

SOUTH CAMBRIDGESHIRE DISTRICT COUNCIL

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

10 November 2011

REVIEW OF MEDIUM TERM FINANCIAL STRATEGY FOR THE GENERAL FUND

Purpose

1. To provide a formal update on the latest projections for the Medium Term Financial Strategy (MTFS) for the General Fund.
2. This is a key decision because:
 - it is likely to result in the Council incurring expenditure which is, or the making of savings which are, significant having regard to the Council's budget for the service or function to which the decision relates.
 - it is likely to be significant in terms of its effects on communities living or working in an area of the District comprising two or more wards.
 - it is of such significance to a locality, the Council or the services which it provides that the decision-taker is of the opinion that it should be treated as a key decision.and it was first published in the August 2011 Forward Plan.

Recommendation

3. That Cabinet approve the updated Medium Term Financial Strategy forecast at **Appendix 1** and the underlying assumptions set out at paragraph 7 to this report.

Reasons for Recommendations

4. To provide a financial framework for the detailed estimates that will be reported to Portfolio holders in December and January.
5. The Medium Term Financial Strategy sets out how the Council will resource its Corporate Plan and enables the impact of changed assumptions to be modelled over a reasonable time period.

Background

6. The MTFS was last reported to Cabinet on 10th February 2011. It showed that, by the end of the forecast period of 31st March 2016, the General Fund working balance was projected to be £3.0 million in credit. However, there was a projected £1.4 million deficit (appropriation from balances) on the account in 2015/16.

Considerations

7. The MTFS (**Appendix 1**) has now been rolled forward a further year and shows that by the end of the forecast period of 31st March 2017 the General Fund working balance is now estimated to be £2.1 million in credit but with a £1.8 million deficit (appropriation from balances) on the account in 2016/17.
8. The underlying assumptions supporting the forecast at Appendix 1 include:

- (a) Provision for a pay award of 2.5% in 2012/13, and each year thereafter at a cost of circa £320,000 in a full year;
- (b) The latest estimate of costs arising from the move to the National Joint Council job evaluation scheme. In broad terms these are in line with the projections reported to Council in April 2011 although there are differences in incidence between financial years. At this stage it has been assumed the differential impact is shared 80% to the General Fund and 20% to the Housing Revenue Account. The detailed draft budgets for these two funds, due to be published in the new year, will reflect a more accurate apportionment of staff costs.
- (c) Provision for an employer's pension contribution rate of 23.5% of pay for 2011/12 increasing to an assumed maximum of 25% in 2013/14. This assumption takes account of the Government's replacement of the Retail Prices Index with the, generally lower, Consumer Prices Index for the uprating of benefits payable and assumes that employees will receive reduced future benefits while bearing a larger proportion of the future costs of their pensions through increased contribution rates.

Without these changes to the balance of funding and benefits payable within the pension fund, employer contributions had been projected to increase to 31% of pay. To the extent that the Government does not deliver these changes, each additional 1% increase in the employer contribution rate above 25% would add £100,000 to the General Fund's annual budget to a maximum of £600,000.

It is important to note that the unions have mounted a legal challenge to the change in the index used for uprating benefits and are vigorously resisting the proposed changes to employee benefits and contribution rates, most notably with planned strike action;

- (d) Provision for general price increases of 2.5% (unless we know the actual rate to be applied). This factor has been applied to the budgets for the supplies of goods and services to the Council and the fees and charges made by the Council. While the Retail Prices Index is currently running at over 5% it is anticipated that the present high rates will fall next year, most notably when the VAT increase in January 2011 falls out of the annual inflation figure. This provision adds a net £55,000 to the cost base of the Council in 2012/13;
- (e) Provision for the revenue funding for the Northstowe project team, net of contributions from developers and partners, see Appendix 1 for details;
- (f) As a result of the proposals for welfare reform, it has been assumed that the administration grant for benefits will reduce by half over the three years from 2014/15 as the Department for Work and Pensions assume responsibility for the Universal Credit replacing the current housing benefits' schemes;
- (g) The planned localisation of council tax benefits, together with a 10% reduction in funding, is assumed to be cost neutral for the Council. The corollary being that benefits paid out will need to reduce by circa £650,000 from 2013/14 onwards.

- (h) The modest increase in income from planning and land charges over the period of the previous strategy has been scaled back as the economic recovery has been slower than originally anticipated;
- (i) Various other revisions have been made including incorporating the uprated savings with regard to the contact centre as reported to Cabinet in July and the General Fund share of any direct costs and overheads previously charged to the direct labour organisation (building maintenance):
- (j) The new homes bonus is a new grant from 2011/12 based on:
- net additions to the number of dwellings (the main factor)
 - increases in affordable housing
 - empty homes brought back in to use; and
 - increase in Gypsy and Traveller pitches

Each year's grant is payable for six years and so the grant is cumulative for six years and then levels off in year 7:

| | | Financial year | | | | | | |
|---------------|---------|----------------|---------|---------|---------|---------|---------|---------|
| | | 2011/12 | 2012/13 | 2013/14 | 2014/15 | 2015/16 | 2016/17 | 2017/18 |
| | | £ '000 | £ '000 | £ '000 | £ '000 | £ '000 | £ '000 | £ '000 |
| Year of grant | 2011/12 | (939) | (939) | (939) | (939) | (939) | (939) | |
| | 2012/13 | | (961) | (961) | (961) | (961) | (961) | (961) |
| | 2013/14 | | | (950) | (950) | (950) | (950) | (950) |
| | 2014/15 | | | | (950) | (950) | (950) | (950) |
| | 2015/16 | | | | | (950) | (950) | (950) |
| | 2016/17 | | | | | | (950) | (950) |
| | 2017/18 | | | | | | | (950) |
| | Total | (939) | (1,900) | (2,850) | (3,800) | (4,750) | (5,700) | (5,711) |

However:

- i. there may be a new government within the six year period which may change the scheme or remove the bonus altogether;
- ii. there may be further top-slicing of formula grant to provide resources to fund the bonus
- iii. the proportion allocated to district councils, currently 80%, may be reduced;
- iv. the new homes bonus is a replacement for Housing Planning Delivery Grant (HPDG) which was capped so the new homes bonus may also be capped in future years; and
- v. the housing trajectory may be too optimistic.

The medium term financial strategy only shows new homes bonus of £939,000 for 2011/12 and then a constant £1.9 million for each year thereafter as additional income contributing towards General Fund expenditure.

A further year's new homes bonus of £950,000 for 2013/14 has been included as income but this has been fully offset by also including as expenditure a provision for non-recurring expenditure on infrastructure, communal facilities, etc.

- (k) General grant: this is currently known as formula grant but the Government is consulting on replacing this with retained business rates from April 2013 onwards although this implementation date may be delayed. In simple terms, formula grant for 2012/13 is being rolled forward to form a funding level for 2013/14 and, thereafter, local authorities may be able to retain a share of any increase in business rates.

Further cash reductions in general grant of £31,000 in 2013/14 and £339,000 in 2014/15 in line with the Spending Review control totals.

Due to the current uncertainties, no allowance has been made for additional income from any growth in retained business rates in 2013/14 or in later years

- (l) An increase in council tax of 3.5% per annum from 2012/13 onwards as in the previous version approved in February. This is an increase of £4.04 a year or 8 pence per week;
- (m) Unless specifically highlighted elsewhere in this report, it has been assumed that the Corporate Plan set out at item x on this agenda can be funded from the forecast expenditure totals set out at Appendix 1.

9. The result is that by the end of the projection period, 31 March 2017, General Fund reserves will fall to £2.1 million (credit balance). However, it is recommended that the minimum working balance should be £2.5 million due to the increased risk / volatility from localised council tax benefit where the expenditure is demand-led but the government grant is fixed and from retained business rates where local authorities can gain or lose from any increase or decrease in business rates collected.

Options

10. Options, which have not been evaluated, for the medium term financial strategy include one or a combination of the following:
- (a) Finding further savings to ensure the General Fund balance does not fall below £2.5 million before March 2017;
 - (b) Agreeing to a pay award for 2012/13 which is lower than 2.5%. It is understood that employers nationally could propose a third year with no increase in pay. If the Council did not make a cost of living pay award next year this would save £320,000 in a full year and subsequently. It should, however, be noted that the national trade union negotiators are seeking “*A substantial increase on all pay points that recognises the financial hardship being suffered by NJC workers*”;
 - (c) Using the third year of new homes bonus to meet general fund expenditure instead of non-recurring expenditure and/or incorporating a fourth year for new homes bonus for 2014/15. The risks are set out in paragraph above on new homes bonus;
 - (d) Anticipating income from retained business rates collected from 2013/14 onwards on the basis that an area like South Cambridgeshire should benefit from the proposed system. However, there are so many variables in the

proposed system such as set aside, adjustments, proportionate shares, tier splits, cash or indexed tariffs and top-ups and the operation of levies and safety nets that it would be difficult to quantify any such income with any certainty. In any case, it appears the Government may be considering delaying the implementation of the scheme;

- (e) Providing additional funding for the emerging priorities from the draft corporate plan as set out elsewhere on this agenda. Principally these are:
 - (i) Economic Development and
 - (ii) The Climate Change Action Plan
- (f) Freezing the council tax in 2012/13 at 2010/11 levels and accepting a new one-year council tax freeze grant. The exact details of this scheme are still awaited. To raise the same total income over the period of the strategy would then require a council tax increase of £5.76 (or 11 pence per week) in 2013/14 with equivalent increases in each subsequent year over the three years to 2016/17.

It should be noted that the Localism Bill makes provision for the Secretary of State to impose a local referendum for what he defines to be an excessive council tax increase. While the parameters for such a definition have not been released yet, this level of increase (at 4.99%) is higher than the council tax capping level for the last two years. If the current capping mechanism still applied the level of increase in **both** the budget requirement and the council tax, would be considered, i.e. both criteria have to be met before an authority can be capped so further detailed calculations would be required if the Council wished to follow this option.

The increase in the council tax could be lower if the same income is raised over a longer period, or the Council makes further savings from its revenue budgets; and

- (g) Increasing the council tax by more or less than 3.5% from 2012/13 onwards.

Implications

| | | |
|-----|--------------------------------------|---|
| 11. | Financial | As set out in the report |
| | Legal | The pressure to reduce budgets and the continuation of a poor financial settlement could adversely affect the provision of statutory services |
| | Staffing | None unless the option of further savings is pursued |
| | Risk Management | As set out in the report |
| | Equality and Diversity | |
| | Equality Impact Assessment completed | No Any implications for service delivery arising from the authority's MTFS will be subject to separate Equality Impact Assessments. |
| | Climate Change | As set out in paragraph 9(e) above. |

Consultations

12. None at this stage; however, stakeholder consultations will take place on the Council's policy and budgetary proposals prior to their being submitted to Cabinet and Council for approval in February 2012.

Consultation with Children and Young People

13. As paragraph 12 above.

Effect on Strategic Aims

14. The MTFs provides an estimate of the resources available to the Council to continue to provide General Fund services and to achieve its strategic aims as far as possible within the current financial constraints. As part of this report and the consideration of the Council's strategic policy framework of Aims, Approaches and Actions, Cabinet will need to have regard to objectives for service delivery which may alter the assumptions set out in paragraph 7 and Appendix 1.

Conclusions / Summary

15. This report and appendix are designed to provide Cabinet with an updated forecast of the cost of current plans and the resources available to the Council over the next five financial years together with an indication of the underlying assumptions and risks attached.
16. Cabinet is invited to agree, or approve amendments to, the assumptions and parameters built into the MTFs in order to inform the debate over priorities and budget setting over the coming months.

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

None

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