Appendix A – Final Medium Term Financial Strategy 2024 – 2027 (Q1 update)

1. Executive Summary

The updated MTFS position for quarter one is summarised in Table 1 below, outlining a breakdown of how the gap changes each financial year, followed by a summary of the key assumptions. It should be noted that as the Council identifies ongoing proposals to address the budget gap, the future years will reduce accordingly.

Table 1: Budget Gap	2023/24 £000	2024/25 £000	2025/26 £000	2026/27 £000
Funding	202,634	217,262	224,972	230,791
NRE	202,634	222,363	231,071	241,299
Aggregated Budget Gap	**0**	**5,101**	**6,100**	**10,508**
Incremental Budget Gap		**5,101**	**999**	**4,408**
Aggregated Budget Gap breakdown		**2023/24**	**2024/25**	**2025/26**
2023/24		5,101	5,101	5,101
2024/25			999	999
2025/26				4,408
		5,101	**6,100**	**10,508**

Key assumptions

- Pay award 3% pa in years 2024/25 – 2026/27.
- Inflation on expenditure and Sales Fees and Charges income: 7% - 2024/25, 2.9% - 2025/26, 1% - 2026/27, as per the latest Bank of England forecast.
- Adult Social Care demand at 3% across the 3 years.
- Childrens Social Care demand at 10% in 2024/25, 5% in 2025/26 and 3% in 2026/27.
- NNDR – increases based on business growth and CPI as per legislation
- Revenue Support Grant & new Adult Social Care (ASC) Grant, including Discharge Support Grant increasing in line with CPI
- Council Tax increases – 4.99% in 2024/25 and 2.99% from 2025/26 onwards (until ASC Precept is confirmed as continuing beyond 2024/25)
- Council Tax base - estimated growth of 1,000 homes pa from 2024/25 onwards
- Business Rates (NNDR) Pool – based on performance of the Local Authorities within the Cambridgeshire Business Rates Pool and increasing in line with CPI.
- New Homes Bonus –A new scheme still to be confirmed by the Government. In the absence of this the government has continued to pay a grant based on the most recent years housing performance therefore 1 years of grant is assumed.

Detailed assumptions

The key financial assumptions over the life of the MTFS have been reviewed and revised where appropriate. Stress testing these is increasingly important in present times given the speed of the economic changes over the last 18 months. As part of this sensitivity analysis three scenarios have been considered, with the following graph summarising the outcome of these. The range of budget gap in 2024/25 spans from £2m to £10.4m, a £8.4m difference. This report is based on the midpoint assumption (represented by the amber line below). This identifies **gaps of £5.1m in 2024/25, £6.1m in 2025/26 and £10.5m in 2026/27**:

Net Revenue Expenditure Sensitivity Analysis- £000

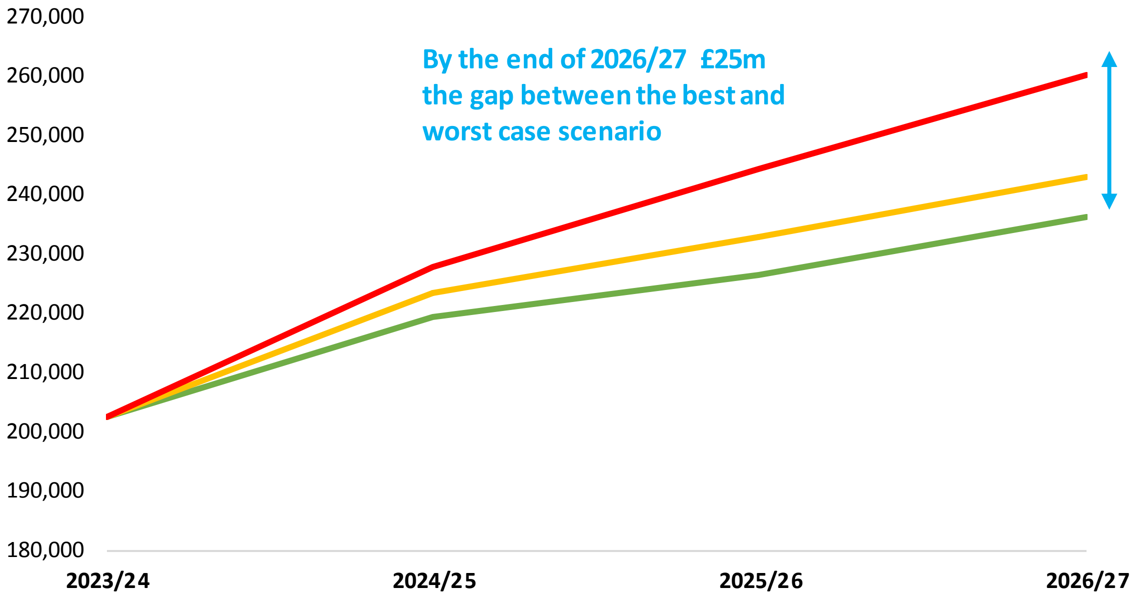


Table 2 summarises the forecast Net Revenue Expenditure budget, the assumptions included:

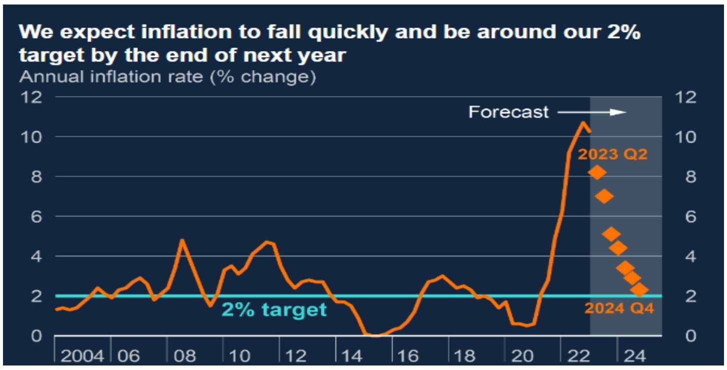
Table 2: Expenditure Assumptions	2024/25	2025/26	2026/27
Pay Award	Set amount as per offer c4.5% in 2023/24 then 3% thereafter		
Inflation on Expenditure and Sales Fees and Charges- based on Q3 CPI forecast (BoE May 23 monetary report)	7.00%	2.90%	1.00%
Adult Social Care Demand	3.00%	3.00%	3.00%
Childrens Social Care Demand	10.00%	5.00%	3.00%
Energy Costs	20.00%	10.00%	3.00%

Pay: The employer's offer for the 2023/24 pay award, outlines a £1,925 increase to all NJC salary SCP's up to 43 and an increase of 3.88% on all pay points above this up to deputy chief officers. This has been rejected by the national unions and negotiations will continue. However, the Chief Officer pay offer has recently been agreed at 3.5%.

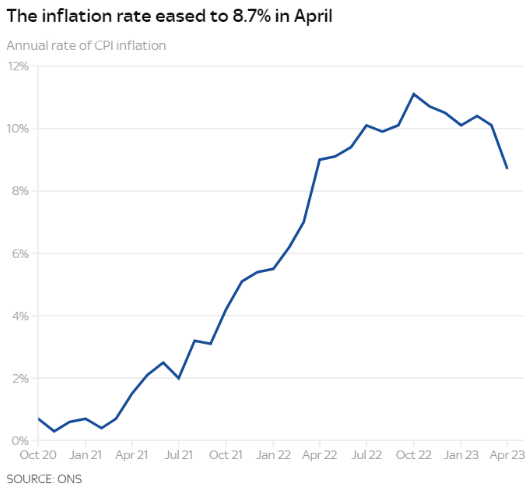
The ongoing cost of this offer has been built into the MTFS assumptions, creating a £900k additional cost from 2023/24 onward. An annual pay award of 3% has been assumed for the years 2024/25-2026/27.

Inflation: The Bank of England monetary report (May 2023) has been used to inform the revised MTFS assumptions for our expenditure and income. The report and the following graphs highlights that CPI inflation remains well above the 2% target with Inflation currently standing at 8.7%, higher than previously projected. The current projections are that inflation is expected to fall quickly to around 5% by the end of 2023, with the target 2% being met by late 2024.

Graph 1: Inflation Projection



Graph 2: Actual Inflation trend



Higher energy prices have been contributing to the high rate of inflation. Inflation for gas and electricity remained stable between April and May 2023, with prices rising 36.2% and 17.3% respectively, in the 12 months to May 2023. However, the cost of energy is now expected to fall, with the price cap reducing by 37% from 1 July 2023. There has been a conservative prediction built into the MTFS assumptions of a 20% increase in cost in comparison to current budgeted levels. But this will be refined in the coming months alongside the new energy contracts which will be in place from 1 October 2023.

The Council has put in place actions as part of an inflation strategy to mitigate the impact of inflationary increases. Some of these actions include:

- Insourcing the procurement team and securing an external procurement specialist.
- Reviewing all contracts to ensure they reflect best value and meet established needs.
- Reviewing all expenditure budgets, whilst at the same time maintaining a tight grip and control on expenditure.
- Establishing an inflation reserve to mitigate and smooth any immediate pressures.

Inflation Reserve and the ERF income: This reserve was created to mitigate the financial risk resulting from rising rates of inflation. During 2022/23, £3.4m from this reserve was utilised to fund the in-year inflationary pressure from higher-than-expected pay awards and rising energy costs. The Council operates an Energy Recovery Facility (ERF) which generates income from selling the electricity it generates. As a result of the energy market, £9.9m of ERF income in excess of the budget, was also transferred to the inflation reserve during 2022/23. We know that the energy market is volatile, so this additional income from ERF will be used as a smoothing mechanism to mitigate any future fluctuations in energy pricing, as well as alleviating any inflationary pressures which would create an adverse variance to the level of inflation incorporated within the budget. At the end of 2022/23 the Council had £11.5m within this reserve.

Inflationary risks have already been identified in 2023/24 including the pay award and some key contracts such as those that provide social care. To be prudent we have assumed £7.3m from the inflation reserve may be required to mitigate the financial impact of these risks during the year, but we will be monitoring this closely and all scenarios are being reviewed as part of the budget and MTFS process.

Adults and Childrens Social Care Demand

Adults Social Care: Pressure on ASC care packages continues to grow from the 2022/23 pressure reported in the outturn report (item 12). Pressure are due to rising demand in a number of areas including homecare and residential care for all age and client groups. A small cohort of complex cases costing in excess of £5k each per week continue to add to the more generic pressure. Operational and Commissioning activity continues to review and find solutions that meet need whilst trying to avoid additional costs and applying relevant funding tools to share costs fairly with health partners. The 3% increasing demand assumption provides budget within the service to meet the additional cost the rising demand, but in the coming months detailed demand forecasts for the next 3 years will be reviewed and budget assumptions firmed up.

Children's Social Care: The majority of the expenditure from within children's is spent on supporting children in care otherwise referred to Looked after Children (LAC). The 2023/24 budget was based on 380 internal and external placements, and at present the Council has 420 (with 14 of these being unaccompanied asylum seeking children which are grant funded). This represents roughly a 10% increase in children's care placements, with some of these increasing costs further due to the complexity of their needs. The revised assumptions within this report take account of this increase on the basis that in the later years the demand begins to stabilise due to the transformation of other services such as Fostering, This is outlined as one of our key programmes in section 2.

Capital Financing & Capital Programme: The Capital and Investment Strategy 2023/24 - 2025/26 sets out a strategy based on the Council's financial position and guides the development of the Capital Programme. The Council will only borrow where absolutely necessary due to health and safety issues, a statutory duty or where there is a sound business case. The Council will look to fund the Capital Programme from grants, third-party contributions or capital receipts, and is pursuing an accelerated Asset Disposal programme to generate these receipts.

Council recently approved the proposal to borrow £50m to fund the acquisition of the freehold interest of Sand Martin House. This additional capital requirement will increase the Council's Capital Financing Requirement (CFR). It is important to note however that the cost of capital (borrowing + Minimum Revenue Provision (MRP)) is significantly lower than the cost of the current rent over the remaining life of the lease so the option to purchase provides a considerable saving to the Council.

Taking account of the Capital programme agreed at Council on 22 February 2023, of the additional borrowing outlined above and slippage in the Capital Programme from 2022/23 the Capital Programme for 2023/24 currently stands at:

Capital Programme 2023/24	**£000**
Original Budget approved at Full Council 22 February 2023	82,541
Slippage from 2022/23	14,057
Purchase of Sand Martin House (approved by Council on 22 May 2023)	50,000
Revised Capital Programme 2023/24	**146,598**
Funded by:	
Third Party (Grant) Funding	74,460
Corporate Resources*	72,138
Revised Funding 2023/24	**146,598**

* Capital Receipts, Transformation Reserve or Borrowing

The process for approval of capital projects over the MTFS period is linked to the Corporate Strategy and Priorities. Bids with outline business cases are presented to and assessed by the Operational Capital Board and recommendations made on which projects can be taken forward for full business case preparation to the Strategic Capital Board. Once approve by the Strategic Capital Board, recommendations are made for inclusion in the Capital Programme.

Asset Disposal Programme: The Councils Property team are undertaking a detailed review of all assets, and at this time hope to achieve receipts of £12.4m in 2023/24 as a result of asset disposals. As part of the review process properties which are deemed surplus, not value for money, or not meeting current regulations are being considered for sale. However, due to the Council's current financial position, there is a requirement to achieve significant sales in the short to medium term. Therefore, further sales have been identified across the portfolio to support this, including part of the rural estate, locality assets, possible development land options etc. However, it should be noted that the priority is to ensure the Council achieves best value under Section 123 of the Local Government Act 1972.

The Asset Disposal Plan was approved by Cabinet in September 2022, an update to this has been included at Appendix B.

Borrowing: The Council has £92m (excluding LOBO's) of outstanding loans due to mature in this financial year and will be exposed to the interest rate risk associated with refinancing this maturing debt. The Bank of England increased interest rates to 5% on 22nd June 2023 in an attempt to bring down stubbornly high inflation. The Treasury Management team will continue to work with its treasury advisors Link Group to secure replacement loans at the most opportune time to reduce the cost of borrowing. The Council will utilise cash balances for internal borrowing as well as investing any surplus balances to generate a return with the aim of achieving the optimum return (yield) on its investments, commensurate with proper levels of security and liquidity and with regard to the council's risk appetite.

Pensions Contribution Rates: The outcome of the latest tri-annual valuation carried out during 2022, covering the period 1 April 2023 to March 2026 is included within MTFS. The assumptions are based on a 17.5% contribution rate and an annual lump sum contribution of £1.955m in each of the years 2023/24- 2025/26. The same rates have been assumed for 2026/27 as it is difficult to predict the outcome of the next tri-annual valuation.

2. Future Sustainable Council - Strategic Direction

In October 2022, members approved a Sustainable Future City Council strategy which sets out how the Council will deliver long-term improvements and meet the changing needs of residents. Our City Priorities document set out the proposed direction of travel for the Council to deliver this vision which includes building a Sustainable Future City Council which requires us to have an organisational structure that is built around needs, fixes the basics and delivers excellent customer services using a 'OneCity – OnePartnership' approach. This means looking at all aspects of not only what we do but how we do it, together with our City partners.

Officer led Portfolio Boards have been established covering the four key themes from our Corporate Strategy. These boards will identify and drive the opportunities for improvement, particularly where there are cross-cutting opportunities and will focus on the following programmes:

Sustainable Future City Council board

'Adjust how we work, serve and enable, informed by strong data and insight capability'	
Programme	**Overview**
MTFS	Develop and Embed a fit for purpose Budget Setting Process that ensures Value for money and a sustainable budget
Locality review	To review Assets held, to rationalise those assets to ensure a fit for purpose estate where the services are delivered from appropriate buildings that are properly funded and maintained. To release surplus assets for disposal.
Governance & Companies	Embedding improved governance into the Council, ensuring that decision-making is lawful, informed by objective advice, transparent and consultative.
People & Culture Programme	Redefining our approach to people and culture to improve how we identify, attract, retain, develop and grow the workforce that we need in order to improve the delivery of high value, high quality services and deliver against our priorities
Digital, Data & Analytics	Actively using data and digital solutions to inform and develop the delivery of services to meet the needs of residents today and help plan for tomorrow

The Economy & Inclusive Growth *'Maximise economic growth and prosperity in an inclusive and environmentally sustainable way'*	
Programme	**Overview**
City Council & Citywide net zero plan	Achieve net zero carbon as an organisation by 2030 and support the city to become net zero, through a reduction of emissions produced, local energy generation and an increase in carbon capture
City Centre Transformation	Create a clean, safe and vibrant city centre environment that is accessible and easy to navigate for pedestrians and cyclists, as well as a great place to work and visit
New Local Plan & Housing Strategy	To prepare and adopt a new Local Plan and Housing Strategy for Peterborough that is up-to-date and will deliver inclusive growth and sustainable development across the city
Major Growth and Regeneration projects	Provide new homes and jobs from incoming private sector investment. Secure grant funding for public sector interventions to stimulate growth and break cycles of deprivation
Skills and Employment Partnership programme	To be relentless in our approach to deliver an extraordinary learning experience, producing a high quality and productive local workforce, through our motivated residents, that have been inspired by our city, our employers and our providers.

Our Places & Communities *'Create healthy and safe environments where people want to live, invest, work, visit and play'*	
Programme	**Overview**
People in Peterborough are happier and feel part of a community	Active early intervention with our communities to improve our city centre so that individuals will feel part of communities and can contribute city centre plans in an inclusive manner.

Improve physical activity, culture & leisure	Significantly increase the number of residents participating in regular physical activity.
Early years support and school readiness	Through working in partnership, we will ensure our children will be confident, resilient and have an aptitude and enthusiasm for learning.
Safer Workplaces	Use early intervention to improve engagement, co-production and compliancy across businesses and workspaces so that user of these spaces have high degrees of confidence, trust and feel safe.
Partnership prevention hubs	We aim to develop new support mechanisms to engage with our most vulnerable in society, providing more timely intervention to improve lives, reduce future demand on acute services.

Prevention, Independence & Resilience
'Help and support our residents early on in their lives and prevent them from slipping into crisis'

Programme	Overview
Develop a shared, co-produced vision for residents with health or social care needs	An ambitious vision developed in partnership with our residents and key stakeholders. A clear focus on understanding the needs of our residents and staff with protected characteristics and a clear plan to improve their experience.
Further develop prevention focussed Integrated Neighbourhoods	Intervene early to support our residents to prevent them from slipping into crisis. Ensuring a community-based early intervention and prevention offer will ensure effective resident conversations to help them define their idea of a better life (support to reduce debt, income maximisation, better housing, and employment, reduced social isolation and independent living.
Education and Skills for all, including people with a learning disability of mental health issues	Developing higher education opportunities that are then linked to securing employment and ensuring that apprenticeships and placements are inclusive and capable of supporting all. To work more collaboratively and focus on co-design with key partners to ensure there are no barriers to education, lifelong learning and employment, including for people with a learning disability or mental health issues.
Integrated Front Door & Multi Agency Safeguarding Hub	Creating a co-located multi agency front door which will improve timeliness and quality of interventions and manage demand more appropriately
Fostering and Adoption Delivery Model	Create compelling and responsive solutions to recruitment and retention of Fostering & Adoption which increases the number of local family homes for children.
Improve our use of Digital and Assistive Technology	Further developing our digital response to improve resident experience in a cost- effective way including self- assessment/financial assessment, resident and provider portals, shared care record, electronic provider record, and a brokerage management system. Also, to further the development of our Assistive Technology care offer to improve independence and reduce the need for more traditional care.

3. Risks

The Council assesses financial risks as part of its budget setting process and regular Budgetary Control Review. The Council also invested in a dedicated Risk Manager who oversees this and chairs a Risk Management Board, 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. Some of the key risks identified will inevitably have an impact on the Council's financial position. These include:

- **Inflation** – risk that inflation does not come down as quickly as anticipated. The Council is mitigating these by maintaining control of expenditure, reviewing all contracts and establishing an inflation reserve to deal with any immediate financial pressures.
- The impact of the Economy on the **Council's income streams** - Council Tax & NNDR, of which now equates to 81% of the Council's core funding.
- **Increased service demand** - which could increase as a result of ASC reform, the cost-of-living crisis and rising complexity of need. The current drive from the Government to work with the NHS to speed up and increase the levels of hospital discharges will also have a long-term impact on our social care services.
- **NHS integration**- Integrated Care System (ICS) - and the risk resulting from health also looking to make savings.
- **Climate Change-** balancing the need to reduce the Councils carbon footprint and deliver financial sustainability.
- **Energy generator levy-** Proposed legislation for an Electricity Generator Levy is still in draft but could result in a Levy charge for the Council from January 2023.
- **Interest Rate risk**- the risk of the Councils budget being affected by changes in interest rates when refinancing maturing debt.

4. Detailed Funding Assumptions

Table 3 outlines the Council's estimated core funding levels in the current year and over the life of the MTFS:

Table 3: Funding	**2023/24 £000**	**2024/25 £000**	**2025/26 £000**	**2026/27 £000**
NNDR	67,823	69,514	71,818	72,697
Revenue Support Grant	12,117	13,014	13,391	13,525
Council Tax	95,440	103,707	108,125	112,714
New Homes Bonus	811	811	811	811
Business Rate Pool	2,070	2,215	2,279	2,302
Services Grant	1,699	1,699	1,699	1,699
Improved Better Care Fund	7,480	7,480	7,480	7,480
Social Care Grant	12,287	14,280	14,694	14,841
Adult Social Care Market Sustainability and Improvement Fund	1,858	2,794	2,875	2,904
Discharge Support Grant (ringfenced)	1,049	1,748	1,799	1,817
Core Funding	**202,634**	**217,262**	**224,972**	**230,791**

Council Tax:

- Assumed annual Council Tax increase of 4.99% in 2024/25 and 2.99% from 2025/26 onwards.
- **Band D rate will increase from £1,587.08 in 2023/24, to £1,666.27 in 2024/25, £1,716.09 in 2025/26 and finally to £1,767.40 in 2026/27**
- The Council Tax base for 2023/24 was set at 61,023.62, as outlined within a report to Cabinet on 19 December 2022 and forecast to increase by 1,000 homes each year from 2024/25, which equates to 780 Band D equivalents. This is based on historical local housing growth.

NNDR (Business Rates):

- Business Rates Pool: Assumed based on the performance Cambridgeshire Local Authorities
- Business Growth: This includes specific growth in business rates based on planning and economic development information, including Fletton Quays, Great Haddon (Roxhill) and Flagship Park (Fengate).
- Business Rates income: Assumed this will increase in line with CPI. If the Government freeze the multiplier for businesses, local authorities will be compensated via section 31 grant based on an increase equivalent to the rate of CPI (September), as per legislation.
- Bad debt: A loss on non-collection equivalent to 1.2% of gross rates.
- Appeals: The appeals provision is forecast to equate to roughly 1.5% of the Councils total RV as per an assessment commissioned from advisors Wilks Head and Eve.

Grants:

Overall, it is difficult to foresee how Local Government Funding Reforms will change the distribution of funding across local government. There has been no further consultation and it is now highly likely to be postponed until at least 2025/26. At this stage it assumes that most core grants in 2025/26 and 2026/27 will increase in line with CPI.

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