

CABINET	AGENDA ITEM No. 5
17 October 2022	PUBLIC REPORT

Report of:	Executive Director of Resources and S151 Officer	
Cabinet Member(s) responsible:	Councillor Andy Coles, Cabinet Member for Finance and Corporate Governance	
Contact Officer(s):	Cecilie Booth, Executive Director of Resources and S151 Officer Patricia Phillipson Interim Director: Financial Services & DS151	Tel. 452520

MEDIUM TERM FINANCIAL STRATEGY 2023-2026 QUARTER 2 UPDATE

RECOMMENDATIONS	
FROM: Cabinet Member for Finance and Corporate Governance	Deadline date: N/A
<p>It is recommended that Cabinet notes:</p> <ol style="list-style-type: none"> 1. The revised assumptions included within this quarter two Medium-Term Financial Strategy 2023-2026 update as outlined within Appendix A of the report 	

1.0 ORIGIN OF REPORT

1.1 This report comes to Cabinet as part of the Council's process for developing a Medium Term Financial Strategy and budget setting process.

2.0 PURPOSE AND REASON FOR REPORT

2.1 Purpose

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."

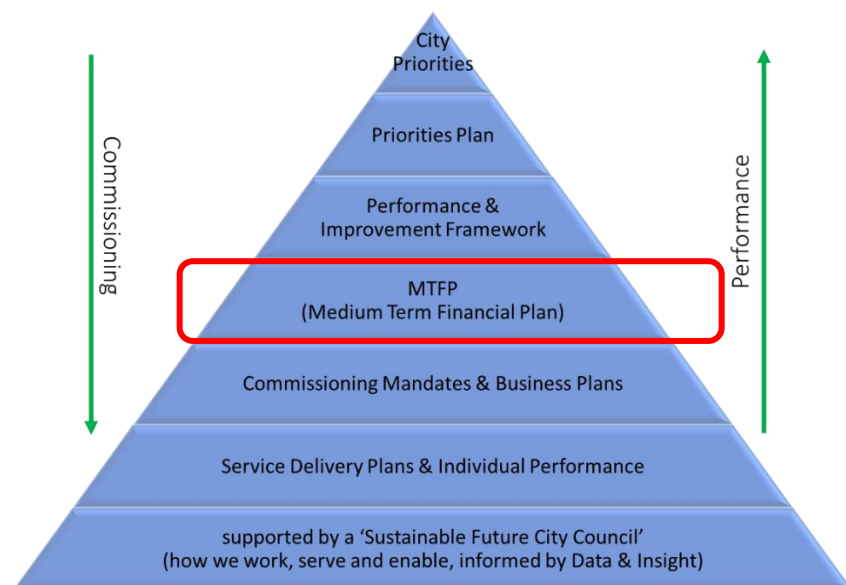
2.2 Background

The Council's Medium Term Financial Strategy (MTFS) financial assumptions will be reviewed and updated on a quarterly basis to provide an accurate and up to date position, reflective of the financial challenges facing the Council. An MTFS and associated strategies such as the capital and treasury management strategy will be published in December and will be supported by an annual budget plan which will set the revenue and capital budgets for the following financial year.

The MTFS forms a key part of the Council's Performance and Improvement Framework. This aims to demonstrate that the Council's finances over the medium term are secured to deliver the Council's priorities over the next three years from 2023/24 to 2025/26. Preparation of an MTFS is good financial practice. It's an important part of understanding the Council's financial challenges and risks, its financial resilience, and sets out the strategy to deliver long term financial sustainability and viability. The key objectives of the MTFS are:

- To ensure that effective financial planning and management contributes to the Council achieving the corporate priorities
- To ensure that the Council is financially resilient, stable and sustainable for the future
- To maximise the income from Council Tax, Business Rates, and Fees and Charges to support the priorities of the Council
- To continue to improve value for money – managing our people and money more efficiently and effectively to continue to improve value for money, standardise, streamline and share best practice, getting better value from commissioning and procurement, whilst seeking to minimise the impact of budget savings on priority services

The following diagram sets out the overall approach and translates this into tangible activity through a single Performance & Improvement Framework.



At Cabinet meeting on 30 September, the new corporate priorities and accompanying corporate strategy were approved. The council is currently working on detailed plans around the 4 key priorities:

1. **The Economy & Inclusive Growth** - maximising economic growth and prosperity for Peterborough as a City of Opportunity, and do so in an inclusive and environmentally sustainable way, together with our City partners and communities.
2. **Our Places & Communities** – creating healthy and happy environments where people want to live, work, visit and play, enabled by effective community engagement and strong partnerships.
3. **Prevention, Independence & Resilience** - moving from responding to crisis to prevention by helping & supporting individuals and families early on in their lives before they reach crisis.
4. supported by a **Sustainable Future City Council** - adjust how we Work, Serve and Enable, informed by strong Data & Insight capability and led by a culture of strong Leadership.

These are further expanded on in the following diagram:



The starting point of delivering against this is the challenge of finding significant savings for 2023/24 and the coming years to provide for the required long term financial sustainability. We will do this by managing demand and helping and supporting people before they reach crisis point while finding ways to tackle inequality in our communities by maximising economic growth that benefits everyone.

2.3 Overview- Future Sustainable Council

It is recognised that the financial landscape is constantly changing, and this has not been more apparent than in recent years with the outbreak of a worldwide pandemic, the Ukrainian War, soaring rates of inflation and the cost of living crisis. On 23 September the chancellor published a mini budget and growth plan setting out the direction of travel for government taxation and spending, making it clear there is a risk of further cuts in public spending. A Medium-Term Fiscal Plan is expected to be published in November, which will set out the details on the governments fiscal rules and the latest OBR economic forecast with a Budget expected in Spring 2023.

At the same time the Council's financial challenge has also developed due to underfunding, rising cost of delivering services and exposure to greater levels of risk and low financial resilience, resulting from its low reserve balances. However, the Council has made some positive steps by:

- Ending 2021/22 financial year with a £4.5m underspend which has helped the reserves balances and will enable the Council to invest in transformational change in service delivery and provide greater risk mitigation.
- Setting a balanced budget for 2022/23 albeit with a challenging savings programme.
- Progressing work on identifying opportunities to deliver financial sustainability over the short, medium and longer term.

The financial operating context for the Council, like many other local authorities, remains highly challenging with new uncertainties, such as Adult Social Care and funding reforms, and additional pressures such as the exposure to rising rates of inflation. This quarter 2 MTFS 2023-2026 report, provides an update on the overall financial position and reflects the financial impact of these risks on the Councils budget position.

Since the quarter 1 MTFS update, the budget gap in 2022/23 is forecast to rise to £21.7m, from £9.5m (reported to Cabinet on 11 July). The following key assumptions have been revised:

- **Inflation:** has continued to rise since the Quarter 1 update, with the forecast 2023/24 rates of CPI rising from 8.8% to 13.1%.
- **Pay award:** Employers offer made an offer in July of a £1,925 increase to all NJC salary SCP's. The Council, like many others built the 2022/23 budget on the assumption the pay award would be circa 2%. If this offer is agreed, it will create an ongoing £2m budget pressure. (Being mitigated by use of the inflation reserves in 2022/23)
- **Savings update:** Although the savings position in the current year has improved due to the identification of one-off mitigations, future years' remains a risk, with officers working on long term plans to fully deliver on the savings target.
- **Business Rate Pool:** The Council has been part of the Cambridgeshire Business Rates Pool since 2020/21. This has brought additional Income to each Local Authority included within the pool. However, the income expected to be received from 2023/24 onwards is less than originally forecast due to a review of the gain distribution.

The following table outlines at a high level the forecast budget gap over the life of the MTFS:

Budget Gap	2022/23	2023/24	2024/25	2025/26
Funding	181,852	192,906	198,678	204,909
Net Revenue Expenditure (NRE)	181,852	214,642	230,590	239,352
Aggregated Budget Gap	-	21,736	31,912	34,442
Aggregated Budget Gap breakdown		2023/24	2024/25	2025/26
2023/24		21,736	21,736	21,736
2024/25			10,176	10,176
2025/26				2,530
MTFS Quarter 2 Budget Gap	-	21,736	31,912	34,442
MTFS Quarter 1 Budget Gap (for info)		9,520	12,876	15,122

Appendix A outlines the full Medium Term Financial Strategy quarter two update which includes details on the following:

- Revised expenditure and funding assumptions
- Sensitivity analysis
- Strategic Direction and Proposals for 2023/24- 2025/26
- Budget Risks

2.4 Moving forward

Key work streams have been established for delivering a balanced budget and longer term sustainable MTFS, these will work in tandem with each other under the direction of each strategic director.

- Cash Limits to focus the conversation and conduct a detailed budget review across all service areas
- Service Design Transformation
- Council Priorities Transformation
- Restructures- CLT and within directorates

A series of Budget CLT workshops are ongoing which have identified where both investment and savings are needed to achieve financial sustainability and meet the needs of the public. The focus now is to work collaboratively and not in service area isolation.

There will be a redesign of services, in line with the new corporate plan, looking at this in more detail and programmes of transformation will be implemented. Specialist resources will be joining to support the design phase over a period of six months to design and plan programmes of transformation around our four priorities. The priority and programmes governance framework including reporting will be established.

3. TIMESCALES

Is this a Major Policy Item/Statutory Plan?	NO	If yes, date for Cabinet meeting	N/A
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Further updates on the Medium Term Financial Strategy, and the Budget for 2022/23 will be reported on the following dates:

Timescales	Update
11 July - Cabinet	MTFS Quarter 1 Update ✓
17 October- Cabinet	MTFS Quarter 2 Update ✓
9 January - Cabinet	MTFS Quarter 3 Update
13 February- Cabinet 23 February- Council	Budget Setting meeting: MTFS Quarter 4 Update (if required) Treasury Management Capital Strategy Reserves Strategy Budget Setting Report, including: <ul style="list-style-type: none"> • Council Tax Resolution • Revenue and Capital Budgets for the following year • Section 25 Statement (LG Act 2003, robustness of estimates and adequacy of reserves)

In addition to the above, all budget proposals including Savings, investment and revised financial assumptions are considered within the following groups before being included within the final report:

- **Budget- Corporate Leadership Team (CLT)**- made up of the Council’s Corporate Directors and Finance Officers as support
- **Cabinet Policy Forum (CPF)**- informal meeting of Cabinet
- **Financial Sustainability Working Group (FSWG)**- Cross Party working group focussed on supporting the delivery of financial sustainability for the Council. The Terms of Reference for this group are included within the Budget Policy Framework Rules.

4.0 CONSULTATION

4.1 This report seeks to provide Cabinet with an update on the Councils MTFS, and no formal recommendations are being made which require consultation.

Additionally, the Council will be launching a Budget Simulator tool on the website for a 6 week period from 17 October. The budget simulator is easy to use and will allow residents, businesses and members to gain a greater understanding of what we spend our money on, and how reducing expenditure or investing in services has consequences, or benefits for the Council and residents. Users will also have the opportunity to provide comments and ideas. This will help the council understand what is important when we consider our budget proposals later this year.

The results of the consultation will be published within the MTFS Quarter 3 update on 23 December.

5.0 ANTICIPATED OUTCOMES OR IMPACT

5.1 For Cabinet to note the revised Medium Term Financial Strategy assumptions outlined within the report.

6.0 REASON FOR THE RECOMMENDATION

6.1 This report provides an update on the Council’s Medium Term Financial Strategy and will support the delivery of the Council setting a lawful and balanced budget for 2023/24.

7 ALTERNATIVE OPTIONS CONSIDERED

7.1 No alternative option has been considered.

8.0 IMPLICATIONS

Legal Implications

8.3 At this time there are no legal implications arising from this report. This is an item to note revised MTFS assumptions. When it comes to making a formal budget decision in February 2023, at this point 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.

8.4 Human Resources implications

No specific implications in this report.

8.5 Equality Impact Assessments

No specific implications in this report.

8.6 Carbon Impact Assessments

The report contains no proposals for changes to service delivery and therefore there is no decision to take which may impact carbon emissions of the council or the city.

9.0 BACKGROUND DOCUMENTS

No specific background documents used.

10.0 APPENDICES

11.1 Appendix A – Medium Term Financial Strategy 2023 – 2026 (Q2 update)

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