SOUTH CAMBRIDGESHIRE DISTRICT COUNCIL

REPORT TO:	Leader and Cabinet	13 November 2008
AUTHOR/S:	Senior Management Team	

GENERAL FUND MEDIUM TERM FINANCIAL STRATEGY/ SERVICE PLANS

Purpose

1. The purpose of the report is to ask Cabinet, and in turn Council to:-

   a) set the financial parameters for the service planning and budget preparation processes for the Council;

   b) note the implications for the capital programme;

   c) agree an approach to the Government regarding the Council's financial position.

2. This is not a key decision but forms part of the overall Budget and Policy framework for the Council and this framework will be used to as part of the Council's budget setting cycle which will set the overall budget in February 2009.

Policy Context

3. In October 2008 the Cabinet proposed the new 3A's (Aims, Approaches and Actions) which, if endorsed by Council on the 27 November, will form the basis for future Council financial planning. The Local Strategic Partnership (LSP) has also approved priorities for the new Sustainable Community Strategy which have much in common with the Council's objectives.

4. The Council's proposed 3A's are:

   - *we are committed to being a listening Council, providing first class services accessible to all;*
   - *we are committed to ensuring that South Cambridgeshire continues to be a safe and healthy place for you and your family;*
   - *we are committed to making South Cambridgeshire a place in which residents can feel proud to live;*
   - *we are committed to assisting provision for local jobs for you and your family;*
   - *we are committed to providing a voice for rural life.*

5. The 3A's reflect local and national priorities. They build on the Corporate Objectives approved in 2007 which were based on extensive research and consultation used to develop the Sustainable Community Strategy.

6. The Aims include 33 specific actions to deliver the Aims and potential new spending areas addressing priorities over the next three years. In addition, there is also a commitment to ensure the best value for money options for service delivery.

7. Members have not indicated any service areas for expenditure or performance level reductions. Therefore, addressing the 3A's and targets contained within the Sustainable Community Strategy must be achieved whilst maintaining the current levels of service and performance.

8. Service plans are currently being prepared covering the year 2009/10 onwards and reviewing 2008/09 for any new emerging pressures. As part of this process, services are identifying costs associated with:-

- the implementation of the 33 Council Actions;
- essential service enhancements or statutory obligations;
- achieving relevant targets set out in the Local Area Agreement (LAA) and Sustainable Community Strategy.

9. The Corporate Governance Inspection (CGI) identified the need for clearer prioritisation and the linking of priorities and resources in the Council's financial planning processes. This is the second year that this process has been followed and is has been further embedded within the Council through the service and financial planning processes in service areas and will also contribute to the assessment criteria under the Use of Resources framework.

Financial Background and Diagnostic

10. Following the CGI the Council, in partnership with the DCLG and GO East, under went a Strategic Financial Diagnostic. The consultant's report went to the Improvement Board and the main conclusions were considered as part of the 2008/09 Medium Term Financial Strategy (MTFS). The report concluded that the Council was at a disadvantage in terms of Government support; the level of Council Tax it was held at; and the costs of the growth agenda. It was also noted that the Council had limited scope to achieve cost reductions. In these circumstances the report advised an approach to Government, as available resources would not meet service expenditure requirements. Such an approach was subsequently made, but with unsuccessful results.

11. The MTFS for 2009/10 onwards addresses the need to manage the balancing of annual income and expenditure in the medium term and recognises the need to continue an appropriate level of council tax increase in the medium term, whilst also balancing the reduction in the levels of reserves.

12. In 2008/09, the financial settlement for local authorities was set for a three year period (2008/09 to 2010/11), for which 2009/10 will be the second year. The Council received a disappointing settlement for the three year period, which was in cash terms an increase of 1%, 0.5% and 1% respectively. These low increases have been built into the MTFS with an expectation that future settlements after the three year period will be more generous to the Council.

13. It has also been recognised that as the Council is a low spending Authority, expenditure cannot be reduced further to any significant extent. However, the three year settlement highlighted in paragraph 12, included an expectation of local authorities identifying cash releasing efficiency savings each year. Though Government has set no target, it is their expectation that 3% per annum should be identified.

14. A sensitivity analysis has been undertaken by officers to identify realistic efficiency saving targets. Cabinet have subsequently accepted a revised target to be achieved over the next three years (2008/09 – 2009/10), see paragraph 17.

15. Finally, the current economic climate is also effecting the Council's current financial position in respect of reduced tax base growth and lower levels of planning and land charges income. Over the short term the MTFS will be realigned to absorb these pressures, with a view that original expected levels of growth and income will return to normal levels in a few years time.

16. These comments are considered in more detail in the remainder of the report.

Strategic Approach/Issues

17. **Current Spending Levels and Savings**. As already highlighted, the Council's spending per head of population on services is generally low and the scope for further savings is limited. However, efficiency savings have been built into the MTFS over three years, in line with Central Government's expectation and reality of the three-year settlement. A separate report was presented to Cabinet carrying out a sensitivity analysis of potential savings which could be generated, with Cabinet agreeing a savings target of 3% (2008/09) and 2% (2009/10 to 2010/11)

18. Given the Council's low expenditure base and the savings already made, savings of this order (over £900k per year by 2010/11 for the General Fund) will be very difficult to achieve. Nevertheless, savings have been included in the projections in Appendices 1 and 2, apportioned as follows: General Fund (45%); HRA (35%) and Capital Programme (20%).

19. **Spending Pressures**. As mentioned above, as a result of the service planning process, significant additional spending pressures have been identified, details of which can be found in Appendices 3 and 4 for revenue and capital respectively. These can be summarised as –

Revenue	**2008/09**	**2009/10**	**2010/11**	**2011/12**
	£	£	£	£
To meet the cost of Council Actions (3As)	20,500	300,650	258,600	224,600
Inescapable requirements (excluding 3As)	119,870	369,270	428,995	419,524
The costs of LAA/Sustainable Community Strategy targets (excluding those in 3As or 'inescapable' above)	68,700	179,600	241,250	268,220
Other important/desirable service enhancements	230,300	794,549	723,825	662,838
Total	**£439,370**	**£1,644,069**	**£1,652,670**	**£1,575,182**

Capital	2008/09	2009/10	2010/11	2011/12
	£	£	£	£
To meet the cost of Council Actions (3As)	0	88,500	64,500	34,500
Inescapable requirements (excluding 3As)	0	85,500	36,000	50,000
The costs of LAA/Sustainable Community Strategy targets (excluding those in 3As or 'inescapable' above)	0	0	0	0
Other important/desirable service enhancements	12,000	268,000	183,000	148,000
Total	**£12,000**	**£442,000**	**£283,500**	**£232,500**

20. The inescapable requirements are the spending needs which are judged by Service Managers, on initial assessment, as resulting in serious implications for the Council if they do not proceed – for example in terms of breach of statutory requirements; reputational damage; or to meet population increase. The LAA targets are those which are included in the current Cambridgeshire Local Area Agreement, where a contribution falls to be met by District Council partners. The Council has committed to the LAA and the new Comprehensive Area Assessment (CAA) will take into account the extent to which partners are making an effective contribution towards the agreed targets. The other service enhancements include a range of proposals, which are important in terms of service or capacity improvement.

21. In many cases further work is required to clarify the costs of the spending proposals and to make a more rigorous assessment of which are truly inescapable. At this stage Cabinet are asked to set a financial framework to be followed in assessing the level and type of bids acceptable (given the financial position facing the Council), and to enable further work to be carried out before bringing firmer proposals back to Cabinet.

22. Some of the bids will impact the HRA as well as the General Fund; therefore, where appropriate, the bids have been apportioned between the two areas within the MTFS proposals. Two service bids have also been put forward for the HRA, which will also need to be considered alongside the HRA Business Plan refresh.

General Fund Revenue Projections and Implications

23. There are a number of strategic options available to the Council in deciding the MTFS, including not allowing for any additional growth in the budget; setting a council tax level higher than the current capping criteria of 5%; or setting a council tax level more in line with the Government's inflation target of 2%.

24. None of these options can be recommended owing to the financial constraints on the Council and potential Government reaction to certain proposals.

25. Therefore, two options have been considered for the MTFS. The identification of all spending pressures are reflected in Option A (Appendix 1). This clearly shows an unsustainable strategy over the medium term, which would result in the Council's levels of reserves being inadequate (below minimum levels in 2012/13 and in deficit in 2013/14) and the annual draw from balances being too high.

26. As Option A cannot be supported, Option B (Appendix 2) has been developed in discussion with the Leader and Finance Portfolio Holder, which sets out the following parameters for spending pressures:-

a) that up to £100,000 (including provision foe some late bids) will be allowed in 2008/09 for new spending (to support Council Actions; meet inescapable costs; or other service enhancements).

b) that up to £500,000 will be allowed in 2009/10 for new spending (to support Council Actions; meet inescapable costs; or other service enhancements).

c) that the £500,000 referred to above will be inflation linked for 2010/11 and 2011/12, but that no further new spending will be provided for in these years. This means that any new inescapable commitments (for example as a result of growth or new statutory requirements) will need to be met from existing budgets.

d) a further £300,000 for new spending, in real terms, and in each year, will be added in 2012/13 and 2013/14.

27. The implications of cutting back spending proposals to this limit are significant and will require difficult decisions. Nevertheless, this is the limit considered necessary by the Leader and Finance Portfolio Holder to avoid substantial financial problems in the later years of the MTFS. Consequently it is being recommended that officers bring forward a package of proposals which can be financed from within the spending limits in paragraph 26.

28. The Options also include a number of other assumptions, the main ones being:-

a) the base budget and carry forward of expenditure approved for 2008/09 being rolled forward;
b) an increase in pay inflation to 3% from 2.5% for 2008/09;
c) inflation at 2.5% for 2009/10 onwards and increased employer's pension contributions of 2.1% each year (cumulative) until 2010/11;
d) from 2010/11 a further increase of 3% on the pay budget as an estimation of the effect of the pay and grading review;
e) 2.5% for non-pay budgets (officers are reviewing actual inflation requirements rather than applying the general increase to all budget areas. This will lead to increases in some areas based on contract increases and inflation pressures, off-set by no increases in some budget headings);
f) the substantial efficiency savings targets (of which some are still unidentified) will be achieved;
g) the maintenance of debt free status;
h) the continued use of capital receipts to finance capital expenditure not met by grants, contributions and reserves;
i) formula grant increases from 2008/09 to 2010/11 based on the three year settlement. From 2011/12 an estimated increase of 2.5%, plus allowance for growth at half the rate of increase in the tax base;
j) a revised tax base, based on the current tax base growth in 2008/09 and taking into account the slow down in the housing market;
k) no allowance for LABGI;
l) increases of Council Tax at 4.9% per annum (at Band D);

m) the Housing and Planning Delivery Grant will continue at the same level as the 2007/08 allocations, as the additional grant received in 2008/09 is unlikely to continue in future years. The additional grant received will be used to offset the lower income projections for planning and land charges over the next few years contributing to a balanced budget.

29. Adjustments have also been made to the 2008/09 base budget for specific items such as concessionary fares and housing benefit grant reduction.

30. For 2008/09 the Council anticipates receiving £1.9m from interest received on balances. However in the present economic climate, it has been speculated that it may be necessary for rates to fall to 1% to 2%, which would impact adversely on the interest received by the Council.

31. As highlighted, the MTFS projections allow for an employer's pension contribution rate of 17.5% for 2008/09, increasing by 2.1% per annum to 21.7% for 2010/11 and each year thereafter, based on the Actuary's triennial valuation as at 31st March 2007. The overall funding level (the ratio of assets to liabilities) at that time was 86.4% (82.8% for South Cambridgeshire), which means that the fund was in deficit and there was not enough money to pay future pensions. At the County Council's Pension Committee on 4th September 2008, it was reported that the overall funding level was estimated to have fallen to 67.5% and therefore the next valuation may lead to the requirement for further increases. No additional provision has been made for increased pension contributions in the refreshed MTFS.

32. The resulting financial projections in Option B, Appendix 4 shows an increase in spending between 2008/09 and 2009/10 of 2.4% (Net Portfolio Expenditure) and 4.3% (Net District Council General Fund Expenditure). By the end of the five-year period of the MTFS (2009/10 – 2013/14) balances would have reduced to £3.1m. Throughout the period there would be a widening gap between actual Council Tax levied and the Underlying Council Tax (with no appropriations from the General Fund Balance or Earmarked Reserves).

33. The projections also assume the achievability of substantial efficiency savings. Without any savings, the balance as at 31st March 2014 is estimated to reduce from £3.1m to £2.2m, being very close to the recommended £1.5m, and, therefore, the MTFS is dependent, even in the short term, on the achievement of the efficiency savings.

34. In financial terms this is not a sustainable strategy. However, in spending terms it represents a compromise between funding pressures associated with the growth areas and the commitments in the Aims and the Sustainable Community Strategy priorities with a phased draw down on available resources. Nevertheless, the annual demand on reserves (£1.2m in 2013/14) will mean the level of balances will be below their recommended level by 2015/16.

35. In these circumstances, it is recommended that the Cabinet seek a further meeting with the Local Government Minister to press the case for further funding for the Council, taking into account its unique financial position and pressures in the medium to long term. The outcome of such an initiative, be it positive or negative, will have to be factored in to the next refresh of the MTFS to ensure that, as 2015/16 draws nearer, a sustainable financial position is achieved.

Capital Programme

36. An updated summary Capital Programme is included at Appendix 5. This update shows the need to reduce capital expenditure in 2009/10 (£3.1m) and 2010/11 (£5.1m). For 2009/10 this impact will solely be on the HRA Capital Programme; however, in 2010/11 it becomes necessary for at least £800k of the reduction to be absorbed by the General Fund Capital Programme.

37. This updated programme includes all the capital bids approved in last year's review of the MTFS. New bids have been submitted; however, owing to the reductions required within the next two years, these bids cannot be approved unless they are substituted for existing schemes, or can be funded from the additional capital element of the Housing and Planning Delivery Grant (£322k), or other external sources of funding.

38. Cabinet are asked to agree this approach, giving officers the task of reviewing the overall programme and identifying appropriate substitutions or potential reductions to the programme in the next few years.

39. This clearly means that the capital programme will be operating at a minimum level from 2010/11 (an overall 50% reduction) for the HRA and General Fund and future investment in capital schemes will only be able to be approved when the funding has been fully identified.

40. The revised programme also includes the effect of delay in legislation, which would have allowed equity share capital receipts to be used to finance affordable housing capital expenditure and no longer be subject to the current pooling arrangements. This legislation was delayed last financial year and, although officers had been encouraged to assume that it would be enacted from 1st April 2009, officers have been notified that this has been delayed for at least another year.

Implications and Risk Management

41. Financial Implications are covered in the main report. At this stage there are no significant legal or staffing implications. Although many elements of the build up of the estimates are the results of consultation (eg on the Community Strategy and the three year surveys), the overall financial strategy has not been subject to consultation. The Council's Aims underpin the development of the MTFS.

42. There are very significant risks involved in the financial projections in the appendices. These have already been outlined in the body of the report but the key specific risks are:

- Efficiency savings; as highlighted in paragraphs 17 and 18, the MTFS includes substantial efficiency savings over the next three years. To ensure these are delivered an Efficiency Team meets monthly to monitor the delivery of the savings and identify further proposals. The risk of not achieving the savings is that the reserves would go below the minimum acceptable level during the period of the MTFS;

- Pay and inflation assumptions; paragraph 28 sets out the key assumptions on pay and inflation. These are based on the latest estimates for these factors and will have to be monitored regularly through the budget cycle process to minimise any adverse impacts of any changes. In addition, the current projections for the employer's pension contributions may lead to an increase in the future, owing to the current performance of the pension fund. The current MTFS does not allow for additional increases;
- Pay and grading review; an estimation of the potential effect of the pay and grading review has been factored into the MTFS from 2010/11; however, the 3% estimate may be too high or low and will be monitored through the life of the project;
- Demand led budgets; the budgets for concessionary fares, planning and land charges income are demand led and a change in the demand on these service areas could lead to pressures or underspends in the budget. Adjustments have been made in the MTFS to take into account the current economic climate and the effect this is having on these demand led areas and these will be regularly monitored.

Next Steps

43. This is an initial report on the MTFS, enabling Members to determine a financial framework against which bids arising from service planning can be prioritised and, where appropriate, funded. The further steps necessary over the next 2-3 months are:-

a) a re-assessment of the MTFS in February to follow the 2009/10 budget setting process and reconfirmation of the formula grant;

b) officers to examine and prioritise the financial bids put forward so far to identify those which should be met from the £500,000 included in the draft strategy;

c) officers to review the capital programme to ensure proposals fit within the foreseen available resources;

d) to develop a process for consultation on the financial proposals, strategy and planned bids;

e) seek an interview with the Local Government Minister and prepare a case to put to Government;

f) the preparation and scrutiny of detailed estimates.

Effect on Corporate Objectives and Service Priorities

44.

Work in partnership to manage growth to benefit everyone in South Cambridgeshire now and in the future
The recommendations will contribute to the delivery of the Council's new Aims, Approaches and Actions which build on the corporate objectives highlighted in this table.
Deliver high quality services that represent best value and are accessible to all our community
The recommendations will contribute to the delivery of the Council's new Aims, Approaches and Actions which build on the corporate objectives highlighted in this table.
Enhance quality of life and build a sustainable South Cambridgeshire where everyone is proud to live and work
The recommendations will contribute to the delivery of the Council's new Aims, Approaches and Actions which build on the corporate objectives highlighted in this table.

Recommendations

45. Cabinet is recommended to:-

a) recommend to Council that it approves Option B and the assumptions given in paragraphs 28 as the basis for the MTFS and planning of the budget for 2009/10 onwards;

b) approve the next steps outlined in paragraph 43 be taken;

c) agree representations be made to the Government to press the case for further funding for the Council, taking into account its unique financial position and pressures in the medium to long term.

Background papers:

- Consultation results (Community Strategy, three yearly surveys)
- More detailed financial working papers and assumptions
- Independent Financial Diagnostic

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