CABINET	AGENDA ITEM No. 4
29 NOVEMBER 2021	PUBLIC REPORT

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

MEDIUM TERM FINANCIAL STRATEGY 2022/23 TO 2024/25 - PHASE ONE

RECOMMENDATIONS

FROM: Cabinet Member for Finance	**Deadline date: 11 March 2022**

It is recommended that Cabinet approves and recommends to the Council:

1. The Phase One budget proposals as outlined in Appendix B
2. The updated budget assumptions, to be incorporated within the Medium-Term Financial Strategy 2022/23 – 2024/25. These are outlined in sections 5.
3. The revised capital programme outlined in section 5 and referencing Appendix C.
4. The Medium-Term Financial Strategy 2022/23 to 2024/25 - Phase One, as set out in the body of the report and the following appendices:
   - Appendix A – 2022/23-2024/25 MTFS Detailed Budget Position Phase One
   - Appendix B – Phase One Budget Consultation Document
   - Appendix C – Capital Programme Schemes 2022/23-2024/25
   - Appendix D – Financial Risk Register
   - Appendix E – Equality Impact Assessments
   - Appendix F – Carbon Impact Assessments
   - Appendix G – Budget Consultation Feedback

It is recommended that Cabinet and Council notes:

5. The strategic financial approach taken by the Council outlined in section 4 of this report.
6. The forecast reserves position, and the provisional statutory advice of the Chief Finance Officer outlined in section 6, The Robustness Statement for Phase One.
7. The feedback received on the budget proposals, received via the consultation detailed in Appendix G

1.0 ORIGIN OF REPORT

1.1 This report comes to Cabinet as part of the Council's formal budget setting process as set out within the constitution and as per legislative requirements to set a balanced and sustainable budget for 2022/23-2024/25.

2.0 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 make proposals and update assumptions to set a balanced budget for the financial years 2022/23 - 2024/25. There is a legal requirement to set a balanced budget for 2022/23. The purpose of this report is to:

- Recommend that Cabinet approve the Phase One budget proposals;
- 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 balanced budget for the MTFS 2022/23-2024/25;
- Outline the strategic approach and actions taken by the Council to deliver a balanced budget in 2022/23;

Proposals will be agreed by Cabinet at this meeting, on 29 November 2020, taking into consideration the budget consultation feedback received and then will be recommended to Council on 8 December 2021 for approval.

This report is submitted for Cabinet to consider under its Terms of Reference No. 3.2.1, "To take collective responsibility for the delivery of all strategic Executive functions within the Council's Major Policy and Budget Framework and lead the Council's overall improvement programmes to delivery excellent services."

2.2 **Executive Summary**

At Council held on 3 March 2021, the MTFS 2021/22-2023/34 was approved, setting a balanced budget for 2021/22. This budget was set with reliance placed on the receipt of £13.7m of Exceptional Financial Support (EFS) from government. The offer of exceptional support was in the form of an agreement in principle to a Capitalisation Direction (borrowing to fund revenue expenditure) that is conditional on a series of actions. These actions include the development of a budget which secures the Council's financial sustainability and two government procured assurance reviews being completed. CIPFA was appointed by the Department for Levelling Up, Housing and Communities (DLUHC) for the financial assurance review and Andrew Flockhart for the governance assurance review with both reviews to be completed over Summer.

On 2 November the Department of Levelling Up, Housing & Communities (DLUHC, formerly known as MHCLG) published the Review documents. The reports outline the seriousness of the Councils financial position and made recommendations for action the Council should take in order to improve this position and achieve financial sustainability.

The Council has been actively working on many areas the recommendations cover, and has already started to take steps towards tackling the financial and governance issues raised in these reviews. These actions include:

- a cross-party member working group (Financial Sustainability Working Group) has been established and with recommendations going to Cabinet and onto Full Council which amount to circa £10m of savings in the first phase of the budget;
- increased staff resource for developing phase two of the budget has been put in place, to work up transformation and budget options to deliver savings.
- a programme of ongoing challenge and support from CIPFA has started which will examine all major areas of spend across the Council;

- preparation for establishing an Independent Improvement and Assurance Panel, meaning the Panel can be commissioned immediately on publication of these reviews;
- a review of the Audit function of the council which is likely to see the appointment of an external independent chair.
- appointment of a new Chief Executive to give the council dedicated and additional management capacity is in progress;
- the Council is working to a single improvement plan, covering all revenue and capital budgets; emerging pressures and risks. This will detail and review all the council's assets, capital programme, and contracts.

A detailed Improvement Plan is in development and will be published in due course outlining all step being taken to address the issues highlighted within these reports.

The MTFS 2021/22-2023/34 also outlined budget gaps of £26.8m in 2022/23, rising to £28.9m from 2023/24 onwards. With the scale of the financial challenge in future years remaining, the Council must make further savings and service reductions to balance the budget in future years.

This report outlines the Phase One MTFS plans to reduce the budget gap by £9m, £6.5m of savings proposals and £3.2m of funding changes with £0.7m of newly identified budget pressures. This leaves a remaining gap of £17.8m in 2022/23, rising to £21.1m by 2023/24.

Although this report outlines proposals that reduce the Council's budget gap, more challenging decisions will be required to deliver financial sustainability. The Council will review its key corporate strategy with a view to refocusing priorities. This will provide greater clarity and a framework to inform the allocation of the Council's resource envelope. Alongside a refocused strategy, action plans are being developed in key saving opportunity areas. Officers, Cabinet and the Financial Sustainability Working Group will be progressing the development of proposals in these key areas over the coming months. The specific areas include:

- **Asset sales**
- **Capital programme reduction**
- **Forensic review of all service expenditure**
- **Contract review**

These are expanded on within section 4.9, with outcomes and an overarching strategy to be reported within the Phase Two MTFS report, which will be published in January 2022.

3. TIMESCALES

Is this a Major Policy Item/Statutory Plan?	**YES**	If yes, date for Cabinet meeting	**29 NOVEMBER 2021**
Date for relevant Council meeting	**08 DECEMBER 2021**	Date for submission to Government Dept.	**N/A**

This process is to deliver a three-year Revenue Budget and Capital Programme for the Council. The MTFS process will be delivered over two Phases, with the following table setting out the budget timetable:

Budget Timetable

Meeting	Phase One	Phase Two
Cabinet	15/10/2021	31/01/2022
Joint Scrutiny	17/11/2021	09/02/2022
Cabinet	29/11/2021	21/02/2022
Council	08/12/2021	02/03/2022

4.0 STRATEGIC FINANCIAL APPROACH

4.1 **Financial Operating Context**

The Council has and is still facing, challenges with supporting rising service demand and increasing costs at a time when the Council's funding envelope is restricted. The Council's financial position creates an acute challenge to meet the requirement to set a balanced budget. The following diagram summarises the factors that influence the Council's financial operating context:

The Councils Financial Challenges are characterised by =

+ **Low Council Tax Base,** restricting the Councils ability to raise income from local taxes.
+ **Fast growing population teamed with an increase in demand for services** and the complexity of care and support required
+ Already providing many **services at a low unit cost,** demonstrating that the Council already delivers efficiency and value for money services.
+ **Low government funding** in comparison to service need and the population of Peterborough. The Council's funding position is outlined in within this section and further in section 5.3.
+ **Low resilience, with low levels of usable reserves** forecast by the end of the financial year, as outlined in section 6 the robustness statement.

4.2 To date the Council has successfully set a balanced budget by being proactive in applying a range of financial measures available, including:

- continued development of innovative solutions to service delivery leading to savings and budget reductions
- proactively managing additional demand and increase pressures in the cost of service brought about from contract inflation and national pay awards
- thoroughly reviewing the income generation with regards to the Council Tax base, the Business Rates base and provisions, and contracting an external review of the Local Council Tax Support Scheme
- being an active key member championing the setting up of the business rates pool with other Cambridgeshire local authorities to reduce the levy for its participating members
- actively managing its asset base to secure efficiencies within its built environment and realise capital receipts
- a detailed and comprehensive review of its minimum revenue provision (MRP)
- since 2018 the Council has been working with external bodies including the Local Government Association, its auditors, the Department for Levelling Up, Housing and Communities (DLUHC), formally known as the Ministry of Housing, Communities and Local Government (MHCLG) and external financial specialists to develop and deliver a sustainable financial strategy.

The difference between the resource envelope (funding) and the cost of providing services has increased. In the absence of additional funding and with the restricted ability to raise local taxes, the Council has applied other funding solutions. The following table shows the use of reserves and non-repeatable savings to balance the budget. This financial strategy was adopted for the Council to take a strategic and measured approach to transformational change which would lead to service efficiencies and savings. This strategy helped to mitigate and minimise the impact on services and customers over time, whilst creating the opportunity to develop and deliver a sustainable financial future.

4.3

One Off Strategic Funding Solutions

	Previous Years				Current Year	Future MTFS years		
	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
	£000	£000	£000	£000	£000	£000	£000	£000
Re-deeming Debt with Capital Receipts	12,738	6,220	10,874	6,357	2,433	2,603	233	234
MRP Re-provision	-	3,700	-	-	-	-	-	-
Capitalisation direction*	-	-	5,564	1,217	3,234	-	-	-
Reserves	7,194	6,350	3,084	1,510	10,500	-	-	-
One Off Funding	-	-	-	-	8,944	-	-	-
Total	**19,932**	**16,270**	**19,522**	**9,084**	**25,111**	**2,603**	**233**	**234**

** The budgeted £13.7m Capitalisation Direction in 2021/22 by has been reduced by £10.5m to £3.2m, as £10.5m of reserves is utilised to fund revenue expenditure. The final drawdown of the Capitalisation Direction will be predicated by the decision from DLUHC and final outturn position.*

4.4

Proactive Management, Expenditure Controls, External Expert Review and Verification

In the Council's pursuit to achieve financial sustainability, it has been open to and welcomed external challenge and scrutiny. In 2018 the budget was reviewed by the Local Government Association (LGA), in 2019 the Council commissioned Grant Thornton to undertake a financial review and work collaboratively with the Council on the delivery of a savings programme and in July 2021 a Corporate Peer Challenge was facilitated by the LGA, with the full report being made available on the Council's website recently.

The Council has always responded constructively to challenge and has taken decisive action to manage its finances. Below are examples of how the Council's approach has developed and strengthened to meet its current financial challenges:

- ✓ It has transformed its Children's and Adult Social Care Services, by the using prevention and early intervention strategies e.g., Family Safeguarding and Adult Positive Challenge Programme. These programmes have seen a continuation of lower levels of expenditure and good outcomes in comparison to the Council's statistical neighbours.
- ✓ It has worked with health and care partners to reduce costs, increase efficiencies and increased purchasing power through joint commissioning and delivery opportunities.
- ✓ It has transformed its Housing Needs service to reduce homelessness within the City.
- ✓ It has generated over £77.5m of external income (non-Government grant or tax), equating to almost 18% of the Council's gross income.
- ✓ It has actively managed several key contracts and worked closely with partners to deliver Council services.
- ✓ It has worked to maximise the use of its assets.
- ✓ It has regularly reviewed its capital programme and associated project management of scheme delivery.
- ✓ It has applied technology and ICT solutions to streamline the Council's processes and increase automation.
- ✓ It has reviewed its workforce and successfully implemented agile working across its organisation.
- ✓ Used external benchmarking to pursue value for money and low costs. The most recent benchmarking report demonstrated that the Council's unit costs, in comparison to other authorities across England, were 11.4% lower than average, and ranked 92nd highest out of 123 comparable authorities.

Additionally, the Council has put in place a series of financial controls designed to scrutinise and closely manage expenditure, ensuring that only essential expenditure is being incurred. These enhanced scrutiny measures were introduced as a short-term measure but due to their importance and successful operation they remain in place. These controls include:

- A panel to review all recruitment and agency requests.
- Business case requirement for all expenditure in excess of £10k - providing additional scrutiny and challenge with regular review from the Chief Finance Officer (CFO).
- Implementation of the 'review of the effectiveness and operation of financial and human resource controls' across the organisation.
- Departmental Management Teams, together with the Corporate Management Team (CMT), review the financial position monthly including the position in respect of revenue and capital budget performance, debt management, and budget risks. Appropriate action is taken, including plans to address budget issues, and reported in monthly Budgetary Control Reports taken to Cabinet.
- Enhanced officer budget governance, with dedicated Boards overseeing the delivery of the budget setting process and monitoring of savings delivery. This includes the Rapid Implementation Team (RIT), Executive Corporate Management Team and Budget Corporate Management Team.
- Enhanced member governance structure, with the introduction of the Financial Sustainability Working Group (FSWG) to ensure involvement and engagement from all political parties, with a common goal of achieving financial sustainability for the Council.

4.5

Financial Implications of the C-19 Pandemic

Before the pandemic started in March 2020, the Council had recognised the significant financial challenges it was faced with and was taking measures to address the financial position, including inviting expert external challenge to provide support and an additional layer of scrutiny to processes and decision making. The Council's response to the unprecedented challenges of C-19 have dominated the activities of the Council and that of its communities for the last 18 months and, like most Councils across the country, it has not been able to implement all measures and savings plans in full as originally planned.

The C-19 pandemic has had a significant impact on the Council's financial position. It effected most Council services, but most notably a rise in Adults and Children's Social Care and rough sleeper costs, losses of business rates and council tax income, and losses of income from other sources such as parking (outlined in full in the Final Outturn 2020/21 Cabinet Report).

The Council budgeted for known financial challenges such as the non-delivery of savings plans totalling £5.7m and the £8.1m of additional Children's and Adults Social Care by rebasing them within the 2021/22 budget (MTFS 2021/22-2023/24). However, the pandemic introduced additional layers of financial complexity and uncertainty, and this unpredictability has continued to make financial and operational planning problematic. The Council continues to closely review its budget assumptions and the treatment and application of the following uncertainties in:

- long-term increases in demand for council services
- the market sustainability of key service providers
- the inability to forecast with any certainty the future profile for the recovery of income generators such as car parking
- how to profile business rate income given the reduction in government support, appeals, non-collection of rates and associated closures of businesses due to the impact C-19 restrictions
- the increase to Local Council Tax Support scheme with the ending of furlough and unknown timing for economic recovery

4.6

Exceptional Financial Support

The Council has been in ongoing discussions with the DLUHC in respect of its challenging financial environment since October 2020. In February 2021 the Council received conditional approval for Exceptional Financial Support (EFS) in the form of a £20m Capitalisation Direction for use in 2022/23.

The Council assumed the use of £13.7m of the EFS to set a balanced and legal budget for 2020/21. However, the EFS was conditional on the results of the financial assurance and governance reviews, together with a plan to deliver financial sustainability in the future. Over the summer period, CIPFA and Andrew Flockhart have been conducting these reviews on behalf of the DLUHC. These were now published on 2 November published and the Council is actively working on implementing the recommendations made.

4.7 The Council has revised its budgeted funding strategy for 2021/22 through a reduced reliance on the funding from Capitalisation Direction by at least £10.5m through the application of funding from the Covid-19 Funding Reserve. This reserve was created at the end of 2020/21 to ensure that additional costs anticipated from the additional demand and the longer-lasting impact of C-19 could be funded in 2021/22. This follows a review of the position as reported within the latest Budgetary Control Report as outlined below.

August Budgetary Control Report (BCR)

At the end of August the Council's forecast outturn position has improved in comparison to the start of the year forecast with a forecast underspend of £3.8m being reported.

The Council is still experiencing pressures in service areas such as Adults and Children's social care because of additional costs, and losses of income from Parking and Culture and Leisure services. However, this is being fully offset with favourable budget performance driven by the continuation of the additional income from the Business Rates Pool, additional grant in respect of lost Sales Fees and Charges compensation, and a reduction in the cost of borrowing for the Council. As a result of this the Council has incorporated a reduction in the amount of Capitalisation Direction (borrowing to fund revenue costs) that would be required, bringing the final forecast variance to a breakeven position.

The following table outlined the directorate budgetary performance and the £3.8m reduction in borrowing:

Directorate	Budget £000	Forecast Spend £000	Variance £000	Overall Status
Chief Executives	1,219	1,282	63	Overspend
Governance	4,169	4,049	(120)	Underspend
Place & Economy	24,021	23,307	(715)	Underspend
People & Communities	99,537	104,963	5,426	Overspend
Public Health	(188)	(239)	(51)	Underspend
Resources	22,763	20,955	(1,807)	Underspend
Customer & Digital Services	7,356	7,100	(256)	Underspend
Business Improvement	722	702	(20)	Underspend
Capital Financing	27,994	25,328	(2,666)	Underspend
Total Expenditure	**187,593**	**187,447**	**(146)**	Underspend
Financing	(173,859)	(177,549)	(3,690)	Underspend
Exceptional Financial Support (Capitalisation Direction - borrowing)	(13,734)	(9,898)	3,836	Reduction in Borrowing
Net	**(0)**	**0**	**0**	Breakeven

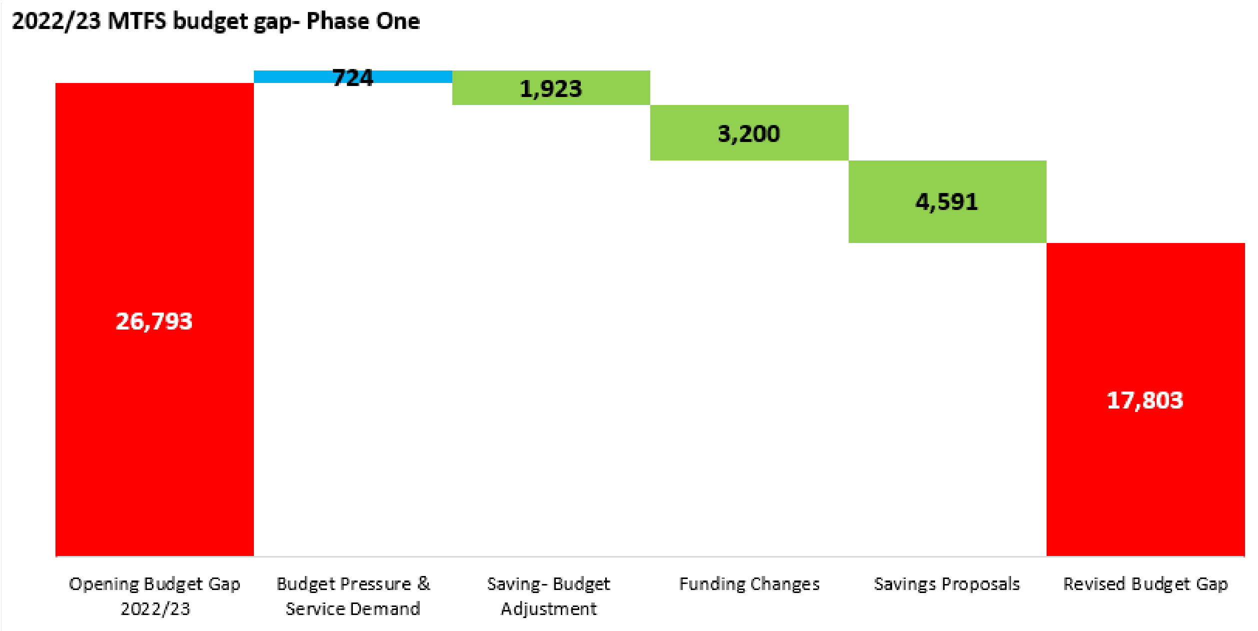
Although August's financial performance identifies some areas of financial pressure resulting from the pandemic, these are being mitigated by other service delivery budgets performing favourably. The scale of the additional demand and budgetary pressures, have so far, been lower than the Council originally anticipated. This enables the Council to reduce the amount of Capitalisation Direction it is anticipates to apply to fund the revenue budget in 2021/22 from the original budget value of £13.7m, by at least £10.5m. This is to be replaced with the application of funding from the Covid-19 Funding Reserve.

4.8 The August Budgetary Control report was reported to Cabinet on 25 October and provides further analysis of the directorate financial performance.

Budget position

The Council has started the budget setting process for 2022/23 with an opening gap of £26.8m. This Phase One MTFS plans to reduce the budget gap by £9m, £6.5m of savings proposals and £3.2m of funding changes with £0.7m of newly identified budget pressures. This leaves a remaining gap of £17.8m in 2022/23 rising to £21.1m by 2023/24.

4.9



The proposals are outlined in further detail in section 5.2 and Appendix B - The Budget Consultation document.

Strategic Budget Approach

Initial feedback from the external reviews that have been undertaken conclude that the Council can and must do more to deliver financial sustainability. The 2022/23 budget requires a renewed focus on the strategies available to the Council to close the budget gap and achieve financial sustainability. As part of this approach the Council will be issuing revised corporate priorities and a recalibrated risk profile for the levels of service to be provided.

Risk

Given the magnitude of the financial challenge and the requirement for more fundamental and radical change, the strategic options to be considered will have an influence on the level of risk the Council is exposed to. To become sustainable the Council will need to reduce its expenditure or generate additional income. The options available to the Council may create additional risks such as the ability to fulfil statutory duties within a smaller resource envelope. The Council will need to implement transformational change to deliver the level of reduction in expenditure required and associated reductions in service delivery.

Careful consideration will be given to the types and level of risk the Council is willing to accept to deliver a balanced budget in 2022/23 and financial sustainability for the future. A revised risk profile should provide clarity to officers and members and a suitable framework to support decision making in developing proposals for reductions to services.

Priorities

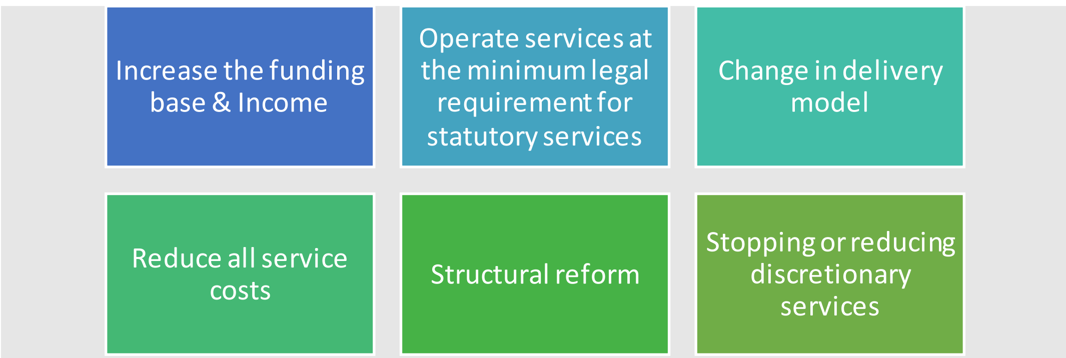
In addition to considering a recalibrated risk profile the Council will be refocussing its Corporate Strategy and key strategic priorities. Complex decisions will be required to deliver financial sustainability and having refocussed priorities will provide greater clarity to inform the allocation of resources and development of transformational change and implementation of a savings programme.

Strategic Options

The Council has considered the outputs of the draft reviews from CIPFA (on behalf of DLUHC) and the final LGA Peer challenge which has the view that more can be done and no one service is protected. Specific areas of the work are already underway and officers, Cabinet and the FSWG will be progressing the development of proposals in these key areas over the coming months, alongside the programme of work identified above. The specific areas include:

- **Capital programme**: The Council has been scrutinising the capital programme with a view to reducing it to £80m, which reflects historic performance and capacity for delivery of schemes. However, this review will continue with a view of reducing the programme further focusing on continuing with only 'essential' schemes. The criterion for this assessment is to be determined, but priority will be given to statutory schemes and those schemes which are all or mostly grant-funded and do not incur future revenue pressures for asset maintenance and running costs.
- **Sale of assets**: The Council will undertake a thorough review of its asset base with a view to selling assets that are surplus or do not generate sufficient revenue benefit. Incorporated within this review will be the consideration of the Council's future working practices to establish whether office space can be further rationalised to deliver more efficiencies.
- **Contracts**: Review of the Council's key contracts and partnerships, such as Milestone, Serco, Aragon Direct Services, NPS and social care providers. This review will ensure that the Council's contracts reflect value for money, performance is effectively managed and where contracts can be de-specified or further efficiencies unlocked.
- **Service expenditure:** Forensic review of budgets at service level including an evaluation of the key cost drivers, resource requirement, the outcome delivered to the realigned of service levels that meet the new refocussed priorities.

Other available strategies to be explored include by the Council include:



The Council recognises this is a substantial challenge and it is the Council's responsibility to meet this head on. It is clear that **if the Council is unable to develop a plan to deliver a sustainable financial strategy government intervention is likely in early 2022.**

5.0 BUDGET DETAIL

5.1 **Previous 2021/22-2023/24 MTFS Summary Position**

The table below outlines the position, detailing the amounts the Council expects to receive from the key funding streams. It highlights the departmental budgets and the budget gap for each of the three years following the 2021/22 MTFS.

	2021/22	2022/23	2023/24	2024/25
	£000	£000	£000	£000
NNDR	(50,566)	(51,776)	(53,091)	(53,779)
Revenue Support Grant	(10,471)	(10,471)	(10,471)	(10,471)
Council Tax	(88,259)	(91,545)	(95,494)	(100,155)
New Homes Bonus	(3,054)	(1,461)	-	-
Improved Better Care Fund	(7,260)	(7,260)	(7,260)	(7,260)
Social Care Grant	(5,673)	(5,673)	(5,673)	(5,673)
Lower-Level Services Grant	(281)	(281)	(281)	(281)
C-19 Response Fund	(6,366)	-	-	-
Local Council Tax Support Grant	(1,590)	-	-	-
Capitalisation Direction*	(13,734)	-	-	-
TOTAL CORPORATE FUNDING	**(187,255)**	**(168,468)**	**(172,270)**	**(177,620)**
PLANNED EXPENDITURE				
Chief Executives	1,219	1,219	1,219	1,219
Governance	4,167	4,167	4,167	4,167
Place & Economy	23,912	24,310	24,787	25, 416
People & Communities	99,537	102,866	105,372	107,626
Public Health	(188)	(188)	(188)	(188)
Resources	17,246	17,724	19,099	20,180
Customer & Digital Services	7,356	7,525	7,696	7,867
Business Improvement	722	722	722	722
NET SERVICE EXPENDITURE	**153,972**	**158,346**	**162,875**	**167,010**
Corporate Expenditure	5,289	5,325	5,362	5,402
Capital Financing Costs	27,994	31,589	32,943	32,943
TOTAL PLANNED EXPENDITURE	**187,255**	**195,260**	**201,180**	**205,355**
REVISED DEFICIT/(SURPLUS)	**(0)**	**26,793**	**28,910**	**27,735**

**it is proposed within this report that the Capitalisation Direction is reduced by £10.5m and the funding replaced through the application of reserve balances.*

5.2 **Phase One Budget Position**

The following tables summarise the budget position and detail of all proposals included within this Phase One, and the financial implications for the three years covering 2022/23-2024/25

Budget Summary Position- Phase One

	2022/23	2023/24	2024/25
	£000	£000	£000
Budget Gap from 2021/22 MTFS	**26,793**	**28,910**	**27,735**
Budget Pressure & Service Demand	724	915	979

Revised Budget Gap	**27,517**	**29,825**	**28,714**
Saving- Budget Adjustment	(1,923)	(1,923)	(1,923)
Funding Changes	(3,200)	(2,700)	(2,450)
Savings- Outline Business Case	(4,591)	(4,128)	(3,891)
Budget Gap	**17,803**	**21,074**	**20,450**

Phase One budget proposals

	2022/23 £000	2023/24 £000	2024/25 £000
Budget Pressure & Service Demand	**724**	**915**	**979**
Chief Executive Position (Single Authority not shared)	115	115	115
Coroners- Rising Demand	100	100	100
Insurance Premiums	100	100	100
Sandmartin House Inflation	-	191	255
Social Care Levy - 1.25% increase	409	409	409
Funding Changes	**(3,200)**	**(2,700)**	**(2,450)**
Business Rates Pool (estimate)	(2,200)	(2,200)	(2,200)
NNDR Income Base (estimate)	(1,000)	(500)	(250)
Savings	**(4,591)**	**(4,128)**	**(3,891)**
Bad Debt Provision Review	(500)	-	-
Hydrotherapy pool	(50)	(50)	(50)
Reduce the Capital Programme	(2,245)	(2,017)	(1,780)
Aragon Service Reduction	(221)	(221)	(221)
Aragon- Income Generation	(130)	(130)	(130)
Review the NPS and Property Contract	(300)	(300)	(300)
Serco- Business Support	(651)	(651)	(651)
Serco- Automation of Revenues and Benefits	(100)	(100)	(100)
Serco- Customer Services	(200)	(200)	(200)
Serco- Inflation and Current year recurring saving	(129)	(129)	(129)
Corporate Capacity Review	-	(190)	(190)
Review of Economic Development	(65)	(140)	(140)
Saving- Budget Adjustment	**(1,923)**	**(1,923)**	**(1,923)**
Archiving	(18)	(18)	(18)
Better Care Fund Uplift - 2021/22	(420)	(420)	(420)
Energy Recovery Facility- Improved Energy Pricing	(500)	(500)	(500)
ICT Service Savings	(175)	(175)	(175)
Reduction in stray dog contract	(10)	(10)	(10)
Review Mental Health Management Fees	(50)	(50)	(50)
Aragon- Budget Adjustment	(750)	(750)	(750)
Total	**(8,990)**	**(7,836)**	**(7,285)**

Further detail in respect of the proposals following appendices:

- Appendix A – 2022/23-2024/25 Phase One MTFS Detailed Budget Position.
- Appendix B – Phase One Budget Consultation Document

5.3 **Core Funding Assumptions**

The following table outlines the Council's forecast core funding for the period 2022/23-2024/25, as confirmed within the final local government settlement in February. Further details of the assumptions used are outline within this section.

Funding Summary Position 2022/23-2024/25

	2022/23	2023/24	2024/25
	£000	£000	£000
NNDR	(52,776)	(53,591)	(54,029)
Revenue Support Grant	(10,471)	(10,471)	(10,471)
Council Tax	(91,545)	(95,494)	(100,155)
New Homes Bonus	(1,461)	-	-
Business Rates Pool	(2,200)	(2,200)	(2,200)
Improved Better Care Fund	(7,260)	(7,260)	(7,260)
Social Care Grant	(5,673)	(5,673)	(5,673)
Lower Level Services Grant	(281)	(281)	(281)
TOTAL CORE FUNDING	**(171,668)**	**(174,970)**	**(180,070)**

Council Tax

The forecast funding includes an assumption based on 2.99% general Council Tax increase. However, at this point the 2022/23 referendum limits are to be confirmed, and speculation in the media and other sources suggest that Councils may be given then ability to raise Council Tax income via an ASC Precept. This is expected to be confirmed within the Spending Review 2021 on 27 October.

The Council tax base is forecast to steadily increase by 1,000 homes each year, which equates to 780 Band D equivalents. This forecast is in line with the housing growth experienced within the City which has averaged at 1,100 new homes over the past five years.

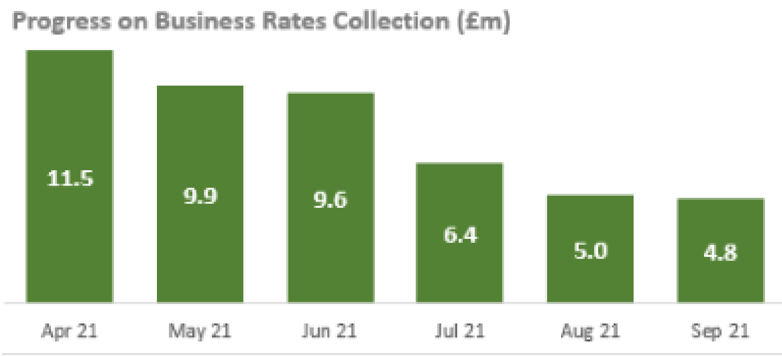
The following table summarises the Council's current Council Tax income assumptions:

	Actual	Forecast	Forecast	Forecast
	2021/22	2022/23	2023/24	2024/25
Council Tax increase	1.99%	2.99%	2.99%	2.99%
ASC precept increase	3.00%	0.00%	0.00%	0.00%
Council Tax Band D	**£1,467.76**	**£1,511.64**	**£1,556.84**	**£1,603.39**
Council Tax Base	59,714.72	60,494.72	61,274.72	62,054.72
Council Tax Income (Band D x Tax Base)	**£87,646,791**	**£91,446,512**	**£95,395,100**	**£99,498,060**
Parish Precept	**£657,300**	**£657,300**	**£657,300**	**£657,300**
Council Tax Deficit (spread over 3 years)	**£44,782**	**£558,727**	**£558,727**	**-**
Total	**£88,259,309**	**£91,545,085**	**£95,493,673**	**£100,155,360**

Business Rates (NNDR) and the Cambridgeshire and Peterborough Business Rates Pool

Business Rates is a major source of income for the council providing some £52.8m, with additional income of £2.2m expected in 2022/23 as a result of the forecast continuation of the Business Rates pool arrangement with the other Cambridgeshire Local Authorities. The pool takes into account the business rates levy owed by each of the authorities, pooling them together, which produces a lower percentage levy calculation for the councils included within the pool. The Business Rates Pool originally started in 2020/21 and has been a success with the

Council receiving a £1.6m pool gain share in 2020/21, with £2.5m forecast in the current year, as reported within the August BCR.



The Council has also been closely reviewing its Business Rates collection rates. At the end of 2020/21 the Council held £11.5m of uncollected business rates balances. The Council commenced active recovery in February, and since the 1 April 2021 these actions have reduced the outstanding balance by 58% to £4.8m, as shown in the chart. Due to the level of outstanding debt held when setting the budget, the bad debt provision contributions had been increased to ensure the Council has sufficient mitigation to cover the risk on non-collection, however given the improvement in position the Council is able to reduce these forecast contributions, which in turn improve the overall business rates income forecast.

Both the Business Rates Pool and Business Rates income are estimates at this stage and will be formalised in the coming months in advance of the Phase Two report. The Business Rates Pool application has been submitted to DLUHC on 8 October, with confirmation expected to form part of the Local Government Provisional Finance Settlement. The Business Rates forecasts will be formalised once the multiplier and inflationary details are also confirmed in Local Government Provisional Finance Settlement, and then formally confirmed within the NNDR1 form submission to DLUCH in January 2022.

The Council expected the Business Rates forecast to remain steady, although there are some empty units across the city such as the John Lewis store and the Debenhams distribution centre. There are new businesses coming into the city, such as the new restaurants planned at Maskew Avenue, the Hilton hotel and offices at Fletton Quays and continued development at the Roxhill Gateway.

Grants

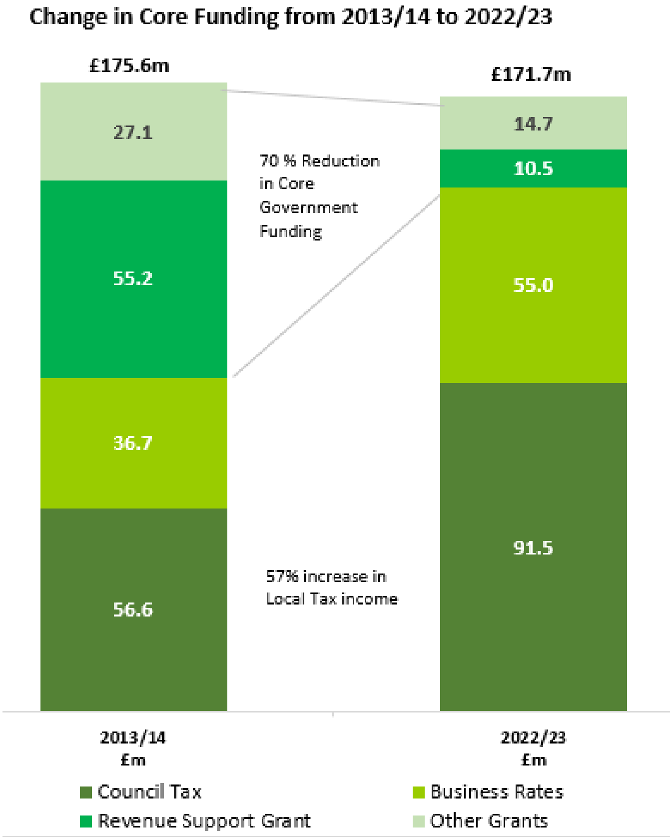
The Councils has kept its forecast funding levels consistent with that received in 2021/22 for the following grants:

- **Revenue Support Grant (RSG)**
- **Lower Tier Services Grant**
- **Social Care Grant**
- **Improved Better Care Fund (IBCF)**

This approach comes after years of one-year settlements, speculation around further tightening of the public purse and a recent change in approach whereby unused New Homes Bonus was used to fund other 'new' grants instead of returning it back to local government like in previous years. These actions create turbulence in the funding system, making it difficult for Councils to financially plan due to unpredictability in approaches applied and reducing confidence in the system. It is expected that the Spending Review 2021 and the Local Government Provisional Finance Settlement will provide clarity to the level of grant the Council can expect.

New Homes Bonus (NHB) – the current scheme which incentivised and rewarded Councils for housing growth within their area, is being phased out with the last payment expected in 2022/23, and a new scheme expected to replace it. Proposals for a new scheme were consulted on in Spring 2021, with a new scheme expected to be announced in advance of Local Government Provisional Finance Settlement. The Council's current forecast is in line with the current scheme and therefore, the Council expects to receive no further funding from 2023/24 onwards. If a new scheme is announced the funding will contribute to delivering a sustainable financial position for the Council.

Change in Core Funding



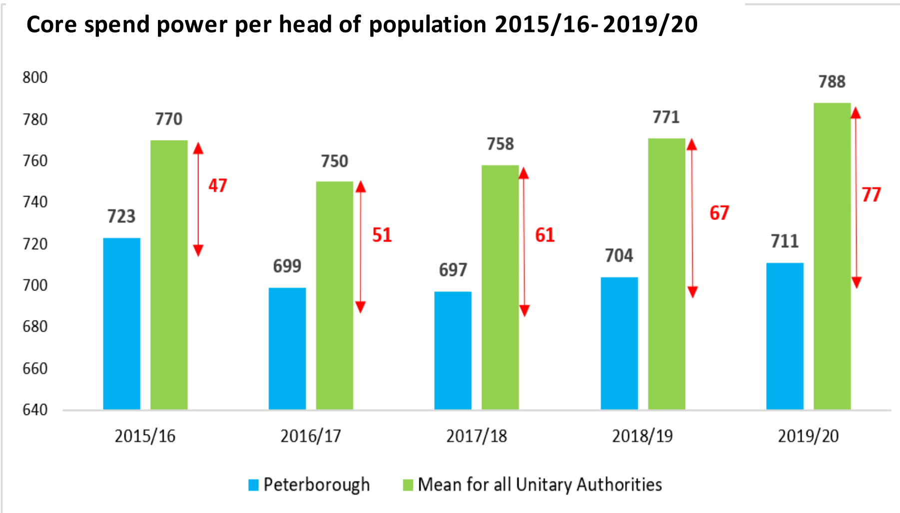
Since 2013/14 the Council has experienced a 69% reduction in the level of core grant funding and over the same period has relied on council tax increases and business rates growth to bridge the resultant funding gap. This chart illustrates the shift in core funding and the increased reliance on two funding streams more exposed to economic fluctuations: Business Rates and Council Tax.

The reliance now placed on council tax and business rates as the Council's core resource exposes the Council to greater levels of risk inherent in these funding streams. This was demonstrated over the pandemic when these income sources suffered because of greater levels of non-collection, lower income growth and a rise in Local Council Tax Support claimants. The change in risk profile for funding is also evident in the Council's core spend power in comparison to other unitary authorities.

Core Spending Power

Core Spending Power (CSP) per head of population is shown in the following chart. CSP is a measure of total council revenue funding from all sources, with the exception of ringfenced grants and often contains assumptions on funding Councils may or may not approve. In 2019/20 the Council had a CSP of £144m, £34m less than the average unitary authority.

The Council's CSP per head, £711, compares to the average across other unitary authorities £788, a notably greater proportion. The chart illustrates how that difference has increased over the five-year period, from £47 rising to £77 per head by 2019/20.



This gap has widened due a couple of contributary factors.

Firstly due to the limitations which affect the Council's ability to raise Council Tax income. These include:

- The Council Tax referendum limit restricts the Council's ability to raise the level of its total resources. Since the local tax lock, introduced in 2012/13, Councils have been encouraged to receive a Council Tax Freeze Grant or apply a minimal increase to council tax.

- Having a low council tax base, resulting from a large proportion (65%) of properties that fall within Bands A and B.
- Having the 9th lowest average Band D council tax rates when compared to other unitary authorities. The current Band D rate is £1,476.76 and if Peterborough was able to move to the average unitary council tax rate of £1,599.35 **(a difference of £131.59 – 8.9%)** and applied to the tax base of 59,714.7 band D equivalents, this would generate an additional **£7.2m per year**. If Peterborough was at the same level as the **highest rate (£1,898.55), this would generate an additional £25m per year.**

The second factor driving this gap is the absence of a revised relative needs and resources formula, which determines the distribution of funding to local authorities. This has not been reviewed since 2013/14, and therefore has not taken account of changes to the local demographics, needs or council funding levels. Over this period service demand pressures have increased the Council's net revenue expenditure, and with limited additional funding and council tax restrictions in place, the Council has applied other funding solutions, such as reserves and the sale of assets to ensure the delivery of a balanced budget.

5.4 **Empower**

In December 2014 the Council entered into a strategic partnership with Empower Community Management LLP to deliver solar panels on residential properties. As part of this arrangement and subsequent additions to the original scheme the Council invested capital funds totalling £23m which resulted in over 7,700 rooftop installations which have been providing free electricity for the householder. The loan was fully secured over the solar rooftop assets of ECSP1 and was returning a commercial rate of return to the Council. This return contributed towards the Budget position of the Council and helped to support the delivery of services.

The original loan was a construction facility and was contracted to terminate in October 2017, but a series of extensions were made enabling the completion of installations up to March 2018. The facility was then extended by a series of Cabinet Member Decisions to enable the refinancing of the facility, the last of which in September 2020 giving authority for the construction facility to be amended to a long-term loan facility with the Council.

In March 2021, the Council sought advice from its advisors Deloitte and Pinsent Mason and concluded, in order to protect its interests, it was left with no option but to serve notice of repayment of the loan.

At the end of the notice period in May 2021 ECSP1 were unable to repay the loan and Insolvency Advisors, Teneo Restructuring Ltd, were jointly appointed by ECSP1 and the Council. Their advice was presented to Cabinet in June 2021 and at that meeting the recommendation for the Council to take over the assets of ECSP1 was approved.

The process of transferring the assets is currently underway and is being managed to reduce any risk of disruption to the operation of the portfolio on the date of the transfer.

An interim asset manager has been appointed to manage the solar rooftop assets for the next year, during which a review of contracts and performance will be undertaken to increase the performance of the portfolio. During this time a full procurement process will be run for an asset manager to manage the portfolio for a three-to-five-year term.

5.6 **Capital Programme**

An officer-led Capital Review Group oversees the Council's capital requirements. The Capital Programme is viewed over a three-year period to ensure correct stewardship of assets and efficient use of budgets, it includes estimated project costs and profiling of expenditure whilst detailed business cases and due diligence is completed on individual schemes. The Council is proactive in attracting external funding for as many schemes as possible.

The Capital Programme contains funding for Invest to Save schemes. This budget is included on the basis that any projects funded via this budget will deliver savings to the Council. Business cases for future proposals are required to demonstrate how the cost of borrowing will be covered, e.g. through income generation, and reduction in service costs. Invest to save is shown separately due to the projects only proceeding where they lead to savings which cover the associated capital financing costs in the year they occur, and the capital financing costs are recharged to service budgets. Further information on the Invest to Save programme is included with the Council's Capital Strategy.

The £22m for IFRS16 transition is excluded as this is not new capital spend, but a change in accounting treatment. Under the previous accounting rules leases that did not account for substantially all of an assets useful economic life were treated as off balance sheet and charged to revenue. The new accounting rule brings these leases (unless under a year in duration or for assets below a de minimum value) onto the balance sheet as capital expenditure. On transition, the remaining value of these existing leases is treated as capital expenditure incurred on 1 April 2023.

Phase Two will reflect a further review of the programme to reduce costs as well as some further investments in line with Council priorities. Additional investment schemes that have been added to the previous MTFS for approval are summarised in Table 11.

Table 11: New Capital budgets for approval within Phase One

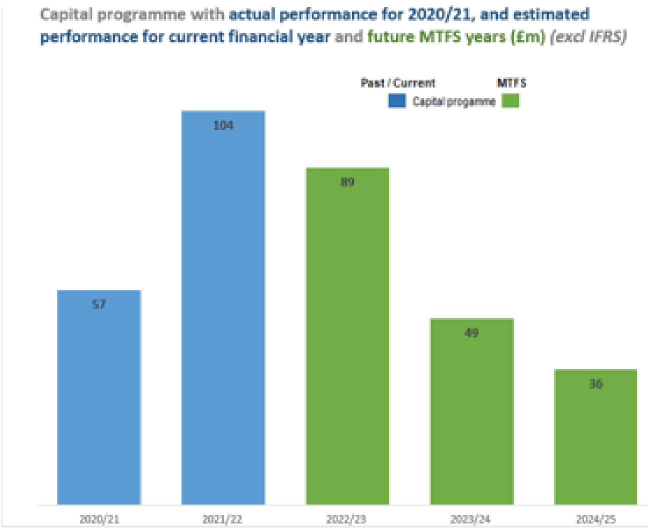
Directorate	Project and Funding Source	2021/22 £000	2022/23 £000	2023/24 £000	2024/25 £000
People & Communities	Clare Lodge Refurbishment and Safety works (Third Party Funding)*	1,406	171	-	-
Place & Economy	Westcombe Engineering Machinery Investment (Funded by Invest to Save)	34	-	-	-
Place & Economy	Contribution to the Highways Agency for the A14 improvement scheme (Third Party Funding)	120	60	60	60
Resources	Capital Funding to build Mausoleum at Fletton and Eastfield Cemeteries (Funded by Invest to Save)	178	-	-	-

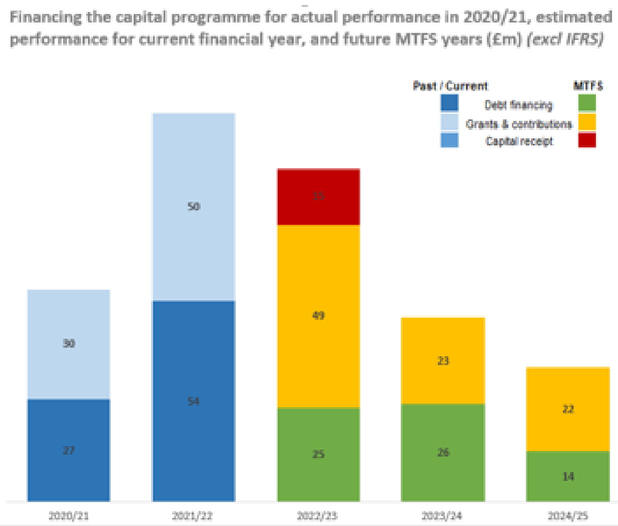
**Based on detailed business case - awaiting outcome of bid for funding, will only proceed if successful.*

Table 12 provides a summary of the capital programme over the MTFS period. The full list of schemes is detailed in Appendix C - Capital Programme Schemes 2022/23-2024/25. The tables include the changes to the programme listed above.

Table 12: The Capital Programme 2022/23- 2024/25 Summary

Capital Programme	2022/23 £000	2023/24 £000	2024/25 £000
Customer & Digital Services	3,000	3,000	3,000
People & Communities	20,985	7,670	16,395
Place & Economy	46,180	34,400	14,326
Resources	8,983	4,024	2,090
Total Capital Programme	**79,148**	**49,094**	**35,811**
Grants & Third-Party Contributions	48,837	23,061	22,333
Capital Receipts repayment of loans	15,000	-	-
Borrowing	15,311	26,033	13,478
Total Capital Financing	**79,148**	**49,094**	**35,811**
Invest to Save	9,776	-	-
IFRS16 Transition (estimated)	22,000	-	-
Total Capital Programme (Including Invest to Save & IFRS16)	**110,924**	**49,094**	**35,811**





6.0 ROBUSTNESS (SECTION 25) STATEMENT

6.1 Requirement

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 as part of fulfilling this duty and gives the required advice relating to the Council's current and future years financial position, including a consideration of the proposed budget as a whole and all the financial risks facing the Council. It identifies the Council's approach to budget risk management and assesses the risks associated with the current year and 2022/23 budget to inform the advice on robustness.

At Peterborough City Council this statement is usually completed in Phase Two of the budget setting process, as all budgetary information including the latest estimates and developments are considered. However, given the ongoing challenging financial environment in which the Council operates the Council deems it prudent and appropriate for the CFO to provide this assessment in this first Phase as well as in the final and overall Phase Two.

6.2 **Overall Financial Position**

The Council is operating in a challenging financial environment, with additional uncertainties and significant risk factors featuring from the impact of the C-19 pandemic, as well as supporting the City in its recovery efforts. Previous MTFS's have highlighted the fragility of the Council's financial resilience through a reducing reserves position leaving little recourse if savings were not delivered as planned or unforeseen events materialised.

In the 2021/22 - 2023/24 MTFS the Council, in accordance with the CIPFA modifications, contacted MHCLG in October 2020 to further explore the alternatives to issuing a s114 notice. MHCLG acknowledged that the Council was in requirement of exceptional support for it to set a legal balanced budget for 2021/22 and to protect the existing low level of reserve balances to maintain some financial resilience in 2020/21. The offer of exceptional support was in the form of an agreement in principle to a capitalisation direction that is conditional on a series of assurance actions from MHCLG for 2021/22 as follows:

- a detailed assessment of the Council's financial position and financial management with a view to making recommendations where the council can take action to improve. The financial assurance review was conducted by the Chartered Institute of Public Finance and Accountancy (CIPFA)
- an external assurance review that looked closely at the financial position and governance arrangements, focusing on the Council's ability to deliver a plan for financial sustainability with policies and procedures in place to ensure robust decision making and accountability.

On 2 *November 2021, these* *External Financial and Governance Assurance Reviews* *were published.*

This Phase One MTFS plans to reduce the budget gap by £9m, £6.5m of savings proposals and £3.2m of funding changes with £0.7m of newly identified budget pressures. This leaves a remaining gap of £17.8m in 2022/23, which rising to £21.1m by 2023/24.

The opinion of the CFO is that the 2022/23 budget requires a renewed focus on the strategies available to the Council to close the budget gap and achieve budget sustainability, along with a renewed acceptable risk profile for the levels of service to be provided. The Council needs to take on board the outcomes of the reviews from DHULC (formerly MHCLG) and from the LGA Peer challenge with a view that more can be done and no one service is protected. Available strategies include:

- Increase the funding base
- Increase income
- Change in delivery model
- Structural reform
- Reduce all service costs
- Stopping or reducing discretionary services
- Operate services at the minimum legal requirement for statutory services

Given the magnitude of the budget challenge and the more radical options that are now required to close the gap, all the strategic options listed above would have an impact on our risk profile. The Council will need to adjust and manage its risk profile to reflect impacts of reducing spend.

6.3 **Robustness of the 2021/22 budget estimates - phase one**

The revenue budget and capital programme have been formulated having regard to several factors including:

- **Funding availability**
- **Risks and uncertainties**
- **Inflation**
- **Priorities**
- **Demography**
- **Service pressures**
- **Emerging opportunities**
- **Response to C-19 pandemic**
- **Recovery from the C-19 pandemic**
- **Conditional capitalisation direction**

Additional grant funding has been received in 2021/22 to mitigate some of the ongoing C-19 pressures, and it is anticipated that this additional funding will be discontinued for this MTFS period. For Phase One it has remained problematic to find surety in the development of realistic assumptions due to the uncertainty inherent in the Council's operating environment. These uncertainties include:

- long-term increases in demand for council services
- market sustainability of key service providers
- the inability to forecast with any certainty the future profile of recovery for income generators such as car parking
- uncertainty with how to profile business rate income given the reduction in government support, appeals, non-collection of rates and associated closures of businesses due to C-19
- uncertainty with the increase to Local Council Tax Support scheme with the ending of furlough and unknown timing for economic recovery
- continued uncertainty from the overall impact in funding of the local government sector from central government
- unknown indirect impacts from any future global economic recovery
- limited resources to implement any transformational activity

Given the uncertainty the assumptions have been based on the best available information to the Council at this time.

6.4 **Adequacy of Reserves**

Reserves are set aside to fund risks and one-off pressures over several years. Where reserve balances are low, future financial planning and financial resilience is hampered. It should be noted that reserves can only be spent once and the possibility of creating new reserves is currently unlikely.

The Council broadly categorises reserves as follows – in line with Local Government accounting practice:

- A working balance to manage in year risks – the General Fund Balance
- Usable Reserves– these are reserves for available for future commitments such as transformational investments and have been used to balance the budget
- Ring Fenced Reserves – to meet known or predicted requirements.

The Council's General Fund working balance is forecast to be £6.0m, usable reserves at £18.5m and ring-fenced reserves at £4.4m. The latter reserve type includes the actuarial assessed £3.3m insurance reserve and £0.7m of reserves held on behalf of schools for future capital expenditure.

The General Fund

The General Fund is usually held at a balance of £6.0m. In the opinion of the CFO, given

- the current economic uncertainty
- the lack of multi-year settlements in order to facilitate adequate financial planning
- any unknown emergent risks
- heavily reliant on an alternative financial strategy for Phase Two saving proposals

The balance of funds within the General Fund is at inadequate level as it does not reflect the level of financial risk the Council is inherently exposed to and is unlikely to mitigate and fund a significant emergent risk. This amount would equate to less than 3.2% of the Council's current net service expenditure.

Usable Reserves

Reserves are the only source of financing to which the Council has access to fund risks and one-off pressures. 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 currently highly unlikely.

Capacity Building Reserve- includes an element for investment required to enable transformational change and implementation of the service saving proposals. This balance is insufficient for the investment which would be required to deliver the magnitude of savings required in the future.

Departmental Reserves are amounts set aside by departments, during the closure of the accounts and is in accordance with financial guidance to minimise risk exposure to the Council in the following financial year. These reserves are currently anticipated to reduce significantly during 2021/22 due to several specific grants being used to fund expenditure. These funds have been received for specific projects covering multiple years, and include:

- Family Safeguarding Innovation Programme
- Integration Area Programme (Integrated communities)
- Controlled Migration Fund (CMF)

At the end of 2022/23 the departmental reserves balance is forecast £1.8m which relates to balances being held on behalf of Peterborough City College.

COVID-19 Funding Reserve- at the end of 2020/21 the Council contributed £12.8m to a Covid-19 Funding Reserve, to ensure that additional costs resulting from anticipated additional demand, and long-lasting impact of C-19 would be covered in 2021/22. The £12.8m Covid-19 Funding Reserve, was established based on the most up to date available at the time. The complexity and uncertainty of the pandemic has made forecasting future income and demand in some areas difficult.

As highlighted in section 4, Augusts BCR position identifies an initial underspend of £3.8m. Although there are some areas of financial pressure resulting from the pandemic, these are being mitigated by areas performing favourably. Overall the scale of the additional demand and budgetary pressures, has so far, been lower than the Council originally anticipated. This has meant that the Council is now able to reduce the amount of capitalisation direction it is expecting to use in 2021/22 by £10.5m, with a remaining balance of £2.3m being committed to mitigating any unforeseen C-19 pressure arising over the winter period. The use of the remaining reserve balance will be considered as part of the Phase Two MTFS report.

COVID-19 Tax Income Reserve – this reserve includes two elements outlined in the following points, both relating to local taxation, and result from grant received in respect of C-19:

- **Business Rates (NNDR) section 31 grants (£20.2m):** this reflects the grant received in 2020/21 to compensate the Council for the additional cost of providing 100% business rates relief to businesses in retail, leisure, hospitality and nurseries. Section 31 grants are accounted for through the General Fund, whereas business rates income is accounted for through the Collection Fund. The estimated balance on Collection Fund at the end of 2020/21 was exceptionally low as a result of the additional discounts applied to business rate payers, and this balance has carried forward as a deficit in to 2021/22. This grant has been put into reserves and has already been drawn down in 2021/22 to smooth the budgetary effect of this deficit and the Collection Fund accounting, as planned within the 2021/22 MTFS.
- **Tax Income Guarantee (TIG) scheme (£2.3m):** The TIG scheme compensated Local Authorities for 75% of lost Business Rates and Council Tax income in 2020/21, in comparison to budget. The Council expects to receive £2.3m, and in accordance with accounting policies this grant was included within the 2020/21 final position and form part of the contribution to reserves to mitigate future reductions in Council Tax and Business Rates.

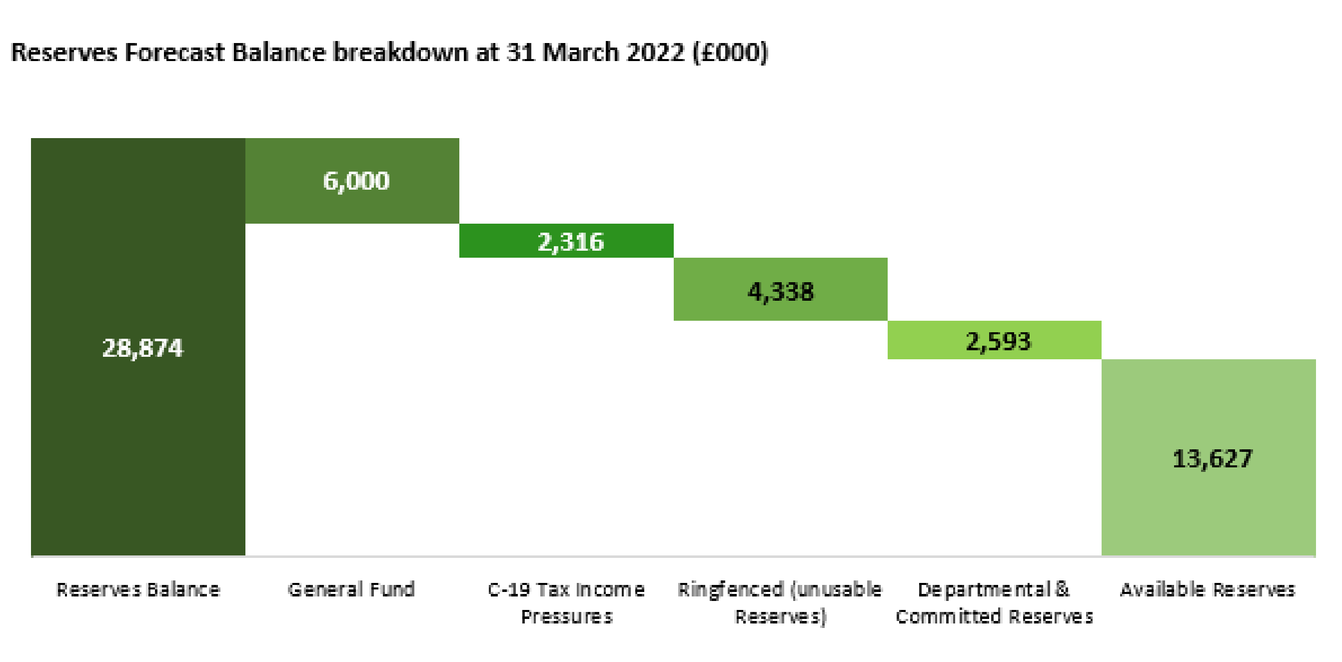
The following table outlines the forecast position on the General Fund (unallocated reserve), the usable and ring-fenced reserves (earmarked reserves).

The Reserves Position 2019/20 to 2023/24

	2020/21	2021/22	2022/23	2023/24	2024/25
Summary of Reserves	Bal at 31.03.21	Est Bal at 31.03.22	Est Bal at 31.03.23	Est Bal at 31.03.24	Est Bal at 31.03.25
	£000	£000	£000	£000	£000
General Fund	**6,000**	**6,000**	**6,000**	**6,000**	**6,000**
Usable Reserves :					
Capacity Building Reserve	15,035	13,627	13,627	13,627	13,627
Departmental Reserve	5,380	2,593	1,805	1,805	1,805
COVID-19 Tax Income Reserve	22,521	2,316	-	-	-
COVID-19 Funding Reserve*	12,841	2,341	-	-	-
Usable Reserves	**55,778**	**18,536**	**15,431**	**15,431**	**15,431**
Ring-Fenced Reserves:					
Insurance Reserve	3,315	3,315	3,315	3,315	3,315
Schools Capital Expenditure Reserve	658	658	658	658	658
Parish Council Burial Ground Reserve	57	62	62	62	62
Hackney Carriage Reserve	173	173	173	173	173
Public Health Reserve	131	131	131	131	131
Ring-Fenced Reserves	**4,333**	**4,338**	**4,338**	**4,338**	**4,338**
TOTAL Earmarked and General Fund Balance	**66,110**	**28,874**	**25,769**	**25,769**	**25,769**

**This forecast includes the assumption that this reserve will be reduced by £10.5m to reduce the use of Capitalisation Direction in 2021/22. Within August BCR, the reserves are reported as per the current position until this change in strategy and budget virement is approved by Council in line with the Council's Budget Policy framework.*

The following chart shows a breakdown of the reserves balance forecast at 31 March 2022. Of these reserves balances only **£13.6m is uncommitted, un-ringfenced and available for use**, which would only partially cover the £17.8m budget gap remaining in 2022/23, or any further service pressures arising as a result of C-19. It is important that the continuing underlying financial challenge is understood and has not gone away. It is characterised by low usable reserves and considerable risk of rising demand.



7.0 FINANCIAL RISK

7.1 Local government has become increasingly exposed to risk and instability within the system. It has become financially stretched following a decade of funding cuts and austerity measures, and the uncertainty around future funding and wider public sector reforms causes' added difficulty for strategic planning. The Council assesses financial risks as part of its budget setting process and regular Budgetary Control Review.

The Council also has a Risk Management Board, led by the Corporate Director of Resources, which is set up to challenge and support risk management across the Council and partner organisations. The output from this Board is considered regularly at Audit Committee. The last meeting of this board was held on 29 September 2021.

The Board ensures that risk management is aligned with the overall organisational approach and that the identification of key issues is 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 to provide assurance in relation to the Council's overall governance and control environment.

Most of the financial risks identified are inherent, including the requirement to deliver savings plans, management of budgets, which relate to demand led services and assumptions in respect of the level of resources receivable through Council Tax, Business Rates and Government grants. However, some risks have been exacerbated as a result of the pandemic, including the assumptions around the levels of income and collections rates in respect of Council Tax and Business Rates and the levels of short term and ongoing Government grant received to support the additional costs and new responsibilities taken on by the Council. In addition to this estimating the levels of sales, fees and charges, income and expenditure levels, remains incredibly difficult.

Reasonable mitigating actions have been made where possible to the identified and managed risks. Appendix D details the budget risks and identifies how C-19 has increased these risks. Cabinet and Council should consider when reviewing the Phase One budget proposals.

8.0 LOCAL GOVERNMENT REFORMS

8.1

Spending Review 2021 and the Autumn Budget 2021

The Chancellor has confirmed the Spending Review 2021 (SR21) will conclude on 27 October 2021, alongside the Autumn Budget. It's expected the SR21 will be multiyear, covering the years 2022/23-2024/25. The fiscal envelope for SR21 will then be set out in 'Autumn Budget 2021'. In March 2021 the Chancellor had assumed £17bn of unallocated cuts in public spending from April 2022 onwards. However, the economic forecasts predict the position is improving with GDP now growing strongly (4.8% April - June 2021) and government borrowing is lower than the office of budget responsibility had forecast in March 2021. The improvement in the public finances mean that the Chancellor might not have to find these cuts in public spending, but the Spending Review is still likely to be tight.

The SR21 launch letter set out the following priorities to support the delivery of the 'Build Back Better' agenda:

- **Ensuring strong and innovative public services** – making people's lives better across the country by investing in the NHS, education, the criminal justice system and housing.
- **Levelling up a**cross the UK to increase and spread opportunity; unleash the potential of places by improving outcomes UK-wide where they lag and working closely with local leaders, and strengthen the private sector where it is weak.
- Leading the transition to **Net Zero** across the country and more globally.
- **Advancing Global Britain and seizing the opportunities** of EU Exit.

- **Delivering our Plan for Growth** – delivering on the UK's ambitious plans for an infrastructure and innovation revolution and cementing the UK as a scientific superpower, working in close partnership with the private sector

8.2 **Social Care Reform**

On 7 September 2021, the Prime Minister gave a statement announcing the government's proposals, set out within the whitepaper 'Build Back Better: Our plan for health and social care'. The announcement included the following headlines:

- £86,**000 "cap" on lifetime care costs** (excludes accommodation costs) and increase capital limits from £23,250 to £100,000 (taper from £20,000 to £100,000). The net effect is that service users will pay less for their care and local authority will be paying a bigger amount towards the care.
- **harmonisation of rates between self-funders and local authority**; (self-funders able to secure care packages through local authority). Self-funder rates can be 50% higher than for local authority. Self-funders will pay less for their care over their lifetimes (maximum cap, able to have more assets, able to get lower price for care) – leaving more cost for local authorities to fund. Changes will be introduced from October 2023 and will have an impact on the income that the Council will receive from social care clients.
- The additional costs of these reforms are to be met by the **Health and Social Levy**. This will be from increased National Insurance contributions and dividend tax, which will take effect from 6 April 2022. This will increase the costs of the Council's workforce, with an estimated cost of £0.409m being included within the phase one budget proposals. However, this could also impact the cost of the Council's key contracts.
- Additional funding raised from the tax increases will be used for the NHS (£25bn over 3 years in England) and to fund the costs of social care reform (£5.4bn over 3 years).

Being made available over the next 3 years is £5.4bn, of which £0.5m will be allocated for workforce reform, leaving £4.9bn for the reforms, which will take affect from October 2023. There is a major risk that this funding is not adequate to cover the additional costs, and for some local authorities the distribution model for the funding will be crucial. The proposal stated that the distribution model will be communicated by DLUHC through the Local Government Finance Settlement process, however it is unclear if the government is referring to the settlement in December 2021 or 2022.

There was no confirmation of additional funding for existing social care services. There was suggestion that demographic and unit cost growth in social care will have to be funded by council tax and long-term efficiencies, a strong indication that there is likely to be further Adult Social Care Precept flexibility for 2022/23, which may require some additional funding to provide a mechanism of funding equalisation.

The Social Care Reform proposal will potentially introduce additional financial costs and further risk to the market. The next section provides an overview of the current position in respect of the Council's Social Care Services, highlighting the financial pressures already apparent as a result of market instability. The further risks arising from the Social Care Reforms are:

- **That the funding for the NHS will increase their activity levels in the short term – and place more pressure on social care, without the additional resources to cope.**
- **The funding allocation for the Council is inadequate to cover the additional costs of the reforms.**
- **The Council has limited resources to continue supporting a stable market, meaning a reduction in care providers.**

The Council will be awaiting the detailed proposal before it is able to determine the full financial and operational implications of the reforms.

The Council's Current Social Care Position

The Council is experiencing varying patterns of service impact resulting from C-19, which is hard
8.3 to extrapolate into a longer-term trend. This is making long term planning uncertain and proving problematic to accurately forecast demand and pressures. This is further compounded by the constantly changing landscape, for

example the Council had late notification of national grants such as Infection Control Funding and NHS Discharge Funding, alongside changing government legislation associated with lockdowns and lifting of restrictions.

The Council has been successful in limiting inflationary rises on adult social care provider contracts, with the market absorbing significant increases in cost across several areas. However, this is no longer a sustainable approach and investment in the market is required to address inflationary pressures if the market is going to work with the Council to proactively, and creatively, manage growth in demand along with increasing complexity of need. This is particularly important within the context of the significant increases year on year to the National Living Wage and the financial impact the C-19 pandemic has had and continues to have. In recognition of this a significant level of investment was made in 2020/21 and 2021/22 to support the market to manage cost pressures associated with contract inflation, national living wage, workforce pressures and C-19 related costs. The Council now has minimal levels of market sustainability built into the budget for 2022/23 but recognises that there is likely to be ongoing cost pressures for providers that will require support to ensure the market remains stable and there is appropriate service provision for adult social care. These will be considered within the Phase Two MTFS report.

Many pressures faced by providers are imposed by changes in legislation or economic and political circumstances outside of their control, including:

- The impact of National Living Wage on payroll costs
- The impact of CPI inflation on non-payroll costs
- Pension auto-enrolment and subsequent employer contributions have also added to the inflationary pressures staffing costs faced by providers
- The growing concern of the impact of Brexit upon workforce recruitment and retention

In addition, the C-19 pandemic has structurally changed the care market. These changes have been seen locally, regionally, and nationally and include:

- Infection control measures now part of the cost base and the ongoing pressure when national funding for infection control ends at the end of March 2022.
- reduced alternative income streams of group-based services such as self-funders,
- Increased needs of people accessing care and therefore costs to meet those needs.
- The economic effect of Covid-19 may have a lasting impact on the jobs, pay rates and work-life balance. This has also affected the cost of finance, fuel and consumables.
- The impact of COVID-19 on market forces in the care sector is only beginning to emerge.
- Impact of mandatory vaccination legislation for care home staff commencing in November 2021 – the effect on workforce and capacity is not yet fully understood

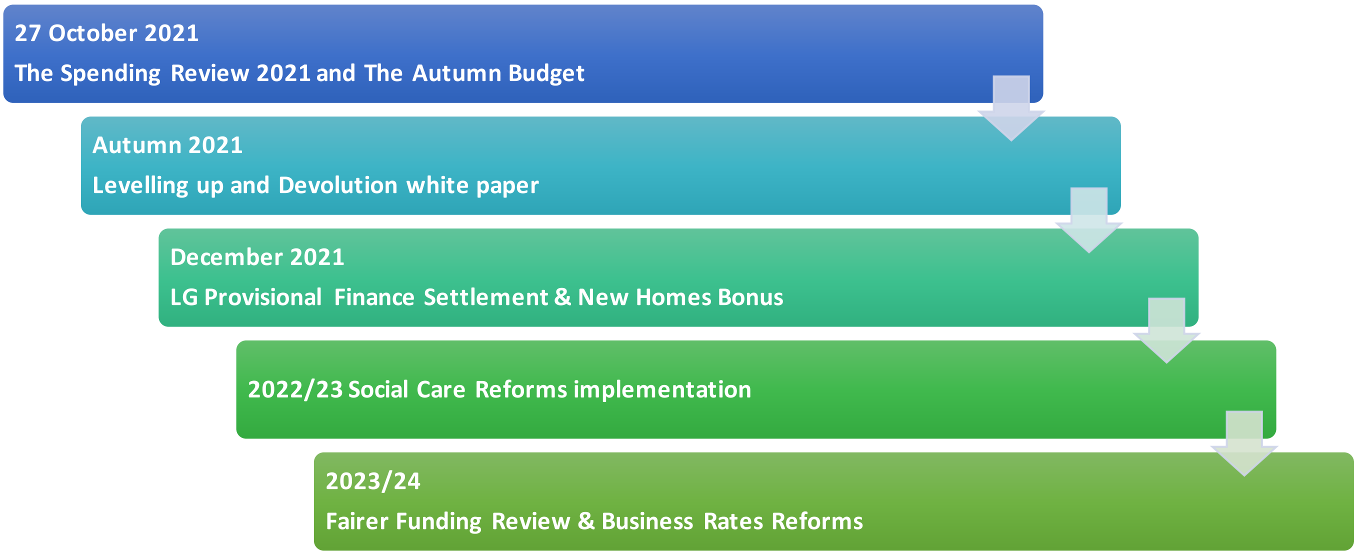
Longer Term Local Government Funding Reform

8.4 For a number of years, the Local Government sector has been anticipating the implementation of major structural changes within the funding system, to reflect changes in relative need, resources and the continuing pressures, such as those most noticeable within Adults and Children's Social Care budgets. As a result of the scale of the changes required, the C-19 pandemic, and a recent ministerial change, the Fairer Funding Review (FFR) has been postponed and is likely not to be implemented until 2023/24 at the earliest.

Local Authorities have more recently received one-year funding settlements, leaving them to operate under increased levels of uncertainty, experience difficulties setting a strategic financial plan due to nature of short-term budgeting. This makes it difficult for the Council to plan how best to allocate resources and provide services. For the Council to become financially sustainable, certain long-term funding, reflective of the needs within Peterborough is required, and it is hoped that multi-year settlements will be provided to local government in line with the SR2021.

The following timeline summarises the key announcements and reforms expected in the future:

High Level Funding Reform Timeline



9.0 OTHER FINANCIAL REPORTING REQUIREMENTS

9.1 Value for Money – Qualified Conclusion

The Council's external auditors, Ernst and Young (EY) carried out an in-depth assessment of the Council's arrangements to secure economy, efficiency and effectiveness, commonly known as Value for Money (VFM) during the 2019/20 audit, and will continue to do so for the 2020/21 audit, including a further enhanced review to take account of the guidance issued by the National Audit Office (NOA). The assessment includes reviewing and stress testing the Council's budget assumptions, the financial strategy, and savings plans.

At Audit Committee held on 21 June 2021 the Audit results report for the year to 31 March 2020 was presented by EY. The report outlines a qualified conclusion in respect of the Council's arrangements to secure economy, efficiency and effectiveness in the use of resources. The modelling undertaken by EY concluded the Council's budget assumptions over the MTFS were both reasonable and appropriate, however recognising that the financial challenges facing the authority could be more severe, with the Council's current levels of reserves and financial resilience hindering the Council's ability to overcome these challenges.

The following paragraphs are an extract from this report:

*"**Whilst we have found that the Authority has responded appropriately to its deteriorating financial position**, we have **serious concerns about the Authority's current and future financial resilience** and ability to remain viable following the C-19 outbreak. **Without a comprehensive package of additional government funding support or a significant unplanned reduction in services**, the Authority's weak financial resilience has a pervasive and fundamental impact on the Council's ability to put in place the appropriate arrangements to secure VFM in its use of resources."*

EY will continue to work with the Council's finance team on the assessment of the VFM position for the year to 31 March 2021.

9.2 Going Concern – Statement of Accounts

In response to the strain C-19 has put on Local Government finances, external auditors have requested Local Authorities to incorporate a 'going concern' statement within their Statement of Accounts (SoA). The Council included this disclosure within the final SoA for 2019/20 reflecting the Council's challenging financial position, and have revised this statement within the draft SoA for 2020/21, which was published July 2021.

The concept of 'going concern' assumes that an authority's functions and services will continue in operational existence for the foreseeable future. The provisions in the Code in respect of 'going concern' reporting requirements reflect the economic and statutory environment in which local authorities operate. These provisions confirm that, as authorities cannot be created or dissolved without statutory prescription, they must prepare their financial statements on a 'going concern' basis of accounting. However, if an authority were in financial difficulty, the prospects are that alternative arrangements might be made by central government either for the continuation of the services it provides or for assistance with the recovery of a deficit over more than one financial year. As a result of this, it would not therefore be appropriate for local authority financial statements to be provided on anything other than a 'going concern' basis.

Providing a statement on the 'going concern' status of the authority is made challenging due to the material uncertainty over the availability of funding beyond 2022/23, which may cast significant doubt over the Council's ability to continue to operate at the current level of services, including the planned capital maintenance programme.

9.3 **Financial Management Code**

The Chartered Institute of Public Finance and Accountancy (CIPFA) published the Financial Management Code (FM Code) in October 2019. The FM Code provides guidance for good and sustainable financial management in local authorities, giving assurance that authorities are managing resources effectively. The FM Code introduces a framework of assurance, which is built on existing successful practices and sets explicit standards of financial management.

Complying with the FM Code will help strengthen the framework that surrounds financial decision making. Complying with the standards set out in the FM Code is the collective responsibility of elected members, the chief finance (section 151) officer and their professional colleagues in the leadership team. The first full year of compliance will be 2021/22. The FM Code establishes an approach based on six principles of good financial management, which are:

1. **Organisational Leadership** demonstrating a **clear strategic direction** based on a vision in which financial management is embedded into organisational culture.
2. **Accountability** based on medium term financial planning, driving the annual budget process, supported by effective risk management, quality supporting data and whole life costs.
3. **Transparency** at the core of financial management, using consistent, meaningful and understandable data, reported frequently, with evidence of periodic officer action and elected member decision making.
4. **Professional Standards** promoted by the leadership team, with adherence evidenced.
5. **Assurance** recognised as an effective tool, mainstreamed into financial management, including political scrutiny and the results of both external audit, internal audit and inspection.
6. **Long-Term Sustainability** at the heart of all local services' financial management processes, evidenced by the prudent use of public resources.

The Council's Finance Team is in the process of reviewing processes, procedures and governance arrangements, to understand where the Council is compliant with the FM Code and to identify any areas of improvement and enhancement. A register has been established to monitor and report on the Council's compliance and actions

10.0 CONSULTATION

10.1 Phase One is the first Phase of the 2022/23 budget process and the updated budget position was published on 15 October 2021, at the same time the public consultation commenced. The Consultation feedback, which is detailed in Appendix G, is to be considered by Cabinet at this meeting and then recommended for approval by Council on 8 December 2021.

The timeline for Phase One of the budget process is outlined in the following table:

	Phase One
Consultation start date	15/10/2020
Cabinet	25/10/2021
Budget Joint Scrutiny Committee	17/11/2021
Cabinet	29/11/2021
Consultation close date	06/12/2020
Council	08/12/2021

11.0 ANTICIPATED OUTCOMES OR IMPACT

11.1 The release of MTFS Phase One 2022/23-2024/25 report, outlines budget proposals and strategic approach to addressing the financial gap and the financial challenges facing the Council.

Cabinet have sought 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 2022/23 within the financial resources it will have next year, and the feedback received will help inform Cabinet in considering budget proposals.

Cabinet will review the consultation feedback on the proposals and the MTFS at this meeting on 29 November 2021, before making a final recommendation to Council on 8 December 2021.

12.0 REASON FOR THE RECOMMENDATION

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

13 ALTERNATIVE OPTIONS CONSIDERED

13.1 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.

14.0 IMPLICATIONS

Elected Members

14.1 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.

14.2 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

14.3 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.

14.4 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.

14.5 When it comes to making its decision on 2 March 2022, 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.

14.6 The principle of fairness applies to consultation on the budget proposals, both consultations 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 considered in finalising any statutory proposals.

14.7 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.

14.8 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 balancing the budget, 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.

14.9 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.

Modifications to the Guidance

In June 2020, the Chartered Institute of Public Finance and Accountancy (CIPFA) confirmed amendments to the guidelines in wake of the C-19 pandemic to allow Councils under budgetary pressure as a result of the pandemic time and space to explore alternatives to freezing spending via issuing a s114 notice.

The temporary modifications to guidance proposed by CIPFA would mean that it should not normally be necessary for a s114 notice to be issued while informal discussions with government are in progress. The modifications include the following two additional steps:

- At the earliest possible stage, a CFO should make informal confidential contact with MHCLG to advise of financial concerns and a possible forthcoming s114 requirement.
- The CFO should communicate the potential unbalanced budget position due to C-19 to MHCLG at the same time as providing a potential a s114 scenario report to the Cabinet and the external auditor.

14.10 **Human Resources**

The savings set out in this Phase One of the budget are expected to have minimal impact on headcount reduction for the Council at this stage. As with any staffing implications, it is the aim of the council to try and minimise any compulsory redundancies and the impact on our service delivery. In the first instance there are a number of elements which the council considers first which are looking for redeployment opportunities, deleting vacant posts, restricting recruitment (considering our service delivery), natural wastage / turnover and reducing or eliminating overtime (providing service delivery is not compromised). Where staff are affected, the Council will seek voluntary redundancies as appropriate to minimise compulsory redundancies and where this is unavoidable, appropriate outplacement support will be considered.

14.11 **Equality Impact Assessments**

All budget proposals published in Phase One of the budget process have been considered with regards to equalities issues, and where an Equality Impact Assessment (EIA), has been required these have been completed and compiled within Appendix E- Equality Impact Assessments

14.12 **Carbon Impact Assessments**

All budget proposals published in Phase One of the budget process have been considered with regards to the carbon impact and where appropriate carbon impact assessments have been completed. These have been included within Appendix F – Carbon Impact Assessments

15.0 BACKGROUND DOCUMENTS

15.1 Medium Term Financial Strategy Phase Two- 2021/22- 2023/24: Budget Cabinet 23 February 2021, item 5
Budgetary Control Report – May 2021: 12 July 2021 Cabinet, item 9
Budget Monitoring Repot Final Outturn Report – 2020/21: 21 June 2021Cabinet, item 10

16.0 APPENDICES

16.1

- Appendix A – 2022/23-2024/25 MTFS Detailed Budget Position Phase One
- Appendix B – Phase One Budget Consultation including Phase One Budget Proposal detail
- Appendix C – Capital Programme Schemes 2022/23-2024/25
- Appendix D – Financial Risk Register
- Appendix E – Equality Impact Assessments
- Appendix F – Carbon Impact Assessments

- Appendix G- Budget Consultation Feedback