

SOUTH CAMBRIDGESHIRE DISTRICT COUNCIL

REPORT TO: Leader and Cabinet
AUTHORS: Senior Management Team

8 October 2009

GENERAL FUND MEDIUM TERM FINANCIAL STRATEGY / SERVICE PLANS

Purpose

1. To set the financial parameters for the service planning and budget preparation processes for the Council.
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 2010.

Policy Context

3. Last year the Council replaced the Corporate Objectives with a Vision, Values and the 3As, which comprised:
 - 5 Aims
 - 25 Approaches
 - 32 Council Actions for 2009/10
4. The Council's Aims 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 5 Aims and 25 Approaches have provided a good basis for the development of services; they provide a robust framework for service development over the medium term. The Aims are reflected in the Council Vision. They are consistent with the Sustainable Community Strategy and the LAA.
6. The Council Actions for 2009/10 have been incorporated into the Corporate Plan and service plans. Achievement of the actions is being monitored through inclusion in CorVu and appropriate reporting to EMT, Cabinet and portfolio holders.
7. Cabinet, at its meeting in September, provisionally agreed 12 specific actions to deliver the Aims and potential new spending areas addressing priorities over the next three years. In accordance with that decision £50,000 has been provided within the forecast to deliver those actions.
8. At this stage, the Administration has informally indicated broad areas of search for the delivery of the savings targeted in the MTFS. The impact on the 3A's and targets contained within the Sustainable Community Strategy are still to be established fully and these will be reported back to Cabinet for approval in due course.

9. Service plans are currently being prepared covering the year 2010/11 onwards and reviewing 2009/10 for any new emerging pressures. As part of this process, services are identifying costs associated with:
 - the implementation of the Council Actions
 - essential service enhancements or statutory obligations
10. 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. The Council delivers this through its integrated service and financial planning processes.

Financial Background

11. Previous reports have concluded that the Council is at a disadvantage in terms of Government support; the low level of Council Tax it levies; and the costs of the growth agenda.
12. The MTFS for 2010/11 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.
13. In 2008/09, the Revenue Support Grant (RSG) settlement for local authorities was set for a three-year period (2008/09 to 2010/11). 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. Previous forecasts had anticipated that future settlements after this three-year period would be more generous to the Council. It is now considered that this assumption needs to be revisited.
14. The Public Sector Borrowing Requirement is currently projected to exceed £175 billion and it is certain that the next Government will take action to address this deficit in the medium term. The impact of this is bound to be felt in future local government funding settlements. The MTFS has therefore, now been modelled on the assumption that there will be no cash increase in Revenue Support Grant beyond 2010/11. In effect this is modelling a real terms decrease in grant and makes no provision for future population growth. It should be noted that some of our neighbouring councils are planning to model cash decreases in grant.
15. At the same time, the impact of the recession has impacted severely on the Council's income forecasts and created additional demands on the Council's services in key areas. 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.** The Council's spending per head of population on services is generally low; the scope for further savings is, therefore, limited. In setting the 2009/10 budget the Council set a savings target of £325,000 from the General Fund. Given the spending pressures identified above, the Executive Director and the Finance and Staffing Portfolio Holder have sought savings in excess of this level to mitigate the impact of the projected overspends. In year budget reductions of £481,000 have now been identified increasing to £674,000 in a

full year. The Council will continue to seek further efficiency savings and SMT has established a standing officer group led by the Executive Director and supported by all Corporate Managers to deliver this. No specific assumptions have been made in the forecast for future savings from this activity.

18. In addition two specific service restructurings have been proposed:
 - (a) Revenues and Benefits Administration – savings of £350,000 per annum have been targeted by entering into a shared service delivery mechanism (see report elsewhere on this agenda)
 - (b) Refuse and Recycling Strategic Review – annual savings totalling £333,000 look set to be delivered through the review. Cabinet will receive a report on this issue at its November meeting. The Outline Business Case for this project will indicate an a capital funding requirement of circa £1.5 million but it has been assumed, for the purposes of this report, that this requirement will be covered through capital grants with the residual cost being met through leasing facilities.
19. **Spending Pressures.** As highlighted above, additional spending pressures have been identified arising specifically from the impact of the recession (see previous reports to Cabinet) and the impact of the provisionally agreed 12 Actions. Two further significant spending pressures have also been identified:
 - (a) The Government has now announced that it will transfer the funding of concessionary fares in two-tier areas from district to county councils. Although the Council have a saving from not having to meet the cost of the concessions this looks likely to be offset by a much greater withdrawal of grant; the net impact on the general fund is likely to be a shortfall of £485,000 per annum.
 - (b) The pension fund's assets and liabilities will be formally reassessed in the new year as part of the triennial review process. Initial indications are that the fund will be facing a significant shortfall. The MTFS now anticipates that SCDC employer contributions will need to increase from 21.7% to almost 33%. Although the phasing of this increase is still to be discussed, in a full year this may add a further £2 million to the general fund budget. For the purposes of this report, the increases have been assumed to be implemented in equal stages over a six-year period, i.e there are further increases anticipated beyond the period of the MTFS.
20. In view of the current economic circumstances, no provisions have been made for growth in 2010/11 or 2011/12. The implication of this is that any further inescapable growth identified through the service planning process will need to be prioritised against current spending plans and met from within existing resources. Provisions have been made for 2012/13 and beyond however, in line with the assumed growth in population over this period.

General Fund Revenue Projections and Implications

21. In setting the level of council tax, there are a number of strategic options available to the Council, including; setting a council tax level higher than the current capping criteria or setting a council tax level more in line with the national Conservative Party target of no more than 2.5%.
22. Given the current economic circumstances, the Leader and the Finance and Staffing Portfolio Holder have requested that the MTFS has been modelled on an increase in council tax of 4.5% in 2010/11 followed by subsequent increases of 2.5%.

23. In setting its final budget the Council will of course have recourse to its balance of General Fund Reserves; projected to total £6.7 million in hand at March 2010 (assuming the projected deficit for 2009/10 has to be met from reserves). It has, therefore, been assumed in the forecast, as set out at **Appendix 1** that the resulting deficits will be met from reserves. The Executive Director – Corporate Services concurs with previous advice that the Council should not plan to reduce reserves below £1.5 million.
24. Given the forecast deficits, Cabinet has informally indicated that savings to the level of £1.6 million should be identified for the 2010/11 financial year.
25. 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 and Staffing Portfolio Holder to avoid substantial financial problems in the later years of the MTFs. Consequently it is being recommended that Cabinet consider proposals to deliver this level of savings at future meetings.
26. The MTFs also include a number of other assumptions, the main ones being:
 - (a) the base budget and carry forward of expenditure approved for 2009/10 being rolled forward;
 - (b) no provision for pay inflation in 2010/11 and 2.5% thereafter;
 - (c) from 2010/11 a further increase of 3% on the pay budget as an estimation of the effect of the pay and grading review;
 - (d) 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);
 - (e) the maintenance of debt free status;
 - (f) the continued use of capital receipts to finance capital expenditure not met by grants, contributions and reserves;
 - (g) a revised tax base, based on the current tax base growth in 2009/10 and taking into account the slow down in the housing market;
 - (h) 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. The Council should receive notice of the 2009/10 allocation of grant in November or December.
27. Against a backdrop of historically low interest rates the Council anticipates receiving £0.95m from interest received on balances in 2009/10. Although rates look set to increase in the medium term this is unlikely to add significantly to the Council's forecasts over the period of this review.

28. The impact of these factors is shown in summary Medium Term Financial Strategy set out at **Appendix 1**. The detailed variations to the forecast are highlighted in the table below:

	Projection 2009/10 £'000	Revised Projection 2009/10 £'000	Projection 2010/11 £'000	Projection 2011/12 £'000	Projection 2012/13 £'000	Projection 2013/14 £'000	Projection 2014/15 £'000
Base 2009/10 Budget	15,667	15,667	15,667	15,667	15,667	15,667	15,667
Inflation			84	636	1,096	1,592	2,112
Pay and Grading review			388	388	388	388	388
Other Staffing Changes			(56)	(56)	(56)	(56)	(56)
One-off Budget Provisions / Variations		12	(259)	(259)	(259)	(359)	(259)
HPDG Programme				13	156	167	167
Milton Country Park Contribution		130					
Pension Fund Contributions			280	510	750	1,002	1,266
Planning fee variations		416	304	192	92	(8)	(8)
Interest on Balances		336	437	437	587	737	737
Land Charges		(36)	(72)	(109)	(109)	(109)	(109)
New Actions			50	50	50	50	50
Concessionary Fares				485	485	485	485
Revenues and Benefits Shared Service				(350)	(350)	(350)	(350)
Recycling Strategic Review			(161)	(236)	(323)	(333)	(333)
Base Budget Forecast	15,667	16,525	16,662	17,368	18,174	18,873	19,757

Capital Programme

29. No significant variations to the Council's Capital Programme have been proposed at this stage. The programme will be updated to reflect current programme spend in due course and Cabinet in February will consider the updated programme for recommendation to Council later that month.

Implications and Risk Management

30. Financial Implications are covered in the main report. Savings of the magnitude proposed are likely to have significant staffing implications although these have not been identified at this stage.
31. 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. Options for a more specific budget consultation are currently under consideration and will be reported to future meetings of the Finance and Staffing or Policy & Performance Portfolio Holder as appropriate.
32. As indicated, there are very significant risks involved in the financial projections. These have already been outlined in the body of the report but the key specific risks are:
- Delivery of savings to meet targets. The risk of not achieving the savings is that the reserves would go below the minimum acceptable level during the period of the MTFs;
 - The Government may impose a tighter RSG settlement than anticipated by setting a negative floor for grant settlements.

- Pay and inflation assumptions 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 are subject to much more detailed work by the actuarial team and may be subject to Government intervention in any case;
- 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

33. This is an initial report on the MTFS, enabling Members to determine a financial framework against which service plans can be considered and funded. The further steps necessary over the next 6 months are:
- (a) a re-assessment of the MTFS in February to follow the 2010/11 budget setting process and reconfirmation of the formula grant;
 - (b) officers to examine and prioritise their service plans to identify areas where further savings can be identified;
 - (c) officers to review the capital programme to ensure proposals fit within the foreseen available resources;
 - (d) Cabinet agree a package of savings totalling £1.6 million for 2010/11 onwards
 - (e) to develop a process for consultation on the financial proposals, and overall strategy;
 - (f) the preparation and scrutiny of detailed estimates.

Effect on Corporate Objectives and Service Priorities

34.	Commitment to being a listening council, providing first class services accessible to all.
	The Council will consult on its budget plans over the winter, the results of which, will be fed back into future reports considering this matter
	Commitment to ensuring that South Cambridgeshire continues to be a safe and healthy place for all.
	The recommendations will contribute to the delivery of the Council's Aims, Approaches and Actions which build on the corporate objectives highlighted in this table
	Commitment to making South Cambridgeshire a place in which residents can feel proud to live.
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Commitment to assisting provision for local jobs for all.	
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Commitment to providing a voice for rural life.	

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Recommendations

35. (a) that the 12 actions as proposed at the September meeting of Cabinet be approved;
- (b) that £50,000 be provided in the MTFS to meet the cost of the 12 actions;
- (c) that Council be recommend to approve the MTFS and the underlying assumptions as the basis for the planning of the budget for 2010/11 onwards; and
- (d) that the next steps outlined in paragraph 33 above be approved.

Background papers: The following background papers were used in preparation of this report:

- More detailed financial working papers and assumptions
- Report of the Settlement Working Group September 2009
- Interim report of the Pension Fund Actuary

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