

CABINET	AGENDA ITEM No. 8
4 February 2019	PUBLIC REPORT

Cabinet Member(s) responsible:	Councillor David Seaton, Cabinet Member for Resources	
Contact Officer(s):	Peter Carpenter, Acting Corporate Director of Resources Kirsty Nutton, Head of Corporate Finance	Tel. 452520 Tel. 384590

MEDIUM TERM FINANCIAL STRATEGY 2019/20 TO 2021/22-TRANCHE THREE

R E C O M M E N D A T I O N S	
FROM: Cabinet Member for Resources	Deadline date: 25 January 2019
<p>It is recommended that Cabinet approves:</p> <ol style="list-style-type: none"> 1. The Tranche Three service proposals, outlined in Appendix H as the basis for public consultation. 2. The updated budget assumptions, to be incorporated within the Medium Term Financial Strategy (MTFS) 2019/20- 2021/22. These are outlined in section 5.1 of the report. 3. The revised capital programme approach outlined in section 5.11 and the capital schemes outlined in Appendix G 4. The Medium Term Financial Strategy 2019/20-2021/22-Tranche Three, as set out in the body of the report and the following appendices: <ul style="list-style-type: none"> • Appendix A – 2019/20-2021/22 MTFS Detailed Budget Position-Tranche Three • Appendix B – Budget Proposals- Tranche One, Two and Three. • Appendix C – Council Tax Information • Appendix D – Grant Register • Appendix E – Fees and Charges • Appendix F – Performance Data • Appendix G – Capital Programme Schemes 2019/20- 2023/24 • Appendix H – Budget Consultation Document, including Tranche Three Budget Proposal detail • Appendix I – Savings RAG Rating • Appendix J – Equality Impact Assessments • Appendix K – Treasury Management Strategy • Appendix L – Capital Strategy • Appendix M – Asset Management Plan • Appendix N – Investment Acquisition Strategy <p>It is recommended that Cabinet notes:</p> <ol style="list-style-type: none"> 5. The statutory advice of the Chief Finance Officer outlined in section 6, The Robustness Statement. This is required to highlight the robustness of budget estimates and the adequacy of the reserves. 6. All the grant figures following the Local Government Provisional Finance Settlement, published on 13 December 2018 outlined in section 4.4. 7. The future strategic direction for the Council outlined in section 5.10 of the report. 	

1. ORIGIN OF REPORT

- 1.1 This report comes to Cabinet as part of the Council's formal budget process as set out within the constitution and as per legislative requirements to set a balanced and sustainable budget for 2019/20-2021/22.

2. PURPOSE AND REASON FOR REPORT

2.1 Purpose

The report to Cabinet forms part of the council's formal Budget and Policy Framework. This requires Cabinet to initiate and propose service proposals and updated assumptions to set a balanced and sustainable budget for the financial years 2019/20 to 2021/22. There is a legal requirement to set a balanced budget for 2019/20. The purpose of this report is to:

- Recommend that Cabinet approve the Tranche Three service proposals for consultation;
- Recommend that Cabinet approve the budget assumptions to update the Medium Term Financial Strategy (MTFS), to ensure estimates reflect the most up to date information available;
- Outline the financial challenges facing the council in setting a sustainable and balanced budget for MTFS 2019/20-2021/22;
- Outline the strategic approach the Council is taking to close the budget gap over the three year budget planning horizon to deliver a sustainable budget;
- Outline potential avenues the Council is considering pursuing to ensure future budget sustainability;
- Outline the progress on the delivery of the shared services programme with Cambridgeshire County Council and other partners. The delivery of this programme will allow the council to work differently and more efficiently, which will unlock financial benefits to enable the council to continue to provide the services which are important to Peterborough residents.

Proposals will be agreed by Cabinet at its meeting on 25 February 2019 and then will be recommended to Council on 6 March 2019 for approval.

2.2 Executive Summary

At Council held on 12 December 2018, Tranche Two of the 2019/20 MTFS was agreed, with deficits of £3.0m, £18.0m and £20.7m to be identified for 2019/20, 2020/21 and 2021/22 respectively. Tranche Three of the 2019/20 MTFS process has identified additional pressures and savings, reducing the budget deficit to a balanced position in 2019/20, with a deficit of £18.4m and £20.0m identified in 2020/21 and 2021/22. Table 1 summarises the current budget position over each Tranche.

Table 1: Overall 2019/20 MTFS Position by Tranche

	2019/20 £000	2020/21 £000	2021/22 £000
Budget Gap as reported in MTFS 2018/19	12,712	19,317	16,926
Service Pressures and Investment			
Tranche 1	1,692	4,562	5,463
Tranche 2	4,224	3,696	3,668
Tranche 3	5,173	5,592	5,641
Service Pressures and Investment sub-total:	11,089	13,850	14,772
Budget Position before Savings and Additional income	23,801	33,167	31,698
Savings and Additional Income			
Tranche 1	(4,177)	(3,841)	(61)
Tranche 2	(11,418)	(5,641)	(5,308)
Tranche 3	(5,122)	(5,276)	(6,273)
Savings and Additional Income sub-total:	(20,717)	(14,758)	(11,642)
Use Of Reserves	(3,084)		
Final Budget Gap	0	18,409	20,056

Incremental Budget Gap	-	18,409	1,647
-------------------------------	---	---------------	--------------

Appendix B outlines an analysis of all budget changes included within Tranche One, Two and Three.

In addition to these deficits, detailed work is also under way to deliver the Shared Services Savings targets of £4.5m in 2019/20 and a further £4.5m in 2020/21. Further detail on this transformation programme is outlined in section 5.10.

The move to a truly sustainable budget will require a reduction of the “One off” savings, as by nature, these are not repeatable. Within this Tranche of the budget process the Council is proposing to use £3.1m of reserves to balance the budget in 2019/20, this adds to the significant reduction in the balances of reserves. Over the period 2017/18 to 2019/20 the Council is expecting its balances on reserves to reduce by over 50% from £40.9m to £19.4m. Table 2 sets out the use of ‘one off’ savings included within the budget, and the in year unbudgeted use of one off measures, to a position in 2020/21, where the council is expecting to no longer rely on this funding option to support the budget.

Table 2: Non repeatable One Off Savings

	Previous Year	Current Year	Years relating to this Medium Term Financial Strategy		
	2017/18 £000	2018/19 £000	Year 1 2019/20 £000	Year 2 2020/21 £000	Year 3 2021/22 £000
Non Repeatable					
Capital Receipts	12,738	2,922	10,639	-	-
MRP Re-provision	-	3,700	-	-	-
Council Tax Surplus	173	1,188	201	-	-
Planned Use of Reserves	7,194	4,231	3,084	-	-
Total	20,105	12,041	13,924	-	-
In year Use of Reserves (as per November 2018 Budgetary Control Report)	-	3,900	-	-	-
In year increased Use of Capital Receipts	-	1,195	-	-	-
Total	20,105	17,136	13,924	-	-

As the council has used capital receipts from the sale of properties (assets) to support the budget for a number of years, the remaining value of assets is relatively low, especially with some of the higher value assets being sold in recent years. This now leaves the council with very little flexibility to use capital receipts in the future to support the budget, and also reduces the potential for the Council to generate property rental income.

The 2018/19 budgetary control position as at the end of November 2018, is forecasting an overspend of £3.9m, this has reduced from £6.5m reported in Tranche Two of the budget due to plans that have been put in place by senior management to manage and scrutinise expenditure throughout the Council, to mitigate the financial impact of the forecast overspend identified. This overspend is largely isolated in one area, children’s services, which was outlined in detail when reported at the Cabinet meeting on 23 July 2018, highlighting the full extent of the demand pressures, although there are a number of other key areas of overspend to be aware of. These are as follows:

- Demand within children’s services £4.5m;
- Demand within adults services £0.8m;
- Peterborough Serco Strategic Partnership -Transformation costs, Business Support and variable costs £2.0m;
- Amey contract extension £1.0m;
- Parking Services £0.5m;
- ICT £0.5m;
- Volumes within the Coroners service £0.2m.

These pressures are currently being mitigated in part by the one-off use of capital receipts. This is a result of the Council exceeding the level of receipts included within the budget, which for the current year is £2.9m, as highlighted in Table 2. The November 2018 position is outlined in detail within the Budgetary Control Report to this Cabinet (4 February 2019) meeting.

3. **TIMESCALES**

Is this a Major Policy Item/Statutory Plan?	YES	If yes, date for Cabinet meeting	4 & 25 FEBRUARY 2019
Date for relevant Council meeting	6 MARCH 2019	Date for submission to Government Dept.	N/A

4. **BACKGROUND**

4.1 This report forms Tranche Three of the revised rolling budget process the Council previously agreed to implement, to aid the delivery of a three year Revenue Budget and Capital Programme from 2019/20 to 2021/22 for the Council.

4.2 **The 2019/20 to 2021/22 Budget Setting Process**

At Council held on 7 March 2018, the 2018/19 to 2020/21 MTFS was agreed. In addition, given the significant savings required for the Council to move to a fully sustainable budget over the MTFS three year time horizon, the Council also agreed to follow a rolling budget implementation process. Each tranche of the budget process will identify:

- 1) Savings and efficiencies that have been validated and are ready for approval;
- 2) Savings and efficiency strategies that are being worked on that require the Council to approve resources for detailed plans to be validated and enable timely implementation to be agreed as part of subsequent budget tranches later this financial year;
- 3) Future strategic direction and ideas.

This process has already seen two cycles of the process, with the proposals being agreed at Council held on 25 July 2018 (Tranche One) and 12 December 2018 (Tranche Two). The rolling budget process has followed similar governance processes to the previous year, with proposals being discussed at Cabinet Policy Forum and Budget Working Group before being published for consultation, and undergoing examination through Scrutiny meetings before final approval by Cabinet and Full Council.

As this is an election year, there is only the time to run three Tranches. A full four Tranche process will only take place in those years when there is not a “Thirds” Local Election.

The Table 3 sets out the remaining budget timetable for the year:

Table 3: Budget Timetable

Tranche	Cabinet	Joint Scrutiny	Cabinet	Council
Tranche Three	04/02/2019	12/02/2019	25/02/2019	06/03/2019

4.3 **Local Budget Context**

Basic funding assumptions are detailed in Section 5.1 of this report, these assumptions have been revised to include the following:

- Additional Growth in Business Rates (NNDR) income, due to new businesses within the city, particularly from the Peterborough Gateway at Roxhill, Great Haddon;
- Additional Council Tax increase of 1%, taking the total increase in all three years of the MTFS up to 2.99%;
- Additional Social care funding, totalling £2.150m each year.

The current assumptions are continuing from the previous MTFS updates, and still remain relevant:

- The 2019/20 financial year will be the final year of the present four year Settlement Period;
- Local Government funding will change significantly in 2020/21 and presently there is very limited

- information on how these changes will affect individual Councils;
- The Revenue Support Grant (RSG) will reduce to £10m in 2019/20

The Provisional Local Government Finance Settlement was announced on 13 December, confirming additional 1% Council Tax flexibility, New Homes Bonus funding allocations and £180m surplus on the levy account which will be redistributed to local authorities. Further details on the settlement are included within section 4.4.

The Council continues to face growing pressures and demands which include:

- Capital financing costs;
- The requirement for additional school places;
- Increases in Looked After Children numbers;
- Management of Homelessness;
- Adult Social Care demographics;
- Population growth, as Peterborough is a growing City;
- Demographic growth in different age groups that require Council services.

These pressures are outlined in more detail within the Budget Consultation document, with performance analysis and benchmarking, in relation to these key areas, being summarised in section 5.9 and Appendix F.

The November 2018 budgetary control report, which is also presented to Cabinet on the 4 February 2019, highlights the current forecast position on some of these pressures and demands in 2018/19.

Pressures and Savings Overview

The Council has ensured that growth pressures highlighted above have been included in the MTFs. Over the 2017 to 2022 period a total of £35m has been built into the budget, which results in higher levels of savings and efficiencies being required to be delivered to balance the budget. Table 4 outlines the growth and Table 5 outlines the savings which have been factored in to the budget.

Table 4: Additional Budget Growth

Additional Budget Growth	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000
Opening Budget Gap in 2017/18	15,284	24,342	31,166	33,804	34,281
Corporate	1,063	2,536	3,983	6,638	7,308
Governance	319	483	693	698	698
Growth & Regeneration	751	858	2,952	2,561	2,712
People & Communities	8,422	9,590	13,266	14,975	16,459
Public Health	-	-	194	194	194
Resources	1,512	3,763	7,280	7,959	8,085
Total	27,351	41,572	59,533	66,829	69,737

Table 5: Budget Savings

Savings	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000
Chief Executive	(110)	(110)	(110)	(110)	(110)
Corporate	-	(1,045)	(4,775)	(9,275)	(9,275)
Governance	(50)	(76)	(98)	(90)	(90)
Growth & Regeneration	(1,214)	(3,254)	(6,183)	(6,018)	(6,438)
People & Communities	(949)	(1,056)	(2,698)	(3,135)	(3,122)
Public Health	-	(623)	(863)	(892)	(892)
Resources	(3,132)	(15,262)	(14,064)	(12,389)	(11,016)
Funding	(5,263)	(14,093)	(17,884)	(16,960)	(19,187)
Capital Receipts	(9,439)	(1,822)	(9,774)	449	449
Reserves	(7,194)	(4,231)	(3,084)	-	-
Total	(27,351)	(41,572)	(59,533)	(48,420)	(49,681)

Budget Gap 2019/20 MTFS	0	0	0	18,409	20,056
--------------------------------	----------	----------	----------	---------------	---------------

**all of these figures have been taken from the 2017/18, 2018/19 and 2019/20 MTFS reports to give you a give the last three years position. In terms of Capital receipts there were targets for future years built into the 2016/17 MTFS, this would explain why the figures vary in comparison to table 2. There is also a £449k pressure 2020/21 and 2021/22 related to rental income lost from the sale of investment assets.*

Council Priorities

The Cabinet remains firm in its priorities this year against the funding challenges it faces. These are:-

- Growth, regeneration and economic development of the city to bring new investment and jobs. Supporting people into work and off benefits is vital to the city's economy and to the wellbeing of the people concerned.
- Improving educational attainment and skills for all children and young people, allowing them to seize the opportunities offered by new jobs and our university provision, thereby keeping their talent and skills in the city.
- Safeguarding vulnerable children and adults.
- Pursuing the Environment Capital agenda to position Peterborough as a leading city in environmental matters, including reducing the city's carbon footprint.
- Supporting Peterborough's culture and leisure offer.
- Keeping our communities safe, cohesive and healthy.
- Achieving the best health and wellbeing for the city.

4.4 National Budget Context

Autumn Budget 2018

Chancellor of the Exchequer Philip Hammond delivered the Autumn Budget 2018 to the House of Commons on 29 October 2018 setting out the path for the Spending Review 2019 (SR19) and additional funding covering all government departments.

The main announcement for local government was:

- An additional £650m of social care funding, which includes extending the recently announced £240m of winter pressures funding in to 2019/20, and an additional £410m of funding for social care, from this Peterborough City Council will receive funding of £2.150m;
- £420m in 2018/19 to tackle pot holes and other minor road highways work. From this Peterborough received £1.535m of capital funding, which is to be used by 31 March 2019;
- £400m of in-year capital funding allocations to schools in 2018/19;
- An additional £84m of Children's Services funding over five years, but across only 20 councils. Peterborough is already one of the 5 councils on this scheme therefore there will be no additional financial benefit for the Council from this.

Philip Hammond confirmed there will be a full spending review next year, setting out its priorities and an indicative five year public spending path, re-emphasising that austerity is coming to an end. The previous

spending reviews were at an average annual reduction of 3% in 2010 and 1.3% in 2015, however the SR19 will see annual growth of 1.2%, but notes that EU negotiations should enable them to have more cash.

All of the Departmental Expenditure Limits (DEL's) will be confirmed in the spring when the Spending Review is confirmed.

Provisional Local Government Finance Settlement 2019/20 including Business Rates Pooling

On 13 December 2018 James Brokenshire, the Minister for Housing, Communities and Local Government (MHCLG) gave an oral statement to the House of Commons, outlining the Provisional Local Government Finance Settlement. The key announcements were:

- 3% General Council Tax referendum limit for 2019/20 was confirmed;
- The New Homes Bonus National Baseline will remain at 0.4%;
- 15 new 75% Business Rates Pilots were announced for the following areas: Berkshire, Buckinghamshire, East Sussex, Hertfordshire, Lancashire, Leicester, Norfolk, Northamptonshire, North & West Yorkshire, West Sussex, Worcestershire, Solent Authorities North of Tyne, Somerset, and Staffordshire & Stoke. With the pilots in devolution areas and London remaining in place;
- £180m surplus on the Business Rates levy account in 2017/18 (for the first time) and this will be redistributed to local authorities based on need;
- The direct elimination of Negative Revenue Support Grant (RSG) in 2019/20 using foregone business rates at a cost of £152.9m, (this had no impact on for Peterborough City Council);
- A package of support to help councils become more efficient was announced. It will support continuous performance improvement and the use of smarter technology. There will be a £7.5m innovation fund, with the first allocations already announced.

Fairer Funding Review Consultation

A consultation paper was issued on 13 December setting out the Government's latest proposals on the Fair Funding Review. This paper focuses on the 'allocation of needs and resources' within the formula. Overall the direction of travel outlined in the paper is towards a flatter distribution of 'needs', including options for the following:

- Its proposed that deprivation will no longer form part of the foundation formula, which will have a significant impact for the most deprived authorities;
- Some services, such as concessionary fares or home-to-school transport, which have previously been funded based on demand or usage, will be funded on a per-head basis;
- There are options for partial council tax equalisation (the 2013/14 funding formula only did 75% equalisation). Furthermore, there will be limits placed on the extent of equalisation;
- There are still some very large gaps, particularly in respect of the Adult's and Children's social care formulae. Between them these two formulae will distribute about half of the "needs" assessment. It is known that it will be based on multi-level, or small-area, statistical analysis, but there is currently no idea of the outcome of this research and it is unlikely to be known until the late Summer 2019;
- There are some specific proposals around area cost adjustments, which will look to use the Department of Transport's travel time data instead of sparsity, which will be a positive move for rural authorities.

Overall the consultation indicates a good outcome for lower need, high taxbase authorities, due to the proposal to remove deprivation from the formula and to only take a partial council tax equalisation approach. Peterborough has seen increased needs and demand for services in areas such as social care housing. The council has also experienced growth in its Council Taxbase, due to the significant amount of new homes built within the city. This growth in the number of homes within the City increases the level of Council Tax Base, however due to the average property being a Band B and the Council having one of the lowest Council Tax Band D rates, it does mean we have a lower tax base in comparison to other authorities. Taking this in to consideration it would seem likely that Peterborough would receive a more flatter redistribution, meaning little fluctuation in funding levels.

The Council will be providing a full response to this consultation in February and will carry out further analysis using the Fairer Funding models available by PIXEL and the LGA to assess the potential outcome for Peterborough.

The Local Government Association (LGA) View

Following the Local Government Finance Settlement 2019/20 publication the LGA are encouraged by the government showing signs of listening to the sectors concerns and increasing pressures by providing additional social care funding and additional Council Tax flexibility. However, they note that Councils are still facing a funding gap of over £3bn in 2019/20, and that additional funding is still required. They are continuing to raise concerns over the lack of clarity over funding levels from March 2020, when the four year settlement deal finishes and the new fairer funding system is put in place.

The LGA currently have a number of campaigns around creating financial sustainability for the future of local government. One of the campaigns 'Growing Places: building local public services for the future' is aiming to ensure residents and their families have access to the best possible opportunities to live a healthy, independent and prosperous life. They are rallying behind Local Government and emphasising how councils are at the heart of communities and are best placed to improve people's lives, protect residents and ensure that core service delivery continues. The campaign focuses on some of the key growing demand areas facing local government such as Children's and Adults social care and Homelessness, all areas where Peterborough has seen a significant rise in demand and therefore a financial pressure in recent years. They outline options to address the funding gap, redistribute funding and provide certainty and sustainability.

The LGA also have a '#CouncilsCan moving the conversation on' campaign, which starts the new thinking around building the case for long term, sustained investment in local government as well as laying out the positive outcomes this would deliver for the country, such as:

- Local government funding;
- Housing, planning and homelessness;
- Improving schools;
- Brexit;
- The future of non-metropolitan England;
- A sustainable adult social care and support system for the long term;

CIPFA Finance resilience Index and Financial Management Code of Practice

In July 2018, CIPFA developed a proposal to publish an index of resilience of councils, designed to support the local government sector as it faces continued financial challenge. CIPFA believes there is a need for appropriate and robust independent challenge and support of some councils on financial strategy and trajectories through this new resilience index which is intended to provide challenge where needed so that appropriate action can be taken at a local level. The index forms part of a broader strategy the Institute has for ensuring council finance leaders have the support needed to achieve a balanced budget.

The consultation in summer outlined a proposed methodology, and illustrated how the results might be displayed in practice. The index tool will seek to rank authorities on their financial health by considering the following indicators:

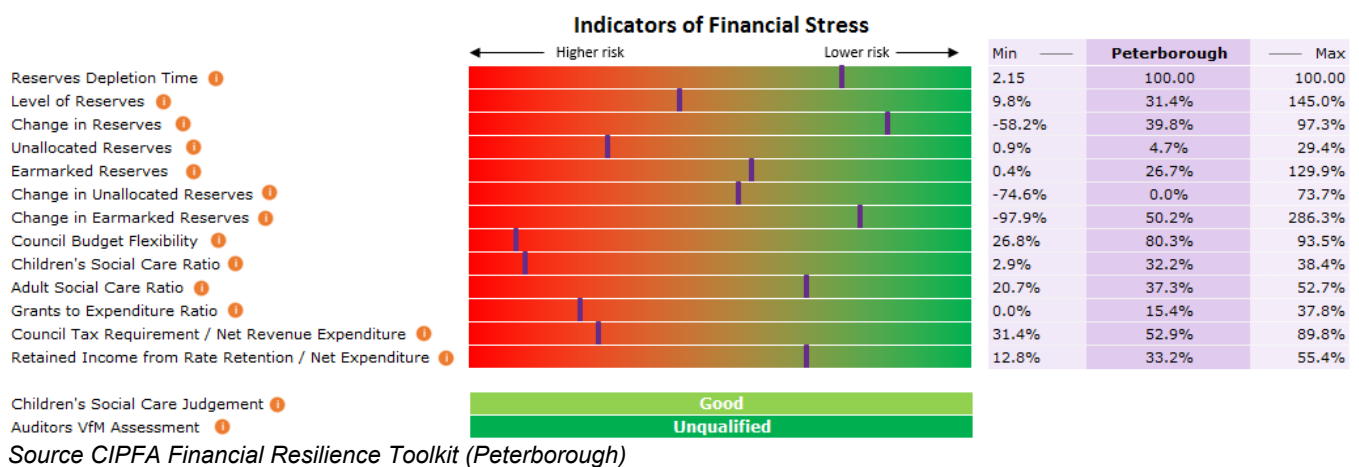
- Level of reserves;
- Change in reserves;
- Ratio of government grants to net revenue expenditure;
- Proportion of net revenue expenditure accounted for by Children's social care, Adult's social care and financing costs;
- Ofsted rating for children's social care;
- Auditors Value For Money judgement.

CIPFA have announced a number of changes to the proposed index. The modifications have been made after CIPFA received 189 responses to the consultation from local authorities, representative groups,

statutory bodies and auditors. The key changes include:

- the removal of the composite index that combined a number of factors into a single weighted measure;
- providing the report (tool) initially to local authorities and their auditors via their Section 151 officer in year one, with it being made public in subsequent years. Therefore they will not be publishing the tool openly, as initially indicated;
- adaptations to some of the indicators – and these will remain under review and subject to feedback from users in the coming months.

The tool was made available to all Council Chief Finance Officers in December 2018, and following is a snapshot of what the tool has to show for Peterborough City Council, demonstrating strengths in areas and some weaknesses.



The 'council's budget flexibility' indicator displays the highest risk level for Peterborough. This indicator is the ratio of total spending on adults' social care, children's social care, and debt interest to net revenue expenditure. This indicator provides a measure of the degree of flexibility within a council's budget. Spending on these items is less likely to be reduced compared to other categories. A high ratio suggests that the council has little flexibility to make further savings, potentially leading to risk.

One of the strategies the council is actively looking to put in place, which would bring this indicator down to a lower level is reviewing the Capital Programme, to reduce this to a core level. This would contribute to lowering the estimated cost of borrowing (debt interest and minimum revenue provision) the council incurs.

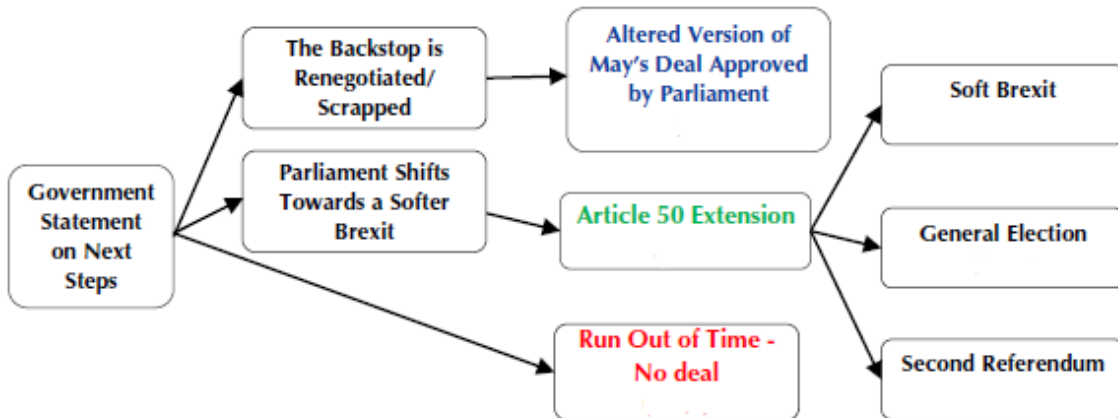
The Council will be using this tool to inform the future budget setting process, direct the council to the areas where the Council should look to build financial resilience, and also benchmark against other Councils to identify best practice within the sector. This could provide an opportunity to have open discussions with other Local Authorities, to share operating models and strategies to dealing with the shortfall in funding and increasing demand.

CIPFA are also in the process of developing a Code for Financial Management, which should provide local authorities guidance to follow throughout the budget setting process. This code is CIPFA's professional response to the current position of local government finances and the nationally difficult process local authorities are going through when setting their budgets. Work will continue throughout 2019, with stakeholder group sessions and a consultation, with the code expected to be released in September 2019.

Brexit

As the turbulence in parliament continues with Theresa Mays Brexit Deal being defeated in the vote held on 15 January 2019, and then the prime minister defeating Labour's motion of no confidence the following day, the uncertainty around the future for the UK and the European Union (EU) continues.

The UK is due to leave the EU on 29 March 2019, and to change this date would require a change to the law in the UK. At present there seems to be a number of avenues this could take such as the deal eventually being agreed, an extension to article 50, where the leave date is extended, where a number of other options could become possible such as a general election or a second referendum or a no deal situation. The following diagram outlines these options:



Source: capital economics.

Taking the most likely situation in to account this would mean a continuation of the prolonged uncertainty on the economy, pushing any interest rate and gross domestic product (GDP %) increases further into the future.

A Brexit ‘no deal’ situation would mean a number of key changes for Councils such as:

- How EU funded programmes will operate
- Procurement
- State Aid
- Importing and Exporting (where the authority has a port, importing certain animal species, etc.)
- Labelling products (including food, chemicals, enforcement, tobacco products etc.)
- Personal data and consumer rights

A full list produced by the LGA can be found [here](#).

5 BUDGET DETAIL

5.1 Revenue Funding Assumptions

The revenue funding outlined within this section only reflects the revenue funding the council received from government for general purposes or income generated from local taxation. It doesn't reflect the full level of income the council receives, these other income streams are included within departmental budgets and include income such as commercial property rental income, fees and charges and specific grants.

The following funding assumptions included in the 2019/20-2021/22 MTFS process:

Council Tax

- General Council Tax is assumed to increase at 2.99% per year for all three years of the MTFS, which is below the referendum limit (3%) for both 2018/19 and 2019/20. Although future years have not been confirmed yet it seems highly likely that this limit will remain in place.
- There is no longer additional funding relating to the Adult Social Care Precept in 2019/20 with the flexibility being fully utilised in 2018/19.
- The Council Tax base is increased to reflect the growth in the city and a number of variables, such as Council Tax Support, Council Tax exemptions and the banding of properties, of which Peterborough is largely weighted towards band A and B properties. The forecast increase in Council Tax base usually equates to an average of 1,000 new homes built each year.
- Further Council Tax information including a breakdown per band is outlined in Appendix C.

Business Rates (NDR)

- Business rates is a major source of income for the council providing some £49m of income in 2019/20 to the general fund. The system continues to increase in complexity with further policy changes from the government being implemented in 2019/20 requiring compensation via additional s31 grants. The Council will remain at the existing 50% local government scheme for the coming year.
- The budget for 2019/20 reflects an increase of £1.5m compared to the previous MTFS which reflects a number of factors including the inclusion of anticipated growth from the Roxhill / Great Haddon development of £0.9m, an anticipated surplus of £0.5m brought forward from 2018/19, and a change in the governments calculation of compensation for lost income from the small business rate supplement of £0.1m.

Revenue Support Grant (RSG)

- RSG funding has been confirmed at £10.2m in 2019/20, as indicated in the four year settlement deal secured by the Council. In the absence of any confirmation of funding allocations beyond 2019/20 RSG has been incorporated in to the MTFS at a consistent level.
- RSG will be part of the 75% business rates retention and the fairer funding mechanism which will be introduced from 2020/21. At this stage MHCLG are consulting with local authorities and the level of funding to the council remains uncertain. As further information becomes available the funding assumptions within the MTFS can be revised to reflect the most realistic and likely outcome.

Other Funding

- New Homes Bonus grant allocations for 2019/20 have been confirmed, within the provisional settlement announcement and the amount has reduced in comparison to our initial forecast in 2019/20, but the forecast allocations in future years have improved.
- Additional Adult Social Care funding totalling £650m was confirmed in the Autumn Budget for 2019/20, for the Council this equated to a revenue grant of £2.150m. This funding is in addition to the £6.5m of Improved Better Care Fund and Adult Social Care grant funding, which had been confirmed in previous years financial settlement.
- Recent trends demonstrate that adult social care funding, although announced as one off funding streams, appears to becoming more of a permanent feature within the Local Government Finance Settlement, as demonstrated by the following graph and Table 6. With a heavy emphasis on the NHS and social care demand the government seems more committed to providing the resources to support the crisis. Taking all of this in to account the Council has thought it prudent to assume that the £2.150m of funding will continue in to the future and have built this assumption in to the

MTFS on an ongoing basis.

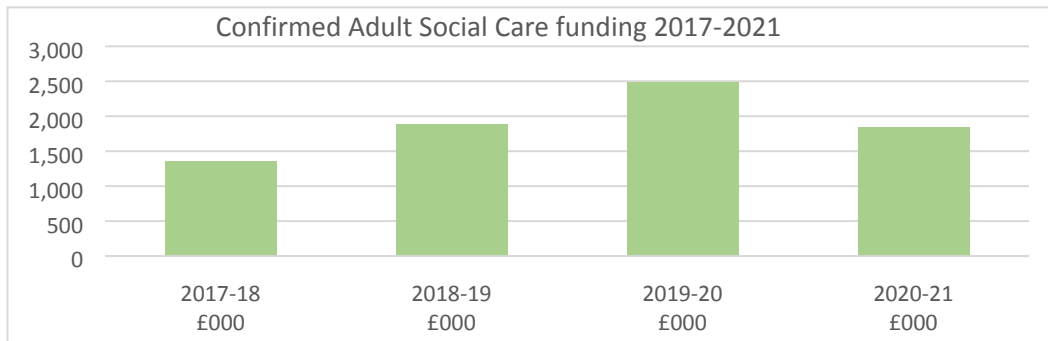
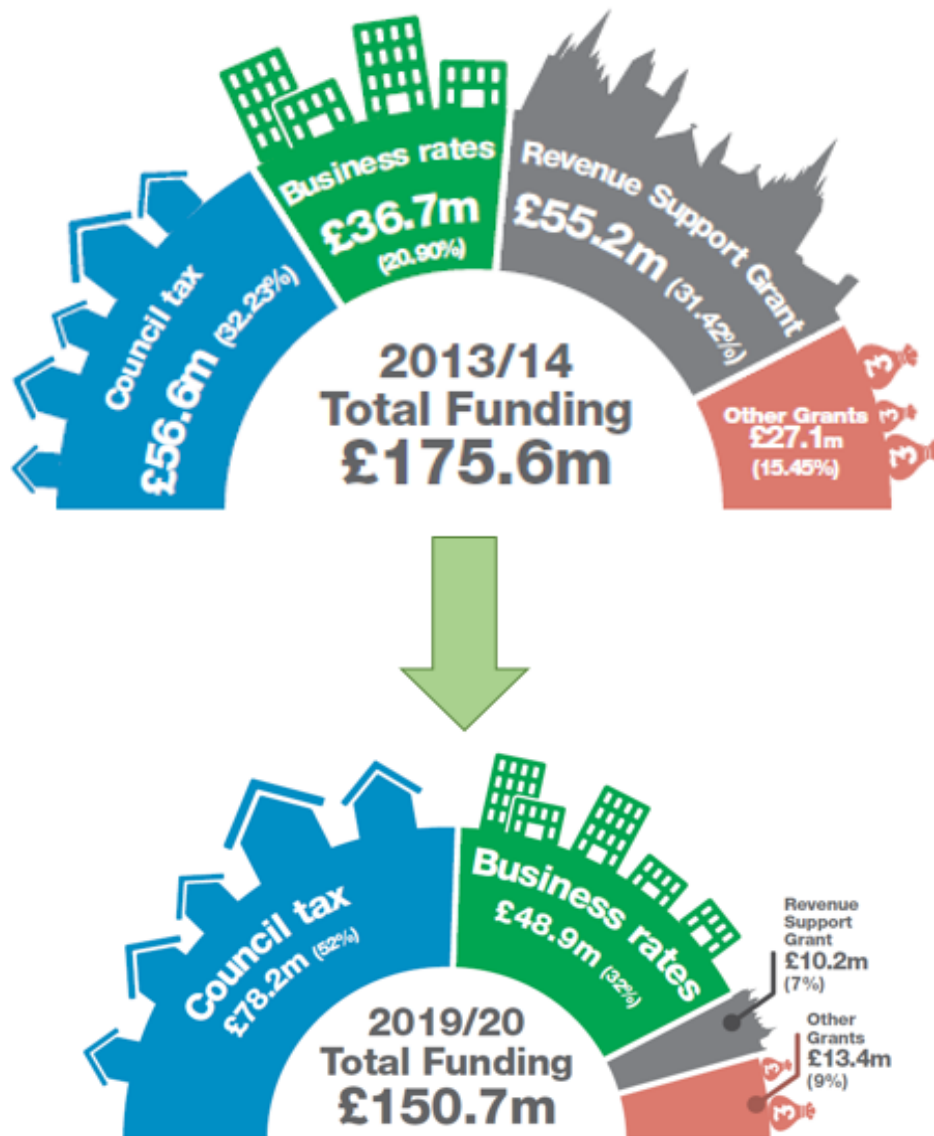


Table 6: National Adult Social care funding levels

Funding Stream	Announcement	2017-18 £000	2018-19 £000	2019-20 £000	2020-21 £000
Improved Better Care Fund (Original Allocation)		105	825	1,500	1,500
Improved Better Care Fund (Budget 2017)	<i>Autumn Budget 2017</i>	1,010	674	337	337
Additional Adult Social Care Grant 2017-18	<i>LG Settlement, Feb 2017</i>	241	-	-	-
Additional Adult Social Care Grant 2018-19	<i>LG Settlement, Feb 2018</i>	-	150	-	-
Additional Adult Social Care Grant 2018-19	<i>Conservative Party Conference, Oct 2018</i>	-	240	240	-
Additional Adult Social Care Grant 2019-20	<i>Autumn Budget 2018</i>	-	-	410	-
ASC grant funding		1,356	1,889	2,487	1,837

The following diagram outlines the Councils total funding for the 2019/20 budget in comparison to the total funding from the 2013/14 budget. This demonstrates that RSG now equates to just under 7% of the Councils core funding, which reduced from 31% in 2013/14. By 2019/20 this grant will have reduced by 80% from £55m in 2013/14 to £10m in 2019/20.

There has been a significant shift in the Council's core spending power, with Central Government reducing grants at such a rate, the council has had few options other than to increase Council tax over recent years (after freezing council tax in four out of the past nine years) to maintain a sustainable funding stream to fulfil the growing need for services. The diagram also demonstrates substantial economic growth with a significant rise in the level of Business Rates income generated.



5.2 **2019/20-2021/22 MTFS Tranche Two Summary**

Table 7 outlines the Tranche Two budget position, outlining the amounts the council will receive from the key funding streams, accounting for the assumptions aforementioned. It also highlights the departmental budgets and the Budget Gap for each of the three years, at the end of Tranche Two.

	2019/20 £000	2020/21 £000	2021/22 £000
NNDR	(47,621)	(48,633)	(49,515)
Revenue Support Grant	(10,246)	(10,246)	(10,246)
Council Tax	(77,191)	(79,761)	(82,177)
New Homes Bonus	(4,890)	(4,018)	(4,073)
Improved Better Care Fund	(5,345)	(5,345)	(5,345)
Additional funding for Adult Social Care	(1,121)	-	-
TOTAL CORPORATE FUNDING	(146,414)	(148,003)	(151,356)
PLANNED EXPENDITURE			
Chief Executives	1,314	1,062	1,062
Governance	4,359	4,058	4,058
Growth & Regeneration	22,331	22,940	23,392
People & Communities	86,801	89,420	91,772
Public Health	93	64	64
Resources	16,987	18,177	19,662
NET SERVICE EXPENDITURE	131,885	135,721	140,010
CORPORATE EXPENDITURE	1,320	1,320	1,320
CAPITAL FINANCING COSTS	16,243	29,055	30,714
TOTAL PLANNED EXPENDITURE	149,448	166,096	172,044
REVISED DEFICIT/(SURPLUS)	3,034	18,093	20,688

5.3 Tranche Three Budget Position 2019/20-2021/22

Table 8 sets out the demand and savings proposals in Tranche Three of the 2019/20 budget process. The major items included within these proposals are:

- Additional 1% Council Tax increase, taking the total increase to 2.99%
- Increased cost of financing the Capital Programme
- Additional Business Rates Income
- Increased income from Energy generated by the Energy from Waste (EfW) facility
- Cost of running Peterborough Ltd, the Local Authority Trading Company (LATco)

Table 8: 2019/20- 2021/22 Tranche Three Budget Position Summary

	2019/20 £000	2020/21 £000	2021/22 £000
Budget Gap as reported in MTFs 2019/20 Tranche 2	3,034	18,093	20,688
MTFS 2019/20-2021/22 budget changes:			

Pay and Pensions	269	269	269
Inflation and cost changes	605	677	646
Demographic and volumetric service demand	875	875	875
Grant and legislative changes	-	753	753
Efficiencies	(180)	(180)	(180)
Capital financing Changes	1,322	1,673	1,673
Service proposals (savings and additional income)	1,425	1,018	1,153
Revised Budget Gap	7,350	23,178	25,877
Funding changes	(4,265)	(4,769)	(5,821)
One-off resources (including capital receipts)	-	-	-
Use of reserves	(3,084)	-	-
Final Budget Gap	-	18,409	20,056
Incremental Budget Gap	-	18,409	1,647

The following appendices outline further details on the budget position and the proposals:

- Appendix A- 2019/20-2021/22 Tranche Three MTFS Detailed Budget Position (a), the Net and Gross budget position (b), Subjective analysis of the budget position (c).
- Appendix H- The Budget Consultation Document
- Appendix J- Equality Impact Assessments (where applicable)

Table 9 details all of the proposals included within Tranche Three, and the financial implications for the three years covering 2019/20- 2021/22.

Table 9: 2019/20- 2021/22 Tranche Three budget proposals

Proposal	2019/20 £000	2020/21 £000	2021/22 £000
Capital financing Changes	1,322	1,673	1,673
Axiom/Longhurst interest income reduction due to loan redemption	140	140	140
Capital Programme- Additional Cost of financing	1,182	1,533	1,533
Demographic and volumetric service demand	875	875	875
Pollution Control	120	120	120

Trees- Insurance Risk	250	250	250
Legal Child Protection Team Pressure	100	100	100
Materials Recycling Facility	300	300	300
Coroner Volume related pressure	105	105	105
Efficiencies	(180)	(180)	(180)
Repairs and Maintenance cost reduction (result of Community Asset Transfers)	(180)	(180)	(180)
Grant and legislative changes	-	753	753
Tackling Troubled Families (TTF) Grant	-	753	753
Inflation and cost changes	605	677	646
ICT	605	677	646
Pay and Pensions	269	269	269
Pay Scales- National Living Wage (EIA in Appendix J)	114	114	114
Across Back Office Efficiencies	155	155	155
Service proposals (savings and additional income)	1,425	1,018	1,153
St George's Hydrotherapy Pool- Vivacity Transfer	58	58	58
Peterborough Ltd (LATCo)	1,087	805	940
POSH Rental income budget (removal post sale)	380	380	380
Peterborough Highways Services Commercial Income Pressure	400	275	275
Energy From Waste Income	(500)	(500)	(500)
Use of reserves	(3,084)	-	-
Use of the Capacity Reserve to balance the Budget	(3,084)	-	-
Funding changes	(4,265)	(4,769)	(5,821)
Business Rates Forecast	(1,321)	(852)	(738)
Social care funding announced in the Autumn Budget £650m	(2,150)	(2,150)	(2,150)
Council Tax additional 1% and Tax Base Forecast	(770)	(1,594)	(2,705)
Council Tax Collection Fund Surplus (one-off)	(201)	-	-
New Homes Bonus	177	(173)	(228)
Grand Total	(3,033)	316	(632)

5.4 Demographic and volumetric service demand

The following areas have been included within the MTFs as the volume or demand for these services has seen a significant increase which is no longer containable within the current budget envelope.

Pollution Control- £0.120m

The amount of work the Environmental Health Pollution Control team is expected to deliver has been increasingly rapidly for the last five years, while its staffing numbers have stayed the same. The team has now reached a point where it is unable to continue with current workload and is proposing to recruit two additional full time members of staff. The rapid increase in workload is mainly due to the city's population growth of the city, which is expected to accelerate further in future years. The team carries out a number of statutory duties which are legally required for the city council to deliver. This includes air quality monitoring, permits for industrial processes, maintenance of the contaminated land register and monitoring of developments to ensure against contaminated land. In addition, the team investigates statutory nuisances, including: odour, noise, fumes, smoke, effluvia, and light, living conditions which are prejudicial to health such as hoarding, and rat infestations. The team is low cost currently when compared to other authorities, accounting for £2 per head of population, compared to a national average of £7. The additional two posts would mean a budget pressure for the city council, but would ensure the team is able to continuing to meet its statutory (legal) obligations both now and in future years.

Trees- Insurance Risk- £0.250m

The city council is fortunate that it has a relatively young tree stock. However, several recent test court cases have resulted in changes to a council's expected duty of care in relation to tree failure, root damage and tree related subsidence. To ensure the council is able to meet this duty, the council's tree stock will need to be categorised, with trees that pose more of a risk inspected more regularly than the current three

yearly period. In addition, the council needs to increase its insurance spend to ensure it is protected against future claims.

Legal Child Protection Team Pressure- £0.100m

The child protection team has six lawyers (including the senior lawyer) and four legal officers, all dedicated to carrying out the legal work for Children's Services. The budget which was transferred by Children's Services to Legal Services in 2014 has not increased since the transfer, but the amount of work both locally and nationally has increased in volume and complexity. The biggest demand on the budget is the cost of the court cases, which are likely to continue to increase in line with national trends. There is no way of actively reducing court cases without impacting on the Council's statutory duties to children and potentially placing children at unacceptable levels of risk.

Materials Recycling Facility- £0.300m

The Material Recycling Facility, (Haulage, Treatment and Sales) contract provides for collecting mixed recycling materials from Peterborough's transfer station at Nursery Lane to an out of town Materials Recovery Facility where it is sorted into its constituent materials for transfer to purchasers for use in new products. The collection and recycling of a number of materials from households is a statutory duty and therefore not able to be stopped. The marketplace in which this service operates has changed considerably since the commencement of the contract and its subsequent financial performance is less than expected. An ongoing budget requirement of £0.300m is needed to support its continued operation.

Coroner Volume related pressure- £0.105m

The number of referrals to the combined coroner's service in Cambridgeshire and Peterborough has risen by 16 per cent over the last four years. This has resulted in rising workloads. An additional two full time officers are required to support this. In addition, the Local Government Association and the Coroner Society have sought to try and agree a national pay structure for Coroner and Assistance Coroners. This has led to national guidance being published for local authorities to increase pay for some of its existing staff.

5.5 **Revised Cost Assumptions**

ICT Inflation- £0.605m

The council relies on its ICT systems to complete its support functions in public services. Like domestic systems, ICT becomes outdated quickly, and needs to be enhanced, upgraded or changed from time to time in order for the council to continue working effectively.

This budget pressure covers hosting and licensing of ICT systems. It comprises of the council's move to Microsoft 365 and also covers other specialist IT systems including the HR/Payroll system, the Public Protection system, the People's Network and additional IT support for users.

5.6 **Grants**

The Council receives a number of Grants such as Revenue Support Grant (RSG), Public Health, New Homes Bonus and Improved Better Care Fund. These are set out in detail in Appendix D.

The MHCLG published the local government provisional finance settlement on 13 December, confirming provisional grant allocations, which have been set out within the grants register.

RSG remains as forecast, this was confirmed as part of the multi-year settlement deal Peterborough secured from the Ministry of Housing, Communities and Local Government (MHCLG) last year. The 2019/20 financial year will be in the last year of this deal, leaving the future level of the grant income unknown.

5.7 **Cambridgeshire and Peterborough Combined Authority (CPCA)**

Budget 2019/20

The CPCA have a draft revenue budget of £23.1m. The Transport Levy totalling £12.369m can be broken down as £3.631m for Peterborough City Council and £8.738m for Cambridgeshire County Council. Transport and Adult Education will continue to be provided by Peterborough City Council on behalf of the CPCA.

The CPCA budget consultation (now closed) and draft budget documents are available [here](#).

The CPCA invited comments on its Draft Budget 2019/20 and Medium Term Financial Plan (MTFP). The comments below were submitted collectively on behalf of Cambridgeshire County Council, Fenland District Council and Peterborough City Council:

The authorities note the ambitious plans of the CPCA as part of the Devolution Deal commitments and aspirations.

Within the overall ambitions and aspirations that are set out for the period to the next Mayoral election, it is clear that the value of the non-ring fenced and non-passported programmes / projects is greater than the available resources for both revenue and capital. The CPCA recognises this and suggests a prioritisation and this approach is supported. However, it is the view of the local authorities that along with prioritisation, projects are also sequenced and co-ordinated properly to avoid and eliminate unnecessary duplication and utilise the limited resources efficiently.

Any prioritisation method or process used must be objective, transparent, auditable and be able to stand up to scrutiny to have any validity and acceptance by those whose projects are subjected to it.

The draft Budget 2019/20 mentions that during the period of the MTFP 'other funding sources and methods will be sought' to fund the projects in the future where required. Whilst recognising that at this stage of developing the programme of projects many factors are yet to be developed, the local authorities urge the CPCA to share the provisional timetable as soon as this is available. Could the CPCA also share their assumptions on funding sources for the programme. Given the financial challenges facing local government it is imperative that any co-funding or contributions that are being considered for projects not yet approved are identified as soon as possible in order for those authorities to understand the financial consequences for their organisations.

With regards to the AEB budget, the CPCA papers state that this funding will be spent with service providers in the Adult Education sector but with an allowance retained for support costs. The view of the local authorities is that the amount so allowed for support costs whilst covering the costs must be proportional so that the bulk of the AEB grant is used for the purpose for which it is meant and given. This comment is made from the observation of the significant increase in the cost of the CPCA particularly in relation to salaries from the first budget in 2018/19.

Where projects have been approved and commissioned by the CPCA Board it is important and essential that funding agreements are issued and signed in a timely manner so that the organisation(s) undertaking the projects are fully aware of the terms and conditions of the funding for the projects to be able to incur expenditure on the projects with confidence and certainty.

University Centre Peterborough

The Council is working closely with the Cambridgeshire and Peterborough Combined Authority (CPCA) and University Centre Peterborough (UCP) to take forward development plans for a new University to be located on a site close to the city centre between the Embankment and Bishop's Road.

UCP is undertaking curriculum development work in conjunction with the Government's Office for Students with a view towards achieving full degree awarding powers. CPCA made an initial allocation of £9.74m to enable the first phase of the University to be planned and developed (this includes land, infrastructure and buildings) and separately awarded UPC £3.83m for work on curriculum development activity and the achievement of degree awarding powers. Prior to committing major capital investment CPCA has commissioned a gateway review of the outline business case for the project so that delivery options can be fully assessed and appraised; this will enable risks, costs, benefits and delivery options to be more fully understood.

Strategic heads of terms have been exchanged between the Council and CPCA committing both parties to work together to help deliver the project. A detailed title search has been undertaken on the land proposed for the University. The strategic heads have been further developed into a detailed memorandum of understanding whereby the Council would form a joint venture delivery vehicle with CPCA to develop the University Campus. Under the proposed agreement, the Council would release land into the Joint Venture Delivery Company and the Combined Authority would inject funding. This

would be recouped over time through the leasing of buildings to the University and through commercial property deals e.g. for the construction of student residential accommodation.

Upon completion of the current project gateway review the terms of the proposed delivery JV will come forward to the Council for approval.

5.8 **Fees and Charges**

As part of the MTFs, the council must review its fees and charges to ensure it is receiving appropriate recompense for the services that it is allowed to charge its stakeholders. For the majority of charges, the council has latitude to increase or decrease costs appropriately, however there are some services where increases are set nationally.

The full listing of Fees and Charges are set out in Appendix E, the department and range of the increases are summarised in the Table 10.

Table 10 – Fee and Charge Increases by Department

Department	Increase Range
Governance	0%
Growth and Regeneration*	0 – 37.5%
People and Communities	0%
Resources	0 - 20%

**with the exception of one increase on a specific parking permit which increases from £25 to £56 for agencies working with the Council.*

5.9 **Performance Data**

It is important to compare how Peterborough City Council finds itself in comparison against its Unitary Council Peers, and further detail is contained in Appendix F.

Although 'Benchmarking per Head' is not always a good indicator (as costs can vary from region to region as can funding) the following tables sets out how the Council compares to peer authorities. It is important that the Council fully understands all performance data in order to properly influence decision making and make informed alliances with other Councils with similar issues. Similar indicators are used in Financial Resilience assessments carried out by the Chartered Institute of Public Finance Accountancy (CIPFA).

This performance data was published as part of the Tranche Two MTFs report, and has been updated since then to reflect the publication Local Government Revenue Account (Budget) data for 2018/19 and the Revenue Outturn (actual spend) data for 2017/18 which has been made available by MHCLG.

Table 11: Performance data based on unitary authorities

Diagnostic Benchmarking – Compared to Unitary Authorities	Cost	Rank (out of 56 authorities)	Average for UA	Reference to RO/ sheet
Total Service Expenditure 2017/18 per head	£1,478.31	45	£1,298.51	2
Net Expenditure Budget 2018/19 per head	£715.64	22	£740.28	2
Levels of reserves are below the average level of reserves, and above average decline in reserves	1 Apr 18 Reserves balance £34.0m	31 Mar 19 Reserves balance £29.8m	£0.5m average reduction in reserves over this period	3
Gearing/reliance on Council Tax (based on council tax requirement and net spend budget-2018/19)	53% reliant on Council Tax	12 lowest geared (below	The Average Council is 62%	4
Benchmarking per head (of relevant client group)	PCC data (based on unit cost)	Rank (out of 56 authorities)	Average for UA	Reference to RO sheet
Total education (per under 16 population)- above average cost	£3,288.89	39	£2,746.43	1
Highways and transport (per total population)- below average cost	£39.30	23	£41.31	5
Roads Structural maintenance- below average cost.	£2.38	21	£5.81	6
Total social care - mid point across the unitary authorities and below average cost	£455.60	28	£457.67	9
Children's - above average cost	£936.87	33	£906.93	7
Adults - below average cost	£315.47	13	£352.83	8
Public Health - mid point across the unitary authorities and below average cost	£59.22	28	£64.47	10
Cultural and Related - below average cost	£24.82	10	£38.38	11
Environmental and Regularity - the lowest cost authority	£54.12	1	£86.54	12
Waste - the lowest cost authority	£34.01	1	£63.20	13
Planning and development services - above average cost and ranked 48 out of 56 authorities	£29.12	48	£19.08	14
Central services - higher than average cost, in the top quartile of unitary LA's for costs	£46.39	39	£36.88	15

Table 12: Performance data compared to all upper tier authorities

Diagnostic Benchmarking – Compared to All Authorities	PCC data (based on unit cost per	Rank (out of 151 authorities)	Average for All Authorities	Reference to RO sheet
Total Service Expenditure 2017/18 per head	£1,478.31	110	£1,501.67	2
Net Expenditure Budget 2018/19 per head	£715.64	83	£843.00	2
Levels of reserves are below the average level of reserves, and above average decline in reserves	1 Apr 18 Reserves balance £34.0m	31 Mar 19 Reserves balance £29.8m	£3.9m average reduction in reserves over this period	3
Gearing/reliance on Council Tax (based on council tax requirement and net spend budget-2018/19)	53% reliant on Council Tax	55 lowest geared (below average)	The Average Council is 58%	4
Benchmarking per head (of relevant client group)	PCC data (based on unit cost per	Rank (out of 151 authorities)	Average for All Authorities	Reference to RO sheet
Total education - above average cost	£3,288.89	88	£3,125.07	1
Highways and transport - above average cost	£39.30	80	£28.71	5
Roads Structural maintenance - below average cost	£2.38	62	£7.74	6
Total social care - above average cost	£455.60	83	£454.11	9
Children's Social Care - above average cost	£916.67	94	£908.10	7
Adults - below average cost	£315.47	46	£347.61	8
Public Health - below average cost	£59.22	69	£67.88	10
Cultural and Related - below average cost	£24.82	46	£73.04	11
Environmental and Regularity - below average cost	£54.12	43	£83.09	12
Waste - below average cost	£34.01	30	£53.92	13
Planning and development services - above average cost	£29.12	132	£22.75	14
Central services - below average cost	£46.39	101	£50.01	15

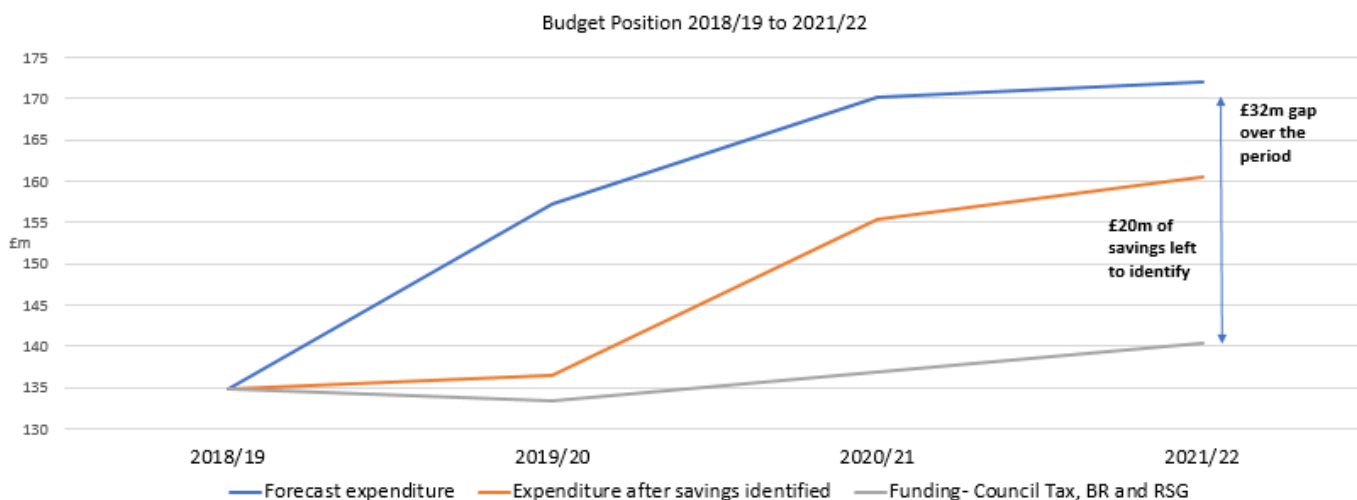
Upper Tier includes Unitaries (UA), Counties (C), Metropolitan Districts (MD) and London Boroughs (L)

It is worth noting that Northamptonshire County Council has shown that the incorrect use of performance data can be detrimental to a Council's lobbying ambitions.

5.10 Strategic Approach to closing the Budget Gap

The following graph highlights the significant financial challenge facing the Council, and the progress which is being made towards creating a sustainable budget. Overall the council has highlighted a budget gap of £32m in 2021/22. This budget gap is the result of the opening position as highlighted in the 2018/19-2020/21 MTFS (£16.9m) and the additional pressures highlighted within 2019/20, Tranche One (£5.5m), Tranche Two (£3.7m) and Tranche Three (£5.7m).

The graph demonstrates the jump in position from 2019/20 to 2020/21 onwards, this is due to the level of one off savings options being used within 2019/20 budget.



Strategic Approach

The Council still has significant deficits of £18m in 2020/21 and £20m in 2021/22. This is in addition to the fact that the 2019/20 budget has been balanced with the use of £3m of reserves. It is important that the Council utilises the additional time, which has been gained via the use of one-off non repeatable initiatives in the 2019/20 budget, to ensure that Tranche One of the 2020/21 budget includes robust plans for delivering savings to cover the majority of the £18m deficit in 2020/21. This should also include the options to look at delivering savings plans within 2019/20, to free reserve capacity to ensure the Council maintains an appropriate level of resilience. These plans will include a mixture of savings, efficiencies, demand management and commercial options.

Best Practice would suggest that the Council should supply its Members with a range of options which exceed any deficit amount (budget gap), in order for more informed savings and efficiency decisions to be made.

As part of the validation of the Council's progress on budget initiatives, the Local Government Association (LGA) were invited to conduct a peer review. For two days, on the 18 and 19 December, two LGA appointed reviewers visited the Council where a series of review sessions were held with Corporate Directors and officers. Overall, both LGA Reviewers were complimentary on the directions the Council are taking, but emphasised the need for an accelerated pace of delivery. The main points highlighted as part of the review are as follows:

- Thinking through what services the Council is delivering and why? Then considering what the risks would be if these were to be stopped or reduced;
- Agreement of the approach adopted by the Council, that prevention services are an important element of reducing other service costs;
- Clarity of Shared Services progress and culture differences between Peterborough City Council and Cambridgeshire County Council;
- When considering the move to a minimum core service model, the Council must compare against Councils in the lower quartile for spend across all Service areas, not just nearest neighbours;
- The Council should be moving towards becoming more digital;
- Benefiting more from the Growth that is experienced in Peterborough;
- Having a more joined up approach across our services (Planning and Housing as an example);
- Moving from a delivery to an 'Asset Based Social Work' basis in Adults Social Care;
- Review the possibilities of taking back Commissioning from the Commissioning and Clinical Group (CCG) – to achieve greater value for money and lower costs;
- Look at Cambridgeshire and Peterborough Foundation Trust (CPFT) costs;
- Different delivery models for Public Health to be reviewed;
- Review contract rates for care – to ensure the Council is getting value for money

Council Delivery

In order to move to a position where Members have a range of options which exceed the present deficit figure in order to make informed decision, a two track approach is being taken:

Additional Commercialisation.

The Council now has a commercial strategy which includes:

- Making a profit - from trading and investments;
- Maximising value for money from contractual relationships;
- Making robust decisions on a consistent basis with evidence and a sound business case;
- Thinking about the return on investment for every pound we spend;
- Considering the whole life cost of policy decisions, including market impact;
- Collaborating with the market and with partners to develop alternative models for greater return;
- Considering new and innovative ways of generating income; and
- Maximising use of revenue and assets.

Work is being prioritised under three themes:

Contract management, market shaping and procurement

- Short term focus on contract re-negotiations, joint commissioning and contract management.
- Entrepreneurial approach to procurement – working with the market to create different solutions.
- Improved contract negotiation and management with a professionally specified and negotiated contract every time.
- Extended joint commissioning arrangements across all services.
- Increase benefits realisation from payment terms and conditions

Contribution and Funding

- Develop a clear view of baseline position of all commercial activities.
- Ensure that income from fees and charges is optimised.
- Model options for alternative delivery – e.g. spin outs, joint ventures, and mutual - and ensure maximum return from existing initiatives.
- Develop an external income stream from sponsorship, business investors and philanthropists.
- Determine the profit and loss of current activities and define full cost recovery for all commercial services.
- Maximise return from all our assets.

Acquisition and Investments

All investment decisions should focus on achieving at least one of:

- Increase number and type revenue generation / invest to earn investments – for example investment in land and property development, rental property, renewables, schemes that grow Council's business rates income, or proposals to enable existing revenue streams to be maintained longer into the future.
- Invest to save - for example, proposals to introduce new technologies which reduce demand and spend on Council services.
- Invest for social value - for example, proposals that will bring collective benefit to a community

Work is under way on a number of commercial projects to evaluate both investment and savings levels that can be added to future MTFS proposals.

Additional Savings and Efficiencies

Departments are working on prospective savings, including idea's raised by the LGA to bridge the £20m budget gap, so that these can be assessed with the commercial options raised in the previous paragraphs, to produce a savings programme to be agreed for implementation. These options will also include items such as:

- Fuller integration with Health and other Partners;
- The Think Communities approach;
- Demand management;

Some of which are set out in more detail in later paragraphs.

This two track approach will move the Council to a position where Members have a range of options which exceed the present deficit figure in order to make informed decisions.

Fuller integration with Health and other Partners

Local Government is becoming increasingly “joined up”, especially in the health area. The Council must, along with its partners, ensure that delivery options maximise efficiencies and savings potential whilst at the same time continuing to meet the needs and requirements of service users.

Think Communities Approach

Think Communities is a new approach to working that is being developed across the public sector in Peterborough and Cambridgeshire and has recently been approved by the Cambridgeshire Public Services Board (formed of the Chief Executives of councils, health, police and other partners). The aim of the strategy is to manage, prevent and delay demand across the public sector and deliver services for the future in an efficient and affordable way. The Council also needs to do more to improve some of the outcomes in our communities and for our residents.

Managing demand is a priority for all parts of the public sector, both locally and nationally. The way public services have been delivered over the past decades is no longer affordable and many would argue has not been effective or efficient to meet modern day challenges. Increasingly, many individuals and communities have multiple and complex needs, which requires a different approach if we are to make a sustained difference. Some of the pressures that the public sector is facing include:

- An increased number of people accessing the health system with urgent or complex healthcare, which is increasing and leading towards unmanageable levels. This in part, also places huge burdens on social care services;
- The number of young people needing to be looked after and/or requiring referrals into children social care continues to increase;
- The volume and complexity of high harm and victim based crime is increasing, resulting in high demand for policing, and low harm crimes that affect the majority not always being addressed
- The number of homeless households and rough sleepers is increasing in most parts of Cambridgeshire and Peterborough, resulting in higher costs for housing services.

Whilst these are specific cases of rising demand, there are many more examples across the council and other partners.

The vision is based upon three main principles:

- **People:** Resilient communities across Cambridgeshire and Peterborough where people can feel safe, connected and able to help themselves and each other.
- **Places:** New and established communities that are integrated, possess a sense of place, and which support the resilience of their residents.
- **System:** A system wide approach in which partners listen, engage and align with communities and with each other, to deliver public service and support community-led activity.

If the Council and all involved are to achieve these ambitions, then a different relationship between the public sector and the public is required. Much of the time, the public sector works in a way that makes sense to the system and not always to the individual. This can result in people no longer taking control of their own situation or not coming together as a community to make their neighbourhood a better place.

Further detail on this programme is outlined within the Cabinet report, also coming to 4 February 2019 meeting. As work on this continues an updated position will be reported within the MTFs 2020/21-2022/23 Tranche One report in summer, where it is expected some of the financial benefits to be achieved from this approach have been modelled.

Shared Services progress.

The £9.0m Shared Services savings, as set out in the 2018/19 MTFs had initial allocations which are illustrated within Table 13.

Table 13: Shared Services Allocation

Savings Initiative Areas	2019/20 £000	2020/21 £000
Serco PSSP Contract	1,850	1,850
Serco IT Contract	600	600
Back Office Finance, HR, Legal	1,200	1,200
P&C Initiatives	850	850
Total	4,500	4,500

Additional work is required to reach the overall target, however the initial work undertaken, which was reported within the MTFs 2019/20-2021/22 Tranche Two report sets out the following savings that will be delivered in 2019/20:

- £0.450m that can be delivered in ICT, mainly from the consolidation and rationalisation of Amazon Web Services;
- Circa £1.0m from Business Support over a range of initiatives;
- More work is required to be delivered on the Contact Centre, as the existing Salesforce contract ceases on the 30 September 2019;
- People and Communities initiatives are showing a £0.771m savings in 2019/20, with a further £0.798m savings in 2020/21.

In January 2019 the Council announced proposals to further share the management structure across Peterborough and Cambridgeshire. The plans focused on reorganising and extending roles within the Senior Management Team for the mutual benefit of both councils. The plans includes:

- Two existing Cambridgeshire County Council director's roles (Directors of Business Improvement & Development and Corporate & Customer Services) are being extended to cover Peterborough City Council.
- The Creation of a new Executive Director role which is being created to lead Place & Economy work across both councils, replacing a senior role in each council. Recruitment for the new Joint Executive Director has commenced.
- Creation of two new posts - a joint Service Director- Highways & Transport, and joint Service Director - Growth & Economy are also being created to cover both authorities, whose costs will be met by further joint working resulting in savings within the structure.

Taking in to consideration the savings which have been identified, approximately £2.3m, of the 2019/20 has been allocated to a specific work stream. A further £2.2m of savings options are to be identified to fully achieve the £4.5m shared service saving in 2019/20. Work will continue on the development of full business cases and an updated position will be included within the MTFs 2020/21-2022/23 Tranche One report in summer 2019

5.11 Capital Programme

The Council's Capital Programme is viewed over a five year period to ensure correct stewardship of assets and efficient use of budgets. The council is proactive in attracting external funding for as many schemes as is possible. An officer-led Capital Review Group oversees the council's capital requirements. All related strategies are securitised prior to full council by Audit Committee:

- Appendix G – Capital Programme Schemes 2019/20- 2023/24
- Appendix K – Treasury Management Strategy
- Appendix L – Capital Strategy
- Appendix M – Asset Management Plan
- Appendix N – Investment Acquisition Strategy

The Capital Programme includes estimated project costs and profiling of expenditure whilst detailed business cases and due diligence is completed on individual schemes such as the acquisition strategy.

As outlined in Tranches One and Two, the Council recognised that its capital programme had previously

been aspirational in terms of the timing of the delivery of schemes compared with past experience. In Tranches One and Two the capital financing revenue budget had been set using the working assumption of a smoothed capital programme of £100m per year over the MTFS period. Tranche Three now includes an updated capital financing requirement which includes revised assumptions on the timing of delivery of capital schemes, the revised programme for the current financial year (2018/19), interest rate forecasts and repayment profiles for outstanding loans the council has made to third parties. Additional detail of these assumptions can be found in Appendices G and K.

Additional investment schemes that have been added to the previous MTFS and Tranche One capital programme for approval are summarised in Tables 14 and 15.:

Table 14: Summary of New Schemes in Tranche Three

	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000	2023/24 £000
Growth & Regeneration	-	2,340	2,250	7,250	10,400	16,900
People & Communities		330	-	-	-	-
Resources	2,750	1,140	-	1,200	-	-
Total New Capital Schemes	2,750	3,810	2,250	8,450	10,400	16,900
Funded By:						
Grants & Third Party Contributions	-	180	-	3,500	3,500	8,900
Borrowing	2,750	3,630	2,250	4,950	6,900	8,000
Total Capital Financing	2,750	3,810	2,250	8,450	10,400	16,900

For some schemes listed in the below table further work is required on the development of detailed business cases, due diligence to be undertaken and then approval through the Council's governance process. These have been included within the revised Capital programme for 2019/20-2023/24.

Table 15: New Capital Schemes included within Tranche Three

Directorate	Schemes Included
Growth & Regeneration	<p>2019/20</p> <ul style="list-style-type: none"> • City Market Flooring <p>2021/20 & 2021/22</p> <ul style="list-style-type: none"> • University Access <p>2022/23 & 2023/24</p> <ul style="list-style-type: none"> • A1260 Nene Thorpe Bridge / Nene Parkway • A15 Paston Parkway APV Baker Footbridge • A1260 Nene Parkway Longthorpe Footbridge • Parkway Drainage Improvement Programme <p>2023/24</p> <ul style="list-style-type: none"> • A16 Norwood Duelling • Rail Station Western Access <p>Rolling Programme commencing 2019/20</p> <ul style="list-style-type: none"> • Extreme Weather Network Improvements • Match Funding to Secure External Bid Funding • Street Lighting Cables and Feeder Pillar Upgrade
People & Communities	<p>2019/20</p> <ul style="list-style-type: none"> • Phoenix and Gladstone Schools - Carillion Works • Barnack Primary School
Resources	<p>2018/19</p> <ul style="list-style-type: none"> • Loan to the Local Authority Trading Company (LATCo) • Purchase of Refuse Vehicles to be used by the LATCo • Stamp Duty for Fletton Quays as concluded to be a finance lease <p>2019/20</p> <ul style="list-style-type: none"> • Vivacity - Key Theatre Catering Provision

	<ul style="list-style-type: none"> • Vivacity - Children’s Play Area • Vivacity - Central Library Refurbishment and Community Hub Development <p>2020/21</p> <ul style="list-style-type: none"> • Vivacity - Events and Conference Centre
--	---

Table 16 provides a summary of the capital programme for the over the MTFs period with an additional two years projection. This table includes those new schemes listed previously. The full list of schemes can be found in Appendix G- Capital Programme Schemes 2019/20- 2023/24.

Table 16: the Capital Programme 2019/20- 2023/24 Summary

Capital Programme	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000	2023/24 £000
Growth & Regeneration	37,157	29,187	37,754	33,099	30,958
People & Communities	33,931	20,114	21,743	22,357	6,563
Invest to Save	37,599	30,875	20,075	10,075	75
Resources	5,447	5,384	5,873	3,500	3,500
Total Capital Programme	114,134	85,560	85,445	69,031	41,096
Funded By:					
Grants & Third Party Contributions	26,826	29,834	28,124	32,520	16,851
Capital Receipts repayment of loans	23,150	15,000	-	-	-
Borrowing	64,158	40,726	57,321	36,511	24,245
Total Capital Financing	114,134	85,560	85,445	69,031	41,096

For new investment projects that are required in the future, and have not been included in the Asset Investment Strategy, work is required on the development of detailed business cases, to carry out due diligence and then approval through the Council’s governance process before they are included. Such projects include; Car Park Strategy and Sports Strategy. If further projects are approved, further borrowing costs will need to be built in to the budget.

6 ROBUSTNESS STATEMENT

6.1 Background

Section 25 of The Local Government Act 2003 includes the following statutory duty in respect of the budget report to Council:

“the Chief Financial Officer (CFO) of the authority must report to it on the following matters:

- a) the robustness of the estimates made for the purpose of the calculations; and*
- b) the adequacy of the proposed financial reserves.”*

The Council is required to take this report into account when making that decision.

Section 26 of the same Act, places an onus on the CFO to ensure the Council has established a minimum level of reserves to be retained to cover any unforeseen demands that could not be reasonably defined within finalising the proposed budget.

This report has been prepared by the CFO to fulfil this duty and gives the required advice relating to the 2019/20 financial year including a consideration of the budget proposal as a whole and all the financial risks facing the Council. It identifies the Council’s approach to budget risk management and assesses the particular risks associated with the 2019/20 budget to inform the advice on robustness.

6.2 Overall Budget and Medium Term Financial Strategy 2019/20 – 2021/22

In line with the Robustness Statement from the previous year, the Council continues to operate in difficult financial circumstances. It remains true that unless immediate decisions on how it can plan to reduce the costs of its operations markedly in the medium term, 2020/21 and 2021/22, expenditure is estimated to exceed income with limited recourse to reserves.

In the opinion of the CFO the 2019/20 estimates are robust and the proposed level of financial reserves are adequate.

Looking beyond 2019/20, however, in the absence of detailed savings plans being developed and implemented, there is significant concern over the sustainability of the budget position over the medium term.

While efficiency is always a preferred solution, the scale of the task facing the council means it can only be achieved if the council fundamentally faces three ways to close the gap, alongside mitigation and control of service demand pressures and expanding alternative income streams:

- a) additional monies from central government, though the budget assumptions do not rely on such funding
- b) new operating models of service delivery
- c) reduction in services delivered

This is not a unique financial context for a Unitary Council. Indeed, this is the reality facing the sector. The context remains challenging, especially given both the pressure and gearing of adult social care, homelessness and school places on a relatively small Unitary Council.

6.3 **Robustness of the 2019/20 budget estimates**

The revenue budget and capital programme have been formulated having regard to a number of factors including:

- Funding availability
- Risks and uncertainties
- Inflation
- Priorities
- Demography
- Service pressures
- Commercial opportunities

For 2019/20 a balanced financial position is possible but there are inherent risks and dependencies in delivery of the financial strategy. The position for 2020/21 onwards is dependent upon the development of deliverable saving plans being produced during 2019/20 affecting the base budget for 2020/21, and the council's rolling budget process enables these plans to be enacted in a timely fashion.

As the budget and Government funding becomes increasingly complex, especially with the increasing importance of working with strategic partners, risk management is key in the setting of budgets and reserve levels.

The Medium Term Financial Strategy (MTFS) highlights that the current financial position is untenable. Whilst a balanced budget for 2019/20 has been achieved, it has made use of £14m of non-repeatable savings, as summarised in table 17:

Table 17: non-repeatable savings

	Previous Year	Current Year	Years relating to this Medium Term Financial Strategy		
	2017/18 £000	2018/19 £000	Year 1 2019/20 £000	Year 2 2020/21 £000	Year 3 2021/22 £000
Capital Receipts	12,738	2,922	10,639 *	-	-
MRP Re-provision	-	3,700	-	-	-
Council Tax Surplus	173	1,188	201	-	-
Planned Use of Reserves	7,194	4,231	3,084	-	-
Total	20,105	12,041	13,924	-	-
In year Use of Reserves	-	3,900	-	-	-
In year increased Use of Capital Receipts	-	1,195	-	-	-
Total	20,105	17,136	13,924	-	-

* includes £4.319m already built into the previous MTFS for 2018/19

The previous table shows that there has been a continued and extended use of non-repeatable savings to meet any budget gaps; where expenditure exceeds funding available. This has meant that a structural deficit in the council's finances has developed over previous MTFS's. In 2016/17 this strategy was implemented to allow the Council to adopt a strategic approach to tackling the 2018/19 budget gap over a two-year period. Now that the application of non-repeatable savings has been exhausted the budget gap requires an enhanced focus on the implementation of significant service transformation and service reductions

The MTFS position has been subject to reviews with the Council's Corporate Management Team, other officers and Members, including Cabinet, Budget Working Group and Scrutiny Committees, and has been out to consultation with the public as part of its three tranche rolling budget process. To further enhance the robustness of the financial strategy the Local Government Association have also been invited to review the approach taken to service delivery design and wider opportunities available to the council that may not have been previously considered.

The Council's General Fund remains at a £6m minimum balance. There is an additional £8m of Change Programme Funds which will facilitate the investment in major transformational change to service delivery. The remaining amount of £5.3m in reserves is ring-fenced for specific purposes such as insurance and so is not available for use.

In summary, the 2019/20 budget is balanced, through use of £14m of non-repeatable savings, including £3.1m utilisation of reserves. In order to balance future years budgets, 2020/21 and 2021/22, there continues to be the need to implement significant service transformation and service reductions as soon as possible in order to fully develop a sustainable future budget position. The 2019/20 budget position has enabled the council to allocate some reserve amounts to be utilised to facilitate the development of transformational service delivery change. These plans need to be produced in the first half of 2019/20 for implementation to commence in 2020/21 at the latest.

If realistic transformational plans, for reducing the cost of service delivery required to deliver a balanced and sustainable budget for future years, are not developed and implemented during in 2019/20 the CFO will need to consider the production of a Section 114 report.

Section 114 of the Local Government Finance Act 1988 requires a report to all the authority's members to be made by the S151 officer, in consultation with the Council's Monitoring Officer and Head of Paid Service, if there is likely to be an unbalanced budget. In this event the Council must consider the report within 21 days and decide whether it agrees or disagrees with the views in the report and what action it proposes to take to bring the budget into balance. The publishing of the report starts an immediate 'prohibition period'. This means that all persons that have delegated authority to enter commitments, have such powers suspended during the prohibition period.

6.4 Adequacy of Reserves

Reserves are set aside to fund risks and one-off pressures over a number of years. If the Council minimises the level of reserves future financial planning is hampered. It should be noted that reserves can only be spent once and the possibility of creating new reserves is now very limited.

The council broadly categorised reserves as follows:

- a) A working balance to manage in year risks – the General Fund Balance
- b) Change Programme Funds – these are reserves for available for future commitments such as transformational investments
- c) Ring Fenced Reserves – to meet known or predicted requirements

The Council's General Fund working balance stands at £6m and ring-fenced reserves at £5.2m. They include the actuarial assessed £3.4m insurance reserve, £1.2m of reserves held on behalf of schools for capital expenditure, Public Health that cannot be used on other activities.

General Fund Balance

Councils use two main approaches to determine the required minimum level of its General Fund; either a percentage of the Council's current spending, or an assessment of risks and the impact they will have on the council's overall financial position.

The General Fund balance of £6m continues to be at the very minimum recommended amount given the level of risks and issues being managed in the current financial year and potential magnitude in budget fluctuations.

When compared to other unitary authorities across the country for the 2018/19 financial year 14 per cent have the same percentage of General Fund Balance to net revenue expenditure (4 per cent), whilst 80 per cent have a greater percentage (between 5 per cent-28 per cent). Where the range varies from 1- 28 per cent, when Peterborough is compared and ranked to the other 56 Unitary Authorities it is ranked as having the 11th lowest level of General Fund Balance, in comparison to its net revenue expenditure.

In summary the £6m General Fund is at a minimum when the following is taken into consideration:

- the proportion of volatile budgets, particularly in demand led services in both Adult and Children's Social Care is forecast to be an increasing proportion of the overall budget;
- no contingency has been built into the general fund;
- and there is no mechanism for additional funds to contribute to general fund balances or reserves

This level is considered at a minimum on the basis that although the budget balances in 2019/20, future year's detailed plans are still to be formulated, as noted previously.

Change Programme Funds & Ring Fenced Reserves

It is crucial to bear in mind that the reserves are the only source of financing to which the council has access to fund risks and one-off pressures over a number of years. Reserves can only be spent once and the possibility of creating new reserves, in an era where budgets are tight and can become overspent,, is now very limited.

The balance shown for the Capacity Building Reserve includes an elements for redundancy costs, which are currently estimated to be up to £1m over the life of the MTFs, and for any other investment required by the council to enable transformational change in service delivery.

Table 18 details the remaining level of estimated Change Programme Funds and Ring-fenced Reserves.

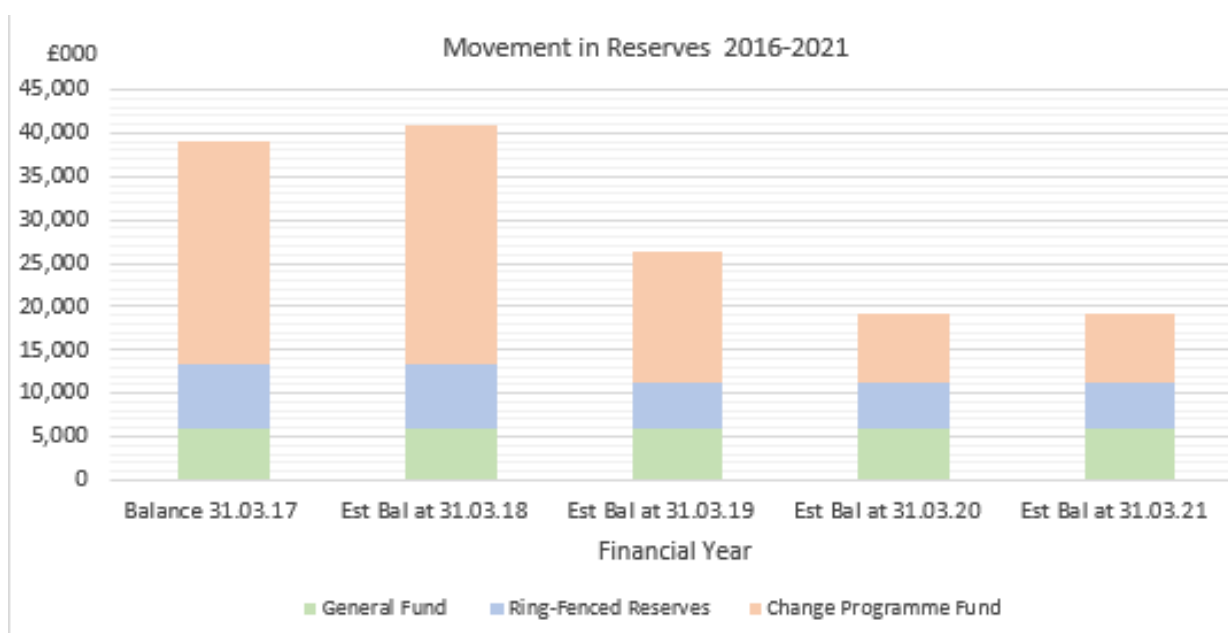


Table 18: Reserves position 2016/17- 2020/21

	2016/17	2017/18	2018/19	2019/20	2020/21
Summary of Reserves	Balance 31.03.17	Est Bal at 31.03.18	Est Bal at 31.03.19	Est Bal at 31.03.20	Est Bal at 31.03.21
	£000	£000	£000	£000	£000
General Fund	6,000	6,000	6,000	6,000	6,000
Change Programme Funds:					
Capacity Building Reserve	4,994	12,714	9,924	5,999	5,999
Grant Equalisation Reserve	15,639	8,445	4,214	1,130	1,130
Development Equalisation Reserve	1,233	1,233	-	-	-
Departmental Reserve	3,855	5,197	902	902	902
Change Programme Funds:	25,721	27,589	15,040	8,031	8,031
Ring-Fenced Reserves:					
Insurance Reserve	4,425	4,937	3,448	3,448	3,448
Schools Capital Expenditure Reserve	1,287	1,208	1,176	1,176	1,176
Parish Council Burial Ground Reserve	53	51	51	51	51
Hackney Carriage Reserve	155	203	203	203	203
School Leases Reserve	336	243	121	79	-
Future Cities Reserve	569	240	-	-	-

Public Health Reserve	428	428	230	230	230
Ring-Fenced Reserves	7,253	7,310	5,229	5,187	5,108
TOTAL Earmarked and General Fund Balance	38,975	40,899	26,269	19,218	19,139

7 RISKS

7.1 Approach to Risk

The Council assesses financial risk within its budget and MTFs as part of its annual budget setting process and regular Budgetary Control process. Council Officers have put actions in place to review and mitigate exposure to identified risks, these are outlined in Table 19.

The Risk Management Board is led by the Acting Corporate Director of Resources. The purpose of the Board is to challenge and support risk management across the Council and partner organisations. This is also considered regularly at Audit Committee. The last meeting of this group was held on 27 November 2018, with the next meeting scheduled to take place on 29 January 2019.

The Board ensures that risk management is aligned with the overall organisational approach and that the identification of key issues are managed, reported and escalated appropriately and in a timely manner. Officer awareness of risk and capacity to manage risk is maintained, with a regular monitoring and reporting process in place to provide assurance in relation to the Council's overall governance and control environment.

7.2 Financial Risk Register

The most current substantial risks have been identified and considered as part of the budget process. Reasonable mitigating actions have been made where possible. Table 19 details the budget risks that Cabinet and Council should consider when reviewing the Tranche Two budget proposals.

Table 19: Council Budget Risk Register

Risk Area	Detail	Action
Level of Reserves	As set out in the 2019/20 Robustness statement (Section 6.4), the Council has limited recourse in reserves and balances. From 2017/18-2019/20 these will have seen a reduction of over 50%. This presents a risk to the financial sustainability of the organisation over the medium term.	Robust financial control within 2019/20 will be exercised through regular budget monitoring, tracking of the delivery of approved savings plans which has already commenced for Tranches One and Two approved savings initiatives (outlined in Appendix I- Savings RAG rating) and the development, approval and implementation of further savings proposals over the period to 2022/23 via the rolling budget process. The use of available specified reserves will be closely managed and controlled to ensure targeted application to achieve the required reduction in the overall cost of operations over the period of the MTFs. Reserves and balances will be reviewed regularly to ensure that they remain adequate in light of the Council's overall financial position.
Level of one-off (non-repeatable) savings	The Council has relied upon non-repeatable budget savings and income items in order to balance the budget, in 2019/20 and previous years. This is not a sustainable approach.	Measures will be taken to reduce the Council's reliance upon one off measures to balance future budgets. The plan to eliminate one off budget savings and move to a sustainable budget over the medium term is set out at section 2.2 of this report.

<p>Service Delivery-Demand Led Services</p>	<p>The Council provides services in a number of areas where the need for support lies outside the Council's direct control, for example in children's, adult social care and homelessness. Demographic growth and demand pressures present significant financial risk for the Council over the medium term.</p> <p>The Council needs to increase the supply of both temporary housing and permanent affordable housing in order to meet the increased demand for housing within Peterborough.</p>	<p>Budgetary provision has been made for estimates of increased demand for adult and children's social care and homelessness.</p> <p>The Council will continue to take measures to review and modify its service provision to respond to increasing demand for services, through more cost effective operating models and working with client groups and partners to manage demand for services.</p> <p>Demand for Children's Services is monitored through the Placement Model. The Council has implemented an innovative partnership with TACT for delivery of children's placements and foster care.</p> <p>Regular monitoring, forecasting and reporting of financial and service performance and anticipated pressures will be undertaken to ensure that corrective management action is taken to control expenditure within the approved budget. Savings plans are based on intervention and prevention, aiming to reduce need and service demand.</p> <p>The housing team was restructured in 2018 to allow for additional posts to deliver preventative support to families that require housing and are at risk of homelessness. This should help to reduce the financial pressure on the council's budget and provide a more appropriate setting for these families.</p> <p>The Council is actively pursuing a housing strategy, to ensure there is affordable housing available within the City. The Council has been buying properties to help reduce the immediate pressure within this area with the option of having a housing revenue account (HRA) being investigated.</p> <p>Regular reporting to the Corporate Management Team (CMT) will continue to take place throughout the course of the year as well as working groups with officers and members which have been established to help provide solutions.</p>
<p>Savings Delivery (current and new proposals)</p>	<p>The achievement of a balanced budget and sustainable MTFS is reliant upon the successful delivery of agreed savings plans and the identification, approval and delivery of new plans within each financial year over the period to 2021/22. The Council has limited financial resources to invest in delivering the change. Therefore it is critical that savings are</p>	<p>A number of ambitious savings plans have been agreed/are being proposed that will require robust implementation plans to be agreed, appropriately resourced and delivered by Service Directorates, the Resources Directorate and PCC partner organisations including CCC and SERCO.</p> <p>Section 5.6 of the Tranche One report sets out proposals for the level of financial investment in resources required to support the cost of implementation of previously agreed savings</p>

	<p>delivered in accordance with the agreed plan.</p> <p>The Council is aiming to implement a programme of transformation, to share and integrate a range of services with Cambridgeshire County Council (CCC).</p> <p>There is a significant risk that these ambitious transformation plans will not be delivered on time and/or will not realise the required level of savings due to:</p> <ul style="list-style-type: none"> - lack of effective integration, simplification, streamlining and standardisation of business processes and IT systems - inadequate levels of capable capacity within PCC and its partners in the shared services agenda to deliver on time. 	<p>proposals, Tranche One, Two and Three savings proposals.</p> <p>Business critical IT systems and processes will need to be reviewed and re-engineered in both PCC and CCC in order to achieve convergence to work in a streamlined, simplified and standardised manner in the future across a number of service areas. This plan is likely to cover more than one financial year. Agreement and commitment of both partners to a common methodology and timeline will be required to deliver the change to its conclusion to enable successful delivery of planned cost efficiencies in both authorities.</p> <p>The progress in delivering a range of change projects and the tracking of service outcomes and savings delivery/ income generation will be reported via the Shared Services Board to CMT and Cabinet on a regular basis. In addition, regular meetings for management teams at both authorities will be held to discuss progress and resolve any emerging issues directly with the project leads.</p> <p>Savings Delivery will be monitored on a regular basis, Appendix I includes the savings RAG rating looking at the agreed Tranche One and Two initiatives, to ensure they are on track for 2019/20.</p>
Income	<p>Cost of provision of service outstrips returns or a reduced level of sales.</p> <p>Exit strategies associated with these ventures could prove to be costly.</p> <p>There is a financial risk attached to failure of commercial investment, either from default or exposure to wider economic changes.</p>	<p>Commercial proposals will require the production of a robust business case that will be subject to appropriate evaluation and due diligence by relevant professional disciplines (i.e. technical, legal and finance).</p> <p>The management of costs, risks and benefits including service outcomes and financial implications will be achieved through regular monitoring and reporting via the Shared Services Board to CMT and through to Cabinet.</p> <p>Delivery of planned income generation (and savings) will also be tracked through regular budget monitoring reports.</p> <p>Programme and project governance will require recovery plans to be prepared where projects are identified as varying adversely from plan.</p>
Business Rates	<p>Forecasts - the council will benefit from any growth in business rates but will also have to share the risk of volatility of collecting business rates, changes to business rates during the financial year and administration costs</p>	<p>Officers are in discussion with Serco to agree increased targets for the collection of Business Rates to improve the financial position on the Collection Fund.</p> <p>The finance team will align forecasts using a detailed approach with planning and revenue and benefit colleagues to monitor business</p>

	<p>associated with collecting business rates.</p> <p>Appeals – The new government ‘Check, challenge and appeal’ system seems to have reduced the level of open appeals however there is a provision set aside for appeals by the council, and there is a risk that this may not be sufficient</p> <p>The claim by the NHS trust for mandatory relief if successful will have a major impact on income levels</p> <p>Business Rates 75% retention and Business Rates baseline reset, both to be introduced from 2020/21, at present it is not clear how this could impact on the Councils funding levels.</p>	<p>and dwelling growth as part of the budget setting process and at regular intervals during the financial year.</p> <p>On a monthly basis reports will be available to monitor business rates income.</p> <p>The Council sets aside a provision to take account of the risk from appeals, depending on whether it is a 2010 or 2017 valuation rate being appealed. The provision for 2010 assesses each appeal lodged with the Valuation Office. The 2018 provision will be calculated at 4% using MHCLG methodology. The recommended rate based on the national average is 4.7%. Due to the high levels of small businesses within Peterborough receiving Small Business rates relief, the lower rate used is justified. Officers have conducted analysis on this and will continue to monitor.</p> <p>Officers are monitoring all announcements, publications and consultations from MHCLG and from Local Government advisors. This will include networking and attending events to keep abreast of the latest information.</p> <p>Officers will feedback to all consultations, to ensure all concerns are communicated and considered.</p> <p>As information becomes available officers will model the financial impacts, and ensure the budget reflects the appropriate funding levels.</p>
<p>Fairer Funding Review (FFR)</p>	<p>The Fairer Funding Review presents a risk for the Council as it means there is significant uncertainty surrounding its future funding levels. The impact of this could be significant for the Council as it could mean additional savings would need to be achieved on top of an already challenging £18m deficit in 2020/21. The balances for reserves are declining which reduces the Councils financial resilience against a further funding reduction. At present the MHCLG have issued number two of three consultations, with the funding allocations expected to be announced in Autumn 2019. This leaves the Council with short time frame to react to a dramatic change in funding levels.</p>	<p>Officers are monitoring all announcements, publications and consultations from MHCLG and from Local Government advisors. This will include networking and attending events to keep abreast of the latest information.</p> <p>Officers will feedback to all consultations, to ensure all concerns are communicated and considered.</p> <p>As information becomes available officers will model the financial impacts, and ensure the budget reflects the appropriate funding levels. This will include using the modelling tools which are available to us from LG Futures, PIXEL and the LGA.</p>

<p>Council Tax and Local Council Tax Support</p>	<p>Non-collection rates increase beyond the budget assumptions and / or increase in the levels of Local Council Tax Support (LCTS) eligibility, beyond budget assumptions. The LCTS is currently out to consultation with a number of changes proposed. These changes are yet to be approved by Council and the impact of these will be unclear until they are live on the system</p>	<p>Officers are in discussion with Serco to agree increased targets for collection of council tax to improve the position on the Collection Fund. Monthly updates will monitor the collection rates.</p> <p>The Council will revise future year forecasts on council tax income accordingly.</p>
<p>Partnership Working/ Contractual Commitments</p>	<p>The council now outsources or contracts out a large proportion of services, on a long term basis to third party organisations, such as Serco, Amey, Skanska and Vivacity. There is a risk that the council could be subject to increased costs from these contracts due to inflation or alternatively have little option to generate savings within the current budget due to the level accounted for via these contracts. The terms of the contracts may also restrict this.</p>	<p>The Council is reviewing all contracts, with a view to achieving improved value for money through strengthened contract management arrangements and negotiation of variation to services to be delivered.</p> <p>The Council will continue to work closely with its partner organisations to deliver the best services to its residents in the most effective and efficient manner.</p>
<p>Capital</p>	<p>Capital Receipts The agreed Minimum Revenue Provision (MRP) strategy allows the Council to offset its revenue contribution through the application of receipts from asset disposal to repay debt. This presents a risk to the final outturn position if those receipts are not achieved.</p> <p>Capital Programme The proposed Capital Programme is partially reliant on third party contributions and grant allocations. These funding streams are not always guaranteed, such that they could be impacted by a downturn in development or reduced opportunity for central government funding.</p> <p>The council has been successful in obtaining funding via grants for development in the school infrastructure. There is a risk that the council may not receive grants in the future to fund new school buildings,</p>	<p>Regular monitoring and reporting through budgetary control to Capital Review Group (CRG), CMT, Cabinet, of the latest forecasts for sale completion, estimated receipt level and market environment operating under.</p> <p>The capital programme is closely monitored and reported by officers within the monthly budgetary control monitoring and reporting cycles. The council operates an officer led CRG, which meets regularly to review the progress of schemes contained in the capital programme and evaluate new proposals or opportunities available to the council.</p> <p>All capital investment proposals require a business case which assesses funding options and associated risks and mitigating actions.</p> <p>Developer contributions to be realised in line with approved policy.</p> <p>Grant bids to be worked up in line with previous successful approach.</p>

	<p>despite increasing demand for school places.</p> <p>There is also a risk from asset management, in relation to insufficient resources to maintain adequately the councils existing and planned infrastructure.</p>	<p>Impact on property repairs / highways infrastructure are monitored and coordinated to balance against any increases in legal claims / compensation issues.</p>
New Accounting Standards	<p>Amendments to existing, and introduction of new Accounting Standards may impact on the General Fund in year, and thus the amount required to be funded from Council Tax.</p>	<p>This is mitigated by staying abreast of technical accounting changes through use of experts, financial bodies, regular training and support of continued professional development of the Council's accountants.</p>
Economic (Treasury) Risk	<p>Inflation - increases above forecasts assumed within the budget.</p> <p>Interest rates - a change in interest rates could impact on borrowing costs which may in part be offset by increased investment interest receipts.</p>	<p>Monitor inflation position and forecasts, and review impact on budget through budget control monitoring and reporting process.</p> <p>Capital financing estimates developed using latest forecasts of interest rates for MTFS (which allow for a level of increase). Existing borrowing has been undertaken at fixed rates in order to minimize the exposure of this risk. A review and assessment will be undertaken to try to achieve the optimum time to enter into new borrowing in light of advice on future rate rises, taking into account 'cost to carry' in relation to any early borrowing.</p> <p>Review capital programme and debt portfolio if rates increase beyond forecast levels</p>
Financial Resilience	<p>There is a risk that the Councils financial resilience is insufficient to further withstand the combined pressures of reducing grant funding and the increased cost and demand pressures. Any weaknesses in the delivery of the strategy to strengthen financial resilience may exacerbate this risk. The consequence is an unsustainable and financially unviable organisation beyond the short term.</p>	<p>A number of metrics are being developed to measure financial resilience across local government (CIPFA Resilience Index). The strategy to strengthen financial resilience is underpinned by a set of financial planning and management arrangements, including significant changes in arrangements for commissioning services. However, a clear route to a sustainable medium term financial position has not yet been fully identified.</p>
Brexit	<p>Brexit carries a number of risks which would have a financial impact the on services the Council provides. This is likely to be the result of changes in the funding and regulatory frameworks including the following:</p> <ul style="list-style-type: none"> • Procurement • Regulatory services • European Union (EU) funding 	<p>A high level impact assessment has been completed by officers within the Council, with contingency planning underway to ensure appropriate actions are in place.</p> <p>Officers from CCC and PCC are on a joint risk group assessing the impact from brexit, this has included officers attending MHCLG events and participating in teleconferences by the Home Office.</p>

	<ul style="list-style-type: none"> Loss of staff, where staff are from the EU <p>There is also a wider risk to the economy and labour market which could place more demand on services.</p> <p>There has also been a payment system risk raised, due to a predicted flurry of payment activity in the event the UK leaving the EU as planned on 29 March 2019.</p>	<p>This will remain an area under constant review by officers and CMT.</p> <p>A review is being undertaken of critical supply chains to avoid any potential payment issues in April 2019.</p>
Local Authority Trading Companies (LATCo) and Council Partnerships	<p>The Council is transferring the Amey contract and services in to the newly established LATCo (Peterborough Ltd). There is a risk around mobilisation and delivery within the current timescales.</p> <p>There is a financial risk relating to the LATCo being delivered within the current financial envelope. This risk is being driven by the following:</p> <ul style="list-style-type: none"> Requirement to deliver a high level of value for money while also meeting the current volume demands within this area. Change in delivery model, which the Council and the Latco have no recent direct experience of managing. 	<p>Key mile stones and targets will be closely monitored by officers and CMT, with action being put in place to mitigate any delays where these are indicated.</p> <p>The completions of option appraisals will ensure that the Council and the Latco have considered all available options and will ensure that value for money is obtained. These risks will be managed with proposals being subject to scrutiny before being agreed through the management board arrangements.</p> <p>Use of Professional advisors in this area will ensure the Council and LATCo have the relevant advice and guidance to make more informed decisions.</p>

8 BUDGET VIREMENT LIMITS

8.1 The council's Budget and Policy Framework, paragraph 4.9 enables the council to specify the extent of virements within the budget and degree of in-year changes to the Policy Framework which may be undertaken by Cabinet. Virements allows the Council to move spend approved in the budget to another budget in accordance with Financial Regulations.

8.2 Having reviewed the existing framework and the council's Financial Regulations the principle remains that approved budget cannot be moved from one area of spend or project to another unless it meets Financial Regulations. This applies to both revenue and capital budgets.

8.3 The virement limits for 2019/20 are as follows:

- Directors, within their own area, can approve virements up to £500k.
- Virements required across departments can be approved by the relevant departments up to a limit of £250k, any virements in excess of this limit will require Cabinet approval.
- All budget virements in excess of £500k will require Cabinet approval.
- All budget virements in excess of £1m will require Council approval

8.4 The virement procedure rules will not apply in the following circumstances:

- Reflecting organisational structure changes e.g. changes in reporting lines
- Allocating corporate budgets or savings to departments agreed in the MTFS

- Allocating budgets to individual schemes e.g. from school places capital programme or local transport plan projects

8.5 Part 13, section 3 of the constitution enables the Chief Executive to undertake certain action in an emergency:

3.13.2 The Chief Executive is authorised:

(d) to take any action, including the incurring of expenditure, where emergency action is required;

8.6 In the event that this applies to virements, it will be reported to the next relevant meeting in line with the limits in 8.3 above.

9 CONSULTATION

9.1 Cabinet have been working on the budget proposals and this has included meeting with the Cross-Party Budget Working Group to seek views on all budget proposals, including the opportunity to make alternative suggestions.

Tranche Three will be the final tranche of the 2019/20 budget process. The Tranche Three budget proposals were published on 25 January 2019 and will be recommended by Cabinet for approval by Council on 6 March 2019. The timeline for the final budget tranche is outlined in Table 20.

Table 20: 2019/20 Budget consultation timetable

	Tranche Three
Consultation start date	25/01/2019
Cabinet	04/02/2019
Budget Joint Scrutiny Committee	12/02/2019
Audit Committee (to approve revised Capital Programme and Prudential Indicators)	11/02/2019
Cabinet	25/02/2019
Consultation close date	04/03/2019
Council	06/03/2019

These proposals will be considered in terms of their impact on service provision to user. Proposals which require additional consultation will be allocated timeframes appropriate to the level of consultation required. This will ensure stakeholder and resident's feedback is received and considered prior to the Council meeting.

9.2 Methods of consultation

Hard copies of the budget consultation document (Appendix H) will be available in all libraries and Town Hall and Bayard Place receptions. The Council will also seek to raise awareness of the budget proposals via use of social media on Facebook and Twitter, and aim to make the presentation more visual and easier to understand via the use of information graphics.

The Council has published the budget consultation document on the website and on the internal intranet site 'insite' for residents and staff to view and provide responses via an online survey.

The stakeholder groups outlined in Table 21 have been contacted and offered a briefing on the budget position during the Tranche Three budget consultation period, to enable residents, partner organisations, businesses and other interested parties to feedback on budget proposals and Council priorities:

Table 21: Stakeholder groups and events

Forum/Group	Meeting Date	Presenter
Connect Group (Churches Together)	22/02/2019	Adrian Chapman and Gillian Beasley
Disability Forum	18/02/2019	Fiona McMillan
Peterborough Community Assistance Scheme (PCAS)	Virtual consultation	Ian Phillips

Discussion with Trade Unions Joint Consultative Forum (JCF)	30/01/2019	Peter Carpenter and Mandy Pullen
Youth Council	26/02/2019	Emma Riding
Parish Council	13/02/2019	Peter Carpenter
Joint Scrutiny of Budget meeting	12/02/2019	Peter Carpenter
Schools Forum	Virtual consultation	Jon Lewis
Peterborough Living Well Partnership	30/01/2019	Caroline Townsend
Health Care Executive	12/02/2019	Liz Robin and Wendi Ogle-welbourn

10 ANTICIPATED OUTCOMES OR IMPACT

- 10.1 Following the release of Tranche Three of the 2019/20 budget proposals to address the financial gap, and outlining Peterborough's challenges and successes, Cabinet is seeking the opinions of all residents, partner organisations, businesses and other interested parties to understand which council services matter most. The Council must set a balanced budget for 2019/20 within the financial resources it will have next year and the feedback received will help inform Cabinet in considering budget proposals.

Therefore approval will enable the Council to undertake consultation on its budget plans for 2019/20 and the MTFS covering the period 2019/20- 2021/22.

Cabinet will have a further opportunity to review feedback on the proposals and the MTFS on 25 February 2019, before making a final recommendation to Council on 6 March 2019.

11 REASON FOR THE RECOMMENDATION

- 11.1 The Council must set a lawful and balanced budget. The approach outlined in this report work towards this requirement.

12 ALTERNATIVE OPTIONS CONSIDERED

- 12.1 No alternative option has been considered as the Cabinet is responsible under the constitution for initiating budget proposals and the Council is statutorily obliged to set a lawful and balanced budget by 11 March annually.

13 IMPLICATIONS

Elected Members

- 13.1 Members must have regard to the advice of the Chief Financial (Section 151) Officer. The Council may take decisions which are at variance with this advice, providing there are reasonable grounds to do so.
- 13.2 Section 106 of the Local Government Finance Act 1992 applies whereby it is an offence for any Members with arrears of council tax which have been outstanding for two months or more to attend any meeting of the Council or its committees at which a decision affecting the budget is made, unless the Members concerned declare at the outset of the meeting they are in arrears and will not be voting on the decision for that reason.

Legal Implications

- 13.3 In terms of the Council's executive arrangements, the adoption of the Council's Budget is a role shared between the Cabinet and the Council, whereby the Cabinet (Leader) is responsible for formulating the budget proposals and full Council is responsible for then approving (or not) those proposals and setting the budget and council tax requirement.
- 13.4 For the remainder of the year, the principal purpose of the Budget is to set the upper limits of what the executive (Leader, Cabinet or officer under delegated executive authority) may decide to spend the Council's resources on. The Council cannot through the budget overrule an executive decision as to how to spend money, but the Budget will require the Cabinet to exercise their responsibilities for decision making so as not to make a decision where they are 'minded to determine the matter contrary to, or not wholly in accordance with the authorities budget'. This means that a decision that leads to excess expenditure, a virement from one budget heading to another over the amount allowed by Council in the Budget Book or expenditure of unexpected new money outside the Budget is required to have approval of the Council before the Leader and the Cabinet can make that decision.

13.5 When it comes to making its decision on 6 March 2019, the Council is under a legal duty to meet the full requirements of Section 31A of the Local Government Finance Act 1992 which includes the obligation to produce a balanced budget.

13.6 The principle of fairness applies to consultation on the budget proposals, both consultation required under s65 of the Local Government Finance Act 1992 and more generally as proposed here, which operates as a set of rules of law. These rules are that:

- Consultation must be at a time when proposals are still at a formative stage;
- The proposer must give sufficient reasons for any proposal to permit intelligent consideration and response;
- Adequate time must be given for consideration and response; and

The product of consultation must be conscientiously taken into account in finalising any statutory proposals.

13.7 Added to which are two further principles that allow for variation in the form of consultation which are:

- The degree of specificity with which, in fairness, the public authority should conduct its consultation exercise may be influenced by the identity of those whom it is consulting; and
- The demands of fairness are likely to be somewhat higher when an authority contemplates depriving someone of an existing benefit or advantage than when the claimant is a bare application for a future benefit.

13.8 It should be noted that the consultation to be undertaken as a result of this report is on the Budget proposals, and consequently the Cabinet's general approach to the savings requirements, and not on the various decisions to take whatever actions that may be implicit in the proposals and later adoption of that budget, each of which may or may not require their own consultation process.

13.9 By virtue of section 25, Local Government Act 2003, when the Council is making the calculation of its budget requirement, it must have regard to the report of the Chief Finance Officer (CFO), as to the robustness of the estimates made for the purposes of the calculations and the adequacy of the proposed financial reserves. It is essential, as a matter of prudence that the financial position continues to be closely monitored. In particular, members must satisfy themselves that sufficient mechanisms are in place to ensure both that savings are delivered and that new expenditure is contained within the available resources. Accordingly, any proposals put forward must identify the realistic measures and mechanisms to produce those savings.

Where the CFO makes a judgement that the council is unable to set or achieve a balanced budget, or there is an imminent prospect of this they have a responsibility to issue a section 114 notice (s114) of the Local Government Act 1988.

Once a s114 notice has been served the council has 21 days to meet and consider the report. During these 21 days the council must not incur any new expenditure unless the CFO has specifically authorised the spend.

This suspension of spending will trigger external scrutiny from the council's auditors. However, failure to act when necessary could result in the council losing its financial independence with its powers potentially passed to commissioners appointed by government.

13.10 **Human Resources**

Redundancies

There are no proposals for staffing reductions in Tranche Three. In previous tranches and years, the Council has reduced its staffing and now has very streamlined teams. To reduce staffing further at this stage would have an impact on the council's ability to carry out the savings highlighted for 2019/20.

National Living Wage

As detailed in National Living Wage proposal, outlined within the Budget Consultation Document (Appendix H), the council is legally bound to adhere to new pay scales for employees on the NJC pay scales that will be coming into effect on 1 April 2019.

Closer working with Cambridgeshire County Council

The Council is continuing to drive efficiencies and work closer with Cambridgeshire County Council to share, integrate and align back office services where this makes sense.

13.11 **Equality Impact Assessments**

All budget proposals published in Tranche Three of the budget process have been considered with regards to equalities issues and where appropriate equality impact assessments have been completed and available on the council's website. These have also been included within Appendix J - Equality Impact Assessments

14 BACKGROUND DOCUMENTS

14.1 Tranche One Cabinet Report- [Budget Book- Cabinet 16.07.2018](#)

Tranche Two Cabinet Report- [Budget Book- Cabinet 03.12.2018](#)

15 APPENDICES

15.1 Appendix A – 2019/20-2021/22 MTFs Detailed Budget Position-Tranche Three

Appendix B – Budget Proposals- Tranche One, Two and Three.

Appendix C – Council Tax Information

Appendix D – Grant Register

Appendix E – Fees and Charges

Appendix F – Performance Data

Appendix G – Capital Programme Schemes 2019/20- 2023/24

Appendix H – Budget Consultation Document, including Tranche Three Budget Proposal detail

Appendix I – Savings RAG Rating

Appendix J – Equality Impact Assessments

Appendix K – Treasury Management Strategy

Appendix L – Capital Strategy

Appendix M – Asset Management Plan

Appendix N – Investment Acquisition Strategy