will mean that, as capital receipts reduce, the Council will need to find new ways of financing that spending or will need to prioritise, reduce or taper its capital proposals.

#### Context – Housing Revenue Account (HRA)

- A8. The Housing Revenue Account represents a substantial element of the Council's finances. For 2005/6 the HRA totals £38m (gross) and £20m (net). The Housing Business Plan sets out the long-term financial position for the Council's housing finance. Like the General Fund, the HRA is also under pressure. The Council has been relying on the running down of working balances to balance the HRA, but those balances have now fallen to a level at which this is no longer possible. At the same time national rent restructuring proposals leave the Council with little control over rent levels. Also, Council house sales through RTB impact on the Council's finances. The overall result is a need to reduce running costs. The HRA and GF are interlinked, in particular in that many corporate services and systems support both the HRA and GF and savings in one area affects the other.
- A9. The Council is currently in the process of appraising options for the future of the housing stock. This will include the development of financial projections for each of the four options under consideration, with implications for both the HRA and GF. Decisions will be made by the Council in May and June to meet the deadline report to the regional office by July.

#### Context - The Council's Priorities

- A10. A fundamental aim of the MTFs is to enable the Council to progress its priorities and respond effectively to local and national changes. The Council has agreed the following priorities for the three years 2005/6 to 2007/8:-
- A11. **Improving Customer Service and ICT.** The Council has invested substantially in improving its ICT capacity to deliver more efficient and improved customer service. 2005/6 is a key year in this process as the Government has set targets of December 2005 and March 2006 to deliver electronic service delivery outcomes. Major investment is likely to level out after 2005/6, but continued spending at a reduced level is likely to be necessary to maximise the impact of the Council's investment in meeting customers' needs and in responding to changes in technology and customer expectations. To some extent this should be balanced by savings through efficiencies

made possible by the ICT investment. At this stage the Council has not quantified in detail future spending requirements beyond 2005/6.

- A12. The major investment made by the Council in ICT has brought us up to current standards. However, these systems will need updating and replacement some time in the future. It is difficult to assess when this will be required. Future planning will be necessary to even out future spending on updating ICT systems to avoid the run down and major replacement exercise which has occurred over the last four years.
- A13. **New Settlements.** The Council is committed to achieving successful, sustainable communities at Northstowe and the new settlements around Cambridge. Additional resources have already been provided for planning, housing and community services posts in relation to Northstowe. However, further costs will be incurred in such areas as:-
- (a) The provision of leisure and community facilities at Northstowe and future settlements.
  - (b) The provision of a one-stop shop or other Council office at Northstowe and future settlements.
  - (c) Specialist staff such as planners, legal, retail, landscape and urban design, community facilities design, drainage and project management at Northstowe and future settlements.
  - (d) The extension of services to meet a growing population – in particular in areas such as waste collection and recycling, street sweeping, environmental health and development control.
- A14. Where possible, the Council will continue to try to share costs with Cambridgeshire Horizons, developers and other partners. In time the new developments will bring increased Council Tax income to finance the services required, but this does not cover the substantial setting up costs of planning and developing the new settlements.
- A15. It will be necessary to review the costs of Northstowe and other new settlements in preparing future revisions of the Financial Strategy.
- A16. **Affordable Housing.** The financial context to enable the Council to provide affordable housing has changed dramatically in the last two years with the loss of Local Authority Social Housing Grant (LASHG) and the national pooling of 75% of capital receipts. The Council has considered its approach to financing affordable housing in these circumstances through a Best Value review and other means. It is recognised that a greater emphasis will now be required on maximising capacity to achieve affordable housing through planning policy, implementation, enabling and partnership work. In the last two years the Council has built up its officer capacity in these areas, including appropriate officers for the Northstowe development. Further investment may be necessary to have the right skills in place for subsequent new settlements.
- A17. In preparing this strategy, the Council had decided not to make capital receipts available to provide a subsidy for affordable housing, in view of the limited impact that could be made by the level of resources that the Council could direct to this area and the disproportionate impact on the Council's other priorities. It has been decided, however, that the Council will make housing land available at nil cost for appropriate schemes providing affordable housing. This will not require specific provision to be made in the Financial Strategy.

- A18. **Future Priorities.** The Council has adopted the above priorities for the three years 2005/6 to 2007/8. However, it is important to continue to review and roll forward priorities, making adjustments and changes to reflect different local and national circumstances prevailing or expected.
- A19. The current three year Community Strategy continues up to April 2007. It would be appropriate to review the priorities of the Council and those for the Community Strategy in a process starting in 2005 to seek greater convergence for April 2007 onwards.

#### Context – Assumptions Made

- A20. The following are major uncertainties and the assumptions made in this strategy:-
- (a) **Capping.** No specific provision is made to address the consequences if the Council's council tax is capped by the government.
  - (b) **Housing Options Appraisal.** No allowance has been made for the effects of any changes as a result of the stock options appraisal.
  - (c) **Gershon.** An assumption has been made that the Council will achieve the savings which, at this stage, it is understood the Council will be required to make. However, no assessment has been made of the achievability or impact of the savings.
  - (d) **Local Government Re-organisation and other potential changes as a result of the general election.** No assumptions or provision have been made.
  - (e) **Council restructuring – front office/back office.** The Council plans to review its departmental structure, with a view to moving to a front office/back office arrangement. Again, no assumptions have been made as to the timing or the financial impact.
- A21. It is planned that the Medium Term Financial Strategy will be reviewed and rolled forward annually, starting with an initial review process in June/July each year. The position in relation to the above uncertainties will be clearer by July of this year when the first review will begin.

#### Overall Aims of the Strategy

- A22. In the light of the foregoing context, the following are the overall aims of this strategy:-
- (a) To provide the financial resources necessary to enable the Council to
    - make significant progress in relation to its Corporate Objectives and annual priorities and the aims in the Community Strategy in the medium term;
    - respond effectively to changes in local circumstances and national priorities, without putting valued services at risk;
  - (b) To achieve (a) while ensuring that Council Tax remains at a level that is not out of step with other councils by maximising efficiency and value for money
  - (c) To achieve sustainable budgets which are not dependent on reserves (for both the General Fund and Housing Revenue Account)

(d) To exercise effective financial control and minimise risk

- A23. Objective (b) will continue to be difficult for the Council in the light of the fact that growth area status places out of the ordinary requirements on the Council, while it receives comparatively low government grant and has few opportunities to generate income because of its rural nature and absence of substantial settlements.

#### Policies for overall Financial Objectives up to 2009/10

- A24. Appendix 2 sets out projections for spending, Council Tax and use of balances/reserves which the Council will aim to achieve in the next five years. The projections reflect the following policies which will guide the Council's financial planning over the medium term:-
- A25. **Policy 1: Revenue Balances.** The Council will continue to run GF revenue balances down to a minimum level of £1.5m.
- A26. **Policy 2: Council Tax.** The Council will allow its Band D Council Tax to move up towards the district council average and then keep within that limit (subject to capping).
- A27. **Policy 3: Debt Free Status.** The Council will continue to preserve its debt free status for the foreseeable future. This policy will be reviewed when it is no longer possible to finance General Fund capital spending by using capital receipts (see Policy 4).
- A28. **Policy 4: The use of Capital Receipts.** The Council will finance General Fund capital spending from capital receipts, with the remaining capital receipts being available for Housing Revenue Account capital spending. This policy will be reviewed annually, but it is envisaged that it will continue until all accumulated capital receipts are exhausted and the only capital receipts available are those generated "in-year". From that point the Council will allocate all capital receipts to HRA capital spending and review the options for the continuation/financing of General Fund capital spending which will include the possible option of borrowing.
- A29. **Policy 5: Minimum Level of Capital Receipts.** The running down of accumulated capital receipts to zero would involve some element of risk. For example, resources would not be available for certain risks which the Council does not currently insure against and in the event that demands for the equity share scheme could not be met by receipts in a given year. The position will be reviewed annually and, if appropriate, a minimum level of capital receipts will be retained to cover necessary risks

#### Policies for Spending and Priorities

- A30. **Policy 6: Annual Provision for new spending.** The Council will make available £500,000 for new revenue spending in each of the years covered by this strategy (up to 2009/10). Based on past experience, this is likely to be a minimum provision to allow the Council to remain responsive to needs in a dynamically changing area and to make progress in service development and improvement in line with its objectives. All the £500,000 could be of a recurring nature, if appropriate (as allowed for in Appendix 2). This capacity for new spending will be created within the foregoing policies in this strategy by:-

(a) The utilisation of virement between existing agreed budgets.

- (b) The use of efficiency savings created in response to Gershon or otherwise. (See Policy 10)
- (c) The re-direction of resources from low priority areas (See Policy 11)
- (d) The maximisation of additional sources of income. (See Policy 12)

A31. **Policy 7: Priorities for New Spending.** The resources made available for new spending by policy 6 will be used to meet the cost of:-

- (a) Inescapable spending pressures falling on the Council such as new statutory requirements and the provision of services to meet population growth.
- (b) Furthering the Council's priorities (currently: Improving customer service; affordable housing and the new settlements)

A32. **Appendix 3** identifies possible additional spending needs for 2006/7 onwards which are currently not provided for within the projections in Appendix 2. These potential areas of spending are for planning purposes only and specific proposals would need to be assessed (Policy 8) before inclusion in budgets.

A33. **Policy 8: Assessing new spending proposals.** All new spending proposals greater than £10,000 (GF and HRA) will be assessed in a structured manner (including consideration by the Scrutiny and Overview Committee) to ensure value for money and service impact before inclusion in budgets.

A34. **Policy 9: Future review of priorities.** The Council's current priorities (customer service, affordable housing and new settlements) have been agreed up to 2007/8. These will be reviewed annually and a fuller re-assessment will be undertaken to coincide with the preparation of the second three-year Community Strategy which will come into effect in April 2007.

Policies for Savings

A35. The Government has required all councils to achieve 2.5% efficiency savings in each of the three years 2005/6 to 2007/8. At least half of those savings are to be cash savings which can be used to reduce spending or improve services. The other savings may be service improvements or greater productivity (for example more applications processed) with the same resources. The Council has a history of operating with lean levels of staff and other overheads. Although it will be challenging, the Council will adopt a positive approach to achieving efficiency savings, as this is a crucial component of its strategy to make resources available for priorities.

A36. **Policy 10: Efficiency Savings.** The Council will seek to maximise savings achieved in order at least to meet the Gershon targets set by the Government. Cashable efficiency savings will be used to contribute towards the £500,000 for new spending identified in Policy 6. This will require at least the following cash savings to be made (in £000s):-

	05/06	06/07	07/08	08/09	09/10
Cashable Gershon savings	259	551	833	854	875

[Note: Savings which the Council has already included in the estimates for 2005/6 might count against the Gershon target (if they can be shown to be genuine efficiency savings), but could not be counted again towards the savings required to meet the £500,000 new resources target.]

- A37. **Policy 11: Redirection of resources.** To meet the £500,000 pa target for future investment in priorities and inescapable requirements, it will be necessary within the period of this strategy to re-direct resources from services of lower priority. The savings required (see Appendix 2) are as follows (in £000s):-

	05/06	06/07	07/08	08/09	09/10
Redirection of resources (with inflation added)	-	-	270	815	836

- A38. This will be achieved using the strategy agreed by Cabinet on 13<sup>th</sup> January 2005 – ie that redirection of resources would be from the following services and that appropriate steps will be taken (for example serving relevant notices) to enable the savings to be achieved.

- Footway Lighting
- Recycling Credits
- Internal Library service
- Tourism
- Museums
- Arts development
- Front office/back office restructuring
- Sports
- Discretionary Rate Relief

- A39. **Policy 12: Increased Income:** The Council will review opportunities and policies for increasing income through charges, sponsorship, advertising and other forms of revenue.

Policies for Budgetary control

- A40. **Policy 13: Budgetary control.** The Council's aim is to ensure that outturn spending is within 2% of budgets which will be achieved by:-

- (a) Continuing to improve accuracy of estimates by cost centre managers, with support from the accountancy service.
- (b) Monthly reporting to Management Team in the second part of the year.
- (c) Quarterly reporting to Cabinet.
- (d) Continuing to improve budgetary control and use of the FMS by cost centre managers by the provision of support by the accountancy service

Policy for Monitoring and update

- A41. The Council works in a changing and dynamic environment and the Medium Term Financial Strategy will need regular review and updating to reflect changes in circumstances, while holding onto the core basic strategy.
- A42. **Policy 14: Annual Review.** The Council will review and roll forward the Medium Term Financial Strategy annually, continuing to plan up at least three and up to five years ahead. The Council will aim to establish clearer spending plans for years 2 and 3.

### Policy for Housing Revenue Account (HRA)

- A43. All the policies set out so far in this document apply equally to the General Fund and Housing Revenue Account, where appropriate, and in particular those relating to budgetary control, efficiency savings, priorities and the use of capital receipts. The minimum revenue balance for the HRA is considered to be £1m.
- A44. **Policy 15: HRA preparation process.** The Council will develop a process to enable the HRA to be more integrated with the financial and policy planning process for the General Fund.
- A45. More substantial policies relating to the Housing Revenue Account will be developed when this strategy is revised later in 2005, in the light of the stock option appraisal conclusion and financial projections.

### Risks

- A46. Major risks associated with this strategy are:-
- a) **Capping.** If the Council is capped, depending on the level, substantial changes may need to be made to the strategy when it is reviewed later in 2005. The Council will work to convince government of the special circumstances behind the major increase in Council Tax in 2005/6 to try to minimise this risk.
  - b) **Not achieving efficiency savings targets.** The achievement of Gershon efficiencies are not only required to meet government imposed targets, but are central to the objective in this strategy of providing resources for future spending on priorities and inescapable commitments. The Council will minimise this risk by adopting a challenging approach to efficiency savings and by complying with the Government's deadlines for submitting annual efficiency statements and half yearly reviews.
  - c) **Not achieving the redirection of resources from lower priorities.** The Council will take appropriate steps to ensure the achievability of the savings – for example, planning to minimise the implications, consultations and giving the necessary notifications. The risk will be managed by setting a target date of October 2005 for a progress report on this issue.
  - d) **Over/underspends.** Significant overspends or the approval of additional mid year spending would jeopardise the delivery of this strategy and therefore in-year monitoring systems will take on greater importance. As reserves diminish it will be less of an option to use them to address additional spending pressures that arise.
  - e) **Greater external pressures than envisaged.** The strategy is to achieve £500,000 resources for new spending each year. Recent years have indicated that this figure is unlikely to be sufficient. Difficult decisions on prioritisation may be necessary and it is possible that unexpected spending pressures may absorb all the Council's capacity leaving insufficient to allocate to priorities.

**Long Term Financial Position.** Paragraph 10 of the covering report highlights a difficult financial position at the end of the five year period (ie for 2010/11) if the projections in Appendix 2 materialise. This is a long term risk. It is necessary to continue to take into account the longer term implications of current policies, while at the same time reflecting that many current uncertainties may transform long term outcomes. The position will be reviewed annually as the Medium Term Financial Strategy is rolled forward.