

SOUTH CAMBRIDGESHIRE DISTRICT COUNCIL

REPORT TO: Leader and Cabinet

21 July 2005

AUTHOR/S: Management Team

REVIEW OF MEDIUM TERM FINANCIAL STRATEGY

Purpose

1. To advise Members of the latest developments on the proposed capping of the Council Tax for 2005/06, the financial options available to the Council and to request that Cabinet recommend to Council an amended budget for 2005/06.
2. In the time available, it has not been possible to review fully the Medium Term Financial Strategy and this will now be scheduled for autumn 2005.

Effect on Corporate Objectives

3.	Quality, Accessible Services	The capping of the Council Tax at the level proposed by the Office of the Deputy Prime Minister (ODPM) will have a catastrophic impact on the Council's services and the achievement of its corporate objectives and priorities.
	Village Life	
	Sustainability	
	Partnership	

Background

4. An update on the proposed capping of the Council Tax was presented to the last Cabinet meeting on 14 July 2005.

Considerations

5. An oral hearing was held on Monday 18 July by the High Court judge, Mr. Justice Stanley Burton, to hear the Council's application for a stay of the draft statutory instrument being debated in the House of Commons and for judicial review of the Secretary of State's decision on capping. The Judge made his decision on Tuesday 19 July which was that he had not been persuaded by the Council's case.
6. It is possible to appeal against the Judge's decision within 7 days. The Judge has already awarded the ODPM's costs against us. The oral hearing was only the first stage – the Council then had also to succeed at the judicial review. The remote possibility of overturning the Judge's decision and then succeeding at judicial review has to be weighed against the risk of failing, having incurred our own legal costs and probably having also to meet the ODPM's costs.
7. The draft statutory instrument will now be debated in the House of Commons on Wednesday 21 July. Our efforts to persuade our own Members of Parliament and other Members to speak and vote against the draft will be continued.
8. However, it is becoming increasingly certain that the draft order will be approved and that the Council will have to plan for a maximum budget of £11,350,000 for 2005/06, a reduction of £2,592,650.

Options

9. The reduction of £2,592,650 will have to be met from a reduction in the expenditure estimates and/or an increase in the use of reserves. The reduction will reduce the budget requirement to the maximum amount stipulated for by the ODPM of £11,350,000 with a resultant Council Tax of £92.93, an increase of 32.8% on the previous year's £70.
10. The ODPM's principles for designation, this being the initial stage in the capping procedures, for 2005/06 were more than a 6% increase in the budget requirement **and** more than a 5.5% increase in the Council Tax. The designation criteria for 2004/05 were more than a 2% increase in the budget requirement (due to a transfer from Revenue Support Grant to specific housing benefit grant), more than a 8.5% increase in Council Tax **and** a Council Tax greater than average (all three criteria must apply). In formulating the options open to the Council, it has been assumed that the criteria for 2005/06 will continue to apply in future years. The ODPM will give no indication as to the criteria for future years.
11. To try to avoid being capped in the future, the options are all based on future Council Tax increases from 2006/07 onwards of 5.5%.
12. Options based on the latest designation criteria are considered to be a prudent approach to financial planning. If the ODPM relaxes the capping criteria in the future, the Council will find that it has made unnecessary cuts in expenditure and, given the size of the cuts needed, in staffing levels but it is not possible to predict accurately future Government decisions.

Financial Implications

13. The financial implications of four possible options have been evaluated. These are all based on the Medium Term Financial Strategy approved by Council on 28 April 2005 updated for the actual General Fund working balance as at 31 March 2005. The options include £500,000 per annum in real terms for new initiatives. These are financed from efficiency savings and cuts in the years up to 2008/09 but in 2009/10 and 2010/11 the additional £500,000 per annum is not covered by corresponding efficiency savings and cuts and is an increase in net expenditure.
14. The projections do not include any additional expenditure which was not in the original estimate. They do not, therefore, include the legal costs for capping, the cost of rebilling or the revenue cost of a new kerbside recycling contract. In future, any additional costs will have to be found from virement or additional cuts in services as this is the new financial environment forced on the Council by capping.
15. The four possible options are shown in **Appendices 1 to 4**. These are:
 - a) Option 1 / Appendix 1
Reduce expenditure by the full amount of £2,592,650 in 2005/06

This option is for illustrative purposes only. It is just not realistic even to contemplate cuts of £2.6 million in the remaining eight months of the year particularly as cuts of this magnitude will necessitate termination of contracts of employment which will initially increase costs due to redundancy payments and added years for pension entitlement;
 - b) Option 2 / Appendix 2

Maximum use of reserves to postpone expenditure cuts

With this option, there are estimated to be no cuts in 2005/06 and cuts of £0.8 million in 2006/07. This may seem an attractive option of avoiding cuts and giving the Council time to ascertain the designation criteria for 2006/07. However, reserves are a finite resource and using reserves are a means of postponing cuts, not avoiding them. The longer cuts are postponed, then the bigger the eventual cuts have to be. If the designation criterion of more than a 5.5% increase in Council Tax is set again for 2007/08, then the Council will be faced with cuts of £3.7 million with the General Fund reserve already at the minimum level of £1.5 million. In addition, officers will be faced with a year of uncertainty knowing that, in all probability, they will be faced eventually with substantial cuts

c) Option 3 / Appendix 3

Reduce expenditure by 50% of the full amount and meet the difference from balances

This is a half way house between options 1 and 2. Cuts of "only" £1.3 million are initially needed but once reserves are at their minimum level, a massive cut of £4.0 million is estimated to be needed in 2008/09, that is, if the original £1.3 million are ongoing cuts, a further £2.7 million needs to be found.

d) Option 4 / Appendix 4

Reduce expenditure by as much as possible as soon as possible with expenditure reduced by the full amount by 2006/07

The intention with this option is to achieve the required cuts as soon as possible but the option recognises that the full amount of the cuts cannot be achieved in 2005/06. It has been assumed that cuts equal to one half of the full amount of £2.6 million will be achieved. The intention was also to achieve sufficient cuts in 2006/07 so that no further cuts in real terms were needed in years 2007/08 to 2009/10 and this is reflected in the financial projections. However, in 2009/10, the estimated Council Tax is still below the underlying Council Tax and an increase in the cuts is required in 2010/11.

16. A further option which has been proposed is to keep the increase in the budget requirement to 6% while letting the Council Tax increase by more than 5.5%. For example, it has been proposed that if the Government are capping the Council at a maximum budget of £11.350 million, then it is effectively approving a 32.8% increase in the Council Tax for 2005/06 so the Council could budget for a 32.8% increase in the Council Tax in 2006/07 and possibly later years. With a Council Tax led budget, the Council Tax is set and this then determines the budget requirement. If the Council Tax is increased by 32.8% from £92.93 to £123.41 in 2006/07, this determines the income to the General Fund as £6.933 million (£123.41 multiplied by the taxbase of 56,178). External support is estimated at £6.551 million in 2006/07 and, therefore, the budget requirement is £13.484 million (£6.933 million plus £6.551 million) but the increase in the budget requirement is then 18.8% from £11.350 million to £13.484 million. The two criteria of not more than a 6% increase in the budget requirement and not more than a 5.5% increase in the Council Tax are inextricably linked and one criterion cannot be breached without an effect on the other. The maximum amount of £11.350 million is a 16.2% increase on 2004/05. The only way that the capping game can be played is to assume that the Council can increase its budget requirement by 16.2% and its Council Tax by 32.8% - a very high risk strategy which has already

been rejected by the Finance and Resources Director in his statement to the High Court.

17. Other options which have not been reflected in the financial projections in the Appendices are:
 - a) returning earmarked capital reserves, £3.7 million as at 31 March 2005, which were built up from revenue contributions in the past, back to revenue so that there are more revenue reserves which can be used to keep the Council Tax down. This will just defer the time when cuts have to be made. The capital reserves are earmarked and committed for particular services and these commitments will then have to be met from usable capital receipts when the projected level of capital receipts in future years is already falling well short of the original estimate, as set out in item 2 of the agenda; and
 - b) transferring services to the parishes which could meet the additional cost by increasing their precept as the designation criteria do not currently extend to parish councils. The drawback to this approach is that taxpayers in the parish may then be paying for services which are used by people from outside the parish.

Legal Implications

18. If the statutory instrument is approved by the House of Commons, the Council is legally required to set a maximum budget of £11.350 million

Staffing Implications

19. Payroll costs are the largest item in the Council's budget and if the Council is capped and has to find substantial budget reductions, it is regrettable but inevitable that the termination of some contracts of employment may have to be considered.

Risk Management Implications

20. There is a risk that cuts including compulsory staff redundancies are made and then the Council underspends its budget making some of the cuts unnecessary. This should be manageable by reminding all cost centre managers of their responsibilities and by summoning cost centre managers to attend Cabinet to explain the reasons for any underspend.

Consultations

21. Staff have been kept informed of the latest developments by e-mail and by invitations to meetings held by the Leader and the Finance and Resources Director. Management met with union representatives on Tuesday 19 July.

Conclusions/Summary

22. Management Team recommend option 4 as this option reduces the uncertainty for staff and is not dependent on the hope that the designation criteria will be relaxed in future years.

Recommendations

23. Cabinet is requested to:

- a) confirm that there should be no appeal against the Judge's decision;
- b) agree the criterion for future financial projections should be a 5.5% increase in the Council Tax;
- c) recommend to Council that option 4 is adopted and that a Council Tax resolution based on this option is agreed at the Council meeting on 28 July;
and
- d) instruct the Finance and Resources Director to remind all cost centre managers of their responsibilities in unequivocal terms

Background Papers: the following background papers were used in the preparation of this report: Budget book
Correspondence with ODPM

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