

## South Cambridgeshire District Council

### **MEDIUM TERM FINANCIAL STRATEGY (MTFS) 2007/08 TO 2011/12**

#### **Purpose - Why a Medium Term Financial Strategy?**

1. The Council has limited resources and many competing claims on those resources. The Council needs to maximise the benefit from its resources by careful planning and targeting. It also needs to ensure that spending reflects needs and that priorities are not being held back through insufficient resources. The Council's priorities and the issues it needs to address require investment programmes over a period of three years or more.
2. The Council increasingly works with partners on longer-term strategies (such as the Community Strategy, LAA, Crime and Disorder strategy) and needs to be able to demonstrate to partners what resources it can make available. Services and service managers need a clear financial framework in which to plan and develop services. Workforce issues, and in particular recruitment and retention issues, require longer-term approaches. The government is moving towards three year financial planning.
3. For all these reasons, a MTFS is required setting out the Council's financial position over a period of at least three years and guiding its investment and savings policies.

#### **Context – Overall Financial Position**

4. South Cambs has a history of being a low spending Council. Table 1 shows how, from an initially very low base, spending has grown in recent years. There are a number of reasons for this rise in spending, including population growth, the need to invest in necessary infrastructure such as ICT; and various pressures to improve the provision of services.

**Table 1: South Cambs Net General Fund Spending in the last 10 years.**

<b>Year</b>	<b>1997/8</b>	<b>1998/9</b>	<b>1999/00</b>	<b>2000/01</b>	<b>2001/02</b>	<b>2002/03</b>	<b>2003/04</b>	<b>2004/05</b>	<b>2005/06</b>	<b>2006/07</b>
GF Net Revenue Spending (£m's)	6.4	6.2	6.7	7.3	8.6	10.5	11.7	12.2	12.6	13.9

5. However, South Cambs is still low spending compared with most other district councils. Audit Commission figures given in Table 2 show the Council in the lowest spending quartile per head of population for most services.

**Table 2: SCDC spending per head in comparison with other district councils**

Service	Spending per head (£)	Position out of 238 districts	Spending Quartile position (Note)
Planning	21.77	6	1
Community Housing (GF)	8.14	85	2
Environmental and Public Health	8.65	191	4
Local Tax Collection & Benefits	13.68	202	4
Central Services and Democratic Core	14.06	208	4
Waste Collection	13.38	212	4
Housing Benefits Administration	3.38	220	4
Street Cleaning and Litter	2.88	227	4
Cultural Services	10.77	233	4
Overall net expenditure	119.76	155	3

Note: 1 = Highest spending quartile and 4 = Lowest spending quartile of district councils. The figures above are for 2004/05 original estimates. For SCDC the outturn figures were lower. Figures for 2005/06 are now available, but for SCDC give the pre-capping estimates. Source: Audit Commission.

6. Again, historically, South Cambs has set a relatively low level of Council Tax, as demonstrated by Table 3.

**Table 3: Council Tax at Band D – South Cambs compared with shire district average**

	District - South Cambs	District - Average Shire
1996-97	0	82.57
1997-98	0	88.30
1998-99	0	94.08
1999-00	50.00	98.93
2000-01	50.00	102.83
2001-02	50.00	110.52
2002-03	70.00	120.29
2003-04	70.00	129.46
2004-05	70.00	136.70
2005-06	92.93	142.92
2006-07	97.48	147.29

7. For 2006/07 the Council Tax was set at a level which (excluding parish precepts) was the 9<sup>th</sup> lowest in the country (out of 238 district councils). This was the maximum tax increase that was likely to avoid Council Tax capping.
8. The Council's spending is financed by:-
- Government grant or Formula Grant
  - Council Tax
  - Balances
  - Interest from capital receipts;
  - Charges for services
9. Table 4 summarises the financing of the Council's General Fund budget over recent years.

**Table 4: Financing of GF revenue expenditure**

	2002/03		2003/04		2004/05		2005/06		2006/07	
	£m	%	£m	%	£m	%	£m	%	£m	%
External Support and Other Adjustments	5.8	55	6.3	54	5.9	58	6.2	52	7.0	50
Use of Balances	1.0	10	1.7	14	2.5	21	1.2	6	1.4	10
Council Tax	3.7	35	3.8	32	3.8	31	5.11	42	5.4	40
TOTAL:	10.5		11.7		12.2		12.6		13.9	

10. Income from charges for services is lower than for most councils because the Council has relatively few assets or income producing services such as car parking or directly managed leisure facilities because of the non-urban nature of the district.
11. The Council also receives relatively low levels of Government Grant. Table 5 compares support received by the Council in comparison with other councils.

**Table 5: Government Grant to Cambridgeshire authorities for 2006/07**

Local Authority	Redistributed Business Rates	Revenue Support Grant	Formula Grant	
			£m	Per head
	£m	£m	£m	
Cambridge	9.924	1.916	11.840	101.19
East Cambridgeshire	5.091	0.983	6.074	74.01
Fenland	6.913	1.334	8.248	92.66
Huntingdonshire	9.129	1.762	10.892	66.42
South Cambridgeshire	5.963	1.151	7.114	51.36

12. Historically, the real value of support received from government has fallen. Table 6 shows how government grant per head of population has fallen in real terms from levels in the mid 1990s

**Table 6: Trends in External Support**

Year	93/4	94/5	95/6	96/7	97/8	93/4	99/0
External Support (£m's)	6.1	6.4	6.3	6.1	5.8	6.1	5.4
External support per head of population at 2006/7 prices	70	72	67	63	57	70	49

Continued	00/1	01/2	02/3	03/4	04/5	05/6	06/7	07/8
	5.6	5.7	5.8	6.3	6.0	6.3	7.1	7.6
	48	48	48	53	48	48	51	53

13. In the past, the Council has kept Council Tax low by using reserves to finance expenditure. However, these reserves are finite and are running down. Also, capital receipts (and the interest on them) are diminishing as a result of the government decision to pool nationally 75% of housing receipts and the reduction in the sales of council houses under Right to Buy – see Table 7.

**Table 7: Future Capital Receipts and Capital Programme (£m)**

	06/07	07/08	08/09	09/10	10/11	11/12
Year end capital receipts	13.9	8.3	3.2	0	0	0
Used for capital programme	9	8.6	8.2	6.2	3	3
Capital Programme	13.5	12.8	12.4	10.3	7	7

14. As these sources of income reduce, the only significant way to replace them is to increase Council Tax to a level comparable to other councils. However, the government has placed a cap of 5% on council tax increases. 5% of an already low tax does not provide a sufficient increase in income to allow for the reduction in reserves, future spending commitments or other factors. Currently a 5% increase in Council Tax brings in additional income of about £5 per annum per household which is equivalent to about £280,000 of income to the Council in total.
15. The only alternative left to the Council is to reduce its spending significantly or raise income. It needs to do this both to replace income lost (as reserves run down) and to meet further spending pressures. Already, the Council has made savings of £2.6m in response to capping and has built in plans to save the equivalent of £365k (at 2007/08 prices) pa as a result of the Transformation Project. In addition, the Council has met its Gershon efficiency targets.
16. The district of South Cambridgeshire is facing massive change in the next ten years or more. The new town of Northstowe and the major new developments around Cambridge will increase the population of the district from about 135,000 to 170,000 by 2016. The Council will have to make significant investment in terms of the planning and development of these new areas and in providing services to the new communities. The Council has reviewed the additional General Fund spending pressures that will need to be addressed over the next five years. The initial results were reported to Cabinet in October 2006 are given in Table 8. These pressures have been reviewed, resulting in the proposals in **Appendix 1**.

**Table 8: Quantifiable additional GF spending pressures up to 2011/12**

	07/08	08/09	09/10	10/11	11/12
Revenue	588	1,048	1,426	2,100	2,083
Capital	260	70	950	870	960

17. The figures in Table 8 do not allow for a range of currently unquantifiable possible future spending pressures which may hit the Council in the next five years. These are included in Appendix 1.
18. There will be considerable time lag between incurring expenditure to plan for the new communities and the income from additional Council Tax from new residents. At present, the level of Council Tax charged does not meet the cost of services; hence the addition of new residents increases the deficit.
19. The financial position faced by the Council may change substantially as a result of the Lyon's review of local government finance, which is expected to report in 2007.

### **Context – The Council's Priorities**

20. The Council has set the following priorities for the period 2005/06 to 2007/08:-

- a) To improve customer service
  - b) To improve the supply of affordable housing
  - c) To achieve successful, sustainable communities at Northstowe and other growth areas.
21. In addressing (a), the Council has incurred substantial spending in the last five years to update its ICT infrastructure and establish the Contact Centre to enable services to customers to be improved. The Council's ICT strategy now envisages a period of consolidation. Further additional spending will be required in 2007/08 and possibly later years to improve customer service, using the infrastructure now in place. This will be clarified in the Service First project review in 2007, but spending will be modest in comparison with previous major investment. Further spending will also be required towards the end of the five-year MTFS period to replace or update major ICT infrastructure dating back to 2001.
22. In relation to affordable housing (b), the Council is not using capital receipts to any substantial degree to support the building of additional housing. The approach adopted by the Council has been to develop an enabling role, working in partnership with other agencies, such as RSLs and neighbouring local authorities. As a result of this strategy, joint posts have been established with Cambridge City Council and supported by RSLs. The other elements of the strategy to achieve affordable housing are to maximise the use of planning powers and planning policies and the development of an affordable housing fund financed by commuted payments arising from Section 106 Agreements.
23. The Council has retained the direct ownership and management of its housing stock. However, the reduced availability of capital receipts and other financial pressures on the HRA will require the future of the housing stock to be kept under review.
24. In relation to the growth areas (c), the Council has already invested substantially with its partners in establishing the required capacity for the planning and development of these new communities. The major part of the future spending pressures identified in Table 8 is to meet the objective of planning and providing services for the growth areas. Where possible, the Council will seek outside funding for example, through Section 106 agreements, Growth Area funding, and contributions from other partners. Such an approach does have risks. Planning Delivery Grant has been used to finance a number of posts required for the planning of the growth areas and there are uncertainties about the future of Planning Delivery Grant and the form it will take.
25. The Council, working with LSP partners, is currently reviewing the Community Strategy, which may lead to different priorities from 2008/09. The current White Paper *Strong and Prosperous Communities* may also lead to different spending requirements – for example in relation to the priorities and national outcomes to be included in LAAs; and the requirements for greater public involvement and consultation.
26. The Council's ability to achieve its priorities depends on its workforce. In parallel with this strategy, the Council is preparing a Workforce Plan, covering a similar period. Much of the work in preparing the plan has already fed through into this strategy. The critical areas where staffing resources are affecting the ability of the Council to deliver statutory services or priorities have been addressed in the current year and built into the MTFS – ie:-
- a) A customer services project officer has been employed to support the implementation of customer service standards and improved complaints

- processes.
- b) The post of Web Services Officer has been made permanent in the recognition of the web-site as a central element of the Council's use of ICT to improve customer service.
  - c) The post of Growth Areas Project Manager has been established to provide co-ordination and project management support to the development and planning of the growth areas.
  - d) An Urban Design post has been agreed to provide this new skill for the planning of the new growth areas which will be more urban in character than current development in South Cambs.
  - e) The Corporate Projects Officer post has been made permanent to provide much needed corporate support.
  - f) The Procurement Officer post has been extended to help make savings and support the procurement activities of services.
  - g) ICT Projects officers to support the business process reviews and Transformation Project.
  - h) HR and Payroll support to meet essential requirements such as the payroll function and support the Transformation Project.
27. Appendix 1 includes provision for additional posts which are primarily to respond to the growth areas and the Council's priorities. The draft Workforce Plan Action Plan includes possible unquantified spending requirements. Other potential areas of spending – such as addressing retention and recruitment - are identified in the Workforce Plan, but are still too uncertain to build into the MTFS. No provision has been made for the restructuring of second tier management posts being progressed under the Transformation Project.

### **Context - Value for Money and Efficiency**

28. Overall, the Council spends significantly less than the average district council and is in the lowest quartile of district councils for spending on most services. It also achieves a performance on national performance indicators which is about average and in some cases well above average. Table 9 shows how many South Cambs national performance indicators fall in each of the quartiles for all district councils for 2004/05. The Audit Commission takes a subset of these figures for comparison purposes.

**Table 9: South Cambs performance indicators in each of the quartiles for all district councils (2004/05)**

<b>Quartile of district councils</b>	<b>Top</b>	<b>2<sup>nd</sup></b>	<b>3rd</b>	<b>Bottom</b>
% of South Cambs national PIs	32%	17%	30%	21%

Source: Best Value Performance Plan

29. This indicates good value for money in terms of a positive service quality to spending ratio. However, the Council is concerned to achieve greater consistency in performance. It will invest in a new performance management computer system in 2007/08 and will look to achieving greater integration of financial and performance management planning and monitoring.
30. The Council is progressively improving the value for money ratio by achieving its Gershon savings and by making the savings required to meet capping and balance the MTFS.

31. The Council's Use of Resources Judgement report indicated that the Council needs to take a more structured approach to assessing and improving value for money and in linking its financial planning with priorities.

### **What issues most need to be addressed by the Strategy?**

32. The most pressing concerns arise from the difficult position facing the Council as a result of capping and the future needs of the growth areas. Related to this is the need for a balanced and sustainable financial position where the Council is not dependent on reserves and can plan and develop services in the context of greater stability.
33. Also of concern is the diminishing level of capital receipts and its impact on the General Fund (through the loss of interest and the ability to sustain future capital spending) and more importantly on the Council's future ability to maintain and improve its housing stock.
34. We also want to improve our use of resources in terms of better financial planning, value for money and financial control. Our processes in these areas are still improving and we are aware of shortcomings pointed out in the use of resources judgement and direction of travel statement.

### **What are we already doing to improve the Council's financial position?**

35. The Council is currently engaged on a number activities to improve its financial position:-
- a) Improvements have been made in forward planning. The Council has identified spending requirements for five years' ahead to respond to the growth areas and other spending pressures and to progress its priorities.
  - b) Savings. The Council continues to achieve its Gershon savings. This strategy will set out requirements for substantial additional savings starting in 2007/08 which have already been identified. In identifying those savings, the Council has used a methodology which avoided savings which would impact on our priorities and impact in other ways directly on those who use or benefit from our services.
  - c) The Council is implementing a Transformation Project the aim of which is to streamline management and to develop systems and cultures which will support improving service delivery. One element of the transformation will be to establish second tier Corporate Managers with a stronger remit for financial accountability.
  - d) Business process reviews are being undertaken under the Transformation Project for all major services. The MTFS projections at Appendix 3 includes savings targets for the reviews, but the reviews are also charged with improving service delivery through the use of ICT, the Contact Centre and more focused working.
  - e) The Council monitors spending quarterly to improve financial control. Service managers use virement to maximise the effectiveness of their budgets.
  - f) The Council is currently undergoing an Audit Commission Corporate Governance Inspection. The onsite inspection week was carried out in October and the final report is expected in the new year. The outcome of the review will be taken into account in the revision of the MTFS in February.

## **Objectives of the Strategy**

36. Based on the foregoing analysis, the objectives of the MTFS are:-
- a) To maximise the resources over the medium term to enable the Council to
    - maintain and improve its core statutory services
    - continue to improve service to customers in terms of responsiveness and service quality
    - achieve, with its partners, successful and sustainable communities at Northstowe and other growth areas
    - respond to other changing priorities
  - b) To achieve a balanced General Fund where future spending can be met from sustainable sources of income and the Council can plan from a stable financial base;
  - c) To continue to press government for a fairer financial system which reflects the growth pressures facing the district;
  - d) To develop a more structured approach to the achievement and demonstration of value for money; achievement of efficiency; and integration of financial and policy planning processes.

## **Issues/Risks**

37. In developing this strategy there are a number of issues which the Council has had to determine:-
- a) How quickly should the Council try to move to a balanced financial position? Should the necessary savings be made earlier rather than later in the MTFS period? The Council has rejected an option to delay savings until 2009/10 by the quicker run down of reserves (option 3B considered by Cabinet on 12<sup>th</sup> October 2006). Cabinet favoured an approach of more equalised savings across the MTFS period to provide a more firm basis for planning. A further option which would delay savings (Option 3A considered by Cabinet on 9<sup>th</sup> November) has also been rejected in favour of the financial targets in Appendix 3 on which this strategy is based.
  - b) What balance should be made between projected spending on the growth areas and existing communities? Appendix 1 sets out the new spending plans for the Council on which the MTFS will be based. A high proportion of the new spending will be on the growth areas. There would be considerable risks involved in not adequately funding the growth areas.
  - c) Should spending patterns change? The future spending patterns in Appendix 1 and the savings proposals in Appendix 2 will produce a shift in spending patterns towards the planning and development of the growth areas and our other priorities. In identifying savings, greater emphasis has been placed on non-statutory services; internal support services; and other services which do not relate to our priorities. Services important to our priorities have been subject to a much lower level of savings.



- d) Should the current approach to the capital programme be changed? For example, should debt free status be relinquished? Should the capital programme be reduced to slow down the use of capital receipts - for example, by basing the housing programme on achieving only the minimum Decent Homes standards? This could make more interest from capital receipts available for the General Fund. The position on this issue will be reviewed in the light of a current housing stock conditions survey and the financial implications.
- e) What assumptions should be made about other funding for the growth areas (for example, resources from Section 106 money or growth area funding)? Future spending proposals in Appendix 1 are based on assumptions that Section 106 or other growth area funding will cover most the infrastructure and capital service provision costs of the growth areas. If this is not the case, the MTFS would need to be reviewed. Indeed, there are a range of risks applying to the MTFS and effective monitoring will be required.
- f) What assumptions should be made about future Council Tax levels and capping? Current expectations are that the government will continue to place a limit of about 5% on Council Tax increases. There is a possibility that this level will fall; but there is also the possibility that a quite different mechanism will apply following the Lyons review. Our previous policy, which is continued in this strategy, is that we will allow our Council Tax to go up to the shire district average, as far as that is permitted under the national financial framework.
- g) Should any change be made to the Council's policy regarding the running down of balances towards a minimum provision of £1.5m? At this stage no change is proposed. However, it will be important to keep under review the minimum level of reserves which would be adequate.

## Consultation

- 38. Following consideration of this draft strategy, public consultation will be carried out through South Cambs Magazine and the Council's web-site. Results from the consultation will be reported to Cabinet and Council in February when the strategy is reviewed.

## The Strategy: What we will do

- 39. **Future Spending.** In the light of projected population increases and the need to respond to changing priorities, it will continue to be necessary to finance additional General Fund spending pressures, in the region of up to £300,000 per annum over the medium term period. The Medium Term Financial Strategy will make provision for the following additional spending provision:-

**Table 10: Planned Totals of new GF spending to be included in the MTFS**

	07/08	08/09	09/10	10/11	11/12
Revenue provision to be included in the MTFS for additional service costs due to population growth and other pressures (£000s)	400	700	1,000	1,300	1,500

- 40. In identifying additional spending and achieving savings to finance that spending, resources will be shifted towards maintaining essential statutory services and

meeting the Council's priorities.

41. In accordance with this approach, the spending plans for 2007/08 given in Appendix 1 will be included in the budget for 2007/08. The spending plans for 2008/09 onwards will be included in the Medium Term Financial Strategy for planning purposes, subject to detailed justifications of the proposals and subject to overall new spending plans not exceeding the planning totals in Table 10
42. In order to improve the planning of future spending, more detailed service plans will be drawn up showing growth area spending requirements.
43. Spending plans will be reviewed in October each year and the MTFS rolled forward a year, based on the needs of services, existing spending plans, Council priorities and the planning totals. At that time the Workforce Plan will also be rolled forward.
44. **Achievement of a Balanced, Sustainable General Fund position.** The Council will aim to achieve a balanced financial position within the medium term where revenue spending is not dependent on reserves, but with the retention of a £1.5m GF working balance. To this end the following savings will be made:-

**Table 11: Planned Savings Totals**

<b>Savings (£000s)</b>	<b>07/08</b>	<b>08/09</b>	<b>09/10</b>	<b>10/11</b>	<b>11/12</b>
Business Process Reviews	221	227	232	238	244
Senior Management Team	144	148	152	155	159
General Savings	1,333	1,107	1,134	1,163	1,192
Savings at end of period	0	0	0	0	402
<b>TOTAL</b>	<b>1,698</b>	<b>1,482</b>	<b>1,518</b>	<b>1,556</b>	<b>1,997</b>

Note: Financial projections towards the achievement of a balanced MTFS, and based on the spending and savings totals in tables 10 and 11, are given in **Appendix 3**. This corresponds to Appendix 3B to the Cabinet on 9th November 2006

45. The Council will achieve the "General Savings" in Table 11, through the implementation of the savings given in **Appendix 2**.
46. In the light of the potential additional spending pressures on the Council, continued efforts will be made to achieve efficiency savings and increased income through the following measures:-
  - Maximising funding from partners and other sources for growth areas
  - Inviting developer contributions
  - Charging developers for advice
  - Maximising income through Northstowe – eg through car parks, energy generation
  - Agency staff and consultants – further consideration before employing
  - Appointment of staff and equipment costs – investigate means of reducing expenditure.
  - Savings in procurement
  - Business process reviews.
47. **Council Tax.** The Council will increase Council Tax to the maximum allowable under Government capping limits up to the district council average in order to achieve a Council Tax income commensurate with the needs and economic circumstances of the area.

48. **Capital Programme.** The Council will continue to be “debt free”, financing the capital programme from capital receipts.
49. For the foreseeable future, the Council will continue to use capital receipts to finance:-
- General Fund capital spending requirements which meet the same criteria as additional revenue spending (ie that they are required to finance essential statutory services and the Council’s priorities)
  - the maintenance and improvement of the Council’s housing stock.
50. The Council will review the housing capital programme in the light of the current stock condition survey. The capital programme given in **Appendix 4**, is approved, subject to detailed assessment and approval of growth bids.
51. **Value for Money.** The Council already provides good value for money, but will pursue this more systematically and transparently by greater use of unit costs, comparisons with other councils and performance summaries in the 2008/09 budget process, in order to assess and improve value for money provided by current spending.
52. **A Fairer Financial System.** The Council will continue to take every opportunity to press the government for a fairer financial system which reflects the growth agenda and other factors affecting this Council.
53. **Monitoring and Review.** The Council recognises the importance of keeping under review the factors which will affect the achievement of the financial targets given in this strategy. Any changes in circumstances which will affect the achievement of the MTFS will be brought to the attention of the Cabinet in quarterly monitoring reports. There will also be two formal revisions to the MTFS each year:-
- October - a review and rolling forward of the MTFS
  - February – a review and publication of the strategy in the light of final decisions on the budget and Council Tax.

### **Action Plan**

54. Specific actions to deliver the above approach are given in **Appendix 5**

Note: Following consideration of the strategy by the Council a revised version will be published, based on the decisions of the Council and providing more graphical information about the Council’s financial position.