

SOUTH CAMBRIDGESHIRE DISTRICT COUNCIL

REPORT TO: Leader and Cabinet
AUTHOR: Finance and Resources Director

12 January 2006

REVIEW OF MEDIUM TERM FINANCIAL STRATEGY

Purpose

1. For Cabinet to recommend that Council adopts the latest review of the Medium Term Financial Strategy.

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 28th 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 27th 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.
4. The last review of the Medium Term Financial Strategy was reported to Council on 16th November 2005 when it was resolved that the £0.5 million per annum provision for new spending from 2007/08 onwards be deleted and that the Council tax base be referred to the Finance and Resources and Development Services Directors and the respective Portfolio Holders. It was also resolved that Option 3, predicting a 5% Council Tax increase and a 3% Formula Grant increase and including the estimated costs of the Transformation Project, be adopted as the preferred Medium Term Financial Strategy.
5. Since then:
 - i. all Members were advised by e-mail and Cabinet were advised verbally in December of the Provisional Local Authority Finance Settlement which showed a 13.5% cash increase in Formula Grant in 2006/07 compared to 2005/06 before taking account of the cost of new statutory services in 2006/07, principally the enhanced concessionary fares scheme, and which showed a further 6.1% cash increase in 2007/08; Cabinet supported an indicative increase of 4.9 % in the Council Tax in 2006/07 to accord with the Government's expectation that Council Tax should be below 5%;

- ii. On 12th December, the Chief Executive, the Leader and Andrew Lansley, MP, met Phil Woolas, Minister for Local Government, in London. At the meeting, the Minister acknowledged the difficult situation that the Council was in;
- iii. Phil Woolas, Minister for Local Government, sent out on 13th December a letter to all local authorities re-iterating the Government's view that average Council Tax increases for 2006/07 and 2007/08 should be less than 5% and that local government should be under no illusions that the Government will use its capping powers to deal with excessive increases. It should be noted that the Minister is expecting **average** increases to be below 5% so some authorities might be allowed 6% if others only increase by 4%;
- iv. the tax base for tax setting purposes has been set by the Finance and Resources Director at 55,954.1 band D equivalent properties for 2006/07, an increase of 1.59% on the previous year; and
- v. the increase in the estimated Council tax base for the years 2007/08 to 2010/11 has been determined by the relevant Directors and Portfolio Holders as 1,280 dwellings per annum with the banding pro rated to the band profile for new dwellings in 2004/05; this gives an increase of 1,303 equivalent band D dwellings which is a 2.3% / 2.2% increase in the tax base.

Considerations

6. The updated option 3 is shown as an **Appendix**, which incorporates the amendments mentioned above.
7. The increase in Formula Grant was previously estimated at 3% being 1.5% for growth and 1.5% for inflation. The increase for the years 2008/09 to 2010/11 is now predicted to be 3.8% being 2.3% for growth and 1.5% for inflation so that the estimate for growth in Formula Grant is consistent with the estimated growth in the tax base.
8. The main changes in the Appendix compared to the Strategy reported to Council on 16th November are:
 - a) deleting the £0.5 million per annum for new spending, plus inflation, reduces expenditure over the relevant four year period by £5.5 million;
 - b) the increase in Formula Grant increases income over the relevant five year period by £4.8 million;
 - c) the increase in the tax base increases income over the relevant four year period by £0.5 million; and
 - d) expenditure on new statutory services from 2006/07 onwards has been included. This is principally the enhanced concessionary fares scheme. In the absence of any definitive estimates for the additional cost of the scheme, a sum of £0.432 million has been included in 2006/07 and is on-going in future years. This is the figure, plus inflation, used by the Government in the Provisional Local Authority Finance Settlement to adjust the 2005/06 Formula Grant to a notional figure on the assumption that new services in 2006/07 took effect from 1st April 2005 so that adjusted Grant for 2005/06 can be compared with Grant for 2006/07 on a like for like basis. This adds £2.3 million to expenditure over the relevant five year period.

9. The cumulative effect of these changes are that no further savings are required in the period from 2006/07 to 2009/10 and that the General Fund balance would be higher than the minimum level of £1.5 million as at 31st March 2010. Additional new growth of £0.177 per annum, plus inflation, has, therefore, been included for the years 2007/08 to 2009/10 in order to achieve the £1.5 million target balance.
10. In 2009/10, the Council Tax is still being subsidised by using £0.9 million from balances and the projections include the additional expenditure mentioned above which by that year has accumulated to £0.5 million. The indicative figures for 2010/11 are intended to show the General Fund in a sustainable state without use of balances so that the underlying Council tax is approximately the same as the estimated council Tax to be billed. However, removing the contribution of £0.9 million from balances necessitates making a compensatory adjustment by removing the £0.5 million growth and making savings of £0.4 million.
11. The required savings of £0.4 million in 2010/11 will reduce to £0.3 million in 2011/12 when the five year capital contributions to the pension fund as part of the Transformation Project have ended and only the net revenue savings are borne by the General Fund.
12. It should be noted that further savings may be required in 2007/08 in order to meet the Gershon efficiency savings. This issue is currently being considered by the Efficiency Savings Group and will be reported to Cabinet in due course.

Options

13. Options include:
 - a. increasing 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. An increase of, say, 6% in the Council Tax might be allowed if others authorities only increase by 4% so that the average is below 5% but the average increase cannot be anticipated in advance with any certainty. Any proposal to set a Council Tax of significantly more than 5% is considered almost certainly to result in capping;
 - b. running the General Fund balance down over a longer period. Council approved a strategy in April which included a policy of reducing the balance to £1.5 million by the end of 2009/10. The appendix takes account of this policy but to achieve this aim necessitates additional expenditure in the years from 2007/08 to 2009/10 to reduce the balance to £1.5 million but then, rather perversely, having to introduce savings in 2010/11 to prevent the balance falling below this minimum level. Extending the year by which the minimum balance of £1.5 million is achieved to the year 2011/12 would on basis of indicative projections allow a lower level of additional expenditure but with no need to introduce savings in a later year(s). By this time, the cost of any five year pension contributions due to estimated early retirements will have ended and there will be no further increases in the employer's annual pension contribution rate. Members may wish to give this option further consideration in February when firm estimates for 2006/07 are available; and
 - c. increasing the council tax by less than 4.9%. The appendix adopts the option of additional expenditure in the years from 2007/08 to 2009/10 but an alternative option is to have a council tax increase of less than 4.9% instead of

additional expenditure. The Council faces the same demands and challenges as other shire districts but is only allowed by the Government to set a council tax substantially below the average for shire districts. Setting a lower council tax may constrain future options as the Government continues to focus on the percentage increase for capping purposes.

Financial Implications

14. As above.

Legal Implications

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

Staffing Implications

16. 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

17. The risks include:
 - a. the capping criteria may be relaxed, for example, by excluding local authorities setting council taxes below average in which case budget reductions will have been made unnecessarily. The likelihood is considered to be 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;
 - c. the savings from the Transformation Project may not materialise as there is no evidence to support the efficiency savings claimed as achievable by the use of business process re-engineering and, if the two Chief Officer model is adopted, there is a loss of two Chief Officers with no provision for strengthening the second tier; the likelihood of the risk has not been assessed; and
 - d. 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.

Consultations

18. The Council undertook extensive consultation on the medium term financial strategy and priorities in September - October 2004, to which 2,500 replies were received. The results from that consultation have been drawn upon in agreeing priorities for savings in preparing existing budgets. No further consultation has been carried out in relation to 2006/07 budgets in the light of the fact that the previous year's results have been used in prioritising budgets and the strategic financial options available are severely limited.

19. The Resources and Staffing Portfolio Holder has been consulted and provided with a draft of this report prior to its inclusion on this agenda.

Conclusions/Summary

20. None.

Recommendations

21. To recommend that Council adopts the updated option 3 as shown in the appendix as its Medium Term Financial Strategy pending the completion of the 2006/07 estimates when the Strategy will be updated again and reported to Cabinet and Council in February.

Background Papers: the following background papers were used in the preparation of this report: <http://www.local.odpm.gov.uk/finance/0607/grant.htm>

Contact Officer: Greg Harlock – Finance and Resources Director
Telephone: (01954) 713081